



Source: Stella-Jones Inc.

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STELLA-JONES REPORTS RECORD THIRD QUARTER 2020 FINANCIAL RESULTS

- **Net income rose to \$79 million or \$1.17 per share**
- **EBITDA increased 38% to a new high of \$132 million, or a margin of 17.8%**
- **Annual 2020 EBITDA outlook increased to reflect strong quarterly performance**
- **2019 Environmental Social Governance Report published by Company**

Montreal, Quebec – November 5, 2020 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its third quarter ended September 30, 2020.

“I am extremely proud of the diligent work ethic and unwavering commitment that our employees have displayed during these rapidly changing and extremely challenging times. Supported by their contribution and the resiliency of our business, we delivered another record performance this quarter, with growth in sales, profitability and cash from operations. Benefiting from the continued strong demand across most of our product categories and the exceptional rise in market lumber prices, we realized sales growth of 18% and increased EBITDA by 38% to a quarterly best of \$132 million. This significant increase in profitability translated into cash from operations of \$148 million which was used to invest in our network, reduce our leverage and return cash to shareholders in the form of dividends and share repurchases. We ended the quarter in a very strong financial position with a net debt-to-EBITDA ratio of 1.4x and over \$300 million in available liquidity,” stated Éric Vachon, President and CEO of Stella-Jones.

“Following stronger than expected results this quarter, we have increased our annual 2020 EBITDA guidance. With ample financial flexibility and sustainable profitability, we are well positioned to continue to drive growth for our shareholders,” concluded Mr. Vachon.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	Q3-20	Q3-19	YTD Q3-20	YTD Q3-19
Sales ⁽¹⁾	742	631	2,018	1,744
Gross Profit ⁽²⁾	147	110	361	288
EBITDA ⁽²⁾	132	96	315	254
EBITDA margin (%) ⁽²⁾	17.8%	15.2%	15.6%	14.6%
Operating income ⁽²⁾	113	78	259	201
Net income for the period	79	54	176	135
Per share – basic and diluted (\$)	1.17	0.78	2.60	1.96
Weighted average shares outstanding (basic, in ‘000s)	67,437	68,901	67,462	69,057

(1) Prior period figures have been adjusted to conform to the current period presentation.

(2) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.

THIRD QUARTER RESULTS

Sales for the third quarter of 2020 reached \$742 million, up \$111 million, or 18%, versus sales of \$631 million for the corresponding period last year. Excluding the positive impact of the currency conversion of \$5 million, pressure-treated wood sales rose \$85 million, or 14%, primarily driven by higher pricing and demand for residential lumber and utility poles. Logs and lumber sales increased \$21 million, driven by the significant rise in the market price of lumber.

Pressure-treated wood products:

- **Utility poles (34% of Q3-20 sales):** Utility pole sales rose to \$250 million, up 16% from sales of \$216 million in the corresponding period last year. Excluding the currency conversion effect, utility pole sales increased by \$32 million driven by more project-related volumes, as well as higher pricing. The pricing improvement stems from upward price adjustments in response to raw material cost increases and better product mix, including the impact of greater fire-resistant wrapped pole sales volumes.
- **Railway ties (25% of Q3-20 sales):** Railway ties sales were \$189 million, a decrease of 2% compared to sales of \$193 million in the same period last year. Excluding the currency conversion effect, railway ties sales decreased \$6 million, largely due to lower volumes for Class 1 customers given the acceleration of the maintenance program for certain Class 1 customers in the second quarter. The decrease in Class 1 volumes was partially offset by continued strong non-Class 1 demand, supported by a solid level of untreated tie inventory. Overall, pricing remained relatively unchanged compared to the same period last year.
- **Residential lumber (30% of Q3-20 sales):** Sales in the residential lumber category rose to \$220 million, up 39% from sales of \$158 million in the corresponding period last year. The significant increase in sales was driven by the exceptional rise in the market price of lumber and higher volumes, which continued to be favourably impacted by strong home improvement demand during the Covid-19 pandemic.
- **Industrial products (5% of Q3-20 sales):** Industrial product sales were \$34 million, down 6% compared to sales of \$36 million in the third quarter last year, primarily due to the timing of shipments of products for rail-related bridge projects.

Logs and lumber:

- **Logs and lumber (6% of Q3-20 sales):** Sales in the logs and lumber product category were \$49 million, up 75% compared to \$28 million in the corresponding period last year, primarily attributable to the sharp increase in the market price of lumber during the quarter.

Driven by the strong sales growth in residential lumber and utility poles, gross profit and operating income increased 34% and 45% to \$147 million and \$113 million, respectively, compared to the third quarter last year. Similarly, EBITDA increased 38% to a record high of \$132 million, or a margin of 17.8%, up from \$96 million, or a margin of 15.2% last year. This increase was primarily driven by the sharp rise in the market prices of lumber throughout the quarter, stronger residential lumber demand, as well as improved pricing, product mix and volumes for utility poles.

Net income was \$79 million, or \$1.17 per diluted share, versus net income of \$54 million, or \$0.78 per share, last year.

NINE-MONTH RESULTS

Sales amounted to \$2,018 million, versus \$1,744 million for the corresponding period last year. Excluding the positive impact of the currency conversion of \$23 million, pressure-treated wood sales increased by \$231 million, or 14%, and logs and lumber sales grew by \$20 million, or 25%. The year-over-year sales growth in pressure-treated wood was supported by strong demand and improved pricing in the three core product categories, particularly for residential lumber, while the logs and lumber increase in sales was largely due to the robust lumber market in the third quarter.

The improvement in sales led to an increase in gross profit, which grew 25% to \$361 million, compared to the prior year period. Operating income was \$259 million, or 12.8% of sales, compared with \$201 million, or 11.5% of sales last year. EBITDA rose to \$315 million, up 24%, compared to \$254 million reported in the prior year period, reflecting an EBITDA margin of 15.6%. Net income totaled \$176 million, or \$2.60 per diluted share, versus \$135 million, or \$1.96 per diluted share last year.

STRONG LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash from operations of \$148 million in the third quarter of 2020. The Company deployed its liquidity to reduce debt, repurchase shares, pay dividends and invest in property, plant and equipment, as well as in the implementation of a new ERP system. As at September 30, 2020, the Company's long-term debt stood at \$520 million and the net debt to trailing 12-month EBITDA decreased to 1.4x.

NORMAL COURSE ISSUER BID ("NCIB")

On August 4, 2020, the Toronto Stock Exchange accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("Notice"). Pursuant to the Notice, Stella-Jones may, during the twelve-month period commencing August 10, 2020 and ending August 9, 2021, purchase for cancellation, up to 2,500,000 Common Shares.

In the three-month period ended September 30, 2020, the Company repurchased 334,653 common shares for total consideration of \$15 million.

QUARTERLY DIVIDEND

On November 4, 2020, the Board of Directors declared a quarterly dividend of \$0.15 per share on the outstanding common shares of the Company, payable on December 17, 2020 to shareholders of record at the close of business on December 1, 2020. This dividend is designated to be an eligible dividend.

UPDATED OUTLOOK

The financial outlook provided in the Company's Management's Discussion and Analysis for the quarter ended June 30, 2020 with respect to annual EBITDA for 2020 is revised to reflect the stronger than expected third quarter sales growth in the residential lumber and utility poles product categories. The Company forecasts EBITDA for 2020 to be in the range of \$365 million to \$375 million and EBITDA margin to be higher compared to 2019.

While the impact of the on-going COVID-19 pandemic on the demand for the Company's products remains uncertain, based on the Company's current expectations and assuming stable currencies, management is forecasting healthy sales for 2021. Utility poles sales are expected to increase in the mid to high-single digits, compared to 2020, while railway ties and industrial product sales are projected to be relatively comparable to those generated in 2020. The demand for new construction and outdoor renovation projects is expected to be strong in 2021, which should continue to benefit sales in the Company's residential lumber product category.

PUBLICATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

On November 4th, the Company published its 2019 ESG report. It can be found on the Stella-Jones website at www.stella-jones.com/en-CA/investor-relations/environmental-social-governance.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on November 5, 2020, at 10:00 a.m. Eastern Daylight Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 9923219. This recording will be available on Thursday, November 5, 2020 as of 1:00 p.m. Eastern Daylight Time until 11:59 p.m. Eastern Daylight Time on Thursday, November 12, 2020.

NON-IFRS FINANCIAL MEASURES

EBITDA (operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets), gross profit, operating income and EBITDA margin are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors understand the Company's operating results, financial condition and cash flows as they provide an additional measure about its performance. Please refer to the non-IFRS financial measures described in the Management's Discussion and Analysis.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX: SJ) is a leading producer and marketer of pressure-treated wood products. The Company supplies North America's electrical utilities and telecommunication companies with utility poles, and the continent's railroad operators with railway ties and timbers. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, general economic and business conditions (including the impact of the coronavirus pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, changes in foreign currency rates, and the ability of the Company to raise capital. As a result, readers are advised that actual results may differ from expected results. Unless required to do so under applicable securities legislation, the Company does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

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Note to readers: Condensed interim unaudited consolidated financial statements for the third quarter ended September 30, 2020 as well as management's discussion and analysis are available on Stella-Jones' website at www.stella-jones.com.

HEAD OFFICE 3100 de la Côte-Vertu Blvd., Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	EXCHANGE LISTINGS The Toronto Stock Exchange Stock Symbol: SJ TRANSFER AGENT AND REGISTRAR Computershare Investor Services Inc.	INVESTOR RELATIONS Silvana Travaglini Senior Vice-President and Chief Financial Officer Tel.: (514) 940-8660 Fax: (514) 934-5327 stravaglini@stella-jones.com
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NOTICE

The comparative figures for the three- and nine-month periods ended September 30, 2019 have not been reviewed by the Company's external auditors.

(Signed)

Silvana Travaglini
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 4, 2020

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
September 30, 2020 and 2019

Stella-Jones Inc.

Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at September 30, 2020 \$	As at December 31, 2019 \$
Assets			
Current assets			
Accounts receivable		347	179
Inventories		968	971
Income taxes receivable		-	6
Other current assets		49	36
		<u>1,364</u>	<u>1,192</u>
Non-current assets			
Property, plant and equipment		581	568
Right-of-use assets		130	116
Intangible assets		115	115
Goodwill		292	285
Derivative financial instruments	4	-	1
Other non-current assets		1	4
		<u>2,483</u>	<u>2,281</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		217	136
Income taxes payable		28	1
Derivative financial instruments	4	3	2
Current portion of long-term debt		13	7
Current portion of lease liabilities		34	29
Current portion of provisions and other long-term liabilities		13	7
		<u>308</u>	<u>182</u>
Non-current liabilities			
Long-term debt		507	598
Lease liabilities		98	89
Deferred income taxes		107	101
Provisions and other long-term liabilities		10	12
Employee future benefits		14	11
Derivative financial instruments	4	2	-
		<u>1,046</u>	<u>993</u>
Shareholders' equity			
Capital stock	3	217	217
Retained earnings		1,098	968
Accumulated other comprehensive income		122	103
		<u>1,437</u>	<u>1,288</u>
		<u>2,483</u>	<u>2,281</u>
Subsequent event	7		

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the nine-month periods ended September 30, 2020 and 2019

(expressed in millions of Canadian dollars)

	<u>Accumulated other comprehensive income</u>						Total shareholders' equity
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2020	217	968	191	(89)	1	103	1,288
Comprehensive income (loss)							
Net income for the period	-	176	-	-	-	-	176
Other comprehensive income (loss)	-	(2)	40	(18)	(3)	19	17
Comprehensive income (loss) for the period	-	174	40	(18)	(3)	19	193
Dividends on common shares	-	(30)	-	-	-	-	(30)
Employee share purchase plans	1	-	-	-	-	-	1
Repurchase of common shares (note 3)	(1)	(14)	-	-	-	-	(15)
	-	(44)	-	-	-	-	(44)
Balance – September 30, 2020	217	1,098	231	(107)	(2)	122	1,437

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity...continued

(Unaudited)

For the nine-month periods ended September 30, 2020 and 2019

(expressed in millions of Canadian dollars)

	<u>Accumulated other comprehensive income</u>						Total shareholders' equity
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2019	221	909	252	(107)	6	151	1,281
Comprehensive income (loss)							
Net income for the period	-	135	-	-	-	-	135
Other comprehensive income (loss)	-	(3)	(38)	13	(5)	(30)	(33)
Comprehensive income (loss) for the period	-	132	(38)	13	(5)	(30)	102
Dividends on common shares	-	(29)	-	-	-	-	(29)
Employee share purchase plans	1	-	-	-	-	-	1
Repurchase of common shares (note 3)	(3)	(31)	-	-	-	-	(34)
	(2)	(60)	-	-	-	-	(62)
Balance – September 30, 2019	219	981	214	(94)	1	121	1,321

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.Interim Consolidated Statements of Income
(Unaudited)

(expressed in millions of Canadian dollars, except earnings per common share)

	For the three-month periods ended September 30		For the nine-month periods ended September 30		
Note	2020 \$	2019 \$	2020 \$	2019 \$	
Sales	8	742	631	2,018	1,744
Expenses					
Cost of sales (including depreciation and amortization (3 months - \$15 (2019 - \$14) and 9 months - \$46 (2019 - \$42))	8	595	521	1,657	1,456
Selling and administrative (including depreciation and amortization (3 months - \$4 (2019 - \$4) and 9 months - \$10 (2019 - \$11))		32	30	93	88
Other losses (gains), net		2	2	9	(1)
		629	553	1,759	1,543
Operating income		113	78	259	201
Financial expenses		6	5	20	18
Income before income taxes		107	73	239	183
Provision for income taxes					
Current		25	16	58	36
Deferred		3	3	5	12
		28	19	63	48
Net income for the period		79	54	176	135
Basic and diluted earnings per common share	3	1.17	0.78	2.60	1.96

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income (Unaudited)

(expressed in millions of Canadian dollars)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Net income for the period	<u>79</u>	<u>54</u>	<u>176</u>	<u>135</u>
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	(25)	14	40	(38)
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	5	(3)	(18)	13
Change in losses on fair value of derivatives designated as cash flow hedges	-	(2)	(4)	(7)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	-	-	1	2
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	-	-	(3)	(3)
Income taxes on remeasurements of post-retirement benefit obligations	-	-	1	-
	<u>(20)</u>	<u>9</u>	<u>17</u>	<u>(33)</u>
Comprehensive income	<u>59</u>	<u>63</u>	<u>193</u>	<u>102</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)

(expressed in millions of Canadian dollars)

	For the		For the	
	three-month periods ended September 30		nine-month periods ended September 30	
Note	2020	2019	2020	2019
	\$	\$	\$	\$
Cash flows provided by (used in)				
Operating activities				
Net income for the period	79	54	176	135
Adjustments for				
Depreciation of property, plant and equipment	6	6	18	18
Amortization of intangible assets	3	3	10	11
Depreciation of right-of-use assets	10	9	28	24
Gain on derivative financial instruments	(2)	-	-	(4)
Financial expenses	6	5	20	18
Current income taxes expense	25	16	58	36
Deferred income taxes	3	3	5	12
Provisions and other long-term liabilities	-	(1)	5	(4)
Other	2	-	4	1
	<u>132</u>	<u>95</u>	<u>324</u>	<u>247</u>
Changes in non-cash working capital components				
Accounts receivable	17	68	(166)	(96)
Inventories	1	12	20	(22)
Income taxes receivable	-	(9)	-	(9)
Accounts payable and accrued liabilities	36	(25)	81	1
Other current assets	(6)	(3)	(11)	(3)
	<u>48</u>	<u>43</u>	<u>(76)</u>	<u>(129)</u>
Interest paid	(9)	(7)	(22)	(20)
Income taxes paid	(23)	(7)	(25)	(25)
	<u>148</u>	<u>124</u>	<u>201</u>	<u>73</u>
Financing activities				
Net change in syndicated credit facilities	(101)	(63)	(92)	72
Increase in long-term debt	-	-	-	1
Repayment of long-term debt	(1)	(1)	(7)	(9)
Repayment of lease liabilities	(8)	(7)	(26)	(23)
Repayment of non-competes payable	-	-	(2)	(2)
Dividends on common shares	(10)	(10)	(30)	(29)
Repurchase of common shares	3 (15)	(30)	(15)	(36)
Proceeds from issuance of common shares	1	-	1	1
	<u>(134)</u>	<u>(111)</u>	<u>(171)</u>	<u>(25)</u>
Investing activities				
Decrease in other assets	-	1	-	1
Additions of intangible assets	(4)	-	(8)	-
Purchase of property, plant and equipment	(10)	(14)	(23)	(50)
Proceeds from disposal of assets	-	-	1	1
	<u>(14)</u>	<u>(13)</u>	<u>(30)</u>	<u>(48)</u>
Net change in cash and cash equivalents during the period	-	-	-	-
Cash and cash equivalents – Beginning of period	-	-	-	-
Cash and cash equivalents – End of period	-	-	-	-

The accompanying notes are an integral part of these interim consolidated financial statements.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020 and 2019

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the “Company”) is a leading producer and marketer of pressure-treated wood products. The Company supplies North America’s electrical utilities and telecommunication companies with utility poles, and the continent’s railroad operators with railway ties and timbers. The Company also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company’s headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange (“TSX”) under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and Chartered Professional Accountants Canada Handbook Part I - Accounting, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 4, 2020.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020 and 2019

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

Principles of consolidation

The condensed interim consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries within the legal structure of the Company are as follows:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States

3 Capital stock

The following table provides the number of common shares outstanding for the nine-month periods ended September 30:

	2020	2019
Number of common shares outstanding – Beginning of period	67,466,709	69,267,732
Stock option exercised	15,000	-
Employee share purchase plans	28,856	25,071
Common shares repurchased	<u>(334,653)</u>	<u>(912,038)</u>
Number of common shares outstanding – End of period	<u>67,175,912</u>	<u>68,380,765</u>

a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020 and 2019

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

b) Earnings per share

The following table provides the reconciliation, as at September 30, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2020	2019	2020	2019
Net income applicable to common shares	\$79	\$54	\$176	\$135
Weighted average number of common shares outstanding*	67.4	68.9	67.5	69.1
Effect of dilutive stock options*	-	-	-	-
Weighted average number of diluted common shares outstanding*	67.4	68.9	67.5	69.1
Basic and diluted earnings per common share **	\$1.17	\$0.78	\$2.60	\$1.96

* Number of shares is presented in millions.

** Basic and diluted earnings per common share are presented in dollars per share.

c) Normal Course Issuer Bid

On August 4, 2020 the TSX accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB"). The NCIB was initiated for a twelve-month period starting on August 10, 2020. During this period, the Company may purchase for cancellation up to 2,500,000 common shares. The prior NCIB was in effect until December 19, 2019. During the nine-month period ended September 30, 2020, the Company repurchased for cancellation 334,653 common shares (September 30, 2019 – 912,038 common shares cancelled under the NCIB then in effect), for a cash consideration of \$15 (September 30, 2019 - \$36, including \$2 for common shares repurchased in 2018 and cancelled in 2019), representing an average price of \$46.04 per common share (September 30, 2019 - \$39.20).

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020 and 2019

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

4 Fair value measurement and financial instruments

The following table provides information about assets and liabilities measured at fair value in the statement of financial position:

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Non-current assets		
Interest rate swap agreements	-	1
	-	1
Current Liabilities		
Interest rate swap agreements	1	-
Derivative commodity contracts	2	2
	3	2
Non-current liabilities		
Interest rate swap agreements	2	-
	2	-

The fair value of these financial instruments has been estimated using the discounted future cash flow method and has been classified as Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*, as it is based mainly on observable market data, namely government bond yields and interest rates. A description of each level of the hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments which are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term nature. The long-term debt has a carrying value of \$520 (December 31, 2019 – \$605) and a fair value of \$533 (December 31, 2019 – \$611).

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020 and 2019

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

5 Seasonality

The Company's operations follow a seasonal pattern, with utility pole, railway tie and industrial product shipments strongest in the second and third quarters to provide industrial end-users with product for their summer maintenance projects. Residential lumber sales follow the same seasonal pattern. Inventory levels of utility poles, railway ties and residential lumber are typically highest in the first quarter in advance of the summer shipping season.

6 Segment information

The Company operates within two business segments which are the production and sale of pressure-treated wood and the procurement and sales of logs and lumber.

The pressure-treated wood segment includes utility poles, railway ties, residential lumber and industrial products.

The logs and lumber segment comprises of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

Operating plants are located in six Canadian provinces and nineteen American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer for the nine-month periods ended September 30 are as follows:

	2020	2019
	\$	\$
Canada	651	533
U.S.	1,367	1,211
	<hr/>	<hr/>
	2,018	1,744
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(Unaudited)

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(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

Sales by product for the nine-month periods ended September 30 are as follows:

	2020	2019
	\$	\$
Utility poles	687	602
Railway ties	586	555
Residential lumber	548	410
Industrial products	96	96
Pressure-treated wood	1,917	1,663
Logs and lumber	101	81
	<u>2,018</u>	<u>1,744</u>

Property, plant and equipment, intangible assets, goodwill and right-of-use assets attributed to the countries based on location are as follows:

	As at	As at
	September 30, 2020	December 31, 2019
	\$	\$
Property, plant and equipment		
Canada	153	149
U.S.	428	419
	<u>581</u>	<u>568</u>
Right-of-use assets	\$	\$
Canada	18	17
U.S.	112	99
	<u>130</u>	<u>116</u>
Intangible assets		
Canada	35	31
U.S.	80	84
	<u>115</u>	<u>115</u>
Goodwill	\$	\$
Canada	19	19
U.S.	273	266
	<u>292</u>	<u>285</u>

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(Unaudited)

September 30, 2020 and 2019

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7 Subsequent event

On November 4, 2020, the Board of Directors declared a quarterly dividend of \$0.15 per common share payable on December 17, 2020 to shareholders of record at the close of business on December 1, 2020.

8 Reclassification of prior period presentation

Certain prior period figures have been adjusted to conform to the current period presentation. An adjustment has been made to the consolidated statements of income to recognize customer freight revenues on a gross basis when the Company is the principal with respect to freight services. These amounts have been previously presented on a net basis against freight expenses in cost of sales. This change in classification does not affect previously reported operating income and net income in the consolidated statements of income. For the nine-month period ended September 30, 2019, freight revenue of \$15 has been reclassified from cost of sales to sales (\$5 for the three-month period).