**Source:** **Stella-Jones Inc.**

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## STELLA-JONES REPORTS THIRD QUARTER RESULTS

- **Sales of $679 million, a decrease of 8%**
- **EBITDA of $69 million, or a margin of 10.2%, including a $7 million write-down provision for inventory**
- **Net income of $34 million, or $0.52 per share**
- **Revised 2021 EBITDA forecast to about $400 million**
- **Acquisitions of wood treating facilities in Alabama expected to close before year-end**
- **Announced a Normal Course Issuer Bid**
- **Published Environmental, Social and Governance ("ESG") Report**

**Montreal, Quebec – November 9, 2021** - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its third quarter ended September 30, 2021.

“Our third quarter results reflect the impact of the normalization of lumber market conditions and the increase in the cost of untreated railway ties which outpaced price adjustments. With the improvement in pricing and demand for residential lumber in the latter part of the quarter and the continued strong sales growth for utility poles, we are confident that we will deliver solid EBITDA in 2021," stated Éric Vachon, President and CEO of Stella-Jones. "We are also excited about the prospects for 2022. The recently-announced agreements to purchase wood treating facilities in the U.S. southeast will expand our capability to supply the needs of North America’s utility pole industry and strengthen our leadership position in the product categories that we serve."

"We continue to maintain a solid balance sheet, generating $225 million of cash from operations during the quarter. Given the Company's strong cash flow generation, we announced today our intention to repurchase up to 4,000,000 of the Company’s outstanding shares, under a Normal Course Issuer Bid, commencing on November 12, 2021. With our financial strength, scale and focus on execution and innovation, we continue to be well positioned to drive continued growth and generate solid returns for our shareholders,” concluded Mr. Vachon.

| **Financial Highlights** (in millions of Canadian dollars, except per share data and margin) | **Q3-21** | **Q3-20** | **YTD Q3-21** | **YTD Q3-20** |
|---|---|---|---|---|
| Sales | 679 | 742 | 2,205 | 2,018 |
| Gross profit(1) | 82 | 147 | 391 | 361 |
| Gross profit margin(1) | 12.1% | 19.7% | 17.7% | 17.9% |
| EBITDA(1) | 69 | 132 | 348 | 315 |
| EBITDA margin (1) | 10.2% | 17.8% | 15.8% | 15.6% |
| Operating income | 51 | 113 | 294 | 259 |
| Operating income margin(1) | 7.5% | 15.2% | 13.3% | 12.8% |
| Net income for the period | 34 | 79 | 205 | 176 |
| Earnings per share - basic and diluted | 0.52 | 1.17 | 3.14 | 2.60 |
| Weighted average shares outstanding (basic, in '000s) | 64,664 | 67,437 | 65,238 | 67,462 |

(1) 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 2021 reached $679 million, down $63 million, versus sales of $742 million for the corresponding period last year. Excluding the negative impact of the currency conversion of $24 million, pressure-treated wood sales decreased $32 million, or 5%, primarily due to the decline in residential lumber demand, partially offset by higher sales prices for residential lumber and an improvement in the sales mix for utility poles. The decrease in logs and lumber sales largely stems from a decline in lumber transaction volumes.

## Pressure-treated wood products:

- **Utility poles (38% of Q3-21 sales)**: Utility poles sales increased to $256 million, compared to sales of $251 million in the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased by $16 million, or 6%, driven by improved maintenance demand for distribution poles and sales mix, including the impact of additional sales volumes for fire-resistant wrapped poles. This sales growth was partially attenuated by a decrease in project-related volumes.

- **Railway ties (26% of Q3-21 sales)**: Railway ties sales were $179 million, compared to sales of $188 million in the same period last year. Excluding the currency conversion effect, railway ties sales were stable as lower volumes for Class 1 customers, largely due to the timing of shipments, were compensated by continued strong demand and improved pricing for non-Class 1 customers.

- **Residential lumber (25% of Q3-21 sales)**: Sales in the residential lumber category were $170 million, down compared to sales of $220 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales decreased $47 million, or 21%. While residential lumber pricing remained higher compared to the same period last year, it was not sufficient to offset the drop in demand.

- **Industrial products (5% of Q3-21 sales)**: Industrial product sales were $32 million, compared to sales of $34 million in the third quarter last year. Excluding the currency conversion effect, industrial products sales were relatively unchanged compared to the third quarter of 2020.

## Logs and lumber:

- **Logs and lumber (6% of Q3-21 sales)**: Sales in the logs and lumber product category were $42 million, down compared to $49 million in the corresponding period last year. Sales decreased mostly due to a reduction in lumber trading activity.

Despite the realization of higher pricing compared to the third quarter of 2020, the elevated fibre costs for residential lumber and railway ties, combined with the lower residential lumber sales volume largely explains the decrease in gross profit of 44% to $82 million, compared to the prior year period. Similarly, operating income decreased to $51 million, or 7.5% of sales, compared with $113 million, or 15.2% of sales last year and EBITDA decreased to $69 million, compared to $132 million reported in the third quarter of 2020. EBITDA for the three-months ended September 30, 2021 included a seven million dollar write-down provision to reduce the residential lumber finished goods inventory to its net realizable value.

Net income for the third quarter of 2021 was $34 million, or $0.52 per share, compared to net income of $79 million, or $1.17 per share, in the corresponding period of 2020.

**NINE-MONTH RESULTS**

For the first nine months of 2021, sales amounted to $2.21 billion, versus $2.02 billion for the corresponding period last year. Excluding the negative impact of the currency conversion of $110 million, pressure-treated wood sales rose by $206 million, or 11%, and logs and lumber sales grew by $94 million. The year-over-year sales growth in pressure-treated wood stems from the significant rise in the market prices of lumber, compared to the same period last year, offset in part by a decrease in residential lumber demand. Sales also benefited from increased volumes, upward pricing adjustments in response to raw material cost increases and an improved sales mix for utility poles, as well as, higher volumes for railway ties which outweighed the pricing pressures during the first half of the year for the non-Class 1 business. The exceptional increase in logs and lumber sales stems from the unprecedented increase in market prices of lumber during the first six months of the year.

The sales growth led to an increase in gross profit, which grew 8% to $391 million, compared to the prior year period. Operating income was $294 million, or 13.3% of sales, compared with $259 million, or 12.8% of sales last year. EBITDA rose to $348 million, up 10%, compared to $315 million reported in the prior year period, reflecting an EBITDA margin of 15.8%. Net income totaled $205 million, or $3.14 per share, versus $176 million, or $2.60 per share last year.

**LIQUIDITY AND CAPITAL RESOURCES**

During the third quarter ended September 30, 2021, Stella-Jones used the cash generated from operations of $225 million to invest $14 million in capital expenditures, reduce indebtedness by $165 million, pay $11 million in dividends and repurchase 628,303 shares for $27 million. From August 10, 2020, to August 9, 2021, the Company repurchased a total of 3,057,326 common shares for cancellation in consideration of $139 million.

On July 30, 2021, the Company obtained a one-year extension of its unsecured syndicated revolving credit facility to February 27, 2026. The extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019. All terms and conditions remain substantially unchanged.

The Company's net debt, including lease liabilities, decreased to $679 million as at September 30, 2021 versus $745 million as at December 31, 2020 and the net debt-to-trailing 12-month EBITDA ratio was 1.6x.

**AGREEMENTS TO PURCHASE WOOD TREATING FACILITIES**

On November 3, 2021, Stella-Jones, through its U.S. subsidiary, entered into an agreement to purchase the shares of Cahaba Pressure Treated Forest Products, Inc. ("Cahaba Pressure") and Cahaba Timber, Inc. ("Cahaba Timber") for US$66 million and US$36.5 million, respectively, subject to post-closing working capital adjustments. Cahaba Pressure manufactures, distributes and sells treated and untreated wood poles, crossties and posts, and provides custom treating services at its wood treating facility in Brierfield, Alabama. Cahaba Timber is a producer of treated poles and pilings and engages in raw material procurement at its treating operations in Brierfield, Alabama. Both transactions are scheduled to close prior to the end of December 2021.

**QUARTERLY DIVIDEND**

On November 8, 2021, the Board of Directors declared a quarterly dividend of $0.18 per common share payable on December 17, 2021 to shareholders of record at the close of business on December 1, 2021. This dividend is designated to be an eligible dividend.

## REVISED OUTLOOK

The Company now assumes EBITDA to be close to $400 million, reflecting a greater then expected margin compression for residential lumber, higher untreated railway tie costs and anticipated softer demand from Class 1 railway tie customers. Excluding the impact of the currency conversion, the Company expects sales growth in 2021 compared to 2020 to be at the lower end of its previous assumption of an increase in the low-to-high teens range. Stella-Jones remains confident that it will deliver solid EBITDA in 2021 and that its EBITDA margin, as a percentage of sales, will be comparable to 2020.

This financial guidance for 2021 continues to anticipate a reduction of approximately $130 million in sales from the depreciation of the value of the U.S. dollar relative to the Canadian dollar to C$1.25 per U.S. dollar.

Based on current market conditions and assuming the conclusion of the acquisitions of Cahaba Pressure and Cahaba Timber, management is forecasting sales, EBITDA and EBITDA margin in 2022 to be comparable to the solid results expected in 2021. The Company anticipates that the robust demand for utility poles, the sustained railway ties maintenance demand and the contribution from the pending acquisitions will offset the normalization of residential lumber sales in 2022.

The Company's financial guidance is based on its current outlook and takes into account a number of economic and market assumptions. Please refer to the Company's Management's Discussion and Analysis for a complete list of assumptions.

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

On November 8, 2021, the Company published its 2020 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 9, 2021, at 10:00 a.m. Eastern Standard Time. Interested parties can join the call by dialing 1-438-803-0545 (Montreal or overseas) or 1-888-440-2194 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-770-2030 and entering the passcode 4899896. This recording will be available on Tuesday, November 9, 2021 as of 1:30 p.m. Eastern Standard Time until 11:59 p.m. Eastern Standard Time on Tuesday, November 16, 2021.

## NON-IFRS FINANCIAL MEASURES

Gross profit, gross profit margin, EBITDA (operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets), EBITDA margin, operating income margin, net debt and net debt-to-EBITDA 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, 2021 as well as management's discussion and analysis are available on Stella-Jones' website at www.stella-jones.com.**

| **Head Office** | **Exchange Listings** | **Investor Relations** |
|---|---|---|
| 3100 de la Côte-Vertu Blvd., Suite 300<br>Saint-Laurent, Québec<br>H4R 2J8<br>Tel.: (514) 934-8666<br>Fax: (514) 934-5327 | The Toronto Stock Exchange<br>Stock Symbol: SJ<br><br>**Transfer Agent and Registrar**<br>Computershare Investor Services Inc. | Silvana Travaglini<br>Senior Vice-President and Chief Financial Officer<br>Tel.: (514) 940-8660<br>Fax: (514) 934-5327<br>stravaglini@stella-jones.com |

# Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
**September 30, 2021 and 2020**

# Stella-Jones Inc.

Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in millions of Canadian dollars)

| | Note | As at September 30, 2021 | As at December 31, 2020 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Accounts receivable | | 284 | 208 |
| Inventories | 3 | 1,057 | 1,075 |
| Income taxes receivable | | 8 | — |
| Other current assets | | 43 | 36 |
| | | 1,392 | 1,319 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 586 | 574 |
| Right-of-use assets | | 143 | 135 |
| Intangible assets | | 119 | 115 |
| Goodwill | | 280 | 280 |
| Other non-current assets | | 6 | 3 |
| | | 2,526 | 2,426 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 214 | 137 |
| Income taxes payable | | 15 | 19 |
| Derivative financial instruments | 8 | — | 2 |
| Current portion of long-term debt | 5 | 33 | 11 |
| Current portion of lease liabilities | | 44 | 33 |
| Current portion of provisions and other long-term liabilities | 6 | 11 | 16 |
| | | 317 | 218 |
| **Non-current liabilities** | | | |
| Long-term debt | 5 | 497 | 595 |
| Lease liabilities | | 105 | 106 |
| Deferred income taxes | | 110 | 104 |
| Provisions and other long-term liabilities | 6 | 15 | 15 |
| Employee future benefits | | 11 | 15 |
| | | 1,055 | 1,053 |
| **Shareholders' equity** | | | |
| Capital stock | 7 | 210 | 214 |
| Retained earnings | | 1,180 | 1,079 |
| Accumulated other comprehensive income | | 81 | 80 |
| | | 1,471 | 1,373 |
| | | 2,526 | 2,426 |
| Subsequent events | 11 | | |

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, 2021 and 2020**

(expressed in millions of Canadian dollars)

| | | | Accumulated other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|
| | Capital stock | Retained earnings | Foreign currency translation adjustment | Translation of long-term debts designated as net investment hedges | Unrealized losses on cash flow hedges | Total | Total shareholders' equity |
| | $ | $ | $ | $ | $ | $ | $ |
| **Balance – January 1, 2021** | 214 | 1,079 | 179 | (98) | (1) | 80 | 1,373 |
| **Comprehensive income (loss)** | | | | | | | |
| Net income for the period | — | 205 | — | — | — | — | 205 |
| Other comprehensive income (loss) | — | 4 | 2 | (1) | — | 1 | 5 |
| **Comprehensive income (loss) for the period** | — | 209 | 2 | (1) | — | 1 | 210 |
| Dividends on common shares | — | (35) | — | — | — | — | (35) |
| Employee share purchase plans | 1 | — | — | — | — | — | 1 |
| Repurchase of common shares (note 7) | (5) | (73) | — | — | — | — | (78) |
| | (4) | (108) | — | — | — | — | (112) |
| **Balance – September 30, 2021** | 210 | 1,180 | 181 | (99) | (1) | 81 | 1,471 |

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, 2021 and 2020**

(expressed in millions of Canadian dollars)

| | | | Accumulated other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Total shareholders' equity |
| | $ | $ | $ | $ | $ | $ | $ |
| **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 7) | (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 Income
(Unaudited)

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

| | Note | For the three-month periods ended September 30, 2021 | For the three-month periods ended September 30, 2020 | For the nine-month periods ended September 30, 2021 | For the nine-month periods ended September 30, 2020 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Sales** | | 679 | 742 | 2,205 | 2,018 |
| **Expenses** | | | | | |
| Cost of sales (including depreciation and amortization (3 months - $16 (2020 - $15) and 9 months - $46 (2020 - $46)) | | 597 | 595 | 1,814 | 1,657 |
| Selling and administrative (including depreciation and amortization (3 months - $2 (2020 - $4) and 9 months - $8 (2020 - $10) | | 30 | 32 | 95 | 93 |
| Other losses, net | | 1 | 2 | 2 | 9 |
| | | 628 | 629 | 1,911 | 1,759 |
| **Operating income** | | 51 | 113 | 294 | 259 |
| **Financial expenses** | | 5 | 6 | 17 | 20 |
| **Income before income taxes** | | 46 | 107 | 277 | 239 |
| **Provision for income taxes** | | | | | |
| Current | | 9 | 25 | 68 | 58 |
| Deferred | | 3 | 3 | 4 | 5 |
| | | 12 | 28 | 72 | 63 |
| **Net income for the period** | | 34 | 79 | 205 | 176 |
| **Basic and diluted earnings per common share** | 7 | 0.52 | 1.17 | 3.14 | 2.60 |

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, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **$** | **$** | **$** | **$** |
| **Net income for the period** | 34 | 79 | 205 | 176 |
| **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 | 33 | (25) | 2 | 40 |
| Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations | (7) | 5 | (1) | (18) |
| Change in losses on fair value of derivatives designated as cash flow hedges | (1) | — | — | (4) |
| Income taxes on change in losses on fair value of derivatives designated as cash flow hedges | — | — | — | 1 |
| **Items that will not subsequently be reclassified to net income** | | | | |
| Remeasurements of post-retirement benefit obligations | 2 | — | 5 | (3) |
| Income taxes on remeasurements of post-retirement benefit obligations | (1) | — | (1) | 1 |
| | 26 | (20) | 5 | 17 |
| **Comprehensive income** | 60 | 59 | 210 | 193 |

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)

| | Note | For the three-month periods ended September 30, 2021 $ | 2020 $ | For the nine-month periods ended September 30, 2021 $ | 2020 $ |
|---|---|---|---|---|---|
| **Cash flows provided by (used in)** | | | | | |
| **Operating activities** | | | | | |
| Net income for the period | | 34 | 79 | 205 | 176 |
| Adjustments for | | | | | |
| Depreciation of property, plant and equipment | | 6 | 6 | 18 | 18 |
| Depreciation of right-of-use assets | | 10 | 10 | 28 | 28 |
| Amortization of intangible assets | | 2 | 3 | 8 | 10 |
| Loss on derivative financial instruments | | — | (2) | — | — |
| Financial expenses | | 5 | 6 | 17 | 20 |
| Current income taxes expense | | 9 | 24 | 68 | 58 |
| Deferred income taxes | | 3 | 4 | 4 | 5 |
| Provisions and other long-term liabilities | | — | — | (5) | 5 |
| Other | | 1 | 2 | (2) | 4 |
| | | 70 | 132 | 341 | 324 |
| Changes in non-cash working capital components | | | | | |
| Accounts receivable | | 69 | 17 | (75) | (166) |
| Inventories | | 81 | 1 | 18 | 20 |
| Other current assets | | (7) | (6) | (6) | (11) |
| Accounts payable and accrued liabilities | | 48 | 36 | 78 | 81 |
| | | 191 | 48 | 15 | (76) |
| Interest paid | | (8) | (9) | (19) | (22) |
| Income taxes paid | | (28) | (23) | (80) | (25) |
| | | 225 | 148 | 257 | 201 |
| **Financing activities** | | | | | |
| Increase in short-term debt | 4 | — | — | 200 | — |
| Decrease in short-term debt | 4 | — | — | (197) | — |
| Net change in revolving credit facilities | | (165) | (101) | (123) | (92) |
| Increase in long-term debt | | 31 | — | 152 | — |
| Repayment of long-term debt | | (31) | (1) | (105) | (7) |
| Repayment of lease liabilities | | (9) | (8) | (26) | (26) |
| Dividends on common shares | | (11) | (10) | (35) | (30) |
| Repurchase of common shares | 7 | (27) | (15) | (78) | (15) |
| Other | | — | 1 | (1) | (1) |
| | | (212) | (134) | (213) | (171) |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment | | (11) | (10) | (31) | (23) |
| Additions of intangible assets | | (3) | (4) | (13) | (8) |
| Other | | 1 | — | — | 1 |
| | | (13) | (14) | (44) | (30) |
| **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.

## 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 wood for railway bridges and crossings, marine and foundation pilings, construction timbers 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 Accounting - Part I, 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 8, 2021.

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, 2020.

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, 2020, which have been prepared in accordance with IFRS.

### 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 Inventory

For the three and nine months ended September 30, 2021, a seven million dollar inventory write-down provision was recognized in relation to the residential lumber finished goods (three and nine months ended September 30, 2020 – nil). The inventory write-down expense was included in "Cost of sales" in the consolidated statements of income.

## 4 Short-term debt

During the nine-month period ended September 30, 2021 the Company repaid in full the total indebtedness advanced under the demand loan facility, and terminated and canceled the facility.

In 2021, the Company entered into a bridge term loan agreement for US$100 million with a lender within the U.S. farm credit system. During the nine-month period ended September 30, 2021, the US$100 million of indebtedness advanced under the bridge loan facility was repaid in full (see note 5). The bridge term loan bore interest at a floating rate based on the London Interbank Offered Rate ("LIBOR") plus 1.75% and is eligible for patronage refunds

## 5 Long-term debt

| (Amounts in millions of Canadian dollars) | **As at September 30, 2021** | **As at December 31, 2020** |
|---|---|---|
| Unsecured revolving credit facilities | 141 | 271 |
| Unsecured senior notes | 191 | 191 |
| Unsecured term loan due 2028 | 159 | — |
| Unsecured non-revolving syndicated term facilities | 32 | 127 |
| Unsecured promissory notes | — | 10 |
| Secured promissory note | 5 | 5 |
| Other | 2 | 3 |
| | 530 | 607 |
| Deferred financing costs | — | (1) |
| | 530 | 606 |
| Less: Current portion of long-term debt | 33 | 11 |
| | 497 | 595 |

a) Unsecured Senior U.S. Farm Credit Facilities

On April 29, 2021 (the "Closing Date"), the Company entered into a credit agreement (the "U.S. Farm Credit Agreement") pursuant to which unsecured senior credit facilities in an aggregate amount of up to US$350 million were made available by a syndicate of lenders within the U.S. farm credit system. The U.S. Farm Credit Agreement provides a term loan facility of up to US$250 million with a delayed draw period of up to three years, and the choice of maturities of five to 10 years from the date of drawing, provided the final maturity of any term loan is not more than 10 years from the Closing Date (or the "Term Loan Facility"), and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026 (or the "Revolving Credit Facility"). On the Closing Date, a drawdown of US$100 million was made under the Revolving Credit Facility, and the proceeds were used to repay in full the bridge term loan. There is also an uncommitted option to increase the unsecured senior credit facilities by up to an additional US$150 million, subject to certain terms and conditions.

The obligations under the unsecured senior credit facilities are guaranteed by Stella-Jones Inc. and certain subsidiaries of the Company. Interest rates under the Revolving Credit Facility are based, at the Company's election, on either a floating rate based on the LIBOR, or a base rate, in each case plus a margin over the index. The Term Loan Facility bears interest, at the Company's election, at either a floating rate based on LIBOR, or a base rate, in each case plus a margin over the index, or at a fixed rate based on the farm credit system cost of funds plus an applicable margin set at the time of each tranche draw. The base rate is the highest of (i) the prime rate; and (ii) the federal funds rate plus 0.5%. The applicable margin over the index fluctuates quarterly based on (a) the Company's net funded debt-to-EBITDA ratio; and (b) in the case of the loans under the Term Loan Facility, the maturity date of such loans. For loans under the Revolving Credit Facility, the applicable margin ranges from 0.5% to 1.25% for base rate loans, and from 1.5% to 2.25% for LIBOR loans. For floating rate loans under the Term Loan Facility, the applicable margin over the index ranges from 0.5% to 1.5% for base rate loans, and from 1.5% to 2.5% for LIBOR loans. The U.S. Farm Credit Agreement contains language regarding the discontinuation of LIBOR and provides a mechanism for the introduction of a benchmark replacement through an amendment approach. For fixed rate loans under the Term Loan Facility, the applicable margin over the farm credit system cost of funds is set at 1.5% to 1.75%, based on the maturity date of each tranche draw.

The unsecured senior credit facilities are eligible for patronage refunds. Patronage refunds are distributions of profits from lenders in the farm credit system, which are cooperatives that are required to distribute profits to their members. Patronage distributions, in the form of cash, are received in the year after they were earned. Future refunds are dependent on future farm credit lender profits, made at the discretion of each farm credit lender.

In addition to paying interest on outstanding principal under the unsecured senior credit facilities, a fee is payable in respect of unutilized commitments based on the average daily utilization for the prior fiscal quarter ranging from 0.15% to 0.35% per annum under the Revolving Credit Facility and 0.20% for the Term Loan Facility during the delay draw period. No unused fee will be payable in respect of the unused portion of the Term Loan Facility corresponding to the amounts borrowed prior to July 31, 2021, up to an aggregate amount of US $150 million.

Loans under the Revolving Credit Facility and the Term Loan Facility, other than fixed rate term loans, may be prepaid from time to time at the company's discretion without premium or penalty but subject to breakage costs, if any, in the case of LIBOR loans. If all or any portion of a fixed rate term loan is prepaid, a prepayment premium may apply. Amounts repaid on the Term Loan Facility may not be subsequently re-borrowed. Principal amounts under the Revolving Credit Facility may be drawn, repaid, and redrawn until April 28, 2026.

Pursuant to the U.S. Farm Credit Agreement, the Company is required to maintain (i) a net funded debt-to-EBITDA ratio of no more than 3.50:1; (ii) an interest coverage ratio equal to or greater than 3.00:1 and (iii) a priority debt to equity ratio not more than 15%.

In addition, the U.S. Farm Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to the administrative agent, delivery of notice to the administrative agent upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, use of proceeds, and payment of taxes and other claims. The unsecured senior credit facilities include customary representations, warranties and events of default subject to customary grace periods and notice requirements.

During the three months ended September 30, 2021, the Company repaid a portion of the unsecured non-revolving syndicated term facility by borrowing US$25 million under the Term Loan Facility for seven years. Effective July 1, 2021, the Company and the syndicate of farm lenders agreed to set the applicable margin over the index at 1.725% with respect to the floating rate term loan balance of $125 million, subject to the Company entering into an interest rate swap agreement. Details of the interest swap agreement is provided in Note 8, *Fair value measurement and financial instruments.*

b) Syndicated Credit Agreement

On July 30, 2021, the Company obtained a one-year extension of its unsecured syndicated revolving credit facility to February 27, 2026. The extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019. All terms and conditions remain substantially unchanged.

## 6 Provisions and other long-term liabilities

| (Amounts in millions of Canadian dollars) | **As at September 30, 2021** | **As at December 31, 2020** |
|---|---|---|
| Site remediation | 13 | 12 |
| Share-based payment plans | 4 | 10 |
| Other | 9 | 9 |
| | 26 | 31 |
| Less: Current portion of provisions and long-term liabilities | 11 | 16 |
| | 15 | 15 |

The Company’s share-based payment plans consist of cash-settled restricted stock unit, performance stock unit and deferred share unit plans.

*Restricted stock units (RSUs) and Performance stock units (PSUs)*

Under the Stock Unit Plan (SUP) approved by Company’s Board of Directors in December 2019, RSUs and PSUs are granted to certain executives and key employees of the Company. Under the SUP, RSUs and PSUs entitle the holders to receive a cash payment equal to the average closing price on the TSX of the Company’s common shares for the five trading days preceding the vesting date multiplied by a factor which ranges from 0% to 200% based on the attainment of performance criteria and/or market conditions set out pursuant to the plan, provided the individual is still employed by the Company at time of vesting. RSUs vest ratably over a period of three years and PSUs are paid three years after the grant date. The SUP replaces the previous long-term incentive plan.

Changes in outstanding RSUs during the nine-month period ended September 30, are as follows:

| | **2021** | **2020** |
|---|---|---|
| **RSUs outstanding - Beginning of period** | 266,750 | 270,238 |
| Granted | 64,517 | — |
| Vested | (213,855) | — |
| Forfeited | (5,156) | — |
| **RSUs outstanding - End of period** | 112,256 | 270,238 |

As at September 30, 2021, the outstanding RSUs included 47,738 RSUs (September 30, 2020 - 270,238 RSUs) granted under the previous plan.

During the nine-month period ended September 30, 2021, 32,258 PSUs were granted under the SUP.

*Deferred share units (DSUs)*

DSUs entitle non-executive directors of the Company to receive a minimum participation amount in the form of DSUs and they may elect to participate in the DSU plan for a portion of their Board fees. Such deferred remuneration is converted to DSUs based on the average closing price of the Company's common shares on the TSX of the five trading days immediately preceding the date such remuneration becomes payable to the non-employee director. All DSUs vest and are settled for cash when a non-executive director ceases to act as a director.

Changes in outstanding DSUs during the nine-month period ended September 30, are as follows:

| | **2021** | **2020** |
|---|---|---|
| **DSUs outstanding - Beginning of period** | 6,375 | 2,126 |
| Granted | 13,756 | 4,249 |
| **DSUs outstanding - End of period** | 20,131 | 6,375 |

## 7 Capital stock

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

| | 2021 | 2020 |
|---|---|---|
| Number of common shares outstanding – Beginning of period | 66,187,404 | 67,466,709 |
| Stock option exercised | — | 15,000 |
| Common shares repurchased | (1,725,871) | (334,653) |
| Employee share purchase plans | 24,114 | 28,856 |
| Number of common shares outstanding – End of period | 64,485,647 | 67,175,912 |

a) Capital stock consists of the following:

Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

b) Earnings per share

The following table provides the reconciliation between basic earnings per common share and diluted earnings per common share:

| (Amounts in millions of Canadian dollars, except per share amounts) | For the three-month periods ended September 30, | | For the nine-month periods ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Net income applicable to common shares** | $34 | $79 | $205 | $176 |
| Weighted average number of common shares outstanding* | 64.7 | 67.4 | 65.2 | 67.5 |
| Effect of dilutive stock options* | — | — | — | — |
| Weighted average number of diluted common shares outstanding* | 64.7 | 67.4 | 65.2 | 67.5 |
| **Basic and diluted earnings per common share** | $0.52 | $1.17 | $3.14 | $2.60 |

* Number of shares is presented in millions.

c) Normal Course Issuer Bid

On March 9, 2021, the Company received approval from the TSX to amend the Normal Course Issuer Bid ("NCIB") accepted by the TSX on August 4, 2020 in order to increase the maximum number of common shares that may be repurchased for cancellation from 2,500,000 to 3,500,000 common shares during the 12- month period commencing August 10, 2020 and ending August 9, 2021. The amendment to the NCIB was effective on March 15, 2021.

During the nine-month period ended September 30, 2021, the Company repurchased for cancellation 1,725,871 common shares for a cash consideration of $78 million, representing an average price of $45.42 per common share.

As at September 30, 2021, the total number of common shares repurchased for cancellation under the NCIB amounted to 3,057,326 for total consideration of $139 million.

## 8 Fair value measurement and financial instruments

During the three-month period ended September 30, 2021, the Company entered into a forward starting interest rate swap agreement to reduce the impact of fluctuating interest rates on its long-term debt.

The following table summarizes the Company's interest rate swap agreements:

| | | | | | **As at September 30, 2021** | **As at December 31, 2020** |
|---|---|---|---|---|---|---|
| **Notional amount** | **Related debt instrument** | **Fixed rate** | **Effective date** | **Maturity date** | **Notional equivalent** | **Notional equivalent** |
| | | **%** | | | **CA$** | **CA$** |
| US$50 | Revolving credit facilities | 0.872 ** | December 2021 | December 2026 | 64 | — |
| US$125 | Term loan due 2028 | 1.125 * | July 2021 | June 2028 | 159 | — |
| US$100 | Revolving credit facilities | 1.060** | December 2017 | December 2021 | 127 | 127 |
| US$85 | Revolving credit facilities | 1.680** | December 2015 | April 2021 | — | 108 |

* Plus set margin of 1.725%.

** Plus applicable margin of 1.00% to 2.25% based on pricing grid included in the revolving credit agreements.

The Company designates its interest rate swap agreements as cash flow hedges of the underlying debt. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at September 30, 2021, all cash flow hedges were effective.

As at September 30, 2021, the fair value of interest swap agreements was less than a million dollars, recognized as liabilities in the consolidated statement of financial position (December 31, 2020 - two million dollars, recognized as liabilities in the consolidated statement of financial position).

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 $530 million (December 31, 2020 – $606 million) and a fair value of $541 million (December 31, 2020 – $619 million).

## 9 Seasonality

The Company's operations follow a seasonal pattern, with utility poles, railway ties and industrial products 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.

## 10 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 19 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:

| (Amounts in millions of Canadian dollars) | **2021** | **2020** |
|---|---|---|
| Canada | 837 | 651 |
| U.S. | 1,368 | 1,367 |
| | 2,205 | 2,018 |

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

| (Amounts in millions of Canadian dollars) | **2021** | **2020** |
|---|---|---|
| Utility poles | 698 | 688 |
| Railway ties | 553 | 585 |
| Residential lumber | 666 | 548 |
| Industrial products | 96 | 96 |
| Pressure-treated wood | 2,013 | 1,917 |
| Logs and lumber | 192 | 101 |
| | 2,205 | 2,018 |

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

| (Amounts in millions of Canadian dollars) | **As at September 30, 2021** | **As at December 31, 2020** |
|---|---|---|
| **Property, plant and equipment** | | |
| Canada | 167 | 160 |
| U.S. | 419 | 414 |
| | 586 | 574 |
| **Right-of-use assets** | | |
| Canada | 21 | 18 |
| U.S. | 122 | 117 |
| | 143 | 135 |
| **Intangible assets** | | |
| Canada | 48 | 40 |
| U.S. | 71 | 75 |
| | 119 | 115 |
| **Goodwill** | | |
| Canada | 19 | 19 |
| U.S. | 261 | 261 |
| | 280 | 280 |

## 11 Subsequent events

a) On November 3, 2021 Stella-Jones, through its U.S. subsidiary, entered into an agreement to purchase the shares of Cahaba Pressure Treated Forest Products, Inc. (“Cahaba Pressure”) and Cahaba Timber, Inc. (“Cahaba Timber”) for US$66 million and US$36.5 million respectively, subject to post-closing working capital adjustments. Cahaba Pressure manufactures, distributes and sells treated and untreated wood poles, crossties and posts, and provides custom treating services at its wood treating facility in Brierfield, Alabama. Cahaba Timber is a producer of treated poles and pilings and engages in raw material procurement at its treating operations in Brierfield, Alabama. Both transactions are scheduled to close prior to the end of December 2021.

b) On November 8, 2021, the Toronto Stock Exchange accepted Stella-Jones’ Notice of Intention to Make a Normal Course Issuer Bid (“Notice”). Shareholders may obtain a copy of the Notice upon request to the Company. Pursuant to the Notice, Stella-Jones may, during the twelve-month period commencing November 12, 2021 and ending November 11, 2022, purchase for cancellation, up to 4,000,000 common shares, representing approximately 8% of the public float of its common shares.

c) On November 8, 2021, the Board of Directors declared a quarterly dividend of $0.18 per common share payable on December 17, 2021 to shareholders of record at the close of business on December 1, 2021.