MANAGEMENT'S DISCUSSION & ANALYSIS

Three-and nine-month periods ended September 30, 2021 compared with the three- and nine-month periods ended September 30, 2020

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc. with its subsidiaries, either individually or collectively.

This MD&A and the Company's condensed interim unaudited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on November 8, 2021. The MD&A provides a review of the significant developments, results of operations, financial position and cashflows of the Company during the three-and nine-month periods ended September 30, 2021 compared with the three-and nine-month periods ended September 30, 2020. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 2021 and 2020 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2020.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the Revised Outlook section below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based on a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions (including the impact of the coronavirus [COVID-19] 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, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management 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.

The Company's condensed interim unaudited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants ("CPA Canada") Handbook Accounting - Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A also contains financial measures which are not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. These measures are as follows:

- **Gross profit**: Sales less cost of sales
- **Gross profit margin**: Gross profit divided by sales for the corresponding period
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **EBITDA margin**: EBITDA divided by sales for the corresponding period
- **Operating income margin**: Operating income divided by sales for the corresponding period
- **Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid**
- **Net debt:** Sum of long-term debt and lease liabilities (including the current portion), short-term debt less cash and cash equivalents
- **Net debt-to-EBITDA**: Net debt divided by the trailing 12-month EBITDA

Management considers these non-IFRS measures to be useful information to assist knowledgeable investors to understand the Company's operating results, financial position and cash flows as they provide additional measures about its performance.

Additional information, including the Company's Annual Information Form, quarterly and annual reports, and supplementary information is available on the SEDAR web site at www.sedar.com. Press releases and other information are also available in the Investor Relations section of the Company's web site at www.stella-jones.com.

OUR BUSINESS

Stella-Jones Inc. 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 which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at September 30, 2021, the Company operated forty wood treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at September 30, 2021, the Company's workforce numbered approximately 2,330 employees.

Stella-Jones possesses numerous key attributes and competitive strengths which should continue to enhance the Company's strategic positioning in the wood treating industry and enable it to generate maximum value for the Company and its stakeholders:

Resilient business model

- Portfolio of businesses with steady demand
- Leadership position in product categories served
- Decentralized organizational structure with the capability to rapidly adjust to changing environments and meet urgent customer requirements
- Extensive network to service customers from multiple plants across North America
- Solid and sustained customer relationships
- Long-standing stable sources of wood supply and a registration to produce the wood preservative, creosote
- Established track record of delivering solid results

Seasoned management team

- Extensive industry expertise in all divisions throughout North America
- Consistent record of successful acquisition integration and synergy capture
- Entrenched culture of entrepreneurship balanced with a focus on environmentally sound and sustainable practices

Solid financial position

- Strong cash flow generation and low levels of debt
- Financial capacity to stockpile and air-season green wood for major contracts
- Financial strength and flexibility to support growth opportunities.

OUR MISSION

Stella-Jones' objective is to be the performance leader in the wood preserving industry and a model corporate citizen, exercising environmental and social responsibility and integrity.

Stella-Jones will achieve these goals by focusing on customer satisfaction, core products, key markets, innovative work practices and the optimal use of its resources.

Stella-Jones is committed to providing a safe, respectful, inclusive and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

OUR STRATEGY

Stella-Jones' strategic vision is focused on enhancing the Company's presence in its core product categories, through network efficiencies, innovation and accretive acquisitions, while seeking other strategic opportunities that leverage the Company's footprint, customer base, fibre sourcing and other competitive strengths. As one of the leading providers of industrial treated wood products, Stella-Jones generates consistent value for shareholders, and recognizes the importance of integrating environmental, social and governance considerations into key decisions and strategies to enhance its business resilience and contribute to long-term value creation.

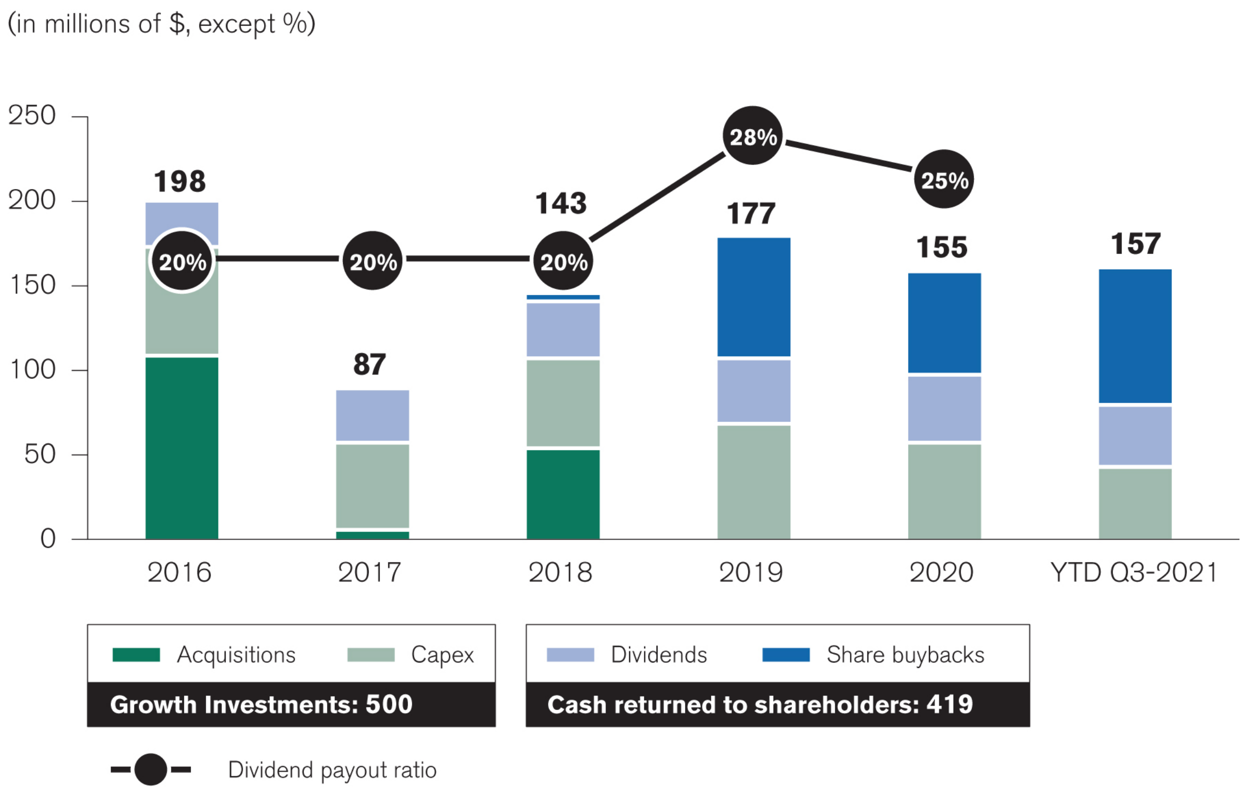
Capital Management

The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing growth investments and the return of capital to shareholders. The Company will:

- Invest in capital expenditures in the range of $50 to $60 million annually, to maintain the quality of its assets, the safety of employees and the sustainability of the environment, as well as support organic growth, innovation and productivity;
- Pursue accretive acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share; and
- Return excess free cash flow to shareholders through share repurchases.

As part of its capital allocation approach, Stella-Jones targets a net debt-to-EBITDA ratio between 2.0x and 2.5x, but may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements.

The Company's capital allocation since 2016 is summarized below:



COVID-19 PANDEMIC

Critical to the integrity of the supply chain for utility, railroad and the construction industries, all of Stella-Jones' North American facilities have remained operational during the COVID-19 pandemic. The Company continues to reinforce measures to mitigate health risks to its employees, business partners and communities where it operates and to prevent disruptions. To date, the Company has not experienced any material disruption to operations, and it has not incurred significant increases in costs as a result of COVID-19. While the Company's year-to-date 2021 results were strong, the impact of the ongoing COVID-19 pandemic on the demand for the Company's products, as well as on the Company's operations and those of its suppliers and customers remains uncertain and cannot currently be predicted. The duration and scope of the COVID-19 pandemic and the varying actions taken by government authorities and other businesses to reduce the spread could directly or indirectly disrupt the Company's operations and/or those of its suppliers or customers, which in turn, could adversely impact the business, financial position, results of operations and cash flows of the Company. Please refer to the Revised Outlook section for further details.

HIGHLIGHTS

Overview – Third Quarter of 2021

Sales in the third quarter of 2021 were down 8% to $679 million, compared to $742 million last year. Excluding the impact of the currency conversion, pressure-treated wood sales decreased by $32 million and sales of logs and lumber decreased by six million dollars. The decrease in pressure-treated wood sales was primarily driven by the significantly lower demand for residential lumber, offset in part by higher residential lumber pricing, compared to the same period last year, as well as a better sales mix for utility poles. The decrease in logs and lumber sales largely stems from the reduction in lumber trading activity during the quarter.

Despite the realization of higher pricing compared to the third quarter of 2020, the elevated fibre costs, particularly for residential lumber and railway ties, combined with the lower sales volume resulted in a decrease in EBITDA to $69 million, or a margin of 10.2%, for the third quarter of 2021, down from $132 million, or a margin of 17.8% last year. 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.

During the third quarter ended September 30, 2021, Stella-Jones used the cash generated from operations to invest in capital expenditures, reduce indebtedness, pay dividends and repurchase shares. As at September 30, 2021, the Company maintained a strong financial position with a net debt-to-EBITDA ratio of 1.6x.

Financial Highlights – Third Quarter of 2021

Selected Key Indicators (in millions of dollars except margins and earnings per share ("EPS"))	**Q3-21**	**Q3-20**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	679	742	(63)	(8%)
Gross profit[1]	82	147	(65)	(44%)
Gross profit margin[1]	12.1%	19.7%	n/a	(760) bps
EBITDA[1]	69	132	(63)	(48%)
EBITDA margin[1]	10.2%	17.8%	n/a	(760) bps
Operating income	51	113	(62)	(55%)
Operating income margin[1]	7.5%	15.2%	n/a	(770) bps
Net income	34	79	(45)	(57%)
EPS – basic & diluted	0.52	1.17	(0.65)	(56%)
Cash Flows from (used in)				
Operating activities	225	148	77	
Financing activities	(212)	(134)	(78)	
Investing activities	(13)	(14)	1	
Financial position	**As at September 30, 2021**	**As at December 31, 2020**	**Variation ($)**	
Inventories	1,057	1,075	(18)	
Long-term debt[2]	530	606	(76)	
Lease liabilities[2]	149	139	10	

(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.

(2) Including current portion.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except margins and EPS)	**YTD Q3-21**	**YTD Q3-20**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	2,205	2,018	187	9%
Gross profit[(1)]	391	361	30	8%
Gross profit margin[(1)]	17.7%	17.9%	n/a	(20) bps
EBITDA[(1)]	348	315	33	10%
EBITDA margin[(1)]	15.8%	15.6%	n/a	20 bps
Operating income	294	259	35	14%
Operating income margin[(1)]	13.3%	12.8%	n/a	50 bps
Net income	205	176	29	16%
EPS – basic & diluted	3.14	2.60	0.54	21%
Cash Flows from (used in)				
Operating activities	257	201	56	
Financing activities	(213)	(171)	(42)	
Investing activities	(44)	(30)	(14)	

(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.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents the reconciliations of non-IFRS financial measures to their most comparable IFRS measures.

Reconciliation of net income to EBITDA (in millions of dollars)	**Three-month period ended September 30,**		**Nine-month period ended September 30,**	
	2021	**2020**	**2021**	**2020**
Net income for the period	34	79	205	176
Plus:				
Provision for income taxes	12	28	72	63
Financial expenses	5	6	17	20
Operating income	51	113	294	259
Depreciation and amortization	18	19	54	56
EBITDA	69	132	348	315

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2021 and 2020. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US$/Cdn$ rate	2021		2020	
	Average	Closing	Average	Closing
First Quarter	1.27	1.26	1.34	1.42
Second Quarter	1.23	1.24	1.39	1.36
Third Quarter	1.26	1.27	1.33	1.33
Fourth Quarter			1.30	1.27
Fiscal Year			1.34	1.27

- Average rate: The depreciation of the value of the U.S. dollar relative to the Canadian dollar during the third quarter of 2021 compared to the third quarter of 2020 resulted in a negative impact on sales and a favourable impact on cost of sales.

- Closing rate: There was no change in the value of the U.S. dollar relative to the Canadian dollar as at September 30, 2021, compared to December 31, 2020. As a result, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

Sales

Sales for the third quarter of 2021 totaled $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, as detailed below. The decrease in logs and lumber sales largely stems from a decline in lumber transaction volumes.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q3-2020	**251**	**188**	**220**	**34**	**693**	**49**	**742**
FX impact	(11)	(9)	(3)	(1)	**(24)**	(1)	**(25)**
Organic growth	16	—	(47)	(1)	**(32)**	(6)	**(38)**
Q3-2021	**256**	**179**	**170**	**32**	**637**	**42**	**679**
Organic growth %	6%	—%	(21%)	(3%)	**(5%)**	(12%)	**(5%)**

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, as detailed below. 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.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
YTD 2020	**688**	**585**	**548**	**96**	**1,917**	**101**	**2,018**
FX impact	(45)	(41)	(18)	(6)	**(110)**	(3)	**(113)**
Organic growth	55	9	136	6	**206**	94	**300**
YTD 2021	**698**	**553**	**666**	**96**	**2,013**	**192**	**2,205**
Organic growth %	8%	2%	25%	6%	**11%**	93%	**15%**

Utility poles

Utility poles sales increased to $256 million in the third quarter of 2021, 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. Utility poles sales accounted for 38% of the Company's third-quarter sales.

For the first nine months of 2021, utility poles sales totaled $698 million, versus $688 million for the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased $55 million, or 8%, due to volume and pricing gains and a favourable sales mix.

Railway ties
Railway ties sales were $179 million in the third quarter of 2021, 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. Railway ties sales accounted for 26% of the Company's third-quarter sales.

For the first nine months of 2021, railway ties sales totaled $553 million, versus $585 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased nine million dollars, or 2%, primarily explained by higher Class 1 and non-Class 1 sales volumes, partially offset by pricing headwinds in the first half of the year for non-Class 1 business.

Residential lumber
Sales in the residential lumber category were $170 million in the third quarter of 2021, 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. Residential lumber sales accounted for 25% of the Company's third-quarter sales.

For the first nine months of 2021, residential lumber sales totaled $666 million versus $548 million for the corresponding period last year. Excluding the currency conversion effect, residential lumber sales were up 25%. The unprecedented market-driven pricing gains, mostly in the first half of the year, outweighed the decrease in volumes.

Industrial products
Industrial product sales were $32 million in the third quarter of 2021 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. Industrial product sales represented 5% of the Company's third-quarter sales.

For the first nine months of 2021, industrial product sales totaled $96 million, unchanged compared to the corresponding period last year. Excluding the currency conversion effect, industrial product sales increased six million dollars, or 6%. The year-over-year increase reflects more piling and timber projects, partially offset by lower project-related crossing sales.

Logs and lumber
Sales in the logs and lumber product category were $42 million in the third quarter of 2021, down compared to $49 million in the corresponding period last year. Sales decreased mostly due to a reduction in lumber trading activity. Logs and lumber sales represented 6% of the Company's third-quarter sales.

For the first nine months of 2021, sales in the logs and lumber product category totaled $192 million versus $101 million for the corresponding period last year, explained by the all-time-high market price of lumber during the first half of the year.

Sales by Geographic Region
Sales in the United States amounted to $460 million, or 68% of sales in the third quarter of 2021, down $27 million, or 6%, compared to sales of $487 million in the corresponding period last year. The decrease is mostly due to lower residential lumber and project-related utility poles volumes, partially offset by improved maintenance demand and sales mix for distribution poles. The depreciation of the value of the U.S. dollar relative to the Canadian dollar during the third quarter of 2021 compared to the same period last year negatively impacted sales in 2021. Including the unfavourable currency conversion impact, sales in the United States for the first nine months of 2021 stood at $1,368 million, up one million dollars compared to the corresponding period last year.

Sales in Canada amounted to $219 million, or 32% of sales in the third quarter of 2021, a decrease of $37 million, or 14%, compared to sales of $255 million in the third quarter last year. The decrease reflects the lower residential lumber and lumber trading sales due to the drop in demand, offset in part by higher residential lumber sales prices. For the first nine months of 2021, sales in Canada stood at $837 million, up from $651 million in the corresponding period last year.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $597 million, or 88% of sales, in the third quarter of 2021. This compares to cost of sales of $595 million, or 80% of sales, in the corresponding period last year. The increase is largely explained by higher fibre costs which were partially mitigated by lower sales volumes, particularly for residential lumber, and the favourable impact of the depreciation of the U.S. dollar.

Total depreciation and amortization was $18 million in the third quarter of 2021, with $16 million recorded as cost of sales, compared to $19 million in the corresponding period last year, with $15 million recorded as cost of sales.

For the first nine months of 2021, cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $1,814 million, or 82% of sales. This compares to cost of sales of $1,657 million, or 82% of sales, in the corresponding period last year. Total depreciation and amortization was $54 million, with $46 million recorded as cost of sales, compared to total depreciation and amortization of $56 million in the corresponding period last year, of which $46 million was recorded as cost of sales.

Gross profit

Gross profit was $82 million, or 12.1% of sales, in the third quarter of 2021, compared to $147 million, or 19.7% of sales, in the corresponding period last year. 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 profitability. A seven million dollar inventory write-down provision related to the residential lumber finished goods was recorded to cost of sales during the third quarter of 2021.

For the first nine months of 2021, gross profit grew to $391 million, or 17.7% of sales, compared to $361 million, or 17.9% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the third quarter of 2021 amounted to $30 million, including depreciation and amortization of two million dollars, compared to $32 million in the prior year period, including depreciation and amortization of four million dollars. The decrease in selling and administrative expenses is largely attributable to the lower profit sharing compensation expense.

For the first nine months of 2021, selling and administrative expenses amounted to $95 million, including depreciation and amortization of eight million dollars, compared to $93 million in the prior year period, including depreciation and amortization of $10 million dollars.

Other losses, net

During the third quarter of 2021 and the corresponding quarter of 2020, other net losses were one million dollars and two million dollars, respectively, mainly related to a write-down of certain assets.

During the first nine months of 2021, other net losses totaled two million dollars, compared to nine million in the corresponding period last year that essentially consisted of unrealized mark-to-market losses related to diesel and petroleum derivative commodity contracts. These commodity contracts expired at the end of 2020.

Financial expenses

Financial expenses amounted to five million dollars in the third quarter of 2021, down from six million dollars in the corresponding period last year. The reduction in financial expenses is mainly explained by lower interest rates, largely offset by the higher average amount of long-term debt outstanding. For the first nine months of 2021, financial expenses amounted to $17 million, down from $20 million for the same period last year.

Income before income taxes and income tax expense

During the third quarter of 2021, income before income taxes was $46 million, or 7% of sales, versus $107 million, or 14% of sales, in the corresponding period of 2020. The provision for income taxes totaled $12 million, compared to $28 million in the same period last year, representing an effective tax rate of approximately 26%.

For the nine-month period ended September 30, 2021, income before income taxes was $277 million, or 13% of sales, versus $239 million, or 12% of sales in the corresponding period of 2020. The provision for income taxes totaled $72 million, compared to $63 million in the same period last year, representing an effective tax rate of approximately 26%.

Net income

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

For the first nine months of 2021, net income totaled $205 million, or $3.14 per share, compared with $176 million, or $2.60 per share, in the corresponding period last year.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with utility poles, railway ties, and industrial product shipments stronger in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; as a result, the first and fourth quarters are typically characterized by relatively lower sales. The table below sets forth selected financial information for the Company's last eleven quarters:

2021

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	623	903	679		
EBITDA[1]	99	180	69		
Operating income	82	161	51		
Net income for the period	56	115	34		
EPS - basic and diluted	0.85	1.76	0.52		

2020

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	508	768	742	533	2,551
EBITDA[1]	63	120	132	70	385
Operating income	45	101	113	50	309
Net income for the period	28	69	79	34	210
EPS - basic and diluted	0.41	1.02	1.17	0.52	3.12

2019

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales [2]	446	667	631	445	2,189
EBITDA[1]	64	94	96	59	313
Operating income	46	77	78	41	242
Net income for the period	29	52	54	28	163
EPS - basic and diluted	0.43	0.76	0.77	0.41	2.37

(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.
(2) Comparative figures have been adjusted to conform to the current period presentation.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. There was no change in the value of the U.S. dollar relative to the Canadian dollar as at September 30, 2021, compared to December 31, 2020 (see "Foreign Exchange" on page 7). As a result, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at September 30, 2021, total assets stood at $2,526 million versus $2,426 million as at December 31, 2020. The increase in total assets largely reflects higher current assets, as detailed below. Note that the following table provides information on assets using select line items from the consolidated statements of financial position.

Assets (in millions of dollars)	**As at September 30, 2021**	**As at December 31, 2020**	**Variance**
Accounts receivable	284	208	76
Inventories	1,057	1,075	(18)
Other current assets	51	36	15
Total current assets	**1,392**	**1,319**	**73**
Property, plant and equipment	586	574	12
Right-of-use assets	143	135	8
Intangible assets	119	115	4
Goodwill	280	280	—
Other non-current assets	6	3	3
Total non-current assets	**1,134**	**1,107**	**27**
Total assets	**2,526**	**2,426**	**100**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $284 million as at September 30, 2021, compared to $208 million as at December 31, 2020. The increase mainly reflects the higher sales in the third quarter of 2021, when compared to the fourth quarter of 2020, as per normal seasonal demand patterns. In the normal course of business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible trade receivables to the concerned financial institutions.

Inventories stood at $1,057 million as at September 30, 2021, down from $1,075 million as at December 31, 2020. The decrease is explained by lower volumes, particularly for railway ties given the tighter fibre supply market, offset in large part by the higher cost of residential lumber and untreated railway ties.

Given the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital and the turnover is relatively low. In addition, significant raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. The Company maintains solid relationships and enters into long-term contracts with customers to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

Property, plant and equipment stood at $586 million as at September 30, 2021, compared with $574 million as at December 31, 2020. The increase reflects the purchase of property, plant and equipment of $31 million during the first nine months of 2021, partially offset by depreciation expense of $18 million for the period.

Right-of-use assets totaled $143 million as at September 30, 2021, compared to $135 million as at December 31, 2020. Additions of right-of-use assets, largely rolling stock, of $35 million during the first nine months of the year were partially offset by depreciation expense of $28 million for the period.

Intangible assets and goodwill totaled $119 million and $280 million, respectively, as at September 30, 2021. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2020, intangible assets and goodwill were $115 million and $280 million, respectively. Intangible assets increased slightly, primarily due to additions during the period, mainly for the implementation of a new enterprise resource planning (ERP) system, partially offset by amortization expense of eight million.

Liabilities

As at September 30, 2021, Stella-Jones' total liabilities stood at $1,055 million, up marginally from $1,053 million as at December 31, 2020. Total liabilities remained relatively stable as the increase in current liabilities was offset by a decrease in non-current liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at September 30, 2021**	**As at December 31, 2020**	**Variance**
Accounts payable and accrued liabilities	214	137	77
Current portion of long-term debt	33	11	22
Current portion of lease liabilities	44	33	11
Other current liabilities	26	37	(11)
Total current liabilities	**317**	**218**	**99**
Long-term debt	497	595	(98)
Lease liabilities	105	106	(1)
Other non-current liabilities	136	134	2
Total non-current liabilities	**738**	**835**	**(97)**
Total liabilities	**1,055**	**1,053**	**2**

Current liabilities were $317 million as at September 30, 2021, versus $218 million as at December 31, 2020. This variation reflected a $77 million increase in accounts payable and accrued liabilities, in line with the seasonal increase in business activity in the third quarter of 2021, compared to the fourth quarter of 2020.

In the first quarter of 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 Company repaid in full the US$100 million of indebtedness advanced under the bridge loan facility and the total indebtedness outstanding under the demand loan facility, and terminated and cancelled the demand loan facility.

During the second quarter of 2021, the Company entered into a credit agreement (the "U.S. Farm Credit Agreement") pursuant to which senior unsecured credit facilities of 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, and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026. At the date of closing, a drawdown was made under the revolving credit facility to repay in full the bridge term loan. The U.S. Farm Credit Agreement includes representations, warranties, covenants and events of default substantially similar to those under the existing 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.

The Company's long-term debt, including the current portion, decreased to $530 million as at September 30, 2021 versus $606 million as at December 31, 2020, largely reflecting debt repayment.

As at September 30, 2021, an amount of $381 million (US$299 million) was available against the Company's revolving credit facilities of $541 million (US$425 million) and $159 million (US$125 million) was available under the U.S. farm credit term loan facility.

As at September 30, 2021, the net debt-to-EBITDA ratio decreased to 1.6x from 1.9x at the end of the fourth quarter of 2020. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at September 30, 2021.

Shareholders' equity

Shareholders' equity stood at $1,471 million as at September 30, 2021, compared to $1,373 million as at December 31, 2020.

Shareholders' Equity (in millions of dollars)	**As at September 30, 2021**	**As at December 31, 2020**	**Variance**
Capital stock	210	214	(4)
Retained earnings	1,180	1,079	101
Accumulated other comprehensive income	81	80	1
Total shareholders' equity	**1,471**	**1,373**	**98**

The increase in shareholders' equity as at September 30, 2021 is attributable to net income of $205 million during the first nine months of 2021. This increase was partially offset by a $78 million reduction in shareholders' equity related to the repurchase of shares and $35 million of dividends.

On August 4, 2020, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation, up to 2,500,000 common shares during the 12-month period commencing August 10, 2020 and ending August 9, 2021. On March 9, 2021, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company from 2,500,000 to 3,500,000 common shares. All other terms and conditions of the NCIB remained unchanged. The amendment to the NCIB was effective on March 15, 2021 and continued until August 9, 2021.

In the three-month period ended September 30, 2021, the Company repurchased 628,303 common shares for cancellation in consideration of $27 million under its NCIB. For the nine-month period ended September 30, 2021, the Company repurchased 1,725,871 common shares for cancellation in consideration of $78 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.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated:

Summary of cash flows (in millions of dollars)	**Three-month period ended September 30,**		**Nine-month period ended September 30,**	
	2021	**2020**	**2021**	**2020**
Operating activities	225	148	257	201
Financing activities	(212)	(134)	(213)	(171)
Investing activities	(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 Company believes that its cash flow from operations and available credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets.

Cash flows from operating activities
Cash flows from operating activities amounted to $225 million in the third quarter of 2021, compared to $148 million in the corresponding period in 2020. The increase in operating cash flows from the prior year quarter primarily reflected favourable movements in non-cash working capital, partially offset by lower profitability. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $70 million in the third quarter of 2021, compared to $132 million in the corresponding period in 2020. Changes in non-cash working capital components increased liquidity by $191 million in the third quarter of 2021, as a result of a decrease in accounts receivable and inventories, primarily residential lumber, and an increase in accounts payable and accrued liabilities.

Cash flows from operating activities amounted to $257 million in the first nine months of 2021, compared to $201 million in the corresponding period in 2020, mainly due to favourable movements in non-cash working capital and improved profitability in 2021, partially offset by higher income tax installment payments. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $341 million in the first nine months of 2021, compared to $324 million in the corresponding period in 2020. Changes in non-cash working capital components increased liquidity by $15 million in the first nine months of 2021, primarily attributable to an increase in accounts payable and accrued liabilities and a decrease in inventories, mainly railway ties, largely offset by an increase in accounts receivable.

The following table provides information on cash flows provided by operating activities using select line items from the consolidated statements of cash flows.

Cash flows from operating activities (in millions of dollars)	**Three-month period ended September 30,**		**Nine-month period ended September 30,**	
	2021	**2020**	**2021**	**2020**
Net income	34	79	205	176
Depreciation and amortization	18	19	54	56
Current income taxes expense	9	24	68	58
Other	9	10	14	34
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**70**	**132**	**341**	**324**
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
Changes in non-cash working capital components	**191**	**48**	**15**	**(76)**
Interest paid	(8)	(9)	(19)	(22)
Income taxes paid	(28)	(23)	(80)	(25)
Cash flows from operating activities	**225**	**148**	**257**	**201**

Cash flows used in financing activities

Financing activities for the third quarter of 2021 decreased cash by $212 million. During the quarter ended September 30, 2021, the Company repaid $165 million under its revolving credit facilities and borrowed $31 million under its term loan facility to repay $31 million under its non-revolving credit facility. In addition, the Company paid dividends of $11 million and repurchased shares for $27 million. In the third quarter of 2020, financing activities decreased cash by $134 million, primarily due to the repayment of $101 million under its revolving credit facilities, the payment of dividends of $10 million and the repurchase of shares for $15 million.

For the first nine months of 2021, financing activities reduced cash by $213 million dollars, compared to $171 million for the same period in 2020.

The following table provides information on cash flows used in financing activities using select line items from the consolidated statements of cash flows.

Cash flows used in financing activities (in millions of dollars)	**Three-month period ended September 30,**		**Nine-month period ended September 30,**	
	2021	**2020**	**2021**	**2020**
Increase (decrease) in short-term debt	—	—	3	—
Net change in revolving credit facilities	(165)	(101)	(123)	(92)
Increase (decrease) in long-term debt	—	(1)	47	(7)
Dividends on common shares	(11)	(10)	(35)	(30)
Repurchase of common shares	(27)	(15)	(78)	(15)
Other	(9)	(7)	(27)	(27)
Cash flows used in financing activities	**(212)**	**(134)**	**(213)**	**(171)**

Cash flows used in investing activities

Investing activities used $13 million of cash flows in the third quarter of 2021, compared to $14 million in the third quarter of 2020, explained by the purchase of property, plant and equipment as well as expenditures related to the implementation of the ERP system.

For the first nine months of 2021, the Company invested $44 million, compared to $30 million for the corresponding period in 2020.

The following table provides information on cash flows used in investing activities from the consolidated statements of cash flows.

Cash flows used in investing activities (in millions of dollars)	**Three-month period ended September 30,**		**Nine-month period ended September 30,**	
	2021	**2020**	**2021**	**2020**
Purchase of property, plant and equipment	(11)	(10)	(31)	(23)
Additions of intangible assets	(3)	(4)	(13)	(8)
Other	1	—	—	1
Cash flows used in investing activities	**(13)**	**(14)**	**(44)**	**(30)**

Financial obligations

The following table details the maturities of the financial obligations as at September 30, 2021:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	214	214	214	—	—	—
Long-term debt obligations (1)	530	602	17	125	146	314
Minimum payments under lease liabilities	149	162	40	56	32	34
Derivative financial instruments	—	—	(2)	(1)	2	1
Financial obligations	**893**	**978**	**269**	**180**	**180**	**349**

(1) Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at September 30, 2021.

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2021, the capital stock issued and outstanding of the Company consisted of 64,485,647 common shares (66,187,404 as at December 31, 2020).

The following table presents the outstanding capital stock activity for the three and nine-month periods ended September 30, 2021:

Number of shares	**Three-month period ended September 30, 2021**	**Nine-month period ended September 30, 2021**
Balance – Beginning of period	65,105,179	66,187,404
Common shares repurchased	(628,303)	(1,725,871)
Employee share purchase plans	8,771	24,114
Balance – End of period	**64,485,647**	**64,485,647**

As at November 8, 2021, the capital stock issued and outstanding consisted of 64,485,647 common shares.

As at September 30, 2021, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2020 – 30,000). As at November 8, 2021, the number of outstanding and exercisable options was 30,000.

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2020 Annual Report.

SUBSEQUENT EVENTS

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.

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.

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.

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based on the Company's capital allocation strategy. There can be no assurance as to the amount or timing of such dividends in the future.

RISKS AND UNCERTAINTIES

Except as described in the COVID-19 Pandemic section herein, the risk and uncertainties affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2020 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2020 and 2019 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS and CPA Canada Handbook Accounting - Part I.

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at September 30, 2021 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive

Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at September 30, 2021.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from July 1, 2021 to September 30, 2021 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

REVISED OUTLOOK

The Company now assumes EBITDA to be close to $400 million, reflecting a greater than 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 has made a number of economic and market assumptions in preparing the guidance and providing the forward-looking statements contained herein.

These assumptions include, but are not limited to the following:

- No significant reduction in the maintenance programs of major railway and utility pole customers;
- No major disruption in the Company's manufacturing operations, supply chain and distribution networks;
- Canadian dollar will trade, on average, at approximately C$1.25 per U.S. dollar, with sales in the United States continuing to represent approximately 70% of total sales;
- Impact of potential acquisitions, other than the announced purchase agreements, are not included.

This outlook is fully qualified by the forward-looking statements described in this MD&A.

November 8, 2021