Stella-Jones Inc.

Consolidated Financial Statements
December 31, 2020 and 2019
(expressed in millions of Canadian dollars)

December 31, 2020 and 2019

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been examined by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of five independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(s) Eric Vachon

Éric Vachon, CPA, CA
President and Chief Executive Officer

(s) Silvana Travaglini

Silvana Travaglini, CPA, CA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Quebec

March 9, 2021

Independent auditor's report

To the Shareholders of Stella-Jones Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of change in shareholders' equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accuracy and existence of inventories *Refer to note 2 – Significant accounting policies and note 5 – Inventories to the consolidated financial statements.* The Company's inventories totalled \$1,075 million as at December 31, 2020. Inventories are comprised of raw materials and finished goods. Raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale. We considered this a key audit matter due to the magnitude of the inventories balance and the large number of inventory locations, and the audit effort involved in testing the inventories balance.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of controls relating to the matching of invoices, purchase orders and receiving documents. • For a selection of locations of inventory counts performed by management prior to year-end, observed the inventory count procedures and performed independent test counts for a sample of inventory items. • Tested the inventories activity in the intervening period between the count date and the year-end date. • For a sample of inventory items for raw material and finished goods, recalculated the weighted average cost. • For a sample of finished goods, tested the cost of transferred materials from raw materials to finished goods, by agreeing the cost transferred to the carrying cost of the items previously classified in raw materials. • Tested the allocation of other direct standard costs attributed to finished goods, by comparing the other direct standard costs in a sample of finished goods to the direct standard cost list. • Tested the reasonability of other direct standard costs absorbed by finished goods inventories during the year by analyzing the variances of standard to actual costs. • Tested the allocation of the actual manufacturing overhead expenses to inventories at year-end.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gregory Tremellen.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 9, 2021

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[1] CPA auditor, CA, public accountancy permit No. A119714

Stella-Jones Inc.

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

(expressed in millions of Canadian dollars)

	Note	2020	2019
		$	$
Assets			
Current assets			
Accounts receivable	4	208	179
Inventories	5	1,075	971
Income taxes receivable		-	6
Other current assets		36	36
		1,319	1,192
Non-current assets			
Property, plant and equipment	6	574	568
Right-of-use assets	7	135	116
Intangible assets	8	115	115
Goodwill	8	280	285
Derivative financial instruments	18	-	1
Other non-current assets		3	4
		2,426	2,281
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	9	137	136
Income taxes payable		19	1
Derivative financial instruments	18	2	2
Current portion of long-term debt	10	11	7
Current portion of lease liabilities	7	33	29
Current portion of provisions and other long-term liabilities	11	16	7
		218	182
Non-current liabilities			
Long-term debt	10	595	598
Lease liabilities	7	106	89
Deferred income taxes	15	104	101
Provisions and other long-term liabilities	11	15	12
Employee future benefits	16	15	11
		1,053	993
Shareholders' equity			
Capital stock	13	214	217
Retained earnings		1,079	968
Accumulated other comprehensive income		80	103
		1,373	1,288
		2,426	2,281
Commitments and contingencies	17		
Subsequent events	22		

Approved by the Board of Directors,

(s) Katherine A. Lehman
Katherine A. Lehman
Director

(s) *Karen Laflamme*
Karen Laflamme, FCPA, FCA, ASC
Director

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity

For the years ended December 31, 2020 and 2019

(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 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 year	-	210	-	-	-	-	210
Other comprehensive income (loss)	-	(3)	(12)	(9)	(2)	(23)	(26)
Comprehensive income (loss) for the year	-	207	(12)	(9)	(2)	(23)	184
Dividends on common shares	-	(40)	-	-	-	-	(40)
Employee share purchase plans	1	-	-	-	-	-	1
Repurchase of common shares (Note 13)	(4)	(56)	-	-	-	-	(60)
	(3)	(96)	-	-	-	-	(99)
Balance – December 31, 2020	214	1,079	179	(98)	(1)	80	1,373

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity…continued

For the years ended December 31, 2020 and 2019

(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 on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$
Balance – January 1, 2019	221	909	252	(107)	6	151	1,281
Comprehensive income (loss)							
Net income for the year	-	163	-	-	-	-	163
Other comprehensive income (loss)	-	(2)	(61)	18	(5)	(48)	(50)
Comprehensive income (loss) for the year	-	161	(61)	18	(5)	(48)	113
Dividends on common shares	-	(38)	-	-	-	-	(38)
Employee share purchase plans	1	-	-	-	-	-	1
Repurchase of common shares (note 13)	(5)	(64)	-	-	-	-	(69)
	(4)	(102)	-	-	-	-	(106)
Balance – December 31, 2019	217	968	191	(89)	1	103	1,288

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

Stella-Jones Inc.

Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

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

	Note	2020 $	2019 $
Sales	23	2,551	2,189
Expenses			
Cost of sales (including depreciation and amortization of $62 (2019 - $56))	23	2,105	1,831
Selling and administrative (including depreciation and amortization of $14 (2019 - $15))		125	116
Other losses, net		12	-
	14	2,242	1,947
Operating income		309	242
Financial expenses	14	25	24
Income before income taxes		284	218
Provision for income taxes			
Current	15	66	41
Deferred	15	8	14
		74	55
Net income for the year		210	163
Basic and dituted earnings per common share	13	3.12	2.37

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

Stella-Jones Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019

(expressed in millions of Canadian dollars)

	2020	2019
	$	$
Net income for the year	210	163
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Net change in losses on translation of financial statements of foreign operations	(12)	(61)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(9)	18
Change in losses on fair value of derivatives designated as cash flow hedges	(3)	(6)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	1	1
Items that will not subsequently be reclassified to net income		
Remeasurements of post-employment benefit obligations	(4)	(3)
Income taxes on remeasurements of post-employment benefit obligations	1	1
	(26)	(50)
Comprehensive income for the year	184	113

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

Stella-Jones Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(expressed in millions of Canadian dollars)

	Note	2020 $	2019 $
Cash flows provided by (used in)			
Operating activities			
Net income for the year		210	163
Adjustments for			
Depreciation of property, plant and equipment	6	26	24
Depreciation of right-of-use assets	7	38	33
Amortization of intangible assets	8	12	14
Gain on derivative financial instruments		(2)	(6)
Financial expenses		25	24
Current income taxes expense	15	66	41
Deferred income taxes	15	8	14
Provisions and other long-term liabilities		14	(5)
Other		5	3
		402	305
Changes in non-cash working capital components			
Accounts receivable		(32)	6
Inventories		(123)	(162)
Other current assets		(2)	(2)
Accounts payable and accrued liabilities		1	12
		(156)	(146)
Interest paid		(26)	(24)
Income taxes paid		(42)	(45)
		178	90
Financing activities			
Net change in syndicated credit facilities	12	20	126
Increase in long-term debt	12	-	1
Repayment of long-term debt	12	(8)	(10)
Repayment of lease liabilities	12	(35)	(31)
Repayment of non-competes payable	12	(2)	(2)
Dividends on common shares		(40)	(38)
Repurchase of common shares	13	(60)	(71)
Proceeds from issuance of common shares		1	1
		(124)	(24)
Investing activities			
Decrease in other assets		-	1
Addition of intangible assets		(13)	(2)
Purchase of property, plant and equipment		(42)	(66)
Proceeds on disposal of assets		1	1
		(54)	(66)
Net change in cash and cash equivalents during the year		-	-
Cash and cash equivalents – Beginning of year		-	-
Cash and cash equivalents – End of year		-	-

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

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

1 Description of the business

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

2 Significant accounting policies

Basis of presentation

The Company prepares its consolidated financial statements 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.

These consolidated financial statements were approved by the Board of Directors on March 9, 2021.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, unless otherwise stated.

Principles of consolidation

The 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

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

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenues and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the consolidated statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses, net, except for qualifying cash flow hedges which are recognized in other comprehensive income (loss) and deferred in accumulated other comprehensive income in shareholders' equity.

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of income, within other losses, net, except for foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated at historical exchange rates.

c) Foreign operations

The financial statements of operations that have a functional currency different from that of the Company are translated using the rate in effect at the consolidated statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income in shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate in effect at the consolidated statement of financial position date.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the translation of financial liabilities designated as a hedge of net investment in foreign operations are recognized within equity in other comprehensive income (loss) to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income, within other losses, net. When the hedged portion of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition

The Company sells treated and untreated wood products (the "Products"), as well as wood treating services. Revenue from the sale of Products is recognized when the Company satisfies a performance obligation by transferring a promised Product to a customer. Products are considered to be transferred once the customer takes control of them, being either at the Company's manufacturing site or at the customer's location. Control of the Products refers to the ability to direct its use and obtain substantially all the remaining benefits from the Product.

The Company offers to treat wood products owned by third parties. Revenue from these treating services is recognized using the point in time criteria since there is a short manufacturing timeframe to treat wood products.

Product sales can be subject to retrospective volume discounts based on aggregate sales over a 12 month period, per certain contractual conditions. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. The Company's significant experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent

that it is highly probable that a reversal will not occur. A liability is recognized for expected volume discounts payable to customers in relation to sales transacted to the end of the reporting period.

Product sales may also be subject to retrospective price discounts based on aggregate sales over a 12 month period, according to certain contractual conditions. Revenue from these sales is recognized based on the expected average sales price over the specified period. Accumulated experience is used to estimate and provide for the price discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that specified contractual conditions will be met. The customer is invoiced at the contract price and a liability is recognized to adjust to the average price.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with initial maturities of three months or less.

Accounts receivable

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within twelve months or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less credit loss allowance.

Inventories

Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation and impairment. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Rolling stock	3 to 20 years
Office equipment	2 to 10 years

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The depreciation expense is included in cost of sales in the consolidated statements of income.

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Leases

The Company leases certain property, plant and equipment and recognizes a right-of-use asset and liability at the lease commencement date. Right-of-use assets represent the right to use an underlying asset for the term of the lease, and the related liabilities represent the obligation to make the lease payments arising from the lease. Right-of-use assets and the related liabilities are recognized at the lease commencement date based on the present value of the lease payments over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Renewal and termination options are included in the lease terms when it is reasonably certain that they will be exercised.

Lease payments comprise of fixed payments, including in-substance fixed payments, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period that the Company is reasonably certain to exercise and penalties for early termination of a lease if the Company is reasonably certain to terminate. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Leases with a term of less than 12 months and of low-value assets are not recorded in the consolidated statement of financial position. Payments associated with short-term leases and low-value assets are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

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

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis.

	Method	Useful life
Software	Straight-line	5 to 10 years
Customer relationships	Straight-line	5 to 12 years
Customer relationships	Declining balance	4% to 20%
Non-compete agreements	Straight-line	3 to 5 years
Creosote registration	-	Indefinite

Cutting rights are recorded at cost less accumulated amortization and impairment. Amortization is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a 40 year period and are applied against the historical cost.

The amortization expense is included in cost of sales and selling and administrative expense in the consolidated statements of income.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill

Goodwill is not amortized and tested annually for impairment, or more frequently, whenever indicators of potential impairment exist. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

Impairment

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are tested at least annually for impairment or when events or changes in circumstances warrant such consideration. For the purpose

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

of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment when events or changes in circumstances warrant such consideration.

Provisions

Provisions for site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next 12 months.

Site remediation obligations

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with the accretion expense on existing obligations, in other losses, net in the consolidated statement of income.

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Income taxes

The income tax expense or credit for the period is the tax payable on the current year’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Employee future benefits

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are charged or credited to in other comprehensive income (loss). These amounts are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Other post-employment benefit programs

The Company provides other post-employment benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income (loss) in the period in which they arise and are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Share-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees and non-executive directors as consideration for equity instruments of the Company or cash payments.

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

Equity-settled plan

The Company accounts for stock options granted to employees using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and is recognized in the consolidated statements of income over the vesting period of the options granted, with a corresponding credit to contributed surplus. For grants of share-based awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related share-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has liability-based awards, restricted stock units ("RSUs") and deferred share units ("DSUs"), which are initially measured at fair value at the grant date using the Black-Scholes valuation model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statements of income. The compensation expenses are recognized in the consolidated statements of income over the vesting periods, based on the fair value of the awards at the end of each reporting period.

Financial instruments

The Company recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets

The Company will classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on its business model for managing the financial asset and the financial asset's contractual cash flow characteristics. The three categories are defined as follows:

a) Amortized cost - a financial asset is measured at amortized cost if both of the following conditions are met:

    - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
    - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

c) Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned in a) and b) are measured at fair value through profit or loss.

If the Company changes its business model for managing financial assets it must reclassify all affected financial assets.

The Company's financial assets are comprised of cash, cash equivalents, accounts receivable and derivative financial instruments. Cash, cash equivalents and accounts receivable are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured at fair value through other comprehensive income.

A financial asset is derecognized when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset.

When the transfer of a customer receivable results in the derecognition of the asset, the corresponding cash proceeds are classified as cash flows from operating activities.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, bank indebtedness, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities, bank indebtedness and long-term debt are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured at fair value through other comprehensive income. After initial recognition, an entity cannot reclassify any financial liability.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Hedging transactions

As part of its hedging strategy, the Company considers derivative financial instruments such as foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars. The Company also considers interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These derivative financial instruments are treated as cash flow hedges for accounting purposes and are fair valued through other comprehensive income.

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

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within other losses, net.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income in the costs of hedging reserve within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

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

Change in accounting policies

The Company has adopted the following amendments during the current year.

Interest Rate Benchmark Reform

In August 2020, the International Accounting Standards Board issued *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance contracts and IFRS 16 (Phase 2 Amendments).* The Phase 2 Amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduce additional disclosure requirements.

The Phase 2 Amendments provide two key reliefs:

i) Changes to contractual cash flows – an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate. The Company currently has outstanding loans referencing LIBOR totaling US$425; and

ii) Hedge accounting – an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge accounting meets other hedge accounting criteria. All hedges contracted by the Company are scheduled to expire prior to December 31, 2021.

The Phase 2 Amendments are effective on January 1, 2021, with earlier adoption permitted. During the fourth quarter of 2020, the Company early adopted the Phase 2 Amendments. These amendments had no impact on the Company's consolidated financial statements.

3 Critical accounting estimates and judgments

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 the 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. Management also makes estimates and assumptions in the context of business combination mainly with sales forecast, margin forecast, income tax rate and discount rate. 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.

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

4 Accounts receivable

	2020	2019
	$	$
Trade receivables	194	174
Less: Credit loss allowance	(1)	-
Trade receivables – net	193	174
Other receivables	15	5
	208	179

The aging of gross trade receivables at each reporting date was as follows:

	2020	2019
	$	$
Current	147	119
Past due 1-30 days	26	37
Past due 31-60 days	11	10
Past due more than 60 days	10	8
	194	174

In the normal course of its business,the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible receivables to the concerned financial institutions. During the year ended December 31, 2020, trade receivables of $146 ($26 in 2019) were sold under these facilities.

5 Inventories

	2020	2019
	$	$
Raw materials	693	655
Finished goods	382	316
	1,075	971

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

6 Property, plant and equipment

	Land $	Buildings $	Production equipment $	Rolling stock $	Others $	Total $
As at January 1, 2019						
Cost	52	132	458	33	17	692
Accumulated depreciation	-	(23)	(88)	(20)	(9)	(140)
Net book amount	52	109	370	13	8	552
Year ended December 31, 2019						
Opening net book amount	52	109	370	13	8	552
Additions	8	6	49	1	-	64
Disposals / impairments	(2)	(1)	(1)	-	-	(4)
Depreciation	-	(4)	(15)	(4)	(1)	(24)
Exchange differences	(1)	(5)	(14)	-	-	(20)
Closing net book amount	57	105	389	10	7	568
As at December 31, 2019						
Cost	57	131	488	31	18	725
Accumulated depreciation	-	(26)	(99)	(21)	(11)	(157)
Net book amount	57	105	389	10	7	568
Year ended December 31, 2020						
Opening net book amount	57	105	389	10	7	568
Additions	2	3	34	-	4	43
Disposals / impairments	-	-	(2)	(1)	-	(3)
Depreciation	-	(4)	(17)	(2)	(3)	(26)
Exchange differences	(1)	(1)	(6)	-	-	(8)
Closing net book amount	58	103	398	7	8	574
As at December 31, 2020						
Cost	58	133	512	28	20	751
Accumulated depreciation	-	(30)	(114)	(21)	(12)	(177)
Net book amount	58	103	398	7	8	574

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

7 Leases

The consolidated statement of financial position shows the following amounts relating to leases:

	2020	2019
	$	$
Right-of use assets		
Rolling stock	107	82
Land	24	28
Other assets	4	6
	135	116
Lease liabilities		
Current lease liabilities	33	29
Non-current lease liabilities	106	89
	139	118

The following table provides a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position for the years ended December 31, 2020 and 2019:

Right-of-use	Rolling stock	Land	Other assets	Total
	$	$	$	$
As at January 1, 2019	80	33	8	121
Additions	29	1	-	30
Disposals	(2)	-	-	(2)
Depreciation	(26)	(4)	(3)	(33)
Remeasurement	5	-	1	6
Exchange differences	(4)	(2)	-	(6)
As at December 31, 2019	82	28	6	116
Additions	50	-	1	51
Disposals	(2)	-	-	(2)
Depreciation	(31)	(4)	(3)	(38)
Remeasurement	10	-	-	10
Exchange differences	(2)	-	-	(2)
As at December 31, 2020	107	24	4	135

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

The following table provides a reconciliation of the lease liabilities, presented in the consolidated statements of financial position for the years ended December 31, 2020 and 2019:

Lease liabilities	**Rolling stock**	**Land**	**Other assets**	**Total**
	$	$	$	$
As at January 1, 2019	80	33	8	121
Payments under lease agreements	(28)	(4)	(3)	(35)
Finance costs	3	1	-	4
Additions	28	1	-	29
Lease termination payments	(1)	-	-	(1)
Remeasurement	5	-	1	6
Exchange differences	(5)	(1)	-	(6)
As at December 31, 2019	82	30	6	118
Payments under lease agreements	(32)	(4)	(3)	(39)
Finance costs	3	1	-	4
Additions	50	-	1	51
Lease termination payments	(2)	-	-	(2)
Remeasurement	10	-	-	10
Exchange differences	(3)	-	-	(3)
As at December 31, 2020	108	27	4	139

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods of 1 to 10 years and may have extension options that are considered when it is reasonably certain that the option will be exercised.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

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

8 Intangible assets and goodwill

The intangible assets include customer relationships, creosote registration, software, cutting rights and non-compete agreements.

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships.

Development costs that are directly attributable to the design, development, implementation, and testing of identifiable software products are recognized as software if certain criteria are met, including technical feasibility and intent and ability to develop and use the software to generate probable future economic benefits; otherwise they are expensed as incurred. Directly attributable costs that are capitalized include software related, employee and third-party development costs.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to dispose (“FVLCTD”) calculations. FVLCTD calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on Management’s forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTD have considered the current economic environment.

The carrying value of goodwill is allocated to the following CGUs:

CGUs	2020 $	2019 $
Plants specialized in the treatment of utility poles and residential lumber	136	139
Plants specialized in the treatment of railway ties	144	146
	280	285

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

Impairment tests for intangible assets with indefinite useful life

The only intangible asset with indefinite useful life is the creosote registration. This registration provides the Company with the right to produce and sell creosote out of its Memphis, Tennessee facility. The Company's approach to creosote supply is to produce a portion of its requirements and to buy the remainder on the open market. As a result, the creosote registration procures the advantage of being able to produce, which is less expensive than buying on the market.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for cost savings as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 10.10%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

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

The net book amount of these intangible assets and goodwill was as follows:

	Intangible assets							
	Customer relationships $	Creosote registration $	Software $	Cutting rights $	Non-compete agreements $	Others $	Total $	Goodwill $
As at January 1, 2019								
Cost	166	43	10	7	17	12	255	298
Accumulated amortization	(94)	-	(4)	(2)	(14)	(9)	(123)	-
Net book amount	72	43	6	5	3	3	132	298
Year ended December 31, 2019								
Opening net book balance	72	43	6	5	3	3	132	298
Additions	-	-	2	-	-	-	2	-
Amortization	(11)	-	(1)	-	(1)	(1)	(14)	-
Exchange differences	(2)	(3)	-	-	-	-	(5)	(13)
Closing net book amount	59	40	7	5	2	2	115	285
As at December 31, 2019								
Cost	159	40	12	7	17	12	247	285
Accumulated amortization	(100)	-	(5)	(2)	(15)	(10)	(132)	-
Net book amount	59	40	7	5	2	2	115	285
Year ended December 31, 2020								
Opening net book balance	59	40	7	5	2	2	115	285
Additions	-	-	14	-	-	-	14	-
Amortization	(9)	-	(2)	-	(1)	-	(12)	-
Exchange differences	(1)	(1)	-	-	-	-	(2)	(5)
Closing net book amount	49	39	19	5	1	2	115	280
As at December 31, 2020								
Cost	121	39	26	7	6	12	211	280
Accumulated amortization	(72)	-	(7)	(2)	(5)	(10)	(96)	-
Net book amount	49	39	19	5	1	2	115	280

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

9 Accounts payable and accrued liabilities

	2020	2019
	$	$
Trade payables	55	65
Accrued expenses	61	54
Other payables	21	17
	137	136

10 Long-term debt

	Note	2020	2019
		$	$
Unsecured syndicated credit facilities	10(a)	398	385
Unsecured senior notes	10(b)	191	195
Unsecured promissory notes	10(c)	10	14
Secured promissory note	10(d)	5	6
Other	10(e)	3	6
		607	606
Deferred financing costs		(1)	(1)
		606	605
Less: Current portion of long-term debt		11	7
		595	598

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

a) Under the terms of the sixth amended and restated credit agreement dated as at May 3, 2019, as amended on February 24, 2020 (the "Syndicated Credit Agreement"), the following syndicated credit facilities are made available to Stella-Jones Inc., Stella-Jones Corporation and Stella-Jones U.S. Holding Corporation (collectively, the "Borrowers"), by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325 made available to the Borrowers until February 27, 2025, (ii) an unsecured non-revolving term facility in the amount of US$50 made available to Stella-Jones Corporation until February 26, 2021 and (iii) an unsecured non-revolving term facility in the amount of US$50 made available to Stella-Jones Corporation until February 28, 2022. As at December 31, 2020 the syndicated credit facilities provided financing up to US$425 of which US$99 was available. Additionally, the Syndicated Credit Agreement makes available an accordion option whereas, upon request, the Borrowers may increase the syndicated credit facilities by increasing the amount of one or more of the syndicated credit facilities or by adding one or more new non-revolving single draw term loans, in each case, up to an aggregate amount of US$350, provided that no more than five term loans in total may be outstanding at any time. The Borrowers may obtain such new term loans upon written request and are subject to lenders' approval.

   Borrowings under the syndicated credit facilities may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BAs"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin will range from 0.00% to 1.25% with respect to Canadian prime rate loans and U.S. base rate loans and from 1.00% to 2.25% with respect to BAs, LIBOR loans and fees for letters of credit, in each case based on a leverage ratio.

   The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2020 are provided in Note 18, *Financial instruments.*

   As at December 31, 2020, borrowings by Canadian entities denominated in U.S. dollars represented $4 (US$3).

   The Company has a demand loan agreement with one bank participating in the syndicated credit facilities, providing financing up to US$50 under terms and conditions similar to those under the Syndicated Credit Agreement. This indebtedness, if required by the Company, will be presented under short term liabilities as the bank has the option to request reimbursement of its loan at any time. As at December 31, 2020, no amounts were drawn under the demand loan facility. On February 15, 2021, this facility was amended. For additional information see Note 22, *Subsequent Events*.

   In order to maintain the syndicated credit facilities and the demand loan in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios. The Company is required to maintain a net funded debt-to-EBITDA ratio of no more than 3.50:1 and an interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2020, the Company was in full compliance with these covenants, requirements and ratios.

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

b) On January 17, 2017, the Company concluded a US$150 private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of senior notes - series A in the aggregate amount of US$75 bearing interest at 3.54% payable in a single instalment at maturity on January 17, 2024 and senior notes – series B in the aggregate amount of US$75 bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Such notes are unsecured and proceeds were used to reimburse a portion of the revolving credit facility then outstanding. The notes were designated as hedges of net investment in foreign operations.

   In order to maintain the senior notes in place, the Company is required to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of a net funded debt-to-EBITDA ratio of not more than 3.50:1, an interest coverage ratio equal to or greater than 2.50:1 and a priority debt to equity ratio not more than 15.00%. As at December 31, 2020, the Company was in full compliance with these covenants, requirements and ratios.

c) Pursuant to two business acquisitions dated June 3, 2016, the Company issued two unsecured promissory notes totalling $18 (US$14) bearing interest at 1.41%. The notes were initially recorded at a fair value totalling $15 (US$12) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the notes is being accreted on an effective yield basis over its term. The remaining promissory notes, including interest, totalling $11 (US$9) are payable in June 2021.

d) As part of a business acquisition dated June 3, 2016, the Company assumed a promissory note in the amount of $8 (US$6), bearing interest at 5.76% and secured by the land of the Pineville facility. The note was initially recorded at a fair value of $9 (US$7) using an effective interest rate of 4.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term. The note is payable in quarterly instalments up to July 2028.

e) Pursuant to business acquisitions, the Company recorded promissory notes and balance of purchase price payable over the next four years.

f) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	Principal
	$
2021	12
2022	1
2023	1
2024	97
2025	398
Thereafter	98
	607

g) The aggregate fair value of the Company's long-term debt was estimated at $619 as at December 31, 2020 (2019 – $611) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

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

11 Provisions and other long-term liabilities

	Provisions			Other long-term liabilities			
	Site remediation	Others	Total	Share-based payment plans	Non-competes payable	Total	Grand total
	$	$	$	$	$	$	$
Balance as at January 1, 2019	12	3	15	6	5	11	26
Additions	2	1	3	5	-	5	8
Provision reversal	(2)	(1)	(3)	(2)	-	(2)	(5)
Payments	(3)	(1)	(4)	(4)	(2)	(6)	(10)
Balance as at December 31, 2019	9	2	11	5	3	8	19
Additions	6	8	14	5	-	5	19
Provision reversal	-	(1)	(1)	-	-	-	(1)
Payments	(3)	(1)	(4)	-	(2)	(2)	(6)
Balance as at December 31, 2020	12	8	20	10	1	11	31
Current portion	1	5	6	9	1	10	16
Non-current portion	11	3	14	1	-	1	15
	12	8	20	10	1	11	31

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of treating sites for a period ranging from 1 to 15 years. These discounted cash flows have been estimated using a pre-tax rate of 2.50% that reflect current market assessment of the time value of money and the risk specific to the obligation.

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

Other long-term liabilities

The Company's share-based payment plans consist of cash-settled RSU and DSU plans.

Restricted stock units

The Company has a long-term incentive plan, for certain executives and key employees, under which grants of RSUs are permitted based on the Company's attainment of performance criteria set out pursuant to the plan. RSUs entitle the holders to receive a cash payment on the third anniversary of their date of grant, based on the six-month average trading price of the Company's common shares on the TSX immediately preceding the vesting date, provided the individual is still employed by the Company.

Changes in outstanding RSUs are as follows:

	2020	2019
RSUs outstanding - Beginning of year	270,238	455,299
Granted	-	54,581
Vested	-	(91,642)
Forfeited	(3,488)	(148,000)
RSUs outstanding - End of year	266,750	270,238

Deferred share units

On May 1, 2019, the Company's Board of Directors approved a DSU plan for non-executive directors of Stella-Jones Inc. Under this plan, non-executive directors receive a minimum participation amount in the form of DSUs and 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 renumeration becomes payable to the non-employee director.

DSUs entitle the holders to receive a cash payment equal the average closing price of the Company's common shares on the TSX of the five trading days prior to the payment date. All DSUs vest and are settled for cash when a non-employee director ceases to act as a director.

As at December 31, 2020, a total of 6,375 DSUs (2019 – 2,126 DUSs) were outstanding.

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

12 Cash flow information

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2020 and 2019:

	Liabilities from financing activities				
	Long-term debt $	Syndicated credit facilities $	Lease liabilities $	Non-competes payable $	Total $
Balance as at January 1, 2019	(240)	(273)	(121)	(5)	(639)
Cash flows	10	(126)	31	2	(83)
Foreign exchange adjustments	11	14	5	-	30
Lease additions	-	-	(28)	-	(28)
Other non-cash movements	(1)	-	(5)	-	(6)
Balance as at December 31, 2019	(220)	(385)	(118)	(3)	(726)
Cash flows	8	(20)	35	2	25
Foreign exchange adjustments	4	7	3	-	14
Lease additions	-	-	(51)	-	(51)
Other non-cash movements	-	-	(8)	-	(8)
Balance as at December 31, 2020	(208)	(398)	(139)	(1)	(746)

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

13 Capital stock

	2020	**2019**
Number of common shares outstanding – Beginning of year	67,466,709	69,267,732
Stock option plan	15,000	-
Employee share purchase plans	37,150	35,227
Repurchase of common shares	(1,331,455)	(1,836,250)
Number of common shares outstanding – End of year	66,187,404	67,466,709

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:

	2020	**2019**
Net income applicable to common shares	$210	$163
Weighted average number of common shares outstanding*	67.3	68.8
Effect of dilutive stock options*	-	-
Weighted average number of diluted common shares outstanding*	67.3	68.8
Basic and diluted earnings per common share **	$3.12	$2.37

* Number of shares is presented in millions.

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

c) Normal Course Issuer Bid

On August 4, 2020, the TSX accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB"). The NCIB was initiated for a 12 month period starting on August 10, 2020. During this period, the Company may purchase for cancellation up to 2,500,000 common shares. The prior NCIB was in effect

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

until December 19, 2019. During the year ended December 31, 2020, the Company repurchased for cancellation 1,331,455 common shares (December 31, 2019 – 1,836,250 common shares cancelled under the NCIB then in effect), for a cash consideration of $60 (December 31, 2019 - $71, including $2 for common shares repurchased in 2018 and cancelled in 2019), representing an average price of $45.37 per common share (December 31, 2019 - $38.47). 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 during the 12-month period ending August 9, 2020. For additional information, see Note 22, *Subsequent Events*.

d) Stock option plan

The Company has a stock option plan (the "Plan") for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose ("Committee") may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board of Directors or such Committee.

The aggregate number of common shares in respect of which options may be granted is 4,800,000. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. The Company has not granted any stock options since 2015 and all outstanding options expire in 2025.

Changes in the number of options outstanding under the Plan were as follows:

	2020		**2019**	
	Number of options	**Weighted average exercise price*** **$**	**Number of options**	**Weighted average exercise price*** **$**
Outstanding – Beginning of year	45,000	40.05	45,000	40.05
Exercised	(15,000)	22.13	-	-
Outstanding and exercisable – End of year	30,000	49.01	45,000	40.05

* Exercise price is presented in dollars per option.

The options outstanding under the Plan as at December 31, 2020 were granted in November 2015.

e) Employee share purchase plans

On May 7, 2020, following approval of a majority of shareholders entitled to vote, the employee share purchase plans were amended to increase the number of common shares reserved for issuance thereunder from 1,000,000 to 1,300,000 common shares.

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

Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.00% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2020, 21,562 common shares (2019 – 20,482) were issued to Canadian resident employees at an average price of $33.00 per share (2019 – $34.58).

Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2020, 15,588 common shares (2019 – 14,745) were issued to U.S. resident employees at an average price of $35.87 per share (2019 – $37.55).

14 Expenses by nature

	2020 $	2019 $
Raw materials and consumables	1,759	1,512
Employee benefit expenses	162	148
Depreciation and amortization	76	71
Other expenses incurred in manufacturing process	47	46
Freight	143	129
Other expenses	55	41
	2,242	1,947

	2020 $	2019 $
Employee benefit expenses		
Salaries, wages and benefits	148	136
RSUs	5	3
Pension costs	2	2
Group registered retirement savings plans	7	7
	162	148

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

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

	2020	2019
	$	$
Financial expenses		
Interest on syndicated credit facilities	13	12
Interest on unsecured senior notes	7	7
Interest on lease liabilities	4	4
Interest on promissory notes and non-compete agreements	1	1
	25	24

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

15 Income taxes

	2020 $	2019 $
Current income tax		
Current tax on income for the year	68	41
Adjustments in respect of prior years	(2)	-
Total current income tax	66	41
Deferred income tax		
Origination and reversal of temporary differences	5	16
Impact of change in tax rate	-	(1)
Adjustments in respect of prior years	3	(1)
Total deferred income tax	8	14
Income tax expense	74	55

Reconciliation of effective income tax rate

	2020 $	2019 $
Income before income tax	284	218
Canadian statutory rate (combined federal and provincial)	25.98%	26.39%
Income tax expense at that statutory rate	74	58
Tax effects of:		
Rate differential between jurisdictions	(1)	1
Non-deductible/non-taxable items	-	(1)
Remeasurement of deferred income tax - change in tax rate	1	(1)
Adjustments in respect of prior years' tax expense	1	(1)
Others	(1)	(1)
Effective income tax expense	74	55

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

Deferred tax assets and liabilities

During the years ended December 31, 2020 and 2019, movements in temporary differences are as follows:

	As at December 31, 2019	Recognized in statement of income	Recognized in other comprehensive income	Recognized in translation adjustment	As at December 31, 2020
Property, plant and equipment	(88)	(8)	-	2	(94)
Intangible assets	(25)	(2)	-	-	(27)
Reserves	8	3	-	-	11
Deferred pension benefit	3	-	1	-	4
Others	1	-	1	-	2
Net deferred tax (liabilities) assets	(101)	(7)	2	2	(104)

	As at December 31, 2018	Recognized in statement of income	Recognized in other comprehensive income	Recognized in translation adjustment	As at December 31, 2019
Property, plant and equipment	(79)	(12)	-	3	(88)
Intangible assets	(26)	-	-	1	(25)
Reserves	9	(1)	-	-	8
Deferred pension benefit	2	-	1	-	3
Others	1	(1)	1	-	1
Net deferred tax (liabilities) assets	(93)	(14)	2	4	(101)

As of December 31, 2020, the Company did not recognize deferred income tax assets of $6 (2019 – $2) in respect of capital losses amounting to $44 (2019 – $16) that can be carried forward indefinitely against future taxable capital gains.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $635 as at December 31, 2020 (2019 – $528).

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

16 Employee future benefits

The Company recognizes costs for several types of employee future benefits. For its Canadian operations, the Company contributes to three defined benefit pension plans covering some salaried and non-union hourly wage employees and to a multi-employer plan for certain hourly employees. Other post-employment benefits are offered to a portion of retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. The defined benefit pension plans and other post-employment benefits plan are closed to new participants.

For its U.S. operations, the Company's wholly-owned subsidiary, Stella-Jones Corporation, contributes to two defined benefit pension plans. Only one of these pension plans remains open to new participants.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.0% of the employee's annual base salary.

The recognized costs for employee future benefits are as follows:

	2020 $	2019 $
Contributions to group registered retirement savings plans	7	7
Defined benefit pension plans	1	1
Contributions to multi-employer plan	1	1
	9	9

The net amount recognized on the consolidated statement of financial position is detailed as follows:

	2020 $	2019 $
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	(12)	(8)
Other post-employment benefits liability	(3)	(3)
	(15)	(11)

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

The Company's Canadian defined benefit pension plans benefits are based on years of service and final average earnings. The Stella-Jones Corporation defined benefit pension plans benefits consist of a flat dollar amount payable monthly based on years of service. The other post-employment benefits plan is not funded.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The change in the accrued benefit obligation for the other post-employment benefits plan for the year ended December 31, 2020 was less than $1 (2019 - $1). The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan:

	2020 $	2019 $
Accrued benefit obligation		
Balance – Beginning of year	34	29
Current service cost	1	1
Interest cost	1	1
Benefits payments	(1)	(1)
Remeasurement adjustments		
Changes in demographic assumptions	1	-
Changes in financial assumptions	3	4
Balance – End of year	39	34
Plan assets		
Fair value – Beginning of year	26	24
Interest income on plan assets	1	1
Return on plan asset excluding interest income	-	1
Employer's contributions	1	1
Benefits paid	(1)	(1)
Fair value – End of year	27	26
Net benefit liability	(12)	(8)

Risks associated with the Company's defined benefit plans are similar to those of typical benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk and longevity risk. The most significant risks are the exposure to asset volatility and changes in bond yields. Weaker than expected investment returns and a decrease in corporate bond yields will increase the net benefit liability and worsen the plans' funded position.

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

A 0.25% decrease in the discount rate would increase the defined benefit obligation as at December 31, 2020 by $2.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2021 are $1.

The items of the Company's defined benefit plans costs recognized during the year are as follows:

Consolidated statement of income	**2020**	**2019**
	$	**$**
Current service cost	1	1
Interest cost	1	1
Interest income on plan assets	(1)	(1)
Total cost recognized	1	1
Consolidated statement of comprehensive income		
Actuarial losses	(4)	(3)
Total recognized in other comprehensive income (loss) before income tax	(4)	(3)
Accumulated actuarial losses recognized in other comprehensive income		
Balance of actuarial losses as at January 1	(5)	(3)
Net actuarial losses recognized in the year, net of tax	(3)	(2)
Balance of actuarial losses as at December 31	(8)	(5)

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		**Other post-employment plan**	
	2020	**2019**	**2020**	**2019**
	%	**%**	**%**	**%**
Accrued benefit obligation as at December 31				
Discount rate	2.50	3.10	2.50	3.10
Rate of compensation increase	3.00	3.25	n/a	n/a
Benefit costs for the year ended December 31				
Discount rate	3.10	3.90	3.10	3.90

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

The percentage of plan assets held by the defined benefit plans consists of the following as at December 31:

	2020	**2019**
	%	**%**
Listed equity securities	29	29
Listed debt securities	43	43
Guaranteed insurance contracts	27	27
Short-term investments and cash	1	1
	100	100

17 Commitments and contingencies

a) The Company has issued guarantees amounting to $27 (2019 – $27) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

b) The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

18 Financial instruments

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the long-term receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements.

The fair values of interest rate swap agreements and derivative commodity contracts have been determined and recorded using mark-to-market values as at December 31, 2020 and 2019 from different third parties. These types of measurement fall under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* 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).

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

The following table provides a summary of the fair values:

	2020 $	2019 $
Non-current assets		
Interest rate swap agreements	-	1
	-	1
Current liabilities		
Interest rate swap agreements	2	-
Derivative commodity contracts	-	2
	2	2

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2020, the Company's credit exposure consists primarily of the carrying amount of cash and cash equivalents, accounts receivable and derivative financial instruments.

Credit risk associated with cash and cash equivalents, and derivative financial instruments is minimised by dealing with creditworthy financial institutions.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals primarily large-scale utility providers, Class 1 railroad operators and large retailers as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management for each selling location. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 4 provides details on the receivable aging as well as on the credit loss provision for the years ended December 31, 2020 and 2019. The Company's largest customer had sales representing 19% of the total sales for the year ended December 31, 2020 (2019 – 16%) and an account receivable balance of $11 as at December 31, 2020 (2019 – $7). The sales for this customer are included in the residential lumber product category.

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

Price risk

The Company is exposed to commodity price risk on diesel and petroleum. The Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to help manage its cash flows with regards to these commodities. The Company does not designate these derivatives as cash flow hedges of anticipated purchases of diesel and petroleum. Gains or losses from these derivative financial instruments are recorded in the consolidated statements of income under other losses, net. As at December 31, 2020, the derivative commodity contracts expired, and the Company had no derivative commodity contract agreements in place. The following table summarizes the derivative commodity contracts as at December 31, 2019:

Hedged item	Gallons	Effective date	Maturity date	Fixed rate
Diesel and petroleum	6,000,000*	January 2020	December 2020	US$2.23

*Represents a volume evenly split throughout the year

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The Company ensures that it has sufficient credit facilities to support working capital, meet expected operational expenditures and service financial obligations. Inventories are a significant component of working capital because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is made.

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

The operating activities of the Company are the primary source of cash flows. The Company also has syndicated credit facilities (Note 10(a)) made available by a syndicate of lenders and a demand loan facility which can be used for working capital and general corporate requirements. As at December 31, 2020, an amount of $126 (US$99) (2019 - $151 (US$116)) was available under the Company's syndicated credit facilities and $64 (US$50) (2019 - $97 (US$75)) under the demand loan facility. The following table details the maturities of the financial liabilities as at December 31:

						2020
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	137	137	137	-	-	-
Long-term debt obligations*	606	664	25	28	509	102
Minimum payment under lease liabilities	139	153	37	55	28	33
Derivative financial instruments	2	2	2	-	-	-
Non-competes payable	1	1	1	-	-	-
	885	957	202	83	537	135

						2019
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	136	136	136	-	-	-
Long-term debt obligations*	605	696	26	52	510	108
Minimum payment under lease liabilities	118	132	32	52	25	23
Derivative financial instruments	2	2	2	-	-	-
Non-competes payable	3	3	2	1	-	-
	864	969	198	105	535	131

*Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2020.

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar-denominated long-term debt held by its Canadian company. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions when required to mitigate its currency risk. The Company's basic hedging activity consists of the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the sale and purchase of U.S. dollars that were not covered by natural hedges.

The following table provides information on the impact of a 10.00% strengthening of the U.S. dollar against the Canadian dollar on net income and other comprehensive income (loss) for the years ended December 31, 2020 and 2019. For a 10.00% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and other comprehensive income (loss).

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totalling $10 ($5 as at December 31, 2019) and $11 ($7 as at December 31, 2019), respectively. The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been included in the sensitivity analysis for other comprehensive income (loss), as the long-term debt is designated as a hedge of net investment in foreign operations (Note 10).

	2020	**2019**
	$	**$**
Decrease of net income	-	-
Decrease of other comprehensive income (loss)	19	35

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

Interest rate risk

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. As at December 31, 2020, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 73% (2019 – 76%) of the Company's long-term debt is at fixed rates.

The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2020, all cash flow hedges were effective.

The following table summarizes the Company's interest rate swap agreements as at December 31:

Notional amount	Related debt instrument	Fixed rate %	Effective date	Maturity date	2020 Notional equivalent CA$	2019 Notional equivalent CA$
US$85	Syndicated credit facilities	1.68*	December 2015	April 2021	108	110
US$100	Syndicated credit facilities	1.06*	December 2017	December 2021	127	130

* Plus applicable spread of 1.00% to 2.25% based on pricing grid included in the Syndicated Credit Agreement.

During the year ended December 31, 2020, a 1.00% increase in interest rates would have increased interest expense by less than $2 and reduced the net loss recognized in other comprehensive income (loss) by approximately $1. For a 1.00% decrease in the interest rates, there would be an opposite impact on interest expense and other comprehensive income (loss).

19 Capital disclosures

The Company's objective in managing capital is to ensure sufficient liquidity and financial flexibility to pursue its organic growth strategy and undertake accretive acquisitions, while at the same time maintaining a conservative approach to financial leverage and management of financial risk. The Company manages its capital structure and makes corresponding adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount

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

of dividends paid to shareholders, issue new shares or debt, acquire or sell assets, reduce the amount of existing debt or repurchase shares for cancellation under a normal course issuer bid.

The Company's capital is composed of total debt, which includes lease liabilities, and shareholders' equity, which includes capital stock. The primary measure used by the Company to monitor its capital is the leverage ratio, which it aims to maintain within a range of 2.0 to 2.5x. The leverage ratio is defined as net debt divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Net debt is the sum of total long-term debt and lease liabilities (including the current portion) less cash and cash equivalents.

The Company uses its capital to finance working capital requirements, capital expenditures and acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its syndicated credit and demand loan facilities. However, future acquisitions and growth opportunities may require new sources of financing.

The Company is subject to financial covenants under the Syndicated Credit Agreement and the Unsecured Senior Notes, which are measured on a quarterly basis. These covenants include a net funded debt-to-EBITDA ratio and an interest coverage ratio. As at December 31, 2020, the Company was in compliance with all such covenants.

20 Related party transactions

Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management.
The compensation paid or payable to key management for employee services is as follows:

	2020	**2019**
	$	**$**
Salaries, compensation and benefits	5	4
Share-based compensation	2	-
	7	4

21 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

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

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 are as follows:

	2020	2019
	$	$
Canada	810	659
U.S.	1,741	1,530
	2,551	2,189

Sales by product as at December 31 are as follows:

	2020	2019
	$	$
Utility poles	888	797
Railway ties	733	689
Residential lumber	665	471
Industrial products	119	120
Pressure-treated wood	2,405	2,077
Logs and lumber	146	112
	2,551	2,189

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

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

Property, plant and equipment	**2020**	**2019**
	$	**$**
Canada	160	149
U.S.	414	419
	574	568

Right-of-use assets		
	$	**$**
Canada	18	17
U.S.	117	99
	135	116

Intangible assets		
	$	**$**
Canada	40	31
U.S.	75	84
	115	115

Goodwill		
	$	**$**
Canada	19	19
U.S.	261	266
	280	285

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

22 Subsequent events

a) On February 15, 2021, the demand loan agreement was amended to increase the amount available under the credit facility from US$50 to US$100 until June 30, 2021. All terms and conditions remained unchanged.

b) On March 9, 2021, the Board of Directors declared a quarterly dividend of $0.18 per common share payable on April 24, 2021 to shareholders of record at the close of business on April 5, 2021.

c) 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 during the 12 month period ending August 9, 2021 from 2,500,000 to 3,500,000 common shares, representing approximately 6.8% of the public float of its common shares as at July 31, 2020. The amendment to the NCIB will be effective on March 15, 2021 and will continue until August 9, 2021 or such earlier date as the Company has acquired the maximum number of commons share permitted under the NCIB. All other terms and conditions of the NCIB remained unchanged.

23 Comparative figures

Certain prior period figures have been adjusted to conform to the current period presentation. An adjustment has been made to the consolidated statements of income to recognize customer freight revenues on a gross basis when the Company is the principal with respect to freight services. These amounts have been previously presented on a net basis against freight expenses in cost of sales. This change in classification does not affect previously reported operating income and net income in the consolidated statements of income. For the year ended December 31, 2019, freight revenue of $20 has been reclassified from cost of sales to sales.