Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS SECOND QUARTER RESULTS

- **Sales increased 18% to $903 million**
- **EBITDA rose 50% to a new record of $180 million, or a margin of 20%**
- **Net income reached $115 million, or $1.76 per share**
- **Solid financial position with a net debt-to-EBITDA ratio of 1.7x**
- **Annual 2021 EBITDA forecast revised to $410 to $440 million**

Montreal, Quebec – August 3, 2021 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its second quarter ended June 30, 2021.

"We are very pleased with our second quarter performance, which included strong sales growth in each of our product categories. Volume gains in utility poles and railway ties, combined with unprecedented high market prices of lumber, drove sales to over $900 million and EBITDA to a record quarter," stated Éric Vachon, President and CEO of Stella-Jones.

"These results allowed us to generate operating cash flows of $173 million, reduce the indebtedness related to the seasonal investment in working capital in the first quarter and return $38 million to shareholders during the quarter. While we have revised the full-year EBITDA forecast to reflect the normalization of lumber market conditions, we foresee solid EBITDA growth in 2021 and are confident that our leading utility poles and railway ties core product categories will continue to deliver sustained growth. With our financial strength, scale and focus on execution and innovation, we are uniquely positioned to capitalize on growth opportunities and generate solid returns for our shareholders," concluded Mr. Vachon.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	**Q2-21**	**Q2-20**	**YTD Q2-21**	**YTD Q2-20**
Sales	903	768	1,526	1,276
Gross profit(1)	197	131	309	214
Gross profit margin(1)	21.8%	17.1%	20.2%	16.8%
EBITDA(1)	180	120	279	183
EBITDA margin (1)	20.0%	15.6%	18.3%	14.4%
Operating income	161	101	243	146
Operating income margin(1)	17.8%	13.2%	15.9%	11.4%
Net income for the period	115	69	171	97
Earnings per share - basic and diluted	1.76	1.02	2.61	1.43
Weighted average shares outstanding (basic, in '000s)	65,356	67,479	65,532	67,474

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

SECOND QUARTER RESULTS

Sales for the second quarter of 2021 reached $903 million, up $135 million, versus sales of $768 million for the corresponding period last year. Excluding the negative impact of the currency conversion of $63 million, pressure-treated wood sales rose $136 million, or 18%, driven by growth in the Company's three core product categories: residential lumber benefited from the unprecedented high market prices of lumber, utility poles benefited from increased volumes, upward price adjustments and an improved sales mix while railway ties sales growth stemmed from volume gains. The rise in market lumber prices during the quarter also explains the increase in sales of the logs and lumber product category.

Pressure-treated wood products:

- **Utility poles (26% of Q2-21 sales)**: Utility poles sales increased to $236 million, compared to sales of $230 million in the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased by $30 million, or 13%, driven by improved maintenance demand for distribution poles, upward price adjustments and a better sales mix, including the impact of additional fire-resistant wrapped pole sales volumes. This growth was partially offset by less project-related volumes.

- **Railway ties (24% of Q2-21 sales)**: Railway ties sales were $216 million, compared to sales of $225 million in the same period last year. Excluding the currency conversion effect, railway ties sales increased $15 million, or 7%, largely attributable to higher volumes for Class 1 customers due to the timing of shipments. The higher sales volumes were offset in part by pricing pressures for non-Class 1 customers, which eased somewhat during the quarter.

- **Residential lumber (37% of Q2-21 sales)**: Sales in the residential lumber category rose to $330 million, compared to sales of $257 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales increased $84 million, or 33%, driven by the exceptional rise in the market price of lumber. This increase was partially offset by lower sales volumes attributable to softening consumer demand.

- **Industrial products (4% of Q2-21 sales)**: Industrial product sales were $36 million, compared to sales of $33 million in the second quarter last year, largely due to more timber and piling projects, offset in part by lower project-related bridge and crossing sales.

Logs and lumber:

- **Logs and lumber (9% of Q2-21 sales)**: Sales in the logs and lumber product category were $85 million, up over three-fold compared to $23 million in the corresponding period last year. The exceptional increase is due to the rise in the market price of lumber during the quarter.

The strong sales growth led to an increase in gross profit, which grew 50% to $197 million, compared to the prior year period, while operating income was $161 million, or 17.8% of sales, compared with $101 million, or 13.2% of sales last year. EBITDA rose to $180 million, up 50%, compared to $120 million reported in the second quarter of 2020. The increase was primarily driven by the rise in sales prices for residential lumber, which exceeded the higher cost of lumber, improved pricing and volume gains for utility poles, partially offset by lower residential lumber demand.

Net income for the second quarter of 2021 was $115 million, or $1.76 per share, compared to net income of $69 million, or $1.02 per share, in the corresponding period of 2020.

SIX-MONTH RESULTS

For the first six months of 2021, sales amounted to $1.53 billion, versus $1.28 billion for the corresponding period last year. Excluding the negative impact of the currency conversion of $86 million, pressure-treated wood sales rose by $238 million, or 19%, and logs and lumber sales grew by $100 million. The year-over-year sales growth in pressure-treated wood stems from the significant rise in the market prices of lumber offset in part by a decrease in residential lumber volumes. Sales also grew due to the increased demand, upward pricing adjustments and an improved sales mix for utility poles, as well as, higher volumes for railway ties which outweighed the pricing pressures for the non-Class 1 business. The exceptional increase in logs and lumber sales stems from the unprecedented increase in market prices of lumber.

The improvement in sales led to an increase in gross profit, which grew 44% to $309 million, compared to the prior year period. Operating income was $243 million, or 15.9% of sales, compared with $146 million, or 11.4% of sales last year. EBITDA rose to $279 million, up 52%, compared to $183 million reported in the prior year period, reflecting an EBITDA margin of 18.3%. Net income totaled $171 million, or $2.61 per share, versus $97 million, or $1.43 per share last year.

LIQUIDITY AND CAPITAL RESOURCES

During the second quarter ended June 30, 2021, Stella-Jones used the cash generated from operations of $173 million to invest in capital expenditures, reduce its indebtedness, and return capital to shareholders with dividends of $24 million and share repurchases of $14 million.

In April 2021, the Company entered into a credit agreement pursuant to which senior unsecured credit facilities of up to US$350 million were made available by a syndicate of lenders within the U.S. farm credit system, including a term loan facility of up to US$250 million and a revolving credit facility of US$100 million.

During the quarter, the Company repaid in full its short-term indebtedness and increased its long-term debt by $26 million. The Company’s long-term debt, including the current portion, stood at $682 million as at June 30, 2021 and the net debt-to-trailing 12-month EBITDA ratio was 1.7x.

Subsequent to quarter-end, the Company obtained a one-year extension of its unsecured syndicated revolving credit facility to February 27, 2026.

NORMAL COURSE ISSUER BID

In the three-month period ended June 30, 2021, the Company repurchased 296,307 common shares for cancellation in consideration of $14 million under its Normal Course Issuer Bid ("NCIB"). For the six-month period ended June 30, 2021, the Company repurchased 1,097,568 common shares for cancellation in consideration of $51 million. Since the beginning of the NCIB on August 10, 2020, the Company repurchased 2,429,023 common shares for cancellation in consideration of $111 million. As at June 30, 2921, the Company had unsettled transactions to repurchase 33,549 common shares for a cash consideration of one million dollars.

Under its NCIB, as amended effective March 15, 2021, the Company may repurchase for cancellation a total of 3,500,000 common shares during the 12-month period commencing August 10, 2020 and ending August 9, 2021.

QUARTERLY DIVIDEND

On August 2, 2021 the Board of Directors declared a quarterly dividend of $0.18 per common share payable on September 17, 2021 to shareholders of record at the close of business on September 1, 2021. This dividend is designated to be an eligible dividend.

UPDATED OUTLOOK

The Company has revised its full-year financial forecast to reflect the softening of residential lumber demand in the second half of 2021. Stella-Jones continues to foresee solid EBITDA growth in 2021 compared to 2020 but expects EBITDA to be in the range of $410 to $440 million, compared to the previously disclosed guidance of $450 to $480 million. The margin expansion realized in the first half of 2021 is projected to offset the margin compression expected from declining market prices of lumber until the Company averages down its higher cost of inventory. As a result, the Company anticipates EBITDA margin as a percentage of sales for 2021 to remain comparable to 2020.

Excluding the impact of the currency conversion, the Company is projecting sales growth in the low-to-high teens for 2021 compared to 2020, down from the projected increase of 15% to low 20% previously disclosed. The decrease in the sales growth projection largely stems from the expected slowdown in consumer demand for residential lumber. Residential lumber sales are expected to increase 15% to 20% compared to 2020, down from the previously disclosed forecasted increase of 45% to 65%. While the sales growth forecast for utility poles remains unchanged with a high-single digit increase compared to 2020, railway ties and industrial products sales are projected to increase in the low-single digit range. For railway ties, the current pricing headwinds are expected to ease by the end of the year and the Company believes it will continue to benefit from increased maintenance activity.

This updated guidance anticipates a reduction of approximately $130 million in sales from the depreciation of the value of the U.S. dollar relative to the Canadian dollar to C$1.25 per U.S. dollar.

The Company’s financial guidance is based on its current outlook for 2021 and takes into account a number of economic and market assumptions. Please refer to the Company's Management’s Discussion and Analysis for a complete list of assumptions.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on August 3, 2021, at 10:00 a.m. Eastern Daylight Time. Interested parties can join the call by dialing 1-647-362-9671 (Toronto or overseas) or 1-800-599-2055 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-770-2030 and entering the passcode 4899896. This recording will be available on Tuesday, August 3, 2021 as of 1:00 p.m. Eastern Daylight Time until 11:59 p.m. Eastern Daylight Time on Tuesday, August 10, 2021.

NON-IFRS FINANCIAL MEASURES

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

ABOUT STELLA-JONES

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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Note to readers: Condensed interim unaudited consolidated financial statements for the second quarter ended June 30, 2021 as well as management's discussion and analysis are available on Stella-Jones' website at www.stella-jones.com.

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

Stella-Jones Inc.

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

Stella-Jones Inc.

Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at June 30, 2021	As at December 31, 2020
		$	$
Assets			
Current assets			
Accounts receivable		347	208
Inventories		1,120	1,075
Other current assets		35	36
		1,502	1,319
Non-current assets			
Property, plant and equipment		571	574
Right-of-use assets		133	135
Intangible assets		117	115
Goodwill		273	280
Other non-current assets		6	3
		2,602	2,426
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		166	137
Income taxes payable		26	19
Derivative financial instruments	7	1	2
Current portion of long-term debt	4	63	11
Current portion of lease liabilities		34	33
Current portion of provisions and other long-term liabilities	5	10	16
		300	218
Non-current liabilities			
Long-term debt	4	619	595
Lease liabilities		104	106
Deferred income taxes		104	104
Provisions and other long-term liabilities	5	15	15
Employee future benefits		13	15
Derivative financial instruments	7	1	—
		1,156	1,053
Shareholders' equity			
Capital stock	6	211	214
Retained earnings		1,180	1,079
Accumulated other comprehensive income		55	80
		1,446	1,373
		2,602	2,426
Subsequent events	10		

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
For the six-month periods ended June 30, 2021 and 2020

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$
Balance – January 1, 2021	214	1,079	179	(98)	(1)	80	1,373
Comprehensive income (loss)							
Net income for the period	—	171	—	—	—	—	171
Other comprehensive income (loss)	—	2	(31)	6	—	(25)	(23)
Comprehensive income (loss) for the period	—	173	(31)	6	—	(25)	148
Dividends on common shares	—	(24)	—	—	—	—	(24)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 6)	(4)	(48)	—	—	—	—	(52)
	(3)	(72)	—	—	—	—	(75)
Balance – June 30, 2021	211	1,180	148	(92)	(1)	55	1,446

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders’ Equity...*Continued*
(Unaudited)
For the six-month periods ended June 30, 2021 and 2020

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total	Total shareholders’ equity
	$	$	$	$	$	$	$
Balance – January 1, 2020	217	968	191	(89)	1	103	1,288
Comprehensive income (loss)							
Net income for the period	—	97	—	—	—	—	97
Other comprehensive income (loss)	—	(2)	65	(23)	(3)	39	37
Comprehensive income (loss) for the period	—	95	65	(23)	(3)	39	134
Dividends on common shares	—	(20)	—	—	—	—	(20)
	—	(20)	—	—	—	—	(20)
Balance – June 30, 2020	217	1,043	256	(112)	(2)	142	1,402

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

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

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

	Note	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2021	2020	2021	2020
		$	$	$	$
Sales		903	768	1,526	1,276
Expenses					
Cost of sales (including depreciation and amortization (3 months - $16 (2020 - $16) and 6 months - $30 (2020 - $31))		706	637	1,217	1,062
Selling and administrative (including depreciation and amortization (3 months - $3 (2020 - $3) and 6 months - $6 (2020 - $6))		35	30	65	61
Other losses, net		1	—	1	7
		742	667	1,283	1,130
Operating income		161	101	243	146
Financial expenses		6	7	12	14
Income before income taxes		155	94	231	132
Provision for income taxes					
Current		37	21	59	33
Deferred		3	4	1	2
		40	25	60	35
Net income for the period		115	69	171	97
Basic and diluted earnings per common share	6	1.76	1.02	2.61	1.43

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income
(Unaudited)

(expressed in millions of Canadian dollars)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2021	2020	2021	2020
	$	$	$	$
Net income for the period	115	69	171	97
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	(16)	(49)	(31)	65
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	3	10	6	(23)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	1	—	1	(4)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(1)	—	(1)	1
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(1)	(3)	3	(3)
Income taxes on remeasurements of post-retirement benefit obligations	—	1	(1)	1
	(14)	(41)	(23)	37
Comprehensive income	101	28	148	134

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

Stella-Jones Inc.

Interim Consolidated Statements of Cash Flows
(Unaudited)

(expressed in millions of Canadian dollars)

	Note	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2021	2020	2021	2020
		$	$	$	$
Cash flows provided by (used in)					
Operating activities					
Net income for the period		115	69	171	97
Adjustments for					
Depreciation of property, plant and equipment		6	6	12	12
Depreciation of right-of-use assets		9	9	18	18
Amortization of intangible assets		4	4	6	7
Gain (loss) on derivative financial instruments		—	(4)	—	2
Financial expenses		6	7	12	14
Current income taxes expense		37	21	59	33
Deferred income taxes		3	4	1	2
Provisions and other long-term liabilities		(6)	5	(5)	5
Other		(3)	2	(3)	2
		171	123	271	192
Changes in non-cash working capital components					
Accounts receivable		27	(89)	(144)	(183)
Inventories		36	105	(63)	19
Other current assets		(1)	(5)	1	(5)
Accounts payable and accrued liabilities		(25)	18	30	45
		37	29	(176)	(124)
Interest paid		(3)	(5)	(11)	(13)
Income taxes paid		(32)	(1)	(52)	(2)
		173	146	32	53
Financing activities					
Increase in short-term debt	3	63	—	200	—
Decrease in short-term debt	3	(197)	—	(197)	—
Net change in revolving credit facilities		(84)	(99)	42	9
Increase in long-term debt		121	—	121	—
Repayment of long-term debt		(11)	(5)	(74)	(6)
Repayment of lease liabilities		(9)	(10)	(17)	(18)
Dividends on common shares		(24)	(20)	(24)	(20)
Repurchase of common shares	6	(14)	—	(51)	—
Other		(1)	(2)	(1)	(2)
		(156)	(136)	(1)	(37)
Investing activities					
Purchase of property, plant and equipment		(10)	(8)	(20)	(13)
Additions of intangible assets		(6)	(3)	(10)	(4)
Other		(1)	1	(1)	1
		(17)	(10)	(31)	(16)
Net change in cash and cash equivalents during the period		—	—	—	—
Cash and cash equivalents – Beginning of period		—	—	—	—
Cash and cash equivalents – End of period		—	—	—	—

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

1 Description of the business

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

2 Significant accounting policies

Basis of presentation

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

These condensed interim consolidated financial statements were approved by the Board of Directors on August 2, 2021.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2020.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

Principles of consolidation

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

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

3 Short-term debt

During the three-month period ended June 30, 2021, the Company repaid in full the total indebtedness outstanding under the demand loan facility, and terminated and canceled the facility.

In March 2021, the Company entered into a bridge term loan agreement for US$100 million with a lender within the U.S. farm credit system and a first installment of US$50 million was advanced. In April 2021, a second US$50 million installment was advanced and the US$100 million of indebtedness under the bridge loan facility was repaid in full (see note 4). The bridge term loan bore interest at a floating rate based on the London Interbank Offered Rate ("LIBOR") plus 1.75% and is eligible for patronage refunds.

4 Long-term debt

(Amounts in millions of Canadian dollars)	**As at June 30, 2021**	**As at December 31, 2020**
Unsecured revolving credit facilities	303	271
Unsecured senior notes	186	191
Unsecured term loan due 2028	124	—
Unsecured non-revolving syndicated term facilities	62	127
Unsecured promissory notes	—	10
Secured promissory note	5	5
Other	2	3
	682	607
Deferred financing costs	—	(1)
	682	606
Less: Current portion of long-term debt	63	11
	619	595

a) Unsecured Senior U.S. Farm Credit Facilities

On April 29, 2021 (the "Closing Date"), the Company entered into a credit agreement (the "U.S. Farm Credit Agreement") pursuant to which unsecured senior credit facilities in an aggregate amount of up to US$350 million were made available by a syndicate of lenders within the U.S. farm credit system. The U.S. Farm Credit Agreement provides a term loan facility of up to US$250 million with a delayed draw period of up to three years, and the choice of maturities of five to 10 years from the date of drawing, provided the final maturity of any term loan is not more than 10 years from the Closing Date (or, the "Term Loan Facility"), and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026 (or, the "Revolving Credit Facility"). On the Closing Date, a drawdown of US$100 million was made under the Revolving Credit Facility, and the proceeds thereof were used to repay in full the bridge term loan. In June 2021, the Company borrowed US$100 million under the Term Loan Facility for seven years, maturing in June 2028. There is also an uncommitted option to increase the unsecured senior credit facilities by up to an additional US$150 million, subject to certain terms and conditions.

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

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

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

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

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

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

b) Subsequent to quarter-end, the Company repaid a portion of the unsecured non-revolving syndicated term facility by borrowing an additional US$25 million under the Term Loan Facility for seven years. Effective July 1, 2021, the Company and the syndicate of farm lenders agreed to set the applicable margin over the index at 1.725% with respect to the floating rate term loan balance of $125 million, subject to the Company entering into an interest rate swap agreement. Details of the interest swap agreement is provided in Note 7, *Financial Instruments.*

5 Provisions and other long-term liabilities

(Amounts in millions of Canadian dollars)	**As at June 30, 2021**	**As at December 31, 2020**
Site remediation	14	12
Share-based payment plans	3	10
Other	8	9
	25	31
Less: Current portion of provisions and long-term liabilities	10	16
	15	15

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

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

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

Changes in outstanding RSUs during the six-month periods ended June 30, are as follows:

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

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

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

Deferred share units (DSUs)

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

Changes in outstanding DSUs during the six-month periods ended June 30, are as follows:

	2021	2020
DSUs outstanding - Beginning of period	6,375	2,126
Granted	10,574	—
DSUs outstanding - End of period	16,949	2,126

6 Capital stock

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

	2021	**2020**
Number of common shares outstanding – Beginning of period	66,187,404	67,466,709
Common shares repurchased	(1,097,568)	—
Employee share purchase plans	15,343	21,526
Number of common shares outstanding – End of period	65,105,179	67,488,235

a) Capital stock consists of the following:

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

b) Earnings per share

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

(Amounts in millions of Canadian dollars, except per share amounts)	**For the three-month periods ended June 30,**		**For the six-month periods ended June 30,**	
	2021	**2020**	**2021**	**2020**
Net income applicable to common shares	$115	$69	$171	$97
Weighted average number of common shares outstanding*	65.4	67.5	65.5	67.5
Effect of dilutive stock options*	—	—	—	—
Weighted average number of diluted common shares outstanding*	65.4	67.5	65.5	67.5
Basic and diluted earnings per common share	$1.76	$1.02	$2.61	$1.43

* Number of shares is presented in millions.

c) Normal Course Issuer Bid

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

During the six-month period ended June 30, 2021, the Company repurchased for cancellation 1,097,568 common shares for a cash consideration of $51 million, representing an average price of $46.28 per common share. As at June 30, 2021, the Company had unsettled transactions to repurchase 33,549 common shares for a cash consideration of one million dollars, representing an average price of $44.71 per common share. As of June 30, 2021, the Company recorded a financial liability with an offset amount in equity in the amount of one million dollars. The settlement of these transactions occurred in early July 2021 and the cancellation of the corresponding common share was done at the same time.

As at June 30, 2021, the total number of common shares repurchased for cancellation under the NCIB amounted to 2,429,023 for total consideration of $111 million.

7 Fair value measurement and financial instruments

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

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

					As at June 30, 2021	**As at December 31, 2020**
Notional amount	**Related debt instrument**	**Fixed rate**	**Effective date**	**Maturity date**	**Notional equivalent**	**Notional equivalent**
		%			**CA$**	**CA$**
US$125	Term loan due 2028	1.125 *	July 1, 2021	June 2028	155	—
US$100	Revolving credit facilities	1.060**	December 2017	December 2021	124	127
US$85	Revolving credit facilities	1.680**	December 2015	April 2021	—	108

* Plus set margin of 1.725%.

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

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

As at June 30, 2021, the fair value of interest swap agreements was two million dollars, recognized as current and non-current liabilities in the consolidated statement of financial position (December 31, 2020 - two million dollars, recognized as current liabilities in the consolidated statement of financial position).

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

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

Financial instruments which are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term nature. The long-term debt has a carrying value of $682 million (December 31, 2020 – $606 million) and a fair value of $691 million (December 31, 2020 – $619 million).

8 Seasonality

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

9 Segment information

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

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

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

Operating plants are located in six Canadian provinces and 19 American states. The Company also operates a large distribution network across North America.

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

(Amounts in millions of Canadian dollars)	**2021**	**2020**
Canada	618	395
U.S.	908	881
	1,526	1,276

Sales by product for the six-month periods ended June 30, are as follows:

(Amounts in millions of Canadian dollars)	**2021**	**2020**
Utility poles	442	437
Railway ties	374	397
Residential lumber	496	328
Industrial products	64	62
Pressure-treated wood	1,376	1,224
Logs and lumber	150	52
	1,526	1,276

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

(Amounts in millions of Canadian dollars)	**As at June 30, 2021**	**As at December 31, 2020**
Property, plant and equipment		
Canada	165	160
U.S.	406	414
	571	574
Right-of-use assets		
Canada	22	18
U.S.	111	117
	133	135
Intangible assets		
Canada	46	40
U.S.	71	75
	117	115
Goodwill		
Canada	19	19
U.S.	254	261
	273	280

10 Subsequent events

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

b) On August 2, 2021, the Board of Directors declared a quarterly dividend of $0.18 per common share payable on September 17, 2021 to shareholders of record at the close of business on September 1, 2021.