Stella-JoneS

BUILDING ON OUR STRENGTHS

2018 ANNUAL REPORT

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STELLA-JONES.COM

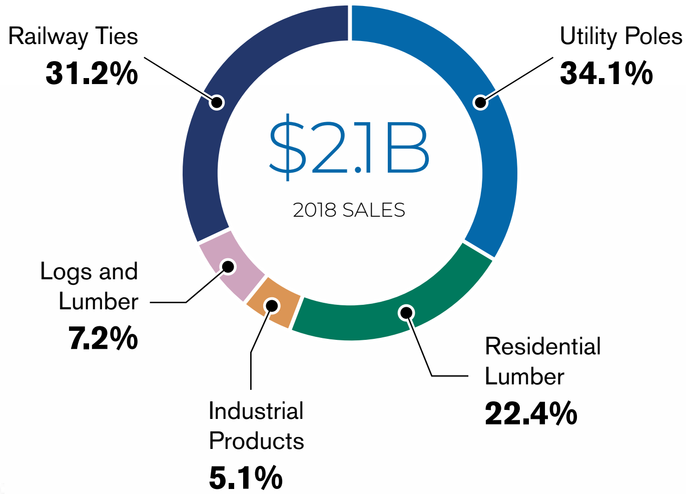
5-YEAR FINANCIAL HIGHLIGHTS

For the years ended December 31	2018	2017	2016	2015	2014
(millions of dollars, except per share data and financial ratios)	**$**	$	$	$	$
OPERATING RESULTS					
Sales	**2,123.9**	1,886.1	1,838.4	1,559.3	1,249.5
EBITDA [(1)]	**244.4**	243.1	264.8	243.4	176.3
Operating income [(1)]	**206.3**	207.4	233.2	220.1	155.7
Net income	**137.6**	167.9	153.9	141.4	103.8
FINANCIAL POSITION					
Working capital	**909.0**	779.4	928.0	854.4	615.1
Total assets	**2,062.2**	1,786.0	1,960.9	1,778.9	1,289.0
Total debt [(2)]	**513.5**	455.6	694.0	669.9	444.6
Shareholders' equity	**1,281.4**	1,115.5	1,026.4	913.5	692.3
PER SHARE DATA					
Basic earnings per common share	**1.98**	2.42	2.22	2.05	1.51
Diluted earnings per common share	**1.98**	2.42	2.22	2.04	1.50
Book value	**18.50**	16.09	14.81	13.21	10.04
FINANCIAL RATIOS					
Operating margin [(1)]	**9.7%**	11.0%	12.7%	14.1%	12.5%
EBITDA margin [(1)]	**11.5%**	12.9%	14.4%	15.6%	14.1%
Return on average equity [(1)]	**11.5%**	15.7%	15.9%	17.6%	16.4%
Total debt [(2)] to total capitalization [(1)]	**0.29:1**	0.29:1	0.40:1	0.42:1	0.39:1
Total debt [(2)] to trailing 12-month EBITDA [(1)]	**2.10x**	1.87x	2.62x	2.75x	2.52x
Working capital	**6.70**	7.04	8.58	6.36	8.33

(1) These items are financial measures not prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Chartered Professional Accountant Canada Handbook Part 1 — Accounting and are not likely to be comparable to similar measures presented by other issuers. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.

(2) Including the current portion of long-term debt.

STELLA-JONES AT A GLANCE



39
WOOD TREATING FACILITIES

2,110
EMPLOYEES

68%
SALES FROM U.S.

Stella-Jones Inc. supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones manufactures and distributes residential lumber and accessories to retailers for outdoor applications, and industrial products for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.

2018
HIGHLIGHTS

Stella-Jones posted solid financial results in 2018 despite challenging market conditions. The Company used its strong cash flow to grow the business, both organically and through acquisitions and provided a solid return to shareholders. It remains in a healthy financial position to pursue its growth.

MARKET CONDITIONS

- Railway tie inventory levels tightened
- Lumber prices hit an all-time high in May 2018 followed by a sharp drop
- Sustained demand for the Company's products

SOLID RESULTS

- Sales increased 12.6% and across all product categories
- EBITDA[(1)] marginally increased to $244.4 million, as it was negatively impacted by a $7.9 million loss on derivative commodity contracts
- Net income decreased 18.0% to $137.6 million, primarily due to a loss on derivative commodity contracts and the December 2017 U.S. tax reform

BALANCED CAPITAL ALLOCATION

- $54.5 million to make acquisitions
- $51.6 million for capital expenditures
- $33.3 million for dividends
- $4.0 million for share buybacks

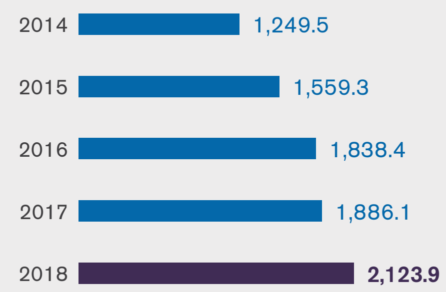
STRONG BALANCE SHEET

- Total debt of $513.5 million
- Total debt to EBITDA[(1)] ratio of 2.10x
- Strong financial position to pursue acquisitions

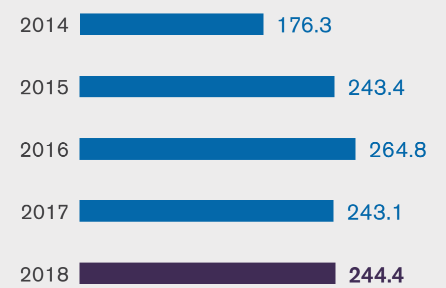
NETWORK EXPANSION

- Acquired Prairie Forest Products in February
- Acquired Wood Preservers Incorporated in April
- Invested in its network to improve efficiencies and expand capacity

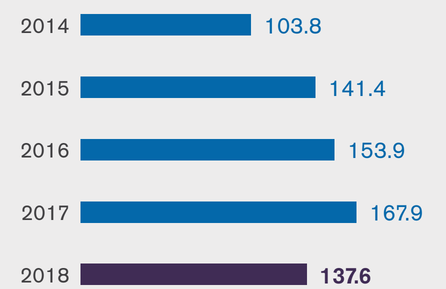
SALES
(in millions of $)



EBITDA[(1)]
(in millions of $)



NET INCOME
(in millions of $)



(1) This is a non-IFRS financial measure. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.

BUILDING
ON GOOD GOVERNANCE

A MILESTONE YEAR

2018 was a milestone year for Stella-Jones. Stella Jones International SA sold its remaining holdings in the Company and the two founding partners, Tom A. Bruce Jones and Gianni Chiarva, stepped down from the Board of Directors. On behalf of Stella-Jones, I would like to thank them for their dedication and vision. They built Stella-Jones from a four-plant wood-treating operation in 1992 to a leading North American railway tie, utility pole and treated lumber supplier with close to 40 facilities today.

BOARD CHANGES

I was appointed Chair of the Board last September. I am honored and delighted to accept this role and look forward to working with the Board and Management to build upon the Company's solid core values and exceptional track record.

Furthermore, longstanding Board members Daniel Picotte and Nycol Pageau-Goyette announced that they would be stepping down in May of 2019. I would like to thank both Daniel and Nycol for their many years of dedicated service. Finally, in December, we welcomed Ms. Karen Laflamme, Executive Vice-President and Chief Financial Officer, Retail, of Ivanhoé Cambridge, to the Board. She is an accomplished executive who brings a wealth of financial, accounting and business experience to Stella-Jones. I am confident that Karen will make a positive contribution to the Board and the Audit Committee.

Stella-Jones has nine Board members, composed of 44% women and 78% independent Directors. This compares with 30% and 60% respectively, last year.

BOLSTERING OUR GOVERNANCE

In 2018, the Board continued to build on its good governance by enhancing some of its practices. Thus far, we established a Governance and Nomination Committee comprised solely of independent directors and instituted a process of renewal of the Board which will continue to foster diversity.

In this same spirit, Stella-Jones recently published its inaugural Environmental, Social and Governance (ESG) Report. While this is our first report, we have been committed to ESG for many years, including having implemented numerous safety and environmental initiatives. In fact, we have long had in place a dedicated Environmental, Health and Safety Committee of the Board. We are committed to being a model corporate citizen and to continuously improving our sustainability and other ESG practices.

SOLID PERFORMANCE IN 2018

Despite challenging market conditions in 2018, Stella-Jones finished the year with a solid performance. Revenues increased 12.6% and EBITDA[1] increased 0.5%. We also completed two acquisitions, continued to invest in our network to better serve our customers, increased our dividend for the fourteenth consecutive year and instituted a Normal Course Issuer Bid.

On behalf of the Board, I would like to welcome our new institutional shareholders and thank our long-term shareholders for their continued support. I would also like to thank all of our employees for their strong contribution in 2018.

Katherine A. Lehman
Chair of the Board

Establishment of Governance and Nomination Committee

Renewal of the Board of Directors on which 78% are now independent and 44% are women

Launch of inaugural Environmental, Social and Governance Report

[1] This is a non-IFRS financial measure. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.

BUILDING
ON OUR CORE ASSETS

NAVIGATING THROUGH CHALLENGING MARKET CONDITIONS

In a year filled with a multitude of challenges, our operational and sales teams deserve praise for navigating through headwinds and delivering an 18th consecutive year of increased revenues. Our bottom line was impacted when compared to last year, due to the one-time benefits received from the 2017 tax reform enacted in the United States. We witnessed a rise in lumber prices and a railway tie market characterized by a tightened supply. Although these factors contracted our margins and net income, we achieved a healthy increase in revenues stemming from higher pricing and sustained strong demand in key product categories.

GENERATING SOLID RESULTS

In a generally robust North American economy, demand remained solid for Stella-Jones' pressure-treated wood railway ties, utility poles and residential lumber. Total sales in 2018 surpassed the two billion-dollar mark for the first time in our history, reaching $2.1 billion. Excluding the contribution from acquisitions and the impact from foreign exchange, sales rose by a robust 10.1%, primarily driven by pricing. As expected, net income decreased to $137.6 million, primarily impacted by the effect of the U.S. tax reform last year, coupled with a loss related to derivative commodity contracts.

GROWING OUR CORE PRODUCT CATEGORIES

In 2018, all of Stella-Jones' product categories increased their year-over-year sales and generated organic growth. Railway tie sales grew modestly to $662.4 million, as we progressively passed on price increases to customers. Utility pole sales increased over 10% to $725.0 million, driven by both strong demand and price increases and residential lumber sales increased by close to 30% to $474.7 million, driven primarily by pricing. However, despite higher sales prices, our increasing exposure to lumber costs has put downward pressure on our margins as a percentage of sales, as price increases are a pass through to customers.

ALLOCATING CAPITAL TO MAXIMIZE SHAREHOLDER VALUE

In 2018, we generated $128.1 million of cash flow from operations. We deployed capital primarily for acquisitions, capital expenditures and providing a return to shareholders in the form of dividends and share buybacks.

> Sales increased by 12.6% and EBITDA[1] was up 0.5%

In terms of network expansion, we completed two acquisitions totalling $54.5 million. We acquired Prairie Forest Products in Manitoba, which manufactures treated wood utility poles and treated residential lumber, and Wood Preservers Incorporated in Virginia, a producer of marine and foundation pilings and treated utility poles. With these two additions, we closed 2018 operating thirty-nine wood treating plants and twelve pole peeling facilities.

During the year, we also invested $51.6 million to increase the capacity and efficiency of our network. In fact, the capital we deployed in our facilities in the Southeastern United States has started to bear fruit in the form of improved efficiencies and we are well positioned to grow.

In 2018, we increased our dividend for a fourteenth consecutive year to $0.48 per share, returning $33.3 million to shareholders. At the end of the year, we put in place a Normal Course Issuer Bid, representing an attractive and responsible investment and a complementary way to return value to shareholders. As at year end, we had repurchased common shares for approximately $4.0 million.

OUTLOOK

As a manufacturer of basic components of North American industrial infrastructure, Stella-Jones succeeds in tandem with the dynamism and growth of the continental economy. As we enter 2019, the market continues to indicate ongoing robust demand for our core products . Based on current market expectations and assuming stable currencies and lumber prices, we expect the Company to generate higher year-over-year sales and improved margins in 2019. In addition, our solid financial position will allow us to continue to seek opportunities to expand our presence in our core markets.

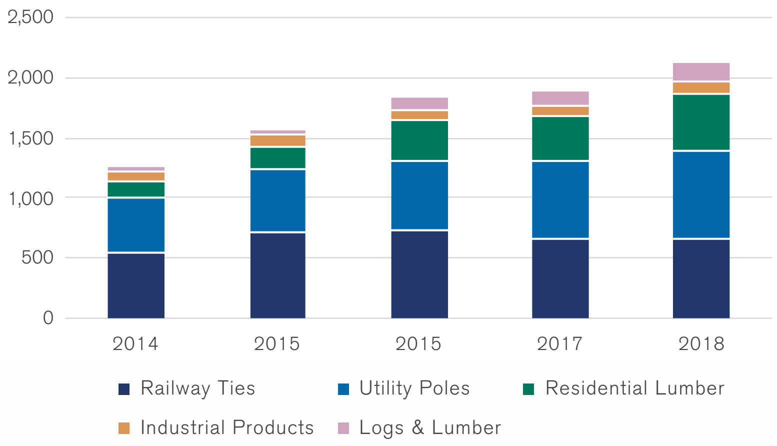
I want to take this opportunity to express my gratitude to all members of the Stella-Jones team. Your talents and devotion are what make our Company a strong and growing force in our industry. I also wish to thank our Board of Directors and the many shareholders of Stella-Jones for your continuing confidence and support.

Brian McManus
President and Chief Executive Officer

[1] This is a non-IFRS financial measure. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.

BUILDING
ON A STRONG THIRD PILLAR

SALES BY PRODUCT CATEGORY
(in millions of $)

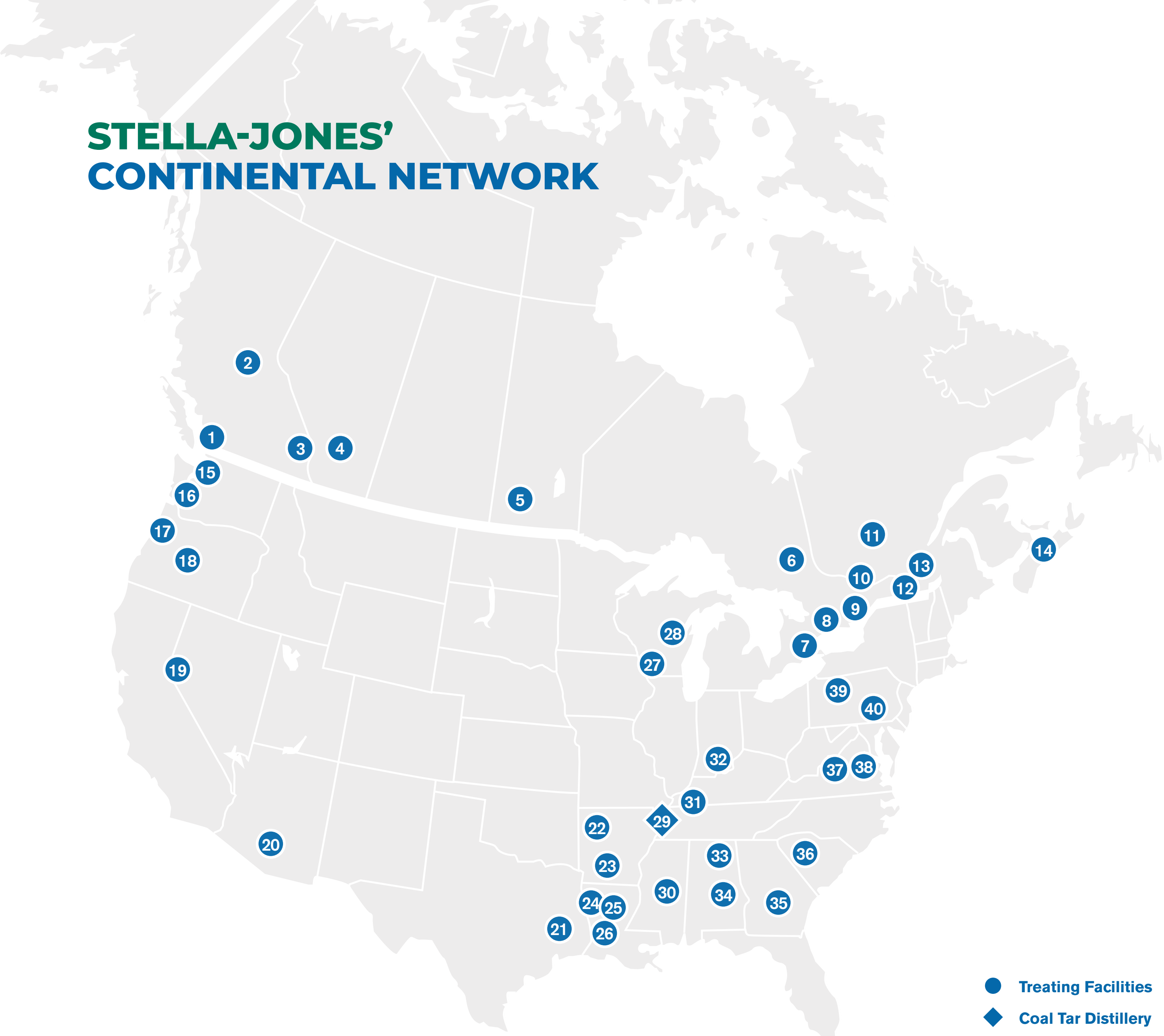


DIVERSIFYING THE PRODUCT MIX

Over the course of the past 5 years, Stella-Jones has successfully developed the residential lumber product category through acquisitions and organic growth. Residentiel lumber has climbed from 10% of its overall product mix in 2014 to 22% of total sales in 2018, gaining momentum through dedicated market focus and higher lumber prices passed through to customers. While remaining continually focused on its railway tie and utility pole businesses, Stella-Jones regards residential lumber as an essential component of its core product mix.

Residential lumber is an essential component of Stella-Jones' core product mix

STELLA-JONES' CONTINENTAL NETWORK



1 New Westminster, BC
2 Prince George, BC
3 Galloway, BC
4 Carseland, AB
5 Neepawa, MB
6 South River, ON
7 Guelph, ON
8 Stouffville, ON
9 Peterborough, ON
10 Gatineau, QC
11 Rivière-Rouge, QC
12 Delson, QC
13 Sorel-Tracy, QC
14 Truro, NS
15 Arlington, WA
16 Tacoma, WA
17 Sheridan, OR
18 Eugene, OR
19 Silver Springs, NV
20 Eloy, AZ
21 Lufkin, TX
22 Russellville, AR
23 Rison, AR
24 Converse, LA
25 Pineville, LA
26 Alexandria, LA
27 Bangor, WI
28 Cameron, WI
29 Memphis, TN
30 Scooba, MS
31 Fulton, KY
32 Winslow, IN
33 Montevallo, AL
34 Clanton, AL
35 Cordele, GA
36 Whitmire, SC
37 Goshen, VA
38 Warsaw, VA
39 Dubois, PA
40 McAllisterville, PA

BUILDING
ON OUR REPUTATION FOR QUALITY AND SERVICE

RAILWAY TIES

$662 M	2.7%	31.2%
2018 REVENUES	ORGANIC GROWTH	OF REVENUES

Stella-Jones is an industry leader in the production of quality pressure treated railroad ties and timbers. We have the treating capacity, sources of raw material supply and purchasing power to meet the needs of Class 1, Short Line railroads and commercial operators from coast to coast. Our extensive supplier network of over 1,200 hardwood sawmills allows us to offer crossties and switch ties in a variety of sizes to meet our customers' needs. Our agile continental network of wood treating plants and distribution yards carry a large inventory to ensure that materials are delivered quickly and efficiently, even under urgent conditions.

In 2018, sales increased modestly, primarily as a result of price increases in the second half of the year, partially offset by the Company supporting the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program in the first half of the year. Sales and margins for 2019 are expected to increase year-over-year, primarily driven by pricing.

UTILITY POLES

$725 M	11.2%	34.1%
2018 REVENUES	ORGANIC GROWTH	OF REVENUES

Stella-Jones provides over one million pressure-treated poles per year to replace, upgrade and develop new electrical utility and telecommunications lines across Canada and the United States. Wood poles are the backbone of North America's electric grid and are a renewable resource, providing equal or superior strength, resiliency and service life when compared to any "wood pole equivalent" structure constructed from alternative materials, such as steel, concrete and fiberglass. Stella-Jones' quality poles are made from a variety of premium wood species to suit a range of climates. Our custom manufacturing services meet the demands of our customers' unique specifications across the continent.

In 2018, sales increases were driven by greater market reach in the U.S. Southeast, increased project activity requiring transmission poles, healthy demand for replacement programs and higher sales prices. Sales and margins for 2019 are expected to increase year-over-year, driven by both pricing and strong demand for replacement programs and increased project-based sales.

RESIDENTIAL LUMBER

$475 M	18.1%	22.4%
2018 REVENUES	ORGANIC GROWTH	OF REVENUES

Stella-Jones provides seamless, end-to-end service to key North American retailers, supplying hundreds of millions of board feet of treated residential lumber across Canada and the United States each year. A preferred supplier of treated wood products for the dimensional lumber market, Stella-Jones treats wood boards, plywood and dimensional lumber for use in patios, decks, fences and other outdoor applications in addition to providing customized services for the residential and construction markets.

In 2018, sales increased significantly due to higher selling prices, stemming from increased lumber costs passed through to customers, and to increased volume due to the Company's expanding market presence. For 2019, sales are expected to be stable, year-over-year, as stronger market demand is expected to be offset by lower selling prices to customers, as a result of lower lumber costs.

INDUSTRIAL PRODUCTS

$109 M	1.1%	5.1%
2018 REVENUES	ORGANIC GROWTH	OF REVENUES

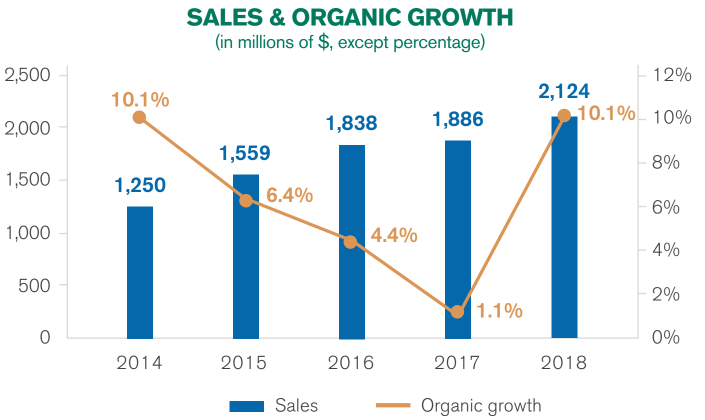
Stella-Jones is a leading supplier of pressure treated wood products to the marine, industrial and civic sectors for outdoor applications, producing wharf timbers, bridge timbers, crane mats, railway crossings and laminated poles, and offering a variety of select wood species and preservatives. In 2018, sales increased modestly, explained in part by demand for rail-related products and projects requiring laminated products. For 2019, sales should increase due to the full-year contribution from acquisitions.

LOGS & LUMBER

$153 M	26.8%	7.2%
2018 REVENUES	ORGANIC GROWTH	OF REVENUES

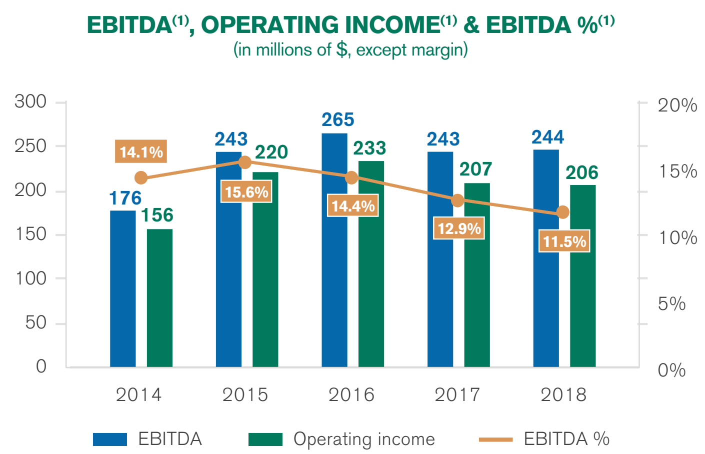
This product category is used to optimize procurement, does not generate margin and is fairly tied to the price of lumber. In 2018, sales increased significantly as a result of higher lumber prices which are passed through to customers as well as increased harvesting for poles which has generated more log sales. For 2019, with the price of lumber coming down, we expect sales to decrease and our consolidated margin to benefit.

BUILDING
ON SOLID PERFORMANCE



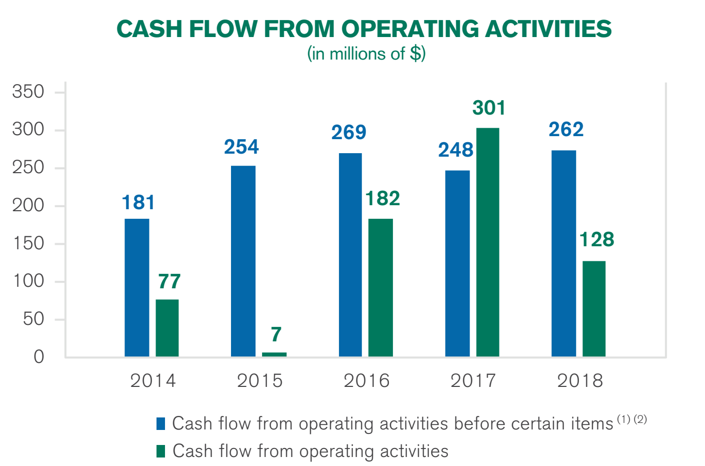
Sales have steadily increased over the past five years, reaching past the two billion-dollar mark in 2018, an important milestone in the Company's history.

Stella-Jones has generated positive organic growth in each of the last five years, spiking to 10.1% in 2018, driven primarily by higher lumber prices passed through to customers, coupled with a rise in railway tie selling prices and increased volume in the utility pole product category.



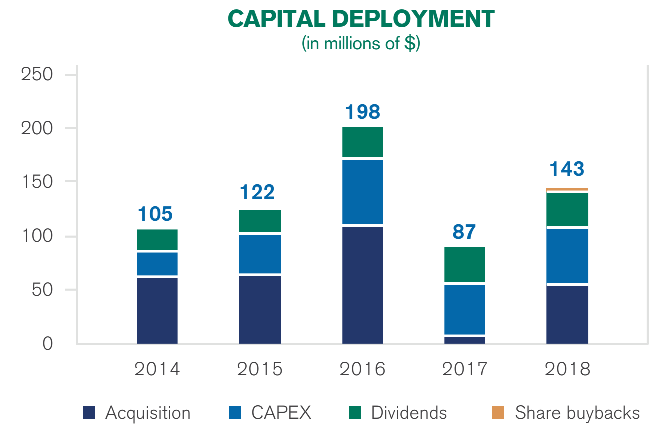
EBITDA[(1)] for 2018 was $244.4 million, in line with last year, as it was negatively impacted by a $7.9 million loss on derivative commodity contracts in the fourth quarter. Excluding this non-operational item, EBITDA[(1)] would have been up approximately 4%.

EBITDA margin[(1)] for 2018 was 11.5%, down from 12.9% last year, primarily due to higher lumber prices, which are a pass through to customers, as well as the negative impact from the derivative instruments mentioned above.

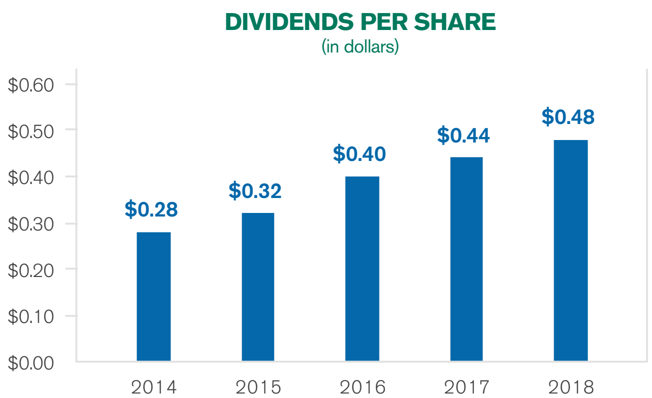


In 2018, Stella-Jones generated $262.3 million of cash flow from operating activities before non-cash working capital components and interest and income taxes paid[(1)] as compared to $248.2 million last year. However, it generated $128.1 million of cash flow from operating activities, versus $301.1 million last year. This variance was primarily explained by increased inventories.

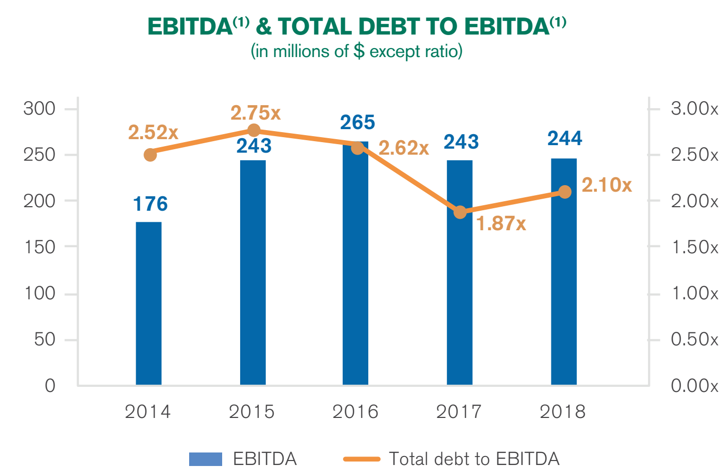
(1) This is a non-IFRS financial measure. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.
(2) Non-cash working capital components and interest and income taxes paid



Stella-Jones has a disciplined approach to capital allocation. In 2018, the Company invested $54.5 million for business acquisitions and $51.6 million for capital expenditures. It also provided a return to shareholders by paying dividends of $33.3 million and buying back shares for $4.0 million under a Normal Course Issuer Bid, instituted at the end of 2018, which it believes represents an attractive and responsible investment and is a complementary way to return value to shareholders.



Stella-Jones has increased its dividend for the past fourteen years. In 2018, the dividend increased 9.1% to $0.48 per share. At year end, the dividend yield was 1.2%. On March 14, 2019, the Company continued this trend and announced an increase of its quarterly dividend by 16.7% to $0.14 per share. The Board of Directors considers a dividend on a quarterly basis, subject to the Company's financial covenants and conditional upon its financial performance and cash requirements.



Stella-Jones concluded 2018 with a total debt of $513.5 million and an EBITDA[1] of $244.4 million. This translated into a total debt to EBITDA[1] ratio of 2.1:1. The Company is therefore in a healthy financial position to pursue its development and acquisition strategy.

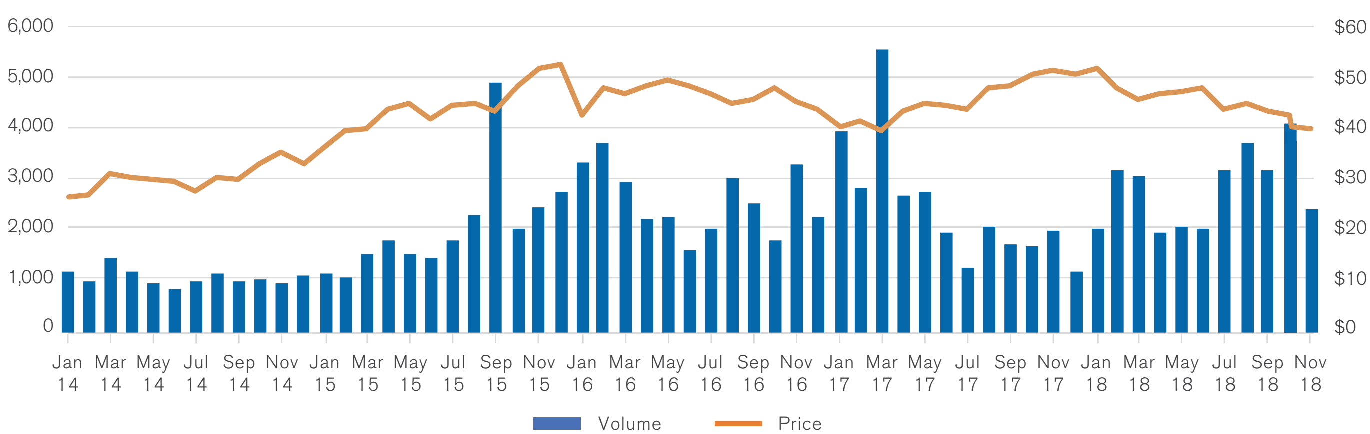
(1) This is a non-IFRS financial measure. Please refer to the Non-IFRS financial measures section in the management's discussion and analysis.

SHARE INFORMATION

For the years ended December 31	2018	2017	2016	2015	2014
(unaudited)	**$**	$	$	$	$
TRADING DATA ON COMMON SHARES					
52-week high ($)	**52.22**	51.41	51.95	53.46	36.00
52-week low ($)	**37.40**	38.30	40.37	32.16	25.43
Closing ($)	**39.61**	50.50	43.58	52.51	32.74
Total volume	**53,908,544**	49,339,093	46,609,923	34,802,385	17,441,546
Average daily volume	**214,775**	196,570	185,697	138,655	69,488
OTHER STATISTICS					
Dividends on common shares (in millions $)	**33.3**	30.5	27.7	22.1	19.3
Dividend per share ($)	**0.48**	0.44	0.40	0.32	0.28
Dividend yield (%)	**1.2%**	0.9%	0.9%	0.6%	0.9%
Average number of shares outstanding (000's)	**69,352**	69,324	69,215	69,018	68,802
Average number of diluted shares outstanding (000's)	**69,360**	69,333	69,231	69,153	69,027
Shares outstanding at year end (000's)	**69,268**	69,342	69,303	69,137	68,949
Public float (000's)	**61,718**	47,769	42,730	42,564	42,376
Market capitalization (in millions $)	**2,744**	3,502	3,020	3,630	2,257
Enterprise value [1] (in millions $)	**3,257**	3,957	3,715	4,300	2,702

[1] Enterprise value is defined as market capitalization plus total debt, including the current portion of long-term debt.

CLOSING SHARE PRICE AND VOLUME



Stella-Jones Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc. and shall include its independent operating subsidiaries.

This MD&A and the Company's audited consolidated financial statements were approved by the Board of Directors on March 14, 2019. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2018 compared with the fiscal year ended December 31, 2017. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017 and the notes thereto.

The MD&A contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency rates and other factors referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants ("CPA Canada") Handbook Part I — Accounting. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

OUR BUSINESS

Stella-Jones Inc. is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones 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's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at March 14, 2019, the Company operated thirty-nine wood treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2018, the Company's workforce numbered approximately 2,110 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, a long-standing stable source of wood supply, and a registration to produce and sell the wood preservative, creosote.

OUR MISSION

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

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

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

2018 HIGHLIGHTS

Selected Key Indicators

	2018	2017	2016
(in millions of dollars, except earnings per share ("EPS") and key performance indicators)			
Operating Results			
Sales	**2,123.9**	1,886.1	1,838.4
Gross profit [(1)]	**314.2**	299.9	333.7
EBITDA [(1)]	**244.4**	243.1	264.8
Operating income [(1)]	**206.3**	207.4	233.2
Net income	**137.6**	167.9	153.9
EPS – basic & diluted	**1.98**	2.42	2.22
Cash Flows			
Cash flows from operating activities	**128.1**	301.1	181.8
Cash flows from financing activities	**(26.0)**	(239.9)	(9.5)
Cash flows from investing activities	**(108.5)**	(58.5)	(175.6)
Financial Position			
Current assets	**1,068.4**	908.4	1,050.4
Inventories	**838.6**	718.5	854.6
Total assets	**2,062.2**	1,786.0	1,960.9
Long-term debt [(2)]	**513.5**	455.6	694.0
Total liabilities	**780.8**	670.4	934.5
Shareholders' equity	**1,281.4**	1,115.5	1,026.4
Key Performance Indicators			
EBITDA margin [(1)]	**11.5%**	12.9%	14.4%
Operating margin [(1)]	**9.7%**	11.0%	12.7%
Return on average equity [(1)]	**11.5%**	15.7%	15.9%
Working capital ratio [(1)]	**6.70**	7.04	8.58
Long-term debt [(2)] to total capitalization [(1)]	**0.29:1**	0.29:1	0.40:1
Long-term debt [(2)] to EBITDA [(1)]	**2.10**	1.87	2.62
Dividend per share	**0.48**	0.44	0.40

(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. Refer to the Non-IFRS financial measures section of this MD&A.
(2) Including current portion of long-term debt.
Note: Numbers are rounded.

- On December 18, 2018, Stella-Jones announced that the Toronto Stock Exchange had accepted its Notice of Intention to Make a Normal Course Issuer Bid. Shareholders may obtain a copy of the Notice of Intention upon request to the Company. Pursuant to the Notice, Stella-Jones may, during the twelve-month period commencing December 20, 2018 and ending December 19, 2019, purchase for cancellation, up to 3,000,000 common shares, representing approximately 4.3% of its outstanding common shares.

- On November 19, 2018, Stella-Jones announced the appointment of Ms. Karen Laflamme to its Board of Directors. Ms. Laflamme is Executive Vice-President and Chief Financial Officer, Retail, of Ivanhoé Cambridge, an investor and developer of superior quality real estate properties, projects and companies around the world. Ms. Laflamme's appointment was effective December 1, 2018.

- On September 25, 2018, Stella-Jones announced the appointment of Ms. Katherine A. Lehman as Chair of the Board, the establishment of a Governance and Nomination Committee and the implementation of additional governance initiatives.

- On August 14, 2018, Stella Jones International S.A. sold its remaining share ownership in Stella-Jones Inc. through a bought deal public offering of 8,445,911 common shares and a concurrent private placement of an aggregate of 13,126,925 common shares.

- On April 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Wood Preservers Incorporated ("WP"), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation pilings and treated wood utility poles.

- On February 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Prairie Forest Products ("PFP"), a division of Prendiville Industries Ltd., located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures treated wood utility poles as well as treated residential lumber.

NON-IFRS FINANCIAL MEASURES

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

- **Gross profit:** Sales less cost of sales
- **EBITDA:** Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **EBITDA margin:** EBITDA divided by sales for the corresponding period
- **Operating income**
- **Operating margins:** Operating income divided by sales for the corresponding period
- **Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid**
- **Long-term debt to EBITDA:** Long-term debt (including the current portion) divided by EBITDA
- **Return on average equity:** Net income divided by the mathematical average of the current and prior year's shareholders' equity
- **Working capital ratio:** Total current assets divided by total current liabilities
- **Long-term debt to total capitalization:** Long-term debt (including the current portion) divided by the sum of shareholders' equity and long-term debt (including the current portion)

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

Reconciliation of EBITDA and operating income to net income	Three-month periods ended		Fiscal years ended	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**20.6**	51.1	**137.6**	167.9
Plus:				
Provision for (recovery of) income taxes	**6.4**	(26.0)	**49.6**	20.5
Financial expenses	**4.8**	3.9	**19.1**	19.0
Operating income	**31.8**	29.0	**206.3**	207.4
Depreciation and amortization	**10.0**	9.0	**38.1**	35.7
EBITDA	**41.8**	38.0	**244.4**	243.1

Note: Numbers may not add exactly due to rounding.

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2018 and 2017. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

	2018		2017	
Cdn$/US$ rate	**Average**	**Closing**	**Average**	**Closing**
First Quarter	**1.2549**	**1.2894**	1.3240	1.3310
Second Quarter	**1.2893**	**1.3168**	1.3491	1.2977
Third Quarter	**1.3080**	**1.2945**	1.2664	1.2480
Fourth Quarter	**1.3129**	**1.3642**	1.2754	1.2545
Fiscal Year	**1.2913**	**1.3642**	1.3038	1.2545

- Average rate: The depreciation of the U.S. dollar relative to the Canadian dollar during 2018 compared to 2017 resulted in a negative impact on sales while benefitting cost of sales.
- Closing rate: The appreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2018, compared to December 31, 2017 resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

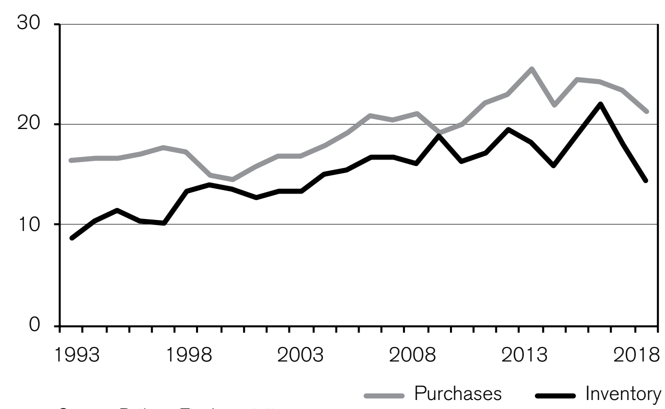
RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for 2018 were 21.2 million ties, versus 23.4 million ties for 2017. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Inventory levels are lower at 14.4 million as at December 31, 2018, as purchases are outpacing production. As a result, the inventory-to-sales ratio was 0.68:1 as at December 31, 2018, beneath the previous ten-year average ratio of 0.78:1.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel-efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

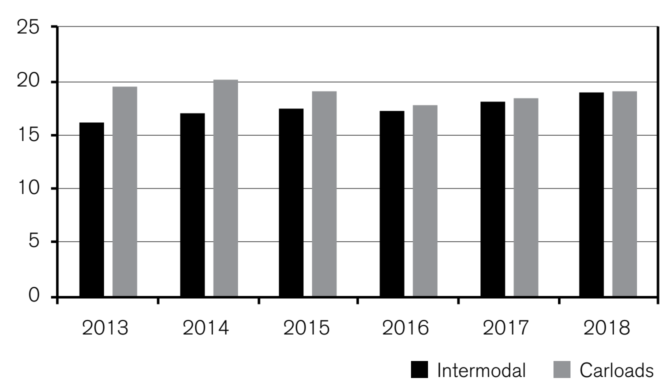
Total traffic on North American railroads increased 3.4% in 2018, according to data released by the Association of American Railroads. Carload volume grew by 2.0%, mainly due to increased shipments of petroleum and petroleum products, chemicals and metallic ores and metals, whereas the volume of intermodal trailers and containers rose 4.8% from 2017 levels.

ANNUALIZED RAILWAY TIE PURCHASES AND INVENTORY
(in millions of ties)



Source: Railway Tie Association

FREIGHT HAULED ON NORTH AMERICAN RAILROADS
(in millions of units)



Source: Association of American Railroads

OPERATING RESULTS

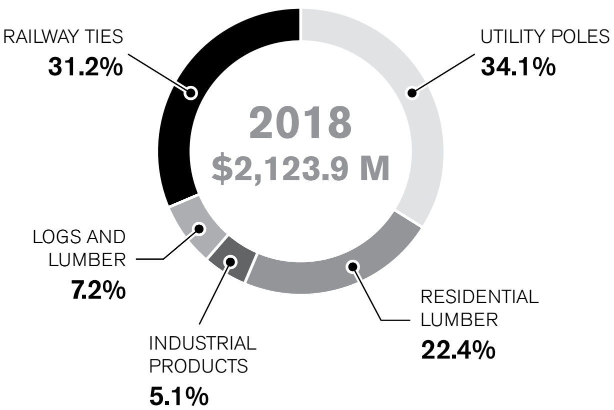
Sales

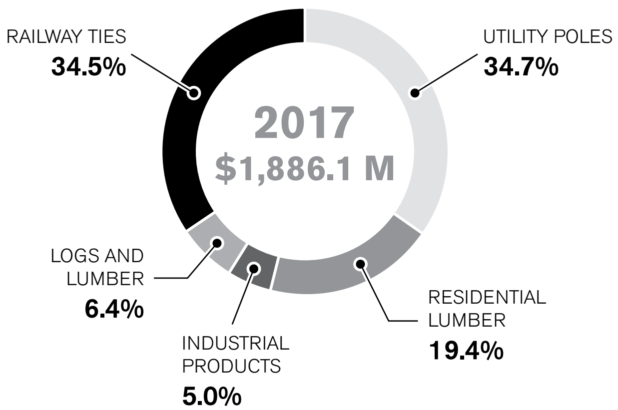
Sales for the year ended December 31, 2018 reached $2,123.9 million, up 12.6% versus last year's sales of $1,886.1 million. Acquisitions contributed sales of approximately $60.5 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a negative impact of $12.9 million on the value of U.S. dollar denominated sales when compared with the previous year. Excluding these factors, sales increased approximately $190.2 million, or 10.1%, as detailed below.

Sales	Railway Ties	Utility Poles	Residential Lumber	Industrial Products	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)						
2017	**651.5**	**654.0**	**366.2**	**94.5**	**119.9**	**1,886.1**
Acquisitions	–	1.4	43.9	14.4	0.8	60.5
FX impact	(6.9)	(3.4)	(1.7)	(0.9)	–	(12.9)
Organic growth	17.8	73.0	66.3	1.0	32.1	190.2
2018	**662.4**	**725.0**	**474.7**	**109.0**	**152.8**	**2,123.9**
Organic growth %	2.7%	11.2%	18.1%	1.1%	26.8%	10.1%

Note: Numbers may not add exactly due to rounding.

SALES BY PRODUCT CATEGORY
(% of sales)

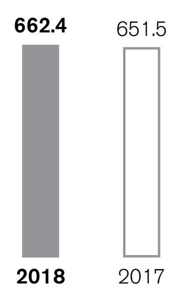




Railway Ties

Railway tie sales for 2018 amounted to $662.4 million, representing an increase of 1.7%, from sales of $651.5 in 2017. The currency conversion effect decreased the value of U.S. dollar denominated sales by about $6.9 million. Excluding the currency conversion effect, railway tie sales increased approximately $17.8 million, or 2.7%, primarily as a result of price increases in the second half of the year, partially offset by the Company supporting the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program in the first half of the year. Railway tie sales accounted for 31.2% of the Company's total sales in 2018.

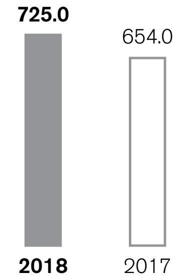
RAILWAY TIE SALES
(in millions of $)



Utility Poles

Utility pole sales reached $725.0 million in 2018, up 10.9% from sales of $654.0 million in 2017. Acquisitions contributed sales of $1.4 million, while the currency conversion effect decreased the value of U.S. dollar denominated sales by about $3.4 million. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $73.0 million, or 11.2%, primarily driven by increased sales in the U.S. Southeast, increased projects related to transmission poles, healthy demand for replacement programs and increased sales prices. Utility pole sales accounted for 34.1% of the Company's total sales in 2018.

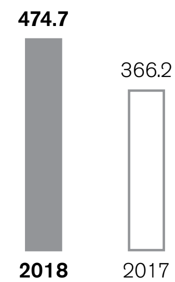
UTILITY POLE SALES
(in millions of $)



Residential Lumber

Sales in the residential lumber category totalled $474.7 million in 2018, up 29.6% from sales of $366.2 million in 2017. Acquisitions contributed sales of approximately $43.9 million, while the currency conversion effect decreased the value of U.S. dollar denominated sales by about $1.7 million when compared with 2017. Excluding these factors, residential lumber sales increased approximately $66.3 million, or 18.1%. This favourable variance is primarily explained by higher selling prices as a result of higher lumber costs passed through to customers and to increased volume due to the Company's expanding market presence. Residential lumber accounted for 22.4% of the Company's total sales in 2018.

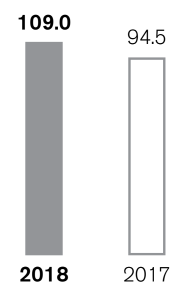
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial Products

Industrial product sales reached $109.0 million in 2018, compared with $94.5 million last year. Acquisitions contributed sales of approximately $14.4 million, while the currency conversion effect decreased the value of U.S. dollar denominated sales by about $0.9 million when compared with 2017. Excluding the contribution from acquisitions and the currency conversion effect, sales increased 1.1%, explained in most part by demand for rail-related products and projects requiring laminated products, partially offset by lower demand for bridges and timbers. Industrial products represented 5.1% of the Company's total sales in 2018.

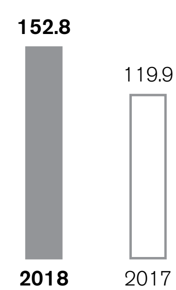
INDUSTRIAL PRODUCT SALES
(in millions of $)



Logs and Lumber

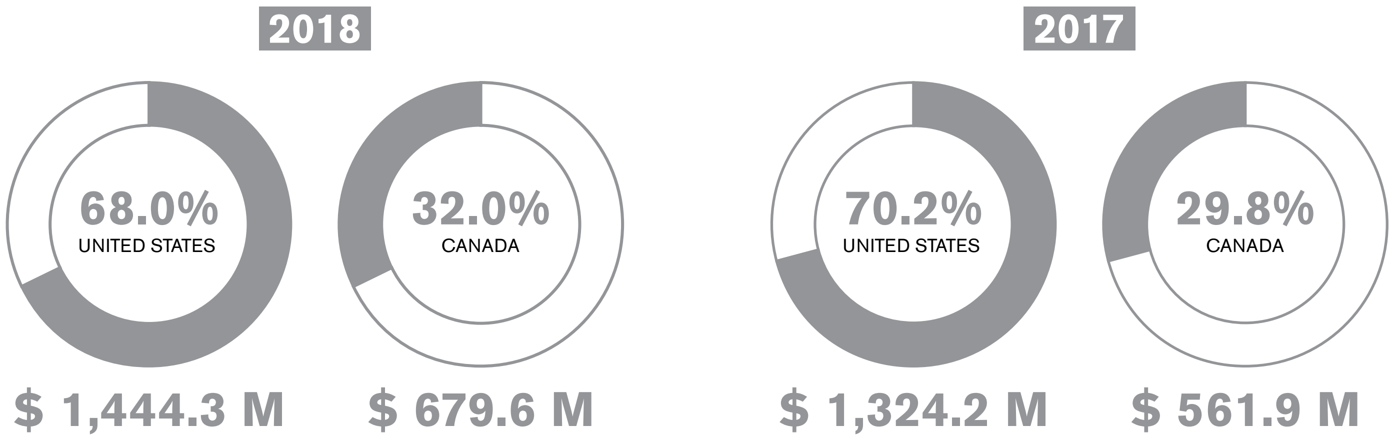
Sales in the logs and lumber product category totalled $152.8 million in 2018, compared with $119.9 million in 2017. Excluding the contribution from acquisitions, sales for this product category increased 26.8%. This significant variance reflects higher selling prices due to higher lumber costs coupled with increased harvesting activities to procure raw material to support strong pole sales. Logs and lumber sales represented 7.2% of the Company's total sales in 2018.

LOGS AND LUMBER SALES
(in millions of $)



SALES BY GEOGRAPHIC REGION

(% of sales)



Sales in the United States amounted to $1,444.3 million, or 68.0% of sales in 2018, representing an increase of $120.0 million, or 9.1%, over sales of $1,324.2 million in 2017. This year-over-year increase is mainly attributable to higher sales across all product categories, coupled with the contribution of the WP acquisition, partially offset by the negative effect of local currency translation on U.S.-dollar denominated sales.

Sales in Canada amounted to $679.6 million, or 32.0% of sales in 2018, representing an increase of $117.7 million, or 20.9%, over sales of $561.9 million in 2017. This year-over-year increase primarily reflects higher sales in the residential lumber product category driven by volume as well as increased selling prices due to higher lumber costs and the contribution of the PFP acquisition. Moreover, the increase was also impacted by higher sales in the utility pole and logs and lumber product categories.

Cost of Sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,809.7 million, or 85.2% of sales, in 2018. This compares with $1,586.3 million, or 84.1% of sales, in 2017.

The cost of sales increase is explained by the Company supporting the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program in the first half of the year. To accelerate this transition, the Company acquired untreated railway ties from the Class 1 railroad customer which increased cost of sales once these ties were treated and sold. Moreover, cost of sales was also impacted by the increasing cost of untreated railway ties and certain untreated species of poles. In addition, the higher lumber costs for the year, which were passed through to the customers via higher selling prices, have contributed to increased cost of sales in the residential product category but have also put downward pressure on margins as a percentage of sales. These cost increases were partially offset by the effect of currency translation.

Depreciation and amortization charges reached $38.1 million in 2018, up from $35.7 million in 2017. As a result, gross profit reached $314.2 million, or 14.8% of sales, in 2018, compared with $299.9 million, or 15.9% of sales, in 2017.

Selling and Administrative

Selling and administrative expenses for 2018 were $99.0 million, compared with expenses of $93.8 million in 2017. This variation is primarily explained by higher taxable tax credits of $2.6 million recognized in 2017, coupled with higher salaries and benefits as well as greater stock-based compensation expenses in 2018, partially offset by the effect of currency translation. As a percentage of sales, selling and administrative expenses represented 4.7% of sales in 2018, slightly down from 5.0% in 2017.

Other Losses (Gains), Net

Stella-Jones' other net losses of $8.9 million for 2018, included a $7.9 million non-cash loss related to the mark-to-market effect of diesel and petroleum derivative commodity contracts. In 2017, other net gains of $1.3 million mainly consisted of a $4.1 million foreign exchange gain and a $2.1 million reversal of a provision for site remediation, partially offset by a $3.2 million expense on freight and distribution accruals and a $1.3 million loss on asset disposal.

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its 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. Stella-Jones U.S. Holding Corporation, the Company's wholly-owned U.S. subsidiary, is a foreign operation that has a different functional currency from that of the Company and foreign exchange gains and losses on translating its financial statements are deferred in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Its basic hedging activity for economic purposes consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

Financial Expenses

Financial expenses reached $19.1 million in 2018, in line with $19.0 million in 2017, as higher year-over-year borrowings, resulting mainly from financing for the acquisitions, were partially offset by the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income Before Income Taxes and Income Tax Expense

Stella-Jones generated income before income taxes of $187.2 million, or 8.8% of sales, in 2018, in line with income before income taxes of $188.4 million, or 10.0% of sales, in 2017.

Stella-Jones' income tax expense totalled $49.6 million in 2018, representing an effective tax rate of 26.5%. In 2017, the income tax expense stood at $20.5 million, equivalent to an effective tax rate of 10.9%. The lower effective tax rate in 2017 reflects changes to the U.S. Federal Corporate income tax rate following the enactment of the Tax Cuts and Jobs Act (the "Act") on December 22, 2017. The Act favourably affected the Company's U.S. subsidiaries, specifically by reducing the top federal corporate income tax rate from 35.0% to 21.0%, starting January 1, 2018. Although the Act only came into effect on January 1, 2018, changes to the tax rates required the remeasurement of the deferred income tax liability as at December 31, 2017. As a result of the reduction in tax rates, a one-off non-cash deferred tax benefit of $30.0 million was recognized in the statement of income for the fourth quarter ended December 31, 2017 which explains the lower effective tax rate for 2017.

Net Income

Net income for 2018 reached $137.6 million, or $1.98 per diluted share, versus net income of $167.9 million, or $2.42 per diluted share, in 2017. This decrease is primarily explained by the lower income tax expense in 2017.

BUSINESS ACQUISITIONS

Wood Preservers Incorporated

On April 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of WP, located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation pilings and treated wood utility poles.

Total cash outlay associated with the acquisition was approximately $27.5 million (US$21.6 million), excluding acquisition costs of approximately $423,000 recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities. The consideration transferred is also comprised of an unsecured promissory note bearing no interest and payable annually on the anniversary of the transaction in six instalments of US$500,000. This unsecured promissory note was recorded at a fair value of $3.3 million (US$2.6 million), using an effective interest rate of 4.17%.

The following table is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(Tabular information presented in millions of dollars)	$
Assets acquired	
Accounts receivable	3.9
Inventories	8.5
Property, plant and equipment	18.2
Customer relationships	0.2
Goodwill	1.1
Total assets acquired	**31.9**
Liabilities assumed	
Deferred income tax liabilities	0.4
Total net assets acquired and liabilities assumed	**31.5**
Consideration transferred	
Cash	27.5
Consideration payable	0.7
Unsecured promissory note	3.3
Consideration transferred	**31.5**

Prairie Forest Products

On February 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of PFP, a division of Prendiville Industries Ltd., located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures treated wood utility poles as well as treated residential lumber.

Total cash outlay associated with the acquisition was approximately $27.0 million excluding acquisition costs of approximately $425,000 of which $159,000 and $266,000 were recognized respectively in the 2017 and 2018 consolidated statements of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

The following table is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination.

(Tabular information presented in millions of dollars)	$
Assets acquired	
Inventories	10.5
Property, plant and equipment	7.8
Customer relationships	5.9
Goodwill	4.0
Deferred income tax assets	0.2
Total assets acquired	**28.4**
Liabilities assumed	
Site remediation provision	1.4
Total net assets acquired and liabilities assumed	**27.0**
Consideration transferred	
Cash	27.0
Consideration transferred	**27.0**

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole and industrial product shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2018

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except EPS)	**$**	**$**	**$**	**$**	**$**
Sales	**398.8**	**662.3**	**630.0**	**432.8**	**2,123.9**
EBITDA	**44.0**	**80.1**	**78.5**	**41.8**	**244.4**
Operating income	**35.5**	**71.0**	**67.9**	**31.8**	**206.3**
Net income for the period	**23.1**	**48.1**	**45.8**	**20.6**	**137.6**
EPS — basic and diluted	**0.33**	**0.69**	**0.66**	**0.30**	**1.98**

2017

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except EPS)	$	$	$	$	$
Sales	396.9	594.2	517.6	377.4	1,886.1
EBITDA	49.7	83.6	71.8	38.0	243.1
Operating income	40.8	74.5	63.1	29.0	207.4
Net income for the period	25.9	48.9	42.0	51.1	167.9
EPS — basic and diluted	0.37	0.71	0.61	0.74	2.42

Note: Due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators

	Q4–2018	Q4–2017	Variation	Variation
(in millions of dollars, except margins and EPS)			$	%
Operating results				
Sales	**432.8**	377.4	55.4	14.7%
Gross profit	**67.0**	53.5	13.5	25.2%
EBITDA	**41.8**	38.0	3.8	10.0%
EBITDA margin	**9.7%**	10.1%	n/a	n/a
Operating income	**31.8**	29.0	2.8	9.7%
Net income	**20.6**	51.1	(30.5)	(59.7%)
EPS – basic & diluted	**0.30**	0.74	(0.44)	(59.5%)

Note: Numbers are rounded.

Operating Results

Sales for the fourth quarter of 2018 amounted to $432.8 million, up 14.7% from sales of $377.4 million for the same period in 2017. Acquisitions contributed sales of approximately $11.4 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $9.0 million on the value of U.S. dollar denominated sales when compared with the corresponding period last year. Excluding these factors, sales increased approximately $35.0 million, or 9.3%, as detailed below.

Sales	Railway Ties	Utility Poles	Residential Lumber	Industrial Products	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)						
Q4-2017	**118.0**	**162.9**	**48.6**	**20.0**	**27.9**	**377.4**
Acquisitions	–	0.3	7.2	3.9	–	11.4
FX impact	3.3	4.4	0.6	0.4	0.3	9.0
Organic growth	5.7	24.4	3.9	(1.2)	2.2	35.0
Q4-2018	**127.0**	**192.0**	**60.3**	**23.1**	**30.4**	**432.8**
Organic growth %	4.8%	15.0%	8.0%	(6.0%)	7.9%	9.3%

Note: Numbers may not add exactly due to rounding.

Sales of railway ties reached $127.0 million, versus $118.0 million last year. Excluding the currency conversion effect, railway tie sales rose 4.8%, driven by price increases. Utility pole sales amounted to $192.0 million, up 17.9% from $162.9 million last year. Excluding the contribution from acquisitions and the currency conversion effect, sales grew 15.0% as a result of greater market reach in the U.S. Southeast, increased project activity requiring transmission poles, healthy demand for replacement programs and requirements following the California wildfires in late 2018. Residential lumber sales reached $60.3 million, up from $48.6 million last year. Excluding the contribution from acquisitions and the currency conversion effect, sales grew 8.0%, reflecting stronger volume in Canada, partially offset by lower selling prices in the U.S. Industrial product sales amounted to $23.1 million, up from $20.0 million a year ago. Excluding acquisitions and the currency conversion effect, sales decreased 6.0% as a result of lower bridge and timber demand. Finally, logs and lumber sales stood at $30.4 million, versus $27.9 million last year. Excluding the currency conversion effect, sales grew 7.9%, driven, in most part, by heightened pole procurement efforts which resulted in more log sales, partially offset by lower selling prices on lumber.

Gross profit amounted to $67.0 million, or 15.5% of sales, in the fourth quarter of 2018, versus $53.5 million, or 14.2% of sales, in the fourth quarter of 2017. The increase as a percentage of sales mainly reflects better year-over-year overhead absorption driven by greater production activity while product margins were comparable to the previous year. Operating income totalled $31.8 million, or 7.4% of sales, in the fourth quarter of 2018, versus $29.0 million, or 7.7% of sales, last year.

Net income for the period reached $20.6 million, or $0.30 per diluted share, compared with $51.1 million, or $0.74 per diluted share, in the prior year. The year-over-year decrease is attributable to a one-off non-cash tax benefit of $30.0 million recognized in the fourth quarter of 2017, stemming from the remeasurement of deferred tax liabilities following a reduction in the U.S. top federal corporate income tax rate. Fourth quarter results were also impacted by a non-cash loss of $7.9 million related to the mark-to-market fair value of diesel and petroleum derivative commodity contracts.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the appreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2018, compared to December 31, 2017 (see "Foreign Exchange" on page 19), results in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2018, total assets reached $2.06 billion, versus $1.79 billion as at December 31, 2017. The higher balance of total assets mostly reflects an increase in current assets, as detailed below.

Assets	As at December 31, 2018	As at December 31, 2017	Variance
(in millions of dollars)	**$**	$	$
Accounts receivable	**192.4**	163.5	28.9
Inventories	**838.6**	718.5	120.1
Other current assets	**37.4**	26.4	11.0
Total current assets	**1,068.4**	908.4	160.0
Property, plant and equipment	**551.8**	466.1	85.7
Intangible assets	**131.7**	130.3	1.4
Goodwill	**298.3**	270.3	28.0
Other non-current assets	**12.1**	10.9	1.2
Total non-current assets	**993.9**	877.6	116.3
Total assets	**2,062.2**	1,786.0	276.2

Note: Numbers may not add exactly due to rounding.

The value of accounts receivable, which is net of a credit loss provision of $2.2 million, was $192.4 million as at December 31, 2018, compared with $163.5 million as at December 31, 2017. The increase is attributable to higher sales in the fourth quarter of 2018, when compared to the fourth quarter of 2017, coupled with the effect of local currency translation on U.S.-based accounts receivable. Management considers that all recorded receivables in the statement of financial position are collectible as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories stood at $838.6 million as at December 31, 2018, up from $718.5 million as at December 31, 2017. This increase reflects the effect of local currency translation on U.S. dollar denominated inventories and the inventories pertaining to the PFP and WP acquisitions as well as higher inventory levels in preparation for deliveries in the first half of 2019.

Because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. As such, inventory turnover has historically been relatively low. In addition, important raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. However, solid relationships and long-term contracts with customers enable the Company to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization. The Company believes that its cash flows from operations and available syndicated credit facilities are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $551.8 million as at December 31, 2018, compared with $466.1 million as at December 31, 2017. This increase is mainly related to the purchase of property, plant and equipment of $51.6 million during 2018, the additional property, plant and equipment from the PFP and WP acquisitions totalling $26.0 million and the effect of local currency translation on U.S-based property, plant and equipment, partially offset by depreciation of $21.1 million for the period.

The value of intangible assets and goodwill reached $131.7 million and $298.3 million, respectively, as at December 31, 2018. Intangible assets include customer relationships, the discounted value of non-compete agreements, a creosote registration, cutting rights, standing timber, software and a favourable lease agreement. As at December 31, 2017, intangible assets and goodwill were $130.3 million and $270.3 million, respectively. The slight increase in the value of intangible assets stems primarily from customer relationships from acquisitions and the effect of local currency translation on U.S.-based intangible assets, partially offset by an amortization charge of $17.0 million in 2018. The increase in goodwill is primarily explained by acquisitions and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2018, Stella-Jones' total liabilities stood at $780.8 million, up from $670.4 million as at December 31, 2017. This variation reflects an increase in non-current liabilities as well as current liabilities, as detailed below.

Liabilities	As at December 31, 2018	As at December 31, 2017	Variance
(in millions of dollars)	**$**	$	$
Accounts payable and accrued liabilities	**133.3**	111.2	22.1
Current portion of long-term debt	**9.7**	5.7	4.0
Other current liabilities	**16.4**	12.1	4.3
Total current liabilities	**159.4**	129.0	30.4
Long-term debt	**503.8**	449.9	53.9
Other non-current liabilities	**117.6**	91.5	26.1
Total non-current liabilities	**621.4**	541.4	80.0
Total liabilities	**780.8**	670.4	110.4

Note: Numbers may not add exactly due to rounding.

The value of current liabilities was $159.4 million as at December 31, 2018, versus $129.0 million as at December 31, 2017. This variation is primarily attributable to a $22.1 million increase in accounts payable and accrued liabilities related to higher business activity in the fourth quarter of 2018, compared to the same period last year. It is also explained by the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $513.5 million as at December 31, 2018, versus $455.6 million as at December 31, 2017. The increase mainly reflects higher working capital requirements, financing required for the acquisitions of PFP and WP, as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2018, an amount of $291.6 million was available against the Company's syndicated credit facilities of $579.8 million (US$425.0 million). The Company's syndicated credit facilities are made available for a five-year term until February 2024 and thus considered long-term debt.

As at December 31, 2018, the Company was in full compliance with its debt covenants and contractual obligations.

On January 14, 2019, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2024. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016 and March 15, 2018.

Shareholders' Equity

Shareholders' equity reached $1.28 billion as at December 31, 2018 compared with $1.12 billion as at December 31, 2017. This variation reflects an increase in retained earnings and accumulated other comprehensive income, as detailed below.

Shareholders' equity	As at December 31, 2018	As at December 31, 2017	Variance
(in millions of dollars)	**$**	$	$
Capital Stock	**221.3**	220.4	0.9
Contributed surplus	**0.3**	0.3	–
Retained earnings	**909.1**	809.0	100.1
Accumulated other comprehensive income	**150.7**	85.8	64.9
Total shareholders' equity	**1,281.4**	1,115.5	165.9

Note: Numbers may not add exactly due to rounding.

The increase is attributable to net income of $137.6 million during 2018 and a $64.9 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations, partially offset by dividends of $33.3 million.

As part of its Normal Course Issuer Bid, the Company repurchase, as at December 31, 2018, 105,000 common shares for cancellation in consideration of $4.0 million. As at December 31, 2018, the Company had unsettled transactions to repurchase 42,000 common shares for a cash consideration of $1.6 million. The settlement of these transactions occurred in early January 2019 and the cancellation of the corresponding common shares was done at the same time.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	December 31, 2018	December 31, 2017
(in millions of dollars)	**$**	$
Operating activities	**128.1**	301.1
Financing activities	**(26.0)**	(239.9)
Investing activities	**(108.5)**	(58.5)
Net change in cash and cash equivalents during the year	**(6.4)**	2.7
Cash and cash equivalents - beginning	**6.4**	3.7
Cash and cash equivalents - end	**–**	6.4

Note: Numbers may not add exactly due to rounding.

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, available cash and long-term debt. The Company plans a similar level of capital expenditures in 2019 as compared to 2018 ($51.6 million in 2018), which will include a plant expansion in Cameron, Wisconsin.

Cash Flows From Operating Activities

Cash flows provided by operating activities in 2018 were $128.1 million, versus $301.1 million for the corresponding period last year. This variation mainly reflects changes in non-cash working capital components, as detailed below.

Cash flows from operating activities	December 31, 2018	December 31, 2017
(in millions of dollars)	**$**	$
Net income	**137.6**	167.9
Loss on derivative financial instruments	**8.6**	0.8
Deferred income taxes	**10.6**	(21.1)
Others	**105.5**	100.6
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**262.3**	248.2
Inventories	**(56.7)**	100.7
Other current assets	**(15.3)**	4.4
Other	**(4.1)**	(2.0)
Changes in non-cash working capital components	**(76.1)**	103.1
Interest paid	**(18.7)**	(15.8)
Income taxes paid	**(39.4)**	(34.5)
Cash flows from operating activities	**128.1**	301.1

Note: Numbers may not add exactly due to rounding.

Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $262.3 million in 2018, compared with $248.2 million in 2017. This increase mostly reflects higher deferred income taxes and a loss on derivative financial instruments, partially offset by lower net income.

Changes in non-cash working capital components decreased liquidity by $76.1 million in 2018. This was mainly due to an increase in inventory levels and cost. In 2017, changes in non-cash working capital components had increased liquidity by $103.1 million, driven by lower inventory cost and volume of railway ties.

Interest and income taxes paid reduced liquidity by $18.7 million and $39.4 million, respectively, in 2018. This compares with interest paid of $15.8 million and income taxes paid of $34.5 million in 2017.

As a result, cash flows from operating activities generated $128.1 million in 2018, versus $301.1 million in 2017.

Cash Flows From Financing Activities

Financing activities for 2018 reduced liquidity by $26.0 million, primarily related to dividend payments of $33.3 million and the repurchase of common shares totalling $4.0 million. In 2017, financing activities reduced liquidity by $239.9 million explained by a $207.4 million net decrease in debt financing.

Cash flows from financing activities	December 31, 2018	December 31, 2017
(in millions of dollars)	**$**	$
Net change in syndicated credit facilities	**18.7**	(391.8)
Increase in long-term debt	**–**	195.9
Repayment of long-term debt	**(6.7)**	(11.5)
Dividends on common shares	**(33.3)**	(30.5)
Repurchase of common shares	**(4.0)**	–
Other	**(0.7)**	(2.0)
Cash flows from financing activities	**(26.0)**	(239.9)

Note: Numbers may not add exactly due to rounding.

Cash Flows From Investing Activities

Investing activities used $108.5 million in liquidity in 2018, as compared to $58.5 million in 2017. The PFP and WP acquisitions required an investment of $54.5 million, while the purchase of property, plant and equipment required $51.6 million of liquidity, as detailed below.

Cash flows from investing activities	December 31, 2018	December 31, 2017
(in millions of dollars)	**$**	$
Business acquisitions	**(54.5)**	(5.8)
Purchase of property, plant and equipment	**(51.6)**	(50.6)
Other	**(2.4)**	(2.1)
Cash flows from investing activities	**(108.5)**	(58.5)

Note: Numbers may not add exactly due to rounding.

Financial Obligations

The following table details the maturities of the financial obligations as at December 31, 2018:

Financial obligations	Carrying Amount	Contractual Cash flows	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
(in million of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	133.3	133.3	133.3	–	–	–
Long-term debt obligations	513.5	601.8	25.5	51.7	303.1	221.5
Minimum payments under operating lease obligations	–	132.8	30.2	46.9	26.2	29.5
Derivative commodity agreements	8.1	8.3	4.1	4.2	–	–
Non-compete agreements	4.3	4.6	1.6	3.0	–	–
Financial obligations	**659.2**	**880.8**	**194.7**	**105.8**	**329.3**	**251.0**

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2018, the capital stock issued and outstanding of the Company consisted of 69,267,732 common shares (69,342,095 as at December 31, 2017). The following table presents the outstanding capital stock activity for the year ended December 31, 2018:

Number of shares	Year Ended December 31, 2018
(in thousands)	
Balance – Beginning of year	69,342
Repurchase of common shares	(105)
Employee share purchase plans	31
Balance – End of year	**69,268**

As at March 14, 2019, the capital stock issued and outstanding consisted of 69,125,146 common shares.

As at December 31, 2018, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 45,000 (December 31, 2017 – 45,000) of which 39,000 (December 31, 2017 – 33,000) were exercisable. As at March 14, 2019, the number of outstanding options was 45,000, of which 39,000 were exercisable.

DIVIDENDS

In 2018, the Board of Directors of Stella-Jones declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 13, 2018	April 6, 2018	April 27, 2018	0.12
May 2, 2018	June 6, 2018	June 27, 2018	0.12
August 7, 2018	September 3, 2018	September 21, 2018	0.12
November 1, 2018	December 3, 2018	December 20, 2018	0.12

Subsequent to year end, on March 14, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share payable on April 26, 2019 to shareholders of record at the close of business on April 5, 2019. This dividend is designated to be an eligible dividend.

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based upon and subject to the Company's covenants in its loan documentation as well as its financial performance and cash requirements. There can be no assurance as to the amount or timing of such dividends in the future.

COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $29.7 million in 2018 (2017 – $19.0 million) 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 and, as such, no provisions have been recorded in the consolidated financial statements.

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.

RISKS AND UNCERTAINTIES

Economic Conditions

A negative change in economic conditions may affect most or all of the markets the Company serves, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2018, the Company's top ten customers accounted for approximately 44.2% of its sales. During this same period, the Company's largest customer accounted for approximately 16.6%, of its total sales and is associated to the residential lumber product category while the second largest customer accounted for approximately 9.3% of total sales and is associated to the railway tie product category.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products. The Company may also enter into certain commodity hedges, where available, for a percentage of forecasted needs in order to help ensure stable production costs.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

While the Company has been party to environmental litigation which has included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid and the Company is not found liable.

Risk Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage Risk

The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance coverage for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk

The Company is exposed to currency risks due to its export of certain goods manufactured in Canada. The Company strives to mitigate such risks by purchases of raw materials denominated in U.S. dollars for use in its Canadian manufacturing process. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuation Risk

As at December 31, 2018, 96.0% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. 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. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railroad operators, large retailers and large-scale utility providers, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Cyber and Information Technology Risk

The Company relies on information technology to process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breach due to employee error, malfeasance or other disruptions. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

Corporate Tax Risk

In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be sustained by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates, and anticipated business in the various jurisdictions in which Stella-Jones operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that Stella-Jones may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have a material adverse effect on net income or cash flows.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. 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. As at December 31, 2018, the Company had two interest rate swap agreements hedging $252.4 million in debts and having maturity dates ranging from April 2021 to December 2021. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2018, of fixed and floating debt was 96.0% and 4.0%, respectively, including the effects of interest rate swap positions (100.0% and 0.0%, respectively, as at December 31, 2017).

Foreign Exchange Risk Management

The Company's financial results are reported in Canadian dollars, while a portion of its Canadian-based operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2018, the Company had no foreign exchange forward contract agreements in place.

Diesel and Petroleum Price Risk Management

Diesel and petroleum price risk is the risk that future cash flows will fluctuate because of changes in price of diesel and petroleum. In order to manage its exposure to diesel and petroleum prices and to help mitigate volatility in operating cash flow, the Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to reduce the risk of fluctuating prices on these commodities. As at December 31, 2018, the Company had commodity hedges for 12.0 million gallons (1.2 million in 2017) of diesel and petroleum covering requirements for 2019 and 2020. These instruments are presented at fair value and were not designated for hedge accounting purposes.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2018 and 2017 audited consolidated financial statements as well as in the impact of new accounting pronouncements MD&A section that follows with regards to accounting policy changes for revenue recognition and financial instruments.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and CPA Canada Handbook Part I — Accounting.

The preparation of 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, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition and impairment of long-lived assets. 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.

Impact of New Accounting Pronouncements

IFRS 15 — *Revenue from Contracts with Customers*
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. The retrospective adoption of this new standard had no significant impact on the Company's consolidated financial statements and the new accounting policy was defined as follows:

The Company sells treated and untreated wood products (the "Products"), as well as 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 of 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 twelve-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. Accumulated 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 significant reversal will not occur. A liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Products sales may also be subject to retrospective price discounts based on aggregate sales over a twelve-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.

A receivable is recognized when control of the Product is transferred to the customer because it is at this point in time that the consideration becomes unconditional since only the passage of time remains before payment is due.

IFRS 9 — *Financial Instruments*
The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. The retrospective adoption of this new standard had no significant impact on the Company's consolidated financial statements and the new accounting policy was defined as follows:

The Company recognizes a financial asset or a financial liability in its 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.

When, and only when, 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.

Financial Liabilities

The Company's 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 investment in debt securities carried at amortized cost and fair value through other comprehensive income. 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, 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 from its Canadian-based operations. 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.

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 income (expenses).

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.

Impact of New Accounting Pronouncements Not Yet Implemented

IFRS 16 – *Leases*

In January 2016, the IASB released IFRS 16, *Leases*, to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The standard supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019.

Under the new standard, the Company will recognize, in the statement of financial position, assets (right to use the leased assets) totalling approximately $119.0 million, equivalent to the discounted cash flows of the future minimum payments, and corresponding financial liabilities. The assets will be depreciated over the duration of the lease agreements which has a weighted average of 78 months. The liabilities will be depleted upon contractual payment to the lessors and a corresponding financing expense will be recorded to the consolidated statements of income. The Company is currently assessing the impact of the new standard on its net income.

The following table outlines the key areas that will be impacted by the adoption of IFRS 16:

Impacted areas of the business	Analysis	Conclusion
Financial reporting	The analysis includes determining which contracts will be in scope as well as the options available under the new standard and whether to apply the new standard on a full retrospective application in accordance with IAS 8 or retrospectively without restatement of comparative amounts.	The Company will adopt IFRS 16 for its fiscal year beginning January 1, 2019, retrospectively, without restatement of comparative amounts and shall use the exemptions for short-term leases and leases for which the underlying asset is of low value.
Information systems	The Company has analyzed the need to make changes within its information systems environment to optimize the management of close to 700 lease agreements that will fall within the scope of the new standard.	The Company has implemented an information technology solution to support recognition and measurement of leases in scope. The implementation was completed before the end of fiscal 2018.
Internal controls	The Company has performed a review and analysis of the changes to the control environment as a result of the adoption of IFRS 16.	New controls were implemented to enable monthly reconciliations of the assets and liabilities to detailed subledgers as well as reconciliations of the related financial and depreciation expenses. A roll forward analysis of these assets and liabilities will also be performed monthly. All lease agreements are approved by Head Office Management to ensure they are all captured for accounting purposes.
Stakeholders	The Company has performed an analysis of the impact on the disclosure to its stakeholders as a result of the adoption of IFRS 16.	The Company concluded that there will be no negative impact or breaches of agreement covenant as a result of the adoption of IFRS 16.

IFRIC 23 — *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- most likely amount: single most likely amount in a range of possible outcomes;
- expected value: sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company will not early adopt IFRIC 23 and does not expect a significant impact.

IFRS 3 — *Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2018 and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2018.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from October 1, 2018 to December 31, 2018 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

The Company's railway tie and utility pole product categories are essential components of the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained, which provides Stella-Jones with relatively steady demand for these products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

For 2019, based on current market conditions and assuming stable currencies and the current level of lumber prices, Management expects higher year-over-year sales for Stella-Jones, driven by stronger pricing for railway ties and utility poles as well as increased market reach for the residential lumber and the utility pole product categories. Management also expects improved year-over-year margins across all product categories. Higher margins will be primarily driven by increased pricing and volume for railway ties coupled with improved product mix for utility poles. Furthermore, it is important to note that the 2019 EBITDA will be positively impacted by the implementation of IFRS 16 while net income will be negatively impacted by higher financing expenses. The Company plans on spending a similar level of capital expenditures in 2019 as compared to 2018 ($51.6 million in 2018), which will include a plant expansion in Cameron, Wisconsin.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Sales and margins for 2019 are expected to improve year-over-year, primarily driven by pricing. In fact, Management believes that the increasing costs of untreated railway ties, combined with a tighter supply market, will lead to continued upward selling price adjustments for the quarters ahead.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Sales and margins for 2019 are expected to increase year-over-year driven by both pricing and strong demand for replacement programs and increased project-based sales.

In the residential lumber product category, the Company expects to further benefit from continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets. Sales for 2019 are expected to be stable, year-over-year, as higher market demand is expected to be offset by lower selling prices to customers, as a result of the lower lumber costs. Management closely monitors variations in these commodity prices, and adjusts its procurement practices accordingly, in order to maintain dollar margins on similar volume.

It is important to highlight that sales for the logs and lumber product category, an activity used to optimize procurement and which does not generate margin, is fairly tied to the price of lumber. Therefore, a decrease in the price of lumber will lead to lower sales but higher overall margins when taken as a whole with other product categories and vice versa.

As one of the leading providers of industrial treated wood products, Stella-Jones will leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, while diligently seeking market opportunities in all product categories. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company will focus on optimizing operating capacity and minimizing costs throughout the organization. Cash generation and maintaining a prudent use of leverage remain priorities for Management. The cash flows provided from operating activities will be used to reduce debt, invest in working capital and in property, plant and equipment, buy back its own shares as well as maintain an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact, as Management believes that the fundamentals of each product category will remain strong. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergies, and add value for shareholders.

March 14, 2019

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

Brian McManus
President and Chief Executive Officer

Éric Vachon, CPA, CA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 14, 2019

INDEPENDENT AUDITOR'S REPORT

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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, 2018 and 2017, 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, 2018 and 2017;
- the consolidated statements of changes 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 a summary of significant accounting policies.

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.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report 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.

INDEPENDENT AUDITOR'S REPORT

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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.

INDEPENDENT AUDITOR'S REPORT

pwc

- 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.

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

PricewaterhouseCoopers LLP[1]

Montréal, Québec
March 14, 2019

[1] FCPA auditor, FCA, public accountancy permit No. A116853

As at December 31, 2018 and 2017
(expressed in thousands of Canadian dollars)

	Note	2018	2017
		$	$
ASSETS			
Current assets			
Cash		**–**	6,430
Accounts receivable	5	**192,380**	163,458
Derivative financial instruments	18	**–**	473
Inventories	6	**838,558**	718,462
Income taxes receivable		**1,882**	1,122
Other current assets		**35,567**	18,435
		1,068,387	908,380
Non-current assets			
Property, plant and equipment	7	**551,785**	466,056
Intangible assets	8	**131,658**	130,349
Goodwill	8	**298,270**	270,261
Derivative financial instruments	18	**7,545**	6,173
Other non-current assets		**4,559**	4,761
		2,062,204	1,785,980
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	**133,259**	111,206
Derivative financial instruments	18	**4,381**	–
Current portion of long-term debt	10	**9,714**	5,695
Current portion of provisions and other long-term liabilities	11	**12,016**	12,114
		159,370	129,015
Non-current liabilities			
Long-term debt	10	**503,767**	449,945
Deferred income taxes	15	**92,557**	72,408
Provisions and other long-term liabilities	11	**13,959**	11,392
Employee future benefits	16	**7,393**	7,675
Derivative financial instruments	18	**3,748**	–
		780,794	670,435
Shareholders' equity			
Capital stock	13	**221,328**	220,467
Contributed surplus		**348**	298
Retained earnings		**909,060**	809,022
Accumulated other comprehensive income		**150,674**	85,758
		1,281,410	1,115,545
		2,062,204	1,785,980
Commitments and contingencies	17		
Subsequent events	22		

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

Approved by the Board of Directors,

Katherine A. Lehman
Director

George J. Bunze, CPA, CMA
Director

For the years ended December 31, 2018 and 2017
(expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income: Foreign currency translation adjustment	Accumulated other comprehensive income: Translation of long-term debts designated as net investment hedges	Accumulated other comprehensive income: Unrealized gains on cash flow hedges	Accumulated other comprehensive income: Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2017	219,119	258	672,620	223,124	(92,532)	3,829	134,421	1,026,418
Comprehensive income (loss)								
Net income for the year	–	–	167,889	–	–	–	–	167,889
Other comprehensive income (loss)	–	–	(983)	(72,504)	23,111	730	(48,663)	(49,646)
Comprehensive income (loss) for the year	–	–	166,906	(72,504)	23,111	730	(48,663)	118,243
Dividends on common shares	–	–	(30,504)	–	–	–	–	(30,504)
Exercise of stock options	146	(47)	–	–	–	–	–	99
Employee share purchase plans	1,202	–	–	–	–	–	–	1,202
Share-based compensation (note 13)	–	87	–	–	–	–	–	87
	1,348	40	(30,504)	–	–	–	–	(29,116)
Balance – December 31, 2017	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545
Balance – January 1, 2018	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545
Comprehensive income (loss)								
Net income for the year	–	–	137,597	–	–	–	–	137,597
Other comprehensive income (loss)	–	–	927	101,529	(37,602)	989	64,916	65,843
Comprehensive income (loss) for the year	–	–	138,524	101,529	(37,602)	989	64,916	203,440
Dividends on common shares	–	–	(33,290)	–	–	–	–	(33,290)
Employee share purchase plans	1,330	–	–	–	–	–	–	1,330
Repurchase of common shares (note 13)	(469)	–	(5,196)	–	–	–	–	(5,665)
Share-based compensation (note 13)	–	50	–	–	–	–	–	50
	861	50	(38,486)	–	–	–	–	(37,575)
Balance – December 31, 2018	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410

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

For the years ended December 31, 2018 and 2017
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2018	2017
		$	$
Sales		**2,123,893**	1,886,142
Expenses			
Cost of sales		**1,809,733**	1,586,263
Selling and administrative		**98,995**	93,828
Other losses (gains), net		**8,864**	(1,337)
	14	**1,917,592**	1,678,754
Operating income		**206,301**	207,388
Financial expenses	14	**19,102**	19,009
Income before income taxes		**187,199**	188,379
Provision for (recovery of) income taxes			
Current	15	**39,018**	41,566
Deferred	15	**10,584**	(21,076)
		49,602	20,490
Net income for the year		**137,597**	167,889
Basic earnings per common share	13	**1.98**	2.42
Diluted earnings per common share	13	**1.98**	2.42

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

For the years ended December 31, 2018 and 2017
(expressed in thousands of Canadian dollars)

	2018	2017
	$	$
Net income for the year	**137,597**	167,889
Other comprehensive income		
Items that may subsequently be reclassified to net income		
Net change in gains (losses) on translation of financial statements of foreign operations	**101,529**	(81,920)
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	**–**	9,416
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(34,332)**	29,332
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(3,270)**	(6,221)
Change in gains on fair value of derivatives designated as cash flow hedges	**1,372**	1,026
Income taxes on change in gains on fair value of derivatives designated as cash flow hedges	**(383)**	(296)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	**1,209**	(737)
Income taxes on remeasurements of post-retirement benefit obligations	**(282)**	(246)
	65,843	(49,646)
Comprehensive income for the year	**203,440**	118,243

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

For the years ended December 31, 2018 and 2017
(expressed in thousands of Canadian dollars)

	Note	2018	2017
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		**137,597**	167,889
Adjustments for			
Depreciation of property, plant and equipment	7	**21,086**	19,078
Amortization of intangible assets	8	**17,016**	16,656
Loss on derivative financial instruments		**8,601**	770
Financial expenses		**19,102**	19,009
Current income taxes expense	15	**39,018**	41,566
Deferred income taxes	15	**10,584**	(21,076)
Restricted stock units expense		**7,189**	4,549
Other		**2,060**	(199)
		262,253	248,242
Changes in non-cash working capital components and others			
Accounts receivable		**(13,230)**	(11,026)
Inventories		**(56,716)**	100,683
Income taxes receivable		**–**	(2,746)
Accounts payable and accrued liabilities		**13,428**	16,694
Asset retirement obligations		**(2,304)**	(3,369)
Provisions and other long-term liabilities		**(1,968)**	(1,494)
Other current assets		**(15,335)**	4,380
		(76,125)	103,122
Interest paid		**(18,693)**	(15,797)
Income taxes paid		**(39,371)**	(34,454)
		128,064	301,113
Financing activities			
Increase in deferred financing costs		**(255)**	(1,132)
Net change in syndicated credit facilities	12	**18,742**	(391,796)
Increase in long-term debt	12	**–**	195,870
Repayment of long-term debt	12	**(6,705)**	(11,507)
Repayment of non-competes payable	12	**(1,745)**	(2,156)
Dividends on common shares		**(33,290)**	(30,504)
Repurchase of common shares		**(4,038)**	–
Proceeds from issuance of common shares		**1,330**	1,301
		(25,961)	(239,924)
Investing activities			
Increase in other assets		**(836)**	(710)
Business acquisitions	4	**(54,491)**	(5,792)
Addition of intangible assets		**(4,028)**	(2,080)
Purchase of property, plant and equipment		**(51,568)**	(50,572)
Proceeds on disposal of assets		**2,390**	676
		(108,533)	(58,478)
Net change in cash and cash equivalents during the year		**(6,430)**	2,711
Cash and cash equivalents – Beginning of year		**6,430**	3,719
Cash and cash equivalents – End of year		**–**	6,430

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

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

1 DESCRIPTION OF THE BUSINESS

Stella-Jones Inc. (the "Company") is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. 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 ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I – Accounting.

These consolidated financial statements were approved by the Board of Directors on March 14, 2019.

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, except for the newly adopted standards.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company owns 100% of the equity interests of its subsidiaries. The significant subsidiaries are as follows:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. ("McFarland")	Stella-Jones Corporation	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Stella-Jones CDN Finance Inc.	Stella-Jones Inc.	Canada
Stella-Jones U.S. Finance II Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. II LLC	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. Finance III Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. III LLC	Stella-Jones U.S. Holding Corporation	United States
Kisatchie Midnight Express, L.L.C.	McFarland Cascade Holdings, Inc.	United States
Lufkin Creosoting Co., Inc.	McFarland Cascade Holdings, Inc.	United States

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 group. 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 group'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 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 (gains), net, except for qualifying cash flow hedges which are recognized in other comprehensive income and deferred in accumulated other comprehensive income in shareholders' equity.

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 (gains), net, except for foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment, which are recognized in other comprehensive income.

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 entities that have a functional currency different from that of the Company are translated using the rate in effect at the 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 financial position rate.

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 in other comprehensive income to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income. 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.

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Company has adopted IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which resulted in changes in accounting policies.

In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively.

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 twelve-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. Accumulated 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 significant 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 twelve-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.

A receivable is recognized when control of the Products is transferred to the customer because it is at this point in time that the consideration becomes unconditional since only the passage of time remains before the payment is due.

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 one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less credit loss provision.

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, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

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.

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

Standing timber costs are recorded at cost less accumulated amortization and impairment. Amortization is provided on the basis of timber volumes harvested. In Canada, the Company has perpetual cutting rights where planning and site preparation costs for specific geographical areas are capitalized until the harvest process can begin. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the specific area.

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 forty-year period and are applied against the historical cost.

The amortization expense is included in cost of sales 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

In the context of an acquisition, goodwill represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non controlling interest in the acquiree at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration, except goodwill.

Non-financial assets

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 subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose 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 at each reporting date.

Leases

The Company leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 twelve 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 (gains), 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 period'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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee future benefits

Other post-retirement benefit programs

The Company provides other post-retirement healthcare 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

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.

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 recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Share-based compensation and other 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 as consideration for equity instruments of the Company or cash payments.

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 charged to operations 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 restricted stock units ("RSUs") and measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expenses are recognized in the consolidated statements of income over the vesting periods. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

IFRS 9, *Financial instruments* replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies applied retrospectively.

The Company recognizes a financial asset or a financial liability in its 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.

When, and only when, 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.

Financial liabilities

The Company's 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 investment in debt securities carried at amortized cost and fair value through other comprehensive income. 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, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 from its Canadian-based operations. 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.

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 income (expenses).

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 equity owners 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.

Change in accounting policies
The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 15 – Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. Note 2 provides a summary of the new revenue recognition accounting policy that was implemented retrospectively on January 1, 2018. The adoption of this new standard had no significant impact on the Company's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 – Financial Instruments

The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. Note 2 provides a summary of the new financial instruments accounting policy that was implemented retrospectively on January 1, 2018. The adoption of this new standard had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The standard supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019.

Under the new standard, the Company will recognize, in the statement of financial position, assets (right to use the leased assets) totalling approximately $119,000, equivalent to the discounted cash flows of the future minimum payments, and corresponding financial liabilities. The assets will be depreciated over the duration of the lease agreements, which has a weighted average of 78 months. The liabilities will be depleted upon contractual payment to the lessors and a corresponding financing expense will be recorded to the consolidated statement of income. The Company is currently assessing the impact of the new standard on its net income.

The Company will adopt IFRS 16 for its fiscal year beginning January 1, 2019 retrospectively without restatement of comparative amounts and will use the exemptions for short-term leases and leases for which the underlying asset is of low value.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- most likely amount: single most likely amount in a range of possible outcomes;
- expected value: sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company will not early adopt IFRIC 23 and does not expect a significant impact.

IFRS 3 – Business Combinations

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of 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, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition and impairment of long-lived assets. Management also makes estimates and assumptions in the context of business combination mainly with sale 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.

4 BUSINESS ACQUISITIONS

a) On April 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Wood Preservers Incorporated ("WP"), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation pilings and treated wood utility poles.

Total cash outlay associated with the acquisition was approximately $27,506 (US$21,609), excluding acquisition costs of approximately $423 recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities. The consideration transferred is also comprised of an unsecured promissory note bearing no interest and payable annually on the anniversary of the transaction in six instalments of US$500. This unsecured promissory note was recorded at a fair value of $3,339 (US$2,623), using an effective interest rate of 4.17%.

The following table is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	3,923
Inventories	8,485
Property, plant and equipment	18,212
Customer relationships	242
Goodwill	1,061
	31,923
Liabilities assumed	
Deferred income tax liabilities	424
Total net assets acquired and liabilities assumed	**31,499**
Consideration transferred	
Cash	27,506
Consideration payable	654
Unsecured promissory note	3,339
Consideration transferred	**31,499**

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 4.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and is deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from April 9, 2018 to December 31, 2018, sales and net income for the Warsaw plant amounted to $28,760 and $1,859, respectively. Pro forma information for the twelve-month period ended December 31, 2018, had the WP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first three months of the year.

b) On February 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Prairie Forest Products ("PFP"), a division of Prendiville Industries Ltd., located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures treated wood utility poles as well as treated residential lumber.

Total cash outlay associated with the acquisition was approximately $26,985 excluding acquisition costs of approximately $425 of which $159 and $266 were recognized respectively in the 2017 and 2018 consolidated statements of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

The following table is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination.

	$
Assets acquired	
Inventories	10,536
Property, plant and equipment	7,763
Customer relationships	5,880
Goodwill	3,995
Deferred income tax assets	229
	28,403
Liabilities assumed	
Site remediation provision	1,418
Total net assets acquired and liabilities assumed	**26,985**
Consideration transferred	
Cash	26,985
Consideration transferred	**26,985**

The Company's valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 10.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and is deductible for Canadian tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

4 BUSINESS ACQUISITIONS (CONTINUED)

In the period from February 9, 2018 to December 31, 2018, sales and net income for the Neepawa plant amounted to $31,657 and $890, respectively. Pro forma information for the twelve-month period ended December 31, 2018, had the PFP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first month of the year.

5 ACCOUNTS RECEIVABLE

	Note	2018	2017
		$	$
Trade receivables		**184,376**	159,964
Less: Credit loss provision		**(2,209)**	(991)
Trade receivables – net		**182,167**	158,973
Amounts receivable from related parties	20	**454**	–
Other receivables		**9,759**	4,485
		192,380	163,458

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

	2018	2017
	$	$
Current	**113,783**	98,355
Past due 1-30 days	**51,214**	43,416
Past due 31-60 days	**11,251**	9,230
Past due more than 60 days	**8,128**	8,963
	184,376	159,964

6 INVENTORIES

	2018	2017
	$	$
Raw materials	**516,742**	423,312
Finished goods	**321,816**	295,150
	838,558	718,462

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Production equipment	Rolling stock	Others	Total
	$	$	$	$	$	$
As at January 1, 2017						
Cost	45,981	113,768	356,892	29,815	12,584	559,040
Accumulated depreciation	–	(16,542)	(64,602)	(12,901)	(6,404)	(100,449)
Net book amount	**45,981**	**97,226**	**292,290**	**16,914**	**6,180**	**458,591**
Year ended December 31, 2017						
Opening net book amount	45,981	97,226	292,290	16,914	6,180	458,591
Business acquisitions	204	941	3,353	301	9	4,808
Additions	4,384	4,250	35,337	1,130	2,663	47,764
Disposals	(143)	(235)	(998)	(629)	(4)	(2,009)
Depreciation	–	(3,066)	(10,231)	(4,276)	(1,505)	(19,078)
Exchange differences	(1,974)	(5,516)	(15,343)	(884)	(303)	(24,020)
Closing net book amount	48,452	93,600	304,408	12,556	7,040	466,056
As at December 31, 2017						
Cost	48,452	112,272	376,203	27,944	14,762	579,633
Accumulated depreciation	–	(18,672)	(71,795)	(15,388)	(7,722)	(113,577)
Net book amount	**48,452**	**93,600**	**304,408**	**12,556**	**7,040**	**466,056**
Year ended December 31, 2018						
Opening net book amount	48,452	93,600	304,408	12,556	7,040	466,056
Business acquisitions	1,121	7,823	12,797	4,117	117	25,975
Additions	1,630	3,165	43,919	669	1,031	50,414
Disposals	(1,622)	–	(478)	(853)	(3)	(2,956)
Depreciation	–	(3,406)	(12,260)	(4,272)	(1,148)	(21,086)
Exchange differences	2,618	7,416	21,386	1,189	773	33,382
Closing net book amount	52,199	108,598	369,772	13,406	7,810	551,785
As at December 31, 2018						
Cost	52,199	131,933	457,904	32,998	16,959	691,993
Accumulated depreciation	–	(23,335)	(88,132)	(19,592)	(9,149)	(140,208)
Net book amount	**52,199**	**108,598**	**369,772**	**13,406**	**7,810**	**551,785**

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

8 INTANGIBLE ASSETS AND GOODWILL

The intangible assets include customer relationships, non-compete agreements, cutting rights, standing timber, a favourable land lease agreement, software and a creosote registration.

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.

The acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate of 2.95%.

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 based on financial budgets covering a five-year period that are based on the latest 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	2018	2017
	$	$
Plants specialized in the treatment of utility poles and residential lumber	**144,546**	128,898
Plants specialized in the treatment of railway ties	**153,724**	141,363
	298,270	270,261

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 import 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. Moreover, when procuring creosote on the market, the import feature of the registration enables the Company to negotiate better pricing.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest forecasts 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 thousands of Canadian dollars, except as otherwise indicated)

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

	Intangible assets							
	Cutting rights	Customer relationships	Non-compete agreements	Software	Others	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$	$
As at January 1, 2017								
Cost	6,821	157,626	17,413	7,140	7,903	41,933	238,836	287,367
Accumulated amortization	(1,455)	(66,208)	(10,764)	(2,081)	(5,955)	–	(86,463)	–
Net book amount	**5,366**	**91,418**	**6,649**	**5,059**	**1,948**	**41,933**	**152,373**	**287,367**
Year ended December 31, 2017								
Opening net book balance	5,366	91,418	6,649	5,059	1,948	41,933	152,373	287,367
Business acquisitions	–	–	–	–	–	–	–	844
Additions	–	–	–	1,603	477	–	2,080	–
Amortization	(176)	(13,445)	(1,839)	(677)	(519)	–	(16,656)	–
Exchange differences	–	(4,255)	(368)	–	(70)	(2,755)	(7,448)	(17,950)
Closing net book amount	5,190	73,718	4,442	5,985	1,836	39,178	130,349	270,261
As at December 31, 2017								
Cost	6,821	148,740	16,270	8,743	8,310	39,178	228,062	270,261
Accumulated amortization	(1,631)	(75,022)	(11,828)	(2,758)	(6,474)	–	(97,713)	–
Net book amount	**5,190**	**73,718**	**4,442**	**5,985**	**1,836**	**39,178**	**130,349**	**270,261**
Year ended December 31, 2018								
Opening net book balance	5,190	73,718	4,442	5,985	1,836	39,178	130,349	270,261
Business acquisitions	–	6,122	–	–	–	–	6,122	5,599
Additions	–	–	–	869	3,159	–	4,028	–
Amortization	(256)	(12,193)	(1,612)	(831)	(2,124)	–	(17,016)	–
Exchange differences	–	4,363	298	–	88	3,426	8,175	22,410
Closing net book amount	4,934	72,010	3,128	6,023	2,959	42,604	131,658	298,270
As at December 31, 2018								
Cost	6,821	165,931	17,692	9,612	11,557	42,604	254,217	298,270
Accumulated amortization	(1,887)	(93,921)	(14,564)	(3,589)	(8,598)	–	(122,559)	–
Net book amount	**4,934**	**72,010**	**3,128**	**6,023**	**2,959**	**42,604**	**131,658**	**298,270**

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2018	2017
		$	$
Trade payables		**53,021**	41,373
Amounts due to related parties	20	**54**	380
Accrued expenses		**60,815**	51,761
Other payables		**19,369**	17,692
		133,259	111,206

10 LONG-TERM DEBT

	Note	2018	2017
		$	$
Syndicated credit facilities	10(a)	**273,055**	232,083
Unsecured senior notes	10(b)	**204,630**	188,176
Unsecured promissory notes	10(c)	**17,930**	15,944
Secured promissory note	10(d)	**7,321**	7,422
Unsecured promissory note	10(e)	**3,936**	7,000
Unsecured promissory note	10(f)	**3,596**	–
Secured promissory note	10(g)	**1,540**	2,278
Unsecured promissory note	10(h)	**1,506**	2,008
Unsecured promissory note	10(i)	**572**	844
Unsecured promissory note	10(j)	**–**	586
		514,086	456,341
Deferred financing costs		**(605)**	(701)
		513,481	455,640
Less: Current portion of long-term debt		**9,810**	5,791
Less: Current portion of deferred financing costs		**(96)**	(96)
Total current portion of long-term debt		**9,714**	5,695
		503,767	449,945

10 LONG-TERM DEBT (CONTINUED)

a) The Company's syndicated credit facilities consist of (i) an unsecured revolving facility in the amount of US$325,000 made available to the Company and SJ Holding (the "Borrowers"), a wholly-owned subsidiary of the Company until February 27, 2023 and (ii) an unsecured term facility in the amount of US$100,000 made available to the Company until February 26, 2019. The syndicated credit facilities are made available to the Borrowers by a syndicate of lenders under a fifth amended and restated credit agreement (the "Credit Agreement") dated as of February 26, 2016, as amended on May 18, 2016 and March 15, 2018. As at December 31, 2018 the syndicated credit facilities provided financing up to US$425,000 of which US$213,729 was available. Additionally, the Credit Agreement makes available an accordion option whereas upon request, the Company could increase the revolving facility by US$350,000.

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 with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on the Credit Agreement's pricing grid. The interest rate margin with respect to BAs, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on the Credit Agreement's pricing grid.

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, 2018 are provided in Note 18, Financial instruments.

As at December 31, 2018, borrowings by Canadian entities denominated in U.S. dollars represented $170,525 (US$125,000) and the total amount was designated as a hedge of net investment in foreign operations.

The Company has demand loan agreements, with two banks participating in the syndicated credit facilities, providing financing up to US$50,000 under terms and conditions similar to those under the Credit Agreement. This indebtedness, if required by the Company, will be presented under short term liabilities as the banks have the option to request reimbursement of their loans at any time. As at December 31, 2018 no amounts were drawn under the demand loan facilities.

In order to maintain the syndicated credit facilities and the demand loans in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios consisting of 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, 2018, the Company was in full compliance with these covenants, requirements and ratios. Additionally, the Credit Agreement prohibits the Company from paying dividends aggregating in any one year in excess of 50.00% of the Company's consolidated net income for the preceding year if the net funded debt to EBITDA ratio is greater than 3.25:1. In the case where the net funded debt to EBITDA ratio is equal or lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of the Credit Agreement.

b) On January 17, 2017, the Company concluded a US$150,000 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$75,000 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$75,000 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. The notes were designated as hedges of net investment in foreign operations.

In order to maintain the senior notes in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the net funded debt to EBITDA ratio of not more than 3.50:1, the 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, 2018, the Company was in full compliance with these covenants, requirements and ratios.

10 LONG-TERM DEBT (CONTINUED)

c) Pursuant to two business acquisitions dated June 3, 2016, the Company issued two unsecured promissory notes totalling $18,256 (US$14,104) bearing interest at 1.41%. The notes are payable in three instalments, including interest, totalling US$3,000 in June 2019 and 2020 and US$9,000 in June 2021. The notes were initially recorded at a fair value totalling $15,676 (US$12,112) 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.

d) As part of a business acquisition dated June 3, 2016, the Company assumed a promissory note bearing interest at 5.76%, secured by the land of the Pineville facility and having a balance of US$5,685. The note is payable in quarterly instalments, including interest, of US$163, up to July 2028. The note was initially recorded at a fair value of $8,775 (US$6,780) 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.

e) Pursuant to a business acquisition dated May 22, 2014, the Company issued an unsecured promissory note of $15,466 (US$14,169) bearing interest at 1.93%. The note is payable in five equal annual instalments, including interest, of US$3,000, up to May 2019. The note was initially recorded at a fair value of $13,426 (US$12,301) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

f) As part of WP acquisition completed on April 9, 2018, the Company recorded an unsecured promissory note of $3,596 (US$3,000) bearing no interest. The unsecured promissory note is payable annually on the anniversary of the transaction in six instalments of US$500, until April 2024 and was recorded at a fair value of $3,339 (US$2,623) using an effective interest rate of 4.17%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

g) Pursuant to a business acquisition completed on October 1, 2015, the Company recorded a secured promissory note of $5,800 bearing no interest. The secured promissory note is payable in five annual instalments of $2,900 in October 2016, $500 in October 2017 and $800 in October 2018, 2019 and 2020, respectively. The secured promissory note was initially recorded at a fair value of $5,430 using an interest rate of 2.91%. 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 secured promissory note is guaranteed by irrevocable letters of credit in the same amount and with the same maturity date as the future payments.

h) Pursuant to a business acquisition dated September 1, 2015, the Company issued an unsecured promissory note of $3,993 (US$3,000) bearing no interest. The note is payable in five equal annual instalments of US$600, up to September 2020. The note was initially recorded at a fair value of $3,275 (US$2,460) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

i) As part of the WPI acquisition completed on December 19, 2017, the Company recorded an unsecured promissory note of $900 bearing no interest. The unsecured promissory note is payable in quarterly installments of $75 in March, June, September and December of each year, up to December 2020. The unsecured promissory note was initially recorded at a fair value of $844 using an effective interest rate of 3.29%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

j) Pursuant to a business acquisition completed on December 4, 2015, the Company issued an unsecured promissory note of $1,939 (US$1,451) bearing interest at 1.68%. The note was payable in three equal annual instalments, including interest, of US$500, up to December 2018. The note was initially recorded at a fair value of $1,754 (US$1,312) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note was being accreted on an effective yield basis over its term. This debt was reimbursed in 2018 in accordance with the agreement.

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10 LONG-TERM DEBT (CONTINUED)

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

	Principal
	$
2019	10,433
2020	7,002
2021	13,355
2022	1,298
2023	274,390
Thereafter	208,975
	515,453
Fair value adjustment	(1,367)
	514,086

l) The aggregate fair value of the Company's long-term debt was estimated at $501,950 as at December 31, 2018 (2017 – $453,478) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions			Other long-term liabilities			
	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Grand total
	$	$	$	$	$	$	$
Balance as at January 1, 2017	16,487	3,664	20,151	2,956	7,963	10,919	31,070
Additions	911	1,786	2,697	727	–	727	3,424
Business acquisitions	58	–	58	–	–	–	58
Provision reversal	(2,331)	(106)	(2,437)	–	–	–	(2,437)
Payments	(2,183)	(1,504)	(3,687)	(1,435)	(2,156)	(3,591)	(7,278)
Interest accretion	–	–	–	–	155	155	155
Exchange differences	(898)	(134)	(1,032)	–	(454)	(454)	(1,486)
Balance as at December 31, 2017	12,044	3,706	15,750	2,248	5,508	7,756	23,506
Additions	1,519	506	2,025	5,597	–	5,597	7,622
Business acquisitions	1,418	–	1,418	–	–	–	1,418
Provision reversal	(830)	(523)	(1,353)	–	–	–	(1,353)
Payments	(2,867)	(537)	(3,404)	(1,539)	(1,745)	(3,284)	(6,688)
Interest accretion	–	–	–	–	124	124	124
Exchange differences	812	142	954	–	392	392	1,346
Balance as at December 31, 2018	**12,096**	**3,294**	**15,390**	**6,306**	**4,279**	**10,585**	**25,975**

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Analysis of provisions and other long-term liabilities:

	2018	2017
	$	$
Current		
Provisions	**9,294**	9,141
Other long-term liabilities	**2,722**	2,973
Total current	**12,016**	12,114
Non-current		
Provisions	**6,095**	6,609
Other long-term liabilities	**7,864**	4,783
Total non-current	**13,959**	11,392
	25,975	23,506

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from one to fifteen years. These discounted cash flows have been estimated using pre-tax rates between 3.24% and 3.45% that reflect current market assessment of the time value of money and the risk specific to the obligation.

As of December 31, 2018, a total site remediation provision of $12,096 (2017 — $12,044) was recorded to support the ongoing compliance efforts.

Other long-term liabilities

Restricted stock units

The Company has a long-term incentive plan, for certain executives and key employees, under which grants of RSUs are permitted upon the Company attaining a minimum 12.50% return on capital employed. When this condition is met, the number of RSUs granted is based on a percentage of the individual's salary, divided by the average trading price of the Company's common shares on the TSX for the five days immediately preceding the grant date.

The RSUs are full-value phantom shares payable in cash on the third anniversary of their date of grant, provided the individual is still employed by the Company. The amount to be paid is determined by multiplying the number of RSUs by the six-month average trading price of the Company's common shares on the TSX immediately preceding the anniversary.

The RSUs granted on March 16, 2015 reached their third year anniversary on March 16, 2018 and were fully paid.

On March 21, 2016 and March 19, 2018, the Company granted a total of 47,667 RSUs to certain executives and key employees as part of the long-term incentive plan. No RSUs were granted in 2017.

On March 13, 2018, the Remuneration Committee and Board of Directors departed from the RSU award calculation and granted a special long-term incentive to senior management totalling 200,000 RSUs. Subsequently, on May 7, 2018, a special long-term incentive award of 7,632 RSUs was given to a newly added member of the senior management team.

On May 2, 2018, as an incentive to continue on as President and Chief Executive Officer ("President and CEO") of the Company, the Company granted 200,000 RSUs to the President and CEO, with an effective grant date of May 7, 2018. Vesting dates are May 7, 2019 (for the first 60,000 RSUs); May 7, 2020 (for the second 60,000 RSUs) and May 7, 2021 (for the final 80,000 RSUs), subject to additional terms and conditions relating to resignation, disability, death and others. No further RSUs will be granted to the President and CEO prior and up to May 7, 2021, the final vesting date.

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

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Other long-term liabilities (continued)

Restricted stock units (continued)

On May 6, 2013, as part of a five-year incentive agreement and pursuant to its long-term incentive plan, the Company granted 400,000 RSUs to the President and CEO, with a vesting date of May 6, 2016. The compensation expense related to the five-year agreement was recognized in the consolidated statement of income over a five-year period. On May 6, 2016, the full amount of $19,106 was paid under these RSUs. The difference between the amount paid and the expense recognized in the consolidated statement of income has been recorded as a prepaid expense and amortized over the remaining two-year period. As of December 31, 2018, the prepaid balance was nil (2017 — $1,592).

12 CASH FLOW INFORMATION

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2017 and 2018:

	Liabilities from financing activities			
	Long-term debt	Syndicated credit facilities	Non-competes payable	Total
	$	$	$	$
Balance as at January 1, 2017	(47,898)	(646,487)	(7,963)	(702,348)
Cash flows	(184,363)	391,796	2,156	209,589
Foreign exchange adjustments	8,704	22,608	454	31,766
Other non-cash movements	–	–	(155)	(155)
Balance as at December 31, 2017	**(223,557)**	**(232,083)**	**(5,508)**	**(461,148)**
Cash flows	6,705	(18,742)	1,745	(10,292)
Foreign exchange adjustments	(22,740)	(22,230)	(392)	(45,362)
Other non-cash movements	(833)	–	(124)	(957)
Balance as at December 31, 2018	**(240,425)**	**(273,055)**	**(4,279)**	**(517,759)**

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

13 CAPITAL STOCK

	2018	2017
Number of common shares outstanding – Beginning of year*	**69,342**	69,303
Stock option plan*	**–**	10
Employee share purchase plans*	**31**	29
Repurchase of common shares*	**(105)**	–
Number of common shares outstanding – End of year*	**69,268**	69,342

* Number of common shares is presented in thousands.

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:

	2018	2017
Net income applicable to common shares	**$ 137,597**	$ 167,889
Weighted average number of common shares outstanding*	**69,352**	69,324
Effect of dilutive stock options*	**8**	9
Weighted average number of diluted common shares outstanding*	**69,360**	69,333
Basic earnings per common share**	**$ 1.98**	$ 2.42
Diluted earnings per common share**	**$ 1.98**	$ 2.42

* Number of shares is presented in thousands.
** Basic and diluted earnings per common share are presented in dollars per share.

c) Normal Course Issuer Bid
On December 18, 2018 the TSX accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid. The Normal Course Issuer Bid was initiated for a twelve-month period starting on December 20, 2018. During this period, the Company may purchase for cancellation up to 3,000,000 common shares. As at December 31, 2018, the Company repurchased 105,000 common shares for cancellation in consideration of $4,038 representing an average price of $38.15 per common share. As at December 31, 2018, the Company had unsettled transactions to repurchase 42,000 common shares for a cash consideration of $1,627 representing an average price of $39.05 per common share. As of December 31, 2018, the Company recorded a financial liability with an offset amount in equity in the amount of $1,627. The settlement of these transactions occurred in early January 2019 and the cancellation of the corresponding common share was done at the same time.

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 stated purpose of the Plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by directors, officers and employees of the Company.

The aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5.00% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. 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. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

13 CAPITAL STOCK (CONTINUED)

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

	2018		2017	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		$		$
Outstanding – Beginning of year	**45**	**40.05**	55	34.57
Exercised	**–**	**–**	(10)	9.90
Granted	**–**	**–**	–	–
Outstanding – End of year	**45**	**40.05**	45	40.05
Options exercisable – End of year	**39**	**38.67**	33	36.79

The following options were outstanding under the Plan as at December 31, 2018:

	Options outstanding		Options exercisable		
Date granted	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		$		$	
May 2013	15	22.13	15	22.13	May 2023
November 2015	30	49.01	24	49.01	November 2025
	45		**39**		

* Number of options is presented in thousands.
** Exercise price is presented in dollars per option.

e) Share-based compensation
The Company records expenses related to the fair value of the stock options granted under the Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to income over the vesting period. No options were granted during 2018. The 2018 expense recorded for share-based compensation amortized to earnings was $50 (2017 – $87).

f) Employee share purchase plans
The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 1,000,000.

Under the first plan, 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 eighteen 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 2018, 17,591 common shares (2017 – 15,621) were issued to Canadian resident employees at an average price of $37.02 per share (2017 – $39.52).

Under the second plan, 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 eighteen 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 2018, 13,889 common shares (2017 – 13,167) were issued to U.S. resident employees at an average price of $40.11 per share (2017 – $41.65).

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

14 EXPENSES BY NATURE

	2018	2017
	$	$
Raw materials and consumables	**1,537,542**	1,324,289
Employee benefit expenses	**143,473**	135,302
Depreciation and amortization	**38,102**	35,734
Other expenses incurred in manufacturing process	**43,746**	54,148
Freight	**105,513**	91,430
Other expenses	**49,216**	37,851
	1,917,592	1,678,754

	2018	2017
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**127,587**	123,355
Share options granted to directors and employees	**50**	87
RSUs	**7,189**	4,549
Pension costs	**2,259**	1,990
Group registered retirement savings plans	**6,388**	5,321
	143,473	135,302

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

	2018	2017
	$	$
Financial expenses		
Interest on syndicated credit facilities	**10,168**	9,596
Interest on promissory notes and non-compete agreements	**1,797**	2,613
Interest on unsecured senior notes	**7,137**	6,800
	19,102	19,009

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

15 INCOME TAXES

	2018	2017
	$	$
Current tax		
Current tax on income for the year	**38,710**	40,450
Adjustments in respect of prior years	**308**	1,116
Total current tax	**39,018**	41,566
Deferred tax		
Origination and reversal of temporary differences	**10,965**	12,379
Impact of change in tax rate	**(191)**	(30,094)
Adjustments in respect of prior years	**(190)**	(3,361)
Total deferred tax	**10,584**	(21,076)
Income tax expense	**49,602**	20,490

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities as follows:

	2018	2017
	$	$
Income before income tax	**187,199**	188,379
Tax calculated at domestic tax rates of 26.46% (2017 – 26.24%) applicable to income in the respective countries	**49,533**	49,431
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**454**	12,930
Income not subject to tax	**(5,368)**	(7,759)
Expenses not deductible for tax purposes	**5,062**	409
Remeasurement of deferred tax – change in tax rate	**(191)**	(30,094)
Adjustments in respect of prior years	**118**	(2,245)
Exchange revaluation of deferred tax	**(6)**	(462)
Manufacturing and processing tax credit	**–**	(1,720)
Income tax expense	**49,602**	20,490

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

15 INCOME TAXES (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018	2017
	$	$
Deferred tax assets		
To be recovered after more than 12 months	**2,894**	5,554
To be recovered within 12 months	**11,454**	8,243
Deferred tax liabilities		
To be reversed after more than 12 months	**(106,905)**	(86,081)
To be reversed within 12 months	**–**	(124)
Deferred tax liability, net	**(92,557)**	(72,408)

The gross movement on the deferred income tax account is as follows:

	2018	2017
	$	$
As at January 1	**(72,408)**	(101,171)
Recognized in the statement of income	**(10,584)**	21,076
Recognized in other comprehensive income	**(3,935)**	2,697
Business acquisitions	**(2)**	140
Exchange differences	**(5,628)**	4,850
As at December 31	**(92,557)**	(72,408)

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

15 INCOME TAXES (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Reserves	Deferred pension benefits	Cumulative losses	Unrealized foreign exchange on debts and translation of foreign operations	Others	Total
	$	$	$	$	$	$
Deferred tax assets						
As at January 1, 2017	12,480	2,165	2,232	–	96	16,973
Recognized in the statement of income	(3,606)	112	(2,232)	2,231	(96)	(3,591)
Recognized in other comprehensive income	–	(246)	–	1,150	–	904
Business acquisitions	180	–	–	–	–	180
Exchange differences	(589)	(80)	–	–	–	(669)
As at December 31, 2017	8,465	1,951	–	3,381	–	13,797
Recognized in the statement of income	120	165	–	(17)	2,152	2,420
Recognized in other comprehensive income	–	(282)	–	(3,270)	–	(3,552)
Business acquisitions	1,094	–	–	–	–	1,094
Exchange differences	615	68	–	(94)	–	589
As at December 31, 2018	**10,294**	**1,902**	**–**	**–**	**2,152**	**14,348**

	Property, plant and equipment	Intangible assets	Unrealized foreign exchange on debts and translation of foreign operations	Others	Total
	$	$	$	$	$
Deferred tax liabilities					
As at January 1, 2017	(79,785)	(34,330)	(2,049)	(1,982)	(118,146)
Recognized in the statement of income	15,684	8,371	–	612	24,667
Recognized in other comprehensive income	–	–	2,049	(256)	1,793
Business acquisitions	(40)	–	–	–	(40)
Exchange differences	4,272	1,524	–	(275)	5,521
As at December 31, 2017	(59,869)	(24,435)	–	(1,901)	(86,205)
Recognized in the statement of income	(13,158)	35	–	119	(13,004)
Recognized in other comprehensive income	–	–	–	(383)	(383)
Business acquisitions	(1,096)	–	–	–	(1,096)
Exchange differences	(4,610)	(1,607)	–	–	(6,217)
As at December 31, 2018	**(78,733)**	**(26,007)**	**–**	**(2,165)**	**(106,905)**

As of December 31, 2018, the Company did not recognize deferred income tax assets of $1,925 (2017 – nil) in respect of capital losses amounting to $14,579 (2017 – nil) 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 $461,407 as at December 31, 2018 (2017 – $398,767).

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

16 EMPLOYEE FUTURE BENEFITS

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

For its U.S. operations, the Company's wholly-owned subsidiary, McFarland, contributes to two defined benefit pension plans.

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 6.00% of the employee's annual base salary. The recognized costs for employee future benefits were as follows:

	2018	2017
	$	$
Post-retirement benefits	**167**	156
Defined benefit pension plans	**1,467**	1,411
Contributions to multi-employer plan	**625**	423
Contributions to group registered retirement savings plans	**6,388**	5,321

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

	2018	2017
	$	$
Liabilities		
Accrued benefit liability included in employee future benefits	**(5,185)**	(5,174)
Accrued benefit obligation, included in employee future benefits	**(2,208)**	(2,501)
	(7,393)	(7,675)

a) The post-retirement benefits program is not funded and, since June 1, 2011, this program is closed to new participants. For this program, the Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as at December 1, 2018, and the next required valuation will be as at December 1, 2021.

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following information as established by independent actuaries pertains to the Company's post-retirement benefits program:

	2018	2017
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**2,501**	2,219
Current service cost	**80**	68
Interest cost	**87**	88
Benefits payments	**(71)**	(62)
Remeasurement adjustments		
Plan experience	**(237)**	–
Changes in financial assumptions	**(152)**	188
Balance – End of year	**2,208**	2,501
Plan assets		
Employer's contributions	**71**	62
Benefits paid	**(71)**	(62)
Fair value – End of year	**–**	–
Accrued benefit obligation	**2,208**	2,501

The significant assumptions used are as follows:

	2018	2017
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.90**	3.40
Benefit costs for the year ended December 31		
Discount rate	**3.40**	3.90

For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2015. This rate is assumed to decrease gradually by 0.38% per year, to reach 5.00% in 2020. An increase or decrease of 1.00% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	$
Impact on accrued benefit obligation	27	(24)
Impact on benefit costs	3	(2)

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The items of the Company's post-retirement benefits program costs recognized during the year are as follows:

	2018	2017
	$	$
Current service cost	**80**	68
Interest cost	**87**	88
Post-retirement benefits program costs recognized	**167**	156

Consolidated statement of comprehensive income	2018	2017
	$	$
Year ended December 31		
Actuarial gains (losses)	**389**	(188)
Total recognized in other comprehensive income before income tax	**389**	(188)

Accumulated actuarial gains (losses) recognized in other comprehensive income	2018	2017
	$	$
Balance of actuarial losses as at January 1	**(352)**	(228)
Net actuarial gains (losses) recognized in the year, net of tax	**286**	(124)
Balance of actuarial losses as at December 31	**(66)**	(352)

b) The Company's Canadian defined benefit pension plans base the benefits on the length of service and final average earnings. The McFarland defined benefit pension plans base the benefits on the length of service and flat dollar amounts payable monthly. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

Actuarial valuations are updated every three years, and the latest valuations performed for the five existing pension plans are as follows:

		Date of last actuarial valuation
Plan 1	Canadian pension plan - Closed to new participants	December 31, 2016
Plan 2	Canadian pension plan - Closed to new participants	December 31, 2017
Plan 3	Canadian pension plan - Closed to new participants	December 31, 2018
Plan 4	American pension plan - Closed to new participants	December 31, 2018
Plan 5	American pension plan	December 31, 2018

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Information about the Company's defined benefit pension plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2018	2017
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**29,402**	27,440
Current service cost	**1,038**	1,025
Interest cost	**1,055**	1,076
Benefits payments	**(1,406)**	(821)
Remeasurement adjustments		
Plan experience	**20**	(947)
Changes in demographic assumptions	**(31)**	330
Changes in financial assumptions	**(1,726)**	1,949
Exchange difference	**861**	(650)
Balance – End of year	**29,213**	29,402
Plan assets		
Fair value – Beginning of year	**24,228**	22,906
Interest income on plan assets	**590**	665
Return on plan asset excluding interest income	**(738)**	513
Employer's contributions	**933**	1,102
Employee's contributions	**36**	35
Effect of asset ceiling	**(193)**	263
Benefits paid	**(1,406)**	(821)
Exchange difference	**578**	(435)
Fair value – End of year	**24,028**	24,228
Accrued benefit liability	**(5,185)**	(5,174)

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of benefit plans that are not fully funded:

	2018	2017
	$	$
Accrued benefit obligation	**(29,140)**	(13,309)
Fair value of plan assets	**21,384**	7,652
Funded status – Plan deficit	**(7,756)**	(5,657)

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The percentage of plan assets consists of the following for the year ended December 31:

	2018	2017
	%	%
Listed equity securities	**27.00**	31.00
Listed debt securities	**42.00**	42.00
Guaranteed insurance contracts	**30.00**	26.00
Short-term investments and cash	**1.00**	1.00
	100.00	100.00

The significant weighted average assumptions used are as follows:

	2018	2017
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.90**	3.50
Rate of compensation increase	**3.25**	3.25
Benefit costs for the year ended December 31		
Discount rate	**3.50**	3.90

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

	2018	2017
	$	$
Current service cost, net of employee's contributions	**1,002**	1,000
Interest cost	**1,055**	1,076
Interest income on plan assets	**(590)**	(665)
Defined benefit plan expense	**1,467**	1,411

Expected contributions to the defined benefit pension plans for the year ending December 31, 2019 are $1,081.

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Consolidated statement of comprehensive income	2018	2017
	$	$
Year ended December 31		
Actuarial gains (losses)	**820**	(549)
Total recognized in other comprehensive income before income tax	**820**	(549)

Accumulated actuarial losses recognized in other comprehensive income	2018	2017
	$	$
Balance of actuarial losses as at January 1	**(4,012)**	(3,153)
Net actuarial gain (losses) recognized in the year, net of tax	**641**	(859)
Balance of actuarial losses as at December 31	**(3,371)**	(4,012)

17 COMMITMENTS AND CONTINGENCIES

a) The Company has issued guarantees amounting to $29,716 (2017 – $19,036) 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) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

	$
2019	30,236
2020	25,572
2021	21,366
2022	16,059
2023	10,091
Thereafter	29,451
	132,775

c) 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.

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

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 value of interest rate swap agreements, foreign exchange forward contract agreements and derivative commodity contracts have been recorded using mark-to-market information. The following table provides a summary of these fair values which are detailed further in this note:

	2018	**2017**
	$	$
Current assets		
Derivative commodity contracts	**–**	473
	–	473
Non-current assets		
Interest rate swap agreements	**7,545**	6,173
	7,545	6,173
Current liabilities		
Derivative commodity contracts	**4,381**	–
	4,381	–
Non-current liabilities		
Derivative commodity contracts	**3,748**	–
	3,748	–

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. At December 31, 2018, 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 equivalent, 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 with railroad companies, public service companies and utility and telecommunication companies 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.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Note 5 provides details on the receivable aging as well as on the credit loss provision for the years ended December 31, 2018 and 2017. The Company's largest customer had sales representing 16.60% of the total sales for the twelve-month period ending December 31, 2018 (2017 – 15.60%) and an account receivable balance of $5,678 as at December 31, 2018 (2017 – $6,152). The sales for this customer are included in the residential lumber product category.

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 (gain), net. The following table summarizes the derivative commodity contracts as at December 31, 2018 and 2017:

				2018
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	6,000,000*	January 2019	December 2019	US$2.23
Diesel and petroleum	6,000,000*	January 2020	December 2020	US$2.23

				2017
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.72
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.61

* Represents a volume evenly split throughout the year.

The fair value of the above derivative commodity hedges based on cash settlement requirements as at December 31, 2018 is a total liability of $8,129 of which $4,381 is recorded under current liabilities and $3,748 recorded under non-current liabilities (2017 – a current asset of $473) in the consolidated statement of financial position. The fair value of these hedge agreements was determined by obtaining mark-to-market values as at December 31, 2018 and 2017 from a third party. This type of measurement falls 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).

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 expenses 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 thousands of Canadian dollars, except as otherwise indicated)

18 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. 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 which can be used for working capital and general corporate requirements. As at December 31, 2018, an amount of $291,569 (US$213,729) (2017 - $354,489 (US$282,574)) was available under the Company's syndicated credit facilities. The following table details the maturities of the financial liabilities as at December 31:

2018

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	133,259	133,259	133,259	–	–	–
Long-term debt obligations	513,481	601,849	25,507	51,683	303,142	221,517
Derivative commodity contracts	8,129	8,354	4,108	4,246	–	–
Non-competes payable	4,279	4,570	1,603	2,967	–	–
	659,148	748,032	164,477	58,896	303,142	221,517

2017

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	111,206	111,206	111,206	–	–	–
Long-term debt obligations	455,640	538,383	20,067	42,321	265,193	210,802
Non-competes payable	5,508	5,896	1,694	2,948	1,254	–
	572,354	655,485	132,967	45,269	266,447	210,802

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.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

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 entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services 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, comprehensive income and equity for the years ended December 31, 2018 and 2017. 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, comprehensive income and equity:

	2018	2017
	$	$
Decrease (increase) of net income	**385**	(806)
Increase of equity	**37,895**	37,352

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:

	2018	2017
	$	$
Assets		
Cash	**–**	11,484
Accounts receivable	**900**	2,545
Inventories	**820**	–
	1,720	14,029
Liabilities		
Accounts payable and accrued liabilities	**5,566**	5,968
	5,566	5,968

The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 10).

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

As at December 31, 2018, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 96.00% (2017 – 100.00%) of the Company's long-term debt is at fixed rates.

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. 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 syndicated credit facilities defined in Note 10(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.00% increase in these rates on the closing annual balance of the syndicated credit facilities, for borrowings that have not been swapped, would have increased interest expense by $370 for the year ended December 31, 2018 (2017 – $146).

The following tables summarize the Company's interest rate swap agreements as at December 31:

					2018
Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent
		%			CA$
US$85,000	Syndicated credit facilities	1.68*	December 2015	April 2021	115,957
US$100,000	Syndicated credit facilities	1.06*	December 2017	December 2021	136,420

					2017
Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent
		%			CA$
US$85,000	Syndicated credit facilities	1.68*	December 2015	April 2021	106,633
US$100,000	Syndicated credit facilities	1.06*	December 2017	December 2021	125,450

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

The Company's interest rate swap agreements are designated as cash flow hedges. 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, 2018, all cash flow hedges were effective.

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2018 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2018 is a non-current asset of $7,545 recorded in the consolidated statement of financial position (2017 – a non-current asset of $6,173). A 10.00% decrease in interest rates as at December 31, 2018 would have reduced the net gain recognized in other comprehensive income by approximately $755 (2017 – $617). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

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

19 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company manages its capital structure and makes adjustments to it 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 of dividends paid to shareholders, return capital to shareholders, issue new shares, or acquire or sell assets to improve its financial performance and flexibility.

The Company's capital is composed of total debt, which includes bank indebtedness, and shareholders' equity, which includes capital stock.

	2018	**2017**
	$	$
Total debt	**513,481**	455,640
Shareholders' equity	**1,281,410**	1,115,545
Total capital	**1,794,891**	1,571,185
Total debt to total capitalization ratio	**0.29:1**	0.29:1

The Company's primary uses of capital are to finance non-cash working capital and capital expenditures for capacity expansion as well as acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its syndicated credit facilities. However, future corporate acquisitions may require new sources of financing.

The primary measure used by the Company to monitor its financial leverage is the total debt to total capitalization ratio, which it aims to maintain within a range of 0.20:1 to 0.50:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

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

20 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2018	2017
	$	$
Stella Jones International S.A.*		
Marketing and technical service fees paid	**–**	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	**62**	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	**499**	838

* As of December 31, 2017, Stella Jones International S.A. held, directly or indirectly, approximately 38.30% of the outstanding common shares of the Company. Pursuant to a secondary offering closed on February 21, 2018, the percentage of outstanding common shares held by Stella International S.A. was reduced to 31.10%. On August 14, 2018, Stella Jones International S.A. sold its remaining share ownership in the Company through a bought public offering and concurrent private placement.

** Stella International S.A. and James Jones & Sons Limited hold 51.00% and 49.00% of all voting shares of Stella Jones International S.A., respectively.

These transactions occurred in the normal course of operations and have been measured at fair value.

As at December 31, the consolidated statement of financial position includes the following amounts with related parties:

	2018	2017
	$	$
Accounts receivable from Stella Jones International S.A.	**454**	–
Accounts payable to Stella International S.A. and James Jones & Sons Limited	**–**	(25)
Accounts payable to Stella Jones International S.A.	**–**	(50)
Accounts payable to a firm in which a director of the Company is a partner	**(54)**	(305)
	400	(380)

b) 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:

	2018	2017
	$	$
Salaries, compensation and benefits	**5,010**	4,728
Share-based payments	**5,293**	4,063
	10,303	8,791

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

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 railway ties, utility poles, residential lumber and industrial products.

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

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

Sales attributed to countries based on location of customer are as follows:

	2018	2017
	$	$
Canada	**679,642**	561,905
U.S.	**1,444,251**	1,324,237
	2,123,893	1,886,142

Sales by product as at December 31 are as follows:

	2018	2017
	$	$
Pressure-treated wood		
Railway ties	**662,414**	651,549
Utility poles	**724,950**	653,946
Residential lumber	**474,680**	366,225
Industrial products	**109,035**	94,516
Logs and lumber	**152,814**	119,906
	2,123,893	1,886,142

December 31, 2018 and 2017
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

21 SEGMENT INFORMATION (CONTINUED)

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

	2018	2017
	$	$
Property, plant and equipment		
Canada	**124,246**	114,819
U.S.	**427,539**	351,237
	551,785	466,056
Intangible assets		
Canada	**33,977**	29,974
U.S.	**97,681**	100,375
	131,658	130,349
Goodwill		
Canada	**19,403**	14,864
U.S.	**278,867**	255,397
	298,270	270,261

22 SUBSEQUENT EVENTS

a) On January 14, 2019, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2024. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016 and March 15, 2018.

b) On March 14, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share payable on April 26, 2019 to shareholders of record at the close of business on April 5, 2019.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Katherine A. Lehman
Chair of the Board,
Stella-Jones Inc.
Managing Partner, Hilltop
Private Capital LLC
(Private equity firm)
New York, NY, USA
Director since October 2016

George J. Bunze, CPA, CMA (2)(3)(4)
Vice-Chairman and Director,
Kruger Inc.
(Manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirits products)
Montréal, Québec
Director since May 2001

Brian McManus
President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since June 2001

Nycol Pageau-Goyette (1) (2) (3) (4)
President, Pageau Goyette et associés limitée
(Management services firm)
Montréal, Québec
Director since July 1993

Karen Laflamme
FCPA, FCA, ASC (2)
Executive Vice-President and
Chief Financial Officer,
Retail, Ivanhoé Cambridge
(investor and developer of superior quality real estate properties, projects and companies)
Director since December 2018

James A. Manzi, Jr. (2) (3)
Corporate Director
Tampa, FL, USA
Director since April 2015

Simon Pelletier (1) (2) (4)
Senior Vice-President,
North American Sales
and Operations,
Metso (Manufacturer of mineral processing equipment and service provider to mining and construction industries)
Senneville, Québec
Director since May 2012

Daniel Picotte (1)
Partner, Fasken Martineau
DuMoulin LLP (Law firm)
Montréal, Québec
Director since July 1993

Mary Webster (1)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Environmental, Health and Safety Committee
(2) Member of the Audit Committee
(3) Member of the Remuneration Committee
(4) Member of the Governance and Nomination Committee

A full report of Stella-Jones' corporate governance practices is set out in the Management Proxy Circular for the May 2, 2019 Annual Meeting of Shareholders.

OFFICERS

Katherine A. Lehman
Chair of the Board

Brian McManus
President and
Chief Executive Officer

Éric Vachon, CPA, CA
Senior Vice-President and
Chief Financial Officer

Marla Eichenbaum
Vice-President,
General Counsel and
Secretary

Ian Jones
Senior Vice-President

Gordon Murray
Vice-President, Environment and
Technology and General Manager,
Atlantic Region

André Daigle
Vice-President,
Central Region

SUBSIDIARIES–SENIOR MANAGEMENT

George Caric
Vice-President, Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President, Poles
and Residential Sales
McFarland Cascade
Holdings, Inc.

W.G. Downey, Jr.
Vice-President,
U.S. Tie Procurement
Stella-Jones Corporation

Marcell Driessen
Vice-President, Human Resources
Stella-Jones Corporation/
McFarland Cascade
Holdings, Inc.

Ian Jones
Senior Vice-President
McFarland Cascade
Holdings, Inc.

James Kenner
Vice-President and
General Counsel, U.S. Operations
Stella-Jones Corporation

Patrick Kirkham
Vice-President, Operations
Stella-Jones Corporation

Wayne Kusmierczyk
Vice-President, Operations
(Southern Yellow Pine)
McFarland Cascade
Holdings, Inc.

Andy Morgan
Vice-President, Operations
(Western Species)
McFarland Cascade
Holdings, Inc.

Jim Raines
Vice-President, Sales
Stella-Jones Corporation

Patrick Stark
Vice-President,
Environment, Health and Safety
U.S. Operations
Stella-Jones Corporation

Michael Sylvester
Senior Vice-President
Stella-Jones Corporation

David Whitted
Vice-President,
Sales Operations
Stella-Jones Corporation

Jon Younce
Vice-President, U.S. Fibre
and Transportation/Logistics
McFarland Cascade Holdings, Inc.

Ron Zeegers
Vice-President,
Operations, Western Canada
Stella-Jones Inc.

OPERATING LOCATIONS – CANADA

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Salmon Arm
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OPERATING LOCATIONS – UNITED STATES

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LEGAL AND COMPLIANCE

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OPERATING LOCATIONS – UNITED STATES

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Cameron, WI
54822 U.S.A.
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F: (715) 458-2024

CORPORATE INFORMATION

Annual Meeting of Shareholders

May 2, 2019
10:00 a.m.
Hotel Omni Mont-Royal
Salon Pierre De Coubertin
1050 Sherbrooke Street West
Montréal, Québec

Stock Information

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2018): $52.22 / $37.40
Share price at March 14, 2019: $41.35
Common shares outstanding as at December 31, 2018: 69.27 million

Dividend Policy

The Board of Directors considers a dividend on a quarterly basis, subject to the Company's financial covenants and conditional upon its financial performance and cash requirements.

On March 14, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share.

Transfer Agent and Registrar

Computershare Investor Services Inc.

Auditors

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