



Source: Stella-Jones Inc.

Contacts: **Éric Vachon, CPA, CA**
Senior Vice-President and Chief Financial Officer
Tel.: (514) 940-3903
evachon@stella-jones.com

Martin Goulet, CFA
MaisonBrisson Communications
Tel.: (514) 731-0000
martin@maisonbrison.com

STELLA-JONES REPORTS 2017 FIRST QUARTER RESULTS

Annual and special meeting of shareholders later this morning

- Sales of \$396.9 million, versus \$421.0 million a year ago
- Operating income of \$40.8 million, compared with \$54.6 million in the prior year
- Net income of \$25.9 million, versus \$35.0 million last year
- Diluted EPS of \$0.37, compared with \$0.51 a year ago

Montreal, Quebec – May 4, 2017 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its first quarter ended March 31, 2017.

“As anticipated, results for the first quarter of 2017 reflected both lower sales volume and weaker pricing in the railway tie category. Utility poles showed improved performance, reflecting sales synergies directly related to Stella-Jones’ expansion in the southeastern United States over the past two years. During the quarter, our new treating facility in Cameron, Wisconsin became fully operational, providing us with additional capacity to service the utility pole market,” said Brian McManus, President and Chief Executive Officer.

Financial highlights (in millions of Canadian dollars, except per share data)	Quarters ended March 31,	
	2017	2016
Sales	396.9	421.0
Operating income	40.8	54.6
Net income for the period	25.9	35.0
Per share – basic and diluted (\$)	0.37	0.51
Weighted average shares outstanding (basic, in ‘000s)	69,306	69,138

FIRST QUARTER RESULTS

Sales reached \$396.9 million, versus \$421.0 million last year. Acquisitions contributed sales of approximately \$22.8 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 \$11.3 million on the value of U.S. dollar denominated sales. Excluding these factors, sales decreased approximately \$35.5 million, or 8.4%.

Railway tie sales amounted to \$158.5 million, compared with sales of \$200.3 million in last year’s first quarter. Excluding the conversion effect, railway tie sales decreased approximately \$35.9 million, or 17.9%, primarily as a result of lower year-over-year industry demand and lower pricing. Last year’s railway tie sales also benefitted from the timing of deliveries that had been pushed from the fourth quarter of 2015 into the first quarter of 2016 by certain customers.

Utility pole sales reached \$151.0 million in the first quarter of 2017, representing an increase of 14.5% over sales of \$131.8 million a year ago. Excluding the contribution from acquisitions and the currency conversion

effect, sales increased approximately \$1.0 million, reflecting sales synergies from acquisitions in the southeastern United States concluded in 2015 and 2016.

Sales in the residential lumber category totalled \$38.6 million, versus \$41.9 million a year earlier. The variation mainly reflects unfavourable weather conditions earlier this year compared to last in the northwestern United States, the Company's main U. S. customer base.

Industrial product sales reached \$21.9 million, compared with \$26.7 million a year ago. Excluding the contribution from acquisitions and the currency conversion effect, sales decreased 18.5%, mainly due to the timing of orders for rail-related products in the United States. Logs and lumber sales amounted to \$26.9 million, versus \$20.2 million in the first quarter of last year. The variation reflects the timing of lumber purchase and resale activities as well as the timing of timber harvesting.

Operating income stood at \$40.8 million, or 10.3% of sales, compared with \$54.6 million, or 13.0% of sales in the first quarter of the previous year. The decrease in absolute dollars essentially reflects lower business activity, as explained above, and the effect of currency translation, partially offset by the contribution from acquisitions. The decrease as a percentage of sales reflects lower business activity, weaker pricing for railway ties and a less favourable geographical mix in the utility pole category.

Net income for the first quarter of 2017 was \$25.9 million, or \$0.37 per diluted share, down from \$35.0 million, or \$0.51 per diluted share, in the first quarter of 2016.

SOLID FINANCIAL POSITION

As at March 31, 2017, the Company's long-term debt, including the current portion, stood at \$698.5 million compared with \$694.4 million three months earlier. The increase mainly reflects higher working capital requirements, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt. As at March 31, 2017, Stella-Jones' total debt to total capitalization ratio of 0.40:1 was stable compared with three months earlier.

QUARTERLY DIVIDEND OF \$0.11 PER SHARE

On May 3, 2017, the Board of Directors declared a quarterly dividend of \$0.11 per common share, payable on June 27, 2017 to shareholders of record at the close of business on June 5, 2017.

OUTLOOK

"Given first-quarter results, we continue to expect sales to be weaker in the first half of 2017 when compared to 2016, with an expected year-over-year increase in the second half of the year. Over the short term, operating margins will remain affected by lower railway tie selling prices and a less favourable geographical sales mix for utility poles. The Company is taking the necessary steps to adjust production levels, maximize operating efficiencies and minimize costs throughout the organization. We will also continue to study any expansion opportunity that offers strategic value in our main product categories. This strategy has helped Stella-Jones become a consistent force in its industry, while steadily enhancing shareholder value," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on May 4, 2017, at 1:30 PM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 4651988. This recording will be available on Thursday, May 4, 2017 as of 4:30 PM Eastern Time until 11:59 PM Eastern Time on Thursday, May 11, 2017.

NON-IFRS FINANCIAL MEASURES

Operating income is a financial measure not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Management considers this non-IFRS measure to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX: SJ) is a leading producer and marketer of pressure treated wood products. The Company supplies North America's 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 for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, the ability of the Company to raise the capital required for acquisitions, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

- 30 -

HEAD OFFICE 3100 de la Côte-Vertu Blvd., Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	EXCHANGE LISTINGS The Toronto Stock Exchange Stock Symbol: SJ TRANSFER AGENT AND REGISTRAR Computershare Investor Services Inc	INVESTOR RELATIONS Éric Vachon Senior Vice-President and Chief Financial Officer Tel.: (514) 940-3903 Fax: (514) 934-5327 evachon@stella-jones.com
---	--	---



NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the first quarter ended March 31, 2017 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
May 3, 2017

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2017 and 2016

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

(expressed in thousands of Canadian dollars)

	Note	As at March 31, 2017 \$	As at December 31, 2016 \$
Assets			
Current assets			
Cash		2,123	2,267
Restricted cash		-	1,452
Accounts receivable		195,996	160,755
Derivative financial instruments	5	930	1,739
Inventories		873,410	854,652
Prepaid expenses		19,476	23,934
Income taxes receivable		1,000	5,720
		1,092,935	1,050,519
Non-current assets			
Property, plant and equipment		470,381	467,035
Intangible assets		141,343	146,264
Goodwill		283,212	285,592
Derivative financial instruments	5	5,909	5,056
Other assets		9,881	7,492
		2,003,661	1,961,958
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		129,141	101,142
Current portion of long-term debt	3	6,944	6,919
Current portion of provisions and other long-term liabilities		14,533	14,590
		150,618	122,651
Non-current liabilities			
Long-term debt	3	691,514	687,466
Deferred income taxes		102,800	101,827
Provisions and other long-term liabilities		15,367	16,480
Employee future benefits		6,529	6,753
Derivative financial instruments	5	164	363
		966,992	935,540
Shareholders' equity			
Capital stock	4	219,548	219,119
Contributed surplus		239	258
Retained earnings		691,062	672,620
Accumulated other comprehensive income		125,820	134,421
		1,036,669	1,026,418
		2,003,661	1,961,958
Subsequent events	8		

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the three-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive income</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
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 period	-	-	25,898	-	-	-	-	25,898
Other comprehensive income (loss)	-	-	169	(10,254)	1,154	499	(8,601)	(8,432)
Comprehensive income (loss) for the period	-	-	26,067	(10,254)	1,154	499	(8,601)	17,466
Dividends on common shares	-	-	(7,625)	-	-	-	-	(7,625)
Exercise of stock options	146	(47)	-	-	-	-	-	99
Employee share purchase plans	283	-	-	-	-	-	-	283
Stock-based compensation	-	28	-	-	-	-	-	28
	429	(19)	(7,625)	-	-	-	-	(7,215)
Balance - March 31, 2017	219,548	239	691,062	212,870	(91,378)	4,328	125,820	1,036,669

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

Stella-Jones Inc.Interim Consolidated Statements of Change in Shareholders' Equity...*continued*

(Unaudited)

For the three-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive income</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized losses on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2016	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502
Comprehensive income (loss)								
Net income for the period	-	-	35,021	-	-	-	-	35,021
Other comprehensive income (loss)	-	-	(1,153)	(62,986)	21,625	(2,986)	(44,347)	(45,500)
Comprehensive income (loss) for the period	-	-	33,868	(62,986)	21,625	(2,986)	(44,347)	(10,479)
Dividends on common shares	-	-	(6,914)	-	-	-	-	(6,914)
Employee share purchase plans	253	-	-	-	-	-	-	253
Stock-based compensation	-	39	-	-	-	-	-	39
	253	39	(6,914)	-	-	-	-	(6,622)
Balance - March 31, 2016	216,727	542	573,356	184,106	(75,559)	(2,771)	105,776	896,401

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

Stella-Jones Inc.

Interim Consolidated Statements of Income

(Unaudited)

For the three-month periods ended March 31, 2017 and 2016

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

	Note	2017 \$	2016 \$
Sales		<u>396,946</u>	<u>420,976</u>
Expenses			
Cost of sales		333,113	342,139
Selling and administrative		22,809	24,037
Other losses, net		<u>176</u>	<u>239</u>
		<u>356,098</u>	<u>366,415</u>
Operating income		<u>40,848</u>	<u>54,561</u>
Financial expenses		<u>4,796</u>	<u>4,762</u>
Income before income taxes		<u>36,052</u>	<u>49,799</u>
Provision for income taxes			
Current		8,458	10,793
Deferred		<u>1,696</u>	<u>3,985</u>
		<u>10,154</u>	<u>14,778</u>
Net income for the period		<u>25,898</u>	<u>35,021</u>
Basic earnings per common share	4	<u>0.37</u>	<u>0.51</u>
Diluted earnings per common share	4	<u>0.37</u>	<u>0.51</u>

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income

(Unaudited)

For the three-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
	\$	\$
Net income for the period	<u>25,898</u>	<u>35,021</u>
Other comprehensive income		
Items that may subsequently be reclassified to net income		
Net change in losses on translation of financial statements of foreign operations	(10,699)	(66,542)
Income taxes on change in losses on translation of financial statements of foreign operations	445	3,556
Change in gains on translation of long-term debt designated as hedges of net investment in foreign operations	1,328	24,923
Income taxes on change in gains on translation of long-term debt designated as hedges of net investment in foreign operations	(174)	(3,298)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	677	(4,057)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(178)	1,071
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	230	(1,617)
Income taxes on remeasurements of post-retirement benefit obligations	<u>(61)</u>	<u>464</u>
	<u>(8,432)</u>	<u>(45,500)</u>
Comprehensive income	<u>17,466</u>	<u>(10,479)</u>

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

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the three-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
	\$	\$
Cash flows provided by (used in)		
Operating activities		
Net income for the period	25,898	35,021
Adjustments for		
Depreciation of property, plant and equipment	4,446	3,693
Amortization of intangible assets	3,779	3,376
Financial expenses	4,796	4,762
Current income taxes expense	8,459	10,793
Deferred income taxes	1,696	3,985
Restricted stock units expense	756	1,767
Other	527	(515)
	<u>50,357</u>	<u>62,882</u>
Changes in non-cash working capital components and others		
Accounts receivable	(36,173)	(18,258)
Inventories	(23,527)	(48,299)
Prepaid expenses	4,245	6,297
Income taxes receivable	(4)	(11)
Accounts payable and accrued liabilities	21,390	18,791
Asset retirement obligations	(109)	(730)
Provisions and other long-term liabilities	(347)	(2,109)
	<u>(34,525)</u>	<u>(44,319)</u>
Interest paid	(4,799)	(4,814)
Income taxes recovered (paid)	(3,798)	2,074
	<u>7,235</u>	<u>15,823</u>
Financing activities		
Increase in deferred financing costs	(717)	(1,051)
Net change in committed revolving credit facility	(189,797)	(9,079)
Increase in long-term debt	195,870	-
Repayment of long-term debt	(110)	(804)
Non-competes payable	(327)	(152)
Proceeds from issuance of common shares	382	253
	<u>5,301</u>	<u>(10,833)</u>
Investing activities		
Decrease (increase) in other assets	(2,625)	839
Business acquisitions	-	(263)
Increase in intangible assets	(96)	(73)
Purchase of property, plant and equipment	(11,654)	(5,834)
Proceeds from disposal of assets	243	173
	<u>(14,132)</u>	<u>(5,158)</u>
Net change in cash and cash equivalents during the period	<u>(1,596)</u>	<u>(168)</u>
Cash and cash equivalents – Beginning of period	<u>3,719</u>	<u>6,973</u>
Cash and cash equivalents – End of period	<u>2,123</u>	<u>6,805</u>

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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

(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. Stella-Jones Inc. 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's condensed interim consolidated financial statements have been prepared 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, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 3, 2017.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

Principles of consolidation

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

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
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
Canadalux S.à.r.l.	Stella-Jones Inc.	Luxembourg
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
Kisatchie Midnight Express, LLC	McFarland Cascade Holdings, Inc.	United States
Lufkin Creosoting Co., Inc.	McFarland Cascade Holdings, Inc.	United States

Change in accounting policies

The Company has adopted the following revised standard, along with any consequential amendments, effective January 1, 2017. This change was made in accordance with the applicable transitional provisions.

IAS 7 – Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The adoption of this revised standard will require the Company to provide incremental disclosures in its 2017 annual consolidated financial statements.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

3 Long-term debt

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 a series A senior note of US\$75,000 bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US\$75,000 bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the committed revolving credit facility. The notes were designated as hedges of net investment in foreign operations.

On February 3, 2017, the Company obtained a one-year extension to February 26, 2022 of its committed revolving credit facility as provided in the fifth amended and restated credit agreement dated as of February 26, 2016, and amended on May 18, 2016. All the conditions of the credit agreement, other than the committed revolving credit facility maturity date, remain unchanged.

4 Capital stock

The following table provides the number of common share outstanding for the three-month periods ending March 31:

	2017	2016
Number of common shares outstanding – Beginning of period*	69,303	69,137
Stock option plan*	10	-
Employee share purchase plans*	8	6
	<hr/>	<hr/>
Number of common shares outstanding – End of period*	69,321	69,143

* Number of common shares is presented in thousands.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

- 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, as at March 31, between basic earnings per common share and diluted earnings per common share:

	2017	2016
Net income applicable to common shares	<u>\$25,898</u>	<u>\$35,021</u>
Weighted average number of common shares outstanding*	69,306	69,138
Effect of dilutive stock options*	<u>13</u>	<u>129</u>
Weighted average number of diluted common shares outstanding*	<u>69,319</u>	<u>69,267</u>
Basic earnings per common share **	<u>\$0.37</u>	<u>\$0.51</u>
Diluted earnings per common share **	<u>\$0.37</u>	<u>\$0.51</u>

* Number of shares is presented in thousands.

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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

5 Fair value measurement and financial instruments

The following table provides information about assets and liabilities measured at fair value in the statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

	<u>As at March 31, 2017</u>	<u>As at December 31, 2016</u>
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	\$	\$
Recurring fair value measurements		
Current assets		
Interest rate swap agreements	588	311
Derivative commodity contracts	342	1,428
	<u>930</u>	<u>1,739</u>
Non-current assets		
Interest rate swap agreements	5,280	4,989
Derivative commodity contracts	38	67
Foreign exchange forward contracts	591	-
	<u>5,909</u>	<u>5,056</u>
Non-current liabilities		
Interest rate swap agreements	164	109
Foreign exchange forward contracts	-	254
	<u>164</u>	<u>363</u>

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value that is equal to its fair value.

6 Seasonality

The Company's operations follow a seasonal pattern, with utility pole, railway tie 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 follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season.

7 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.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

Operating plants are located in five 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:

	2017	2016
	\$	\$
Canada	91,268	91,019
U.S.	305,678	329,957
	<u>396,946</u>	<u>420,976</u>

Sales by product as at March 31 are as follows:

	2017	2016
	\$	\$
Pressure-treated wood		
Railway ties	158,500	200,293
Utility poles	151,010	131,847
Residential lumber	38,632	41,894
Industrial products	21,900	26,741
Logs and lumber	26,904	20,201
	<u>396,946</u>	<u>420,976</u>

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

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

	<u>As at March 31, 2017</u>	<u>As at December 31, 2016</u>
Property, plant and equipment		
	\$	\$
Canada	110,821	108,220
U.S.	359,560	358,815
	<u>470,381</u>	<u>467,035</u>
Intangible assets		
	\$	\$
Canada	24,810	25,324
U.S.	116,533	120,940
	<u>141,343</u>	<u>146,264</u>
Goodwill		
	\$	\$
Canada	12,389	12,389
U.S.	270,823	273,203
	<u>283,212</u>	<u>285,592</u>

8 Subsequent events

On May 3, 2017, the Board of Directors declared a quarterly dividend of \$0.11 per common share payable on June 27, 2017 to shareholders of record at the close of business on June 5, 2017.

9 Comparative figures

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.