Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS 2019 SECOND QUARTER RESULTS

- **Sales were stable at $661.8 million, driven by healthy demand for utility poles**
- **EBITDA up 18% to $94.2 million, supported by increased gross margins as well as by the adoption of IFRS 16, *Leases***
- **Net income and diluted EPS increased to $52.3 million and $0.76 per share**
- **General outlook of higher overall year-over-year sales and margins confirmed for 2019**

Montreal, Quebec – August 7, 2019 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its second quarter ended June 30, 2019.

"We are pleased with our second quarter results given the short-term challenges experienced in certain markets. Sales were stable as higher sales prices and healthy demand for utility poles, combined with the positive currency conversion effect, were offset by lower volume and pricing in logs and lumber, temporary shipment delays in railway ties and wet weather conditions in residential lumber. Notwithstanding this operating environment, we delivered increased profitability driven by improved pricing and better operational efficiencies in the U.S. Southeast," said Brian McManus, President and Chief Executive Officer.

"We continued to follow our strategy of continental expansion by completing a tuck-in acquisition in Ontario in April and finalizing our plant expansion in Cameron, Wisconsin. For 2019, we expect higher year-over-year sales and margin improvement over last year. Our strategy remains intact as we will continue to focus on optimizing our operations across the organization while seeking acquisitions to further expand our presence in our core markets," stated Eric Vachon, Senior Vice-President and CFO.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	**Q2-19**	**Q2-18(2)**	**YTD Q2-19**	**YTD Q2-18(2)**
Sales	661.8	662.3	1,102.6	1,061.1
EBITDA(1)	94.2	80.1	158.0	124.1
EBITDA margin (%)(1)	14.2%	12.1%	14.3%	11.7%
Operating income(1)	76.7	71.0	122.4	106.5
Net income for the period	52.3	48.1	81.7	71.2
Per share – basic and diluted ($)	0.76	0.69	1.18	1.03
Weighted average shares outstanding (basic, in '000s)	69,131	69,347	69,134	69,352

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.
(2) Results for fiscal 2018 were not restated as per IFRS 16.

SECOND QUARTER RESULTS

On January 1, 2019, the Company retrospectively adopted IFRS 16, Leases, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. For the three-month period ended June 30, 2019, instead of lease expenses, $8.1 million in right-of-use asset depreciation and $1.0 million in financing expenses were recorded in the consolidated statement of income. For the six-month period ended June 30, 2019, the adoption of IFRS 16 added $15.9 million in right-of-use asset depreciation and $2.0 million in financing expenses. Please refer to the impact of new accounting pronouncements and interpretation section of the quarterly Management's Discussion and Analysis for further details.

Sales reached $661.8 million, stable, versus sales of $662.3 million for the corresponding period last year. The currency conversion effect had a positive impact of $17.7 million. Excluding the currency conversion effect, sales decreased approximately $18.2 million, or 2.7%, primarily due to lower volume and pricing in logs and lumber, temporary delayed shipments in railway ties and wet weather conditions in residential lumber. This was offset by higher selling prices and healthy demand for utility poles as detailed below.

- **Utility poles (31.2% of Q2-19 sales)**: Sales reached $206.3 million, up 15.0% from sales of $179.4 million last year. The currency conversion effect had a positive impact of $6.6 million. Excluding the currency conversion effect, utility pole sales increased approximately $20.3 million, or 11.3%, primarily driven by increased sales prices coupled with continued volume increases in the U.S. Southeast and overall healthy demand in the United States.

- **Railway ties (29.4% of Q2-19 sales)**: Sales totalled $194.7 million, down 3.2% from sales of $201.2 million last year. The currency conversion effect had a positive impact of $6.7 million. Excluding the currency conversion effect, railway tie sales decreased approximately $13.2 million, or 6.6%. This variance is mainly explained by delayed shipments due to low railcar availability and longer treating cycle times which has pushed the delivery of certain orders to the second half of 2019. The longer treating cycles are a result of the tight supply market for untreated railway ties which requires the Company to treat railway ties that are not air-seasoned.

- **Residential lumber (29.4% of Q2-19 sales)**: Sales totalled $194.8 million, down 4.3% from sales of $203.5 million last year. The currency conversion effect had a positive impact of $2.5 million. Excluding the currency conversion effect, residential lumber sales decreased approximately $11.2 million, or 5.5%. This variance is primarily explained by lower demand due to wet weather conditions in Eastern Canada and to a lesser extent, by lower pricing.

- **Industrial products (5.9% of Q2-19 sales)**: Sales reached $38.8 million, compared with $32.9 million last year. The currency conversion effect had a positive impact of $1.4 million. Excluding the currency conversion effect, sales increased $4.5 million, or 13.8%, primarily as a result of stronger rail-related product sales.

- **Logs and lumber (4.1% of Q2-19 sales)**: Sales totalled $27.1 million, compared with $45.3 million last year. Excluding the currency conversion effect, sales for this product category decreased by $18.6 million. This variance is a result of reduced selling prices driven by lower lumber market costs, a decrease in lumber transaction volumes as well as lower log sales due to the timing of harvesting activities.

Operating income was $76.7 million, or 11.6% of sales, compared with $71.0 million, or 10.7% of sales, in the second quarter of the previous year. The increase versus last year is explained by improved pricing and better operational efficiencies in the U.S. Southeast. In addition, lower lumber costs, which are passed through in a timely manner to customers via lower selling prices, have contributed to decreased cost of sales but have also driven margins up as a percentage of sales. These factors were partially offset by the effect of currency translation.

Net income for the second quarter of 2019 reached $52.3 million, or $0.76 per diluted share, versus net income of $48.1 million, or $0.69 per diluted share, in the corresponding period last year.

SIX-MONTH RESULTS

For the first six months of 2019, sales amounted to $1.10 billion, versus $1.06 billion for the corresponding period last year. Acquisitions contributed sales of $11.5 million, while the currency conversion effect had a positive impact of $36.4 million. Excluding these factors, sales decreased approximately $6.4 million, or 0.6%.

Operating income reached $122.4 million, or 11.1% of sales, compared with $106.5 million, or 10.0% of sales last year. Net income totalled $81.7 million, or $1.18 per diluted share, versus $71.2 million, or $1.03 per diluted share last year.

ACQUISITION

On April 1, 2019, the Company completed the acquisition of substantially all of the assets of Shelburne Wood Protection Ltd. ("SWP"), located in Shelburne, Ontario. The SWP plant is specialized in the treatment of residential lumber. The total consideration for the acquisition was approximately $9.2 million of which $8.5 million was financed through the Company's syndicated credit facilities and $0.7 million was recorded as a balance of purchase price. The balance of purchase price bears no interest, will be paid to the seller in two equal amounts on the first and second anniversary of the transaction and was recorded at fair value using an effective interest rate of 3.31%. The SWP acquisition has been accounted for as an acquisition of a group of assets.

CEO TO STEP DOWN

On July 15, 2019, the Company announced that Brian McManus has made the decision to step down as President and CEO, effective October 11, 2019. Until such date, Mr. McManus will work closely with management and the Board to ensure a smooth transition. Upon Mr. McManus' departure, Eric Vachon, Senior Vice-President and CFO, will be serving as interim CEO. Mr. Vachon is a twelve-year veteran of the Company, whose prior roles have included Director, Treasury and Financial Reporting, Vice President Finance, U.S. Operations and Vice President and Treasurer since joining Stella-Jones in 2007. Mr. Vachon will retain his CFO responsibilities during the interim period. A special committee of the Board of Directors has been formed to conduct a search for the Company's next CEO and will be considering both internal and external candidates.

AMENDED CREDIT AGREEMENT

On May 3, 2019, the Company amended and restated the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016, on March 15, 2018 and on January 14, 2019, pursuant to a sixth amended and restated credit agreement (the "Sixth ARCA"). Under the terms of the Sixth ARCA, the following syndicated credit facilities are made available to the Company as well as Stella-Jones Corporation and Stella-Jones U.S. Holding Corporation (collectively, with the Company, the "Borrowers"), both wholly-owned subsidiaries of the Company, by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325.0 million made available to the Borrowers until February 27, 2024, (ii) an unsecured non-revolving term facility in the amount of US$50.0 million made available to Stella-Jones Corporation until February 26, 2021 and (iii) an unsecured non-revolving term facility in the amount of US$50.0 million made available to Stella-Jones Corporation until February 28, 2022. Under the Sixth ARCA, financing is provided up to $556.2 million (US$425.0 million). For additional details please refer to the Management's Discussion and Analysis for the quarter.

SOLID FINANCIAL POSITION

As at June 30, 2019, the Company's long-term debt, including the current portion, stood at $619.7 million compared with $513.5 million as at December 31, 2018. The increase mainly reflects higher working capital requirements, higher capital expenditures and financing required for the acquisition of SWP, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt.

QUARTERLY DIVIDEND

On August 6, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share, payable on September 20, 2019 to shareholders of record at the close of business on September 2, 2019. This dividend is designated to be an eligible dividend.

NORMAL COURSE ISSUER BID

In the three-month period ended June 30, 2019, as part of its Normal Course Issuer Bid, the Company did not repurchase any common shares for cancellation. Since the launch of the Normal Course Issuer Bid on December 20, 2018, the Company repurchased 251,000 common shares for cancellation in consideration of $9.8 million.

OUTLOOK

The general outlook remains unchanged from last quarter. Management expects higher year-over-year sales, based on current market conditions, the current level of lumber prices and assuming stable currencies. This increase is driven by stronger pricing for railway ties and utility poles as well as increased market reach for the utility pole product category. Management also expects improved year-over-year margins on a consolidated basis. Higher margins will be primarily driven by increased pricing and volume for railway ties coupled with improved product mix and demand for utility poles. Furthermore, it is important to note that the 2019 EBITDA will be positively impacted by the adoption of IFRS 16, *Leases*. For additional details per product category, please refer to the Management's Discussion and Analysis for the quarter.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on August 7, 2019, at 10:00 AM 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 5153779. This recording will be available on Wednesday, August 7, 2019 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Wednesday, August 14, 2019.

NON-IFRS FINANCIAL MEASURES

EBITDA (operating income before depreciation of property, plant and equipment and amortization of intangible assets), operating income and operating margins are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance. Please refer to the non-IFRS financial measures section in the Management's Discussion and Analysis.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX: SJ) is a leading producer and marketer of pressure treated wood products. The Company supplies North America's 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.

HEAD OFFICE	EXCHANGE LISTINGS	INVESTOR RELATIONS
3100 de la Côte-Vertu Blvd., Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	The Toronto Stock Exchange Stock Symbol: SJ **TRANSFER AGENT AND REGISTRAR** Computershare Investor Services Inc.	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 second quarter ended June 30, 2019 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
August 6, 2019

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
June 30, 2019 and 2018

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

(expressed in thousands of Canadian dollars)

	Note	As at June 30, 2019 $	As at December 31, 2018 $
Assets			
Current assets			
Accounts receivable		348,745	192,380
Inventories		848,751	838,558
Income taxes receivable		115	1,882
Other current assets		34,685	35,567
		1,232,296	1,068,387
Non-current assets			
Property, plant and equipment		556,336	551,785
Right-of-use assets	2	117,065	-
Intangible assets		120,075	131,658
Goodwill		286,925	298,270
Derivative financial instruments	5	1,957	7,545
Other non-current assets		4,519	4,559
		2,319,173	2,062,204
Liabilities and Shareholders’ Equity			
Current liabilities			
Accounts payable and accrued liabilities		152,872	133,259
Derivative financial instruments	5	1,340	4,381
Current portion of long-term debt		6,485	9,714
Current portion of lease liabilities	2	27,736	-
Current portion of provisions and other long-term liabilities		9,956	12,016
		198,389	159,370
Non-current liabilities			
Long-term debt		613,240	503,767
Lease liabilities	2	89,489	-
Deferred income taxes		96,574	92,557
Provisions and other long-term liabilities		10,970	13,959
Employee future benefits		10,433	7,393
Derivative financial instruments	5	2,342	3,748
		1,021,437	780,794
Shareholders’ equity			
Capital stock	4	221,680	221,328
Contributed surplus		386	348
Retained earnings		965,374	909,060
Accumulated other comprehensive income		110,296	150,674
		1,297,736	1,281,410
		2,319,173	2,062,204
Subsequent event	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 six-month periods ended June 30, 2019 and 2018

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2019	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410
Comprehensive income (loss)								
Net income for the period	-	-	81,714	-	-	-	-	81,714
Other comprehensive income (loss)	-	-	(2,254)	(51,967)	15,689	(4,100)	(40,378)	(42,632)
Comprehensive income (loss) for the period	-	-	79,460	(51,967)	15,689	(4,100)	(40,378)	39,082
Dividends on common shares	-	-	(19,356)	-	-	-	-	(19,356)
Employee share purchase plans	685	-	-	-	-	-	-	685
Repurchase of common shares (note 4)	(333)	-	(3,790)	-	-	-	-	(4,123)
Share-based compensation	-	38	-	-	-	-	-	38
	352	38	(23,146)	-	-	-	-	(22,756)
Balance – June 30, 2019	221,680	386	965,374	200,182	(91,334)	1,448	110,296	1,297,736

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders’ Equity…*continued*
(Unaudited)
For the six-month periods ended June 30, 2019 and 2018

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	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	Total shareholders’ equity
	$	$	$	$	$	$	$	$
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 period	-	-	71,174	-	-	-	-	71,174
Other comprehensive income (loss)	-	-	787	57,614	(17,792)	2,970	42,792	43,579
Comprehensive income (loss) for the period	-	-	71,961	57,614	(17,792)	2,970	42,792	114,753
Dividends on common shares	-	-	(16,644)	-	-	-	-	(16,644)
Employee share purchase plans	603	-	-	-	-	-	-	603
Share-based compensation	-	26	-	-	-	-	-	26
	603	26	(16,644)	-	-	-	-	(16,015)
Balance – June 30, 2018	221,070	324	864,339	208,234	(87,213)	7,529	128,550	1,214,283

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

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

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

	Note	For the three-month periods ended June 30, 2019 $	For the three-month periods ended June 30, 2018 $	For the six-month periods ended June 30, 2019 $	For the six-month periods ended June 30, 2018 $
Sales		661,816	662,305	1,102,557	1,061,095
Expenses					
Cost of sales (including depreciation and amortization (3 months - $13,808 (2018 - $5,537) and 6 months - $28,309 (2018 - $10,782))		553,655	562,057	924,490	901,096
Selling and administrative (including depreciation and amortization (3 months - $3,725 (2018 - $3,568) and 6 months - $7,335 (2018 - $6,850))		29,981	29,360	58,289	54,845
Other losses (gains), net		1,455	(150)	(2,599)	(1,360)
		585,091	591,267	980,180	954,581
Operating income		76,725	71,038	122,377	106,514
Financial expenses		6,337	5,192	11,963	9,532
Income before income taxes		70,388	65,846	110,414	96,982
Provision for income taxes					
Current		11,769	10,084	19,312	15,934
Deferred		6,362	7,654	9,388	9,874
		18,131	17,738	28,700	25,808
Net income for the period		52,257	48,108	81,714	71,174
Basic earnings per common share	4	0.76	0.69	1.18	1.03
Diluted earnings per common share	4	0.76	0.69	1.18	1.03

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

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

(expressed in thousands of Canadian dollars)

	For the three-month periods ended June 30, 2019 $	2018 $	For the six-month periods ended June 30, 2019 $	2018 $
Net income for the period	52,257	48,108	81,714	71,174
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	(26,444)	25,625	(51,967)	57,614
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	8,017	(9,179)	15,689	(20,871)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	-	1,572	-	3,079
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	(3,351)	1,106	(5,584)	4,084
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	893	(327)	1,484	(1,114)
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(1,473)	(91)	(2,986)	1,029
Income taxes on remeasurements of post-retirement benefit obligations	348	43	732	(242)
	(22,010)	18,749	(42,632)	43,579
Comprehensive income	30,247	66,857	39,082	114,753

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 six-month periods ended June 30, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Note	2019 $	2018 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		81,714	71,174
Adjustments for			
Depreciation of property, plant and equipment		11,866	9,773
Amortization of intangible assets		7,846	7,859
Depreciation of right-of-use assets	2	15,932	-
Gain on derivative financial instruments		(4,447)	(27)
Financial expenses		11,963	9,532
Current income taxes expense		19,312	15,934
Deferred income taxes		9,388	9,874
Restricted stock units expense		1,221	3,209
Other		1,362	504
		156,157	127,832
Changes in non-cash working capital components and others			
Accounts receivable		(164,369)	(145,327)
Inventories		(33,659)	15,659
Income taxes receivable		(27)	(10)
Accounts payable and accrued liabilities		26,244	49,345
Asset retirement obligations		(80)	(1,735)
Provisions and other long-term liabilities		(4,120)	(1,932)
Other current assets		(197)	(14,876)
		(176,208)	(98,876)
Interest paid		(12,732)	(9,445)
Income taxes paid		(17,558)	(21,643)
		(50,341)	(2,132)
Financing activities			
Increase in deferred financing costs		(259)	(255)
Net change in syndicated credit facilities		135,001	101,748
Increase in long-term debt		667	-
Repayment of long-term debt		(8,249)	(4,073)
Repayment of lease liabilities	2	(15,775)	-
Repayment of non-competes payable		(1,573)	(1,504)
Dividends on common shares		(19,356)	(16,644)
Repurchase of common shares	4	(5,750)	-
Proceeds from issuance of common shares		685	603
		85,391	79,875
Investing activities			
Decrease (increase) in other assets		329	(165)
Business acquisitions		-	(54,491)
Addition of intangible assets		(133)	(3,534)
Purchase of property, plant and equipment		(35,763)	(26,429)
Proceeds from disposal of assets		517	446
		(35,050)	(84,173)
Net change in cash and cash equivalents during the period		-	(6,430)
Cash and cash equivalents – Beginning of period		-	6,430
Cash and cash equivalents – End of period		-	-

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

(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'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 - Accounting, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 6, 2019.

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, 2018, except as described below in the Changes in accounting policies section.

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, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

(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 ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc.	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
9396-7883 Québec 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

Changes in accounting policies

The Company has adopted the following new standard, amended standard and new interpretation, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 - Leases

On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases* (“IFRS 16”), but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. In applying IFRS 16 for the first time, the Company has used the exemption for short-term leases and leases for which the underlying asset is of low value. The adjustments arising from the new leasing rules are therefore recognized in the opening balance of the statement of financial position on January 1, 2019.

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods and may have extension options that are considered when it is reasonably certain that the option will be exercised. Lease terms are negotiated on an individual basis and contain

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

a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to January 1, 2019, the Company's leases were mainly composed of operating leases for which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee. Payments made under operating leases were charged to the consolidated statement of income on a straight-line basis over the period of the lease.

Starting on January 1, 2019, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

A lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.30%.

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statements of financial position as at December 31, 2018.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office furniture.

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

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

As at January 1, 2019, the following right-of-use assets and lease liabilities by type of assets were recorded in the consolidated statements of financial position:

Type of assets	**Right-of-use assets and lease liabilities $**	**Average remaining months under lease agreements**
Rolling stock	79,588	53
Land	33,334	147
Other assets	7,809	42
Total	120,731	81

As at December 31, 2018, the Company reported future minimum payments under operating leases of $132,775 which corresponds to the present value of lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019 of $120,731.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The allocation between current lease liabilities and non-current lease liabilities is as follows:

	June 30, 2019 $	**January 1, 2019 $**
Current lease liabilities	27,736	28,263
Non-current lease liabilities	89,489	92,468
Total	117,225	120,731

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

The following tables provide a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position, for the three- and six-month periods ended June 30, 2019*:*

	Right-of-use: rolling stock	**Right-of-use: land**	**Right-of-use: other assets**	**Total right-of-use assets**
	$	**$**	**$**	**$**
Balance as at March 31, 2019	75,925	31,906	7,291	115,122
Additions	9,805	-	10	9,815
Disposals	(127)	-	-	(127)
Depreciation	(6,504)	(952)	(635)	(8,091)
Remeasurement	1,854	(1)	547	2,400
Exchange differences	(1,418)	(571)	(65)	(2,054)
Balance as at June 30, 2019	79,535	30,382	7,148	117,065

	Right-of-use: rolling stock	**Right-of-use: land**	**Right-of-use: other assets**	**Total right-of-use assets**
	$	**$**	**$**	**$**
Balance as at January 1, 2019	79,588	33,334	7,809	120,731
Additions	13,803	245	79	14,127
Disposals	(465)	-	-	(465)
Depreciation	(12,787)	(1,890)	(1,255)	(15,932)
Remeasurement	2,254	(114)	646	2,786
Exchange differences	(2,858)	(1,193)	(131)	(4,182)
Balance as at June 30, 2019	79,535	30,382	7,148	117,065

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

The following tables provide a reconciliation of the lease liabilities, presented in the consolidated statements of financial position, for the three- and six-month periods ended June 30, 2019:

	Lease liabilities: rolling stock	**Lease liabilities: land**	**Lease liabilities: other**	**Total lease liabilities**
	$	**$**	**$**	**$**
Balance as at March 31, 2019	75,405	32,059	7,312	114,776
Payments under lease agreements	(6,997)	(951)	(654)	(8,602)
Finance cost	661	270	61	992
Additions	9,805	-	10	9,815
Lease termination payment	(127)	-	-	(127)
Remeasurement	1,854	(1)	547	2,400
Exchange differences	(1,388)	(572)	(69)	(2,029)
Balance as at June 30, 2019	79,213	30,805	7,207	117,225

	Lease liabilities: rolling stock	**Lease liabilities: land**	**Lease liabilities: other**	**Total lease liabilities**
	$	**$**	**$**	**$**
Balance as at January 1, 2019	79,588	33,334	7,809	120,731
Payments under lease agreements	(14,413)	(2,003)	(1,316)	(17,732)
Finance cost	1,294	541	122	1,957
Additions	13,803	245	79	14,127
Lease termination payment	(465)	-	-	(465)
Remeasurement	2,254	(114)	646	2,786
Exchange differences	(2,848)	(1,198)	(133)	(4,179)
Balance as at June 30, 2019	79,213	30,805	7,207	117,225

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. On January 1, 2019, the Company early adopted, as permitted, the amendments prospectively to acquisitions that will occur from that date.

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

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.

The Company applied IFRIC 23 beginning on January 1, 2019. The application of this new interpretation had no significant impact on the Company's consolidated financial statements.

3 Long-term debt

On May 3, 2019, the Company amended and restated the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016, on March 15, 2018 and on January 14, 2019 (as so amended, the "Existing Credit Agreement"), pursuant to a sixth amended and restated credit agreement (the "Sixth ARCA"). Under the terms of the Sixth ARCA, the following syndicated credit facilities are made available to the Company as well as Stella-Jones Corporation and SJ Holding (collectively with the Company, the "Borrowers"), both wholly-owned subsidiaries of the Company, by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325,000 made available to the Borrowers until February 27, 2024, (ii) an unsecured non-revolving term facility in the amount of US$50,000 made available to Stella-Jones Corporation until February 26, 2021 and (iii) an unsecured non-revolving term facility in the amount of US$50,000 made available to Stella-Jones Corporation until February 28, 2022.

The Borrowers may increase the syndicated credit facilities by increasing the amount of one or more of the syndicated credit facilities or by adding one or more new non-revolving single draw term loans, in each case, up to an aggregate amount of US$350,000, provided that no more than five term loans in total may be outstanding at any time. The Borrowers may obtain such new term loans upon written request and are subject to lenders' approval.

All of the positive covenants, financial ratios, reporting requirements, negative covenants and events of default under the Sixth ARCA remain substantially unchanged from the Existing Credit Agreement.

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

4 Capital stock

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

	2019	**2018**
Number of common shares outstanding – Beginning of period*	69,268	69,342
Employee share purchase plans*	16	14
Repurchase of common shares*	(146)	-
Number of common shares outstanding – End of period*	69,138	69,356

* 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

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

b) Earnings per share

The following table provides the reconciliation, as at June 30, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended June 30, 2019	For the three-month periods ended June 30, 2018	For the six-month periods ended June 30, 2019	For the six-month periods ended June 30, 2018
Net income applicable to common shares	$52,257	$48,108	$81,714	$71,174
Weighted average number of common shares outstanding*	69,131	69,347	69,134	69,352
Effect of dilutive stock options*	8	8	7	8
Weighted average number of diluted common shares outstanding*	69,139	69,355	69,141	69,360
Basic earnings per common share **	$0.76	$0.69	$1.18	$1.03
Diluted earnings per common share **	$0.76	$0.69	$1.18	$1.03

* 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. In the first quarter of 2019, the Company repurchased 104,000 common shares for cancellation in consideration of $4,123 representing an average price of $39.53 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 had 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. No shares were repurchased during the second quarter of 2019.

(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:

	As at June 30, 2019	As at December 31, 2018
	Significant other observable inputs (Level 2) $	Significant other observable inputs (Level 2) $
Recurring fair value measurements		
Non-current assets		
Interest rate swap agreements	1,957	7,545
	1,957	7,545
Current Liabilities		
Derivative commodity contracts	1,340	4,381
	1,340	4,381
Non-current liabilities		
Derivative commodity contracts	2,342	3,748
	2,342	3,748

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).

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

Financial instruments which are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt has a carrying value of $619,725 (December 31, 2018 – $513,481) and a fair value of $618,564 (December 31, 2018 – $501,950).

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.

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 for the six-month periods ended June 30 are as follows:

	2019	2018
	$	$
Canada	326,281	352,176
U.S.	776,276	708,919
	1,102,557	1,061,095

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

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

	2019	**2018**
	$	**$**
Pressure-treated wood		
Utility poles	376,812	332,307
Railway ties	356,168	347,668
Residential lumber	252,468	253,828
Industrial products	64,317	53,661
Logs and lumber	52,792	73,631
	1,102,557	1,061,095

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

	As at June 30, 2019	**As at December 31, 2018**
Property, plant and equipment		
	$	**$**
Canada	138,915	124,246
U.S.	417,421	427,539
	556,336	551,785
Intangible assets		
	$	**$**
Canada	30,978	33,977
U.S.	89,097	97,681
	120,075	131,658
Goodwill		
	$	**$**
Canada	19,403	19,403
U.S.	267,522	278,867
	286,925	298,270
Right-of-use assets		
	$	**$**
Canada	19,792	-
U.S.	97,273	-
	117,065	-

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

8 Subsequent event

On August 6, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share payable on September 20, 2019 to shareholders of record at the close of business on September 2, 2019.

9 Comparative figures

Certain reclassifications have been made to the prior year's consolidated financial statements to enhance to comparability with the current year's consolidated financial statements. As a result, certain line items have been amended in the consolidated statement of income. Comparative figures have been adjusted to conform to the current year's presentation. For the six-month period ended June 30, 2018, an amortization expense for customer relationships and non-compete agreements of $6,850 have been reclassified from cost of sales to selling and administrative expenses ($3,568 for the three-month period).