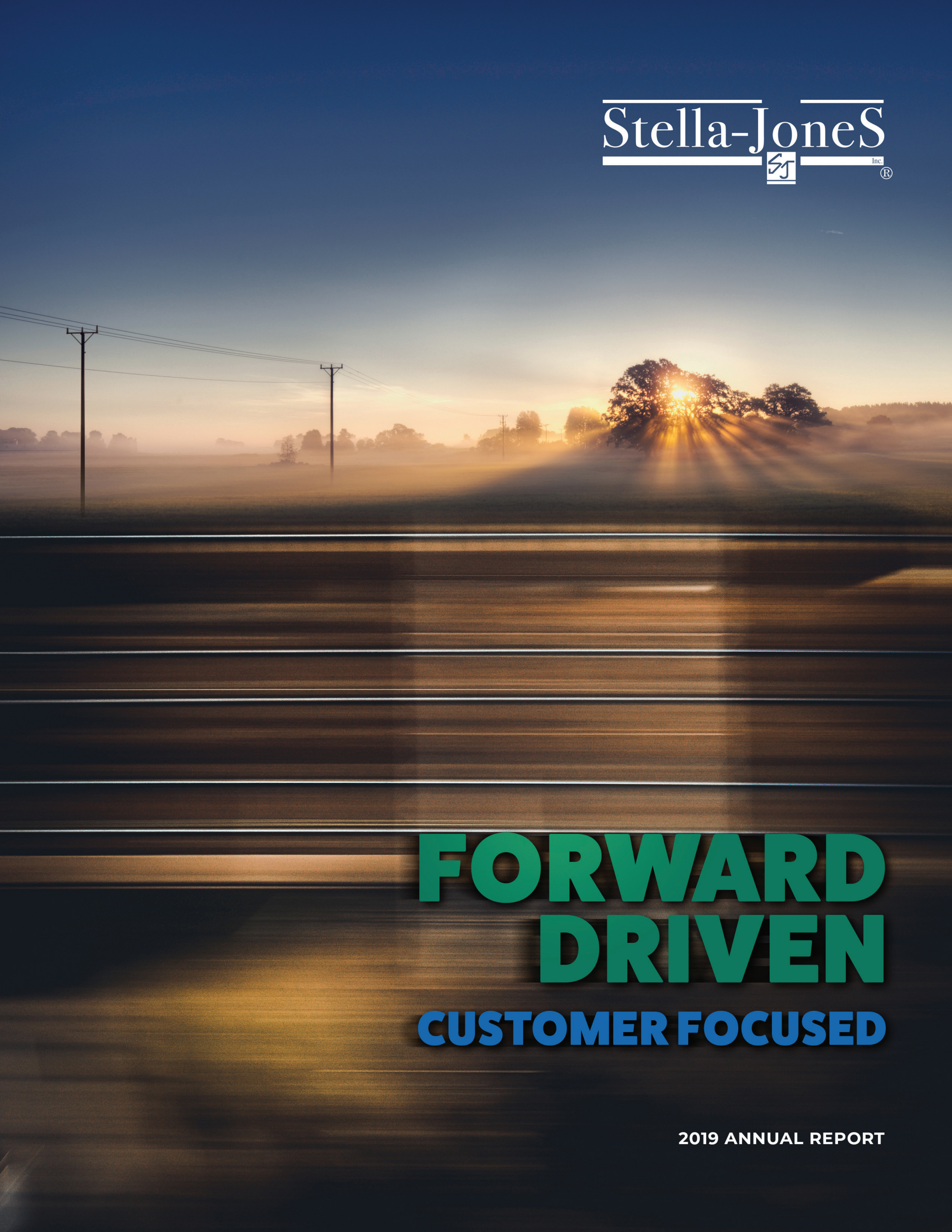


Stella-Jones Inc.

FORWARD DRIVEN

CUSTOMER FOCUSED

2019 ANNUAL REPORT

Stella-JoneS Inc.

Stella-Jones will continue to pursue its ongoing disciplined growth strategy and focus on driving the Company forward by leveraging its high quality products and continental network to deliver exceptional service to its valued customers.

5-YEAR FINANCIAL HIGHLIGHTS

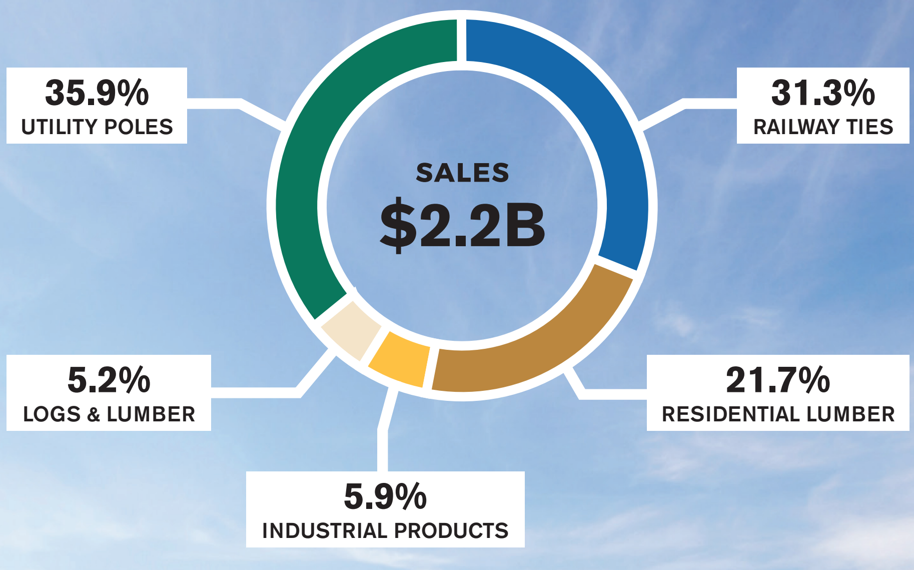
For the years ended December 31	2019	2018	2017	2016	2015
(millions of dollars, except per share data and financial ratios)	$	$	$	$	$
OPERATING RESULTS					
Sales	**2,169.0**	2,123.9	1,886.1	1,838.4	1,559.3
EBITDA [1]	**312.9**	244.4	243.1	264.8	243.4
Operating income [1]	**242.3**	206.3	207.4	233.2	220.1
Net income	**163.1**	137.6	167.9	153.9	141.4
FINANCIAL POSITION					
Working capital	**1,052.5**	930.7	797.2	949.3	936.1
Total assets	**2,281.1**	2,062.2	1,786.0	1,960.9	1,778.9
Long-term debt [2]	**604.9**	513.5	455.6	694.0	669.9
Shareholders' equity	**1,288.3**	1.281.4	1,115.5	1,026.4	913.5
PER SHARE DATA					
Basic earnings per common share	**2.37**	1.98	2.42	2.22	2.05
Diluted earnings per common share	**2.37**	1.98	2.42	2.22	2.04
Book value	**19.10**	18.50	16.09	14.81	13.21
FINANCIAL RATIOS					
Operating margin [1]	**11.2%**	9.7%	11.0%	12.7%	14.1%
EBITDA margin [1]	**14.4%**	11.5%	12.9%	14.4%	15.6%
Return on average equity [1]	**12.7%**	11.5%	15.7%	15.9%	17.6%
Long-term debt [2] to total capitalization [1]	**0.32:1**	0.29:1	0.29:1	0.40:1	0.42:1
Long-term debt [2] to EBITDA [1]	**1.93x**	2.10x	1.87x	2.62x	2.75x
Working capital	**8.56**	7.76	8.17	10.39	13.04

Note: On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases*, ("IFRS 16"), but has not restated comparatives for previous reporting periods, as permitted under the specific transitional provisions in the standard. The application of this new standard resulted in the addition of right-of-use assets and lease liabilities to the consolidated statement of financial position. Starting on January 1, 2019, instead of lease expenses, right-of-use asset depreciation and financing costs are recorded to the consolidated statement of income. Please refer to the impact of new accounting pronouncements and interpretation section of the management's discussion and analysis for further details on the adoption of IFRS 16.

(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 described in the management's discussion and analysis.

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

STELLA-JONES AT A GLANCE



$2.2B
2019 SALES

2,190
EMPLOYEES

40
WOOD TREATING FACILITIES

70%
SALES IN THE U.S.

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.

2019 HIGHLIGHTS

Stella-Jones posted solid financial results in 2019. The Company used its strong cash flow to invest in its network, as well as provide a return to shareholders in the form of increased dividends and share buybacks. Its healthy financial position provides the Company flexibility to pursue its ongoing disciplined growth strategy.

NEW LEADERSHIP

- Eric Vachon was promoted to President and Chief Executive Officer
- Silvana Travaglini was appointed Senior Vice-President and Chief Financial Officer

MARKET CONDITIONS

- Sustained demand for the Company's products
- Tight untreated railway tie inventory levels in the first half of the year
- Lower lumber prices compared to 2018

SOLID RESULTS

- Sales increased 2.1% to $2.2 billion
- EBITDA[1] increased to $312.9 million, driven by higher sales and the adoption of IFRS 16, *Leases*
- Net income increased 18.5% to $163.1 million

BALANCED CAPITAL ALLOCATION

- $70.6 million for share buybacks
- $65.8 million for capital expenditures
- $38.5 million for dividends

STRONG BALANCE SHEET

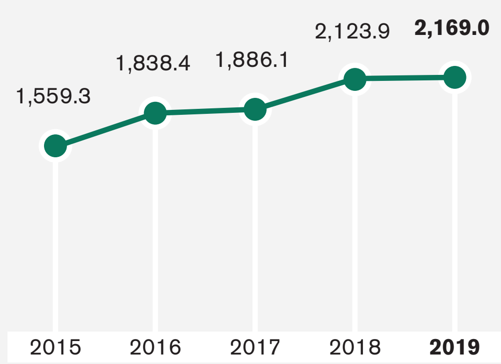
- Total long-term debt to EBITDA[1] ratio of 1.93x
- Strong financial position to pursue acquisitions
- Healthy inventory levels to meet anticipated sales growth

NETWORK EXPANSION

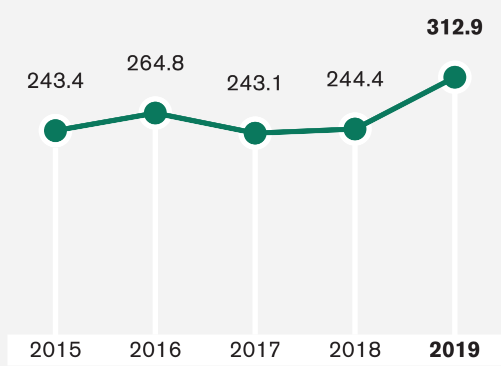
- Finalized the plant expansion in Cameron, Wisconsin
- Acquired substantially all the assets of Shelburne Wood Protection Ltd.
- Invested in its network to maintain facilities, improve efficiencies and expand capacity

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

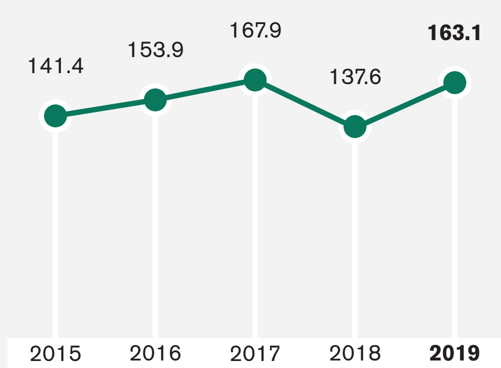
SALES
(in millions of $)



EBITDA
(in millions of $)



NET INCOME
(in millions of $)



STRATEGY DRIVEN SHAREHOLDER FOCUSED

NEW LEADERSHIP. UNIFIED STRATEGY

The year 2019 saw notable changes in Stella-Jones' leadership, with the promotion of Eric Vachon to President and Chief Executive Officer in October and the announcement of Silvana Travaglini as Senior Vice-President and Chief Financial Officer in December.

Serving as Senior Vice-President and CFO since 2012, Eric is a veteran of Stella-Jones and the wood treating business. He is a proven leader, having earned the respect and full confidence of our Board and the executive team. He brings established business insight, extensive knowledge of operations, finance, capital markets and mergers and acquisitions and sound continuity to this important position. On behalf of the entire Board, I wish to congratulate Eric on his appointment.

With the President's succession coming from within our ranks, the appointment of a new CFO with excellent credentials and our veteran operational leaders, we have a talented team to continue to execute our proven strategy of optimizing operations across our North American network, seeking acquisitions to further deepen our presence in our core markets, while using a prudent capital allocation approach.

Eric succeeds Brian McManus, who stepped down in October as President and CEO after eighteen years at the helm. Brian was instrumental in assembling a strong and talented management team and in helping to drive Stella-Jones' exceptional growth and value creation. On behalf of the Board, I thank Brian for his outstanding contribution to the success of our Company.

NEW POLICIES. ENHANCED GOVERNANCE

In 2019, the Board introduced additional policies to strengthen its commitment to ensuring sound corporate governance practices.

We have a talented team to continue to execute our proven strategy.

Director Share Ownership Guidelines were adopted to further align the interests of the Board with our shareholders. We bolstered our company-wide Code of Business Conduct and Ethics by incorporating anti-hedging and bribery prohibitions, and the Board passed an Executive Officer Clawback compensation policy.

The Board's Remuneration committee also led a full review of compensation policies with the assistance of an external consultant and several enhancements were made to the 2020 long-term incentive plans. This year's management proxy circular will include a more thorough Compensation Discussion and Analysis and our first advisory *Say-on-Pay* vote for the May 2020 Annual and Special Meeting of Shareholders. This initiative will allow shareholders access to additional information and the opportunity to provide feedback on our approach to executive compensation.

BOARD CHANGES. NEW PERSPECTIVES

As part of our commitment to Board refreshment, we have added additional capabilities and perspectives to the Board as we welcomed two new independent members in recent months. Douglas Muzyka, who joined in December 2019, brings a broad management background and technical skillset, as well as an in-depth understanding of health and safety management systems. In January 2020, Robert Coallier joined our Board of Directors. His executive and financial background across various industries, and his extensive understanding of governance will further augment the Board.

Sadly, in January we lost longstanding Board member George J. Bunze. George served on the Board for over 18 years and was Chair of the Audit Committee since 2002. His wisdom and dedication were valued qualities and his exceptional contributions will be missed.

These latest changes bring the total number of Board members to eight, of which seven are independent and three are women.

SOLID RESULTS. PROMISING FUTURE

Stella-Jones had another strong year in 2019. Sales were up to $2.2 billion and net income increased 18.5%. During the year, we acquired a key residential lumber production facility, continued to invest in our network to better serve our customers, increased our dividend for the fifteenth consecutive year and repurchased shares under a Normal Course Issuer Bid. The Company has a solid financial position, quality products, an extensive distribution network and the leadership in place to pursue our growth in 2020 and beyond.

On behalf of the Board, I would like to thank all of our employees for their efforts and dedication throughout 2019 and our shareholders, customers and suppliers for their continued support.

Katherine A. Lehman
Chair of the Board

PERFORMANCE DRIVEN
TEAM FOCUSED

Last October, I was appointed President and Chief Executive Officer and was honoured to accept this role with a renewed sense of duty and enthusiasm. Stella-Jones has a strong management team in place which has been instrumental in building our historical track record of growth. I look forward to collaborating with them further, along with our newly appointed Senior Vice-President and Chief Financial Officer, Silvana Travaglini, to pursue the many opportunities that lay ahead for Stella-Jones.

IMPROVED SALES. HIGHER MARGINS

The revenues generated during the year point to continued strong ongoing demand for our products. Sales increased for the nineteenth consecutive year to reach $2.2 billion. The resilient, disciplined team at Stella-Jones attained this level of success despite the challenges of lower lumber prices and a tight untreated railway tie supply market.

Revenues increased in two core product categories. Utility pole sales amounted to $779.2 million, an improvement of 7.5%, driven by both healthy replacement demand and increased sales prices. Railway tie sales of $678.2 million showed a slight improvement over last year as higher selling prices were partially offset by lower volume. Residential lumber sales were relatively stable at $471.6 million.

Year-over-year profitability increased, both in absolute dollars and as a percentage of sales, despite higher production costs for railway ties related to the tight supply market. This achievement was driven by improved pricing for railway ties and utility poles, a healthier product mix and improved operational efficiencies. We saw the implementation of best practices impact results most meaningfully in our U.S. Southeast operations, where our team focused substantial efforts to gain efficiencies.

During 2019, we developed innovative ways to better serve our customers. We launched an automated tie plating process and introduced fire-retardant wrapped utility poles. Our dedicated distribution centres for residential lumber customers continue to provide superior service to further enhance the Company's industry-wide reputation for exceptional product quality and consistent, reliable supply.

CASH GENERATION. BALANCED ALLOCATION

As always, we continue to be mindful of capital allocation. Our focus is on fostering an optimal balance between maintaining a prudent use of leverage, growing the business and providing a return to shareholders. In 2019 we generated $305.0 million of cash flow from operations before changes in non-cash working capital components and interest and income taxes paid. We deployed capital to purchase property, plant and equipment, including the acquisition of a key residential lumber production facility. We also provided a return to shareholders in the form of dividends and share buybacks.

The year saw us invest $65.8 million in our network to maintain our facilities, improve efficiencies and expand capacity. During the year, we finalized our plant expansion in Cameron, Wisconsin. We also completed the asset acquisition of Shelburne Wood Protection Ltd. and upgraded this facility, further expanding our network of residential lumber treating facilities in Canada. At year end, Stella-Jones operated forty wood treating plants and twelve pole peeling facilities – an unrivalled network that spans North America.

In 2019, we increased our dividend for a fifteenth consecutive year to $0.56 per share, returning $38.5 million to shareholders. We also repurchased shares for $70.6 million. Stella-Jones finished the year in a strong financial position, well positioned to pursue growth with a long-term debt to EBITDA[(1)] ratio of 1.9x.

DISCIPLINED STRATEGY. FUTURE GROWTH

The growth strategy of Stella-Jones remains disciplined and highly focused. As we enter 2020, markets indicate robust ongoing demand for our core products. We expect higher year-over-year overall sales, mainly driven by increased market reach in the utility pole, railway tie and residential lumber product categories. Profitability is also expected to improve year-over-year, driven by pricing improvements, operational efficiencies and product mix. Our focus in 2020 will be to seek strategic acquisitions, and optimize long-term preservative supply for our utility pole treatment business.

I wish to add a personal note of thanks to my predecessor, Brian McManus, for his many contributions to Stella-Jones. For nearly two decades, he led our Company with wisdom, integrity and tireless determination. We cannot thank him enough for his accomplishments and we wish him well in his future endeavours.

As I transition to my new role, I want to take this opportunity to thank all the members of the Stella-Jones team for their continued support and the Board of Directors for their trust in my leadership. Our enviable track record is a value I inherit with immense pride and strong resolve. Together with the superb team at Stella-Jones, I look forward to driving the Company towards even greater accomplishments, maximizing the long-term value of the Company and further rewarding shareholders.

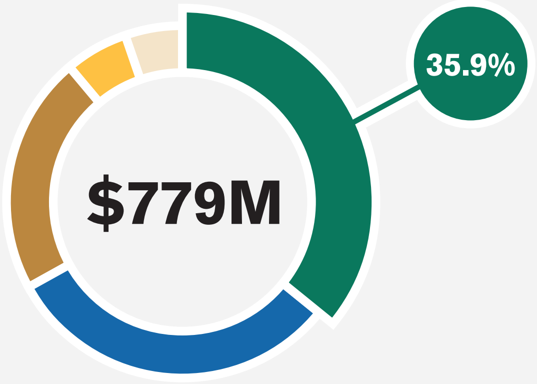
Éric Vachon
President and Chief Executive Officer

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

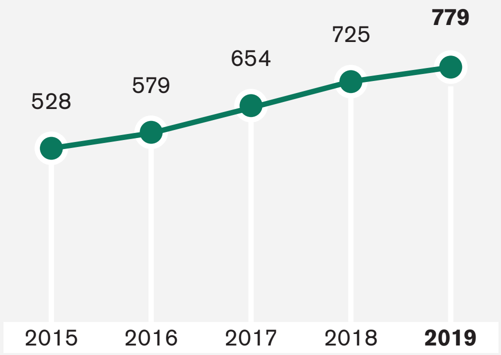
UTILITY POLES

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 these North American networks and are a renewable resource, providing equal or superior strength, resiliency and service life when compared to any wood pole substitute structure manufactured from alternative materials such as steel, concrete and composite. 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.

2019 SALES



5-YEAR SALES
(in millions of $)



GROWTH DRIVEN QUALITY FOCUSED

In 2019, utility pole sales increased 7.5%, driven by increased sales prices, overall healthy demand in the United States as well as the positive currency conversion effect. During the year, Stella-Jones introduced fire-retardant wrapped utility poles which have been positively received by customers. In addition, the Company expanded its Cameron, Wisconsin facility by adding an additional treating cylinder which doubled the plant's capacity.

OUTLOOK

Demand for regular maintenance projects has historically been relatively steady and is expected to remain solid. The North American market for utility poles has further potential for consolidation, which corresponds to the Company's strategic vision of continental expansion. Stella-Jones expects to leverage the upcoming growth in replacement demand stemming from the increasing average age of utility poles in service. In general, the Company anticipates organic growth over the next several years. For 2020, sales and margins are expected to increase year-over-year, driven by better pricing, greater market reach and healthy demand for replacement programs.

UTILITY POLES QUICK FACTS

CUSTOMERS

- Electrical utility companies
- Telecommunication companies

CONTRACTS

- Majority of business under multi-year agreements (3 to 7 years)

SERVICES

- Incising
- Radial drilling
- Through boring
- Framing
- Laminated wood pole design

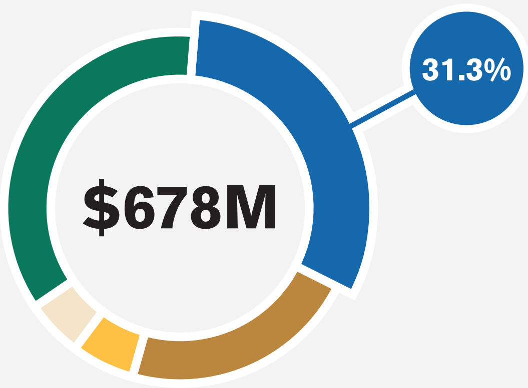
COMPETITIVE ADVANTAGES

- Extensive distribution network
- Continuous supply
- Emergency response
- Fire-retardant wrap

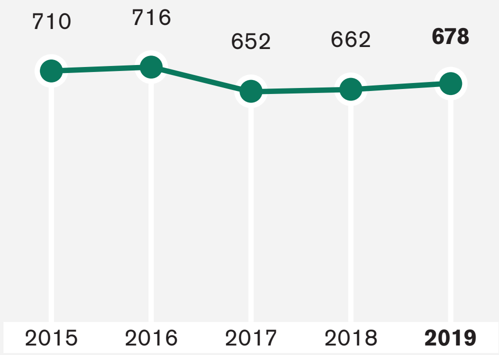
RAILWAY TIES

Stella-Jones plays a key role in the development, upgrade and maintenance of North America's railroad infrastructure, supplying the continent's demand for railway ties and timbers with over 10 million pressure-treated wooden crossties per year. As an industry leader in the production of quality treated railroad ties and timbers, Stella-Jones has the treating capacity, sources of supply and purchasing power to meet the needs of Class 1, short line railroads and commercial operators from coast to coast. Its extensive supplier network of over 1,200 hardwood sawmills allows it to offer crossties and switch ties in a variety of sizes.

2019 SALES



5-YEAR SALES
(in millions of $)



SUPPLY DRIVEN
CLIENT FOCUSED

In 2019, sales in the railway ties product category were up 2.4% as higher selling prices and the positive currency conversion effect more than offset the lower sales volume. While demand for railway ties remained strong, the tight supply market for untreated railway ties required the Company to treat railway ties that were not air-seasoned, resulting in longer cycle times. During the year, Stella-Jones introduced an automated tie plating process to better respond to customer requirements.

OUTLOOK

The North American market for railway ties is fairly consolidated. North American railroads will continue to maintain their continental rail network as operators constantly seek optimal line efficiency. Stella-Jones expects to grow at a rate in line with gross domestic product growth, driven by regular maintenance programs and increased market reach. For 2020, sales and margins are expected to increase year-over-year. Improved untreated railway tie inventory availability should lead to opportunistic sales to Class 1 and non-Class 1 customers and allow for shorter treating cycle times. A stronger mix of non-Class 1 sales should result in improved margins.

RAILWAY TIES QUICK FACTS

CUSTOMERS

- Class 1 railroads
- Short and regional rail lines and contractors

CONTRACTS

- Long-term contracts with Class 1 railroads
- Spot market bids for short and regional rail lines and contractors

SERVICES

- Pre-plating
- Pre-boring
- Crossing panels
- End-plating

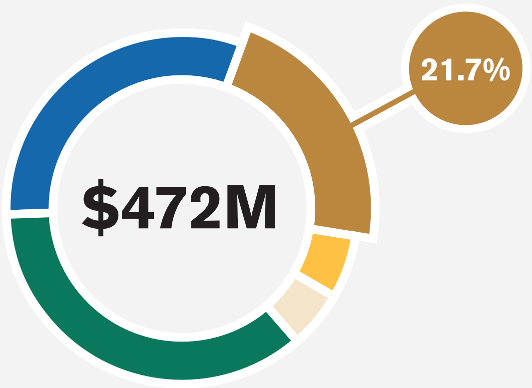
COMPETITIVE ADVANTAGES

- Extensive distribution network
- Steady supply
- Short delivery times

RESIDENTIAL LUMBER

Stella-Jones provides seamless, end-to-end service to key North American retailers, supplying annually, hundreds of millions of board feet of treated residential lumber across Canada and the United States. 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.

2019 SALES



5-YEAR SALES
(in millions of $)

VOLUME DRIVEN SERVICE FOCUSED

Sale prices to customers in the residential lumber product category are generally tied to lumber market prices. Management closely monitors variations in these commodity prices and adjusts its procurement practices accordingly, in order to maintain dollar margins on similar volumes. In 2019, sales in the residential lumber product category were relatively stable. Lower lumber prices, compared to the prior year, as well as the impact of unfavourable weather conditions in Eastern Canada at the beginning of the year, were mostly offset by higher sales volume during the remainder of the year, the contribution from 2018 acquisitions and the positive currency conversion effect.

OUTLOOK

Stella-Jones expects to further benefit from continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets. The Company plans on leveraging its premium residential lumber program and accessing distribution agreements to service big box stores, achieve growth and further its reach in the dealer network. For 2020, sales are expected to increase year-over-year, driven by increased volume and market reach. While absolute dollar margins are expected to rise due to increased volume, margins as a percentage of sales are expected to remain at levels similar to those of 2019.

RESIDENTIAL LUMBER QUICK FACTS

CUSTOMERS

- Big box retailers
- Dealer network

CONTRACTS

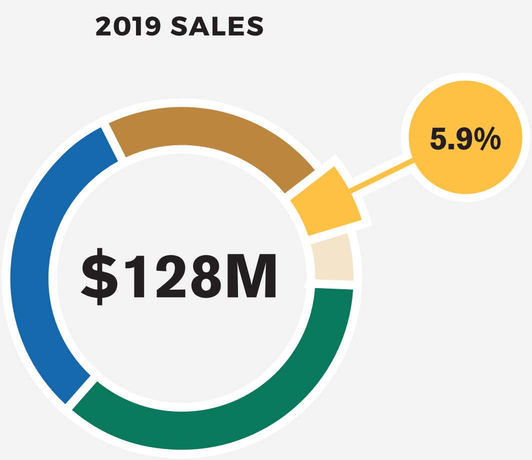
- Renewed annually

SERVICES

- Distribution of complementary accessories

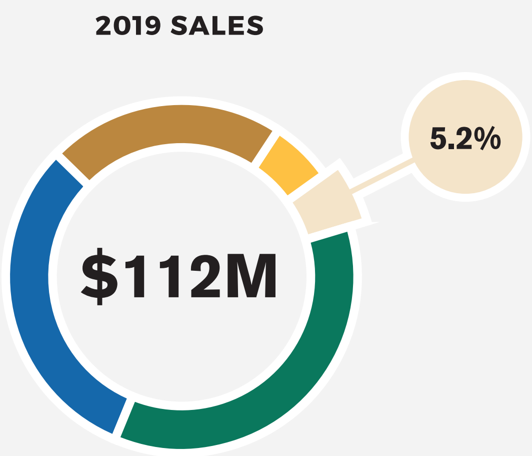
COMPETITIVE ADVANTAGES

- Low transportation costs
- Ample supply
- Quick delivery times
- Dedicated distribution centres



INDUSTRIAL PRODUCTS

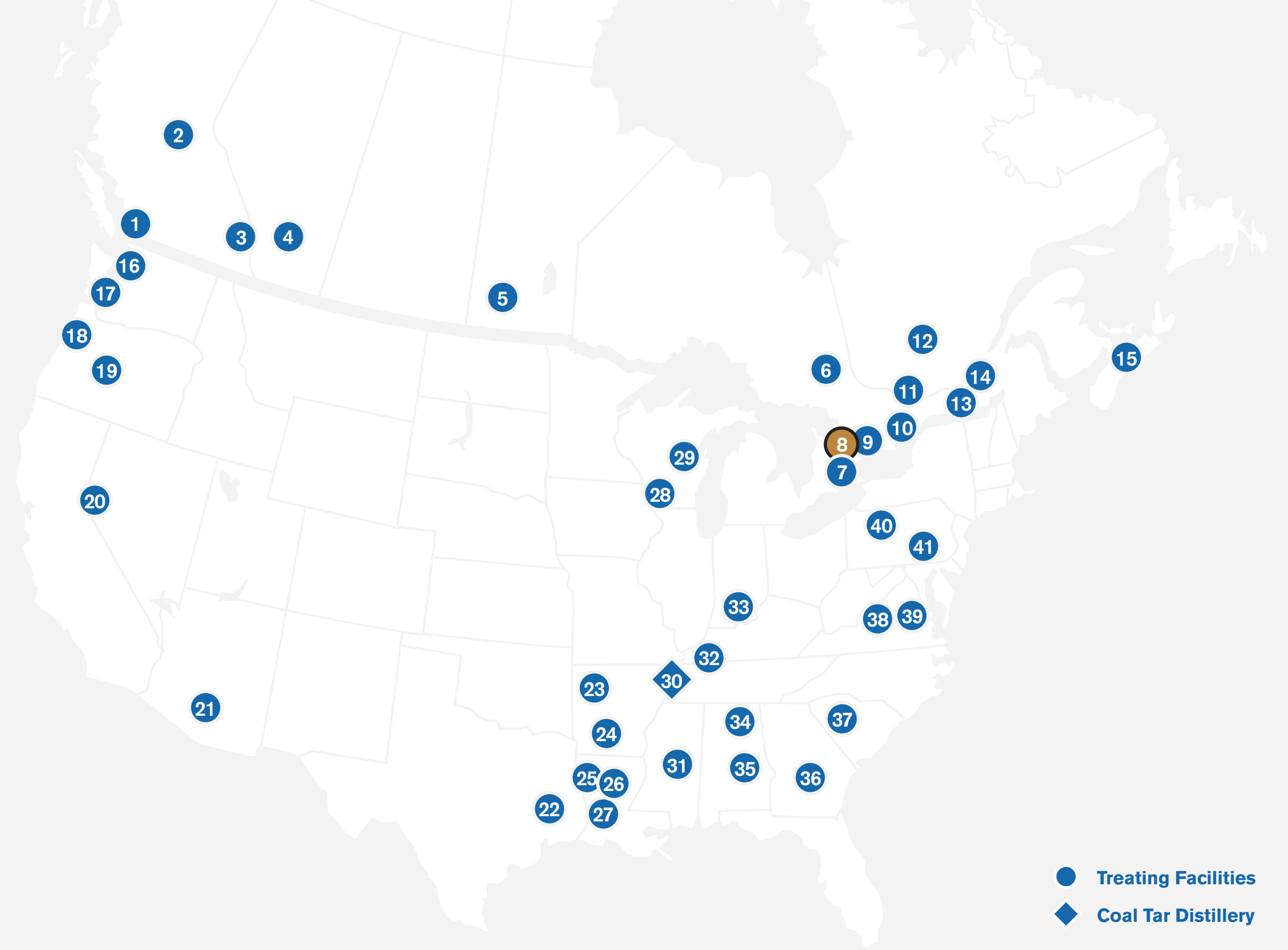
Stella-Jones supplies pressure treated wood products to the industrial, marine and civic sectors for outdoor applications, producing wharf timbers, bridge timbers, crane mats, railway crossings and laminated poles, offered in a variety of select wood species and preservatives. In 2019, sales increased 17.4%, driven by stronger rail-related and piling product sales and the contribution from acquisitions completed in the prior year. For 2020, sales are expected to be slightly lower as railway related maintenance will require less bridge and crossing components.



LOGS & LUMBER

The logs and lumber product category is used to optimize procurement, does not generate margin, and sales fluctuations are tied to the market 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. In 2019, sales decreased significantly, mainly as a result of reduced selling prices, driven by lower lumber market costs. Sales were also impacted by a decrease in lumber transaction volumes and lower log sales due to the timing of harvesting activities. For 2020, sales are expected to be stronger, driven mainly by higher lumber volumes.

NETWORK DRIVEN
DISTRIBUTION FOCUSED

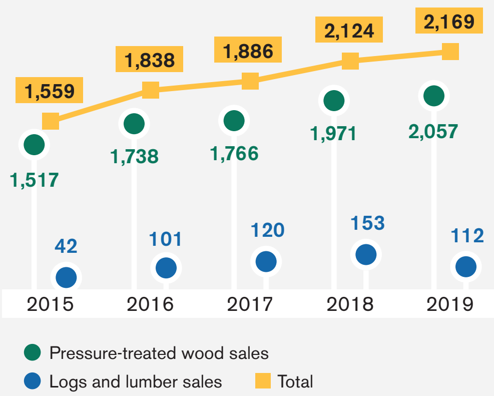


1 New Westminster, BC
2 Prince George, BC
3 Galloway, BC
4 Carseland, AB
5 Neepawa, MB
6 South River, ON
7 Guelph, ON
8 Shelburne, ON*
9 Stouffville, ON
10 Peterborough, ON
11 Gatineau, QC
12 Rivière-Rouge, QC
13 Delson, QC
14 Sorel-Tracy, QC
15 Truro, NS
16 Arlington, WA
17 Tacoma, WA
18 Sheridan, OR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

* Acquired in 2019.

RESULTS DRIVEN GROWTH FOCUSED

SALES
(in millions of $)

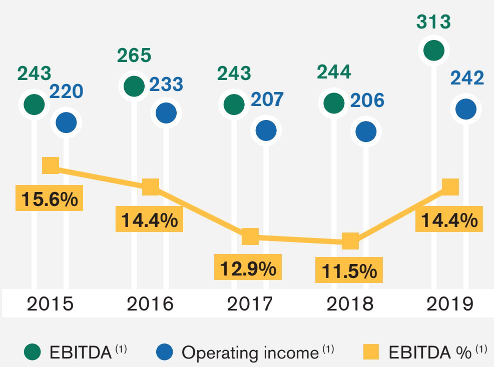


Sales increased for the nineteenth consecutive year to reach $2.2 billion in 2019.

Excluding the currency impact and the contribution from 2018 acquisitions, pressure-treated wood sales increased by 1.7%, explained by stronger utility pole and industrial product sales.

Sales of logs and lumber dropped by $42.1 million, excluding the currency impact, due to the lower market prices of lumber and a decrease in volumes.

EBITDA, OPERATING INCOME & EBITDA%
(in millions of $, except margin)

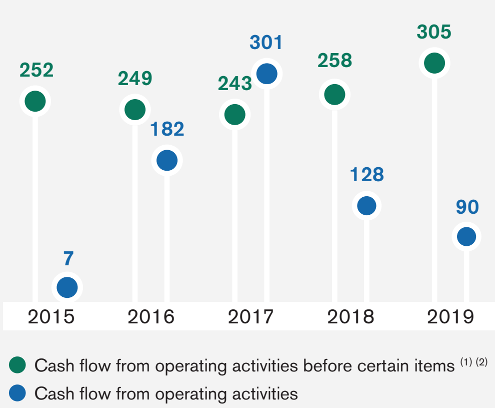


EBITDA[(1)] for 2019 was $312.9 million, up 28.0% from $244.4 million last year. This increase is largely attributable to overall stronger pricing and the favourable impact of the adoption of IFRS 16. Excluding the effect of IFRS 16, EBITDA rose by $36.5 million or 14.9%.

EBITDA margin[(1)] for 2019 increased to 14.4%, or 12.9% excluding the IFRS 16 impact, up from 11.5% last year.

The increase in operating income of $36.0 million or 17.5% in 2019 was almost entirely driven by higher pricing.

CASH FLOW FROM OPERATING ACTIVITIES
(in millions of $)

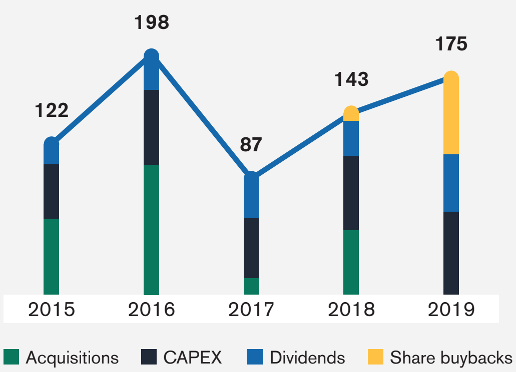


In 2019, Stella-Jones generated $305.0 million[(1)] of cash flow from operating activities before non-cash working capital components and interest and income taxes paid compared to $258.0 million last year. Given the improved market supply availability for untreated ties and the projected sales growth in 2020, the Company increased its inventories by $162.2 million. As a result, cash flow from operating activities decreased to $89.9 million in 2019, versus $128.1 million last year.

(1) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.
(2) Non-cash working capital components, and interest and income taxes paid. Comparative figures have been adjusted to conform to the current year's presentation.

CAPITAL DEPLOYMENT

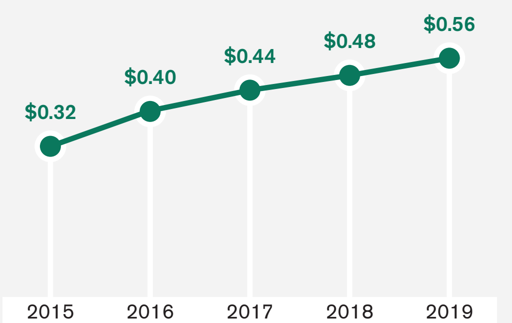
(in millions of $)



Stella-Jones' capital allocation approach remains focused on balancing growth and returns. In 2019, the Company invested $65.8 million for capital expenditures, which included a $9.2 acquisition of a key residential lumber production facility, and returned capital to shareholders by paying dividends of $38.5 million and buying back shares for $70.6 million under a Normal Course Issuer Bid.

DIVIDENDS PER SHARE

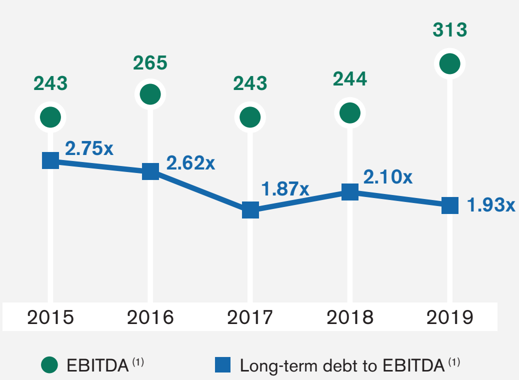
(in dollars)



Stella-Jones has increased its dividend for the past fifteen years. In 2019, the dividend increased 16.7% to $0.56 per share. In 2019, the dividend yield was 1.5%. On March 10, 2020, the Company continued this trend and announced an increase of its quarterly dividend by 7.1% to $0.15 per share. The Board of Directors considers a dividend on a quarterly basis, based on the Company's balanced capital allocation strategy.

EBITDA & LONG-TERM DEBT TO EBITDA

(in millions of $, except per ratio)



Stella-Jones concluded 2019 with a long-term debt of $604.9 million and EBITDA[1] of $312.9 million. The long-term debt to EBITDA[1] ratio remains low at 1.93x. The Company's strong financial position provides it flexibility to pursue its ongoing disciplined growth strategy.

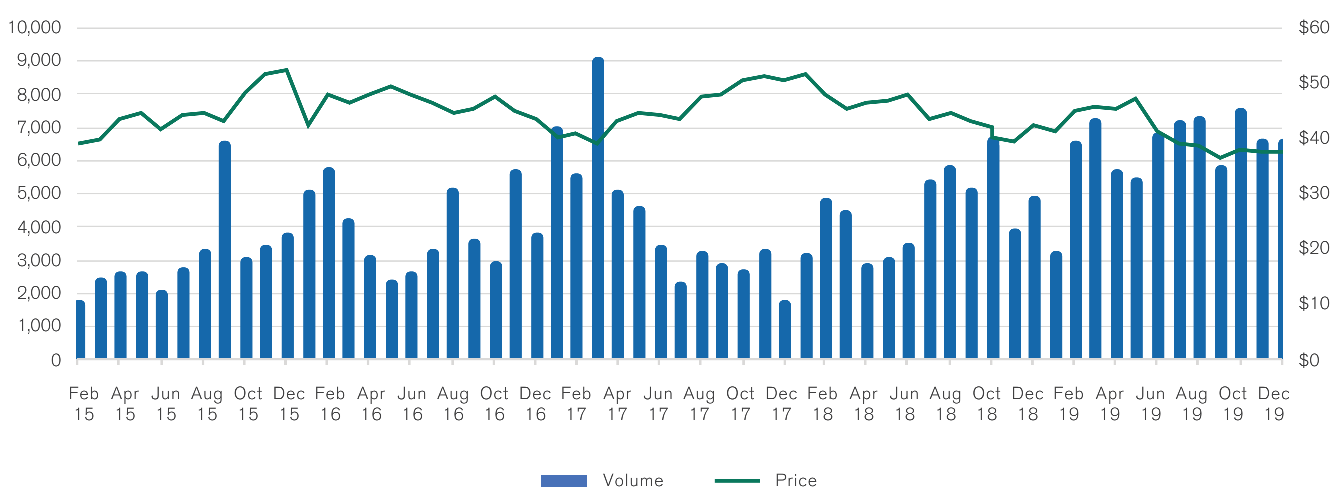
(1) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.

SHARE INFORMATION

For the years ended December 31	2019	2018	2017	2016	2015
(unaudited)	$	$	$	$	$
TRADING DATA ON COMMON SHARES					
52-week high ($)	**48.28**	52.22	51.41	51.95	53.46
52-week low ($)	**36.00**	37.40	38.30	40.37	32.16
Closing ($)	**37.52**	39.61	50.50	43.58	52.51
Total volume	**73,030,074**	53,908,544	49,339,093	46,609,923	34,802,385
Average daily volume	**290,956**	214,775	196,570	185,697	138,655
OTHER STATISTICS					
Dividends on common shares (in millions $)	**38.5**	33.3	30.5	27.7	22.1
Dividends per share ($)	**0.56**	0.48	0.44	0.40	0.32
Dividend yield (%)	**1.5%**	1.2%	0.9%	0.9%	0.6%
Average number of shares outstanding (000's)	**68,761**	69,352	69,324	69,215	69,018
Average number of diluted shares outstanding (000's)	**68,768**	69,360	69,333	69,231	69,153
Shares outstanding at year end (000's)	**67,467**	69,268	69,342	69,303	69,137
Public float (000's)	**52,659**	61,718	47,769	42,730	42,564
Market capitalization (in millions $)	**2,531**	2,744	3,502	3,020	3,630
Enterprise value [1] (in millions $)	**3,136**	3,257	3,957	3,715	4,300

(1) Enterprise value is defined as market capitalization plus long-term debt, including the current portion.

CLOSING SHARE PRICE AND VOLUME



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

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. with its subsidiaries, either individually or collectively.

This MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 10, 2020. The MD&A provides a review of the significant developments, results of operations, financial position and cashflows of the Company during the fiscal year ended December 31, 2019 compared with the fiscal year ended December 31, 2018. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018 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, availability and cost of raw materials, 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.

This MD&A also 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, depreciation of right-of-use assets 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 margin:** Operating income divided by sales for the corresponding period
- **Cash flow 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 average shareholders' equity
- **Working capital ratio:** Total current assets divided by total current liabilities (excluding the current portion of non-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 understand the Company's operating results, financial condition and cash flows as they provide additional measures about its performance.

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 December 31, 2019, the Company operated forty 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, 2019, the Company's workforce numbered approximately 2,190 employees.

Stella-Jones possesses a number of key attributes which should continue to 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.

HIGHLIGHTS

Overview of 2019

Sales in 2019 were up 2.1% to $2.2 billion, compared to 2018, primarily explained by overall improved pricing, including the positive effect of currency conversion and the contribution from acquisitions completed last year, partially offset by lower volumes. The improvement in sales was almost entirely attributable to higher utility pole sales driven by an increase in selling prices. Despite lower volumes, railway tie sales were also up as price increases more than offset lower shipments. While industrial products sales benefitted from higher volumes, lower prices for lumber unfavorably impacted residential lumber and logs and lumber sales.

Year-over-year operating income increased driven by improved pricing and positive product mix. In 2019, Stella-Jones used its liquidity to support working capital requirements, invest in its property, plant and equipment, acquire a group of assets, and return capital to shareholders through dividends and share buybacks. As at December 31, 2019, the Company maintained a strong financial position to pursue further growth with a long-term debt to EBITDA ratio of 1.9x.

2019 Financial Highlights

On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases*, ("IFRS 16"), but has not restated comparative periods, as permitted under the specific transitional provisions in the standard. The application of this new standard resulted in the addition of right-of-use assets and lease liabilities to the consolidated statement of financial position. Starting on January 1, 2019, instead of lease expenses, right-of-use asset depreciation and financing costs related to lease liabilities are recorded to the consolidated statements of income. Please refer to the impact of new accounting pronouncements and interpretation section on page 41 for further details on the adoption of IFRS 16.

Selected Key Indicators

	2019	2018	2017
(in millions of dollars, except earnings per share ("EPS") and key performance indicators)			
Operating Results			
Sales	**2,169.0**	2,123.9	1,886.1
Gross profit [1][2]	**358.5**	328.0	315.2
EBITDA [1]	**312.9**	244.4	243.1
Operating income [1]	**242.3**	206.3	207.4
Net income	**163.1**	137.6	167.9
EPS – basic & diluted	**2.37**	1.98	2.42
Cash Flows			
Operating activities	**89.9**	128.1	301.1
Financing activities	**(24.2)**	(26.0)	(239.9)
Investing activities	**(65.7)**	(108.5)	(58.5)
Financial Position			
Current assets	**1,191.7**	1,068.4	908.4
Inventories	**970.6**	838.6	718.5
Total assets	**2,281.1**	2,062.2	1,786.0
Long-term debt [3]	**604.9**	513.5	455.6
Lease liabilities [4]	**118.1**	–	–
Total liabilities	**992.8**	780.8	670.4
Shareholders' equity	**1,288.3**	1,281.4	1,115.5
Key Performance Indicators			
EBITDA margin [1]	**14.4%**	11.5%	12.9%
Operating margin [1]	**11.2%**	9.7%	11.0%
Return on average equity [1]	**12.7%**	11.5%	15.7%
Working capital ratio [1]	**8.56**	7.76	8.17
Long-term debt [3] to total capitalization [1]	**0.32:1**	0.29:1	0.29:1
Long-term debt [3] to EBITDA [1]	**1.93**	2.10	1.87
Dividend per share	**0.56**	0.48	0.44

(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) Comparative figures have been adjusted to conform to the current year's presentation.
(3) Including current portion of long-term debt.
(4) Including current portion of lease liabilities.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents the reconciliations of non-IFRS financial measures to their most comparable IFRS measures.

Reconciliation of net income to operating income and EBITDA	Three-month periods ended December 31,		Years ended December 31,	
	2019[(1)]	**2018**	**2019**[(1)]	**2018**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**27.7**	20.6	**163.1**	137.6
Plus:				
Provision for income taxes	**8.0**	6.4	**55.6**	49.6
Financial expenses	**5.7**	4.8	**23.6**	19.1
Operating income	**41.4**	31.8	**242.3**	206.3
Depreciation and amortization	**17.4**	10.0	**70.6**	38.1
EBITDA	**58.8**	41.8	**312.9**	244.4

(1) For the three-month period ended December 31, 2019, the adoption of IFRS 16 increased operating income and EBITDA by $0.3 million and $8.4 million respectively. For the year ended December 31, 2019, the adoption of IFRS 16 decreased operating income by $0.4 million and increased EBITDA by $32.0 million.

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.

	2019		2018	
US$/Cdn$ rate	**Average**	**Closing**	**Average**	**Closing**
First Quarter	**1.3318**	**1.3363**	1.2549	1.2894
Second Quarter	**1.3438**	**1.3087**	1.2893	1.3168
Third Quarter	**1.3177**	**1.3243**	1.3080	1.2945
Fourth Quarter	**1.3231**	**1.2988**	1.3129	1.3642
Fiscal Year	**1.3291**	**1.2988**	1.2913	1.3642

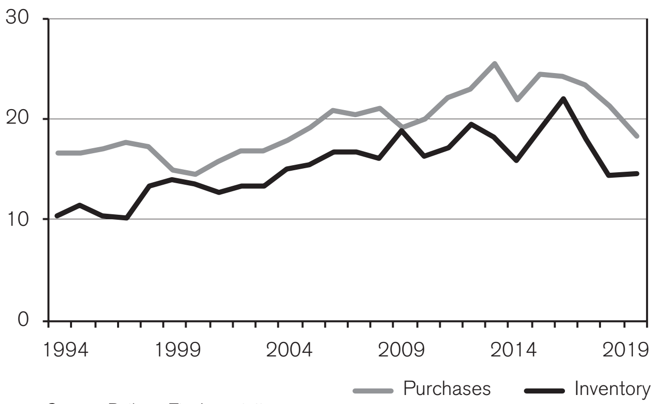
- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during 2019 compared to 2018 resulted in a positive impact on sales and an unfavourable impact on cost of sales.
- Closing rate: The depreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2019, compared to December 31, 2018 resulted in a lower 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 2019 were 18.5 million ties, versus 21.2 million ties for 2018. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Inventory levels remained fairly stable at 14.6 million as at December 31, 2019. As a result, the inventory-to-sales ratio was 0.77:1 as at December 31, 2019, in line with the previous ten-year average ratio of 0.78:1.

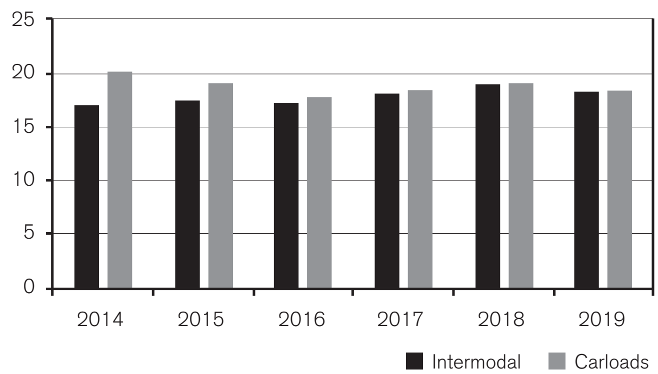
In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel-efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for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

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

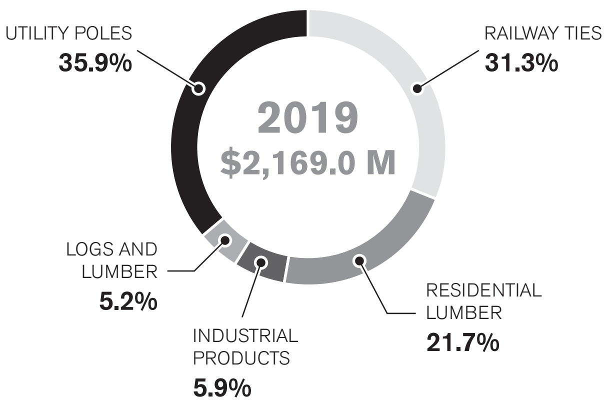
OPERATING RESULTS

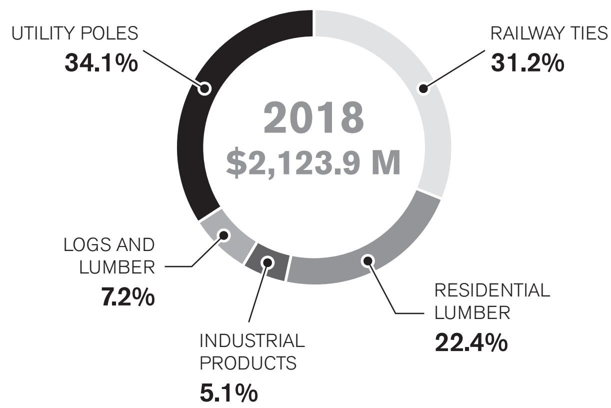
Sales

Sales for the year ended December 31, 2019 increased to $2,169.0 million, up $45.1 million, compared to last year's sales of $2,123.9 million. Excluding the contribution from 2018 acquisitions of $11.6 million and the positive impact of the currency conversion of $41.9 million, sales decreased by $8.4 million, or 0.4%, in 2019. Higher pricing for utility poles and railway ties, and the increase in volumes for industrial products were more than offset by lower residential lumber and logs and lumber sales, as well as lower shipments for railway ties.

Sales	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)						
2018	**725.0**	**662.4**	**474.4**	**109.2**	**152.9**	**2,123.9**
Acquisitions	0.5	–	7.3	3.8	–	11.6
FX impact	17.3	16.2	4.5	2.9	1.0	41.9
Organic growth	36.4	(0.4)	(14.6)	12.3	(42.1)	(8.4)
2019	**779.2**	**678.2**	**471.6**	**128.2**	**111.8**	**2,169.0**
Organic growth %	5.0%	(0.1%)	(3.1%)	11.3%	(27.5%)	(0.4%)

SALES BY PRODUCT CATEGORY
(% of sales)

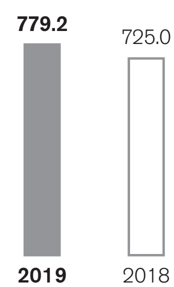




Utility Poles

Utility pole sales reached $779.2 million in 2019, up 7.5% from sales of $725.0 million in 2018. Excluding the contribution from 2018 acquisitions of $0.5 million and the currency conversion effect of $17.3 million, utility pole sales increased by $36.4 million, or 5.0%, primarily driven by increased sales price. Volume increases in the U.S. Southeast and overall healthy replacement demand, were largely offset by lower transmission pole volumes, given more project demand in the same period last year. Utility pole sales accounted for 35.9% of the Company's total sales in 2019.

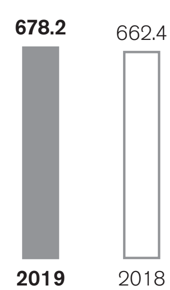
UTILITY POLE SALES
(in millions of $)



Railway Ties

Railway tie sales reached $678.2 million in 2019, up 2.4% from sales of $662.4 million in 2018. Excluding the currency conversion effect of $16.2 million, railway tie sales remained unchanged as higher selling prices compensated for the decrease in sales volumes. The reduction in the 2019 maintenance program of a Class 1 customer, as well as longer railway tie treating cycle times unfavourably impacted sales volumes. While demand for railway ties remained strong, the tight supply market for untreated railway ties required the Company to treat ties that were not air-seasoned which required longer cycle times. Railway tie sales accounted for 31.3% of the Company's total sales in 2019.

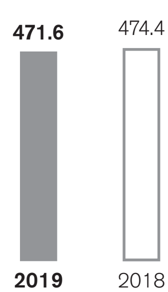
RAILWAY TIE SALES
(in millions of $)



Residential Lumber

Sales in the residential lumber category totalled $471.6 million in 2019, down by 0.6% from sales of $474.4 million in 2018. Excluding the contribution from 2018 acquisitions of $7.3 million and the currency conversion effect of $4.5 million, residential lumber sales decreased by $14.6 million, or 3.1%. This variance is primarily attributable to reduced selling prices, due to lower lumber costs compared to the same period last year, offset in part by higher volumes despite unfavourable weather conditions in Eastern Canada at the beginning of the year. Residential lumber sales accounted for 21.7% of the Company's total sales in 2019.

RESIDENTIAL LUMBER SALES
(in millions of $)

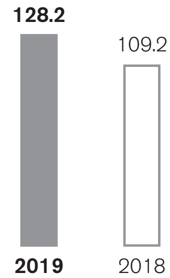


Industrial Products

Industrial product sales reached $128.2 million in 2019, compared with $109.2 million last year. Excluding the contribution from 2018 acquisitions of $3.8 million and the currency conversion effect of $2.9 million, sales increased $12.3 million, or 11.3%, primarily as a result of stronger rail-related and piling product sales. Industrial product sales represented 5.9% of the Company's total sales in 2019.

INDUSTRIAL PRODUCT SALES

(in millions of $)

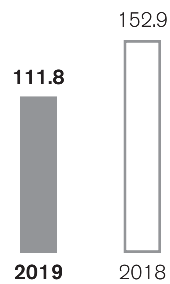


Logs and Lumber

Sales in the logs and lumber product category totalled $111.8 million in 2019, compared with $152.9 million in 2018. Excluding the currency conversion effect of $1.0 million, sales for this product category decreased by $42.1 million, or 27.5%, reflecting a decrease in selling prices driven by lower lumber market costs as well as lower volumes due to the timing of harvesting activities. Logs and lumber sales represented 5.2% of the Company's total sales in 2019.

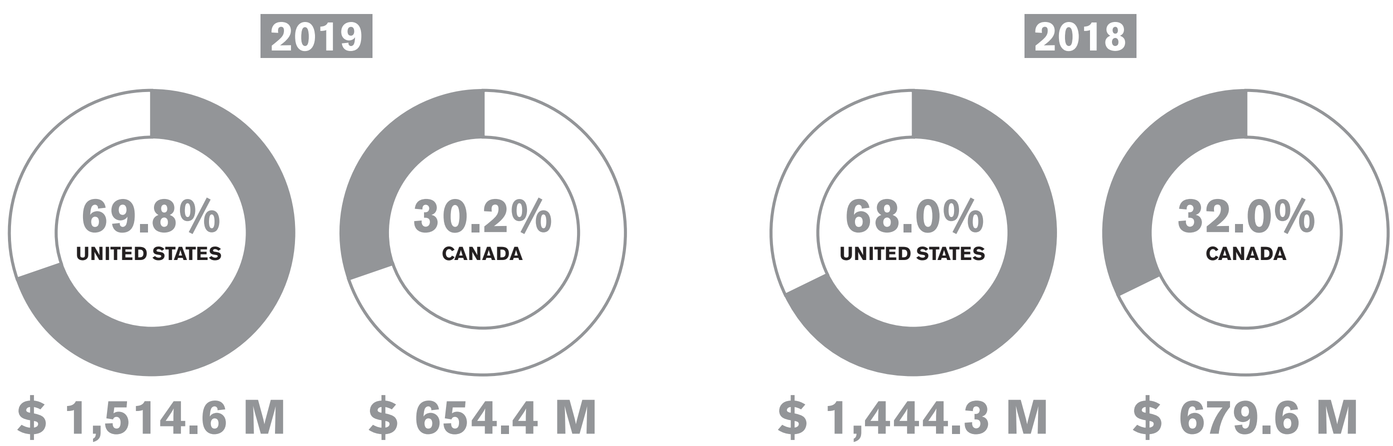
LOGS AND LUMBER SALES

(in millions of $)



SALES BY GEOGRAPHIC REGION

(% of sales)



Sales in the United States amounted to $1,514.6 million, or 69.8% of sales in 2019, representing an increase of $70.3 million, or 4.9%, over sales of $1,444.3 million in 2018. This year-over-year increase is mainly attributable to increased sales prices and strong demand for utility poles, higher sales for the industrial product category and the favourable effect of currency conversion.

Sales in Canada amounted to $654.4 million, or 30.2% of sales in 2019, representing a decrease of $25.2 million, or 3.7%, over sales of $679.6 million in 2018. This year-over-year decrease primarily reflects lower sales in the logs and lumber category, partially offset by higher railway sales.

Cost of Sales

Cost of Sales Detail	**Years ended December 31,**		
	2019	**2018**	**Variance**
(in millions of dollars)	**$**	$	$
Cost of sales before depreciation and amortization	**1,754.6**	1,771.6	(17.0)
Depreciation of property, plant and equipment	**23.8**	21.1	2.7
Amortization of intangible assets	**2.3**	3.2	(0.9)
Depreciation of right-of-use assets	**29.8**	–	29.8
Cost of sales	**1,810.5**	1,795.9	14.6

Cost of sales, including depreciation of right-of-use assets, property, plant and equipment, as well as amortization of intangible assets, was $1,810.5 million, or 83.5% of sales, in 2019. This compares with $1,795.9 million, or 84.6% of sales, in 2018.

Cost of sales before depreciation and amortization decreased $17.0 million, largely explained by lower sales volumes, the adoption of IFRS 16 under which operating lease expenses are no longer recognized as operating expenses and lower lumber costs compared to the previous year. These factors were partially offset by higher production costs for railway ties given the longer treatment cycles, and the effect of U.S. dollar fluctuations.

Total depreciation and amortization was $70.6 million in 2019, of which $55.9 million and $14.6 million were recorded under cost of sales and selling and administrative expenses, respectively, in the consolidated statement of income. The depreciation and amortization recorded under cost of sales was $31.6 million higher in 2019, largely reflecting the adoption of IFRS 16, whereby $29.8 million of depreciation for right-of-use assets was recognized.

Gross profit reached $358.5 million, or 16.5% of sales, in 2019, compared with $328.0 million, or 15.4% of sales, in 2018. Despite overall lower volumes and higher production costs from the increased cycle times for railway ties, gross profit improved due to higher selling prices for utility poles and railway ties and the favourable impact of the appreciation of the U.S. dollar relative to the Canadian dollar during 2019.

Selling and Administrative

Selling and administrative expense for 2019 was $116.6 million, including depreciation and amortization of $14.6 million compared to $112.8 million in 2018, including depreciation and amortization of $13.8 million. The increase is primarily explained by higher compensation expense of $6.4 million, including a $2.5 million increase in profit-sharing expense, higher information technology expense of $2.7 million, partially offset by lower stock-based compensation of $4.5 million. For 2019, customer relationships and non-compete agreements amortization expense of $12.0 million and depreciation of right-of-use assets of $2.6 million were recorded under selling and administrative expense. In 2018, an amortization expense for customer relationships and non-compete agreements of $13.8 million was recognized under cost of sales and reclassified to selling and administrative expense for comparative purposes in 2019. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 4.7% of sales in 2019 and in 2018.

Other Losses and Gains, Net

Other net gains of $0.4 million in 2019 included a $6.1 million reduction in the unrealized mark-to-market loss related to the diesel and petroleum derivative commodity contracts, partially offset by a $2.3 million realized loss on these derivative commodity contracts and a $3.1 million loss related to asset disposals and impairments. In 2018, other net losses of $8.9 million mainly consisted of an unrealized mark-to-market loss related to diesel and petroleum derivative commodity contracts.

Financial Expenses

Financial expenses for 2019 amounted to $23.7 million, up from $19.1 million in 2018. The increase is mainly due to the adoption of IFRS 16 whereby interest expenses of $4.0 million were recognized, as well as additional borrowings to finance capital expenditures and share repurchases.

Income Before Income Taxes and Income Tax Expense

Income before income taxes was $218.7 million, or 10.1% of sales, in 2019, versus $187.2 million, or 8.8% of sales, in 2018.

The provision for income taxes totalled $55.6 million in 2019, representing an effective tax rate of 25.4%. In 2018, the income tax expense was $49.6 million, equivalent to an effective tax rate of 26.5%.

The lower effective tax rate for 2019 is in large part attributable to a more favourable mix of taxable income within the Company's different tax jurisdictions.

Net Income

Net income for 2019 reached $163.1 million, or $2.37 per diluted share, versus net income of $137.6 million, or $1.98 per share, in 2018.

ACQUISITION OF A GROUP OF ASSETS

Shelburne Wood Protection Ltd.

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 $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 and was recorded at fair value using an effective interest rate of 3.31%. It will be paid to the seller in two equal amounts on the first and second anniversary of the transaction. The SWP acquisition has been accounted for as an acquisition of a group of assets.

QUARTERLY RESULTS

The Company's sales 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 also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; as a result, 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:

2019

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except EPS)	**$**	**$**	**$**	**$**	**$**
Sales	**440.7**	**661.8**	**626.6**	**439.9**	**2,169.0**
EBITDA	**63.8**	**94.2**	**96.1**	**58.8**	**312.9**
Operating income	**45.7**	**76.7**	**78.6**	**41.4**	**242.3**
Net income for the period	**29.5**	**52.3**	**53.7**	**27.7**	**163.1**
EPS — basic and diluted	**0.43**	**0.76**	**0.78**	**0.41**	**2.37**

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

Note: Due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.
Comparative figures were not restated as permitted by IFRS 16.

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators

	Q4–2019	Q4–2018	Variation	Variation
(in millions of dollars, except margins and EPS)			$	%
Operating results				
Sales	**439.9**	432.8	7.1	1.6%
Gross profit [(1)]	**70.2**	70.5	(0.3)	(0.4%)
EBITDA	**58.8**	41.8	17.0	40.7%
EBITDA margin	**13.4%**	9.7%	n/a	n/a
Operating income	**41.4**	31.8	9.6	30.2%
Net income	**27.7**	20.6	7.1	34.5%
EPS – basic & diluted	**0.41**	0.30	0.11	36.7%

(1) Adjusted to conform to the current year's presentation.
Note: Comparative figures were not restated as permitted by IFRS 16.

Operating Results

Sales for the fourth quarter of 2019 amounted to $439.9 million, up 1.6% from sales of $432.8 million for the same period in 2018. Excluding the $2.7 million conversion effect from the fluctuation in the value of the U.S. dollar, sales increased by $4.4 million, or 1.0%, as detailed below.

Sales	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)						
Q4-2018	**192.0**	**127.0**	**60.3**	**23.1**	**30.4**	**432.8**
FX impact	1.8	0.4	0.1	0.2	0.2	2.7
Organic growth	(2.9)	3.9	0.7	3.0	(0.3)	4.4
Q4-2019	**190.9**	**131.3**	**61.1**	**26.3**	**30.3**	**439.9**
Organic growth %	(1.5%)	3.1%	1.2%	13.0%	(1.0%)	1.0%

Utility pole sales amounted to $190.9 million, down slightly by 0.6% from $192.0 million the same period last year. Excluding the currency conversion effect, sales decreased 1.5% as higher pricing was more than offset by lower volumes, due to more transmission pole projects in the same period last year. Sales of railway ties reached $131.3 million, up 3.4% versus $127.0 million last year. Excluding the currency conversion effect, railway tie sales rose 3.1%, driven by price increases, partially offset by lower non-Class 1 volumes. Residential lumber sales reached $61.1 million, up slightly from $60.3 million last year. Excluding the currency conversion effect, sales grew 1.2%, reflecting higher sales volumes, largely offset by lower lumber prices when compared to the same period last year. Industrial product sales amounted to $26.3 million, up from $23.1 million a year ago. Excluding the currency conversion effect, sales increased 13.0% as a result of stronger volumes from rail related products. Logs and lumber sales of $30.3 million in the fourth quarter were relatively unchanged when compared to the same period last year.

Gross profit was $70.2 million, or 16.0% of sales, in the fourth quarter of 2019, versus $70.5 million, or 16.3% of sales, in the fourth quarter of 2018. While pricing improved compared to the same period last year, it was not sufficient to compensate for the lower utility pole volumes and higher production costs, mainly for railway ties. Operating income totalled $41.4 million, or 9.4% of sales, in the fourth quarter of 2019, versus $31.8 million, or 7.4% of sales, in 2018. The operating income for the fourth quarter of 2018 included other net losses of $9.6 million, mainly comprised of a non-cash mark-to-market loss related to diesel and petroleum derivative commodity contracts.

Net income for the period reached $27.7 million, or $0.41 per diluted share, compared with $20.6 million, or $0.30 per diluted share, in the prior year.

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 depreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2019, compared to December 31, 2018 (see "Foreign Exchange" on page 23), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2019, total assets stood at $2,281.1 million versus $2,062.2 million as at December 31, 2018. The increase in total assets largely reflects the addition of right-of-use assets and higher inventories, as detailed below. Note that the following table provides information on assets using select line items from the consolidated statements of financial position.

Assets	**As at December 31,**		
	2019	**2018**	**Variance**
(in millions of dollars)	**$**	$	$
Accounts receivable	**179.2**	192.4	(13.2)
Inventories	**970.6**	838.6	132.0
Other current assets	**41.9**	37.4	4.5
Total current assets	**1,191.7**	1,068.4	123.3
Property, plant and equipment	**567.8**	551.8	16.0
Right-of-use assets	**116.8**	-	116.8
Intangible assets	**114.7**	131.7	(17.0)
Goodwill	**284.9**	298.3	(13.4)
Other non-current assets	**5.2**	12.0	(6.8)
Total non-current assets	**1,089.4**	993.8	95.6
Total assets	**2,281.1**	2,062.2	218.9

Note: Comparative figures were not restated as permitted by IFRS 16.

Accounts receivable, net of a credit loss allowance of $0.4 million, was $179.2 million as at December 31, 2019, compared with $192.4 million, net of a credit loss allowance of $2.2 million, as at December 31, 2018. The decrease was mainly attributable to the reduction in days of sales outstanding and the effect of currency translation of U.S. dollar denominated accounts receivable. In the normal course of business, the Company has a facility to which it can sell, without credit recourse, eligible trade receivables. No receivables were outstanding under such facility as at December 31, 2019 and 2018.

Inventories stood at $970.6 million as at December 31, 2019, up from $838.6 million as at December 31, 2018. The increase is explained by higher levels of untreated railway ties due to improved availability, and higher inventory levels for utility poles in preparation for higher expected deliveries in the first half of 2020. These factors were partially offset by the effect of currency translation of U.S. dollar denominated inventories.

Given 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 and the turnover is 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. The Company maintains solid relationships and enters into long-term contracts with customers 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.

Property, plant and equipment stood at $567.8 million as at December 31, 2019, compared with $551.8 million as at December 31, 2018. The increase mainly reflects the purchase of property, plant and equipment of $65.8 million during 2019, partially offset by depreciation of $23.8 million for the period and the effect of currency translation of U.S.-denominated property, plant and equipment.

The adoption of IFRS 16 resulted in the addition of right-of-use assets which totalled $116.8 million as at December 31, 2019. Please refer to the impact of new accounting pronouncements and interpretation section on page 41 for further details on right-of-use assets.

Intangible assets and goodwill totalled $114.7 million and $284.9 million, respectively, as at December 31, 2019. Intangible assets include customer relationships, non-compete agreements, a creosote registration, cutting rights, standing timber and software. As at December 31, 2018, intangible assets and goodwill were $131.7 million and $298.3 million, respectively. The decrease in intangible assets is explained by amortization of $14.3 million and the effect of currency translation on U.S.-based intangible assets. The decrease in goodwill is entirely due to the effect of currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2019, Stella-Jones' total liabilities stood at $992.8 million, up from $780.8 million as at December 31, 2018. The increase in total liabilities mainly reflects the addition of lease liabilities and the increase in long-term debt, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities	**As at December 31,**		
	2019	**2018**	**Variance**
(in millions of dollars)	**$**	$	$
Accounts payable and accrued liabilities	**136.2**	133.3	2.9
Current portion of long-term debt	**6.5**	9.7	(3.2)
Current portion of lease liabilities	**29.2**	–	29.2
Other current liabilities	**10.2**	16.4	(6.2)
Total current liabilities	**182.1**	159.4	22.7
Long-term debt	**598.4**	503.8	94.6
Lease liabilities	**88.9**	–	88.9
Other non-current liabilities	**123.4**	117.6	5.8
Total non-current liabilities	**810.7**	621.4	189.3
Total liabilities	**992.8**	780.8	212.0

Note: Comparative figures were not restated as permitted by IFRS 16.

The adoption of IFRS 16 resulted in the addition of lease liabilities totalling $118.1 million, of which $29.2 million is classified as current and $88.9 million is classified as non-current. Please refer to the impact of new accounting pronouncements and interpretation section on page 41 for further details on lease liabilities.

The Company's long-term debt, including the current portion, was $604.9 million as at December 31, 2019, versus $513.5 million as at December 31, 2018. The increase mainly reflects borrowings made to support working capital requirements, partially offset by the effect of currency translation on U.S. dollar denominated 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, March 15, 2018 and 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 Stella-Jones Inc., Stella-Jones Corporation and Stella-Jones U.S. Holding Corporation (collectively, the "Borrowers") by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325.0 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.

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$350.0 million, provided that no more than five term loans in total may be outstanding at any time. The Borrowers may obtain 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.

As at December 31, 2019, an amount of $150.8 million (US $116.1 million) was available against the Company's syndicated credit facilities of $552.0 million (US$425.0 million) and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' Equity

Shareholders' equity stood at $1,288.3 million as at December 31, 2019, compared to $1,281.4 million as at December 31, 2018.

Shareholders' Equity	As at December 31,		
	2019	**2018**	**Variance**
(in millions of dollars)	**$**	$	$
Capital Stock	**217.0**	221.3	(4.3)
Contributed surplus	**0.4**	0.3	0.1
Retained earnings	**967.8**	909.1	58.7
Accumulated other comprehensive income	**103.1**	150.7	(47.6)
Total shareholders' equity	**1,288.3**	1,281.4	6.9

Note: Comparative figures were not restated as permitted by IFRS 16.

The increase in shareholders' equity as at December 31, 2019 is attributable to net income of $163.1 million during 2019, partially offset by other comprehensive loss of $50.1 million mainly resulting from the currency translation of foreign operations, dividends of $38.5 million and share repurchases of $69.0 million. As at December 31, 2018, the Company had unsettled transactions to repurchase common shares for cash consideration of $1.6 million.

In the three-month period ended December 31, 2019, as part of its Normal Course Issuer Bid, the Company repurchased 924,212 common shares for cancellation in consideration of $34.9 million. In 2019, the Company repurchased 1,836,250 common shares for cancellation in consideration of $70.6 million. Since the launch of the Normal Course Issuer Bid on December 20, 2018, the Company has repurchased 1,942,093 common shares for cancellation in consideration of $74.7 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of Cash Flows	Years ended December 31,	
	2019	**2018**
(in millions of dollars)	**$**	$
Operating activities	**89.9**	128.1
Financing activities	**(24.2)**	(26.0)
Investing activities	**(65.7)**	(108.5)
Net change in cash and cash equivalents during the period	**–**	(6.4)
Cash and cash equivalents - beginning	**–**	6.4
Cash and cash equivalents - end	**–**	–

Note: Comparative figures were not restated as permitted by IFRS 16.

The Company believes that its cash flow from operations and available syndicated credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets for the foreseeable future.

Cash Flows From Operating Activities

Cash flows provided by operating activities generated $89.9 million in 2019, versus $128.1 million in 2018. The decrease mainly reflects an increase in non-cash working capital components, offset in part by increased profitability. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $305.0 million in 2019, compared to $258.0 million in 2018. This increase mostly reflects higher profitability. Changes in non-cash working capital components decreased liquidity by $146.4 million in 2019. This was mainly due to an increase in inventory levels. The following table provides information on cash flows provided by operating activities using select line items from the consolidated statements of cash flows.

Cash Flows From Operating Activities	**Years ended December 31,**	
	2019	**2018**
(in millions of dollars)	**$**	$
Net income	**163.1**	137.6
Loss (gain) on derivative financial instruments	**(6.1)**	8.6
Depreciation of right-of-use assets	**32.4**	–
Others	**115.6**	111.8
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**305.0**	258.0
Inventories	**(162.2)**	(56.7)
Accounts receivable	**6.2**	(13.2)
Accounts payable and accrued liabilities	**11.4**	13.4
Other current assets	**(1.7)**	(15.3)
Changes in non-cash working capital components	**(146.4)**	(71.8)
Interest paid	**(24.2)**	(18.7)
Income taxes paid	**(44.6)**	(39.4)
Cash flows from operating activities	**89.9**	128.1

Note: Comparative figures were not restated as permitted by IFRS 16.

Cash Flows From Financing Activities

Financing activities for 2019 reduced liquidity by $24.2 million. In 2019, the Company borrowed $126.0 million under its syndicated credit facilities, repurchased common shares for $70.6 million, paid dividends of $38.5 million and repaid lease liabilities for $31.1 million. In 2018, financing activities reduced liquidity by $26.0 million, primarily due to dividend payments of $33.3 million.

The following table provides information on cash flows provided by financing activities using select line items from the consolidated statements of cash flows.

Cash Flows From Financing Activities	Years ended December 31,	
	2019	**2018**
(in millions of dollars)	**$**	$
Net change in syndicated credit facilities	**126.0**	18.7
Repayment of long-term debt	**(10.2)**	(6.7)
Repayment of lease liabilities	**(31.1)**	–
Repurchase of common shares	**(70.6)**	(4.0)
Dividends	**(38.5)**	(33.3)
Other	**0.2**	(0.7)
Cash flows from financing activities	**(24.2)**	(26.0)

Note: Comparative figures were not restated as permitted by IFRS 16.

Cash Flows From Investing Activities

Investing activities used liquidity of $65.7 million in 2019, primarily due to the purchase of property, plant and equipment. The SWP acquisition concluded on April 1, 2019 for $9.2 million was accounted for as an acquisition of a group of assets and is included in purchase of property, plant and equipment. In 2018, investing activities reduced liquidity by $108.5 million as acquisitions required an investment of $54.5 million, while the purchase of property, plant and equipment required $51.6 million in liquidity, as detailed below. The following table provides information on cash flows provided by investing activities using select line items from the consolidated statements of cash flows.

Cash Flows From Investing Activities	Years ended December 31,	
	2019	**2018**
(in millions of dollars)	**$**	$
Business acquisitions	**–**	(54.5)
Purchase of property, plant and equipment	**(65.8)**	(51.6)
Other	**0.1**	(2.4)
Cash flows from investing activities	**(65.7)**	(108.5)

Financial Obligations

The following table details the maturities of the financial obligations as at December 31, 2019:

Financial obligations	Carrying Amount	Contractual Cash flows	Less than 1 year	Years 2-3	Years 4-5	More than 5 years
(in million of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	136.2	136.2	136.2	–	–	–
Long-term debt obligations [1]	604.9	696.1	25.8	51.8	510.4	108.1
Minimum payments under lease liabilities	118.1	131.5	32.5	51.7	24.8	22.5
Derivative commodity contracts	2.0	2.0	1.8	0.2	–	–
Non-compete agreements	2.7	2.8	1.5	1.3	–	–
Financial obligations	**863.9**	**968.6**	**197.8**	**105.0**	**535.2**	**130.6**

[1] Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2019.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2019, the capital stock issued and outstanding of the Company consisted of 67,466,709 common shares (69,267,732 as at December 31, 2018). The following table presents the outstanding capital stock activity for the year ended December 31, 2019:

Number of shares	Year Ended December 31, 2019
(in thousands)	
Balance – Beginning of year	69,268
Employee share purchase plans	35
Repurchase of common shares	(1,836)
Balance – End of year	**67,467**

As at March 10, 2020, the capital stock issued and outstanding consisted of 67,466,709 common shares.

As at December 31, 2019, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 45,000 (December 31, 2018 – 45,000) of which 45,000 (December 31, 2018 – 39,000) were exercisable. As at March 10, 2020, the number of outstanding options was 45,000, of which 45,000 were exercisable.

DIVIDENDS

In 2019, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 14, 2019	April 5, 2019	April 26, 2019	0.14
May 1, 2019	June 6, 2019	June 27, 2019	0.14
August 6, 2019	September 2, 2019	September 20, 2019	0.14
November 6, 2019	December 2, 2019	December 19, 2019	0.14

Subsequent to year end, on March 10, 2020, the Board of Directors declared a quarterly dividend of $0.15 per common share payable on April 24, 2020 to shareholders of record at the close of business on April 3, 2020. 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 on the Company's balanced capital allocation strategy. 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. The Company believes that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's cash flows, financial position or results of operations.

The Company has issued guarantees amounting to $27.5 million in 2019 (2018 – $29.7 million) under letters of credit and various bid and performance bonds. The Company 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 the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and 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 substantial reduction in its results. For the year ended December 31, 2019, the Company's top ten customers accounted for approximately 45.1% of its sales. During this same period, the Company's largest customer accounted for approximately 15.8%, of its total sales and is associated with the residential lumber product category while the second largest customer accounted for approximately 8.0% of total sales and is associated with 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 and supply. 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 sufficient timber to the Company. The effects of regional weather conditions could also reduce the availability of wood supply and adversely impact the Company's results.

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. Moreover, certain suppliers may elect to cease production of specific preservatives altogether, creating availability challenges and requiring the Company to evaluate the reasonableness of producing such preservatives internally versus sourcing safe and reliable substitute products that are reasonably priced, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching and identifying alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products.

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 or could change the availability or pricing of certain products such as preservatives purchased and used by the Company.

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 adversely impact the Company's business, financial position and operating results. 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 adversely impact the Company's financial position, operating results, and cash flows.

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. Although the final outcome cannot be predicted with any degree of certainty, the Company regularly assesses the status of these matters and establishes provisions based on the assessment of the probable outcome. If the assessment is not correct, the Company may not have recorded adequate provision for such losses and the Company's financial position, operating results and cash flows could be adversely impacted. Regardless of outcome, litigation could result in substantial costs to the Company and 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 that are in accordance with customary industry practice, 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, 2019, 76.2% 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 an adverse effect on the Company's profitability, cash flows and financial position.

Availability of Credit Risk

The agreements governing the syndicated credit facilities and senior notes contain certain restrictive covenants that impose operating and financial restrictions and could limit the Company's ability to engage in activities that might be in its long-term best interests. In addition, a breach of the covenants under the Company's syndicated credit facilities and senior notes could result in an event of default, which could allow lenders to accelerate the repayment of the debt. In this event, the Company may seek to refinance its indebtedness, but be unable to do so on commercially reasonable terms. As a result, the Company could be limited in how it conducts its business, be unable to compete effectively or to take advantage of new business opportunities.

There is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, the Company may need to amend certain agreements and it cannot predict what alternative index would be negotiated with its counterparties. As a result, interest expense could increase and liquidity may be adversely affected. In the future, the Company may need to renegotiate its variable rate debt or incur other indebtedness, and the phase-out of LIBOR may negatively impact the terms of such indebtedness.

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 or an impact to customers or suppliers. 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.

Enterprise Resource Planning ("ERP") Implementation Risk

The Company is in the process of implementing a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company expects to complete the development phase in 2020 and be fully operational across the organization by the end of 2021. During the implementation process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over financial reporting and disclosure controls and procedures. In addition, it is possible that the implementation process may exceed the expected time frame and budget and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased-in approach and believes it is taking the necessary steps, including deploying both internal and external resources, to mitigate the implementation risk.

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 accepted 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 the Company 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 the Company may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have an adverse effect on net income or cash flows.

Coronavirus (COVID-19 virus) Risk

The Company is monitoring the outbreak of the COVID-19 virus. While the potential impact of the outbreak remains unknown, the spread of the COVID-19 virus could directly or indirectly disrupt the Company's operations and those of its suppliers and customers, which in turn could adversely impact the business, financial position, results of operations and cash flows of the Company.

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, 2019, the Company had two interest rate swap agreements hedging $240.3 million in debts and having April 2021 and December 2021 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2019, of fixed and floating debt was 76.2% and 23.8%, respectively, including the effects of interest rate swap positions (96.0% and 4.0%, respectively, as at December 31, 2018).

Foreign Exchange Risk Management

The Company's financial results are reported in Canadian dollars, while a portion of its 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, 2019, 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, 2019, the Company had commodity hedges for 6.0 million gallons (12.0 million in 2018) of diesel and petroleum covering requirements for 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, 2019 and 2018 audited consolidated financial statements as well as in the impact of new accounting pronouncements and interpretation section in the MD&A.

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 consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. 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 and interpretation

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 Company retrospectively adopted IFRS 16, *Leases*, on January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. 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.

On adoption of IFRS 16, 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. 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.

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.

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:

Right-of-use assets	January 1, 2019
(in millions of dollars)	$
Rolling stock: mobile equipment, road vehicles and rail cars	79.6
Land	33.3
Other assets	7.8
Total	**120.7**

As at December 31, 2018, the Company reported future minimum payments under operating leases of $132.8 million which corresponds to the present value of lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019 of $120.7 million.

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

Lease liability	January 1, 2019
(in millions of dollars)	$
Current lease liabilities	28.3
Non-current lease liabilities	92.4
Total	**120.7**

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. The adoption of these amendments had no significant impact on the Company's consolidated financial statements.

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 consolidated financial statements.

IAS 39, IFRS 9 and IFRS 7 – *Interest Rate Benchmark Reform*

In September 2019, the IASB issued *Exposure Draft, Interest Rate Benchmark Reform, Amendments* to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments Recognition and Measurement* and IFRS 7, *Financial Instruments Disclosure*, enabling hedge accounting to continue during the period of uncertainty before existing interest rate benchmarks are replaced with alternative risk-free interest rates. The amendments are effective as of January 1, 2020, with early adoption permitted, and apply to hedge relationships that exist at the beginning of the reporting period or are designated thereafter, and to the gains or losses that exist in other comprehensive income on adoption. Adopting these amendments will allow the Company to maintain current hedge accounting relationships and to assume that the current benchmark rates will continue to exist, with no consequential impact on the consolidated financial statements. During the fourth quarter, the Company early adopted this amended standard and this change had no impact on the Company's consolidated financial statements.

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, 2019 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, 2019.

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, 2019 to December 31, 2019 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

The Company's utility pole and railway tie product categories are essential components of the North American utility infrastructure and basic transportation. 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 telecommunication and railway networks.

Based on the assumptions that current market and economic conditions stabilize and foreign exchange rates and raw material prices remain comparable to those of the prior year, the Company expects higher year-over-year overall sales, driven by increased market reach in the utility pole, railway tie and residential lumber product categories. Sales growth is expected to support an improvement in operating margins. As a result, notwithstanding any additional acquisitions, EBITDA in 2020 is forecasted to be in the range of $320.0 million to $345.0 million, compared to $312.9 million in 2019.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. For 2020, sales and margins are expected to improve, driven by better pricing, healthy demand for replacement programs and greater market penetration.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. For 2020, sales and margins are forecasted to increase year-over-year. Improved untreated railway tie inventory availability should lead to opportunistic sales to Class 1 and non-Class 1 customers and allow for shorter treating cycle times. A stronger mix of non-Class 1 sales should result in improved margins.

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. For 2020, sales are expected to increase year-over-year, mainly driven by increased volume and market reach. Management closely monitors changes in the North American lumber markets and adjusts pricing accordingly in order to maintain dollar margins on similar volumes. While absolute dollar margins are expected to increase due to higher sales volume, margin as a percentage of sales is expected to remain at levels similar to those of 2019.

For 2020, in the industrial product category, sales are expected to be slightly lower as railway related maintenance should require less bridge and crossing components.

In the logs and lumber product category, sales in 2020 are forecasted to increase mainly due to higher lumber volumes. It is important to highlight that this product category enables the Company to optimize procurement and does not generate a margin. Logs and lumber pricing is closely tied to the market price of lumber. As a result, an increase or decrease in the price of lumber will directly impact sales as the price of lumber is a pass through to customers. In turn, overall margins as a percentage of sales, when taken as a whole with other product categories, will be impacted.

The Company plans to invest between $45.0 million and $55.0 million in capital asset expenditures during 2020. This includes an investment for storm water control and the construction of a new distribution centre to improve the operating performance of the newly acquired Shelburne facility, as well as expenditures to implement a new ERP system. In addition, the Company will continue to focus on improving operational efficiency and optimizing long-term preservative supply for its utility pole business.

As one of the leading North American 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 utility pole and railway tie business, while diligently seeking opportunities in all product categories.

The Company's strategic vision, focused on continental expansion, remains intact, as it 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, both organically and through acquisitions and enhance shareholder value.

March 10, 2020

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 four independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the consolidated 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.

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

Saint-Laurent, Québec
March 10, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stella-Jones Inc.

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, 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, 2019 and 2018;
- 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 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

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

- 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 10, 2020

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

As at December 31, 2019 and 2018
(expressed in thousands of Canadian dollars)

	Note	2019	2018
		$	$
ASSETS			
Current assets			
Accounts receivable	5	**179,161**	192,380
Inventories	6	**970,569**	838,558
Income taxes receivable		**5,976**	1,882
Other current assets		**36,027**	35,567
		1,191,733	1,068,387
Non-current assets			
Property, plant and equipment	7	**567,804**	551,785
Right-of-use assets	9	**116,755**	—
Intangible assets	8	**114,740**	131,658
Goodwill	8	**284,901**	298,270
Derivative financial instruments	19	**1,239**	7,545
Other non-current assets		**3,885**	4,559
		2,281,057	2,062,204
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	**136,237**	133,259
Income taxes payable		**1,046**	—
Derivative financial instruments	19	**1,998**	4,381
Current portion of long-term debt	11	**6,540**	9,714
Current portion of lease liabilities	9	**29,232**	—
Current portion of provisions and other long-term liabilities	12	**7,075**	12,016
		182,128	159,370
Non-current liabilities			
Long-term debt	11	**598,371**	503,767
Lease liabilities	9	**88,910**	—
Deferred income taxes	16	**100,520**	92,557
Provisions and other long-term liabilities	12	**11,663**	13,959
Employee future benefits	17	**11,035**	7,393
Derivative financial instruments	19	**128**	3,748
		992,755	780,794
Shareholders' equity			
Capital stock	14	**216,958**	221,328
Contributed surplus		**386**	348
Retained earnings		**967,823**	909,060
Accumulated other comprehensive income		**103,135**	150,674
		1,288,302	1,281,410
		2,281,057	2,062,204
Commitments and contingencies	18		
Subsequent events	23		

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

Approved by the Board of Directors,

Katherine A. Lehman
Director

Karen Laflamme, FCPA, FCA, ASC
Director

For the years ended December 31, 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 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 14)	(469)	–	(5,196)	–	–	–	–	(5,665)
Share-based compensation (note 14)	–	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
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 year	–	–	163,078	–	–	–	–	163,078
Other comprehensive income (loss)	–	–	(2,581)	(60,824)	18,012	(4,727)	(47,539)	(50,120)
Comprehensive income (loss) for the year	–	–	160,497	(60,824)	18,012	(4,727)	(47,539)	112,958
Dividends on common shares	–	–	(38,469)	–	–	–	–	(38,469)
Employee share purchase plans	1,387	–	–	–	–	–	–	1,387
Repurchase of common shares (note 14)	(5,757)	–	(63,265)	–	–	–	–	(69,022)
Share-based compensation (note 14)	–	38	–	–	–	–	–	38
	(4,370)	38	(101,734)	–	–	–	–	(106,066)
Balance – December 31, 2019	216,958	386	967,823	191,325	(89,011)	821	103,135	1,288,302

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

For the years ended December 31, 2019 and 2018
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2019	2018
		$	$
Sales		**2,169,023**	2,123,893
Expenses			
Cost of sales (including depreciation and amortization of $55,927 (2018 - $24,298))	24	**1,810,504**	1,795,928
Selling and administrative (including depreciation and amortization of $14,596 (2018 - $13,804))	24	**116,598**	112,800
Other losses (gains), net		**(416)**	8,864
	15	**1,926,686**	1,917,592
Operating income		**242,337**	206,301
Financial expenses	15	**23,655**	19,102
Income before income taxes		**218,682**	187,199
Provision for income taxes			
Current	16	**41,335**	39,018
Deferred	16	**14,269**	10,584
		55,604	49,602
Net income for the year		**163,078**	137,597
Basic and diluted earnings per common share	14	**2.37**	1.98

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

For the years ended December 31, 2019 and 2018
(expressed in thousands of Canadian dollars)

	2019	2018
	$	$
Net income for the year	**163,078**	137,597
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	**(60,824)**	101,529
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**18,012**	(34,332)
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**–**	(3,270)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	**(6,434)**	1,372
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	**1,707**	(383)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	**(3,428)**	1,209
Income taxes on remeasurements of post-retirement benefit obligations	**847**	(282)
	(50,120)	65,843
Comprehensive income for the year	**112,958**	203,440

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

For the years ended December 31, 2019 and 2018
(expressed in thousands of Canadian dollars)

	Note	2019	2018
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		**163,078**	137,597
Adjustments for			
Depreciation of property, plant and equipment	7	**23,831**	21,086
Amortization of intangible assets	8	**14,331**	17,016
Depreciation of right-of-use assets	9	**32,361**	–
Loss (gain) on derivative financial instruments		**(6,131)**	8,601
Financial expenses		**23,655**	19,102
Current income taxes expense	16	**41,335**	39,018
Deferred income taxes	16	**14,269**	10,584
Provisions and other long-term liabilities		**(5,153)**	2,917
Other		**3,454**	2,060
		305,030	257,981
Changes in non-cash working capital components			
Accounts receivable		**6,162**	(13,230)
Inventories		**(162,231)**	(56,716)
Accounts payable and accrued liabilities		**11,438**	13,428
Other current assets		**(1,743)**	(15,335)
		(146,374)	(71,853)
Interest paid		**(24,216)**	(18,693)
Income taxes paid		**(44,522)**	(39,371)
		89,918	128,064
Financing activities			
Increase in deferred financing costs		**(259)**	(255)
Net change in syndicated credit facilities	13	**125,974**	18,742
Increase in long-term debt	13	**667**	–
Repayment of long-term debt	13	**(10,183)**	(6,705)
Repayment of lease liabilities	13	**(31,094)**	–
Repayment of non-competes payable	13	**(1,560)**	(1,745)
Dividends on common shares		**(38,469)**	(33,290)
Repurchase of common shares		**(70,649)**	(4,038)
Proceeds from issuance of common shares		**1,387**	1,330
		(24,186)	(25,961)
Investing activities			
Decrease (increase) in other assets		**995**	(836)
Business acquisitions	4	**–**	(54,491)
Addition of intangible assets		**(1,884)**	(4,028)
Purchase of property, plant and equipment		**(65,840)**	(51,568)
Proceeds on disposal of assets		**997**	2,390
		(65,732)	(108,533)
Net change in cash and cash equivalents during the year		**–**	(6,430)
Cash and cash equivalents – Beginning of year		**–**	6,430
Cash and cash equivalents – End of year		**–**	–

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

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

1 DESCRIPTION OF THE BUSINESS

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the “Company”) is a leading producer and marketer of pressure treated wood products. The Company supplies North America’s 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 10, 2020.

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 Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries 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
Cascade Pole and Lumber Company	Stella-Jones Corporation	United States
McFarland Cascade Pole & Lumber Company	Stella-Jones Corporation	United States
Kisatchie Midnight Express, L.L.C.	Stella-Jones Corporation	United States

On December 31, 2019, Stella-Jones CDN Finance Inc., a wholly owned subsidiary, was liquidated into Stella-Jones Inc. On the same date, Stella-Jones U.S. Finance II Corporation, Stella-Jones U.S. Finance III Corporation, Stella-Jones U.S. II LLC and Stella-Jones U.S. III LLC, all wholly owned subsidiaries, were liquidated into SJ Holding.

On December 31, 2019, Lufkin Creosoting Co., Inc. merged into McFarland Cascade Holding, Inc. Shortly after, on the same date, the surviving entity, McFarland Cascade Holding, Inc., merged into Stella-Jones Corporation.

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 Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Foreign currency translation

a) Functional and presentation currency

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

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenues and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the consolidated statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses (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 operations that have a functional currency different from that of the Company are translated using the rate in effect at the consolidated statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income in shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the 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, within other losses (gains). 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, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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. The Company's significant experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a 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.

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

Property, plant and equipment

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	5 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 and selling and administrative expense in the consolidated statements of income.

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

Goodwill

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

Impairment

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

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. 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 when events or changes in circumstances warrant such consideration.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

IFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The new standard replaces the provisions of IAS 17, *Leases*, and the related interpretations on leases.

The adoption of IFRS 16, *Leases*, from January 1, 2019 resulted in a change in accounting policies applied retrospectively, without restatement of comparative amounts as permitted under the specific transitional provisions.

The Company leases certain property, plant and equipment.

Lease accounting policy prior to the adoption of IFRS 16 on January 1, 2019:

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 cost 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

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

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

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

Employee future benefits

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. The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized in the consolidated statement of income over the vesting period of the options granted, with a corresponding credit to contributed surplus. For grants of share-based awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related share-based compensation expense included in contributed surplus.

Cash-settled plan

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

Financial Instruments

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

Financial assets

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

a) Amortized cost — a financial asset is measured at amortized cost if both of the following conditions are met:
   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Lease

In January 2016, the IASB released IFRS 16, *Leases*, ("IFRS 16") 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 Company retrospectively adopted IFRS 16, on January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognized in the opening balance of the consolidated statement of financial position on January 1, 2019.

On adoption of IFRS 16, 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. 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.

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.

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:

Right-of-use assets	January 1, 2019
	$
Rolling stock (mobile equipment, road vehicles and rail cars)	79,588
Land	33,334
Other assets	7,809
Total	**120,731**

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 – Lease (continued)

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.

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

Lease liabilities	January 1, 2019
	$
Current lease liabilities	28,263
Non-current lease liabilities	92,468
Total	**120,731**

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 occurring from that date. The adoption of these amendments had no significant impact on the Company's consolidated financial statements.

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.

IAS 39, IFRS 9 and IFRS 7 – Interest Rate Benchmark Reform

In September 2019, the IASB issued *Exposure Draft, Interest Rate Benchmark Reform, Amendments* to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments Recognition and Measurement* and IFRS 7, *Financial Instruments Disclosure*, enabling hedge accounting to continue during the period of uncertainty before existing interest rate benchmarks are replaced with alternative risk-free interest rates. The amendments are effective as of January 1, 2020, with early adoption permitted, and apply to hedge relationships that exist at the beginning of the reporting period or are designated thereafter, and to the gains or losses that exist in other comprehensive income on adoption. Adopting these amendments will allow the Company to maintain current hedge accounting relationships and to assume that the current benchmark rates will continue to exist, with no consequential impact on the consolidated financial statements. During the fourth quarter, the Company early adopted this amended standard and this change had no impact on the Company's consolidated financial statements.

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. Management also makes estimates and assumptions in the context of business combination mainly with sales forecast, margin forecast 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%. 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.

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%. 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, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

5 ACCOUNTS RECEIVABLE

	2019	2018
	$	$
Trade receivables	**174,199**	184,376
Less: Credit loss allowance	**(412)**	(2,209)
Trade receivables – net	**173,787**	182,167
Amounts receivable from related parties	**–**	454
Other receivables	**5,374**	9,759
	179,161	192,380

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

	2019	2018
	$	$
Current	**118,900**	113,783
Past due 1-30 days	**36,580**	51,214
Past due 31-60 days	**10,385**	11,251
Past due more than 60 days	**8,334**	8,128
	174,199	184,376

In the normal course of business, the Company has a facility, to which it can sell without credit recourse, eligible trade receivables. No receivables were outstanding under such facility as at December 31, 2019 and 2018. During the year 2019, trade receivables of $25,991 (nil in 2018) were sold to this facility.

6 INVENTORIES

	2019	2018
	$	$
Raw materials	**655,074**	516,742
Finished goods	**315,495**	321,816
	970,569	838,558

December 31, 2019 and 2018
(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, 2018						
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 / impairments	(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**
Year ended December 31, 2019						
Opening net book amount	52,199	108,598	369,772	13,406	7,810	551,785
Additions	7,760	5,671	48,940	1,293	1,020	64,684
Disposals / impairments	(1,708)	(690)	(1,280)	(400)	–	(4,078)
Depreciation	–	(3,680)	(15,036)	(3,894)	(1,221)	(23,831)
Exchange differences	(1,474)	(4,510)	(14,027)	(499)	(246)	(20,756)
Closing net book amount	56,777	105,389	388,369	9,906	7,363	567,804
As at December 31, 2019						
Cost	56,777	131,460	487,791	31,239	17,546	724,813
Accumulated depreciation	–	(26,071)	(99,422)	(21,333)	(10,183)	(157,009)
Net book amount	**56,777**	**105,389**	**388,369**	**9,906**	**7,363**	**567,804**

December 31, 2019 and 2018
(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, 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 non-compete agreements were 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 covering a five-year period that are based on the latest financial budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on Management's forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTD have considered the current economic environment.

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

CGUs	2019	2018
	$	$
Plants specialized in the treatment of utility poles and residential lumber	**138,547**	144,546
Plants specialized in the treatment of railway ties	**146,354**	153,724
	284,901	298,270

Impairment tests for intangible assets with indefinite useful life

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

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

December 31, 2019 and 2018
(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, 2018								
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**
Year ended December 31, 2019								
Opening net book balance	4,934	72,010	3,128	6,023	2,959	42,604	131,658	298,270
Additions	–	–	–	1,664	220	–	1,884	–
Amortization	(199)	(10,763)	(1,219)	(900)	(1,250)	–	(14,331)	–
Exchange differences	–	(2,254)	(122)	–	(53)	(2,042)	(4,471)	(13,369)
Closing net book amount	4,735	58,993	1,787	6,787	1,876	40,562	114,740	284,901
As at December 31, 2019								
Cost	6,821	159,330	16,844	11,276	11,724	40,562	246,557	284,901
Accumulated amortization	(2,086)	(100,337)	(15,057)	(4,489)	(9,848)	–	(131,817)	–
Net book amount	**4,735**	**58,993**	**1,787**	**6,787**	**1,876**	**40,562**	**114,740**	**284,901**

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

9 LEASES

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

	December 31, 2019	January 1, 2019
	$	$
Right-of-use assets		
Rolling stock	**82,140**	79,588
Land	**28,735**	33,334
Other assets	**5,880**	7,809
	116,755	120,731
Lease liabilities		
Current lease liabilities	**29,232**	28,263
Non-current lease liabilities	**88,910**	92,468
	118,142	120,731

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

Right-of-use	Rolling stock	Land	Other assets	Total
	$	$	$	$
As at January 1, 2019	79,588	33,334	7,809	120,731
Additions	28,864	523	161	29,548
Disposals	(1,520)	–	–	(1,520)
Depreciation	(26,027)	(3,819)	(2,515)	(32,361)
Remeasurement	4,675	78	565	5,318
Exchange differences	(3,440)	(1,381)	(140)	(4,961)
As at December 31, 2019	**82,140**	**28,735**	**5,880**	**116,755**

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

Lease liabilities	Rolling stock	Land	Other assets	Total
	$	$	$	$
As at January 1, 2019	79,588	33,334	7,809	120,731
Payments under lease agreements	(28,555)	(3,906)	(2,620)	(35,081)
Finance costs	2,690	1,065	232	3,987
Additions	28,864	523	161	29,548
Lease termination payments	(1,346)	-	-	(1,346)
Remeasurement	4,675	78	565	5,318
Exchange differences	(3,468)	(1,405)	(142)	(5,015)
As at December 31, 2019	**82,448**	**29,689**	**6,005**	**118,142**

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

9 LEASES (CONTINUED)

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

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

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

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. From January 1, 2019, leases are recognized as a right-of-use with a corresponding liability at the date the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. A lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);
- 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%.

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.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	$	$
Trade payables	**65,314**	53,021
Amounts due to related parties	**–**	54
Accrued expenses	**54,265**	60,815
Other payables	**16,658**	19,369
	136,237	133,259

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

11 LONG-TERM DEBT

	Note	2019	2018
		$	$
Unsecured syndicated credit facilities	11(a)	**384,552**	273,055
Unsecured senior notes	11(b)	**194,820**	204,630
Unsecured promissory notes	11(c)	**14,480**	17,930
Secured promissory note	11(d)	**6,256**	7,321
Other	11(e)	**5,311**	11,150
		605,419	514,086
Deferred financing costs		**(508)**	(605)
		604,911	513,481
Less: Current portion of long-term debt		**6,628**	9,810
Less: Current portion of deferred financing costs		**(88)**	(96)
Total current portion of long-term debt		**6,540**	9,714
		598,371	503,767

a) 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 "Syndicated Credit Agreement"). Under the terms of the Syndicated Credit Agreement, the following syndicated credit facilities are made available to Stella-Jones Inc., Stella-Jones Corporation and SJ Holding (collectively, the "Borrowers"), 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. As at December 31, 2019 the syndicated credit facilities provided financing up to US$425,000 of which US$116,127 was available. Additionally, the Syndicated Credit Agreement makes available an accordion option whereas upon request, the Borrowers may increase the syndicated credit facilities by increasing the amount of one or more of the syndicated credit facilities or by adding one or more new non-revolving single draw term loans, in each case, up to an aggregate amount of US$350,000, 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.

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

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2019 are provided in Note 19, *Financial instruments*.

As at December 31, 2019, borrowings by Canadian entities denominated in U.S. dollars represented $153,258 (US$118,000) 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$75,000 under terms and conditions similar to those under the Syndicated Credit Agreement. This indebtedness, if required by the Company, will be presented under short term liabilities as the banks have the option to request reimbursement of their loans at any time. As at December 31, 2019 no amounts were drawn under the demand loan facilities.

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

11 LONG-TERM DEBT (CONTINUED)

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. The Company is required to maintain a net funded debt to EBITDA ratio, which includes the impact of IFRS 16, *Leases*, of no more than 3.50:1 and an interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2019, the Company was in full compliance with these covenants, requirements and ratios.

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 then outstanding. The notes were designated as hedges of net investment in foreign operations.

In order to maintain the senior notes in place, the Company is required to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the net funded debt to EBITDA ratio, which includes the impact of IFRS 16, *Leases*, 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, 2019, the Company was in full compliance with these covenants, requirements and ratios.

c) Pursuant to two business acquisitions dated June 3, 2016, the Company issued two unsecured promissory notes totalling $18,256 (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 several business acquisitions, the Company issued promissory notes and recorded a balance of purchase price totalling $14,989.

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

	Principal
	$
2020	7,069
2021	13,065
2022	1,236
2023	1,270
2024	483,269
Thereafter	100,238
	606,147
Fair value adjustment	(728)
	605,419

g) The aggregate fair value of the Company's long-term debt was estimated at $598,736 as at December 31, 2019 (2018 – $501,950) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

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12 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, 2018	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
Additions	2,211	735	2,946	5,080	–	5,080	8,026
Provision reversal	(2,067)	(1,705)	(3,772)	(2,486)	–	(2,486)	(6,258)
Payments	(2,730)	(579)	(3,309)	(3,612)	(1,560)	(5,172)	(8,481)
Interest accretion	–	–	–	–	116	116	116
Exchange differences	(409)	(57)	(466)	–	(174)	(174)	(640)
Balance as at December 31, 2019	**9,101**	**1,688**	**10,789**	**5,288**	**2,661**	**7,949**	**18,738**

Analysis of provisions and other long-term liabilities:

	2019	2018
	$	$
Current		
Provisions	**5,614**	9,294
Other long-term liabilities	**1,461**	2,722
Total current	**7,075**	12,016
Non-current		
Provisions	**5,175**	6,095
Other long-term liabilities	**6,488**	7,864
Total non-current	**11,663**	13,959
	18,738	25,975

12 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

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 a pre-tax rate of 3.10% that reflect current market assessment of the time value of money and the risk specific to the obligation.

As of December 31, 2019, a total site remediation provision of $9,101 (2018 - $12,096) 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 21, 2016 reached their third-year anniversary on March 21, 2019 and were fully paid.

On March 19, 2018 and March 19, 2019, the Company granted a total of 62,606 RSUs to certain executives and key employees as part of the long-term incentive plan.

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, the Company granted Mr. Brian McManus, the Company's former President and Chief Executive Officer, 200,000 RSUs, with an effective grant date of May 7, 2018. Scheduled vesting dates were 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. On May 7, 2019, the first 60,000 RSUs were paid. Mr. McManus stepped down as President and Chief Executive Officer, effective October 11, 2019 and forfeited all remaining RSUs. Therefore, the related provision of $2,486 was reversed.

Deferred share units

On May 1, 2019, the Company's Board of Directors approved a Deferred Share Unit Plan for non-executive directors of Stella-Jones Inc. ("DSU Plan") having the purpose of providing DSU Plan participants with a supplemental form of compensation while promoting greater alignment of the interests of the participants and the shareholders of the Company in creating long-term shareholder value.

Under the DSU Plan, on or about July 1st of each year ("DSU Award Date"), participants who are non-executive Board members as well as the Chair of the Board, receive a minimum participation amount of $15 and $25 respectively, or such other amount as shall be determined by the Board of Directors in any given year, and to which they may add a portion of their Board fees ("Deferred Remuneration"), which is then divided by the average closing price of the Company's common shares on the Toronto Stock Exchange during the 5 trading days immediately preceding the DSU Award Date ("DSU Value"). Each participant receives such number of DSUs as is obtained by dividing the Deferred Remuneration by the DSU Value on the DSU Award Date.

On July 3, 2019, a total of 2,126 DSUs were awarded.

All DSUs vest and are settled for cash on the Settlement Date, which is triggered when a participant ceases to be a Board member. On the Settlement Date, total vested DSUs are multiplied by the average closing price of the Company's common shares on the Toronto Stock Exchange during the 5 trading days immediately preceding the Settlement Date.

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13 CASH FLOW INFORMATION

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2019 and 2018:

	Liabilities from financing activities				
	Long-term debt	Syndicated credit facilities	Lease liabilities	Non-competes payable	Total
	$	$	$	$	$
Balance as at January 1, 2018	(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)**
Recognized on adoption of IFRS 16 (note 9)	–	–	(120,731)	–	(120,731)
Cash flows	9,516	(125,974)	31,094	1,560	(83,804)
Foreign exchange adjustments	11,197	14,477	5,015	174	30,863
Lease additions	–	–	(27,849)	–	(27,849)
Other non-cash movements	(647)	–	(5,671)	(116)	(6,434)
Balance as at December 31, 2019	**(220,359)**	**(384,552)**	**(118,142)**	**(2,661)**	**(725,714)**

14 CAPITAL STOCK

	2019	2018
Number of common shares outstanding – Beginning of year*	**69,268**	69,342
Employee share purchase plans*	**35**	32
Repurchase of common shares*	**(1,836)**	(106)
Number of common shares outstanding – End of year*	**67,467**	69,268

* 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

14 CAPITAL STOCK (CONTINUED)

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

	2019	2018
Net income applicable to common shares	**$ 163,078**	$ 137,597
Weighted average number of common shares outstanding*	**68,761**	69,352
Effect of dilutive stock options*	**7**	8
Weighted average number of diluted common shares outstanding*	**68,768**	69,360
Basic and diluted earnings per common share**	**$ 2.37**	$ 1.98

* 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. During the twelve-month period ended December 31, 2019, the Company repurchased 1,794,588 common shares for cancellation in consideration of $69,022 representing an average price of $38.46 per common share. As at December 31, 2018, the Company had unsettled transactions to repurchase 41,662 common shares for a cash consideration of $1,627 representing an average price of $39.05 per common share. At that date, 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.

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.

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14 CAPITAL STOCK (CONTINUED)

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

	2019		2018	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		$		$
Outstanding – End of year	**45**	**40.05**	45	40.05
Options exercisable – End of year	**45**	**40.05**	39	38.67

The following options were outstanding under the Plan as at December 31, 2019:

	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	30	49.01	November 2025
	45		**45**		

* 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 2019. The 2019 expense recorded for share-based compensation amortized to earnings was $38 (2018 – $50).

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 2019, 20,482 common shares (2018 – 17,591) were issued to Canadian resident employees at an average price of $34.58 per share (2018 – $37.02).

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 2019, 14,745 common shares (2018 – 13,889) were issued to U.S. resident employees at an average price of $37.55 per share (2018 – $40.11).

g) Related party transactions
As of January 1, 2018, 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.

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15 EXPENSES BY NATURE

	2019	2018
	$	$
Raw materials and consumables	**1,512,171**	1,537,542
Employee benefit expenses	**148,014**	143,473
Depreciation and amortization	**70,523**	38,102
Other expenses incurred in manufacturing process	**45,680**	43,746
Freight	**109,128**	105,513
Other expenses	**41,170**	49,216
	1,926,686	1,917,592

	2019	2018
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**136,566**	127,587
Share options granted to directors and employees	**38**	50
RSUs	**2,594**	7,189
Pension costs	**2,252**	2,259
Group registered retirement savings plans	**6,564**	6,388
	148,014	143,473

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

	2019	2018
	$	$
Financial expenses		
Interest on syndicated credit facilities	**10,994**	10,168
Interest on promissory notes and non-compete agreements	**1,382**	1,797
Interest on unsecured senior notes	**7,292**	7,137
Interest on lease liabilities	**3,987**	–
	23,655	19,102

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16 INCOME TAXES

	2019	2018
	$	$
Current tax		
Current tax on income for the year	**41,191**	38,710
Adjustments in respect of prior years	**144**	308
Total current tax	**41,335**	39,018
Deferred tax		
Origination and reversal of temporary differences	**16,420**	10,965
Impact of change in tax rate	**(795)**	(191)
Adjustments in respect of prior years	**(1,356)**	(190)
Total deferred tax	**14,269**	10,584
Income tax expense	**55,604**	49,602

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:

	2019	2018
	$	$
Income before income tax	**218,682**	187,199
Tax calculated at domestic tax rates of 26.39% (2018 – 26.46%) applicable to income in the respective countries	**57,710**	49,533
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**521**	454
Income not subject to tax	**(5,029)**	(5,368)
Expenses not deductible for tax purposes	**4,362**	5,062
Remeasurement of deferred tax – change in tax rate	**(795)**	(191)
Adjustments in respect of prior years' tax expense	**(706)**	118
Recognition of prior years' tax credits	**(506)**	-
Other	**47**	(6)
Income tax expense	**55,604**	49,602

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

16 INCOME TAXES (CONTINUED)

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

	2019	2018
	$	$
Deferred tax assets		
To be recovered after 12 months	**3,187**	2,894
To be recovered within 12 months	**9,150**	11,454
Deferred tax liabilities		
To be reversed after 12 months	**(112,857)**	(106,905)
Deferred tax liability, net	**(100,520)**	(92,557)

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

	2019	2018
	$	$
As at January 1	**(92,557)**	(72,408)
Recognized in the consolidated statement of income	**(14,269)**	(10,584)
Recognized in other comprehensive income	**2,554**	(3,935)
Business acquisitions	**–**	(2)
Exchange differences	**3,752**	(5,628)
As at December 31	**(100,520)**	(92,557)

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16 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	Unrealized foreign exchange on debts and translation of foreign operations	Other	Total
	$	$	$	$	$
Deferred tax assets					
As at January 1, 2018	8,465	1,951	3,381	–	13,797
Recognized in the consolidated 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
Recognized in the consolidated statement of income	(1,330)	72	–	(1,231)	(2,489)
Recognized in other comprehensive income	–	847	–	–	847
Exchange differences	(335)	(27)	–	(7)	(369)
As at December 31, 2019	**8,629**	**2,794**	**–**	**914**	**12,337**

	Property, plant and equipment	Intangible assets	Other	Total
	$	$	$	$
Deferred tax liabilities				
As at January 1, 2018	(59,869)	(24,435)	(1,901)	(86,205)
Recognized in the consolidated 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)
Recognized in the consolidated statement of income	(11,504)	(299)	23	(11,780)
Recognized in other comprehensive income	–	–	1,707	1,707
Exchange differences	3,124	997	–	4,121
As at December 31, 2019	**(87,113)**	**(25,309)**	**(435)**	**(112,857)**

As of December 31, 2019, the Company did not recognize deferred income tax assets of $2,069 (2018 – $1,925) in respect of capital losses amounting to $15,598 (2018 – $14,579) 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 $527,956 as at December 31, 2019 (2018 – $461,407).

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17 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, Stella-Jones Corporation, contributes to two defined benefit pension plans.

The defined benefit pension plans, other than the multi-employer plan, are closed to new participants.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.00% of the employee's annual base salary.

The recognized costs for employee future benefits are as follows:

	2019	2018
	$	$
Contributions to group registered retirement savings plans	6,564	6,388
Defined benefit pension plans	1,420	1,467
Contributions to multi-employer plan	697	625
Other post-retirement benefits	135	167

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

	2019	2018
	$	$
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	**(8,515)**	(5,185)
Other post-retirement benefits liability	**(2,520)**	(2,208)
	(11,035)	(7,393)

The Company's Canadian defined benefit pension plans benefits are based on years of service and final average earnings. The Stella-Jones Corporation defined benefit pension plans benefits are based on years of service and flat dollar amounts payable monthly. The other post-retirement benefits plan is not funded and, since June 1, 2011, this plan is closed to new participants.

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

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17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan, and other post-retirement benefits plan:

	Defined benefit pension plans		Other post-retirement plan	
	2019	**2018**	**2019**	**2018**
	$	$	**$**	$
Accrued benefit obligation				
Balance – Beginning of year	**29,213**	29,402	**2,208**	2,501
Current service cost	**936**	1,002	**49**	80
Employees' contributions	**33**	36	**–**	–
Interest cost	**1,171**	1,055	**86**	87
Benefits payments	**(1,220)**	(1,406)	**(76)**	(71)
Remeasurement adjustments				
Plan experience	**285**	20	**–**	(237)
Changes in demographic assumptions	**201**	(31)	**–**	–
Changes in financial assumptions	**4,053**	(1,726)	**253**	(152)
Exchange difference	**(480)**	861	**–**	–
Balance – End of year	**34,192**	29,213	**2,520**	2,208
Plan assets				
Fair value – Beginning of year	**24,028**	24,228	**–**	–
Interest income on plan assets	**687**	590	**–**	–
Return on plan asset excluding interest income	**1,156**	(738)	**–**	–
Employer's contributions	**1,139**	933	**76**	71
Employees' contributions	**33**	36	**–**	–
Effect of asset ceiling	**201**	(193)	**–**	–
Benefits paid	**(1,220)**	(1,406)	**(76)**	(71)
Exchange difference	**(347)**	578	**–**	–
Fair value – End of year	**25,677**	24,028	**–**	–
Net benefit liability	**(8,515)**	(5,185)	**(2,520)**	(2,208)

Expected contributions to the defined benefit pension plans for the year ending December 31, 2020 are $997.

The pension benefit deficit of plans that are not fully funded is $8,515 as at December 31, 2019 ($7,756 as at December 31, 2018).

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The items of the Company's defined benefit plans and other post-retirement benefit plan costs recognized during the year are as follows:

	Defined benefit pension plans		Other post-retirement plan	
	2019	**2018**	**2019**	**2018**
	$	$	**$**	$
Consolidated statement of income				
Current service cost	**936**	1,002	**49**	80
Interest cost	**1,171**	1,055	**86**	87
Interest income on plan assets	**(687)**	(590)	**–**	–
Total cost recognized	**1,420**	1,467	**135**	167
Consolidated statement of comprehensive income				
Actuarial gains (losses)	**(3,175)**	820	**(253)**	389
Total recognized in other comprehensive income before income tax	**(3,175)**	820	**(253)**	389
Accumulated actuarial gains (losses) recognized in other comprehensive income				
Balance of actuarial losses as at January 1	**(3,371)**	(4,012)	**(66)**	(352)
Net actuarial (losses) gains recognized in the year, net of tax	**(2,394)**	641	**(187)**	286
Balance of actuarial losses as at December 31	**(5,765)**	(3,371)	**(253)**	(66)

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		Other post-retirement plan	
	2019	**2018**	**2019**	**2018**
	%	%	**%**	%
Accrued benefit obligation as at December 31				
Discount rate	**3.10**	3.90	**3.10**	3.90
Rate of compensation increase	**3.25**	3.25	**n/a**	n/a
Benefit costs for the year ended December 31				
Discount rate	**3.90**	3.50	**3.90**	3.40

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17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

To determine the benefit obligation for the other post-retirement benefit plan, a 5.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2020. This rate is assumed to decrease gradually, on a straight-line basis, to reach 5.00% in 2023. 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	**31**	(27)
Impact on benefit costs	**1**	(1)

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

	2019	2018
	%	%
Listed equity securities	**29.00**	27.00
Listed debt securities	**43.00**	42.00
Guaranteed insurance contracts	**27.00**	30.00
Short-term investments and cash	**1.00**	1.00
	100.00	100.00

18 COMMITMENTS AND CONTINGENCIES

a) The Company has issued guarantees amounting to $27,456 (2018 – $29,716) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

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

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

19 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 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:

	2019	2018
	$	$
Non-current assets		
Interest rate swap agreements	**1,239**	7,545
	1,239	7,545
Current liabilities		
Derivative commodity contracts	**1,998**	4,381
	1,998	4,381
Non-current liabilities		
Interest rate swap agreements	**128**	–
Derivative commodity contracts	**–**	3,748
	128	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, 2019, 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 Class 1 railroad operators, large retailers and large-scale utility providers as well as other major corporations.

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

Note 5 provides details on the receivable aging as well as on the credit loss allowance for the years ended December 31, 2019 and 2018. The Company's largest customer had sales representing 15.84% of the total sales for the twelve-month period ending December 31, 2019 (2018 – 16.60%) and an account receivable balance of $6,970 as at December 31, 2019 (2018 – $5,678). The sales for this customer are included in the residential lumber product category.

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (CONTINUED)

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 (gains), net. The following table summarizes the derivative commodity contracts as at December 31, 2019 and 2018:

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

				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

* 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, 2019 is a current liability of $1,998 (2018 – a current liability of $4,381 and a non-current liability of $3,748) 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, 2019 and 2018 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 become 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)

19 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The operating activities of the Company are the primary source of cash flows. The Company also has syndicated credit facilities (Note 11(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2019, an amount of $150,826 (US$116,127) (2018 - $291,569 (US$213,729)) was available under the Company's syndicated credit facilities. The following table details the maturities of the financial liabilities as at December 31:

2019

	Carrying amount	Contractual cash flows	Less than 1 year	Years 2 and 3	Years 4 and 5	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	136,237	136,237	136,237	–	–	–
Long-term debt obligations*	604,911	696,101	25,773	51,828	510,363	108,137
Minimum payment under lease liabilities	118,142	131,532	32,546	51,621	24,830	22,535
Derivative commodity contracts	1,998	2,019	1,833	186	–	–
Non-competes payable	2,661	2,825	1,526	1,299	–	–
	863,949	968,714	197,915	104,934	535,193	130,672

2018

	Carrying amount	Contractual cash flows	Less than 1 year	Years 2 and 3	Years 4 and 5	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	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

*Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2019.

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.

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

19 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 and other comprehensive income for the years ended December 31, 2019 and 2018. For a 10.00% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and other comprehensive income.

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totalling $5,458 ($1,720 as at December 31, 2018) and $6,697 ($5,566 as at December 31, 2018), respectively. The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been included in the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 11).

	2019	2018
	$	$
Decrease of net income	**124**	385
Decrease of other comprehensive income	**34,813**	37,510

Interest rate risk

As at December 31, 2019, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 76.20% (2018 – 96.00%) 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 11(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 $487 for the year ended December 31, 2019 (2018 – $370).

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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

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

2019

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	110,398
US$100,000	Syndicated credit facilities	1.06*	December 2017	December 2021	129,880

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

* 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, 2019, 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, 2019 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, 2019 is a non-current asset of $1,239 and a non-current liability of $128 recorded in the consolidated statement of financial position (2018 – a non-current asset of $7,545). A 10.00% decrease in interest rates as at December 31, 2019 would have reduced the net gain recognized in other comprehensive income by approximately $111 (2018 – $755). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

December 31, 2019 and 2018
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

20 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.

	2019	**2018**
	$	$
Total debt	**604,911**	513,481
Shareholders' equity	**1,288,302**	1,281,410
Total capital	**1,893,213**	1,794,891
Total debt to total capitalization ratio	**0.32:1**	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)

21 RELATED PARTY TRANSACTIONS

Key management compensation

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

	2019	2018
	$	$
Salaries, compensation and benefits	**3,808**	5,010
Share-based compensation	**459**	5,293
	4,267	10,303

22 SEGMENT INFORMATION

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

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

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

Operating plants are located in six Canadian provinces and 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:

	2019	2018
	$	$
Canada	**654,466**	679,642
U.S.	**1,514,557**	1,444,251
	2,169,023	2,123,893

Sales by product as at December 31 are as follows:

	2019	2018
	$	$
Pressure-treated wood		
Utility poles	**779,199**	725,009
Railway ties	**678,187**	662,392
Residential lumber	**471,665**	474,399
Industrial products	**128,210**	109,195
Logs and lumber	**111,762**	152,898
	2,169,023	2,123,893

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

22 SEGMENT INFORMATION (CONTINUED)

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

	2019	2018
	$	$
Property, plant and equipment		
Canada	**149,083**	124,246
U.S.	**418,721**	427,539
	567,804	551,785
Intangible assets		
Canada	**30,892**	33,977
U.S.	**83,848**	97,681
	114,740	131,658
Goodwill		
Canada	**19,403**	19,403
U.S.	**265,498**	278,867
	284,901	298,270
Right-of-use assets		
Canada	**17,810**	–
U.S.	**98,945**	–
	116,755	–

23 SUBSEQUENT EVENTS

a) On February 24, 2020, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2025. This extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019.

b) On March 10, 2020, the Board of Directors declared a quarterly dividend of $0.15 per common share payable on April 24, 2020 to shareholders of record at the close of business on April 3, 2020.

24 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the current year's presentation. For the twelve-month period ended December 31, 2018, an amortization expense for customer relationships and non-compete agreements of $13,804 has been reclassified from cost of sales to selling and administrative expenses.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Katherine A. Lehman (1) (3)
Chair of the Board,
Stella-Jones Inc.
Managing Partner, Hilltop
Private Capital LLC
(Private equity firm)
New York, NY, USA
Director since October 2016

Robert Coallier (1) (3)
Corporate Director
Montréal, Québec
Director since January 2020

Karen Laflamme, FCPA, FCA, ASC (1) (3)
Corporate Director
Boucherville, Québec
Director since December 2018

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

Douglas Muzyka (2) (4)
Corporate Director
Philadelphia, PA, USA
Director since December 2019

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

Éric Vachon, CPA, CA
President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since October 2019

Mary Webster (2) (4)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Audit Committee
(2) Member of the Environmental, Health and Safety 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 7, 2020 Annual and Special Meeting of Shareholders.

OFFICERS

Katherine A. Lehman
Chair of the Board

Éric Vachon, CPA, CA
President and
Chief Executive Officer

Silvana Travaglini, 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

SENIOR MANAGEMENT

Jeff Brandt
Vice-President,
Transportation and Logistics
Stella-Jones Corporation

George Caric
Vice-President,
Railway Tie Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President,
Utility Poles and
Residential Lumber Sales
Stella-Jones Corporation

Sylvain Couture
Vice-President, Operations
Central Region
Stella-Jones Inc.

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

Marcell Driessen
Vice-President,
Human Resources
Stella-Jones Corporation

Ian Jones
Senior Vice-President,
Utility Poles and
Residential Lumber
Stella-Jones Corporation

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

Patrick Kirkham
Vice-President,
Railway Tie Operations
Stella-Jones Corporation

Wayne Kusmierczyk
Vice-President,
Utility Pole Operations
(Southern Yellow Pine)
Stella-Jones Corporation

Andy Morgan
Vice-President, Utility Pole
Operations (Western Species)
Stella-Jones Corporation

Jim Raines
Vice-President,
Railway Tie Sales
Stella-Jones Corporation

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

Michael Sylvester
Senior Vice-President,
Railway Ties
Stella-Jones Corporation

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

Jon Younce
Vice-President, Utility Pole
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Ron Zeegers
Vice-President,
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22572 U.S.A.
T: (804) 333-8490
F: (804) 333-9269

WASHINGTON

Plant and Corporate Office
McFarland Cascade
1640 East Marc St.
Tacoma, WA
98421 U.S.A.
T: (253) 572-3033
F: (253) 382-3000

Plant
McFarland Cascade
6520 - 188th NE
Arlington, WA
98223 U.S.A.
T: (360) 435-2146
F: (360) 435-3035

WISCONSIN

Plant
Stella-Jones Corporation
W1038 County Road U
Bangor, WI
54614 U.S.A.
T: (608) 486-2700
F: (608) 486-4538

Plant
McFarland Cascade
1014 S. 1st Street
Cameron, WI
54822 U.S.A.
T: (715) 458-2018
F: (715) 458-2024

CORPORATE INFORMATION

Stock Information

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2019): $48.28 / $36.00
Share price at March 10, 2020: $32.31
Common shares outstanding as at December 31, 2019: 67.47 million

Dividend Policy

The Board of Directors considers a dividend on a quarterly basis, based on the Company's balanced capital allocation strategy.

On March 10, 2020, the Board of Directors declared a quarterly dividend of $0.15 per common share.

Transfer Agent and Registrar

Computershare Investor Services Inc.

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Fasken Martineau Dumoulin LLP
Cohen & Grigsby, P.C.
Foley & Lardner LLP

Stella-Jones Inc.®

WWW.STELLA-JONES.COM