MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2019 compared with the three-month period ended March 31, 2018

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on May 1, 2019. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2019 compared with the three-month period ended March 31, 2018. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2019 and 2018 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2018.

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

The Company's condensed interim unaudited 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, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

OUR BUSINESS

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

As at March 31, 2019, the Company operated thirty-nine wood treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at March 31, 2019, the Company's workforce numbered approximately 2,130 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for

major long-term contracts, a long-standing stable source of wood supply and a registration to produce and sell the wood preservative, creosote.

OUR MISSION

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

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

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

HIGHLIGHTS

On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases*, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. 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 will be recorded to the consolidated statements of income. Please refer to the impact of new accounting pronouncements and interpretation section on page 14 for further details on the adoption of IFRS 16.

First Quarter of 2019

Selected Key Indicators (in millions of dollars except margins and earnings per share ("EPS"))	**Q1-19**	**Q1-18[4]**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	440.7	398.8	41.9	10.5%
Gross profit[1]	69.9	59.8	10.1	16.9%
EBITDA[1]	63.8	44.0	19.8	45.0%
EBITDA margin[1]	14.5%	11.0%	n/a	350 bps
Operating income[1]	45.7	35.5	10.2	28.7%
Net income	29.5	23.1	6.4	27.7%
EPS – basic & diluted	0.43	0.33	0.10	30.3%
Cash Flows				
Cash flows from operating activities	(75.9)	(64.6)		
Cash flows from financing activities	84.0	96.4		
Cash flows from investing activities	(8.1)	(38.2)		
Financial position	**As at March 31, 2019**	**As at December 31, 2018[4]**	**Variation ($)**	
Inventories	904.7	838.6	66.1	
Long-term debt[2]	601.7	513.5	88.2	
Lease liabilities[3]	114.8	-	114.8	

Note: Numbers are rounded.

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Refer to the Non-IFRS financial measures section of this MD&A.

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

(3) Including current portion of lease liabilities.

(4) Results for fiscal 2018 were not restated as per IFRS 16

NON-IFRS FINANCIAL MEASURES

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

- **Gross Profit**: Sales less cost of sales
- **EBITDA**: Operating income before depreciation of property, plant and equipment, 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 margins**: 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**

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

Reconciliation of EBITDA and operating income to net income (in millions of dollars)	**Three-month periods ended**	
	March 31, 2019	**March 31, 2018[1]**
Net income for the period	29.5	23.1
Plus:		
Provision for income taxes	10.6	8.1
Financial expenses	5.6	4.3
Operating income	45.7	35.5
Depreciation and amortization	18.1	8.5
EBITDA	63.8	44.0

Note: Numbers may not add exactly due to rounding.

[1] On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases*, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The application of this new standard resulted in the addition of right-of-use assets and lease liabilities to the consolidated statements of financial position. Starting on January 1, 2019, instead of lease expenses, right-of-use asset depreciation and financing costs related to the lease liabilities will be recorded to the statement of income. For the three-month period ended March 31, 2019, the adoption of IFRS 16 added $7.8 million in right-of-use asset depreciation and $1.0 million in financing expenses.

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2019 and 2018. 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.

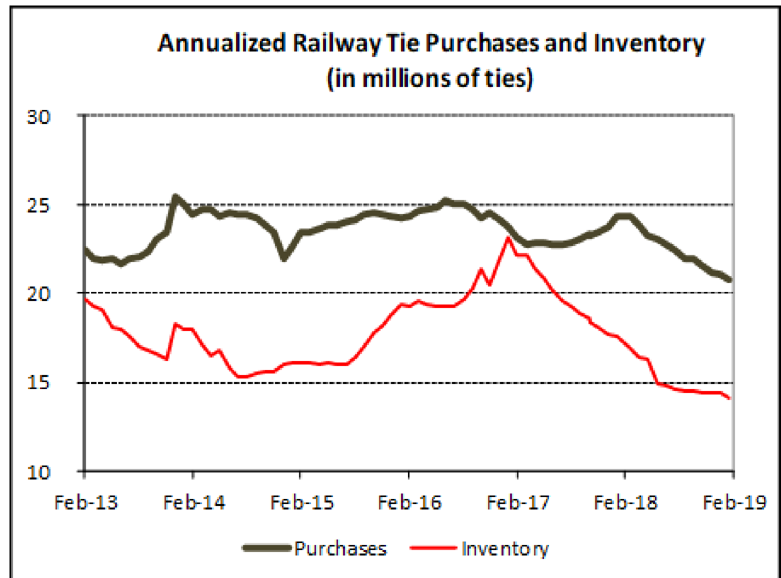
Cdn$/US$ rate	**2019**		**2018**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.3318	1.3363	1.2549	1.2894
Second Quarter			1.2893	1.3168
Third Quarter			1.3080	1.2945
Fourth Quarter			1.3129	1.3642
Fiscal Year			1.2913	1.3642

For the first quarter:

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar from the first quarter of 2018 compared to the first quarter of 2019 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 March 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 the first two months of 2019 were 3.0 million ties, versus 3.4 million ties for the same period in 2018, resulting in industry purchases of 20.8 million ties for the 12-month period ended February 28, 2019. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Inventory levels are lower at 14.1 million as at February 28, 2019, as purchases continue to outpace production. As a result, the inventory-to-sales ratio was 0.68:1 as at February 28, 2019, lower than the previous ten-year average ratio of 0.78:1.



Source: Railway Tie Association

Total traffic on North American railroads decreased 1.8% in the first three months of 2019, according to data released by the Association of American Railroads. Carload volume decreased by 3.1%, mainly due to lower shipments of coal and grain, and the volume of intermodal trailers and containers fell 0.6% from 2018 levels.

OPERATING RESULTS

Sales

Sales for the first quarter of 2019 reached $440.7 million, up 10.5% versus sales of $398.8 million for the corresponding period last year. Acquisitions completed in 2018 contributed sales of approximately $11.6 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $18.6 million on the value of U.S. dollar denominated sales when compared with last year's first quarter. Excluding these factors, sales increased approximately $11.7 million, or 2.9%, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Logs & Lumber**	**Consolidated Sales**
Q1-2018	**153.0**	**146.4**	**50.3**	**20.8**	**28.3**	**398.8**
Acquisitions	0.5	-	7.3	3.8	-	11.6
FX impact	7.6	8.4	1.4	0.9	0.3	18.6
Organic growth	9.4	6.6	(1.4)	-	(2.9)	11.7
Q1-2019	**170.5**	**161.4**	**57.6**	**25.5**	**25.7**	**440.7**
Organic growth %	6.2%	4.5%	(2.8%)	-%	(10.2%)	2.9%

Note: Numbers may not add exactly due to rounding.

Utility poles

Utility pole sales reached $170.5 million in the first quarter of 2019, up 11.5% from sales of $153.0 million in the corresponding period last year. Acquisitions completed in 2018 contributed sales of $0.5 million, while the currency conversion effect increased the value of U.S. dollar denominated sales by about $7.6 million. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $9.4 million, or 6.2%, primarily driven by increased sales prices coupled with a healthy demand in the South East United States. Utility pole sales accounted for 38.7% of the Company's first-quarter sales.

Railway ties

Railway tie sales for the first quarter of 2019 amounted to $161.4 million, representing an increase of 10.2%, from sales of $146.4 million in the corresponding period last year. The currency conversion effect increased the value of U.S. dollar denominated sales by about $8.4 million. Excluding the currency conversion effect, railway tie sales increased approximately $6.6 million, or 4.5%, primarily as a result of price increases. Railway tie sales accounted for 36.6% of the Company's first quarter sales.

Residential lumber

Sales in the residential lumber category totalled $57.6 million in the first quarter of 2019, up 14.6% from sales of $50.3 million in the corresponding period last year. Acquisitions completed in 2018 contributed sales of approximately $7.3 million, while the currency conversion effect increased the value of U.S. dollar denominated sales by about $1.4 million when compared with the corresponding period last year. Excluding these factors, residential lumber sales decreased approximately $1.4 million. This variance is primarily explained by lower demand due to unfavourable weather conditions in the Eastern Canada and Eastern United States regions as well as reduced selling prices due to lower lumber costs. Residential lumber accounted for 13.1% of the Company's first quarter sales.

Industrial products

Industrial product sales reached $25.5 million in the first quarter of 2019, compared with $20.8 million last year. Acquisitions completed in 2018 contributed sales of approximately $3.8 million, while the currency conversion effect increased the value of U.S. dollar denominated sales by about $0.9 million when compared with the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, sales were stable. Industrial products represented 5.8% of the Company's first quarter sales.

Logs and lumber
Sales in the logs and lumber product category totalled $25.7 million in the first quarter of 2019, compared with $28.3 million in the corresponding period last year. Excluding the contribution from acquisitions completed in 2018 and the currency conversion effect, sales for this product category decreased by $2.9 million. This variance is a result of reduced selling prices due to less expensive lumber costs, coupled with lower lumber transaction volumes. These factors were partially offset by stronger log sales generated as part of the increased harvesting activities to procure raw material to support strong pole sales. Logs and lumber sales represented 5.8% of the Company's first quarter sales.

Sales by destination
Sales in the United States amounted to $338.5 million, or 76.8% of sales in the first quarter of 2019, versus $299.0 million in the corresponding period last year. This year-over-year increase is mainly attributable to increased sales prices for railway ties as well as increased sales prices and strong demand for utility poles in the South East United States coupled with the favourable effect of currency conversion. Residential lumber and industrial product categories are also up as a result of the Wood Preservers Incorporated acquisition completed on April 9, 2018.

Sales in Canada amounted to $102.2 million, or 23.2% of sales in the first quarter of 2019, versus $99.8 million in the corresponding period last year. This year-over-year increase primarily reflects higher sales from utility poles due to maintenance demand and higher volume from the residential lumber product category, partially offset by lower sales in the logs and lumber product category.

Cost of sales

Cost of sales detail (in millions of dollars)	**Three-month period ended March 31, 2019**	**Three-month period ended March 31, 2018**	**Variance**
Cost of sales before depreciation and amortization	356.3	333.8	22.5
Depreciation of property, plant and equipment	5.8	4.8	1.0
Amortization of intangible assets	1.5	0.4	1.1
Depreciation of right-of-use assets	7.2	-	7.2
Cost of sales	**370.8**	**339.0**	**31.8**

Cost of sales, including depreciation of right-of-use assets, property, plant and equipment, as well as amortization of intangible assets, was $370.8 million, or 84.1% of sales, in the first quarter of 2019. This compares with $339.0 million, or 85.0% of sales, for the corresponding period last year.

Cost of sales before depreciation and amortization increased $22.5 million, explained by greater sales volumes in the first quarter of 2019 when compared to 2018, higher costs for untreated railway ties and certain treated species of poles as well as the effect of currency translation. These factors were partially offset by the adoption of IFRS 16 under which operating lease expenses are no longer recognized as operating expenses as well as lower lumber costs when compared to the previous year.

Total depreciation and amortization expenses as per the consolidated statement of cash flows reached $18.1 million in the first quarter of 2019 of which $14.5 million and $3.6 million were recorded under cost of sales and selling and administrative expenses, respectively, in the consolidated statement of income. The depreciation and amortization expense recorded under selling and administration is comprised of $3.0 million related to amortization of customer relationships and non-compete agreements as well as $0.6 million related to right-of-use asset depreciation. For the first quarter of 2018, an amortization expense for customer relationships and non-compete agreements of $3.3 million was recognized under cost of sales and reclassified to selling and administrative expenses for comparative purposes in 2019.

The depreciation and amortization expenses recorded under cost of sales totalled $14.5 million for the first quarter of 2019, up significantly from $5.2 million for the corresponding period in 2018. This increase is primarily related to the adoption of IFRS 16, whereby $7.2 million of depreciation for right-of-use assets was recognized.

As a result, gross profit reached $69.9 million, or 15.9% of sales, in the first quarter of 2019, compared with $59.8 million, or 15.0% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the first quarter of 2019 were $28.3 million, compared with expenses of $25.5 million in the corresponding period in 2018. This variation is primarily explained by higher salary expenses of $1.0 million, increased profit-sharing expenses of $0.6 million and higher information technology expenses of $0.5 million coupled with the effect of currency translation. For the three-month period ending March 31, 2019, customer relationships and non-compete agreements amortization expense of $3.0 million was recorded under selling and administrative expenses and the 2018 comparative amount of $3.3 million was reclassified from cost of sales to selling and administrative expenses. As a percentage of sales, selling and administrative expenses represented 6.4% of sales in the first quarter of 2019, in line with the corresponding period last year.

Other gains, net

Stella-Jones' other net gains of $4.1 million for the first quarter of 2019, included a $4.4 million non-cash gain related to the mark-to-market effect of diesel and petroleum derivative commodity contracts. Last year's other net gains of $1.2 million essentially consisted of a $1.1 million reversal of a provision for site remediation as well as a $155,000 foreign exchange gain.

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

Financial expenses

Financial expenses reached $5.6 million in the first quarter of 2019, up from $4.3 million in the corresponding period last year. This increase is mainly due to the adoption of IFRS 16 whereby $1.0 million of interest expenses were recognized due to the accretion of the payments against lease liabilities. It also increased due to higher year-over-year borrowings, resulting mainly from financing for acquisitions completed in 2018, coupled with the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $40.0 million, or 9.1% of sales, in the first quarter of 2019, versus income before income taxes of $31.1 million, or 7.8% of sales, in the first quarter of 2018.

Stella-Jones' provision for income taxes totalled $10.6 million in the first quarter of 2019, representing an effective tax rate of 26.4%. In the first quarter of 2018, the income tax expense stood at $8.1 million, equivalent to an effective tax rate of 25.9%. The higher effective tax rate for the first quarter of 2019 is attributable to a less favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the first quarter of 2019 reached $29.5 million, or $0.43 per diluted share, versus net income of $23.1 million, or $0.33 per diluted share, in the corresponding period last year.

SUBSEQUENT EVENT

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

The SWP acquisition will be accounted as an acquisition of a group of assets.

QUARTERLY RESULTS

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

2019

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	440.7				
EBITDA	63.8				
Operating income	45.7				
Net income for the period	29.5				
EPS - basic and diluted	0.43				

2018

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

2017

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

Note: Due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.
Note: Results for fiscal 2018 and 2017 were not restated as per IFRS 16.

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 March 31, 2019, compared to December 31, 2018 (see "Foreign Exchange" on page 3), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2019, total assets reached $2.28 billion, versus $2.06 billion as at December 31, 2018. The higher balance of total assets reflects the addition of right-of-use assets and higher current assets, as detailed below.

Assets (in millions of dollars)	**As at March 31, 2019**	**As at December 31, 2018**	**Variance**
Accounts receivable	249.1	192.4	56.7
Inventories	904.7	838.6	66.1
Other current assets	35.9	37.4	(1.5)
Total current assets	**1,189.7**	**1,068.4**	**121.3**
Property, plant and equipment	544.8	551.8	(7.0)
Right-of-use assets	115.1	-	115.1
Intangible assets	125.2	131.7	(6.5)
Goodwill	292.6	298.3	(5.7)
Other non-current assets	10.0	12.0	(2.0)
Total non-current assets	**1,087.7**	**993.8**	**93.9**
Total assets	**2,277.4**	**2,062.2**	**215.2**

Note: Numbers may not add exactly due to rounding.
Note: Results for fiscal 2018 were not restated as per IFRS 16.

The value of accounts receivable, which is net of a credit loss provision of $2.3 million, was $249.1 million as at March 31, 2019, compared with $192.4 million as at December 31, 2018. The increase is attributable to higher sales near the end of the period, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S.-based accounts receivable. Management expects minimal credit losses as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories stood at $904.7 million as at March 31, 2019, up from $838.6 million as at December 31, 2018. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters, partially offset by the effect of local currency translation on U.S. dollar denominated inventories.

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

The value of property, plant and equipment stood at $544.8 million as at March 31, 2019, compared with $551.8 million as at December 31, 2018. This slight decrease is mainly related to depreciation of $5.8 million for the period and the effect of local currency translation on U.S.-based property, plant and equipment, partially offset by the purchase of property, plant and equipment of $8.2 million in the first quarter of 2019.

The value of intangible assets and goodwill reached $125.2 million and $292.6 million, respectively, as at March 31, 2019. Intangible assets include customer relationships, the discounted value of non-compete agreements, a creosote registration, cutting rights, standing timber, software and a favourable lease agreement. As at December 31, 2018, intangible assets and goodwill were $131.7 million and $298.3 million, respectively. The slight decrease in the value of intangible assets stems primarily from the effect of local currency translation on U.S.-based intangible assets and amortization of $4.4 million in the first quarter of 2019. The decrease in goodwill is explained by the effect of local currency translation on U.S. dollar denominated goodwill.

The adoption of IFRS 16 resulted in the addition of right-of-use assets which totalled $115.1 million as at March 31, 2019. Please refer to the impact of new accounting pronouncements and interpretation section on page 14 for further details on right-of-use assets.

Liabilities

As at March 31, 2019, Stella-Jones' total liabilities stood at $1,000.6 million, up from $780.8 million as at December 31, 2018. This variation primarily reflects an increase in non-current liabilities, as detailed below.

Liabilities (in millions of dollars)	**As at March 31, 2019**	**As at December 31, 2018**	**Variance**
Accounts payable and accrued liabilities	152.0	133.3	18.7
Current portion of long-term debt	9.6	9.7	(0.1)
Current portion of lease liabilities	26.6	-	26.6
Other current liabilities	13.4	16.4	(3.0)
Total current liabilities	**201.6**	**159.4**	**42.2**
Long-term debt	592.1	503.8	88.3
Lease liabilities	88.2	-	88.2
Other non-current liabilities	118.7	117.6	1.1
Total non-current liabilities	**799.0**	**621.4**	**177.6**
Total liabilities	**1,000.6**	**780.8**	**219.8**

Note: Numbers may not add exactly due to rounding.
Note: Results for fiscal 2018 were not restated as per IFRS 16.

The value of current liabilities was $201.6 million as at March 31, 2019, versus $159.4 million as at December 31, 2018. This variation is primarily attributable to the addition of $26.6 million in current portion of lease liabilities under IFRS 16 and to the $18.7 million increase in accounts payable and accrued liabilities as a result of greater business activity in the latter part of the first quarter of 2019, when compared to the latter part of the fourth quarter of 2018. These factors were partially offset by the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The adoption of IFRS 16 resulted in the addition of lease liabilities which totalled $114.8 million of which $26.6 million is classified as current and $88.2 million is classified as non-current. Please refer to the impact of new accounting pronouncements and interpretation section on page 14 for further details on lease liabilities.

The Company's long-term debt, including the current portion, was $601.7 million as at March 31, 2019, versus $513.5 million as at December 31, 2018. The increase mainly reflects higher working capital requirements, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt.

On January 14, 2019, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2024. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016 and March 15, 2018. As at March 31, 2019, an amount of $54.2 million was available against the Company's syndicated credit facilities of $434.3 million (US$325.0 million). The Company's syndicated credit facilities are made available for a five-year term until February 2024 and thus considered long-term debt.

As at March 31, 2019, the Company was in full compliance with its debt covenants and contractual obligations.

Shareholders' equity
Shareholders' equity reached $1,276.8 million as at March 31, 2019, compared with $1,281.4 million as at December 31, 2018. This slight variation reflects an increase in retained earnings and a decrease in accumulated other comprehensive income, as detailed below.

Shareholders' Equity (in millions of dollars)	**As at March 31, 2019**	**As at December 31, 2018**	**Variance**
Capital Stock	221.3	221.3	-
Contributed surplus	0.4	0.3	0.1
Retained earnings	923.9	909.1	14.8
Accumulated other comprehensive income	131.2	150.7	(19.5)
Total shareholders' equity	**1,276.8**	**1,281.4**	**(4.6)**

Note: Numbers may not add exactly due to rounding.

The slight decline in shareholders' equity in the first quarter of 2019 is attributable to an unfavourable variation of $19.5 million in the value of accumulated other comprehensive income resulting from the effect of currency fluctuations and to an accrued dividend of $9.7 million, partially offset by the net income of $29.5 million.

In the three-month period ended March 31, 2019, as part of its Normal Course Issuer Bid, the Company repurchased 146,000 common shares for cancellation in consideration of $5.8 million. Since the launch of the Normal Course Issuer Bid on December 20, 2018, the Company repurchased 251,000 common shares for cancellation in consideration of $9.8 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (in millions of dollars)	**Three-month Periods Ended**	
	March 31, 2019	**March 31, 2018**
Operating activities	(75.9)	(64.6)
Financing activities	84.0	96.4
Investing activities	(8.1)	(38.2)
Net change in cash and cash equivalents during the year	-	(6.4)
Cash and cash equivalents - beginning	-	6.4
Cash and cash equivalents - end	**-**	**-**

Note: Numbers may not add exactly due to rounding.

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

Cash flows from operating activities
Cash flows provided by operating activities used $75.9 million in liquidity in the first quarter of 2019, versus $64.6 million for the corresponding period last year. This variation mainly reflects changes in non-cash working capital components. The following table provides information on cash flows provided by operating activities using selected line items from the consolidated statements of cash flows.

Cash flows from operating activities (in millions of dollars)	**March 31, 2019**	**March 31, 2018**
Net income	29.5	23.1
Gain on derivative financial instruments	(4.8)	-
Depreciation of right-of-use assets	7.8	-
Others	28.3	22.5
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**60.8**	**45.6**
Inventories	(77.5)	(60.2)
Accounts receivable	(59.5)	(54.4)
Accounts payable and accrued liabilities	14.6	28.5
Others	0.2	(12.2)
Changes in non-cash working capital components	**(122.2)**	**(98.3)**
Interest paid	(7.4)	(6.1)
Income taxes paid	(7.2)	(5.8)
Cash flows from operating activities	**(75.9)**	**(64.6)**

Note: Numbers may not add exactly due to rounding.

Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $60.8 million in the first quarter of 2019, compared with $45.6 million in the corresponding period last year. This increase mostly reflects higher net income and depreciation of right-of-use assets resulting from the adoption of IFRS 16, partially offset by a gain on derivative financial instruments.

Changes in non-cash working capital components decreased liquidity by $122.2 million in the first quarter of 2019. This was mainly due to increases of $77.5 million and $59.5 million in inventories and accounts receivable, respectively, as a result of normal seasonal working capital requirements, partially offset by a $14.6 million increase in accounts payable and accrued liabilities. In the first quarter of 2018, changes in non-cash working capital components had used liquidity of $98.3 million.

Interest and income taxes paid reduced liquidity by $7.4 million and $7.2 million, respectively, in the first quarter of 2019. This compares with interest paid of $6.1 million and income taxes paid of $5.8 million in the corresponding period last year.

Cash flows from financing activities
Financing activities for the first quarter of 2019 increased liquidity by $84.0 million, primarily related to an increase of $98.1 million in long-term debt to support working capital requirements, partially offset by $8.2 million in repayment of lease liabilities and $5.8 million for the repurchase of common shares. In the first quarter of 2018, financing activities increased liquidity by $96.4 million, explained by a $96.5 million increase in long-term debt to support working capital requirements and the financing of the Prairie Forest Products acquisition.

Cash flows from financing activities (in millions of dollars)	**March 31, 2019**	**March 31, 2018**
Net change in syndicated credit facilities	98.1	96.5
Repayment of lease liabilities	(8.2)	-
Repurchase of common shares	(5.8)	-
Other	(0.1)	(0.1)
Cash flows from financing activities	**84.0**	**96.4**

Note: Numbers may not add exactly due to rounding.
Note: Results for fiscal 2018 were not restated as per IFRS 16.

Cash flows from investing activities

Investing activities used $8.1 million in liquidity in the first quarter of 2019, primarily related to the purchase of property, plant and equipment. In the corresponding period last year, investing activities used $38.2 million in liquidity, mainly explained by the acquisition of Prairie Forest Products for $26.5 million and the purchase of property, plant and equipment for $11.5 million, as detailed below.

Cash flows from investing activities (in millions of dollars)	**March 31, 2019**	**March 31, 2018**
Business acquisitions	-	(26.5)
Purchase of property, plant and equipment	(8.2)	(11.5)
Other	0.1	(0.2)
Cash flows from investing activities	**(8.1)**	**(38.2)**

Note: Numbers may not add exactly due to rounding.

Financial Obligations

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

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	152.0	152.0	152.0	-	-	-
Long-term debt obligations	601.7	716.8	29.3	60.0	512.1	115.4
Minimum payments under lease liabilities	114.8	128.7	30.0	47.1	24.5	27.1
Derivative commodity contract	3.3	3.5	1.9	1.6	-	-
Non-compete agreements	4.2	4.5	1.6	2.9	-	-
Financial obligations	**876.0**	**1,005.5**	**214.8**	**111.6**	**536.6**	**142.5**

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2019, the capital stock issued and outstanding of the Company consisted of 69,129,137 common shares (69,267,732 as at December 31, 2018). The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2019:

Number of shares (in thousands)	**Three-month Period Ended March 31, 2019**
Balance – Beginning of year	69,268
Repurchase of common shares	(146)
Employee share purchase plans	7
Balance – End of year	**69,129**

As at May 1, 2019, the capital stock issued and outstanding consisted of 69,129,835 common shares.

As at March 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 39,000 (December 31, 2018 – 39,000) were exercisable. As at May 1, 2019, the number of outstanding options was 45,000, of which 39,000 were exercisable.

DIVIDENDS

On May 1, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share payable on June 27, 2019 to shareholders of record at the close of business on June 6, 2019. This dividend is designated to be an eligible dividend.

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

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2018 Annual Report.

RISKS AND UNCERTAINTIES

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2018 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2018 and 2017 audited consolidated financial statements as well as in the impact of new accounting pronouncements 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 financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

Impact of new accounting pronouncements and interpretation

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

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods and may have extension options that are considered when it is reasonably certain that the option will be exercised. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

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

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

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

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

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

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

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

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

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

Type of assets (in millions of dollars, except remaining months)	**Right-of-use assets and lease liabilities**	**Average remaining months under lease agreements**
Rolling stock	79.6	53
Land	33.3	147
Other assets	7.8	42
Total	**120.7**	**81**

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.

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

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

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

Lease liability breakdown (in millions of dollars)	**January 1, 2019**	**March 31, 2019**
Current lease liabilities	28.3	26.6
Non-current lease liabilities	92.4	88.2
Total	120.7	114.8

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

Right-of-use asset roll forward (in millions of dollars)	**Right-of-use: rolling stock**	**Right-of-use: land**	**Right-of-use: other assets**	**Total right-of-use assets**
Balance as at January 1, 2019	79.6	33.3	7.8	120.7
Additions	4.0	0.2	0.1	4.3
Disposals	(0.3)	-	-	(0.3)
Depreciation	(6.3)	(0.9)	(0.6)	(7.8)
Remeasurement	0.4	(0.1)	0.1	0.4
Exchange differences	(1.5)	(0.6)	(0.1)	(2.2)
Balance as at March 31, 2019	**75.9**	**31.9**	**7.3**	**115.1**

Note: Numbers may not add exactly due to rounding.

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

Lease liability roll forward (millions of dollars)	**Lease liabilities: rolling stock**	**Lease liabilities: land**	**Lease liabilities: other**	**Total lease liabilities**
Balance as at January 1, 2019	79.6	33.3	7.8	120.7
Payments under lease agreements	(7.4)	(1.1)	(0.6)	(9.1)
Finance cost	0.6	0.3	0.1	1.0
Additions	4.0	0.2	0.1	4.3
Lease termination payment	(0.3)	-	-	(0.3)
Remeasurement	0.4	(0.1)	0.1	0.4
Exchange differences	(1.5)	(0.6)	(0.1)	(2.2)
Balance as at March 31, 2019	**75.4**	**32.0**	**7.4**	**114.8**

Note: Numbers may not add exactly due to rounding.

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.

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.

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 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 March 31, 2019 and have concluded that such DC&P were designed 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 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 effectively designed, as at March 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

Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, which materially changes how leases are recognized, measured, presented and disclosed. Material changes were made to the relevant business processes and the related control activities, including information systems, in order to monitor, maintain, and disclose appropriate financial information. There were no other changes made to the design of ICFR during the period from January 1, 2019 to March 31, 2019 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

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

The outlook remains unchanged. Management expects higher year-over-year sales, based on current market conditions, assuming stable currencies and the current level of lumber prices. This increase is driven by stronger pricing for railway ties and utility poles as well as increased market reach for the residential lumber and utility pole product categories. Management also expects improved year-over-year margins across all product categories. Higher margins will be primarily driven by increased pricing and volume for railway ties coupled with improved product mix for utility poles. Furthermore, it is important to note that the 2019 EBITDA will be positively impacted by the adoption of IFRS 16.

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

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

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

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

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

In the short-term, the Company will focus on optimizing operating capacity and minimizing costs throughout the organization. Cash generation and maintaining a prudent use of leverage remain priorities for Management. The

cash flows provided from operating activities will be used to reduce debt, invest in working capital and in property, plant and equipment as well as maintain an optimal dividend policy to the benefit of shareholders.

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

May 1, 2019