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 22 for further details on the adoption of IFRS 16.

Selected Key Indicators (in millions of dollars, except earnings per share ("EPS") and key performance indicators)	**2019**	**2018**	**2017**
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 (in millions of dollars)	**Three-month periods ended December 31,**		**Years ended December 31,**	
	2019[1]	**2018**	**2019[1]**	**2018**
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 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.

US$/Cdn$ rate	**2019**		**2018**	
	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

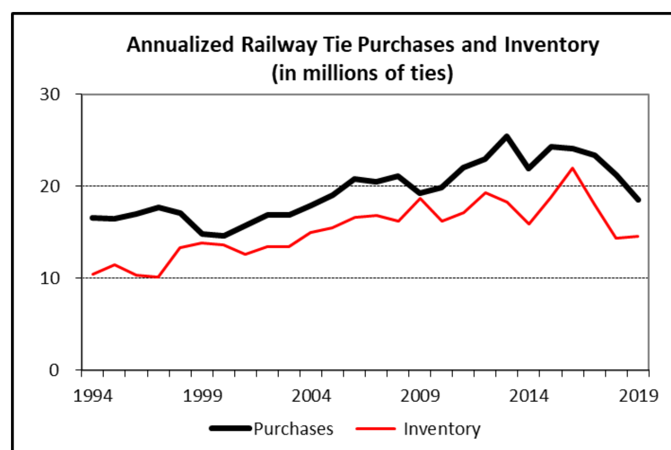
- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during 2019 compared to 2018 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- 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.

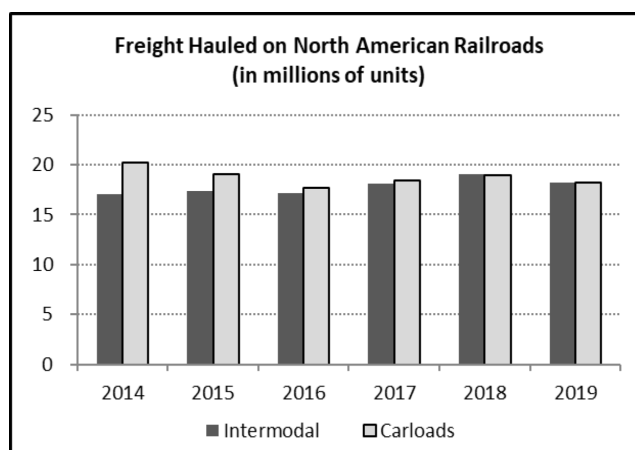
RAILWAY TIE INDUSTRY OVERVIEW

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.



Source: Railway Tie Association



Source: Association of American Railroads

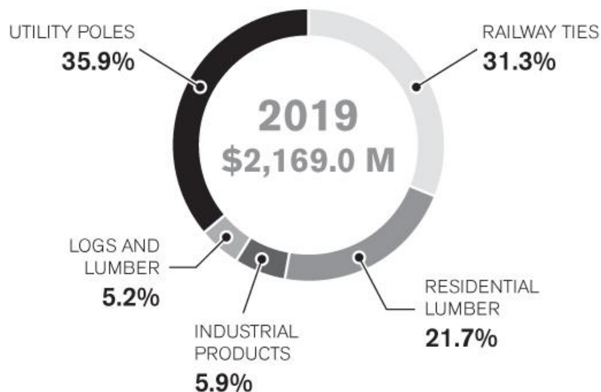
OPERATING RESULTS

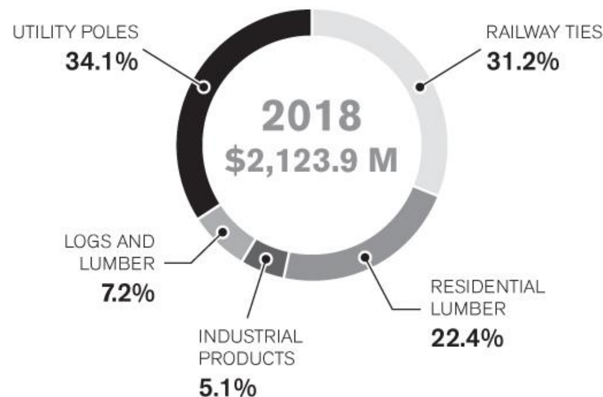
Sales

Sales for the year ended December 31, 2019 reached $2,169.0 million, up $45.1 million, versus 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 (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Logs & Lumber**	**Consolidated Sales**
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%)

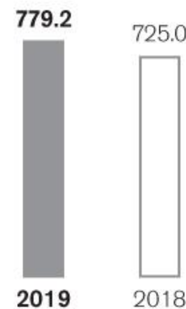
Sales by Product Category
(% of sales)





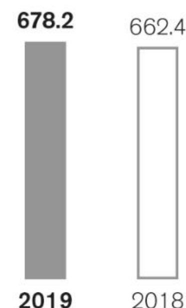
Utility poles

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 prices. 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.



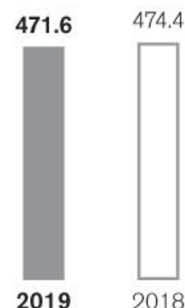
Railway ties

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.



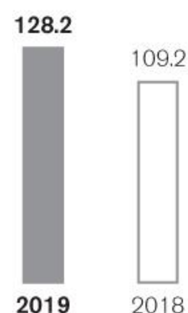
Residential lumber

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.



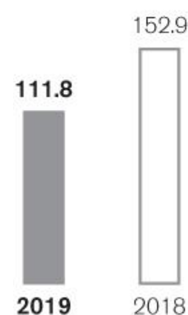
Industrial products

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.

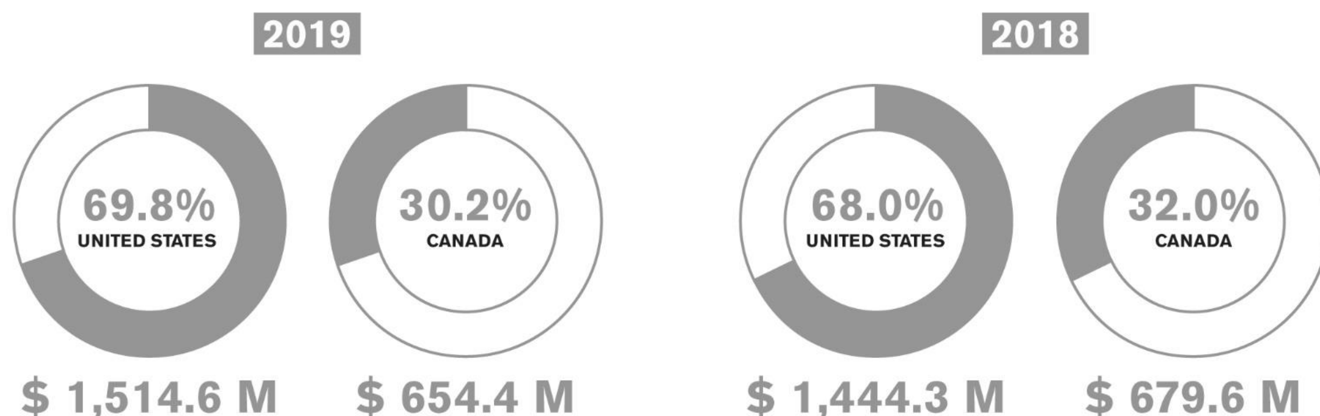


Logs and lumber

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.



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 (in millions of dollars)	**Years ended December 31,**		**Variance**
	2019	**2018**	
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 (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
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 (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

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 (in millions of dollars, except margin and EPS)	**Q4-2019**	**Q4-2018**	**Variation ($)**	**Variation (%)**
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 (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Logs & Lumber**	**Consolidated Sales**
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 4), 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 (in millions of dollars)	**As at December 31,**		
	2019	**2018**	**Variance**
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 22 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 (in millions of dollars)	**As at December 31,**		**Variance**
	2019	**2018**	
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 22 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 (in millions of dollars)	**As at December 31,**		
	2019	**2018**	**Variance**
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 (in millions of dollars)	**Years ended December 31,**	
	2019	**2018**
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 (in millions of dollars)	**Years ended December 31,**	
	2019	**2018**
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 (in millions of dollars)	**Years ended December 31,**	
	2019	**2018**
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 (in millions of dollars)	**Years ended December 31,**	
	2019	**2018**
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 (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
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 (in thousands)	**Year Ended December 31, 2019**
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 (in millions of dollars)	**January 1, 2019**
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 (in millions of dollars)	**January 1, 2019**
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 volumes 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 center 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