Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS FOURTH QUARTER AND 2019 RESULTS

19th consecutive year of sales growth

- **EBITDA for 2019 up 28.0% to $312.9 million**
- **Net income increased 18.5% to $163.1 million for the year**
- **Share repurchases of 1.8 million totaling $70.6 million in 2019**
- **Solid financial position with a long-term debt to EBITDA ratio of 1.9x**
- **Quarterly cash dividend increased 7.1% to $0.15 per share**

Montreal, Quebec – March 11, 2020 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its fourth quarter and fiscal year ended December 31, 2019.

"We concluded 2019 on a positive note with growth in both sales and profitability for the quarter and the full year. Sales were up 1.6% in the fourth quarter and 2.1% for the year to $2.2 billion, delivering the nineteenth consecutive year of growth. Higher sales drove improvement in EBITDA, which grew 28.0% to $312.9 million, yielding an EBITDA margin of 14.4% for 2019. During the year, we continued to foster a balanced capital allocation approach focused on growth and returns. We deployed our solid liquidity to invest in our network, acquire a key residential lumber facility and return capital to shareholders. In line with this strategy, today we are pleased to announce a dividend increase for the sixteenth consecutive year," stated Éric Vachon, President and CEO of Stella-Jones. "Our solid financial position provides us the flexibility to continue to pursue our growth strategy and deliver further value to shareholders."

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	**Q4-19**	**Q4-18(2)**	**Fiscal 2019**	**Fiscal 2018(2)**
Sales	439.9	432.8	2,169.0	2,123.9
EBITDA(1)	58.8	41.8	312.9	244.4
EBITDA margin (%)(1)	13.4%	9.7%	14.4%	11.5%
Operating income(1)	41.4	31.8	242.3	206.3
Net income for the period	27.7	20.6	163.1	137.6
Per share – basic and diluted ($)	0.41	0.30	2.37	1.98
Weighted average shares outstanding (basic, in '000s)	67,898	69,358	68,761	69,352

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

2019 RESULTS

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 in the consolidated statements of income. Please refer to the impact of new accounting pronouncements and interpretation section of the Company's Management's Discussion and Analysis for further details.

Sales rose to $2,169.0 million, up $45.1 million compared to the previous year. 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 the lower residential lumber and logs and lumber sales, and the decrease in shipments for railway ties.

- **Utility poles (35.9% of 2019 sales)**: Sales increased to $779.2 million in 2019, a 7.5% improvement over the prior year. Excluding the contribution from 2018 acquisitions of $0.5 million and the currency conversion effect of $17.3 million, utility pole sales rose by $36.4 million, or 5.0%, primarily driven by increased sales price. Volume increases in the U.S. Southeast and overall healthy replacement demand, were largely offset by lower transmission pole volumes, given more project-related demand in 2018.

- **Railway ties (31.3% of 2019 sales)**: Sales improved by $15.8 million to $678.2 million, compared to 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 for Class 1 and non-Class 1 customers compensated for the decrease in sales volumes.While demand for railway ties remained strong, the tight supply market for untreated ties required the Company to treat ties that were not air seasoned. The resulting longer treating cycle times, as well as the reduction in the maintenance program of a Class 1 customer unfavourably impacted sales volumes in 2019.

- **Residential lumber (21.7% of 2019 sales)**: Sales totalled $471.6 million, down by 0.6% compared to sales of $474.4 million last year. Excluding the contribution from 2018 acquisitions of $7.3 million and the currency conversion effect of $4.5 million, residential lumber sales declined by $14.6 million. The decrease was primarily attributable to a reduction in sales price, resulting from lower cost of lumber. The decrease was partially offset by higher volumes.

- **Industrial products (5.9% of 2019 sales)**: Sales rose to $128.2 million, compared to $109.2 million in the prior 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.

- **Logs and lumber (5.2% of 2019 sales)**: Sales totalled $111.8 million, compared to $152.9 million last year. 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 a decline in lumber market costs as well as lower volumes due to the timing of harvesting activities.

Operating income was $242.3 million, or 11.2% of sales, compared to $206.3 million, or 9.7% of sales, last year. The improvement was primarily attributable to higher selling prices for utility poles and railway ties, which largely offset the lower volumes in our two core product categories and the higher production costs for railway ties. Operating income in 2019 also benefitted from a reduction in the mark-to-market losses related to diesel and petroleum derivative commodity contracts recorded in "Other losses (gains), net".

EBITDA grew to $312.9 million, up 28.0%, compared to $244.4 million reported in 2018, reflecting an EBITDA margin of 14.4%. The increase was mainly driven by stronger pricing and the positive impact of the adoption of IFRS 16. Excluding the effect of IFRS 16, EBITDA increased by $36.5 million or 14.9%, representing a 12.9% margin, compared to 11.5% in 2018.

Led by the strong growth in operating income, net income increased 18.5% to $163.1 million, or $2.37 per diluted share, compared to net income of $137.6 million, or $1.98 per share, last year. Earnings per share was positively impacted by the repurchase of shares through the Company's normal course issuer bid.

FOURTH QUARTER RESULTS

Sales generated in the fourth quarter of 2019 amounted to $439.9 million, compared to 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.

- **Utility poles**: Sales were $190.9 million, down slightly from sales of $192.0 million recorded in the fourth quarter of 2018. Excluding the currency conversion effect, sales decreased 1.5% as higher pricing was more than offset by lower volumes, largely due to more transmission pole projects in the prior year quarter.

- **Railway ties**: Sales increased to $131.3 million, up 3.4% compared to $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 totalled $61.1 million, relatively unchanged from $60.3 million generated in the fourth quarter last year. Higher sales volumes were largely offset by lower lumber prices.

- **Industrial products**: Sales amounted to $26.3 million, up $3.2 million compared to the $23.1 million generated in the year-ago period. 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.

Operating income rose to $41.4 million, or 9.4% of sales, compared to $31.8 million, or 7.4% of sales, in the same period last year. In the fourth quarter of 2019, operating income benefitted from improved pricing and a decrease in the mark-to market losses related to diesel and petroleum derivative commodity contracts. These factors were partially offset by lower utility pole volumes and higher production costs, mainly for railway ties. Compared to the prior year quarter, EBITDA improved by $17.0 million.

Net income was up 26.0% to $27.7 million, or $0.41 per diluted share, compared to $20.6 million, or $0.30 per share, in the prior year.

STRONG LIQUIDITY AND CAPITAL RESOURCES

The Company generated $89.9 million of cash from operations in 2019, despite the significant increase in untreated wood inventory given the improved availability of untreated ties and the anticipated sales growth in 2020. Together with additional borrowings under the syndicated credit facilities of $126.0 million, the Company deployed its liquidity to invest $65.8 million in capital expenditures, including the acquisition of the assets of Shelburne Wood Protection Ltd, as well as to repurchase shares totaling $70.6 million and pay dividends of $38.5 million. As at December 31, 2019, the Company's long-term debt stood at $604.9 million and the long-term debt to EBITDA remained low at 1.9x.

NORMAL COURSE ISSUER BID ("NCIB")

In 2019, the total number of common shares repurchased for cancellation under the 2018-2019 NCIB, which expired on December 20, 2019, amounted to 1,836,250 shares, at an average price of $38.47 per share, for total consideration of $70.6 million.

QUARTERLY DIVIDEND INCREASED 7.1% TO $0.15 PER SHARE

On March 10, 2020, the Board of Directors declared a quarterly dividend of $0.15 per share, representing an increase of 7.1% over the previous quarterly dividend, on the outstanding common shares of the Company, 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.

PENTACHLOROPHENOL UPDATE

The Company confirmed that it has ceased taking active steps to produce Pentachlorophenol and intends to continue working with its customers to offer a variety of preservative solutions for utility pole wood treatment.

OUTLOOK

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. For additional details per product category, please refer to the Company's Management's Discussion and Analysis.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on March 11, 2020, at 10:00 AM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 6270426. This recording will be available on Wednesday, March 11, 2020 as of 1:30 PM Eastern Time until 11:59 PM Eastern Time on Wednesday, March 18, 2020.

NON-IFRS FINANCIAL MEASURES

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

ABOUT STELLA-JONES

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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HEAD OFFICE 3100 de la Côte-Vertu Blvd., Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	**EXCHANGE LISTINGS** The Toronto Stock Exchange Stock Symbol: SJ **TRANSFER AGENT AND REGISTRAR** Computershare Investor Services Inc.	**INVESTOR RELATIONS** Silvana Travaglini Senior Vice-President and Chief Financial Officer Tel.: (514) 940-8660 Fax: (514) 934-5327 stravaglini@stella-jones.com

NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the fourth quarter ended December 31, 2019 have not been reviewed by the Company’s external auditors.

(Signed)

Silvana Travaglini
Senior Vice-President and Chief Financial Officer

Montréal, Québec
March 10, 2020

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2019 and 2018

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

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2019 $	As at December 31, 2018 $
Assets			
Current assets			
Accounts receivable		179,161	192,380
Inventories		970,569	838,558
Income taxes receivable		5,976	1,882
Other current assets		36,027	35,567
		1,191,733	1,068,387
Non-current assets			
Property, plant and equipment		567,804	551,785
Right-of-use assets	2	116,755	-
Intangible assets		114,740	131,658
Goodwill		284,901	298,270
Derivative financial instruments	5	1,239	7,545
Other non-current assets		3,885	4,559
		2,281,057	2,062,204
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		136,237	133,259
Income taxes payable		1,046	-
Derivative financial instruments	5	1,998	4,381
Current portion of long-term debt		6,540	9,714
Current portion of lease liabilities	2	29,232	-
Current portion of provisions and other long-term liabilities		7,075	12,016
		182,128	159,370
Non-current liabilities			
Long-term debt		598,371	503,767
Lease liabilities	2	88,910	-
Deferred income taxes		100,520	92,557
Provisions and other long-term liabilities		11,663	13,959
Employee future benefits		11,035	7,393
Derivative financial instruments	5	128	3,748
		992,755	780,794
Shareholders' equity			
Capital stock	4	216,958	221,328
Contributed surplus		386	348
Retained earnings		967,823	909,060
Accumulated other comprehensive income		103,135	150,674
		1,288,302	1,281,410
		2,281,057	2,062,204
Subsequent events	8		

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

Stella-Jones Inc.
Interim Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
For the twelve-month periods ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2019	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410
Comprehensive income (loss)								
Net income for the period	-	-	163,078	-	-	-	-	163,078
Other comprehensive income (loss)	-	-	(2,581)	(60,824)	18,012	(4,727)	(47,539)	(50,120)
Comprehensive income (loss) for the period	-	-	160,497	(60,824)	18,012	(4,727)	(47,539)	112,958
Dividends on common shares	-	-	(38,469)	-	-	-	-	(38,469)
Employee share purchase plans	1,387	-	-	-	-	-	-	1,387
Repurchase of common shares (note 4)	(5,757)	-	(63,265)	-	-	-	-	(69,022)
Share-based compensation	-	38	-	-	-	-	-	38
	(4,370)	38	(101,734)	-	-	-	-	(106,066)
Balance – December 31, 2019	216,958	386	967,823	191,325	(89,011)	821	103,135	1,288,302

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity…*continued*
(Unaudited)
For the twelve-month periods ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2018	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545
Comprehensive income (loss)								
Net income for the period	-	-	137,597	-	-	-	-	137,597
Other comprehensive income (loss)	-	-	927	101,529	(37,602)	989	64,916	65,843
Comprehensive income (loss) for the period	-	-	138,524	101,529	(37,602)	989	64,916	203,440
Dividends on common shares	-	-	(33,290)	-	-	-	-	(33,290)
Employee share purchase plans	1,330	-	-	-	-	-	-	1,330
Repurchase of common shares (note 4)	(469)	-	(5,196)					(5,665)
Share-based compensation	-	50	-	-	-	-	-	50
	861	50	(38,486)	-	-	-	-	(37,575)
Balance – December 31, 2018	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410

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

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

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

	Note	For the three-month periods ended December 2019 $	2018 $	For the twelve-month periods ended December 2019 $	2018 $
Sales		439,863	432,763	2,169,023	2,123,893
Expenses					
Cost of sales (including depreciation and amortization (3 months - $13,807 (2018 - $6,473) and 12 months - $55,927 (2018 - $24,298))	9	369,636	362,239	1,810,504	1,795,928
Selling and administrative (including depreciation and amortization (3 months - $3,582 (2018 - $3,481) and 12 months - $14,596 (2018 - $13,804))	9	28,073	29,063	116,598	112,800
Other losses (gains), net		763	9,617	(416)	8,864
		398,472	400,919	1,926,686	1,917,592
Operating income		41,391	31,844	242,337	206,301
Financial expenses		5,654	4,805	23,655	19,102
Income before income taxes		35,737	27,039	218,682	187,199
Provision for (recovery of) income taxes					
Current		5,361	8,086	41,335	39,018
Deferred		2,664	(1,622)	14,269	10,584
		8,025	6,464	55,604	49,602
Net income for the period		27,712	20,575	163,078	137,597
Basic and diluted earnings per common share	4	0.41	0.30	2.37	1.98

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

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

(expressed in thousands of Canadian dollars)

	For the three-month periods ended December 31, 2019 $	For the three-month periods ended December 31, 2018 $	For the twelve-month periods ended December 31, 2019 $	For the twelve-month periods ended December 31, 2018 $
Net income for the period	27,712	20,575	163,078	137,597
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	(22,546)	65,005	(60,824)	101,529
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	5,489	(20,932)	18,012	(34,332)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	-	(5,362)	-	(3,270)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	83	(3,024)	(6,434)	1,372
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(20)	820	1,707	(383)
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(120)	(643)	(3,428)	1,209
Income taxes on remeasurements of post-retirement benefit obligations	69	172	847	(282)
	(17,045)	36,036	(50,120)	65,843
Comprehensive income	10,667	56,611	112,958	203,440

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

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the twelve-month periods ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Note	2019 $	2018 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		163,078	137,597
Adjustments for			
Depreciation of property, plant and equipment		23,831	21,086
Amortization of intangible assets		14,331	17,016
Depreciation of right-of-use assets	2	32,361	-
Loss (gain) on derivative financial instruments		(6,131)	8,601
Financial expenses		23,655	19,102
Current income taxes expense		41,335	39,018
Deferred income taxes		14,269	10,584
Provisions and other long-term liabilities		(5,153)	2,917
Other		3,454	2,060
		305,030	257,981
Changes in non-cash working capital components			
Accounts receivable		6,162	(13,230)
Inventories		(162,231)	(56,716)
Accounts payable and accrued liabilities		11,438	13,428
Other current assets		(1,743)	(15,335)
		(146,375)	(71,853)
Interest paid		(24,216)	(18,693)
Income taxes paid		(44,522)	(39,371)
		89,918	128,064
Financing activities			
Increase in deferred financing costs		(259)	(255)
Net change in syndicated credit facilities		125,974	18,742
Increase in long-term debt		667	-
Repayment of long-term debt		(10,183)	(6,705)
Repayment of lease liabilities	2	(31,094)	-
Repayment of non-competes payable		(1,560)	(1,745)
Dividends on common shares		(38,469)	(33,290)
Repurchase of common shares	4	(70,649)	(4,038)
Proceeds from issuance of common shares		1,387	1,330
		(24,186)	(25,961)
Investing activities			
Decrease (increase) in other assets		995	(836)
Business acquisitions		-	(54,491)
Addition of intangible assets		(1,884)	(4,028)
Purchase of property, plant and equipment		(65,840)	(51,568)
Proceeds from disposal of assets		997	2,390
		(65,732)	(108,533)
Net change in cash and cash equivalents during the period		-	(6,430)
Cash and cash equivalents – Beginning of period		-	6,430
Cash and cash equivalents – End of period		-	-

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

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

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the "Company") is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. The Company also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company's headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I - Accounting, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on March 10, 2020.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2018, except as described below in the Changes in accounting policies section.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

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

Principles of consolidation

The condensed interim consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries are as follows:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
Cascade Pole and Lumber Company	Stella-Jones Corporation	United States
McFarland Cascade Pole & Lumber Company	Stella-Jones Corporation	United States
Kisatchie Midnight Express, L.L.C.	Stella-Jones Corporation	United States

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

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

Changes in accounting policies

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

IFRS 16 - Leases

On January 1, 2019, the Company retrospectively adopted IFRS 16, *Leases*, 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 of 1 to 10 years and may have extension options that are considered when it is reasonably certain that the option will be exercised. Lease terms are negotiated on an individual basis

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

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);
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

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

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

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

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

Type of assets	**$**
Rolling stock	79,588
Land	33,334
Other assets	7,809
Total	120,731

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

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

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

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

	December 31, 2019 **$**	**January 1, 2019** **$**
Current lease liabilities	29,232	28,263
Non-current lease liabilities	88,910	92,468
Total	118,142	120,731

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

The following tables provide a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position, for the three- and twelve-month periods ended December 31, 2019:

Right-of-use	**Rolling stock** $	**Land** $	**Other assets** $	**Total** $
Balance as at September 30, 2019	82,956	30,468	6,697	120,121
Additions	8,965	-	82	9,047
Disposals	(849)	-	-	(849)
Depreciation	(6,106)	(1,227)	(733)	(8,066)
Remeasurement	(1,548)	-	(119)	(1,667)
Exchange differences	(1,278)	(506)	(47)	(1,831)
Balance as at December 31, 2019	82,140	28,735	5,880	116,755

Right-of-use	**Rolling stock** $	**Land** $	**Other assets** $	**Total** $
Balance as at January 1, 2019	79,588	33,334	7,809	120,731
Additions	28,864	523	161	29,548
Disposals	(1,520)	-	-	(1,520)
Depreciation	(26,027)	(3,819)	(2,515)	(32,361)
Remeasurement	4,675	78	565	5,318
Exchange differences	(3,440)	(1.381)	(140)	(4,961)
Balance as at December 31, 2019	82,140	28,735	5,880	116,755

The following tables provide a reconciliation of the lease liabilities, presented in the consolidated statements of financial position, for the three- and twelve-month periods ended December 31, 2019:

Lease liabilities	**Rolling stock** $	**Land** $	**Other assets** $	**Total** $
Balance as at September 30, 2019	83,604	30,907	6,708	121,219
Payments under lease agreements	(7,280)	(951)	(672)	(8,903)
Finance cost	670	257	55	982
Additions	8,965	-	82	9,047
Lease termination payment	(675)	-	-	(675)
Remeasurement	(1,548)	-	(119)	(1,667)
Exchange differences	(1,288)	(524)	(49)	(1,861)
Balance as at December 31, 2019	82,448	29,689	6,005	118,142

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

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

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 Company’s consolidated financial statements.

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

In September 2019, the IASB issued *Exposure Draft*, *Interest Rate Benchmark Reform*, *Amendments* to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments Recognition and Measurement*, and IFRS 7, *Financial Instrument Disclosures*, 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

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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.

3 Long-term debt

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

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

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

4 Capital stock

The following table provides the number of common share outstanding for the twelve-month periods ended December 31:

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

* Number of common shares is presented in thousands.

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

a) Capital stock consists of the following:

Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

b) Earnings per share

The following table provides the reconciliation, as at December 31, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2019	**2018**	**2019**	**2018**
Net income applicable to common shares	$27,712	$20,575	$163,078	$137,597
Weighted average number of common shares outstanding*	67,898	69,358	68,761	69,352
Effect of dilutive stock options*	6	7	7	8
Weighted average number of diluted common shares outstanding*	67,904	69,365	68,768	69,360
Basic and diluted earnings per common share **	$0.41	$0.30	$2.37	$1.98

* Number of shares is presented in thousands.

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

c) Normal Course Issuer Bid

On December 18, 2018 the TSX accepted the Company’s Notice of Intention to Make a Normal Course Issuer Bid. The Normal Course Issuer Bid was initiated for a twelve-month period starting on December 20, 2018. During this period, the Company may purchase for cancellation up to 3,000,000 common shares. For the twelve-month period ended December 31, 2019, the Company repurchased 1,794,588 common shares for cancellation in consideration of $69,022 representing an average price of $38.46 per common share.

As at December 31, 2018, the Company had unsettled transactions to repurchase 41,662 common shares for a cash consideration of $1,627 representing an average price of $39.05 per common share. As of December 31, 2018, the Company had recorded a financial liability with an offset amount in equity in the amount of

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$1,627. The settlement of these transactions occurred in early January 2019 and the cancellation of the corresponding common share was done at the same time.

5 Fair value measurement and financial instruments

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

	As at December 31, 2019	As at December 31, 2018
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	$	$
Recurring fair value measurements		
Non-current assets		
Interest rate swap agreements	1,239	7,545
	1,239	7,545
Current Liabilities		
Derivative commodity contracts	1,998	4,381
	1,998	4,381
Non-current liabilities		
Interest rate swap agreements	128	-
Derivative commodity contracts	-	3,748
	128	3,748

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments which are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt has a carrying value of $604,911 (December 31, 2018 – $513,481) and a fair value of $598,736 (December 31, 2018 – $501,950).

6 Seasonality

The Company's operations follow a seasonal pattern, with utility pole, railway tie and industrial product shipments strongest in the second and third quarters to provide industrial end-users with product for their summer maintenance projects. Residential lumber sales follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season.

7 Segment information

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

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

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

Operating plants are located in six Canadian provinces and nineteen American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer for the twelve-month periods ended December 31 are as follows:

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

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

Sales by product for the twelve-month periods ended December 31 are as follows:

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

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

	As at December 31, 2019	**As at December 31, 2018**
Property, plant and equipment		
	$	**$**
Canada	149,083	124,246
U.S.	418,721	427,539
	567,804	551,785
Intangible assets		
	$	**$**
Canada	30,892	33,977
U.S.	83,848	97,681
	114,740	131,658
Goodwill		
	$	**$**
Canada	19,403	19,403
U.S.	265,498	278,867
	284,901	298,270
Right-of-use assets		
	$	**$**
Canada	17,810	-
U.S.	98,945	-
	116,755	-

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8 Subsequent events

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

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

9 Comparative figures

Certain comparative figures have been adjusted to conform to the current year’s presentation. For the twelve-month period ended December 31, 2018, an amortization expense for customer relationships and non-compete agreements of $13,804 has been reclassified from cost of sales to selling and administrative expenses ($3,481 for the three-month period).