MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2014 AND 2013

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., and shall include its independent operating subsidiaries.

This MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 12, 2015. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2014 compared with the fiscal year ended December 31, 2013. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013 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, raw material and operating costs, changes in foreign currency rates and other factors referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

The Company's 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 Accountant ("CPA") Canada Handbook Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information, including the Company's annual information form, quarterly and annual reports, and supplementary information is available on SEDAR at www.sedar.com. Press releases and other information are also available in the Investor/Media Centre 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 provides residential lumber and customized services to retailers and wholesalers 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, 2014, the Company operates twenty-seven wood treating plants, ten pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and sixteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2014, Stella-Jones' workforce numbered approximately 1,535 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, a long-standing stable source of wood supply, and a registration to produce and sell the wood preservative, creosote.

OUR MISSION

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

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

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

NON-IFRS FINANCIAL MEASURES

Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and operating results as they provide additional measures of its performance.

Reconciliation of EBITDA and operating income to net income	Three-month periods ended		Fiscal years ended	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**23.0**	19.7	**103.8**	92.5
Plus:				
Provision for income taxes	**7.1**	6.9	**38.9**	35.3
Financial expenses	**3.8**	2.9	**13.0**	10.9
Operating income	**33.9**	29.5	**155.7**	138.7
Depreciation and amortization	**5.8**	4.2	**20.6**	16.3
EBITDA	**39.7**	33.7	**176.3**	155.0

MAJOR ACHIEVEMENTS OF 2014

Stella-Jones recorded a solid performance in the year ended December 31, 2014. The Company proceeded with further network expansion through a strategic acquisition. On the operating front, it achieved record sales and net income, while concluding the year in a healthy financial position. Going forward, Stella-Jones remains committed to executing its operating strategy based on continental expansion in its core railway tie and utility pole markets, as well as capturing select opportunities in other markets for its treated wood products.

Network expansion

On May 22, 2014, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the wood treating facilities of Boatright Railroad Products, Inc. ("Boatright"), located in Montevallo and Clanton, Alabama. These facilities manufacture, sell and distribute creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers to the railroad industry and was acquired for synergistic reasons.

The total consideration transferred for the acquisition was approximately $72.3 million (US$66.2 million), excluding acquisition costs of approximately $753,000 (US$690,000), recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2014 reached $1,249.5 million, up 23.6% from last year's sales of $1,011.3 million. The assets acquired from The Pacific Wood Preserving Companies® ("PWP") on November 15, 2013 contributed additional sales of $43.3 million over a ten-and-a-half-month period, while the wood treating facilities acquired from Boatright on May 22, 2014 generated sales of $33.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $59.2 million when compared with the previous year. Excluding these factors, sales increased approximately $102.3 million, or 10.1%.

Stella-Jones' annual operating income reached $155.7 million, or 12.5% of sales, in 2014. This represents a 12.3% increase over $138.7 million, or 13.7% of sales, in the prior year. As a result, net income for the year grew 12.2% to $103.8 million, or $1.50 per share, fully diluted, compared with $92.5 million, or $1.34 per share, fully diluted, a year ago. The Company generated a solid 16.4% return on average equity in 2014.

Stella-Jones produced strong cash flows in 2014 with cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid, amounting to $181.5 million, up 13.0% from $160.6 million in 2013. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the tenth consecutive year. Although the Boatright acquisition was mostly financed through the Company's existing committed revolving credit facility, Stella-Jones' total debt to total capitalization ratio of 0.39:1 as at December 31, 2014 remained stable from twelve months earlier.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	2014	2013	2012
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,249.5**	1,011.3	732.4
Operating income	**155.7**	138.7	109.6
Net income	**103.8**	92.5	73.1
Basic earnings per common share	**1.51**	1.35	1.14
Diluted earnings per common share	**1.50**	1.34	1.13

Financial Position	2014	2013	2012
(in millions of dollars)	**$**	$	$
Current assets	**697.5**	581.9	534.9
Total assets	**1,287.5**	1,071.9	955.9
Long-term debt*	**444.6**	372.9	349.6
Total liabilities	**595.2**	499.7	487.1
Shareholders' equity	**692.3**	572.2	468.8

* Including current portion

KEY PERFORMANCE INDICATORS (years ended December 31)

	2014	2013	2012
Operating margin	**12.5%**	13.7%	15.0%
Return on average equity	**16.4%**	17.8%	18.3%
Working capital ratio	**8.46**	8.97	5.94
Total debt to total capitalization	**0.39:1**	0.39:1	0.44:1
Total debt to trailing 12-month EBITDA	**2.52**	2.41	3.02
Dividend per share	**$0.28**	$0.20	$0.16

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2014 and 2013. 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.

	2014		2013	
Cdn$/US$	**Average**	**Closing**	**Average**	**Closing**
First Quarter	**1.0949**	**1.1055**	1.0079	1.0160
Second Quarter	**1.0952**	**1.0670**	1.0201	1.0518
Third Quarter	**1.0816**	**1.1200**	1.0440	1.0303
Fourth Quarter	**1.1304**	**1.1601**	1.0450	1.0636
Fiscal Year	**1.1005**	**1.1601**	1.0292	1.0636

INDUSTRY OVERVIEW

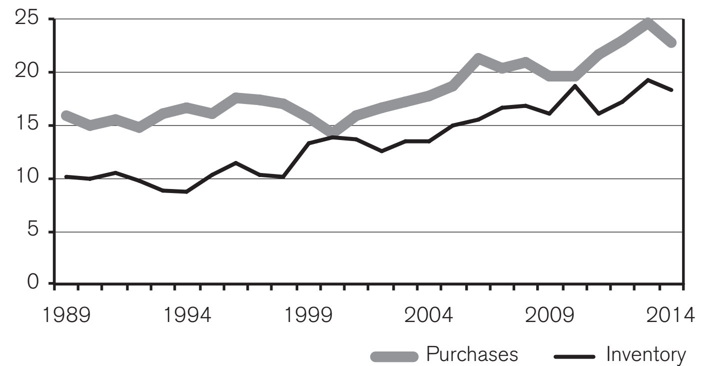
Railway ties

As reported by the Railway Tie Association, railway tie purchases for 2014 stood at 22.9 million ties. Although slightly down from 24.7 million ties in the previous year, railway tie purchases remain high by historical standards. This solid demand, combined with lower availability of untreated railway ties, resulted in a tighter inventory-to-sales ratio of 0.70:1, as at December 31, 2014, down from 0.74:1 twelve months earlier, and below the previous ten-year average ratio of 0.79:1.

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.

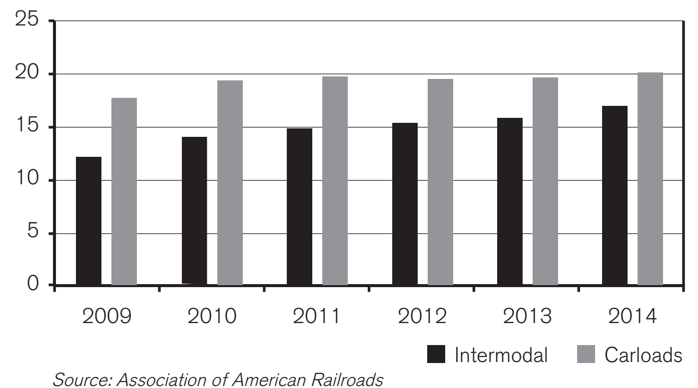
Driven by an improving economy, total traffic on North American railroads increased by 4.4% in 2014, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 5.4% from 2013 levels, the volume of carloads increased by 3.6% in 2014 due to higher shipments of petroleum products and grain, compared with the previous year.

ANNUALIZED RAILWAY TIE PURCHASES AND INVENTORY
(in millions of ties)



Source: Railway Tie Association

FREIGHT HAULED ON NORTH AMERICAN RAILROADS
(in millions of units)



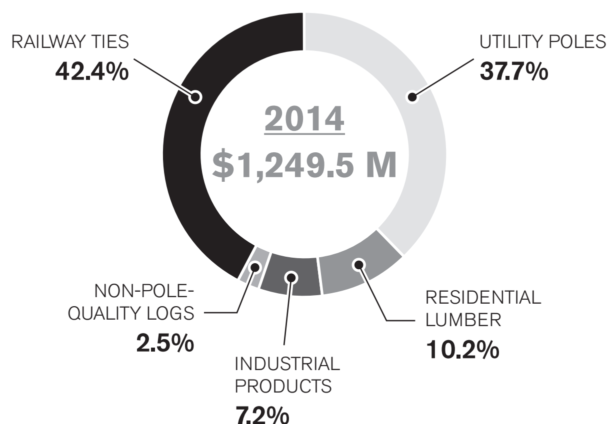
Source: Association of American Railroads

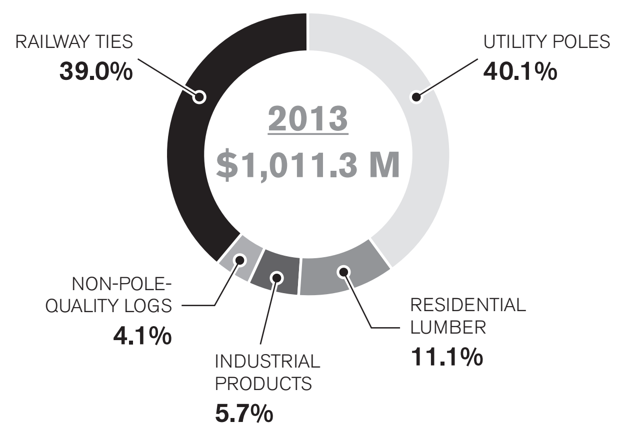
OPERATING RESULTS

Sales

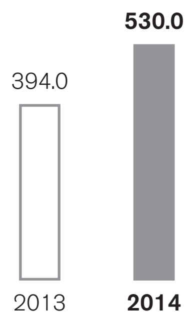
Sales for the year ended December 31, 2014 reached $1,249.5 million, up 23.6% over last year's sales of $1,011.3 million. The assets acquired from PWP on November 15, 2013 contributed additional sales of $43.3 million over a ten-and-a-half-month period, while the wood treating facilities acquired from Boatright on May 22, 2014 generated sales of $33.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $59.2 million when compared with the previous year. Excluding these factors, sales increased approximately $102.3 million, or 10.1%.

SALES BY PRODUCT CATEGORY
(% of sales)

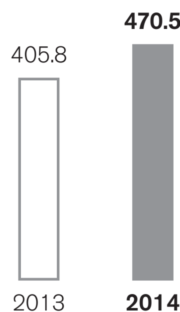




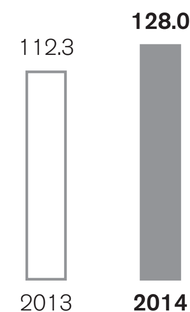
1 RAILWAY TIE SALES
(in millions of $)



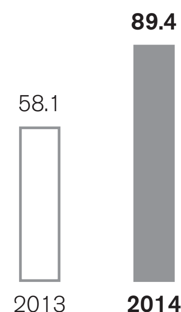
2 UTILITY POLE SALES
(in millions of $)



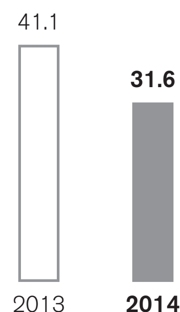
3 RESIDENTIAL LUMBER SALES
(in millions of $)



4 INDUSTRIAL PRODUCT SALES
(in millions of $)



5 NON-POLE-QUALITY LOG SALES
(in millions of $)



1. Railway ties

Railway tie sales for 2014 amounted to $530.0 million, up $136.0 million, or 34.5%, from $394.0 million in 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales rose approximately $71.2 million, or 18.1%. Further adjusting for a negative timing effect of approximately $30.9 million on last year's railway tie sales resulting from the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, year-over-year sales increased $40.3 million, or 10.2%. This increase reflects solid market demand from tie replacement programs and increased pricing. A "treating services only" program is characterized by the customer owning the wood raw material and Stella-Jones providing the transformation service of the raw material into a finished product. In a "black-tie" program, the customer is not involved in the process and purchases a finished product from Stella-Jones. Railway tie sales accounted for 42.4% of the Company's total sales in 2014.

2. Utility poles

Utility pole sales reached $470.5 million in 2014, representing an increase of $64.7 million, or 15.9%, from sales of $405.8 million in 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, sales rose approximately $17.0 million, or 4.0%. This increase reflects sustained demand from replacement programs for distribution poles and from special projects for transmission poles. Utility pole sales accounted for 37.7% of the Company's total sales in 2014.

3. Residential lumber

Sales in the residential lumber category totalled $128.0 million in 2014, up from $112.3 million in 2013. This $15.7 million, or 14.0%, increase essentially reflects solid demand in Western Canada and in the United States due to the general improvement in the North American economy. Residential lumber accounted for 10.2% of Stella-Jones' sales in 2014.

4. Industrial products

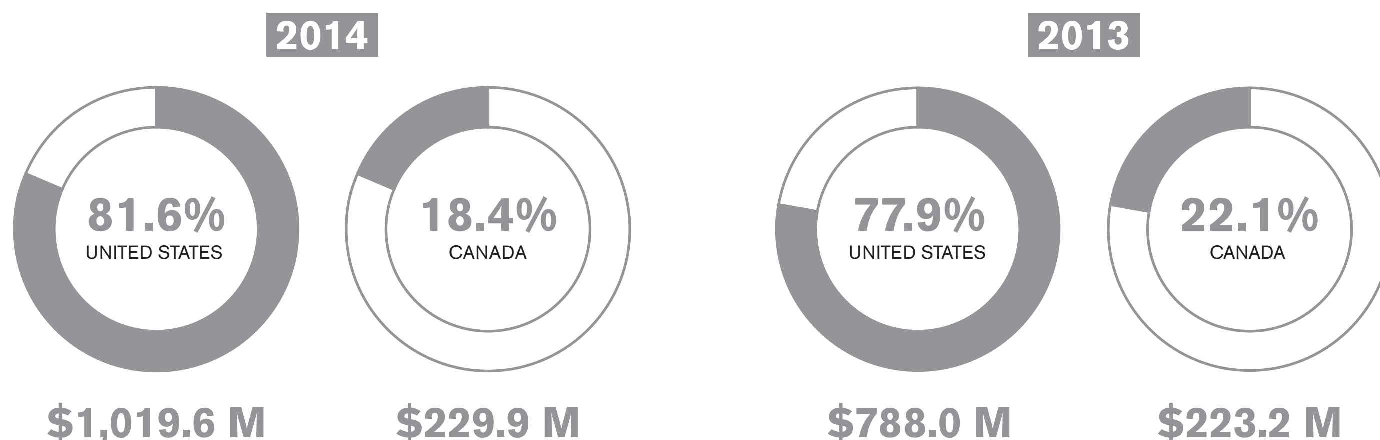
Industrial product sales were $89.4 million in 2014, compared with $58.1 million in 2013. This increase is mainly attributable to the contribution of the PWP and Boatright assets, as well as increased sales of rail-related industrial products. Industrial products represented 7.2% of sales in 2014.

5. Non-pole-quality logs

Non-pole-quality log sales amounted to $31.6 million in 2014, down from $41.1 million in 2013. This variation is attributable to the timing of timber harvesting. Non-pole-quality logs represented 2.5% of sales in 2014.

SALES BY GEOGRAPHIC REGION

(% of sales)



Sales in the United States amounted to $1,019.6 million, or 81.6% of sales in 2014, representing an increase of $231.6 million, or 29.4%, over 2013. The year-over-year rise mainly stems from an additional contribution totalling $76.7 million from the PWP and Boatright assets, the $59.2 million increase resulting from a higher conversion rate on U.S. dollar denominated sales, and from higher industry demand for the Company's treated wood products.

Sales in Canada increased by $6.7 million, or 3.0%, in 2014 to reach $229.9 million, representing 18.4% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales in Western Canada as well as higher railway tie sales resulting from higher pricing. These factors were partially offset by lower sales of utility poles, mainly due to the year-over-year timing difference in orders.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,025.3 million, or 82.1% of sales, in 2014. This compares with $814.0 million, or 80.5% of sales, in 2013. The increase in absolute dollars essentially reflects higher business activity, the addition of the PWP and Boatright assets, and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the increase is mainly attributable to higher year-over-year costs for untreated railway ties. This factor was partially offset by greater efficiencies throughout the Company's plant network.

While the year-over-year gross profit for the second, third and fourth quarters of 2014 have been negatively impacted by the increase of untreated railway tie costs, the Company has been able to adjust its selling prices, as permitted in most of the multi-year contracts, which has resulted in a sequential improvement in gross profit as a percentage of sales over these quarters.

Depreciation and amortization charges totalled $20.6 million for the year ended December 31, 2014, versus $16.3 million a year earlier. The increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of PWP and Boatright.

As a result, gross profit reached $224.2 million or 17.9% of sales in 2014, up from $197.3 million or 19.5% of sales in 2013.

Selling and administrative

Selling and administrative expenses for 2014 were $69.1 million, or 5.5% of sales, compared with expenses of $57.2 million, or 5.7% of sales, in 2013. The variation in monetary terms is mainly attributable to a $2.4 million increase in stock-based compensation following the appreciation of the Company's share price on the TSX, an increase in profit sharing of $1.9 million, certain severance provisions of $1.5 million and the effect of currency translation. Finally, this year's selling and administrative expenses also included approximately $753,000 in acquisition costs directly related to the Boatright transaction, while last year's expenses included approximately $1.2 million in acquisition costs directly related to the PWP transaction.

Other losses (gains), net

Stella-Jones' other net gains of $643,000 for the year ended December 31, 2014 included a $5.7 million gain on the sale of a timber license and $3.9 million of environmental provision reversals, as well as a $1.3 million gain on foreign currency conversion. These elements were partially offset by losses on disposal of long-term assets of $5.5 million, including $2.4 million related to the Warrior, Alabama facility, and by $2.2 million of plant closure costs. In 2013, other net losses of $1.5 million included a $2.8 million loss on the disposal of assets, partially offset by a gain of $660,000 on the sale of certain tie recycling assets and by a foreign exchange gain of $707,000.

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

Financial expenses

Financial expenses reached $13.0 million in 2014, up from $10.9 million in 2013. This increase in financial expenses is due to higher-year-over-year average borrowings as a result of the acquisitions of PWP and Boatright, which includes $1.3 million of interest accretion on debt fair values compared to $492,000 in 2013.

Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of $142.7 million, or 11.4% of sales, in 2014. This represents an increase of 11.7%, over income before income taxes of $127.8 million, or 12.6% of sales, in 2013.

Stella-Jones' provision for income taxes totalled $38.9 million in 2014, representing an effective tax rate of 27.2%. In 2013, the income tax expenses stood at $35.3 million, equivalent to an effective tax rate of 27.6%. The slightly lower effective tax rate for 2014 is mainly attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

Net income

Net income for the year ended December 31, 2014 reached $103.8 million, or $1.50 per share, fully diluted, compared with $92.5 million, or $1.34 per share, fully diluted, in 2013. This represents a year-over-year increase in net income of 12.2%.

BUSINESS ACQUISITION

On May 22, 2014, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the wood treating facilities of Boatright, located in Montevallo and Clanton, Alabama. These facilities manufacture, sell and distribute creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers to the railroad industry and were acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $58.8 million (US$53.9 million), excluding acquisition costs of approximately $753,000 (US$690,000), recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in thousands of dollars)	$
Assets acquired	
Inventories	9,718
Property, plant and equipment	22,527
Customer relationships	17,486
Customer backlog	1,463
Goodwill	23,316
Deferred income tax assets	935
	75,445
Liabilities assumed	
Accounts payable and accrued liabilities	160
Site remediation provision	3,029
Total net assets acquired and liabilities assumed	**72,256**
Consideration transferred	
Cash	58,830
Unsecured promissory note	13,426
Consideration transferred	**72,256**

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

The Company financed the acquisition through a combination of its existing committed revolving credit facility, which was increased from $400.0 million to $450.0 million as at May 12, 2014 and an unsecured promissory note of $15.5 million (US$14.2 million), bearing interest at 1.93% and repayable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at $13.4 million (US$12.3 million), using an interest rate of 7.0%.

SUBSEQUENT EVENT

On March 3, 2015, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement dated November 21, 2012. This fourth restated and amended agreement makes available a committed revolving credit facility in the amount of US$450.0 million (previously $450.0 million) with conditions similar to the third restated and amended agreement. The maturity date of December 13, 2018 remains unchanged.

QUARTERLY RESULTS

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

In 2014, the Company achieved year-over-year revenue and net income growth in all quarters, driven by solid demand for its core products and by the contribution of the PWP and Boatright assets. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2014

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except per share data)	$	$	$	$	$
Sales	**257.5**	**344.8**	**357.3**	**289.9**	**1,249.5**
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	**39.1**	**46.2**	**51.3**	**39.7**	**176.3**
Operating income [1]	**34.7**	**41.6**	**45.5**	**33.9**	**155.7**
Net income for the period	**22.5**	**28.8**	**29.5**	**23.0**	**103.8**
Earnings per common share					
Basic	**0.33**	**0.42**	**0.43**	**0.33**	**1.51**
Diluted	**0.33**	**0.42**	**0.43**	**0.33**	**1.50**

2013

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except per share data)	$	$	$	$	$
Sales	222.6	280.9	285.3	222.5	1,011.3
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	33.9	44.9	42.5	33.7	155.0
Operating income [1]	29.7	41.0	38.6	29.5	138.7
Net income for the period	18.8	26.4	27.7	19.7	92.5
Earnings per common share					
Basic	0.27	0.38	0.40	0.29	1.35
Diluted	0.27	0.38	0.40	0.29	1.34

1 Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

Note: due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.

Fourth Quarter Results

Sales for the fourth quarter of 2014 amounted to $289.9 million, up 30.3% from $222.5 million for the same period in 2013. This increase is attributable to sales of $17.7 million from the Boatright assets and from a contribution of $7.0 million from the PWP assets over an additional 45-day period. The conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $16.1 million when compared with last year. Excluding these factors, sales increased approximately $26.6 million, or 12.0%.

Sales of railway ties reached $131.1 million, versus $78.3 million last year. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales rose $27.1 million, or 34.7%. Further adjusting for a negative timing effect of approximately $13.4 million on last year's railway tie sales resulting from the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, year-over-year sales increased $13.7 million, or 17.5%, as a result of solid market demand and price increases. Utility pole sales rose $6.7 million, or 6.2%, to $113.8 million. Excluding sales from acquisitions and the conversion effect from currency fluctuations, sales declined by approximately $4.1 million due to the year-over-year timing difference for certain orders. Residential lumber sales reached $17.9 million, up from $13.8 million last year, reflecting solid demand in most of the Company's markets. Industrial product sales amounted to $18.7 million, up from $12.7 million a year ago, as a result of acquisitions and higher sales of rail-related products. Finally, non-pole-quality log sales stood at $8.4 million, down from $10.6 million last year due to the timing of timber harvesting.

Gross profit amounted to $51.4 million, or 17.7% of sales, in the fourth quarter of 2014, versus $43.2 million, or 19.4% of sales, in the fourth quarter of 2013. The increase in absolute dollars reflects higher business activity, the contribution of Boatright for the full period and of PWP over an additional 45-day period, as well as a higher average rate applied to convert U.S. dollar denominated costs. The decline as a percentage of sales is mainly attributable to a less favourable year-over-year product mix, more heavily weighted towards railway ties in 2014. These factors were partially offset by greater efficiencies throughout the Company's plant network.

While the year-over-year gross profit remains negatively impacted by the increase of untreated railway tie costs, the Company has continued to adjust its selling prices, as permitted in most of the multi-year contracts, resulting in better gross profit in the fourth quarter as a percentage of sales when compared with the previous quarter.

Reflecting factors that affected gross profit, operating income was $33.9 million, or 11.7% of sales, in the fourth quarter of 2014, versus $29.5 million, or 13.3% of sales, in the fourth quarter of 2013. Net income for the period reached $23.0 million, or $0.33 per share, fully diluted, compared with $19.7 million, or $0.29 per share, fully diluted, last year. This represents a year-over-year increase in net income of 16.6%.

STATEMENT OF FINANCIAL POSITION

Assets

As at December 31, 2014, total assets reached $1,287.5 million, up from $1,071.9 million as at December 31, 2013. This increase is mainly attributable to the Boatright acquisition and to the effect of local currency translation on U.S.-based assets.

Current assets amounted to $697.5 million as at December 31, 2014 compared with $581.9 million at December 31, 2013. This variation is mostly attributable to increases in inventories and accounts receivable related to the Boatright acquisition and to the effect of local currency translation on U.S.-based current assets.

The value of accounts receivable was $127.5 million as at December 31, 2014 compared with $108.0 million as at December 31, 2013. This increase mainly reflects the addition of Boatright's accounts receivable, higher business activity in the fourth quarter of 2014 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $547.2 million as at December 31, 2014, up from $458.6 million as at December 31, 2013. This variation is mainly due to the addition of Boatright's inventories and the effect of local currency translation on U.S.-based inventories.

Because of the long periods required to air season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. However, solid relationships and long-term contracts with certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flows from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $281.6 million as at December 31, 2014, compared with $234.2 million as at December 31, 2013. This increase is essentially related to the Boatright acquisition ($22.5 million), to purchases of property, plant and equipment for the year ($24.9 million) and to the effect of local currency translation on U.S.-based property, plant and equipment. These factors were partially offset by the depreciation charge ($9.7 million) and asset disposals ($5.9 million).

The value of intangible assets reached $110.3 million as at December 31, 2014. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights and standing timber. As at December 31, 2013, intangible assets were $94.0 million. The year-over-year increase is mainly explained by the acquisition of Boatright ($18.9 million) and the effect of local currency translation on U.S. dollar denominated intangible assets, partially offset by an amortization charge of $10.9 million for 2014.

As at December 31, 2014, the value of goodwill stood at $195.0 million, up from $156.2 million a year earlier. This increase in goodwill reflects the Boatright acquisition ($23.3 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2014, Stella-Jones' total liabilities stood at $595.2 million, up from $499.7 million as at December 31, 2013. This variation reflects increases in current liabilities and in long-term debt, as explained below, as well as the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $82.4 million as at December 31, 2014, up from $64.9 million a year earlier. This variation is essentially due to an $11.7 million increase in accounts payable and accrued liabilities due to higher business activity and the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities. Also, current portions of provisions and other long-term liabilities, and of long-term debt, were up by $3.9 million and $3.0 million, respectively.

The Company's long-term debt, including the current portion, stood at $444.6 million as at December 31, 2014, versus $372.9 million as at December 31, 2013. The increase essentially reflects higher borrowings following the acquisition of Boatright, increased working capital requirements due to higher business activity and the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2014, an amount of $64.3 million was available against the Company's committed revolving credit facility of $450.0 million.

Shareholders' equity

Shareholders' equity was $692.3 million as at December 31, 2014, compared with $572.2 million as at December 31, 2013. This increase is mainly attributable to net income of $103.8 million for the year and to a $35.5 million favourable variation in the value of accumulated other comprehensive gain. These factors were partially offset by dividends on common shares totalling $19.3 million. Book value stood at $10.04 per common share as at December 31, 2014, up from $8.33 per share as at December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (years ended December 31)

	2014	2013
(in millions of dollars)	**$**	$
Operating activities	**76.9**	104.2
Financing activities	**5.1**	(33.8)
Investing activities	**(85.2)**	(81.2)
Net change in cash and cash equivalents	**(3.2)**	(10.8)
Cash and cash equivalents – beginning	**3.2**	14.0
Cash and cash equivalents – end	**–**	3.2

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, long-term debt, and the issuance of common shares. The Company's committed revolving credit facility is made available for a five-year term and is thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $181.5 million for the year ended December 31, 2014, up 13.0% from $160.6 million in 2013. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $52.5 million in 2014. Main elements of this variation include increases of $5.8 million and $48.2 million in accounts receivable and inventories, respectively. In 2013, changes in non-cash working capital components had reduced liquidity by $24.3 million, mainly due to an $8.4 million increase in inventories and a $10.4 million decrease in accounts payable and accrued liabilities.

Interest and income taxes paid further reduced liquidity by $14.9 million and $37.1 million, respectively, in 2014, versus $9.1 million and $23.1 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings, while the increase in income taxes paid reflects a higher balance of income taxes receivable as at December 31, 2014 and the payment of an income taxes payable balance as at December 31, 2013.

As a result, cash flows provided by operating activities were $76.9 million in 2014, versus $104.2 million in 2013.

Financing activities for the year ended December 31, 2014 provided liquidity of $5.1 million. The main factors explaining this cash generation were a net increase in long-term debt of $23.2 million, mainly to finance the Boatright transaction, partially offset by the payment of dividends on common shares totalling $19.3 million. For the year ended December 31, 2013, financing activities had required liquidity of $33.8 million, mainly due to a $14.0 million decrease in bank indebtedness and the payment of dividends on common shares totalling $13.7 million.

Investing activities required $85.2 million in cash during 2014. Business acquisitions resulted in a cash outlay of $61.1 million, while purchases of property, plant and equipment required an investment of $24.2 million. In 2013, cash flows from investing activities had decreased liquidity by $81.2 million due to business acquisitions ($57.5 million) and purchases of property, plant and equipment ($26.2 million).

FINANCIAL OBLIGATIONS

The following table details the maturities of the financial obligations as at December 31, 2014:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in millions of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	69.7	69.7	69.7	–	–	–
Long-term debt obligations	444.6	484.5	19.1	69.2	391.2	5.0
Interest rate swaps	0.7	4.8	2.2	2.6	–	–
Minimum payments under operating lease obligations	–	67.2	16.1	24.0	12.5	14.6
Non-compete agreements	1.0	1.0	0.5	0.5	–	–
Total	516.0	627.2	107.6	96.3	403.7	19.6

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2014, the capital stock issued and outstanding consisted of 68,949,064 common shares (68,697,366 as at December 31, 2013). The following table presents the outstanding capital stock activity for the year ended December 31, 2014:

Year Ended Dec. 31, 2014	Number of shares (in '000s)
Balance – Beginning of year	68,697
Stock option plan	222
Employee share purchase plans	30
Balance – End of year	68,949

As at March 12, 2015, the capital stock issued and outstanding consisted of 68,949,064 common shares.

As at December 31, 2014, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 328,706 (December 31, 2013 – 550,400) of which 310,706 (December 31, 2013 – 440,400) were exercisable. As at March 12, 2015, the number of outstanding options was 328,706 of which 310,706 were exercisable.

DIVIDENDS

In 2014, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.
- $0.07 per common share payable on June 27, 2014 to shareholders of record at the close of business on June 2, 2014.
- $0.07 per common share payable on September 26, 2014 to shareholders of record at the close of business on September 2, 2014.
- $0.07 per common share payable on December 18, 2014 to shareholders of record at the close of business on December 2, 2014.

Subsequent to the end of the year, on March 12, 2015, the Board declared a quarterly dividend of $0.08 per common share payable on April 30, 2015 to shareholders of record at the close of business on April 2, 2015.

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

COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $29.3 million (2013 – $33.6 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on 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.

CURRENT ECONOMIC CONDITIONS

Operations

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

Based on current market conditions, Management expects solid demand for its core products in 2015. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, Management believes that industry demand should pick up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand and is planning further capacity additions in 2015.

Liquidity

As at December 31, 2014, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2014, an amount of $64.3 million was available against the Company's committed revolving credit facility of $450.0 million.

Accounts receivable increased in 2014 due to the addition of Boatright's business, higher business activity in the fourth quarter of 2014 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default.

Inventories rose in 2014 mainly due to the addition of Boatright's inventories and the effect of local currency translation on U.S.-based inventories. To ensure efficient treating operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

Economic Conditions

The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its 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 significant reduction in its profitability. For the year ended December 31, 2014, the Company's top ten customers accounted for approximately 42.1% of its sales. During this same period, the Company's two largest customers accounted for approximately 9.8% and 5.5%, respectively, of its total sales.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. 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 adequate timber to the Company.

In addition, 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. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the 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.

While the Company has been party to environmental litigation in the past, which have 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 environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations 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 result even if the allegations are not valid and the Company is not found liable.

Risks 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 have a material adverse effect on the Company's business, operating results, profitability and financial position. 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 have a material adverse effect on the Company's business operating results, profitability and financial position.

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. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage

The Company maintains property, casualty, general liability and workers' compensation insurance, 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 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 goods manufactured in Canada.

The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. 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 special 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 Fluctuations

As at December 31, 2014, approximately 23.9% of the Company's long-term debt was at variable rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. 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 a material adverse effect on the Company's business operating results, profitability and financial position.

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 railways, as well as with utility and telecommunication companies, and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence by Stella Jones International S.A.

As at December 31, 2014, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.5% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not, in all cases, be aligned with interests of the other shareholders.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2014 and 2013 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and CPA Canada Handbook Part I.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

CHANGES IN ACCOUNTING POLICIES

Non-pole-quality log sales

The Company has increasingly been ensuring its own pole sourcing and, as a result, non-pole-quality log sales have become more significant to the consolidated operations. Accordingly, the Company believes it is more representative to treat the sale of non-pole-quality logs as a joint product of its pole harvesting efforts and no longer as a by-product. Therefore, effective January 1, 2014, sales of non-pole-quality logs are presented under revenues in the consolidated statement of income and are no longer credited to cost of sales. The comparative figures have been restated to comply with the current year's presentation. The amount of non-pole-quality logs recognized as revenue for the twelve-month period ended December 31, 2014 was $31.6 million ($41.1 million for the twelve-month period ended December 31, 2013).

The Company has also adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 - Financial Instruments: Presentation

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position.

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available immediately and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

The adoption of this revised standard had no significant impact on the Company's consolidated financial statements.

IFRIC 21 - Levies

In May 2013, the IASB issued IFRIC 21, *Levies*, which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on the accounting of levies imposed by governments. IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company adopted this new standard as at January 1, 2014 and this change had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. The standard will be effective on January 1, 2017 for the Company with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 - Financial Instruments

In July 2014, the IASB amended IFRS 9, *Financial Instruments*, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its 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, 2014, 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 (1992) ("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, 2014.

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, 2014 to December 31, 2014 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

As the North American economy continues to strengthen, Management expects solid demand for the Company's core products in 2015. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, Management believes that industry demand should pick-up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

Stella-Jones anticipates that lower oil prices will have a slightly favourable effect on its overall business, as a reduction in the cost of certain raw materials should more than offset potential delays on certain projects requiring its core products.

Meanwhile, conditions in the untreated railway tie market stabilized in late 2014 and product availability has returned to more appropriate levels. Therefore, consistent supply in the coming months will be an important factor in rebuilding inventory. The Company believes the strength of its procurement network and its current inventory position should allow Stella-Jones to meet demand at the most optimal cost.

As one of the largest 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 railway tie and utility pole markets, while diligently seeking market opportunities. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company will continue to focus on cash generation and on maintaining a prudent use of leverage. The solid cash flows provided by operating activities will be used to reduce debt, invest in working capital as well as in property, plant and equipment and in maintaining an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

March 12, 2015