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 Board of Directors on March 15, 2016. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2015 compared with the fiscal year ended December 31, 2014. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 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 the SEDAR web site 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, 2015, the Company operated thirty-one wood treating plants, eleven pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and seventeen American states and are complemented by an extensive distribution network across North America. As at December 31, 2015, Stella-Jones' workforce numbered approximately 1,760 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, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**33.0**	23.0	**141.4**	103.8
Plus:				
Provision for income taxes	**10.5**	7.1	**61.6**	38.9
Financial expenses	**4.8**	3.8	**17.1**	13.0
Operating income	**48.3**	33.9	**220.1**	155.7
Depreciation and amortization	**6.2**	5.8	**23.3**	20.6
EBITDA	**54.5**	39.7	**243.4**	176.3

MAJOR ACHIEVEMENTS OF 2015

Stella-Jones recorded a solid performance in the year ended December 31, 2015. The Company proceeded with further network expansion through several strategic acquisitions in both Canada and the United States. 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

Canada

Ram Forest Group Inc. and Ramfor Lumber Inc.

On October 1, 2015, the Company completed the acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"), which, through their wholly-owned subsidiaries, operate wood treating facilities in Gormley and Peterborough Ontario. Ramfor Lumber Inc. is a lumber purchasing entity serving Ram Forest Group Inc.

Total cash outlay associated with the acquisition was approximately $44.9 million which includes an amount of $4.3 million deposited in escrow to be used for capital expenditures at the wood treating facilities. The cash outlay excludes acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. In addition, a balance of purchase price of $5.4 million was recognized as well as a consideration payable of $0.3 million for a net working capital adjustment.

United States

United Wood Treating Company, Inc.

On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of United Wood Treating Company, Inc. ("United Wood") located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles, as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $12.0 million (US$9.0 million), excluding acquisition costs of approximately $158,000, recognized in the consolidated statement of income under selling and administrative expenses.

Treated Materials Co., Inc.

On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of Treated Materials Co., Inc. ("Treated Materials") located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $5.4 million (US$4.1 million), excluding acquisition costs of approximately $142,000, recognized in the consolidated statement of income under selling and administrative expenses.

McCormick Piling and Lumber Co.

On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. ("McCormick"), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximately $4.7 million (US$3.8 million), excluding acquisition costs of approximately $226,000, recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2015 reached $1,559.3 million, up 24.8% from last year's sales of $1,249.5 million. The Ram acquisition completed on October 1, 2015 generated sales of $14.8 million, while the wood treating facilities acquired from Boatright Railroad Products, Inc. ("Boatright") on May 22, 2014 contributed additional sales of $48.4 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 $166.3 million when compared with the previous year. Excluding these factors, sales increased approximately $80.4 million, or 6.4%.

Stella-Jones' annual operating income reached $220.1 million, or 14.1% of sales, in 2015. This represents a 41.3% increase over $155.7 million, or 12.5% of sales, in the prior year. As a result, net income for the year grew 36.1% to $141.4 million, or $2.04 per diluted share, compared with $103.8 million, or $1.50 per diluted share, a year ago. The Company generated a 17.6% return on average equity in 2015.

Stella-Jones produced strong cash flows in 2015 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to $254.3 million, up 40.2% from $181.5 million in 2014. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the eleventh consecutive year. Although the Ram acquisition was completed in the last quarter of the year and was mostly financed through the Company's existing committed revolving credit facility, Stella-Jones' total debt to total capitalization ratio remained sound as at December 31, 2015, reaching 0.42:1, compared with 0.39:1 twelve months earlier.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	2015	2014	2013
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,559.3**	1,249.5	1,011.3
Operating income	**220.1**	155.7	138.7
Net income	**141.4**	103.8	92.5
Basic earnings per common share	**2.05**	1.51	1.35
Diluted earnings per common share	**2.04**	1.50	1.34

Financial Position	2015	2014	2013
(in millions of dollars)	**$**	$	$
Current assets	**1,011.2**	697.5	581.9
Total assets	**1,776.2**	1,287.5	1,071.9
Long-term debt*	**669.9**	444.6	372.9
Total liabilities	**862.7**	595.2	499.7
Shareholders' equity	**913.5**	692.3	572.2

* Including current portion

KEY PERFORMANCE INDICATORS (years ended December 31)

	2015	2014	2013
Operating margin	**14.1%**	12.5%	13.7%
Return on average equity	**17.6%**	16.4%	17.8%
Working capital ratio	**6.45**	8.46	8.97
Total debt to total capitalization	**0.42:1**	0.39:1	0.39:1
Total debt to trailing 12-month EBITDA	**2.75**	2.52	2.41
Dividend per share	**$0.32**	$0.28	$0.20

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2015 and 2014. 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.

	2015		2014	
Cdn$/US$	Average	Closing	Average	Closing
First Quarter	**1.2272**	**1.2666**	1.0949	1.1055
Second Quarter	**1.2389**	**1.2490**	1.0952	1.0670
Third Quarter	**1.2909**	**1.3345**	1.0816	1.1200
Fourth Quarter	**1.3258**	**1.3840**	1.1304	1.1601
Fiscal Year	**1.2707**	**1.3840**	1.1005	1.1601

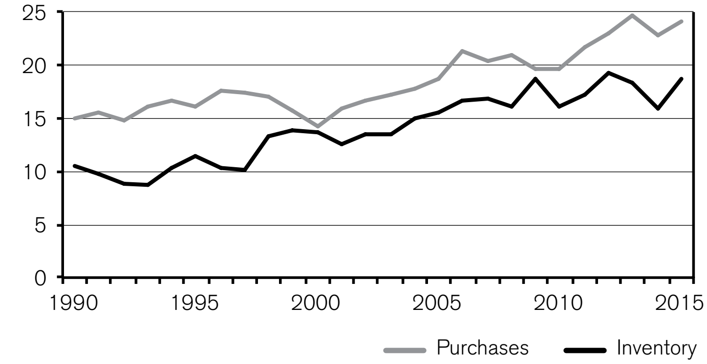
RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association, railway tie purchases for 2015 stood at 24.1 million ties, representing a 5.3% increase over the previous year. In parallel, greater availability of untreated railway ties allowed for a gradual inventory rebuilding as 2015 progressed. As a result, the inventory-to-sales ratio reached 0.78:1, as at December 31, 2015, up from 0.70:1 twelve months earlier, and back in line with the previous ten-year average ratio.

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.

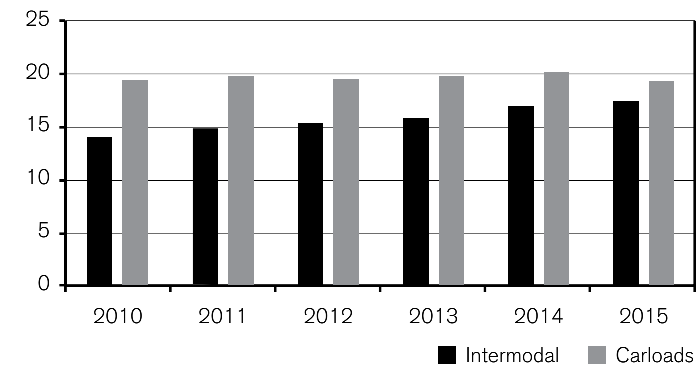
Reflecting weaker resources and manufacturing markets, as well as a softer global economy compared with the previous year, total traffic on North American railroads decreased by 2.2% in 2015, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 2.1% in 2015, the volume of carloads decreased 5.8% from 2014 levels, due to a reduction in shipments of metal-related products, coal and petroleum-related products.

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



Source: Railway Tie Association

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



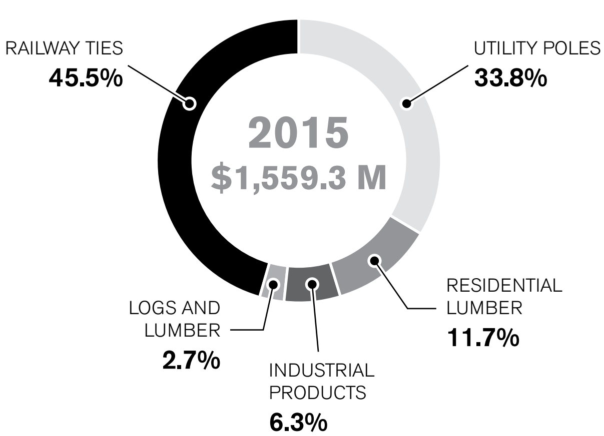
Source: Association of American Railroads

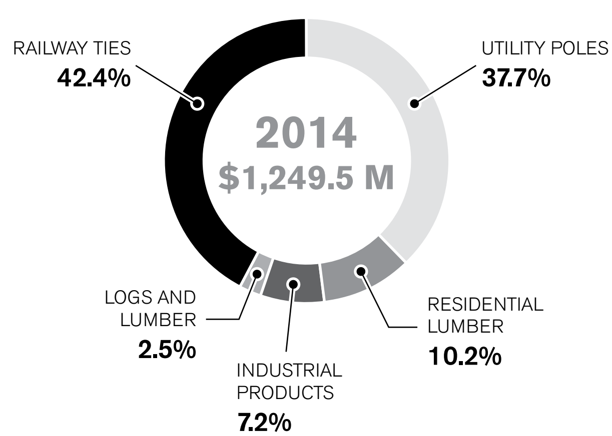
OPERATING RESULTS

Sales

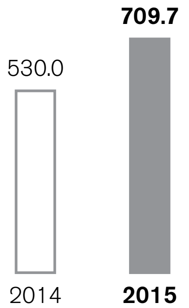
Sales for the year ended December 31, 2015 reached $1,559.3 million, up 24.8% from last year's sales of $1,249.5 million. The Ram acquisition completed on October 1, 2015 generated sales of $14.8 million, while the wood treating facilities acquired from Boatright on May 22, 2014 contributed additional sales of $48.4 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 $166.3 million when compared with the previous year. Excluding these factors, sales increased approximately $80.4 million, or 6.4%.

SALES BY PRODUCT CATEGORY
(% of sales)

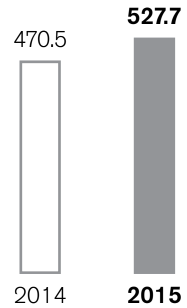




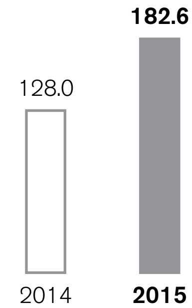
❶ RAILWAY TIE SALES
(in millions of $)



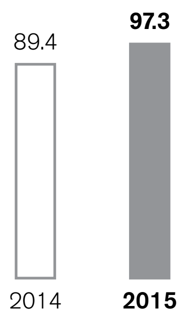
❷ UTILITY POLE SALES
(in millions of $)



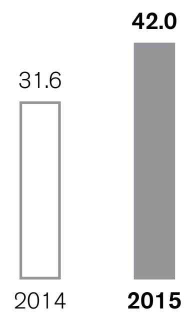
❸ RESIDENTIAL LUMBER SALES
(in millions of $)



❹ INDUSTRIAL PRODUCT SALES
(in millions of $)



❺ LOGS AND LUMBER SALES
(in millions of $)



1. Railway ties

Railway tie sales for 2015 amounted to $709.7 million, up $179.7 million, or 33.9%, from $530.0 million in 2014. 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 $50.8 million, or 9.6%. This increase reflects higher year-over-year selling prices and healthy industry demand resulting from tie replacement programs. Railway tie sales accounted for 45.5% of the Company's total sales in 2015.

2. Utility poles

Utility pole sales reached $527.7 million in 2015, representing an increase of $57.2 million, or 12.2%, from sales of $470.5 million in 2014. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, sales rose approximately $4.1 million, or 0.9%. This increase reflects a steady rise in sales of distribution poles stemming from regular replacement programs, partially offset by lower sales of transmission poles. Decreased demand in special projects as a result of the weakness in the oil and gas as well as mining industries explain the lower sales of transmission poles. Utility pole sales accounted for 33.8% of the Company's total sales in 2015.

3. Residential lumber

Sales in the residential lumber category totalled $182.6 million in 2015, up from $128.0 million in 2014. This $54.6 million, or 42.6%, increase mainly reflects the Ram acquisition and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency. Excluding these factors, sales increased $23.8 million, or 18.6% due to higher sales in the United States, as well as higher sales in Western Canada, mostly explained by the Company's increasing reach in British Columbia. Residential lumber accounted for 11.7% of Stella-Jones' sales in 2015.

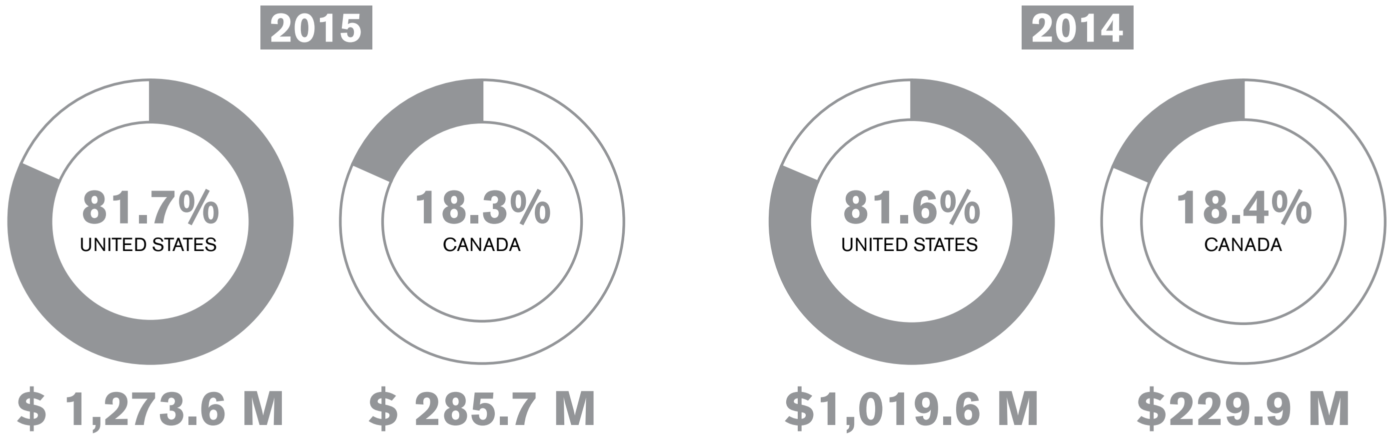
4. Industrial products

Industrial product sales were $97.3 million in 2015, compared with $89.4 million in 2014. This increase is mainly attributable to higher sales of treated wood for bridge structures as a result of capacity addition at the Russellville, Arkansas facility and to the currency conversion effect. These factors were partially offset by less demand for piling and laminated poles in the United States. Industrial products represented 6.3% of sales in 2015.

5. Logs and lumber

In the last quarter of 2015, Stella-Jones enlarged its procurement department to support residential lumber requirements. In order to procure sufficient lumber at competitive pricing for this product category, the Company is engaged in purchasing greater volumes and subsequently, reselling excess product into local home-building markets. Margins on resold lumber are nominal, as they are performed at a value close to cost of sales. These lumber sales, along with non-pole-quality log sales, amounted to $42.0 million in 2015, up from $31.6 million in 2014. This increase is due to the purchase and resale of lumber, as well as the timing of timber harvesting. Logs and lumber represented 2.7% of sales in 2015.

SALES BY GEOGRAPHIC REGION
(% of sales)



Sales in the United States amounted to $1,273.6 million, or 81.7% of sales in 2015, representing an increase of $254.0 million, or 24.9%, over 2014. The year-over-year rise mainly stems from a higher conversion rate on U.S. dollar denominated sales, the additional contribution from the Boatright operations, and higher railway tie sales, primarily resulting from selling price increases and healthy industry demand.

Sales in Canada increased by $55.8 million, or 24.3%, in 2015 to reach $285.7 million, representing 18.3% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales due to the Ram acquisition and a greater reach in British Columbia, as well as increasing railway tie sales resulting from higher pricing.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,252.0 million, or 80.3% of sales, in 2015. This compares with $1,025.3 million, or 82.1% of sales, in 2014. The increase in absolute dollars essentially reflects higher business activity, the Ram acquisition, additional costs resulting from the full-year contribution of the Boatright assets, and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the decrease is mainly attributable to adjusted pricing for railway ties and greater efficiencies throughout the Company's plant network.

Depreciation and amortization charges totalled $23.3 million for the year ended December 31, 2015, versus $20.6 million a year earlier. The year-over-year increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of the 2015 acquisitions, of Boatright for the full year, and to a higher average rate applied to convert U.S. dollar denominated depreciation and amortization.

As a result, gross profit reached $307.3 million or 19.7% of sales in 2015, up from $224.2 million or 17.9% of sales in 2014.

Selling and administrative

Selling and administrative expenses for 2015 were $85.6 million, or 5.5% of sales, compared with expenses of $69.1 million, or 5.5% of sales, in 2014. The variation in monetary terms is mainly attributable to a $4.0 million increase in stock-based compensation following the appreciation of the Company's share price on the TSX, an increase in profit sharing and the effect of currency translation on U.S. dollar denominated selling and administrative expenses. This year's expenses also included approximately $1.5 million in acquisition costs directly related to the 2015 business acquisitions, while last year's expenses included approximately $753,000 in acquisition costs directly related to the Boatright transaction.

Other losses (gains), net

Stella-Jones' other net losses of $1.7 million for the year ended December 31, 2015 included a $1.8 million remediation provision adjustment, a $558,000 loss on the sale of timber licenses and plant closure provision adjustments of $305,000. These elements were partially offset by a $929,000 gain on foreign currency conversion. In 2014, other net gains of $643,000 included a $5.7 million gain on the sale of a timber license, $3.9 million of environmental provision reversals and a $1.3 million gain on foreign currency conversion, partially offset by losses on disposal of long-term assets of $5.5 million and by $2.2 million of plant closure costs.

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 $17.1 million in 2015, up from $13.0 million in 2014. This increase is attributable to higher year-over-year borrowings as a result of the Ram acquisition, increased working capital requirements and the effect of local currency on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of $203.0 million, or 13.0% of sales, in 2015. This represents an increase of 42.2%, over income before income taxes of $142.7 million, or 11.4% of sales, in 2014. The year-over-year increase in income before income taxes as a percentage of sales essentially reflects a higher gross profit as a percentage of sales.

Stella-Jones' provision for income taxes totalled $61.6 million in 2015, representing an effective tax rate of 30.3%. In 2014, the income tax expenses stood at $38.9 million, equivalent to an effective tax rate of 27.2%. The higher effective tax rate for 2015 is mainly attributable to a less favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the year ended December 31, 2015 reached $141.4 million, or $2.04 per diluted share, compared with $103.8 million, or $1.50 per diluted share, in 2014. This represents a year-over-year increase in net income of 36.1%.

BUSINESS ACQUISITIONS

United Wood Treating Company, Inc.

On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of United Wood, located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $12.0 million (US$9.0 million), excluding acquisition costs of approximately $158,000, 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	
Accounts receivable	1,018
Inventories	3,773
Property, plant and equipment	6,044
Goodwill	2,943
Deferred income tax assets	12
	13,790
Liabilities assumed	
Site remediation provision	65
Total net assets acquired and liabilities assumed	13,725
Consideration transferred	
Cash	11,971
Unsecured promissory note	1,754
Consideration transferred	13,725

Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units ("CGU") as defined in the Company's accounting policies. In the case of the United Wood acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of $1.9 million (US$1.5 million) bears interest at 1.7%, is payable in three equal annual instalments and was fair valued at $1.8 million, using an interest rate of 7.0%.

Ram Forest Group Inc. and Ramfor Lumber Inc.

On October 1, 2015, the Company completed the acquisition of Ram, which manufactures and sells pressure treated wood products and accessories to the retail building materials industry. It operates wood treating facilities in Gormley and Peterborough, Ontario and also has a lumber purchasing entity.

Total cash outlay associated with the acquisition was approximately $44.9 million, which includes an amount of $4.3 million deposited in escrow to be used for capital expenditures at the wood treating facilities. The cash outlay excludes acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. In addition, the Company recognized a balance of purchase price of $5.4 million as well as a consideration payable of $317,000 for a net working capital adjustment.

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.

(tabular information presented in thousands of dollars)	$
Assets acquired	
Accounts receivable	7,765
Inventories	12,047
Other assets	1,514
Property, plant and equipment	17,690
Customer relationships	21,300
Goodwill	6,026
	66,342
Liabilities assumed	
Accounts payable and accrued liabilities	3,269
Bank indebtedness	9,839
Deferred income tax liabilities	6,892
Total net assets acquired and liabilities assumed	46,342
Consideration transferred	
Cash	40,595
Balance of purchase price	5,430
Consideration payable	317
Consideration transferred	46,342

The Company's valuation of intangible assets has identified customer relationships having a 12 year useful life. 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 not amortized and not deductible for Canadian 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 a CGU, as defined in the Company's accounting policies. In the case of the Ram acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

As of the acquisition date, an amount of $4.3 million was deposited in an escrow account intended for capital improvements. The Company has until April 1, 2017 to complete specific investment projects. Otherwise, the remaining funds in the escrow account will be returned to the seller. Management believes that the capital investments will be completed before the deadline.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and a balance of purchase price of $5.8 million. This deferred payment bears no interest and is payable on the anniversary of the transaction in the amounts of $2.9 million in 2016, $0.5 million in 2017, $0.8 million in 2018, $0.8 million in 2019 and $0.8 million in 2020. The balance of purchase price was recorded under long-term debt at a fair value of $5.4 million using an interest rate of 2.9%. The difference between the face value and the fair value of this consideration payable is being accreted on an effective yield.

Treated Materials Co., Inc.

On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of Treated Materials located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $5.4 million (US$4.1 million), excluding acquisition costs of approximately $142,000, 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	
Accounts receivable	1,080
Inventories	1,651
Property, plant and equipment	5,253
Favourable land lease agreement	1,062
Goodwill	683
	9,729
Liabilities assumed	
Deferred income tax liabilities	459
Site remediation provision	602
Total net assets acquired and liabilities assumed	8,668
Consideration transferred	
Cash	5,393
Unsecured promissory note	3,275
Consideration transferred	8,668

The Company's valuation of intangible assets has identified a favourable land lease agreement. 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 enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU, as defined in the Company's accounting policies. In the case of the Treated Materials acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of $4.0 million (US$3.0 million) bears no interest, is payable in five equal instalments over a five-year period and was fair valued at $3.3 million, using an interest rate of 7.0%.

McCormick Piling and Lumber Co.

On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of McCormick, a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximately $4.7 million (US$3.8 million), excluding acquisition costs of approximately $226,000, 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	
Accounts receivable	701
Inventories	1,486
Property, plant and equipment	726
Customer relationships	849
Goodwill	3,151
	6,913
Liabilities assumed	
Deferred income tax liabilities	81
Total net assets acquired and liabilities assumed	6,832
Consideration transferred	
Cash	4,685
Unsecured promissory note – 12 months	1,342
Unsecured promissory note – 24 months	805
Consideration transferred	6,832

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is three years. 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 enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU, as defined in the Company's accounting policies. In the case of the McCormick acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of $1.4 million (US$1.1 million) bears interest at 0.48%, is payable in a single instalment on April 8, 2016 and was fair valued at $1.3 million, using an interest rate of 7.0%. The second unsecured promissory note of $928,000 (US$742,800) bears interest at 0.48%, is payable in a single instalment on April 8, 2017 and was fair valued at $805,000, using an interest rate of 7.0%.

SUBSEQUENT EVENTS

Network expansion

On February 3, 2016, the Company announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of 440 Investments, LLC, the parent company of Kisatchie Treating, LLC, Kisatchie Pole & Piling, LLC, Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie"). Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Noble and Pineville, Louisiana. Kisatchie's consolidated sales for the year ended December 31, 2015 reached approximately US$51.8 million.

Also on February 3, 2016, Stella-Jones announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting"). Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas. Its consolidated sales for the year ended December 31, 2015 reached approximately US$34.2 million.

These transactions, if finalized, are expected to close in the second quarter of 2016 and are subject to customary conditions, including satisfactory due diligence and the signature of definitive share purchase agreements.

New and amended credit agreements

On February 26, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fourth amended and restated credit agreement dated March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) will make available a committed revolving credit facility for a period of five years and will be increased from US$450.0 million to US$500.0 million for the first two years. Subsequently, the committed revolving credit facility will be reduced to US$450.0 million in the third year and finally be reduced to US$350.0 million for the fourth and fifth years. The amended agreement also includes an accordion option allowing the request of an increase of up to US$200.0 million to the committed revolving credit facility, subject to customary conditions. The committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and will mature on February 26, 2021. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on a pricing grid.

The committed revolving credit facility is unsecured, subject to a negative pledge, other than permitted liens, in favor of the bank syndicate.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the interest charge coverage ratio equal to or greater than 3.00:1. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.0% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 3.25:1. In the case where the total debt to EBITDA ratio is lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

Also on February 26, 2016, the Company entered into demand loan agreements with two banks participating in the committed revolving credit facility syndication. The demand loans make available financing up to US$50.0 million under the same conditions as the fifth amended and restated committed revolving credit facility. This indebtedness, if required by the Company, will be presented under short-term liabilities as the banks have the option to request reimbursement of the loan at any time.

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 2015, the Company achieved year-over-year revenue and net income growth in all quarters, driven by solid demand for its core products, selling price adjustments, the effect of currency variations, the Ram acquisition in the fourth quarter and the additional contribution of the Boatright assets in the first half of the year. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2015

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	**340.7**	**428.1**	**433.1**	**357.5**	**1,559.3**
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	**53.3**	**66.6**	**68.8**	**54.5**	**243.4**
Operating income [1]	**47.6**	**61.1**	**62.9**	**48.3**	**220.1**
Net income for the period	**30.1**	**38.9**	**39.3**	**33.0**	**141.4**
Earnings per common share					
Basic	**0.44**	**0.56**	**0.57**	**0.48**	**2.05**
Diluted	**0.43**	**0.56**	**0.57**	**0.48**	**2.04**

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

[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 2015 amounted to $357.5 million, up 23.3% from $289.9 million for the same period in 2014. This increase is attributable to sales of $14.8 million from the Ram acquisition, while 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 $41.6 million when compared with last year. Excluding these factors, sales increased approximately $11.2 million, or 3.9%.

Sales of railway ties reached $147.5 million, versus $131.1 million last year. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales decreased $4.3 million, or 3.3%, mainly due to the delivery timing of certain orders this year compared to last. Utility pole sales rose $15.7 million, or 13.8%, to $129.5 million. Excluding the conversion effect from currency fluctuations, sales increased approximately $1.4 million, as higher sales of distribution poles stemming from regular replacement programs was partially offset by lower sales of transmission poles due to decreased demand in special projects as a result of the weakness in the oil and gas as well as mining industries. Residential lumber sales reached $40.1 million, up from $17.9 million last year, reflecting the Ram acquisition. Industrial product sales amounted to $23.6 million, up from $18.7 million a year ago, as a result of higher sales of treated wood for bridge structures. Logs and lumber sales were $16.7 million, versus $8.4 million last year due to the purchase and resale of lumber, as well as the timing of timber harvesting.

Gross profit amounted to $69.3 million, or 19.4% of sales, in the fourth quarter of 2015, versus $51.4 million, or 17.7% of sales, in the fourth quarter of 2014. The increase in absolute dollars reflects higher business activity, the contribution from the Ram acquisition, as well as the favourable impact of the conversion effect from currency fluctuations. The increase as a percentage of sales is attributable to adjusted pricing for railway ties and greater efficiencies throughout the Company's plant network.

Reflecting factors that affected gross profit, operating income was $48.3 million, or 13.5% of sales, in the fourth quarter of 2015, versus $33.9 million, or 11.7% of sales, in the fourth quarter of 2014. Net income for the period reached $33.0 million, or $0.48 per diluted share, compared with $23.0 million, or $0.33 per diluted share, last year. This represents a year-over-year increase in net income of 43.7%.

STATEMENT OF FINANCIAL POSITION

Assets

As at December 31, 2015, total assets and current assets reached $1,776.2 million and $1,011.2 million, respectively, up from $1,287.5 million and $697.5 million, respectively, as at December 31, 2014. These increases are mainly attributable to the rebuilding of railway tie inventory, the Ram acquisition and the effect of local currency translation on U.S.-based assets.

The value of accounts receivable was $159.9 million as at December 31, 2015 compared with $127.5 million as at December 31, 2014. This increase mainly reflects higher business activity in the fourth quarter of 2015 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $804.5 million as at December 31, 2015, up from $547.2 million as at December 31, 2014. This increase is mainly due to the rebuilding of inventory as untreated railway tie availability returned to appropriate levels, the addition of Ram'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 $375.5 million as at December 31, 2015, compared with $281.6 million as at December 31, 2014. This increase is essentially related to business acquisitions ($29.7 million), to purchases of property, plant and equipment for the year ($37.4 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 ($12.4 million).

The value of intangible assets reached $140.9 million as at December 31, 2015. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable land lease agreement. As at December 31, 2014, intangible assets were $110.3 million. The year-over-year increase is mainly explained by business acquisitions ($23.2 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 2015.

As at December 31, 2015, the value of goodwill stood at $245.7 million, up from $195.0 million a year earlier. This increase in goodwill reflects acquisitions ($12.8 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2015, Stella-Jones' total liabilities stood at $862.7 million, up from $595.2 million as at December 31, 2014. This variation reflects the increase in total 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 $156.8 million as at December 31, 2015, up from $82.4 million a year earlier. This variation is essentially due to a $55.1 million increase in the current portion of long-term debt mainly due to the maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of $34.6 million (US$25.0 million), as well as of an unsecured and non-convertible debenture of $13.8 million (US$10.0 million). The Company intends to repay these debentures through its committed revolving credit facility and its cash flow from operating activities.

The Company's long-term debt, including the current portion, stood at $669.9 million as at December 31, 2015, versus $444.6 million as at December 31, 2014. The increase essentially reflects higher borrowings following the Ram acquisition, 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, 2015 an amount of $17.6 million was available against the Company's committed revolving credit facility of $622.8 million (US$450.0 million).

On February 26, 2016, the Company and SJ Holding, as borrowers, entered into agreements to amend the fourth amended and restated credit agreement dated March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) will make available a committed revolving credit facility for a period of five years and will be increased from US$450.0 million to US$500.0 million for the first two years (see "Subsequent Events" above).

Shareholders' equity

Shareholders' equity was $913.5 million as at December 31, 2015 compared with $692.3 million as at December 31, 2014. This increase is attributable to net income of $141.4 million for the year and a $100.5 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations. These factors were partially offset by dividends on common shares totalling $22.1 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (years ended December 31)

	2015	2014
(in millions of dollars)	**$**	$
Operating activities	**5.6**	76.9
Financing activities	**98.3**	5.1
Investing activities	**(99.6)**	(85.2)
Net change in cash and cash equivalents	**4.3**	(3.2)
Cash and cash equivalents – beginning	**–**	3.2
Cash and cash equivalents – end	**4.3**	–

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 $254.3 million for the year ended December 31, 2015, up 40.2% from $181.5 million in 2014. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $169.4 million in 2015. The main element of this variation is an increase of $153.4 million in inventories related to the rebuilding of inventory, as untreated railway tie availability returned to more appropriate levels. In 2014, changes in non-cash working capital components had reduced liquidity by $52.5 million, mainly due to a $48.2 million increase in inventories.

Interest and income taxes paid further reduced liquidity by $16.7 million and $62.6 million, respectively, in 2015, versus $14.9 million and $37.1 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 an increase of income before income taxes and a higher balance of income taxes receivable as at December 31, 2015.

As a result, cash flows provided by operating activities were $5.6 million in 2015, versus $76.9 million in 2014.

Financing activities for the year ended December 31, 2015 provided liquidity of $98.3 million. The main factor explaining this cash generation was a net increase in long-term debt of $117.4 million, mainly to finance the Ram transaction and the rebuilding of inventory, partially offset by the payment of dividends on common shares totalling $22.1 million. For the year ended December 31, 2014, financing activities had provided liquidity of $5.1 million, mainly due to a $23.2 million net increase in long-term debt and the payment of dividends on common shares totalling $19.3 million.

Investing activities required $99.6 million in cash during 2015. Business acquisitions resulted in a cash outlay of $62.6 million, while purchases of property, plant and equipment required an investment of $37.4 million. In 2014, cash flows from investing activities had decreased liquidity by $85.2 million due to business acquisitions ($61.1 million) and purchases of property, plant and equipment ($24.2 million).

FINANCIAL OBLIGATIONS

The following table details the maturities of the financial obligations as at December 31, 2015:

	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	75.1	75.1	75.1	–	–	–
Long-term debt obligations	669.9	725.4	78.6	629.5	16.3	1.0
Interest rate swap agreements	0.5	0.6	0.6	–	–	–
Minimum payments under operating lease obligations	–	80.7	21.5	29.9	13.1	16.2
Non-compete agreements	2.4	2.5	1.1	1.4	–	–
Total	747.9	884.3	176.9	660.8	29.4	17.2

Note: Due to rounding, the sum of results may differ slightly from totals.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2015, the capital stock issued and outstanding consisted of 69,137,356 common shares (68,949,064 as at December 31, 2014). The following table presents the outstanding capital stock activity for the year ended December 31, 2015:

Year Ended Dec. 31, 2015	Number of shares (in '000s)
Balance – Beginning of year	68,949
Stock option plan	165
Employee share purchase plans	23
Balance – End of year	69,137

As at March 15, 2016, the capital stock issued and outstanding consisted of 69,142,858 common shares.

As at December 31, 2015, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 194,000 (December 31, 2014 – 328,706) of which 158,000 (December 31, 2014 – 310,706) were exercisable. As at March 15, 2016, the number of outstanding options was 194,000 of which 158,000 were exercisable.

DIVIDENDS

In 2015, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.08 per common share payable on April 30, 2015 to shareholders of record at the close of business on April 2, 2015.
- $0.08 per common share payable on June 26, 2015 to shareholders of record at the close of business on June 2, 2015.
- $0.08 per common share payable on September 25, 2015 to shareholders of record at the close of business on September 4, 2015.
- $0.08 per common share payable on December 21, 2015 to shareholders of record at the close of business on December 2, 2015.

Subsequent to the end of the year, on March 15, 2016, the Board declared a quarterly dividend of $0.10 per common share payable on April 29, 2016 to shareholders of record at the close of business on April 1, 2016.

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 $38.0 million (2014 – $29.3 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 telecommunications networks.

Based on current market conditions, Management expects demand for the Company's core products to remain healthy in 2016. In the railway tie market, North American railroads will continue to maintain the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while regular maintenance demand is expected to hold, lower resource prices continue to create headwinds, mainly through a decrease in demand for special projects. Stella-Jones nonetheless 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.

Liquidity

As at December 31, 2015, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2015, an amount of $17.6 million was available against the Company's committed revolving credit facility of $622.8 million (US$450.0 million) (see "Subsequent Events" above).

Accounts receivable increased in 2015 due to higher business activity in the fourth quarter of 2015 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 2015 mainly due to the rebuilding of inventory as untreated railway tie availability returned to normal levels, the addition of Ram'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, 2015, the Company's top ten customers accounted for approximately 46.3% of its sales. During this same period, the Company's two largest customers accounted for approximately 10.1% and 6.7%, 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 is 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 emission 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, 2015, approximately 41.5% of the Company's long-term debt was at variable interest rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have 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 telecommunications 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, 2015, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.4% 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, 2015 and 2014 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

Impact of accounting pronouncements not yet implemented

IAS 1 - Presentation of Financial Statements

In 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016, and therefore the Company will apply these amendments in the first quarter of 2016. The Company does not expect any significant impact on its consolidated financial statements disclosures as a result of adopting these amendments.

IAS 7 - Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, Statement of Cash Flows. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company is currently evaluating the impact of IAS 7 on its consolidated financial statements.

IFRS 9 - Financial Instruments

The final version of IFRS 9, Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Company is currently assessing the impact, if any, that this new standard will have on the Company's consolidated financial statements.

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. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB released IFRS 16, Leases, which supersedes IAS 17, Leases, and the related interpretations on leases: IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, *Operating Leases – Incentives* and SIC 27, Evaluating the substance of transactions in the legal form of a lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, Revenue from Contracts with Customers. The Company is currently evaluating the impact of the 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, 2015, and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2015.

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, 2015 to December 31, 2015 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

Despite the softening in certain sectors of the North American economy, Management expects demand for the Company's core products to remain healthy in 2016. In the railway tie market, North American railroads will continue to maintain the continental rail network, as operators constantly seek optimal line efficiency.

In the utility pole market, lower resource prices continue to create headwinds, mainly through a decrease in demand for special projects, while regular maintenance demand is expected to hold. Stella-Jones nonetheless 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.

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 in all product categories. Supporting the above, the Ram acquisition allows Stella-Jones to broaden its reach and its product offering in the residential lumber category. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company will continue to focus on the expansion of its continental network and will look to close the Lufkin Creosoting and Kisatchie proposed acquisitions in the second quarter of 2016. Cash generation and maintaining a prudent use of leverage remain priorities for Management. 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 15, 2016