MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2016 compared with the three-month period ended March 31, 2015

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on April 27, 2016. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2016 compared with the three-month period ended March 31, 2015. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2016 and 2015 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2015.

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 condensed interim unaudited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information, including the Company's annual information form, quarterly and annual reports, and supplementary information is available on the SEDAR web site at www.sedar.com. Press releases and other information are also available in the Investor/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 manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at March 31, 2016, the Company operated thirty-one 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 March 31, 2016, the Company's workforce numbered approximately 1,780 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 (recovered) 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 (millions of dollars)	**Three-month periods ended** March 31, 2016	**Three-month periods ended** March 31, 2015
Net income for the period	$35.0	$30.1
Plus:		
Provision for income taxes	$14.8	$13.5
Financial expenses	$4.8	$4.0
Operating income	$54.6	$47.6
Depreciation and amortization	$7.1	$5.7
EBITDA	$61.7	$53.3

FOREIGN EXCHANGE

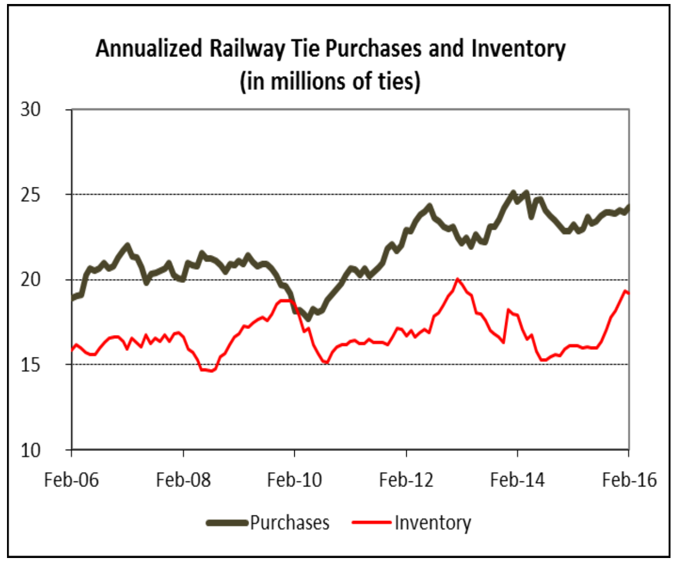
The table below shows exchange rates applicable to the periods ended March 31, 2016 and 2015, as well as the period ended December 31, 2015. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$ rate	**2016**		**2015**	
	Average rate for the three-month period ended March 31, 2016	**Closing rate as at March 31, 2016**	**Average rate for the three-month period ended March 31, 2015**	**Closing rate as at December 31, 2015**
	1.3792	1.2987	1.2272	1.3840

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association, railway tie purchases for the first two months of 2016 reached 3.9 million ties, up 5.5% from the same period in 2015, resulting in industry purchases of 24.3 million ties for the 12-month period ended February 29, 2016. In parallel, the inventory rebuilding that began last year continued, as industry inventory amounted to 19.2 million ties as at February 29, 2016. As a result, the inventory-to-sales ratio stood at of 0.79:1, in-line with the previous ten-year average ratio of 0.78:1.

Total traffic on North American railroads decreased 6.1% in the first three months of 2016, according to data released by the Association of American Railroads. While carload volume decreased by 12.2%, mainly due to lower shipments of coal, petroleum and petroleum products, the volume of intermodal trailers and containers rose 1.0% from 2015 levels.



Source: Railway Tie Association

OPERATING RESULTS

Sales

Sales for the quarter ended March 31, 2016 reached $421.0 million, up $80.3 million, or 23.6%, over last year's sales of $340.7 million for the same period. The acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"), completed on October 1, 2015, contributed sales of approximately $9.3 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $35.9 million on the value of U.S. dollar denominated sales when compared with last year's first quarter. Excluding these factors, organic growth represented approximately $35.1 million, or 10.3%, due to solid demand for the Company's core products and the addition of the purchase and resale of lumber component to support residential lumber requirements.

Sales by product category

Railway ties

Railway tie sales for the first quarter of 2016 amounted to $200.3 million, representing an increase of 20.1%, over sales of $166.8 million in the first quarter of 2015. Excluding the currency conversion effect, railway tie sales rose approximately $13.5 million, or 8.1%, primarily as a result of healthy industry demand and the timing of certain deliveries that had been pushed from the fourth quarter of 2015 into the first quarter of 2016. Railway tie sales accounted for 47.6% of the Company's first-quarter sales.

Utility poles

Utility pole sales reached $131.8 million in the first quarter of 2016, up from sales of $119.2 million in the corresponding period in 2015. Excluding the currency conversion effect and the contribution from acquisitions in the southeastern United States completed in the second half of 2015, sales were relatively stable. During the period, a steady rise in sales of distribution poles stemming from regular replacement programs was 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. Utility pole sales accounted for 31.3% of the Company's total sales in the first quarter of 2016.

Residential lumber

Sales in the residential lumber category totalled $41.9 million in the first quarter of 2016, versus $28.4 million a year earlier. The variation mainly reflects sales of $9.3 million generated from Ram. Excluding this factor and the currency conversion effect, sales rose 6.7% reflecting a transition from treating services only for wholesalers to a value-added full service direct offering for retailers. Residential lumber accounted for 10.0% of Stella-Jones' sales in the first quarter of 2016.

Industrial products

Industrial product sales reached $26.7 million in the first quarter of 2016, compared with $19.9 million in the first quarter of 2015. Excluding the currency conversion effect, sales increased 20.6% due to increased demand for marine products in Eastern Canada. Industrial products represented 6.4% of the Company's sales in the three-month period ended March 31, 2016.

Logs and lumber

For the first three months of 2016, logs and lumber sales amounted to $20.2 million, versus $6.4 million in the first three months of 2015. This variance is explained by the addition of the purchase and resale of lumber component resulting from procurement efforts to support residential lumber requirements and to the timing of timber harvesting. Logs and lumber sales represented 4.8% of the Company's sales in the three-month period ended March 31, 2016.

Sales by destination

Sales in the United States amounted to $330.0 million, representing 78.4% of Stella-Jones' total sales in the first quarter of 2016, up from $291.7 million in the corresponding period of 2015. The 13.1% year-over-year increase is mainly attributable to the effect of local currency translation on U.S.-dollar denominated sales and stronger railway tie sales.

Sales in Canada in the first quarter of 2016 reached $91.0 million, representing 21.6% of sales, up from $49.0 million in the first quarter of 2015. This 85.9% year-over-year increase reflects higher sales in all product categories supplemented by the Ram acquisition and direct sales to retailers, as well as higher sales of logs and lumber.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $342.1 million, or 81.3% of sales, for the three-month period ended March 31, 2016. This compares with $274.3 million, or 80.5% of sales, in the three-month period ended March 31, 2015. The increase in absolute dollars essentially reflects higher business activity, the Ram acquisition and the effect of currency translation. The increase, as a percentage of sales, reflects higher logs and lumber sales, which are performed at a value close to their related cost of sales, partially offset by greater efficiency throughout the Company's plant network.

Depreciation and amortization charges reached $7.1 million for the three-month period ended March 31, 2016, versus $5.7 million in the corresponding period of 2015.

As a result, gross profit reached $78.8 million, or 18.7% of sales, in the first quarter of 2016, compared with $66.4 million, or 19.5% of sales, in the first quarter of 2015.

Selling and administrative

Selling and administrative expenses for the first quarter of 2016 were $24.0 million, compared with expenses of $19.3 million in the first quarter of 2015. This variation is mainly related to an increase of $1.5 million in profit-sharing expenses, additional selling expenses of approximately $1.1 million related to the Company's expanded presence in the residential lumber category, as well as the effect of currency translation. Residential lumber sales follow a seasonal pattern whereas selling expenses are recognized as a fixed cost in each period. This results in a higher proportion of expenses, as a percentage of sales, in the first and fourth quarters. This year's expenses included costs of $479,000 related to the proposed acquisitions of Lufkin Creosoting Co., Inc. and 440 Investment, LLC ("Proposed Acquisitions"), while last year's selling and administrative expenses included acquisition costs of $226,000. As a percentage of sales, selling and administrative expenses were stable year-over-year at 5.7% of sales.

Other losses (gains), net

Stella-Jones' other net losses of $239,000 for the three-month period ended March 31, 2016, essentially consisted of a foreign exchange loss. Last year's other net gains of $496,000 consisted of a foreign exchange gain of $791,000, partially offset by plant closure provision adjustments of $295,000.

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

Financial expenses

Financial expenses for the first quarter of 2016 amounted to $4.8 million, up from $4.0 million in the first quarter of 2015. This variation is due to higher year-over-year borrowings following the Ram acquisition and increased working capital requirements, as well as to the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $49.8 million, or 11.8% of sales, in the first quarter of 2016, versus income before income taxes of $43.6 million, or 12.8% of sales, in the first quarter of 2015.

Stella-Jones' provision for income taxes totalled $14.8 million in the first quarter of 2016, representing an effective tax rate of 29.7%. In the first quarter of 2015, the income tax expense stood at $13.5 million, equivalent to an effective tax rate of 31.0%. The lower effective tax rate for the first quarter of 2016 is attributable to a more favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the three-month period ended March 31, 2016 reached $35.0 million, or $0.51 per diluted share, representing an increase of 16.3% over net income of $30.1 million, or $0.43 per diluted share in the three-month period ended March 31, 2015.

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 product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales levels. The table below sets forth selected financial information for the Company's last nine quarters.

2016

For the quarters ended	**March 31**				
(millions of dollars, except per share data)	**$**				
Sales	421.0				
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	61.7				
Operating income [1]	54.6				
Net income for the period	35.0				
Earnings per common share Basic Diluted	 0.51 0.51				

2015

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(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 Diluted	 0.44 0.43	 0.56 0.56	 0.57 0.57	 0.48 0.48	 2.05 2.04

2014

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(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 Diluted	 0.33 0.33	 0.42 0.42	 0.43 0.43	 0.33 0.33	 1.51 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 Stella-Jones' IFRS unaudited interim 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.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at March 31, 2016, compared to December 31, 2015 (see "Foreign Exchange" on page 2"), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2016, total assets reached $1.74 billion, down from $1.78 billion as at December 31, 2015. The decrease mostly reflects the effect of local currency translation on U.S.-based assets, as detailed below.

The value of accounts receivable was $170.2 million as at March 31, 2016, compared with $159.9 million as at December 31, 2015. The increase is attributable to higher sales near the end of the period, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $818.7 million as at March 31, 2016, up from $804.5 million as at December 31, 2015. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters, partially offset by the effect of local currency translation on U.S. inventories. The year-over-year inventory build-up is also higher as a result of the addition of Ram's business and the direct sales to retailers of residential lumber.

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 customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flow from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $359.5 million as at March 31, 2016, compared with $375.5 million as at December 31, 2015. This decrease is mainly related to the effect of local currency translation on U.S.-based property, plant and equipment during the first quarter of 2016, as well as depreciation of $3.7 million for the period, partially offset by the purchase of property, plant and equipment amounting to $5.8 million.

The value of intangible assets and goodwill reached $131.8 million and $230.0 million, respectively, as at March 31, 2016. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable lease agreement. As at December 31, 2015, intangible assets and goodwill were $140.9 million and $245.7 million, respectively. The decrease in the value of intangible assets stems from the effect of local currency translation on U.S.-based intangible assets and from an amortization charge of $3.4 million in the first three months of 2016. The decrease in goodwill is explained by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at March 31, 2016, Stella-Jones' total liabilities stood at $842.6 million, down from $862.7 million as at December 31, 2015. This variation mainly reflects a decrease in long-term debt, partially offset by an increase in current liabilities.

The value of current liabilities was $173.7 million as at March 31, 2016, versus $156.8 million as at December 31, 2015. This variation is attributable to a $21.0 million increase in accounts payable and accrued liabilities, as a result of greater business activity, partially offset by the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $628.1 million as at March 31, 2016, versus $669.9 million as at December 31, 2015. The decrease mainly reflects the effect of local currency translation on U.S. dollar denominated long-term debt and a $9.9 million repayment in long-term debt, partially offset by higher working capital requirements, as per normal seasonal demand patterns. As at March 31, 2016, an amount of $85.9 million was available against the Company's committed revolving credit facility of $649.4 million (US$500.0 million).

Subsequent to the end of the quarter, on April 1, 2016, Stella-Jones repaid, at maturity, an unsecured, subordinated and non-convertible debenture of $32.5 million (US$25.0 million), as well as an unsecured and non-convertible debenture of $13.0 million (US$10.0 million). These debentures have been repaid through the Company's committed revolving credit facility and cash flow from operating activities.

Shareholders' equity

Shareholders' equity reached $896.4 million as at March 31, 2016 compared with $913.5 million as at December 31, 2015. The decrease during the period is attributable to a $44.3 million unfavourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations, partially offset by net income of $35.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month Periods Ended**	
(millions of dollars)	**March 31, 2016**	**March 31, 2015**
Operating activities	$16.0	($25.9)
Financing activities	($10.8)	$33.1
Investing activities	($5.2)	($7.2)
Net change in cash and cash equivalents during the period	$---	$---
Cash and cash equivalents - beginning	$4.3	$---
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 tax paid (recovered) was $62.9 million for the three-month period ended March 31, 2016, compared with $55.6 million for the same period in 2015. This increase mostly reflects a higher net income for the period.

Changes in non-cash working capital components reduced liquidity by $44.2 million in the first quarter of 2016. This was mainly due to increases of $18.3 million and $48.3 million in accounts receivable and inventories, respectively, as a result of normal seasonal working capital requirements, partially offset by a $19.0 million increase in accounts payable and accrued liabilities. In the first quarter of 2015, changes in non-cash working capital components had used liquidity of $69.2 million.

Interest paid further reduced liquidity by $4.8 million, while income taxes recovered provided liquidity of $2.1 million in the first quarter of 2016. This compares with interest and income taxes paid of $3.5 million and $8.9 million, respectively, a year earlier.

As a result, cash flows provided by operating activities reached $16.0 million in the first quarter of 2016, as opposed to cash flows used in operating activities of $25.9 million in the first quarter of 2015.

Financing activities for the quarter ended March 31, 2016 reduced liquidity by $10.8 million. This cash requirement essentially stems from the repayment of $9.9 million in long-term debt. For the quarter ended March 31, 2015, financing activities provided liquidity of $33.1 million.

Investing activities used $5.2 million in liquidity during the first quarter of 2016. This cash requirement mainly consisted of purchases related to property, plant and equipment, primarily for the addition of various equipment upgrades and expansions for an amount of $5.8 million, of which the construction of a new pole peeling and pole treating facility in Cameron, Wisconsin represented $602,000. For the quarter ended March 31, 2015, cash flows from investing activities decreased liquidity by $7.2 million.

The following table details the maturities of the financial obligations as at March 31, 2016:

(in millions of dollars)	Carrying Amount $	Contractual Cash flow $	Less than 1 year $	1 – 3 years $	4 – 5 years $	After 5 years $
Accounts payable and accrued liabilities	96.1	96.1	96.1	-	-	-
Long-term debt obligations	628.1	695.4	72.6	150.3	471.5	1.0
Interest rate swap agreements	4.0	4.0	1.6	1.8	0.6	-
Minimum payments under operating lease obligations	-	77.3	20.5	28.7	13.1	15.0
Non-compete agreements	2.1	2.2	1.0	1.2	-	-
Total	730.3	875.0	191.8	182.0	485.2	16.0

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2016, the capital stock issued and outstanding consisted of 69,142,858 common shares (69,137,356 as at December 31, 2015). The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2016:

Number of shares (in '000s)	Three-month Period Ended March 31, 2016
Balance – Beginning of period	69,137
Exercise of stock options	-
Employee share purchase plans	6
Balance – End of period	69,143

As at April 27, 2016, the capital stock issued and outstanding consisted of 69,142,858 common shares.

As at March 31, 2016, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 194,000 (December 31, 2015 – 194,000) of which 158,000 (December 31, 2015 – 158,000) were exercisable. As at April 27, 2016, the number of outstanding options was 194,000, of which 158,000 were exercisable.

DIVIDENDS

On April 27, 2016, the Board of Directors declared a quarterly dividend of $0.10 per common share payable on June 28, 2016 to shareholders of record at the close of business on June 6, 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 commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2015 Annual Report.

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.

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.

Liquidity

As at March 31, 2016, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at March 31, 2016, an amount of $85.9 million was available against the Company's committed revolving credit facility of $649.4 million (US$500.0 million).

Accounts receivable increased during the first three months of 2016 as a result of higher sales near the end of the period, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S.-based accounts receivable. Management considers that all recorded receivables 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 also increased during the first three months of 2016 due to the normal seasonal inventory build-up in anticipation of higher projected peak sales volumes in the second and third quarters, partially offset by the effect of local currency translation on U.S.-based inventories. To ensure efficient treatment 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

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2015 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2015 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and Chartered Professional Accountants 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. 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 financial statements of the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at March 31, 2016, and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at March 31, 2016.

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 January 1, 2016 to March 31, 2016, 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 has allowed Stella-Jones to broaden its reach and product diversity in the residential lumber category, as demonstrated by the transition from treating services only to a value-added full service direct offering for retailers. 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 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 business. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

April 27, 2016