**Source:** **Stella-Jones Inc.**

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# STELLA-JONES REPORTS STRONG 2016 SECOND QUARTER RESULTS

- **31.5% sales increase to $563.1 million, versus $428.1 million a year ago**
- **Operating income of $83.2 million, or 14.8% of sales, up from $61.1 million, or 14.3% of sales, last year**
- **Net income up 40.4% to $54.7 million, compared to $38.9 million last year**
- **Diluted EPS of $0.79, up from $0.56 in the previous year**

**Montreal, Quebec – August 10, 2016** - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its second quarter ended June 30, 2016.

"Stella-Jones' strong sales growth in the second quarter stems from its greater reach in the residential lumber category and sustained demand in the railway tie category. Further improvement in operating profitability reflects economies of scale generated by higher volumes as well as our ongoing focus on optimizing network efficiencies," said Brian McManus, President and Chief Executive Officer.

| **Financial highlights** (in millions of Canadian dollars, except per share data) | **Quarters ended June 30,** 2016 | 2015 | **Six-months ended June 30,** 2016 | 2015 |
|---|---|---|---|---|
| Sales | **563.1** | 428.1 | **984.0** | 768.8 |
| Operating income | **83.2** | 61.1 | **137.8** | 108.8 |
| Net income for the period | **54.7** | 38.9 | **89.7** | 69.0 |
| Per share - basic ($) | **0.79** | 0.56 | **1.30** | 1.00 |
| Per share - diluted ($) | **0.79** | 0.56 | **1.30** | 1.00 |
| Weighted average shares outstanding (basic, in '000s) | **69,185** | 68,987 | **69,162** | 68,970 |

## SECOND QUARTER RESULTS

Sales reached $563.1 million, up 31.5% from $428.1 million a year ago. The acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively, "Ram") on October 1, 2015, contributed sales of approximately $51.7 million. The acquisitions of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting") and 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"), both completed on June 3, 2016, added combined sales of $5.6 million, while acquisitions in the southeastern United States completed in the second half of 2015 added sales of approximately $7.4 million. 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 $13.2 million on the value of U.S. dollar denominated sales when compared with last year's second quarter. Excluding these factors, organic growth was approximately $57.2 million, or 13.4%.

Railway tie sales amounted to $216.3 million, up 11.1% from $194.8 million last year. Excluding the currency conversion effect, railway tie sales rose approximately 7.3%, primarily as a result of healthy industry demand.

Sales of utility poles reached $142.8 million, compared with $136.7 million last year. Excluding the currency conversion effect and the contribution from acquisitions, sales declined approximately 6.7%. During the quarter, sales of distribution poles softened as a result of reduced maintenance demand in certain regions, while sales of transmission poles held steady versus last year.

Sales of residential lumber totalled $152.1 million, up from $60.9 million last year. This strong increase reflects sales of $51.7 million from the Ram acquisition, increased market demand as well as the impact of the transition from treating services only for wholesalers to a value-added full service direct offering for retailers.

Industrial product sales amounted to $27.0 million, compared with $25.4 million a year ago, as the currency conversion effect more than offset a decline related to the timing of orders for rail related products in the United States. Logs and lumber sales were $24.8 million, versus $10.4 million last year, due to procurement efforts to support residential lumber requirements and the timing of timber harvesting.

Operating income reached $83.2 million, or 14.8% of sales, versus $61.1 million, or 14.3% of sales, last year. The increase in absolute dollars stems from increased business activity, the contribution from acquisitions and the effect of currency translation. As a percentage of sales, the increase is mainly attributable to economies of scale generated by higher volumes in the residential lumber category, greater efficiencies throughout the Company's plant network and the year-over-year variation in other net losses and gains. These factors were partially offset by the greater logs and lumber sales, which are performed at a value close to their cost of sales.

Net income for the second quarter of 2016 increased 40.4% to $54.7 million, or $0.79 per diluted share, compared with $38.9 million, or $0.56 per diluted share, in the second quarter of 2015.

**SIX-MONTH RESULTS**

For the six-month period ended June 30, 2016, sales amounted to $984.0 million, versus $768.8 million for the corresponding period a year earlier. Acquisitions contributed sales of approximately $79.6 million, while the currency conversion effect had a positive impact of $49.0 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately $86.6 million, or 11.3%.

Operating income stood at $137.8 million, or 14.0% of sales, compared with $108.8 million, or 14.2% of sales, a year earlier. Net income for the first six months of 2016 increased 29.9% to $89.7 million, or $1.30 per diluted share, up from $69.0 million, or $1.00 per diluted share, in the first six months of 2015.

**SOLID FINANCIAL POSITION**

As at June 30, 2016, the Company's long-term debt, including the current portion, stood at $731.7 million compared with $628.1 million three months earlier. The increase mainly reflects larger borrowings to finance the acquisitions of Lufkin Creosoting and Kisatchie and larger working capital requirements, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt. Working capital requirements include the normal seasonal increase in accounts receivable resulting from greater second quarter business activity. As at June 30, 2016, Stella-Jones' total debt to total capitalization ratio was 0.44:1, compared with 0.41:1 as at March 31, 2016.

**QUARTERLY DIVIDEND OF $0.10 PER SHARE**

On August 9, 2016, the Board of Directors declared a quarterly dividend of $0.10 per common share, payable on September 23, 2016 to shareholders of record at the close of business on September 2, 2016.

**OUTLOOK**

"Market demand for our products should remain healthy for the remainder of 2016. With respect to railway ties, we expect second-half demand for 2016 to be down on a year-over-year basis following a strong first half of the year. In the utility pole market, regular maintenance demand is expected to remain relatively steady for the balance of the year, despite a slight softening in the first half of 2016, while transmission pole sales should hold following the stabilization in resource prices. Stella-Jones' broader reach in the residential lumber category will allow us to further benefit from continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets. As for the short-term, our priority is to integrate recent acquisitions into our network by leveraging best practices to enhance network efficiencies and create lasting value for our shareholders," concluded Mr. McManus.

**CONFERENCE CALL**

Stella-Jones will hold a conference call to discuss these results on August 10, 2016, at 10:00 AM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording of the meeting by calling 1-800-585-8367 and entering the passcode 37729120. This recording will be available on Wednesday, August 10, 2016 as of 10:00 PM Eastern Time until 11:59 PM Eastern Time on Wednesday, August 17, 2016.

**NON-IFRS FINANCIAL MEASURES**

Operating income is a financial measure not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Management considers this non-IFRS measure to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance.

**ABOUT STELLA-JONES**

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



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**EXCHANGE LISTINGS**
The Toronto Stock Exchange
Stock Symbol: SJ

**TRANSFER AGENT AND REGISTRAR**
Computershare Investor Services Inc.

**INVESTOR RELATIONS**
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# NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the second quarter ended June 30, 2016 have not been reviewed by the Company’s external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
August 9, 2016

# Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
**June 30, 2016 and 2015**

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

(expressed in thousands of Canadian dollars)

| | Note | As at June 30, 2016 $ | As at December 31, 2015 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Restricted cash | 3 | 4,292 | 4,292 |
| Accounts receivable | | 282,764 | 159,862 |
| Inventories | | 777,782 | 804,478 |
| Prepaid expenses | | 26,266 | 27,543 |
| Income taxes receivable | | - | 14,987 |
| | | 1,091,104 | 1,011,162 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 410,522 | 375,534 |
| Intangible assets | | 130,920 | 140,936 |
| Goodwill | | 285,850 | 245,696 |
| Derivative financial instruments | 6 | 157 | 832 |
| Other assets | | 9,781 | 2,058 |
| | | 1,928,334 | 1,776,218 |
| **Liabilities and Shareholders’ Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 124,137 | 75,085 |
| Income taxes payable | | 9,569 | - |
| Current portion of long-term debt | | 10,388 | 60,874 |
| Current portion of provisions and other long-term liabilities | | 9,729 | 20,840 |
| | | 153,823 | 156,799 |
| **Non-current liabilities** | | | |
| Long-term debt | | 721,325 | 609,007 |
| Deferred income taxes | | 85,891 | 78,564 |
| Provisions and other long-term liabilities | | 13,991 | 10,655 |
| Employee future benefits | | 9,644 | 7,153 |
| Derivative financial instruments | 6 | 5,341 | 538 |
| | | 990,015 | 862,716 |
| **Shareholders’ equity** | | | |
| Capital stock | 5 | 218,135 | 216,474 |
| Contributed surplus | | 281 | 503 |
| Retained earnings | | 619,940 | 546,402 |
| Accumulated other comprehensive gain | | 99,963 | 150,123 |
| | | 938,319 | 913,502 |
| | | 1,928,334 | 1,776,218 |
| Subsequent events | 9 | | |

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

**Stella-Jones Inc.**

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

**For the six-month periods ended June 30, 2016 and 2015**

(expressed in thousands of Canadian dollars)

| | Capital stock | Contributed surplus | Retained earnings | Accumulated other comprehensive gain: Foreign currency translation adjustment | Translation of long-term debts designated as net investment hedges | Unrealized gains (losses) on cash flow hedges | Total | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance – January 1, 2016** | 216,474 | 503 | 546,402 | 247,092 | (97,184) | 215 | 150,123 | 913,502 |
| **Comprehensive income (loss)** | | | | | | | | |
| Net income for the period | - | - | 89,695 | - | - | - | - | 89,695 |
| Other comprehensive income (loss) | - | - | (2,324) | (70,393) | 24,264 | (4,031) | (50,160) | (52,484) |
| **Comprehensive income (loss) for the period** | - | - | 87,371 | (70,393) | 24,264 | (4,031) | (50,160) | 37,211 |
| Dividends on common shares | - | - | (13,833) | - | - | - | - | (13,833) |
| Exercise of stock options | 1,134 | (300) | - | - | - | - | - | 834 |
| Employee share purchase plans | 527 | - | - | - | - | - | - | 527 |
| Stock-based compensation | - | 78 | - | - | - | - | - | 78 |
| | 1,661 | (222) | (13,833) | - | - | - | - | (12,394) |
| **Balance – June 30, 2016** | 218,135 | 281 | 619,940 | 176,699 | (72,920) | (3,816) | 99,963 | 938,319 |

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

**Stella-Jones Inc.**
Interim Consolidated Statements of Change in Shareholders' Equity…*continued*
(Unaudited)
**For the six-month periods ended June 30, 2016 and 2015**

(expressed in thousands of Canadian dollars)

| | | | | Accumulated other comprehensive gain | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Contributed surplus | Retained earnings | Foreign currency translation adjustment | Translation of long-term debts designated as net investment hedges | Unrealized gains (losses) on cash flow hedges | Total | Total shareholders' equity |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance – January 1, 2015** | 213,858 | 954 | 427,834 | 89,682 | (40,607) | 550 | 49,625 | 692,271 |
| **Comprehensive income (loss)** | | | | | | | | |
| Net income for the period | - | - | 69,044 | - | - | - | - | 69,044 |
| Other comprehensive income (loss) | - | - | 892 | 61,650 | (22,562) | (886) | 38,202 | 39,094 |
| **Comprehensive income (loss) for the period** | - | - | 69,936 | 61,650 | (22,562) | (886) | 38,202 | 108,138 |
| Dividends on common shares | - | - | (11,037) | - | - | - | - | (11,037) |
| Exercise of stock options | 561 | (165) | - | - | - | - | - | 396 |
| Employee share purchase plans | 476 | - | - | - | - | - | - | 476 |
| Stock-based compensation | - | 30 | - | - | - | - | - | 30 |
| | 1,037 | (135) | (11,037) | - | - | - | - | (10,135) |
| **Balance – June 30, 2015** | 214,895 | 819 | 486,733 | 151,332 | (63,169) | (336) | 87,827 | 790,274 |

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

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

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

| | Note | For the three-month periods ended June 30, 2016 $ | 2015 $ | For the six-month periods ended June 30, 2016 $ | 2015 $ |
|---|---|---|---|---|---|
| **Sales** | | 563,058 | 428,079 | 984,034 | 768,780 |
| **Expenses** | | | | | |
| Cost of sales | | 453,498 | 343,935 | 795,637 | 618,210 |
| Selling and administrative | | 26,429 | 20,999 | 50,466 | 40,272 |
| Other (gains) losses, net | | (94) | 1,989 | 145 | 1,493 |
| | | 479,833 | 366,923 | 846,248 | 659,975 |
| **Operating income** | | 83,225 | 61,156 | 137,786 | 108,805 |
| **Financial expenses** | | 4,689 | 4,062 | 9,451 | 8,107 |
| **Income before income taxes** | | 78,536 | 57,094 | 128,335 | 100,698 |
| **Provision for income taxes** | | | | | |
| Current | | 21,455 | 16,731 | 32,248 | 27,040 |
| Deferred | | 2,407 | 1,423 | 6,392 | 4,614 |
| | | 23,862 | 18,154 | 38,640 | 31,654 |
| **Net income for the period** | | 54,674 | 38,940 | 89,695 | 69,044 |
| **Basic earnings per common share** | 5 | 0.79 | 0.56 | 1.30 | 1.00 |
| **Diluted earnings per common share** | 5 | 0.79 | 0.56 | 1.30 | 1.00 |

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

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

(expressed in thousands of Canadian dollars)

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|---|---|---|
| | 2016<br>$ | 2015<br>$ | 2016<br>$ | 2015<br>$ |
| **Net income for the period** | 54,674 | 38,940 | 89,695 | 69,044 |
| **Other comprehensive income** | | | | |
| **Items that may subsequently be reclassified to net income** | | | | |
| Net change in gains (losses) on translation of financial statements of foreign operations | (7,698) | (12,670) | (74,240) | 62,895 |
| Income taxes on change in gains (losses) on translation of financial statements of foreign operations | 291 | 725 | 3,847 | (1,245) |
| Change in gains (losses) on translation of long-term designated as hedges of net investment in foreign operations | 3,039 | 4,543 | 27,962 | (25,938) |
| Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations | (400) | (543) | (3,698) | 3,376 |
| Change in gains (losses) on fair value of derivatives designated as cash flow hedges | (1,421) | 210 | (5,478) | (1,182) |
| Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges | 376 | (63) | 1,447 | 296 |
| **Items that will not subsequently be reclassified to net income** | | | | |
| Remeasurements of post-retirement benefit obligations | (1,709) | 1,349 | (3,326) | 875 |
| Income taxes on remeasurements of post-retirement benefit obligations | 538 | (159) | 1,002 | 17 |
| | (6,984) | (6,608) | (52,484) | 39,094 |
| **Comprehensive income** | 47,690 | 32,332 | 37,211 | 108,138 |

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

# Stella-Jones Inc.

Interim Consolidated Statements of Cash Flows
(Unaudited)
**For the six-month periods ended June 30, 2016 and 2015**

(expressed in thousands of Canadian dollars)

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $ | $ |
| **Cash flows provided by (used in)** | | | |
| **Operating activities** | | | |
| Net income for the period | | 89,695 | 69,044 |
| Adjustments for | | | |
| Depreciation of property, plant and equipment | | 7,202 | 5,878 |
| Amortization of intangible assets | | 6,568 | 5,308 |
| Loss (gain) on disposal of assets | | (65) | 559 |
| Employee future benefits | | (596) | 145 |
| Stock-based compensation | | 78 | 30 |
| Financial expenses | | 9,451 | 8,107 |
| Current income taxes expense | | 32,248 | 27,040 |
| Deferred income taxes | | 6,392 | 4,614 |
| Restricted stock units expense | | 2,819 | 4,347 |
| Other | | 156 | 193 |
| | | 153,948 | 125,265 |
| Changes in non-cash working capital components and others | | | |
| Accounts receivable | | (121,647) | (77,127) |
| Inventories | | 7,751 | (41,270) |
| Prepaid expenses | | (85) | 5,928 |
| Income taxes receivable | | (1) | 4 |
| Accounts payable and accrued liabilities | | 49,835 | 2,574 |
| Asset retirement obligations | | (612) | (356) |
| Provisions and other long-term liabilities | | (21,280) | (3,718) |
| | | (86,039) | (113,965) |
| Interest paid | | (10,314) | (6,499) |
| Income taxes paid | | (8,019) | (29,568) |
| | | 49,576 | (24,767) |
| **Financing activities** | | | |
| Increase in deferred financing costs | | (1,051) | (204) |
| Net change in committed revolving credit facility | | 124,583 | 62,180 |
| Repayment of long-term debt | | (52,303) | (4,788) |
| Non-competes payable | | 2,751 | (272) |
| Dividend on common shares | | (13,833) | (11,037) |
| Proceeds from issuance of common shares | | 1,361 | 872 |
| | | 61,508 | 46,751 |
| **Investing activities** | | | |
| Decrease in other assets | | 903 | 275 |
| Business acquisitions | 3 | (86,108) | (4,391) |
| Increase in intangible assets | | (3,211) | (131) |
| Purchase of property, plant and equipment | | (22,908) | (20,058) |
| Proceeds from disposal of assets | | 240 | 2,321 |
| | | (111,084) | (21,984) |
| **Net change in cash and cash equivalents during the period** | | - | - |
| **Cash and cash equivalents – Beginning of period** | | 4,292 | - |
| **Cash and cash equivalents – End of period** | | 4,292 | - |

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

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

## 1 Description of the business

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

## 2 Significant accounting policies

### Basis of presentation

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

These condensed interim consolidated financial statements were approved by the Board of Directors on August 9, 2016.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2015.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

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

**Principles of consolidation**

The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company owns 100% of the equity interest of its subsidiaries. The significant subsidiaries are as follows:

| Subsidiary | Parent | Country of incorporation |
|---|---|---|
| Stella-Jones U.S. Holding Corporation | Stella-Jones Inc. | United States |
| Stella-Jones Corporation | Stella-Jones U.S. Holding Corporation | United States |
| McFarland Cascade Holdings, Inc. ("McFarland") | Stella-Jones Corporation | United States |
| Cascade Pole and Lumber Company | McFarland Cascade Holdings, Inc. | United States |
| McFarland Cascade Pole & Lumber Company | McFarland Cascade Holdings, Inc. | United States |
| Canadalux S.à.r.l. | Stella-Jones Inc. | Luxembourg |
| Stella-Jones CDN Finance Inc. | Stella-Jones Inc. | Canada |
| Stella-Jones U.S. Finance II Corporation | Stella-Jones U.S. Holding Corporation | United States |
| Stella-Jones U.S. II LLC | Stella-Jones U.S. Holding Corporation | United States |
| Kisatchie Midnight Express, LLC | McFarland Cascade Holdings, Inc. | United States |
| Lufkin Creosoting Co., Inc. | McFarland Cascade Holdings, Inc. | United States |

On June 3, 2016, the Company has completed the acquisition of the equity interests of 440 Investments, LLC, the parent company of Kisatchie Treating, LLC, Kisatchie Pole & Piling, LLC, Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC. It has also completed the acquisition of the shares of Lufkin Creosoting Co., Inc.

On June 9, 2016, 440 Investments, LLC, Kisatchie Treating, LLC, Kisatchie Pole & Piling, LLC and Kisatchie Trucking LLC, merged into McFarland, the surviving entity.

## 3 Business acquisitions

a) On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the equity interests 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 and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $43,652 (US$33,727), excluding acquisition costs of approximately $790, recognized in the interim 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 these interim

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

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.

| | |
|---|---|
| **Assets acquired** | **$** |
| Accounts receivable | 5,098 |
| Inventories | 12,226 |
| Prepaids | 53 |
| Property, plant and equipment | 19,468 |
| Goodwill | 27,600 |
| | 64,445 |
| **Liabilities assumed** | |
| Accounts payable and accrued liabilities | 1,749 |
| Long-term debt | 8,775 |
| Deferred income tax liabilities | 589 |
| Site remediation provision | 1,195 |
| **Total net assets acquired and liabilities assumed** | 52,137 |
| **Consideration transferred** | |
| Cash | 43,652 |
| Unsecured promissory note | 7,838 |
| Consideration payable | 647 |
| **Consideration transferred** | 52,137 |

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 ("CGUs") as defined in the Company's accounting policies. In the case of the Kisatchie 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, an unsecured promissory note of $9,128 (US$7,052) and assumed a promissory note secured by the land of the Noble facility having a balance of US$5,685. The unsecured promissory note bears interest at 1.41%, is payable in two installments of US$1,500 on June 3, 2019 and 2020 and one final payment of US$4,500 on June 3, 2021 This unsecured promissory note was recorded at a fair value of $7,838 (US$6,056), using an interest rate of 5.00%. The secured promissory note bears interest of 5.80%, is payable in quarterly installments of US$162 up to July 2028 and was recorded at a fair value of $8,775 (US$6,780) using an interest rate of 4.00%

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

In the period from June 3 to June 30, 2016, sales and net income for the Noble and Pineville plants amounted to $3,439 (US$2,669) and $173 (US$134), respectively. Pro forma information for the period ended June 30, 2016, had the Kisatchie acquisition occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the first five months of the year.

b) On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting"). Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $42,192 (US$35,599), excluding acquisition costs of approximately $763, recognized in the interim 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 these interim 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.

| | |
|---|---|
| **Assets acquired** | **$** |
| Accounts receivable | 6,004 |
| Inventories | 4,918 |
| Property, plant and equipment | 19,874 |
| Goodwill | 29,545 |
| | 60,341 |
| **Liabilities assumed** | |
| Accounts payable and accrued liabilities | 1,860 |
| Deferred income tax liabilities | 6,962 |
| Site remediation provision | 842 |
| **Total net assets acquired and liabilities assumed** | 50,677 |
| **Consideration transferred** | |
| Cash | 42,192 |
| Unsecured promissory note | 7,838 |
| Consideration payable | 647 |
| **Consideration transferred** | 50,677 |

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

Goodwill is not amortized and not 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 CGUs as defined in the Company's accounting policies. In the case of the Lufkin Creosoting 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 of $9,128 (US$7,052), bearing interest at 1.41% and payable in two installments of US$1,500 on June 3, 2019 and 2020 and one final payment of US$4,500 on June 3, 2021.The unsecured promissory note was fair valued at $7,838 (US$6,056) using an interest rate of 5.00%.

In the period from June 3 to June 30, 2016, sales and net income for the Lufkin plant amounted to $2,148 (US$1,667) and $58 (US$45), respectively. Pro forma information for the period ended June 30, 2016, had the Lufkin Creosoting acquisition occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the first five months of the year.

## 4 Long-term debt

On May 18, 2016, the Company increased its committed revolving credit facility by US$75,000 by exercising a portion of its US$200,000 accordion option. The increase was granted by the banking syndicate under the same conditions as the fifth amended and restated committed revolving credit facility. This additional credit availability was used to partially finance the Kisatchie and Lufkin Creosoting acquisitions.

On April 1st, 2016, the Company repaid, at maturity, an unsecured, subordinated and non-convertible debenture of US$25,000 and an unsecured and non-convertible debenture of US$10,000. The debentures were repaid through the Company's committed revolving credit facility.

On June 3, 2016, as part of the Kisatchie and Lufkin Creosoting acquisition financing, the Company issued two unsecured promissory notes of $9,128 (US$7,052) bearing interest at 1.41% and recorded at a fair valued at $7,838 (US$6,056) using an interest rate of 5.00%. The notes are payable in two installments of US$1,500 on June 3, 2019 and 2020 and one final payment of US$4,500 on June 3, 2021.

As part of the Kisatchie acquisition, the Company assumed a promissory note secured by the land of the Noble facility, having a balance of US$5,685 and bearing interest of 5.80%. This promissory note was recorded at a fair value of $8,775 (US$6,780) using an interest rate of 4.00% and is payable in quarterly installments of US$162 up to July 2028.

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

## 5 Capital stock

The following table provides the number of common shares outstanding for the six-month periods ending June 30:

| | **2016** | **2015** |
|---|---|---|
| Number of common shares outstanding – Beginning of period* | 69,137 | 68,949 |
| Stock option plan* | 105 | 54 |
| Employee share purchase plans* | 12 | 12 |
| Number of common shares outstanding – End of period* | 69,254 | 69,015 |

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:

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

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

b) Earnings per share

The following table provides the reconciliation, as at June 30, between basic earnings per common share and diluted earnings per common share:

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Net income applicable to common shares** | $54,674 | $38,940 | $89,695 | $69,044 |
| Weighted average number of common shares outstanding* | 69,185 | 68,987 | 69,162 | 68,970 |
| Effect of dilutive stock options* | 44 | 235 | 43 | 233 |
| Weighted average number of diluted common shares outstanding* | 69,229 | 69,222 | 69,205 | 69,203 |
| **Basic earnings per common share **** | $0.79 | $0.56 | $1.30 | $1.00 |
| **Diluted earnings per common share **** | $0.79 | $0.56 | $1.30 | $1.00 |

* Number of shares is presented in thousands.

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

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

## 6 Fair value measurement and financial instruments

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

| | As at June 30, 2016 | As at December 31, 2015 |
|---|---|---|
| | **Significant other observable inputs (Level 2)** | **Significant other observable inputs (Level 2)** |
| | **$** | **$** |
| **Recurring fair value measurements** | | |
| **Assets** | | |
| Derivatives - Interest rate swap agreements | 157 | 832 |
| | 157 | 832 |
| **Liabilities** | | |
| Derivatives - Interest rate swap agreements | 5,341 | 538 |
| | 5,341 | 538 |

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

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

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value that is equal to its fair value.

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

## 7 Seasonality

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

## 8 Segment information

The Company operates within one business segment, which is the production and sale of pressure treated wood and related services.

## 9 Subsequent events

On August 9, 2016, the Board of Directors declared a quarterly dividend of $0.10 per common share payable on September 23, 2016 to shareholders of record at the close of business on September 2, 2016.

## 10 Comparative figures

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.