MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine-month periods ended September 30, 2016 compared with the three- and nine-month periods ended September 30, 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 November 7, 2016. The MD&A provides a review of the significant developments and results of operations of the Company during the three- and nine-month periods ended September 30, 2016 compared with the three- and nine-month periods ended September 30, 2015. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 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 September 30, 2016, the Company operated thirty-four treating plants, fourteen pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and eighteen American states and are complemented by an extensive distribution network across North America. As at September 30, 2016, the Company's workforce numbered approximately 1,950 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* (millions of dollars)	**Three-month periods ended**		**Nine-month periods ended**	
	Sept. 30, 2016	**Sept. 30, 2015**	**Sept. 30, 2016**	**Sept. 30, 2015**
Net income for the period	$45.7	$39.3	$135.4	$108.4
Plus:				
Provision for income taxes	$17.4	$19.5	$56.1	$51.1
Financial expenses	$4.2	$4.1	$13.6	$12.2
Operating income	$67.3	$62.9	$205.1	$171.7
Depreciation and amortization	$9.0	$5.9	$22.8	$17.1
EBITDA	$76.3	$68.8	$227.9	$188.8

* Numbers may not add exactly due to rounding

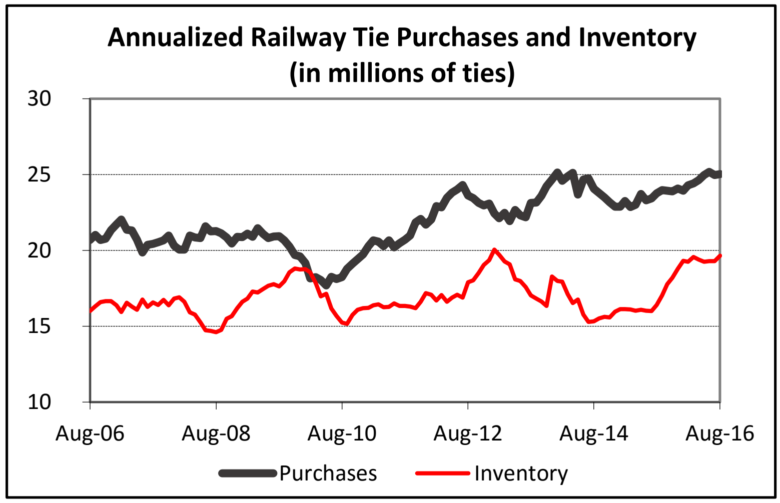
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended September 30, 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 Sept. 30, 2016	**Closing rate as at Sept. 30, 2016**	**Average rate for the three-month period ended Sept. 30, 2015**	**Closing rate as at December 31, 2015**
	1.3030	1.3117	1.2909	1.3840

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association, railway tie purchases for the first eight months of 2016 reached 17.8 million ties, up 5.5% from the same period in 2015, resulting in industry purchases of 25.0 million ties for the 12-month period ended August 31, 2016. This annualized purchase level remains high by historical standards. The inventory rebuilding that began last year has been essentially completed, as industry inventory of 19.6 million ties as at August 31, 2016 has held relatively steady since the beginning of the year. The inventory-to-sales ratio of 0.78:1 as at August 31, 2016 is in-line with the previous ten-year average of 0.78:1.



Source: Railway Tie Association

Total traffic on North American railroads decreased 6.6% in the first nine months of 2016, according to data released by the Association of American Railroads. Carload volume decreased by 9.7%, mainly due to reduced shipments of coal, petroleum and petroleum products, as well as metals, while intermodal trailer and container volume declined 3.1% from 2015 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2016 reached $512.6 million, up $79.5 million, or 18.4%, over last year's sales of $433.1 million for the same period. The acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (together, "Ram"), completed on October 1, 2015, contributed sales of approximately $30.5 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 $20.6 million, while acquisitions in the southeastern United States completed in the second half of 2015 added sales of approximately $6.5 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 $3.0 million on the value of U.S. dollar denominated sales when compared with last year's third quarter. Excluding these factors, organic growth was approximately $18.9 million, or 4.4%, mostly due to the transition from treating services only for wholesalers to a value-added full service direct offering for retailers in the residential lumber category.

For the nine-month period ended September 30, 2016, sales amounted to $1.50 billion, versus $1.20 billion for the corresponding period a year earlier. Acquisitions contributed sales of approximately $137.2 million, while the currency conversion effect had a positive impact of $52.0 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately $105.5 million, or 8.8%.

Sales by product category

Railway ties

Railway tie sales for the third quarter of 2016 were $186.6 million, representing a decrease of 7.0% over sales of $200.6 million in the third quarter of 2015, primarily as a result of lower industry demand in the third quarter following a strong first half in 2016. Railway tie sales accounted for 36.4% of the Company's third-quarter sales.

For the first nine months of 2016, railway ties sales totalled $603.2 million, up from $562.1 million in the first nine months of 2015. Excluding the currency conversion effect, railway tie sales increased approximately $12.1 million, or 2.2%.

Utility poles

Utility pole sales reached $160.0 million in the third quarter of 2016, up 12.4% from sales of $142.3 million in the corresponding period in 2015. Excluding the currency conversion effect and the contribution from Lufkin Creosoting, Kisatchie, as well as acquisitions in the southeastern United States completed in the second half of 2015, sales declined approximately $8.8 million, or 6.2%. During the period, year-over-year sales of distribution poles were lower as a result of reduced maintenance demand in certain regions, while sales of transmission poles increased slightly versus last year. Utility pole sales accounted for 31.2% of the Company's total sales in the third quarter of 2016.

In the first nine months of 2016, utility pole sales amounted to $434.6 million, compared with $398.2 million a year earlier. Excluding the currency conversion effect and the contribution from acquisitions, sales declined approximately $21.2 million, or 5.3%.

Residential lumber

Sales in the residential lumber category totalled $107.3 million in the third quarter of 2016, versus $53.2 million a year earlier. The increase is in part attributable to sales of $30.5 million resulting from the Ram acquisition. Excluding this factor and the currency conversion effect, sales rose $23.5 million, or 44.1%, reflecting the transition from treating services only for wholesalers to a value-added full service direct offering for retailers. Residential lumber accounted for 20.9% of Stella-Jones' sales in the third quarter of 2016.

For the nine-month period ended September 30, 2016, residential lumber sales reached $301.3 million, up from $142.5 million for the corresponding period in 2015. The acquisition of Ram accounted for sales of $91.5 million. Excluding this factor and the currency conversion effect, sales rose $64.1 million, or 45.0%.

Industrial products

Industrial product sales reached $27.5 million in the third quarter of 2016, compared with $28.4 million in the third quarter of 2015. Excluding the currency conversion effect and the contribution from acquisitions, sales decreased $2.8 million, due to the timing of orders for rail-related products in the United States. Industrial products represented 5.4% of the Company's sales in the three-month period ended September 30, 2016.

In the first nine months of 2016, industrial product sales were $81.3 million, versus $73.7 million in the first nine months of 2015. Excluding the currency conversion effect and the contribution from acquisitions, sales remained comparable to the prior year.

Logs and lumber

In the third quarter of 2016, logs and lumber sales amounted to $31.3 million, versus $8.5 million in the third quarter of 2015. This variation is explained by the addition of the purchase and resale of lumber resulting from procurement efforts to support residential lumber requirements and by the timing of timber harvesting. Logs and lumber sales represented 6.1% of the Company's sales in the three-month period ended September 30, 2016.

For the first nine months of 2016, logs and lumber sales stood at $76.3 million, up from $25.3 million in the first nine months of 2015.

Sales by destination

Sales in the United States amounted to $354.1 million, representing 69.1% of Stella-Jones' total sales in the third quarter of 2016, up from $350.0 million in the corresponding period of 2015. The 1.2% year-over-year increase mainly reflects the effect of local currency translation on U.S.-dollar denominated sales. For the nine-month period ended September 30, 2016, sales in the United States reached $1.05 billion, or 69.9% of sales, compared with $992.6 million in the nine-month period ended September 30, 2015.

Sales in Canada in the third quarter of 2016 reached $158.5 million, representing 30.9% of sales, up from $83.0 million in the third quarter of 2015. This significant year-over-year increase reflects the Ram acquisition, direct sales to retailers, as well as higher sales of logs and lumber. For the nine-month period ended September 30, 2016, sales in Canada totalled $450.8 million, or 30.1% of sales, compared with $209.2 million in the nine-month period ended September 30, 2015.

Cost of sales
Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $419.3 million, or 81.8% of sales, for the three-month period ended September 30, 2016. This compares with $345.6 million, or 79.8% of sales, in the three-month period ended September 30, 2015. The increase in absolute dollars essentially reflects business acquisitions and the effect of currency translation. The increase as a percentage of sales reflects higher log and lumber sales, which are made at a value close to their cost of sales, a less favourable product mix this year compared to 2015 and softness in selling prices for certain regions. Depreciation and amortization charges reached $9.0 million for the three-month period ended September 30, 2016, versus $5.9 million in the corresponding period of 2015. As a result, gross profit reached $93.3 million, or 18.2% of sales, in the third quarter of 2016, compared with $87.5 million, or 20.2% of sales, in the third quarter of 2015.

For the nine-month period ended September 30, 2016, cost of sales amounted to $1.21 billion, or 81.2% of sales, versus $963.8 million, or 80.2% of sales, in the nine-month period ended September 30, 2015. Depreciation and amortization charges reached $22.8 million for the nine-month period ended September 30, 2016, versus $17.1 million in the corresponding period of 2015. As a result, gross profit reached $281.7 million, or 18.8% of sales, in the first nine months of 2016, compared with $238.0 million, or 19.8% of sales, in the first nine months of 2015.

Selling and administrative
Selling and administrative expenses for the third quarter of 2016 were $23.9 million, compared with expenses of $24.1 million in the third quarter of 2015. This variation is mainly related to additional selling expenses of approximately $1.4 million related to the Company's expanded presence in the residential lumber category, incremental salaries and severance expenses of approximately $1.5 million offset by reduced profit sharing and restricted stock unit provision. As a percentage of sales, selling and administrative expenses decreased year-over-year from 5.6% of sales in the third quarter of 2015 to 4.7% in the third quarter of 2016.

For the nine-month period ended September 30, 2016, selling and administrative expenses amounted to $74.4 million, or 5.0% of sales, compared with $64.3 million, or 5.4% of sales, in the nine-month period ended September 30, 2015.

Other losses, net
Stella-Jones' other net losses of $2.1 million for the three-month period ended September 30, 2016, essentially consisted of a foreign exchange loss of $1.0 million and a provision for site remediation amounting to $1.0 million. Last year's other net losses of $439,000 consisted of a remediation provision adjustment, partially offset by a foreign exchange gain.

In the first nine months of 2016, other net losses amounted to $2.3 million, consisting mainly of site remediation provisions, whereas other net losses totalled $1.9 million in the first nine months of 2015.

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 three- and nine-month periods ended September 30, 2016 amounted to $4.2 million and $13.6 million, respectively, up from $4.1 million and $12.2 million, respectively, in the three- and nine-month periods ended September 30, 2015. These year-over year variations reflect higher average borrowings in 2016 following the acquisitions completed in the last twelve months, as well as 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 $63.1 million, or 12.3% of sales, in the third quarter of 2016, up 7.3% from income before income taxes of $58.8 million, or 13.6% of sales, in the third quarter of 2015. The provision for income taxes stood at $17.4 million in the third quarter of 2016, representing an effective tax rate of 27.6%. In the third quarter of 2015, the provision for income taxes was $19.5 million, equivalent to an effective tax rate of 33.1%.

For the first nine months of 2016, income before income taxes reached $191.4 million, or 12.8% of sales, while the provision for income taxes amounted to $56.1 million, representing an effective tax rate of 29.3%. In the first nine months of 2015, income before income taxes was $159.5 million, or 13.3% of sales, while the provision for income taxes stood at $51.1 million, equivalent to an effective tax rate of 32.1%.

For the three- and nine-month periods ended September 30, 2016, the lower effective tax rate 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 September 30, 2016 reached $45.7 million, or $0.66 per diluted share, representing an increase of 16.1% over net income of $39.3 million, or $0.57 per diluted share in the three-month period ended September 30, 2015.

For the nine-month period ended September 30, 2016, net income amounted to $135.4 million, or $1.96 per diluted share, up 24.9% from $108.4 million, or $1.57 per share, in the nine-month period ended September 30, 2015.

BUSINESS ACQUISITIONS

Kisatchie
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. 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 $46.2 million (US$35.7 million), excluding acquisition costs of approximately $790,000, 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 the 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. In the third quarter of 2016, an adjustment was made to recognize customer relationships of $7.7 million. Goodwill was adjusted accordingly.

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 millions of dollars)	$
Assets acquired	
Cash acquired	2.6
Accounts receivable	5.3
Inventories	13.2
Prepaids	0.1
Property, plant and equipment	19.5
Customer relationships	7.7
Goodwill	17.5
Deferred income tax liabilities	0.2
	66.1
Liabilities assumed	
Accounts payable and accrued liabilities	1.1
Long-term debt	8.8
Site remediation provision	1.2
Total net assets acquired and liabilities assumed	**55.0**
Consideration transferred	
Cash	46.2
Unsecured promissory note	7.8
Consideration payable	1.0
Consideration transferred	**55.0**

The Company's valuation of intangible assets has identified customer relationships for which a useful life of 15 years was assigned. 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 $9.1 million (US$7.1 million) and assumed a promissory note, secured by the land of the Noble facility, having a balance of US$5.7 million. The unsecured promissory note bears interest at 1.4%, is payable in two instalments of US$1.5 million on June 3, 2019 and 2020 and one final payment of US$4.5 million on June 3, 2021. This unsecured promissory note was recorded at a fair value of $7.8 million (US$6.1 million), using an interest rate of 5.0%. The secured promissory note bears interest at 5.8%, is payable in quarterly instalments of US$162,000 up to July 2028 and was recorded at a fair value of $8.8 million (US$6.8 million), using an interest rate of 4.0%.

Lufkin Creosoting

On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the shares of 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 $46.5 million (US$35.9 million), excluding acquisition costs of approximately $763,000, 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 the 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. In the third quarter of 2016, an adjustment was made to recognize customer relationships of $11.1 million. Goodwill was adjusted accordingly.

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 millions of dollars)	$
Assets acquired	
Cash acquired	1.0
Accounts receivable	6.2
Inventories	5.6
Property, plant and equipment	16.2
Customer relationships	11.1
Goodwill	18.9
	59.0
Liabilities assumed	
Accounts payable and accrued liabilities	0.3
Deferred income tax liabilities	5.6
Site remediation provision	0.8
Total net assets acquired and liabilities assumed	**52.3**
Consideration transferred	
Cash	46.5
Unsecured promissory note	7.8
Consideration receivable	(2.0)
Consideration transferred	**52.3**

The Company's valuation of intangible assets has identified customer relationships for which a useful life of 20 years was assigned. 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 $9.1 million (US$7.1 million), bearing interest at 1.4% and payable in two instalments of US$1.5 million on June 3, 2019 and 2020 and one final payment of US$4.5 million on June 3, 2021. The unsecured promissory note was fair valued at $7.8 million (US$6.1 million), using an interest rate of 5.0%.

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. The table below sets forth selected financial information for the Company's last eleven quarters.

2016

For the quarters ended	**March 31**	**June 30**	**Sept. 30**		
(millions of dollars, except per share data)	**$**	**$**	**$**		
Sales	421.0	563.1	512.6		
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	61.7	89.9	76.3		
Operating income [1]	54.6	83.2	67.3		
Net income for the period	35.0	54.7	45.7		
Earnings per common share					
Basic	0.51	0.79	0.66		
Diluted	0.51	0.79	0.66		

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	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**
(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 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 September 30, 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 September 30, 2016, total assets reached $1.88 billion, versus $1.78 billion as at December 31, 2015. The increase mostly reflects the acquisitions of Lufkin Creosoting and Kisatchie, as well as greater accounts receivable resulting from normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S.-based assets, as detailed below.

The value of accounts receivable was $226.2 million as at September 30, 2016 compared with $159.9 million as at December 31, 2015. The increase is attributable to higher sales in the third quarter of 2016, when compared to the fourth quarter of 2015, and to accounts receivable related to the acquisitions of Lufkin Creosoting and Kisatchie. These factors were partially offset by the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $768.8 million as at September 30, 2016, versus $804.5 million as at December 31, 2015. This decrease reflects solid sales growth in the first nine months of 2016, the seasonal inventory reduction in the residential lumber category, and the effect of local currency translation on U.S. inventories. These factors were partially offset by the acquisitions of Lufkin Creosoting and Kisatchie.

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. In addition, important raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. 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 committed revolving credit facility are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $424.2 million as at September 30, 2016, compared with $375.5 million as at December 31, 2015. This increase is mainly related to the acquisitions of Lufkin Creosoting and Kisatchie, as well as to the purchase of property, plant and equipment amounting to $40.4 million in the nine-month period ended September 30, 2016. These factors were partially offset by the effect of local currency translation on U.S.-based property, plant and equipment during the first nine months of 2016, as well as depreciation of $11.5 million for the period.

The value of intangible assets and goodwill reached $146.7 million and $269.2 million, respectively, as at September 30, 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 increase in the value of intangible assets stems from the acquisitions of Lufkin Creosoting and Kisatchie, partially offset by the effect of local currency translation on U.S.-based intangible assets and from an amortization charge of $11.3 million in the first nine months of 2016. The increase in goodwill is explained by the acquisitions of Lufkin Creosoting and Kisatchie, partially offset by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities
As at September 30, 2016, Stella-Jones' total liabilities stood at $891.9 million, up from $862.7 million as at December 31, 2015. This variation mainly reflects an increase in accounts payable and accrued liabilities, partially offset by a decrease in long-term debt, as detailed below.

The value of current liabilities was $142.8 million as at September 30, 2016, versus $156.8 million as at December 31, 2015. This variation is mainly due to a $50.9 million decrease in the value of the current portion of long-term debt, following the repayment at maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of US$25.0 million and of an unsecured and non-convertible debenture of US$10.0 million. The debentures were repaid through the Company's committed revolving credit facility. This factor was partially offset by a $47.9 million increase in accounts payable and accrued liabilities reflecting normal seasonal demand patterns, as well as the acquisitions of Lufkin Creosoting and Kisatchie.

The Company's long-term debt, including the current portion, was $639.2 million as at September 30, 2016, versus $669.9 million as at December 31, 2015. The decrease mainly reflects a strong seasonal cash flow generation from reduced working capital requirements in the third quarter and, to a lesser extent, the effect of local currency translation on U.S. dollar denominated long-term debt. These factors more than offset borrowings required to finance the acquisitions of Lufkin Creosoting and Kisatchie.

As at September 30, 2016, an amount of $149.0 million was available against the Company's committed revolving credit facility of $754.2 million (US$575.0 million). The additional demand loan facilities totalling US$50.0 million remain entirely available.

Shareholders' equity
Shareholders' equity reached $989.4 million as at September 30, 2016 compared with $913.5 million as at December 31, 2015. The increase during the period is attributable to net income of $135.4 million in the first nine months of 2016, partially offset by a $38.3 million unfavourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations, as well as dividends on common shares totalling $20.8 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**		**Nine-Month Periods Ended**	
(millions of dollars)	**Sept. 30, 2016**	**Sept. 30, 2015**	**Sept. 30, 2016**	**Sept. 30, 2015**
Operating activities	$127.6	$55.9	$177.1	$31.1
Financing activities	($108.3)	($43.0)	($46.8)	$3.8
Investing activities	($19.6)	($12.9)	($130.6)	($34.9)
Net change in cash and cash equivalents during the period	($0.3)	$---	($0.3)	$---
Cash and cash equivalents - beginning	$4.3	$---	$4.3	$---
Cash and cash equivalents - end	$4.0	$---	$4.0	$---

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 was $77.1 million for the three-month period ended September 30, 2016, compared with $71.0 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 provided liquidity of $82.8 million in the third quarter of 2016. This was mainly due to decreases in accounts receivable and inventory of $60.4 million and $20.0 million, respectively, as a result of normal seasonal patterns. Working capital provided more funds in the third quarter of 2016, when compared to the prior year, due to greater seasonal activity in the residential lumber category following the Ram acquisition. In the third quarter of 2015, changes in non-cash working capital components had provided liquidity of $6.4 million. For the quarter ended September 30, 2016, interest and income tax paid reduced liquidity by $7.2 million and $25.1 million, respectively, versus $5.4 million and $16.2 million, respectively, a year earlier.

As a result, cash flows provided by operating activities reached $127.6 million in the third quarter of 2016, compared with cash flows of $55.9 million in the third quarter of 2015.

For the nine-month period ended September 30, 2016, cash from operating activities before changes in non-cash working capital components and interest and income tax paid was $231.0 million, up from $196.3 million for the same period in 2015. Changes in non-cash working capital components reduced liquidity by $3.2 million in the first nine months of 2016, compared with a liquidity reduction of $107.5 million last year. Interest and income tax paid further reduced liquidity by $17.5 million and $33.1 million, respectively, in the first nine months of 2016, versus $11.9 million and $45.7 million, respectively, a year earlier. As a result, cash flows provided by operating activities reached $177.1 million in the nine-month period ended September 30, 2016, up from $31.1 million in the corresponding period a year earlier.

Financing activities for the quarter ended September 30, 2016 reduced liquidity by $108.3 million. This cash usage mostly stems from the repayment of $99.9 million on the Company’s committed revolving credit facility resulting from a strong seasonal third-quarter cash flow stemming from reduced working capital requirements. For the quarter ended September 30, 2015, financing activities had decreased liquidity by $43.0 million.

In the first nine months of 2016, financing activities reduced liquidity by $46.8 million, compared with a liquidity increase of $3.8 million in the first nine months of 2015.

Investing activities used $19.6 million in liquidity during the third quarter of 2016. This liquidity requirement mainly consisted of a cash outlay of $16.6 million for the construction of a new pole peeling and treating facility in Cameron, Wisconsin. For the third quarter of 2015, cash flows from investing activities had decreased liquidity by $12.9 million.

For the nine-month period ended September 30, 2016, cash flows used in investing activities amounted to $130.7 million, including a cash outlay of $88.3 million for the acquisitions of Lufkin Creosoting and Kisatchie, compared with $34.9 million in the nine-month period ended September 30, 2015.

The following table details the maturities of the financial obligations as at September 30, 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	123.0	123.0	123.0	-	-	-
Long-term debt obligations	639.2	708.6	25.3	47.3	630.0	6.0
Interest rate swap agreements	4.0	4.0	1.3	1.7	1.0	-
Minimum payments under operating lease obligations	-	76.2	20.7	28.1	12.9	14.5
Non-compete agreements	4.8	5.2	1.6	2.3	1.3	-
Total	771.0	917.0	171.9	79.4	645.2	20.5

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2016, the capital stock issued and outstanding consisted of 69,271,486 common shares (69,137,356 as at December 31, 2015). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2016:

Number of shares (in '000s)	Three-month Period Ended September 30, 2016	Nine-month Period Ended September 30, 2016
Balance – Beginning of period	69,254	69,137
Exercise of stock options	10	115
Employee share purchase plans	7	19
Balance – End of period	69,271	69,271

As at November 7, 2016, the capital stock issued and outstanding consisted of 69,271,486 common shares.

As at September 30, 2016, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 79,000 (December 31, 2015 – 194,000) of which 49,000 (December 31, 2015 – 158,000) were exercisable. As at November 7, 2016, the number of outstanding options was 79,000 of which 49,000 were exercisable.

DIVIDENDS

On November 7, 2016, the Board of Directors declared a quarterly dividend of $0.10 per common share payable on December 21, 2016 to shareholders of record at the close of business on December 2, 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 railway tie and utility pole product categories are essential components of the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained which provides Stella-Jones with relatively steady demand for these products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Following strong railway tie demand through the first half of 2016 and given the current reduction in freight volume, the Company anticipates demand to be lower on a year-over-year basis for the remainder of 2016 and the early stages of 2017.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. While demand softened in 2016, the Company expects a gradual return to normal patterns to begin in 2017. Meanwhile, demand for transmission poles related to special projects should improve following the stabilization in resource prices. Stella-Jones believes that industry demand should gradually pick-up 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 premise.

In the residential lumber product category, the Company expects to further benefit from continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets.

Liquidity

As at September 30, 2016, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at September 30, 2016, an amount of $149.0 million was available against the Company's committed revolving credit facility of $754.2 million (US$575.0 million). The additional demand loan facilities totalling US$50.0 million remain entirely available.

Accounts receivable increased during the first nine months of 2016 as a result of higher sales in the third quarter of 2016, when compared to the fourth quarter of 2015, and of accounts receivable related to the acquisitions of Lufkin Creosoting and Kisatchie, 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, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories decreased during the first nine months of 2016 due to the inventory reduction attributable to solid sales growth during the period and the effect of local currency translation on U.S. inventories, partially offset by the acquisitions of Lufkin Creosoting and Kisatchie. 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 September 30, 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 September 30, 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 July 1, 2016 to September 30, 2016, that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

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

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Following strong railway tie demand through the first half of 2016 and given the current reduction in freight volume, the Company anticipates demand to be lower on a year-over-year basis for the remainder of 2016 and the early stages of 2017.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. While demand softened in 2016, the Company expects a gradual return to normal patterns to begin in 2017. Meanwhile, demand for transmission poles related to special projects should improve following the stabilization in resource prices. Stella-Jones believes that industry demand should gradually pick-up 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 view.

In the residential lumber product category, the Company expects to further benefit from continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets.

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 growth 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 integration of its recent acquisitions. 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.

November 7, 2016