Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS STRONG 2016 THIRD QUARTER RESULTS

- **Sales of $512.6 million, up 18.4% from $433.1 million a year ago**
- **16.1% increase in net income to $45.7 million, or $0.66 per diluted share, versus $39.3 million, or $0.57 per diluted share, last year**
- **Significant debt reduction of $92.5 million during the quarter resulting from strong cash flow generation**

Montreal, Quebec – November 8, 2016 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its third quarter ended September 30, 2016.

"Stella-Jones' sales and net income growth in the third quarter reflects the contribution from acquisitions and our greater reach in the residential lumber product category. As anticipated, year-over-year railway tie sales were lower following strong demand in the previous twelve months, while market conditions remained relatively soft in the utility pole category. Still, improved working capital resulted in a solid cash flow generation that we directed towards reducing our debt," said Brian McManus, President and Chief Executive Officer.

Financial highlights	**Quarters ended Sept. 30,**		**Nine-months ended Sept.**	
(in millions of Canadian dollars, except per share data)	**2016**	**2015**	**2016**	**2015**
Sales	**512.6**	433.1	**1,496.6**	1,201.8
Operating income	**67.3**	62.9	**205.1**	171.8
Net income for the period	**45.7**	39.3	**135.4**	108.4
Per share - basic ($)	**0.66**	0.57	**1.96**	1.57
Per share - diluted ($)	**0.66**	0.57	**1.96**	1.57
Weighted average shares outstanding (basic, in '000s)	**69,255**	69,025	**69,200**	68,989

THIRD QUARTER RESULTS

Sales reached $512.6 million, up 18.4% from $433.1 million a year ago. The acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (together, "Ram") 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%.

Railway tie sales amounted to $186.6 million, down 7.0% from $200.6 million last year, primarily as a result of lower industry demand in the third quarter following a strong first half in 2016.

Sales of utility poles reached $160.0 million, compared with $142.3 million last year. Excluding the currency conversion effect and the contribution from acquisitions, sales declined approximately 6.2%. During the quarter, 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.

Sales of residential lumber totalled $107.3 million, up from $53.2 million last year. This strong increase reflects sales of $30.5 million from the Ram acquisition, 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 declined to $27.5 million, from $28.4 million a year ago, due to the timing of orders for rail-related products in the United States. Logs and lumber sales reached $31.3 million, versus $8.5 million last year, due to procurement efforts to support residential lumber requirements and the timing of timber harvesting.

Operating income amounted to $67.3 million, or 13.1% of sales, versus $62.9 million, or 14.5% of sales, last year. The increase in absolute dollars reflects the contribution from acquisitions and the effect of currency translation. As a percentage of sales, the decrease is mainly attributable to greater logs 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.

Net income for the third quarter of 2016 increased 16.1% to $45.7 million, or $0.66 per diluted share, compared with $39.3 million, or $0.57 per diluted share, in the third quarter of 2015.

NINE-MONTH RESULTS

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%.

Operating income stood at $205.1 million, or 13.7% of sales, compared with $171.8 million, or 14.3% of sales, a year earlier. Net income for the first nine months of 2016 increased 24.9% to $135.4 million, or $1.96 per diluted share, up from $108.4 million, or $1.57 per diluted share, in the first nine months of 2015.

SOLID FINANCIAL POSITION

As at September 30, 2016, the Company's long-term debt, including the current portion, stood at $639.2 million compared with $731.7 million three months earlier. This significant reduction of $92.5 million mainly stems from a strong cash flow generation. This cash flow resulted from reduced working capital requirements, including the seasonal inventory reduction in the residential lumber category. As at September 30, 2016, Stella-Jones' total debt to total capitalization ratio was 0.39:1, compared with 0.44:1 as at June 30, 2016.

QUARTERLY DIVIDEND OF $0.10 PER SHARE

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.

OUTLOOK

"In the short-term, we expect lower year-over-year railway tie demand through the early stages of 2017 following a strong first half in 2016. In the utility pole category, regular maintenance demand is expected to gradually return to normal patterns in 2017, while transmission pole sales should improve with more stable resource prices. We are also confident that we will sustain our momentum in the residential lumber category and further benefit from solid demand for new construction and outdoor renovation projects in the North American residential and commercial markets. With its stronger financial position, Stella-Jones has greater flexibility to pursue its proven business strategy. We will seek opportunities to further grow our presence in core businesses by expanding our continental network, while ensuring an optimal dividend policy," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on November 8, 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 77159002. This recording will be available on Tuesday, November 8, 2016 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Tuesday, November 15, 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.

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, the ability of the Company to raise the capital required for acquisitions, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

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EXCHANGE LISTINGS
The Toronto Stock Exchange
Stock Symbol: SJ

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NOTICE

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

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 7, 2016

Stella-Jones Inc.

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

Stella-Jones Inc.
Interim Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
For the nine-month periods ended September 30, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Note	As at September 30, 2016 $	As at December 31, 2015 $
Assets			
Current assets			
Restricted cash	3	3,994	4,292
Accounts receivable		226,191	159,862
Inventories		768,847	804,478
Prepaid expenses		29,257	27,543
Income taxes receivable		4,322	14,987
		1,032,611	1,011,162
Non-current assets			
Property, plant and equipment		424,197	375,534
Intangible assets		146,680	140,936
Goodwill		269,162	245,696
Derivative financial instruments	6	260	832
Other assets		8,435	2,058
		1,881,345	1,776,218
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		122,977	75,085
Current portion of long-term debt	4	9,967	60,874
Current portion of provisions and other long-term liabilities		9,830	20,840
		142,774	156,799
Non-current liabilities			
Long-term debt	4	629,239	609,007
Deferred income taxes		91,629	78,564
Provisions and other long-term liabilities		14,501	10,655
Employee future benefits		9,867	7,153
Derivative financial instruments	6	3,936	538
		891,946	862,716
Shareholders' equity			
Capital stock	5	218,600	216,474
Contributed surplus		274	503
Retained earnings		658,705	546,402
Accumulated other comprehensive gain		111,820	150,123
		989,399	913,502
		1,881,345	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 nine-month periods ended September 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, 2016	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502
Comprehensive income (loss)								
Net income for the period	-	-	135,372	-	-	-	-	135,372
Other comprehensive income (loss)	-	-	(2,309)	(51,318)	15,937	(2,922)	(38,303)	(40,612)
Comprehensive income (loss) for the period	-	-	133,063	(51,318)	15,937	(2,922)	(38,303)	94,760
Dividends on common shares	-	-	(20,760)	-	-	-	-	(20,760)
Exercise of stock options	1,279	(346)	-	-	-	-	-	933
Employee share purchase plans	847	-	-	-	-	-	-	847
Stock-based compensation	-	117	-	-	-	-	-	117
	2,126	(229)	(20,760)	-	-	-	-	(18,863)
Balance - September 30, 2016	218,600	274	658,705	195,774	(81,247)	(2,707)	111,820	989,399

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 nine-month periods ended September 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	-	-	108,383	-	-	-	-	108,383
Other comprehensive income (loss)	-	-	138	121,777	(44,817)	(1,564)	75,396	75,534
Comprehensive income (loss) for the period	-	-	108,521	121,777	(44,817)	(1,564)	75,396	183,917
Dividends on common shares	-	-	(16,559)	-	-	-	-	(16,559)
Exercise of stock options	1,189	(367)	-	-	-	-	-	822
Employee share purchase plans	735	-	-	-	-	-	-	735
Stock-based compensation	-	30	-	-	-	-	-	30
	1,924	(337)	(16,559)	-	-	-	-	(14,972)
Balance - September 30, 2015	215,782	617	519,796	211,459	(85,424)	(1,014)	125,021	861,216

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 September 30, 2016 $	2015 $	For the nine-month periods ended September 30, 2016 $	2015 $
Sales		512,589	433,067	1,496,623	1,201,847
Expenses					
Cost of sales		419,258	345,613	1,214,895	963,823
Selling and administrative		23,923	24,065	74,389	64,337
Other losses, net		2,122	439	2,267	1,932
		445,303	370,117	1,291,551	1,030,092
Operating income		67,286	62,950	205,072	171,755
Financial expenses		4,185	4,139	13,636	12,246
Income before income taxes		63,101	58,811	191,436	159,509
Provision for income taxes					
Current		10,891	16,123	43,139	43,163
Deferred		6,533	3,349	12,925	7,963
		17,424	19,472	56,064	51,126
Net income for the period		45,677	39,339	135,372	108,383
Basic earnings per common share	5	0.66	0.57	1.96	1.57
Diluted earnings per common	5	0.66	0.57	1.96	1.57

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 September 30,		For the nine-month periods ended September 30,	
	2016 $	2015 $	2016 $	2015 $
Net income for the period	45,677	39,339	135,372	108,383
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	18,938	63,646	(55,302)	126,540
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	137	(3,519)	3,984	(4,763)
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(8,303)	(25,844)	19,659	(51,782)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(24)	3,589	(3,722)	6,965
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	1,507	(910)	(3,971)	(2,092)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(398)	232	1,049	528
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(28)	(345)	(3,354)	530
Income taxes on remeasurements of post-retirement benefit obligations	43	(409)	1,045	(392)
	11,872	36,440	(40,612)	75,534
Comprehensive income	57,549	75,779	94,760	183,917

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 nine-month periods ended September 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		135,372	108,383
Adjustments for			
Depreciation of property, plant and equipment		11,521	8,998
Amortization of intangible assets		11,305	8,085
Loss (gain) on disposal of assets		(6)	516
Employee future benefits		(439)	87
Stock-based compensation		117	30
Financial expenses		13,636	12,246
Current income taxes expense		43,139	43,163
Deferred income taxes		12,925	7,963
Restricted stock units expense		4,283	6,456
Other		(829)	378
		231,024	196,305
Changes in non-cash working capital components and others			
Accounts receivable		(61,203)	(67,016)
Inventories		27,704	(58,585)
Prepaid expenses		(2,672)	(2,570)
Income taxes receivable		(5)	35
Accounts payable and accrued liabilities		54,554	25,103
Asset retirement obligations		(310)	(1,108)
Provisions and other long-term liabilities		(21,280)	(3,405)
		(3,212)	(107,546)
Interest paid		(17,533)	(11,927)
Income taxes paid		(33,131)	(45,729)
		177,148	31,103
Financing activities			
Increase in deferred financing costs		(1,051)	204
Net change in committed revolving credit facility		24,640	25,028
Repayment of long-term debt		(53,926)	(5,961)
Non-competes payable		2,536	(476)
Dividend on common shares		(20,760)	(16,559)
Proceeds from issuance of common shares		1,780	1,557
		(46,781)	3,793
Investing activities			
Decrease (increase) in other assets		967	(833)
Business acquisitions	3	(88,317)	(9,784)
Increase in intangible assets		(3,274)	(217)
Purchase of property, plant and equipment		(40,437)	(26,455)
Proceeds from disposal of assets		396	2,393
		(130,665)	(34,896)
Net change in cash and cash equivalents during the period		(298)	-
Cash and cash equivalents – Beginning of period		4,292	-
Cash and cash equivalents – End of period		3,994	-

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 November 7, 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 $46,153 (US$35,659), excluding acquisition costs of approximately $790, recognized in the interim consolidated statement of income under selling and administrative expenses.

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

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. In the third quarter of 2016, an adjustment was made to recognize customer relationships of $7,662. Goodwill has been 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.

Assets acquired	**$**
Cash acquired	2,628
Accounts receivable	5,312
Inventories	13,225
Prepaids	150
Property, plant and equipment	19,468
Customer relationships	7,662
Goodwill	17,375
Deferred income tax assets	185
	66,005
Liabilities assumed	
Accounts payable and accrued liabilities	1,128
Long-term debt	8,775
Site remediation provision	1,195
Total net assets acquired and liabilities assumed	54,907
Consideration transferred	
Cash	46,153
Unsecured promissory note	7,838
Consideration payable	916
Consideration transferred	54,907

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

The Company's valuation of intangible assets has identified customer relationships for which a useful life of 15 years was assigned. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to 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%

In the period from June 3 to September 30, 2016, sales and net income for the Noble and Pineville plants amounted to $15,744 (US$11,895) and $851 (US$643), respectively. Pro forma information for the period ended September 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 $46,503 (US$35,929), 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. In the third quarter of 2016, an adjustment was made to recognize customer relationships of $11,079. Goodwill was adjusted accordingly.

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

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	**$**
Cash acquired	1,074
Accounts receivable	6,248
Inventories	5,610
Property, plant and equipment	16,244
Customer relationships	11,079
Goodwill	18,786
	59,041
Liabilities assumed	
Accounts payable and accrued liabilities	291
Deferred income tax liabilities	5,644
Site remediation provision	842
Total net assets acquired and liabilities assumed	52,264
Consideration transferred	
Cash	46,503
Unsecured promissory note	7,838
Consideration receivable	(2,077)
Consideration transferred	52,264

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 $9,128 (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%.

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

In the period from June 3 to September 30, 2016, sales and net loss for the Lufkin plant amounted to $10,475 (US$7,914) and $93 (US$70), respectively. Pro forma information for the period ended September 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.

5 Capital stock

The following table provides the number of common share outstanding for the nine-month periods ending September 30:

	2016	**2015**
Number of common shares outstanding – Beginning of period*	69,137	68,949
Stock option plan*	115	108
Employee share purchase plans*	19	19
Number of common shares outstanding – End of period*	69,271	69,076

* Number of common shares is presented in thousands.

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

a) Capital stock consists of the following:

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

b) Earnings per share

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income applicable to common shares	$45,677	$39,339	$135,372	$108,383
Weighted average number of common shares outstanding*	69,255	69,025	69,200	68,989
Effect of dilutive stock options*	40	191	36	189
Weighted average number of diluted common shares outstanding*	69,295	69,216	69,236	69,178
**Basic earnings per common share ** **	$0.66	$0.57	$1.96	$1.57
**Diluted earnings per common share ** **	$0.66	$0.57	$1.96	$1.57

* 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 September 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	260	832
	260	832
Liabilities		
Derivatives - Interest rate swap agreements	3,936	538
	3,936	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)

On September 28, 2016, the Company entered into an interest rate swap agreement with notional amount of US$100,000, fixing the Libor interest rate at 1.065% excluding the applicable spread. This interest rate swap agreement is effective as of December 1, 2017 for a five-year period and is designated as a cash flow hedge.

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.

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

a) On November 1, 2016, the Company entered into a foreign exchange forward contract, selling US$500 per month (the "Transaction") over a 60-month period at a strike rate of 1.385 and a fade-in rate of 1.178. The Company will obtain the strike rate as long as the spot exchange rate on the Transaction date is greater than or equal to the fade-in rate. If the spot exchange rate is lower than the fade-in rate, the Transaction will not occur. This contract does not qualify for hedge accounting.

b) 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.

10 Comparative figures

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