MANAGEMENT’S DISCUSSION & ANALYSIS

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

This MD&A and the Company’s audited consolidated financial statements were approved by the Board of Directors on March 16, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2016 compared with the fiscal year ended December 31, 2015. The MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2016 and 2015 and the notes thereto.

The MD&A contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency rates and other factors referenced herein and in the Company’s continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company’s management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

The Company’s audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Chartered Professional Accountant (“CPA”) Canada Handbook Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information, including the Company’s annual information form, quarterly and annual reports, and supplementary information is available on the SEDAR web site at www.sedar.com. Press releases and other information are also available in the Investor/Media Centre section of the Company’s web site at www.stella-jones.com.

OUR BUSINESS

Stella-Jones Inc. is a leading producer and marketer of pressure treated wood products. The Company supplies North America’s railroad operators with railway ties and timbers, and the continent’s electrical utilities and telecommunication companies with utility poles. Stella-Jones also 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 December 31, 2016, the Company operated thirty-six wood treating plants, sixteen pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2016, Stella-Jones’ workforce numbered approximately 1,930 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company’s strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, a long-standing stable source of wood supply, and a registration to produce and sell the wood preservative, creosote.

OUR MISSION

Stella-Jones' objective is to be the performance leader in the wood preserving industry and a model corporate citizen, exercising environmental responsibility and integrity.

Stella-Jones will achieve these goals by focusing on customer satisfaction, core products, key markets, innovative work practices and the optimal use of its resources.

Stella-Jones is committed to providing a safe, respectful and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

NON-IFRS FINANCIAL MEASURES

Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and operating results as they provide additional measures of its performance.

Reconciliation of EBITDA and operating income to net income*	Three-month periods ended		Fiscal years ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
(in millions of dollars)	$	$	$	$
Net income for the period	18.5	33.0	153.9	141.4
Plus:				
Provision for income taxes	5.4	10.5	61.5	61.6
Financial expenses	4.2	4.8	17.9	17.1
Operating income	28.2	48.3	233.2	220.1
Depreciation and amortization	8.8	6.2	31.6	23.3
EBITDA	36.9	54.5	264.8	243.4

* Numbers may not add exactly due to rounding.

MAJOR ACHIEVEMENTS OF 2016

Stella-Jones recorded a solid performance in the year ended December 31, 2016. The Company proceeded with further network expansion through strategic acquisitions, while on the operating front, it achieved record sales and net income. Stella-Jones also generated a solid cash flow which allowed the Company to conclude the year in a healthy financial position. Going forward, Stella-Jones remains committed to executing its operating strategy based on continental expansion in its core railway tie and utility pole markets, as well as capturing select opportunities in other markets for its treated wood products.

Network expansion

KMS and NPTW

On December 21, 2016, the Company completed the acquisition of substantially all the operating assets employed in the businesses of Bois KMS (GMI) Ltée ("KMS") and Northern Pressure Treated Wood (N.P.T.W.) Ltd ("NPTW"). KMS and NPTW manufacture treated wood utility poles at their facilities located in Rivière-Rouge, Québec and Kirkland Lake, Ontario, respectively.

Total cash outlay associated with the acquisition was approximately $19.2 million, excluding acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

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 Treating, L.L.C., Kisatchie Pole & Piling, L.L.C., Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie"). Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Converse and Pineville, Louisiana.

Total cash outlay associated with the acquisition was approximately $46.2 million (US$35.7 million), excluding acquisition costs of approximately $873,000, recognized in the consolidated statement of income under selling and administrative expenses.

Lufkin Creosoting

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.

Total cash outlay associated with the acquisition was approximately $46.5 million (US$35.9 million), excluding acquisition costs of approximately $978,000, recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2016 reached $1,838.4 million, up 17.9% from last year's sales of $1,559.3 million. The acquisitions of Kisatchie and Lufkin Creosoting, both completed on June 3, 2016, generated combined sales of $43.5 million, while the acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (together "Ram"), completed on October 1, 2015, contributed additional sales of $91.5 million over the first nine months of 2016. Finally, acquisitions in the southeastern United States completed in the second half of 2015 provided additional sales of $21.8 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $53.1 million when compared with the previous year. Excluding these factors, sales increased approximately $69.1 million, or 4.4%.

Stella-Jones' annual operating income reached $233.2 million, or 12.7% of sales, in 2016. This represents a 6.0% increase over $220.1 million, or 14.1% of sales, in the prior year. As a result, net income for the year grew 8.9% to $153.9 million, or $2.22 per diluted share, compared with $141.4 million, or $2.04 per diluted share, a year ago. The Company generated a 15.9% return on average equity in 2016.

Stella-Jones produced strong cash flows in 2016 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to $268.9 million, up 5.7% from $254.3 million in 2015. These funds allowed the Company to proceed with strategic acquisitions and to invest in its network, while maintaining a sound financial position. As at December 31, 2016, Stella-Jones' total debt to total capital ratio stood at 0.40:1, down slightly from 0.42:1 twelve months earlier. The Company also increased its annual dividend payout for the twelfth consecutive year.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	**2016**	2015	2014
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,838.4**	1,559.3	1,249.5
Operating income	**233.2**	220.1	155.7
Net income	**153.9**	141.4	103.8
Basic earnings per common share	**2.22**	2.05	1.51
Diluted earnings per common share	**2.22**	2.04	1.50

Financial Position	**2016**	2015	2014
(in millions of dollars)	**$**	$	$
Current assets	**1,050.5**	1,013.8	699.0
Total assets	**1,962.0**	1,778.9	1,289.0
Long-term debt[1]	**694.4**	669.9	444.6
Total liabilities	**935.5**	865.4	596.8
Shareholders' equity	**1,026.4**	913.5	692.3

[1] Including the current portion

KEY PERFORMANCE INDICATORS

For the years ended December 31	**2016**	2015	2014
Operating margin[1]	**12.7%**	14.1%	12.5%
Return on average equity[2]	**15.9%**	17.6%	16.4%
Working capital ratio[3]	**8.57**	6.36	8.33
Total debt to total capitalization[4]	**0.40:1**	0.42:1	0.39:1
Total debt to EBITDA[5]	**2.62**	2.75	2.52
Dividend per share	**$0.40**	$0.32	$0.28

[1] Operating income divided by sales.
[2] Net income divided by the mathematical average of current year's shareholders' equity and the previous year's shareholders' equity.
[3] Total current assets divided by total current liabilities.
[4] Long-term debt (including the current portion) divided by the sum of shareholders' equity and long-term debt (including the current portion)
[5] Long-term debt (including the current portion) divided by EBITDA

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2016 and 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.

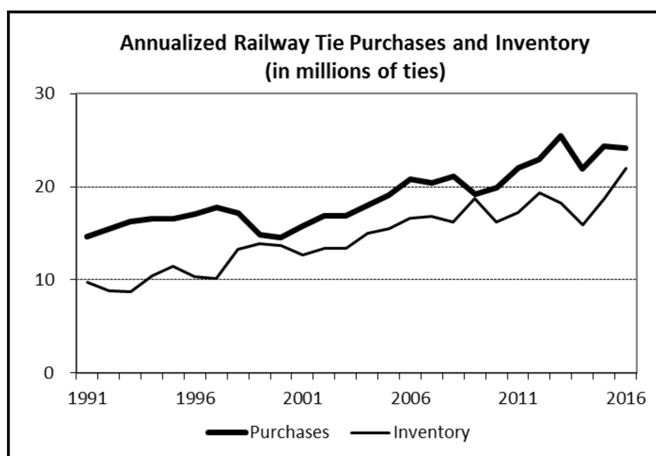
Cdn$/US$	**2016**		**2015**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.3792	1.2987	1.2272	1.2666
Second Quarter	1.2886	1.2917	1.2389	1.2490
Third Quarter	1.3030	1.3117	1.2909	1.3345
Fourth Quarter	1.3319	1.3427	1.3258	1.3840
Fiscal Year	1.3257	1.3427	1.2707	1.3840

INDUSTRY OVERVIEW

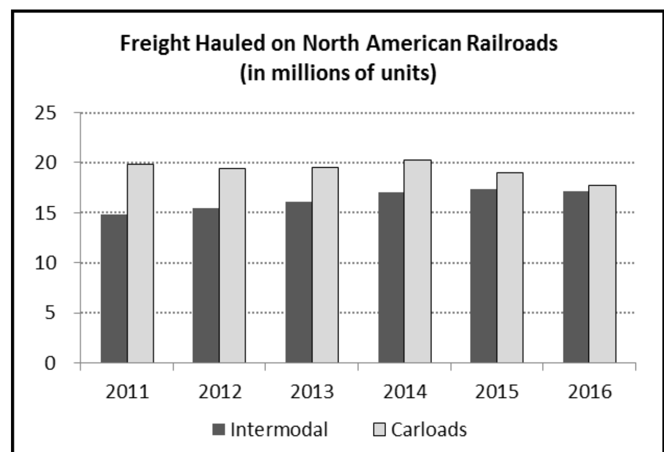
Railway ties

As reported by the Railway Tie Association ("RTA"), railway tie purchases for 2016 stood at 24.2 million ties, representing a slight decrease from 24.4 million ties in 2015. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. The reduction in purchases in the late stages of 2016 is therefore implied by an increase in industry inventory, which stood at 22.0 million ties as at December 31, 2016. As a result, the inventory-to-sales ratio reached 0.91:1 as at December 31, 2016, up from 0.77:1 twelve months earlier, and higher than the previous ten-year average ratio of 0.78:1.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.



Source: Railway Tie Association



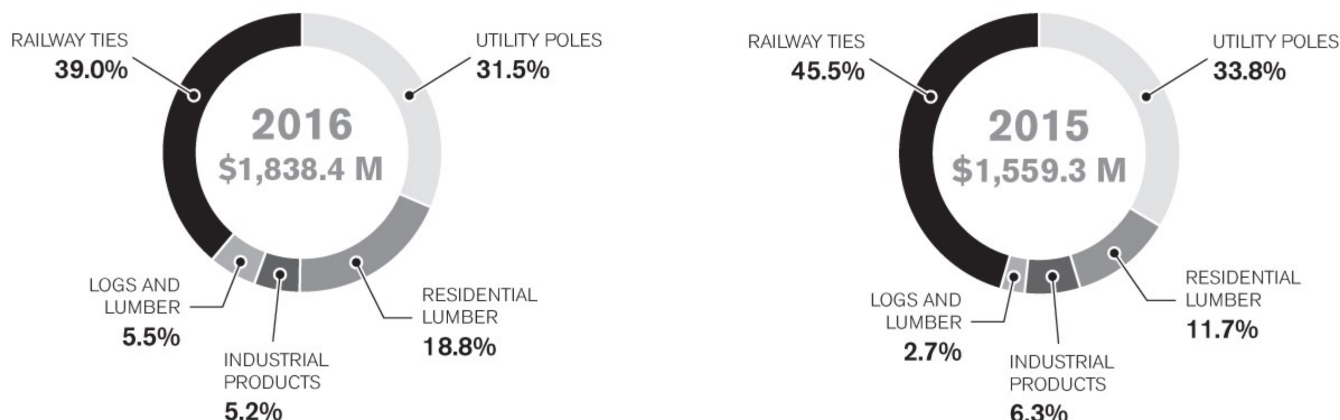
Source: Association of American Railroads

Reflecting a softer North American economy compared to the previous year, total traffic on North American railroads decreased by 4.5% in 2016, according to data released by the Association of American Railroads. Carload volume decreased by 7.2%, mainly due to lower shipments of coal, petroleum and petroleum products, while intermodal trailer and container volume declined 1.5% from 2015 levels.

OPERATING RESULTS

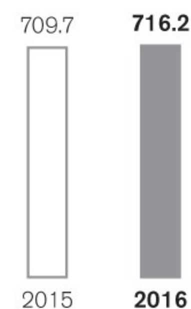
Sales

Sales for the year ended December 31, 2016 reached $1,838.4 million, up 17.9% from last year's sales of $1,559.3 million. The acquisitions of Kisatchie and Lufkin Creosoting, both completed on June 3, 2016, generated combined sales of $43.5 million, while the acquisition of Ram, completed on October 1, 2015, contributed additional sales of $91.5 million over the first nine months of 2016. Finally, acquisitions in the southeastern United States completed in the second half of 2015 provided additional sales of $21.8 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $53.1 million when compared with the previous year. Excluding these factors, sales increased approximately $69.1 million, or 4.4%.



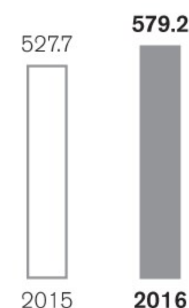
Railway ties

Railway tie sales for 2016 amounted to $716.2 million, up from sales of $709.7 million in 2015. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales decreased approximately $22.9 million, or 3.2%, as lower industry demand in the second half of the year offset strong first-half demand. Railway tie sales accounted for 39.0% of the Company's total sales in 2016.



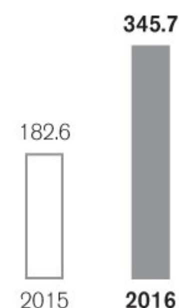
Utility poles

Utility pole sales reached $579.2 million in 2016, representing an increase of $51.5 million, or 9.8%, from sales of $527.7 million in 2015. Excluding the currency conversion effect and the contribution from the acquisitions of Kisatchie, Lufkin Creosoting, as well as acquisitions in the southeastern U.S. completed in the second half of 2015, sales declined approximately $24.8 million, or 4.7%. This variation reflects a decline in sales of distribution poles due to reduced maintenance demand in certain regions, while sales of transmission poles held relatively steady. Utility pole sales accounted for 31.5% of the Company's total sales in 2016.



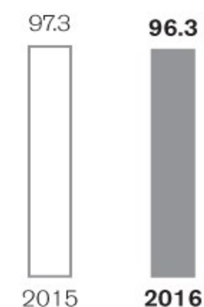
Residential lumber

Sales in the residential lumber category totalled $345.7 million in 2016, up from $182.6 million in 2015. This $163.2 million, or 89.4%, increase mostly reflects additional sales of $91.5 million from the Ram acquisition in the first nine months of 2016. Excluding this factor and the currency conversion effect, sales increased $68.5 million, or 37.6%, reflecting the transition from treating services only for wholesalers to a value-added full service direct offering to retailers. Residential lumber accounted for 18.8% of Stella-Jones' sales in 2016.



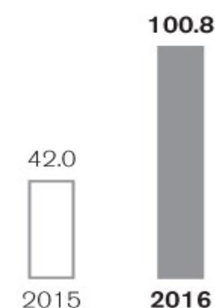
Industrial products

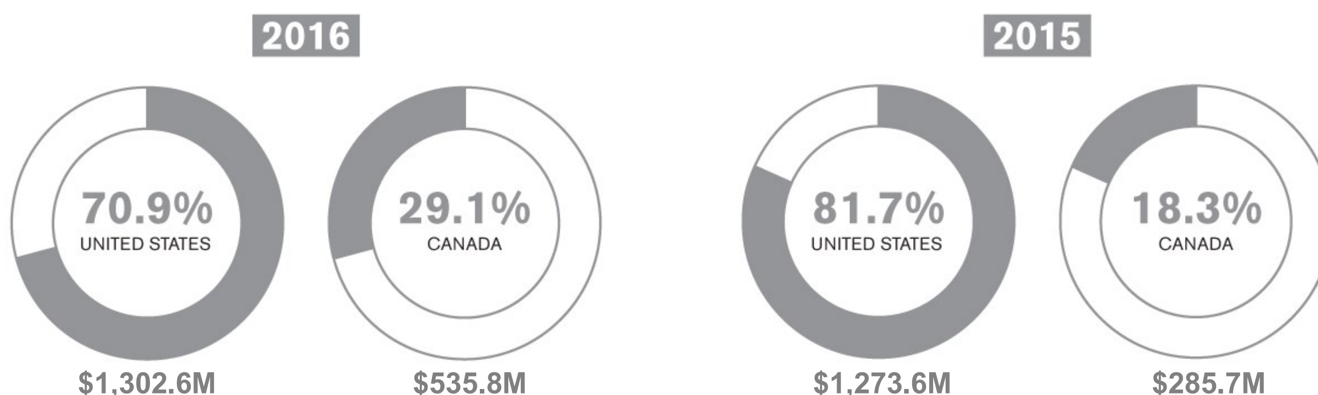
Industrial product sales were $96.3 million in 2016, compared with $97.3 million in 2015. This decrease is mainly attributable to the timing of orders for rail-related products in the United States, partially offset by the currency conversion effect. Industrial products represented 5.2% of sales in 2016.



Logs and lumber

Logs and lumber sales amounted to $100.8 million in 2016, up from $42.0 million in 2015. This increase 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 represented 5.5% of sales in 2016.





Sales in the United States amounted to $1,302.6 million, or 70.9% of sales in 2016, representing an increase of $29.0 million, or 2.3%, over 2015. The year-over-year rise mainly stems from a higher conversion rate on U.S. dollar denominated sales and the contribution from the acquisitions of Kisatchie and Lufkin Creosoting. Excluding these factors, sales decreased as a result of lower railway tie sales in the second half of the year and lower sales of distribution poles due to reduced maintenance demand in certain regions.

Sales in Canada increased by $250.1 million, or 87.5% in 2016 to reach $535.8 million, representing 29.1% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales due to the Ram acquisition and the transition from treating services only for wholesalers to a value-added full service direct offering to retailers.

Cost of sales
Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,504.6 million, or 81.8% of sales, in 2016. This compares with $1,252.0 million, or 80.3% of sales, in 2015. The increase in absolute dollars essentially reflects higher business activity for the year, business acquisitions and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the increase is mainly attributable to a higher proportion of low-margin logs and lumber sales, a less favourable product mix this year compared to 2015 and softness in selling prices for certain regions. These factors were partially offset by economies of scale generated by higher volumes in the residential lumber category.

Depreciation and amortization charges totalled $31.6 million for the year ended December 31, 2016, versus $23.3 million a year earlier. The year-over-year increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of the 2016 acquisitions, of Ram for the full year, and to a higher average rate applied to convert U.S. dollar denominated depreciation and amortization.

As a result, gross profit reached $333.7 million or 18.2% of sales in 2016, versus $307.3 million or 19.7% of sales in 2015.

Selling and administrative
Selling and administrative expenses for 2016 were $95.0 million, or 5.2% of sales, compared with expenses of $85.6 million, or 5.5% of sales, in 2015. The variation in monetary terms is mainly attributable to additional selling expenses of approximately $6.0 million related to the Company's expanded presence in the residential lumber category, an increase of $2.9 million in profit sharing expenses and incremental salaries and severance expenses of approximately $2.3 million. These elements were partially offset by a reduction in the restricted stock unit expense. This year's expenses also included approximately $2.9 million in acquisition costs directly related to the 2016 business acquisitions, while last year's expenses included approximately $1.5 million in acquisition costs.

Other losses net
Stella-Jones' other net losses of $5.5 million for the year ended December 31, 2016 mainly consisted of $5.2 million in final provisions for site remediation related to a non-operating site. In 2015, other net losses of $1.7 million were mostly related to a $1.8 million remediation provision adjustment.

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 reached $17.9 million in 2016, up from $17.1 million in 2015. This increase is attributable to higher year-over-year borrowings in 2016 as a result of acquisitions, 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 expenses
Stella-Jones generated income before income taxes of $215.4 million, or 11.7% of sales, in 2016. This represents an increase of 6.1% over the prior year of $203.0 million, or 13.0% of sales. The year-over-year increase in income before income taxes is attributable to higher gross profit, partially offset by higher selling and administrative expenses, whereas the decrease as a percentage of sales essentially reflects a lower gross profit as a percentage of sales.

Stella-Jones' provision for income taxes totalled $61.5 million in 2016, representing an effective tax rate of 28.5%. In 2015, income tax expenses stood at $61.6 million, equivalent to an effective tax rate of 30.3%. The lower effective tax rate for 2016 is mainly attributable to a more favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income
Net income for the year ended December 31, 2016 reached $153.9 million, or $2.22 per diluted share, compared with $141.4 million, or $2.04 per diluted share, in 2015. This represents a year-over-year increase in net income of 8.9%.

BUSINESS ACQUISITIONS

KMS and NPTW
On December 21, 2016, the Company completed the acquisition of substantially all the operating assets employed in the businesses of KMS and NPTW. KMS and NPTW manufacture treated wood utility poles at their facilities located in Rivière-Rouge, Québec and Kirkland Lake, Ontario, respectively.

Total cash outlay associated with the acquisition was approximately $19.2 million, excluding acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

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 Company's consolidated financial statements. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date.

(tabular information presented in millions of dollars)	$
Assets acquired	
Inventories	4.6
Property, plant and equipment	10.3
Goodwill	5.2
Deferred income tax assets	0.2
	20.3
Liabilities assumed	
Accounts payable and accrued liabilities	0.1
Site remediation provision	0.9
Total net assets acquired and liabilities assumed	**19.3**
Consideration transferred	
Cash	19.2
Consideration payable	0.1
Consideration transferred	**19.3**

Goodwill is amortized and deductible for Canadian 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 KMS and NPTW acquisitions, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

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 Converse and Pineville, Louisiana.

Total cash outlay associated with the acquisition was approximately $46.2 million (US$35.7 million), excluding acquisition costs of approximately $873,000, recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the consolidated financial statements. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in millions of dollars)	$
Assets acquired	
Cash acquired	2.6
Accounts receivable	5.3
Inventories	12.9
Prepaids	0.2
Property, plant and equipment	21.2
Customer relationships	6.9
Goodwill	17.5
	66.6
Liabilities assumed	
Accounts payable and accrued liabilities	1.7
Long-term debt	8.8
Deferred income tax liabilities	0.1
Site remediation provision	1.1
Total net assets acquired and liabilities assumed	**54.9**
Consideration transferred	
Cash	46.2
Unsecured promissory note	7.8
Consideration payable	0.9
Consideration transferred	**54.9**

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.0%. 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 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 Pineville facility, having a balance of US$5.7 million. The unsecured promissory note bears interest at 1.4% and is payable in three instalments, including interest, of US$1.5 million in June 2019 and 2020 and US$4.5 million in June 2021. This unsecured promissory note was recorded at a fair value of $7.8 million (US$6.1 million), using an effective 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 effective 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.

Total cash outlay associated with the acquisition was approximately $46.5 million (US$35.9 million), excluding acquisition costs of approximately $978,000, recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the consolidated financial statements. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.
The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in millions of dollars)	$
Assets acquired	
Cash acquired	1.1
Accounts receivable	19.7
Inventories	5.3
Property, plant and equipment	16.2
Customer relationships	10.3
Goodwill	23.7
	76.3
Liabilities assumed	
Accounts payable and accrued liabilities	13.8
Deferred income tax liabilities	9.4
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 amortized at a declining rate of 20.0%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is not amortized and not deductible for 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 is payable in three instalments, including interest, of US$1.5 million in June 2019 and 2020 and US$4.5 million in June 2021. The unsecured promissory note was fair valued at $7.8 million (US$6.1 million), using an effective interest rate of 5.0%.

SUBSEQUENT EVENTS

On January 17, 2017, the Company concluded a US$150.0 million private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of a series A senior note of US$75.0 million bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US$75.0 million bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the committed revolving credit facility. The notes were designated as hedges of net investment in foreign operations.

On February 3, 2017, the Company obtained a one-year extension to February 26, 2022 of its committed revolving credit facility as provided in the fifth amended and restated credit agreement dated as of February 26, 2016 and amended on May 18, 2016. All the conditions of the credit agreement, other than the committed revolving credit facility maturity date, remain unchanged.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales levels.

In 2016, the Company achieved solid year-over-year revenue and net income growth in the first three quarters, whereas fourth-quarter results were mainly affected by lower railway tie sales. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2016

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(millions of dollars, except per share data)	$	$	$	$	$
Sales	421.0	563.1	512.6	341.7	1,838.4
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	61.7	89.9	76.3	36.9	264.8
Operating income [1]	54.6	83.2	67.3	28.2	233.2
Net income for the period	35.0	54.7	45.7	18.5	153.9
Earnings per common share					
Basic	0.51	0.79	0.66	0.27	2.22
Diluted	0.51	0.79	0.66	0.27	2.22

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

[1] Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

Note: due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.

Fourth Quarter Results

Sales for the fourth quarter of 2016 amounted to $341.7 million, versus $357.5 million for the same period in 2015. Acquisitions accounted for sales of approximately $19.5 million, while the conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $1.1 million when compared with last year. Excluding these factors, sales decreased approximately $36.4 million, or 10.2%.

Sales of railway ties reached $113.1 million, versus $147.5 million last year. This decrease reflects lower railway tie demand at the end of the year. Utility pole sales amounted to $144.6 million, up 11.7% from $129.5 million last year. Excluding acquisitions, sales decreased approximately $3.6 million as a result of slight decreases in sales of both distribution and transmission poles. Residential lumber sales reached $44.6 million, up from $40.1 million last year, reflecting solid market demand and higher direct sales to retailers. Industrial product sales amounted to $15.3 million, down from $23.6 million a year ago, as a result of lower sales of rail related products. Finally, logs and lumber sales were $24.1 million, versus $16.7 million last year, due to the timing of lumber purchase and resale activities and the timing of timber harvesting.

Gross profit amounted to $52.0 million, or 15.2% of sales, in the fourth quarter of 2016, versus $69.3 million, or 19.4% of sales, in the fourth quarter of 2015. The decrease in absolute dollars and as a percentage of sales mainly reflects lower business activity in railway tie sales and a less favourable

product mix. Reflecting factors that affected gross profit, operating income was $28.2 million, or 8.2% of sales, in the fourth quarter of 2016, versus $48.3 million, or 13.5% of sales, in the fourth quarter of 2015. Net income for the period reached $18.5 million, or $0.27 per diluted share, compared with $33.0 million, or $0.48 per diluted share, last 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 December 31, 2016, compared to December 31, 2015 (see Foreign Exchange on page 4), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2016, total assets and current assets reached $1.96 billion and $1.05 billion, respectively, up from $1.78 billion and $1.01 billion, respectively, as at December 31, 2015. These increases are mainly attributable to acquisitions, partially offset by the effect of local currency translation on U.S.-based assets.

The value of accounts receivable remained relatively stable at $160.8 million as at December 31, 2016, versus $159.9 million as at December 31, 2015, as the timing of non-trade related accounts receivable was partially offset by the impact of lower business activity in the fourth quarter of 2016 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $854.7 million as at December 31, 2016, up from $804.5 million as at December 31, 2015. This increase essentially reflects business acquisitions made during the year, partially offset by the effect of local currency translation on U.S.-based inventories.

Because of the long periods required to air season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. 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 certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flows from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $467.0 million as at December 31, 2016, compared with $375.5 million as at December 31, 2015. This increase is essentially related to business acquisitions ($47.7 million), to purchases of property, plant and equipment for the year ($63.2 million), partially offset by the effect of local currency translation on U.S.-based property, plant and equipment and a depreciation charge of $15.8 million.

The value of intangible assets reached $146.3 million as at December 31, 2016. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable land lease agreement. As at December 31, 2015, intangible assets were $140.9 million. The year-over-year increase is mainly explained by business acquisitions ($18.2 million) and purchases of intangible assets ($6.4 million), partially offset by the effect of local currency translation on U.S. dollar denominated intangible assets as well as an amortization charge of $15.8 million for 2016.

As at December 31, 2016, the value of goodwill stood at $285.6 million, up from $245.7 million a year earlier. This increase in goodwill reflects acquisitions ($45.5 million), partially offset by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities
As at December 31, 2016, Stella-Jones' total liabilities stood at $935.5 million, up from $865.4 million as at December 31, 2015. This variation mainly reflects the increase in total debt, as explained below, partially offset by the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $122.7 million as at December 31, 2016, down from $159.5 million a year earlier. This variation is essentially due to a $54.0 million decrease in the current portion of long-term debt, mainly due to the repayment at maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of US$25.0 million, as well as of an unsecured and non-convertible debenture of US$10.0 million. This factor was partially offset by an increase of $23.4 million in accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, stood at $694.4 million as at December 31, 2016, versus $669.9 million as at December 31, 2015. The increase essentially reflects higher borrowings to finance the acquisitions completed in 2016, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2016, an amount of $112.5 million was available against the Company's committed revolving credit facility of $772.1 million (US$575.0 million).

Shareholders' equity
Shareholders' equity was $1.03 billion as at December 31, 2016 compared with $913.5 million as at December 31, 2015. This increase is attributable to net income of $153.9 million for the year, partially offset by dividends on common shares totalling $27.7 million and a $15.7 million unfavourable variation in the value of accumulated other comprehensive income resulting from the effect of currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Years ended**	
(millions of dollars)	**December 31, 2016**	**December 31, 2015**
Operating activities	$181.8	$6.8
Financing activities	($9.5)	$98.3
Investing activities	($175.6)	($99.6)
Net change in cash and cash equivalents	($3.3)	$5.5
Cash and cash equivalents - beginning	$7.0	$1.5
Cash and cash equivalents - end	$3.7	$7.0

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 plans on spending between $30.0 million to $35.0 million on property, plant and equipment in the upcoming year, of which half is related to efficiency improvements and the balance dedicated to sustaining operations. The Company's committed revolving credit facility is made available for a five-year term and is thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $268.9 million for the year ended December 31, 2016, up 5.7% from $254.3 million in 2015. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $30.1 million in 2016. The main element of this variation was an increase of $39.9 million in inventories related to year-end inventory build-up in preparation for 2017. In 2015, changes in non-cash working capital components had reduced liquidity by $168.2 million, mainly due to a $153.4 million increase in inventories.

Interest and income taxes paid further reduced liquidity by $18.6 million and $38.3 million, respectively, in 2016, versus $16.7 million and $62.6 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings, while the decrease in income taxes paid reflects a lower balance of taxes receivable as at December 31, 2016.

As a result, cash flows provided by operating activities were $181.8 million in 2016, versus $6.8 million in 2015.

Financing activities for the year ended December 31, 2016 reduced liquidity by $9.5 million. The main factor explaining this cash reduction was the payment of dividends on common shares totalling $27.7 million, partially offset by a net increase in long-term debt of $11.6 million. For the year ended December 31, 2015, financing activities had provided liquidity of $98.3 million, mainly due to a $117.4 million net increase in long-term debt, partially offset by the payment of dividends on common shares totalling $22.1 million.

Investing activities required $175.6 million in cash during 2016. Business acquisitions resulted in a cash outlay of $107.3 million, while purchases of property, plant and equipment required an investment of $63.2 million, including $30.5 million for the construction of a new pole peeling and pole treating facility in Cameron, Wisconsin. In 2015, cash flows from investing activities had decreased liquidity by $99.6 million due to business acquisitions ($62.6 million) and purchases of property, plant and equipment ($37.4 million).

FINANCIAL OBLIGATIONS

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

(in millions of dollars)	**Carrying Amount ($)**	**Contractual Cash flow ($)**	**Less than 1 year ($)**	**1 – 3 years ($)**	**4 – 5 years ($)**	**More than 5 years ($)**
Accounts payable and accrued liabilities	101.1	101.1	101.1	-	-	-
Long-term debt obligations	694.4	773.9	25.2	53.3	689.6	5.8
Interest rate swap agreements	0.4	0.1	0.7	(0.2)	(0.4)	-
Minimum payments under operating lease obligations	-	85.5	24.1	32.4	14.1	14.9
Non-compete agreements	8.0	8.5	2.2	2.9	2.7	0.7
Total	803.9	969.1	153.3	88.4	706.0	21.4

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

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2016, the capital stock issued and outstanding consisted of 69,303,307 common shares (69,137,356 as at December 31, 2015). The following table presents the outstanding capital stock activity for the year ended December 31, 2016:

Year Ended December 31, 2016	**Number of shares (in '000s)**
Balance – Beginning of year	69,137
Stock option plan	139
Employee share purchase plans	27
Balance – End of year	69,303

As at March 16, 2017, the capital stock issued and outstanding consisted of 69,310,710 common shares.

As at December 31, 2016, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 55,000 (December 31, 2015 – 194,000) of which 31,000 (December 31, 2015 – 158,000) were exercisable. As at March 16, 2017, the number of outstanding options was 55,000, of which 31,000 were exercisable.

DIVIDENDS

In 2016, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.10 per common share payable on April 29, 2016 to shareholders of record at the close of business on April 1, 2016.
- $0.10 per common share payable on June 28, 2016 to shareholders of record at the close of business on June 6, 2016.
- $0.10 per common share payable on September 23, 2016 to shareholders of record at the close of business on September 2, 2016.
- $0.10 per common share payable on December 21, 2016 to shareholders of record at the close of business on December 2, 2016.

Subsequent to the end of the year, on March 16, 2017, the Board declared a quarterly dividend of $0.11 per common share payable on April 28, 2017 to shareholders of record at the close of business on April 3, 2017.

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based upon and subject to the Company's covenants in its loan documentation as well as its financial performance and cash requirements. There can be no assurance as to the amount or timing of such dividends in the future.

COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $28.9 million (2015 – $38.0 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian Federal and Provincial as well as U.S. Federal and State environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

CURRENT ECONOMIC CONDITIONS

Operations

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

Based on current market conditions, sales for Stella-Jones' main product categories are expected to be weaker in the first half of 2017 when compared to 2016 with an expected year-over-year increase in the second half of the year. Operating margins will be negatively impacted by product mix and softer pricing in certain regions.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Given strong railway tie demand through the first half of 2016, the Company anticipates demand to be lower on a year-over-year basis for 2017. Moreover, softer pricing in the railway tie product category will reduce sales and negatively impact operating margins.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Following softer demand in 2016, the Company expects a gradual return to normal patterns in the second half of 2017. Operating margins for this product category are also expected to decrease as a result of the geographical sales mix.

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 December 31, 2016, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2016 an amount of $112.5 million was available against the Company's committed revolving credit facility of $772.1 million (US$575.0 million).

Accounts receivable remained relatively stable in 2016, as the timing of non-trade related accounts receivable was partially offset by the impact of lower business activity in the fourth quarter of 2016 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable are fully collectible as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories rose in 2016 as a result of business acquisitions made during the year, partially offset by the effect of local currency translation on U.S.-based inventories. To ensure efficient treating operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

Economic Conditions

The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2016, the Company's top ten customers accounted for approximately 48.9% of its sales. During this same period, the Company's two largest customers accounted for approximately 15.3% and 9.4%, respectively, of its total sales.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

While the Company has been party to environmental litigation in the past, which have included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

Risks Related to Acquisitions
As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk
The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage
The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk
The Company is exposed to currency risks due to its export of goods manufactured in Canada. The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves special risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuations
As at December 31, 2016, approximately 33.8% of the Company's long-term debt was at variable interest rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have a material adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk
The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railways, as well as with utility and telecommunication companies and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence *by Stella Jones International S.A.*
As at December 31, 2016, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.3% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not in all cases be aligned with interests of the other shareholders.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest rate risk management
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. As at December 31, 2016, the Company had several interest rate swap agreements hedging $378.5 million in debts and having maturity dates ranging from June 2017 to December 2021. These

instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2016, of fixed and floating debt was 66.25% and 33.75%, respectively, including the effects of interest rate swap positions (58.5% and 42.5%, respectively, as at December 31, 2015)

Foreign exchange risk management
The Company's financial results are reported in Canadian dollars, while a portion of its Canadian-based operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2016, the Company had a sixty-month foreign exchange forward contract agreement, selling US$500,000 per-month. These instruments are presented at fair value and did not qualify for hedge accounting.

Diesel and petroleum price risk management
Diesel and petroleum price risk is the risk that future cash flows will fluctuate because of changes in price of diesel and petroleum. In order to manage its exposure to diesel and petroleum prices and to help mitigate volatility in operating cash flow, the Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to reduce the risk of fluctuating prices on these commodities. As at December 31, 2016, the Company had commodity hedges for 5.3 million gallons of diesel and petroleum covering respectively, approximately 44.4% and 5.7% of the Company's 2017 and 2018 anticipated purchases of diesel and petroleum. These instruments are presented at fair value and were not designated for hedge accounting purposes.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2016 and 2015 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and CPA Canada Handbook Part I.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following revised standard along with any consequential amendments, effective January 1, 2016. This change was made in accordance with the applicable transitional provisions.

IAS 1 - Presentation of Financial Statements
In 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The adoption of this revised standard had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

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

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

IFRS 15 - Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 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 October 1, 2016 to December 31, 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.

Based on current market conditions, sales for Stella-Jones' main product categories are expected to be weaker in the first half of 2017 when compared to 2016 with an expected year-over-year increase in the second half of the year. Operating margins will be negatively impacted by product mix and softer pricing in certain regions.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Given strong railway tie demand through the first half of 2016, the Company anticipates demand to be lower on a year-over-year basis for 2017. Moreover, softer pricing in the railway tie product category will reduce revenues and negatively impact operating margins.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Following softer demand in 2016, the Company expects a gradual return to normal patterns in the second half of 2017. Operating margins for this product category are also expected to decrease as a result of the geographical sales mix.

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 market opportunities in all product categories. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company is taking the necessary steps to adjust production levels, maximize operating efficiencies and minimize costs throughout the organization. Additionally, the Company will continue to focus on the integration of its recent acquisitions and on ramping up production of its new facility in Cameron, Wisconsin. 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, as Management believes that the fundamentals of each product category will remain strong. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

March 16, 2017