Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS 2016 FOURTH QUARTER AND ANNUAL RESULTS

Sixteenth consecutive year of sales and net income growth

- **Sales of $1.84 billion in 2016, up 17.9% from $1.56 billion in 2015**
- **2016 operating income of $233.2 million, a 6.0% increase from the previous year**
- **8.9% increase in net income in 2016 to $153.9 million, versus $141.4 million in 2015**
- **2016 diluted EPS of $2.22, up from $2.04 last year**

Montreal, Quebec – March 17, 2017 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its fourth quarter and fiscal year ended December 31, 2016.

"2016 marked the sixteenth consecutive year of sales and net income growth for Stella-Jones. These results reflect the efficiency of our operations and the benefits of our expansion strategy. Most significantly, they point to the Company's deeply rooted role as a principal North American provider of treated wood products in our main product categories," said Brian McManus, President and Chief Executive Officer.

Financial highlights	**Quarters ended Dec. 31,**		**Years ended Dec. 31,**	
(in millions of Canadian dollars, except per share data)	**2016**	**2015**	**2016**	**2015**
Sales	**341.7**	357.5	**1,838.4**	1,559.3
Operating income	**28.2**	48.3	**233.2**	220.1
Net income for the period	**18.5**	33.0	**153.9**	141.4
Per share - basic ($)	**0.27**	0.48	**2.22**	2.05
Per share - diluted ($)	**0.27**	0.48	**2.22**	2.04
Weighted average shares outstanding (basic, in '000s)	**69,285**	69,101	**69,215**	69,018

2016 RESULTS

Sales reached $1.84 billion, up 17.9% from last year's sales of $1.56 billion. Acquisitions contributed additional sales of $156.8 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of about $53.1 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately $69.1 million, or 4.4%.

Railway tie sales for 2016 amounted to $716.2 million, up from sales of $709.7 million in 2015. Excluding the conversion effect, 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.

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 acquisitions, 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.

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.

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. 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.

Operating income stood at $233.2 million, or 12.7% of sales, compared with $220.1 million, or 14.1% of sales, in 2015. The increase in absolute dollars essentially reflects higher business activity for the year and the contribution from acquisitions. As a percentage of sales, the decrease 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.

Net income for 2016 increased 8.9% to $153.9 million, or $2.22 per diluted share, up from $141.4 million, or $2.04 per diluted share, in 2015.

FOURTH QUARTER RESULTS

Sales amounted to $341.7 million, versus $357.5 million a year ago. 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, had a positive impact of $1.1 million on the value of U.S. dollar denominated sales when compared with last year’s fourth quarter. Excluding these factors, sales decreased approximately $36.4 million, or 10.2%.

Railway tie sales totalled $113.1 million, down from $147.5 million last year, primarily as a result of lower industry demand at the end of the year. Sales of utility poles reached $144.6 million, compared with $129.5 million last year. Excluding acquisitions, sales declined approximately $3.6 million as a result of slight decreases in sales of both distribution and transmission poles. Sales of residential lumber amounted to $44.6 million, up from $40.1 million last year, reflecting solid market demand and higher direct sales to retailers. Industrial product sales were $15.3 million, down from $23.6 million a year ago, as a result of lower sales of rail related products. Logs and lumber sales stood at $24.1 million, versus $16.7 million last year, due to the timing of lumber purchase and resale activities as well as the timing of timber harvesting.

Operating income amounted to $28.2 million, or 8.2% of sales, in the fourth quarter of 2016, versus $48.3 million, or 13.5% of sales, last year. The decrease in absolute dollars and as a percentage of sales mainly reflects lower business activity in railway ties sales and a less favourable product mix. Net income for the fourth quarter of 2016 was $18.5 million, or $0.27 per diluted share, compared with $33.0 million, or $0.48 per diluted share, in the fourth quarter of 2015.

ACQUISITION OF 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 committed revolving credit facility.

SOLID CASH FLOW AND FINANCIAL POSITION

In 2016, Stella-Jones generated a cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid of $268.9 million, up 5.7% from $254.3 million in 2015. This increase mostly reflects a higher net income for the year.

As at December 31, 2016, the Company's long-term debt, including the current portion, stood at $694.4 million compared with $669.9 million at the end of 2015. The variation 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, Stella-Jones' total debt to total capitalization ratio was 0.40:1, compared with 0.42:1 twelve months earlier.

QUARTERLY DIVIDEND OF $0.11 PER SHARE

On March 16, 2017, the Board of Directors 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.

OUTLOOK

"Based on current market conditions in our main product categories, we expect sales 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 category, given strong demand in the first half of 2016, we anticipate lower year-over-year demand for 2017, while softer pricing will also reduce revenues. In the utility pole category, demand for regular maintenance projects should gradually return to normal patterns in the second half of 2017, but operating margins are also expected to decrease as a result of the geographical sales mix. As for the residential lumber category, we remain confident to further benefit from solid demand for new construction and outdoor renovation projects in the residential and commercial markets. Our immediate focus will be on the integration of our recent acquisitions as well as taking the necessary steps to adjust production levels, maximize operating efficiencies and minimize costs throughout the organization," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on March 17, 2017, 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 by calling 1-800-585-8367 and entering the passcode 65841292. This recording will be available on Friday, March 17, 2017 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, March 24, 2017.

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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HEAD OFFICE	EXCHANGE LISTINGS	INVESTOR RELATIONS
3100 de la Côte-Vertu Blvd. Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	The Toronto Stock Exchange Stock Symbol: SJ **TRANSFER AGENT AND REGISTRAR** Computershare Investor Services Inc.	Éric Vachon Senior Vice-President and Chief Financial Officer Tel.: (514) 940-3903 Fax: (514) 934-5327 evachon@stella-jones.com

NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the fourth quarter ended December 31, 2016 have not been reviewed by the Company’s external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
March 16, 2017

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2016 and 2015

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

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2016 $	As at December 31, 2015 $
Assets			
Current assets			
Cash		2,267	2,681
Restricted cash	3	1,452	4,292
Accounts receivable		160,755	159,862
Derivative financial instruments	6	1,739	-
Inventories		854,652	804,478
Prepaid expenses		23,934	27,543
Income taxes receivable		5,720	14,987
		1,050,519	1,013,843
Non-current assets			
Property, plant and equipment		467,035	375,534
Intangible assets		146,264	140,936
Goodwill		285,592	245,696
Derivative financial instruments	6	5,056	832
Other assets		7,492	2,058
		1,961,958	1,778,899
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		101,142	77,766
Current portion of long-term debt	4	6,919	60,874
Current portion of provisions and other long-term liabilities		14,590	20,840
		122,651	159,480
Non-current liabilities			
Long-term debt	4	687,466	609,007
Deferred income taxes		101,827	78,564
Provisions and other long-term liabilities		16,480	10,655
Employee future benefits		6,753	7,153
Derivative financial instruments	6	363	538
		935,540	865,397
Shareholders' equity			
Capital stock	5	219,119	216,474
Contributed surplus		258	503
Retained earnings		672,620	546,402
Accumulated other comprehensive income		134,421	150,123
		1,026,418	913,502
		1,961,958	1,778,899
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 twelve-month periods ended December 31, 2016 and 2015

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains 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	-	-	153,898	-	-	-	-	153,898
Other comprehensive income (loss)	-	-	9	(23,968)	4,652	3,614	(15,702)	(15,693)
Comprehensive income (loss) for the period	-	-	153,907	(23,968)	4,652	3,614	(15,702)	138,205
Dividends on common shares	-	-	(27,689)	-	-	-	-	(27,689)
Exercise of stock options	1,479	(401)	-	-	-	-	-	1,078
Employee share purchase plans	1,166	-	-	-	-	-	-	1,166
Stock-based compensation	-	156	-	-	-	-	-	156
	2,645	(245)	(27,689)	-	-	-	-	(25,289)
Balance - December 31, 2016	219,119	258	672,620	223,124	(92,532)	3,829	134,421	1,026,418

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 twelve-month periods ended December 31, 2016 and 2015

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	**Contributed surplus**	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized 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	-	-	141,377	-	-	-	-	141,377
Other comprehensive income (loss)	-	-	(720)	157,410	(56,577)	(335)	100,498	99,778
Comprehensive income (loss) for the period	-	-	140,657	157,410	(56,577)	(335)	100,498	241,155
Dividends on common shares	-	-	(22,089)	-	-	-	-	(22,089)
Exercise of stock options	1,629	(506)	-	-	-	-	-	1,123
Employee share purchase plans	987	-	-	-	-	-	-	987
Stock-based compensation	-	55	-	-	-	-	-	55
	2,616	(451)	(22,089)	-	-	-	-	(19,924)
Balance - December 31, 2015	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502

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 December 31, 2016 $	For the three-month periods ended December 31, 2015 $	For the twelve-month periods ended December 31, 2016 $	For the twelve-month periods ended December 31, 2015 $
Sales		341,730	357,487	1,838,353	1,559,334
Expenses					
Cost of sales		289,744	288,208	1,504,639	1,252,031
Selling and administrative		20,573	21,246	94,962	85,583
Other losses, net		3,242	(264)	5,509	1,668
		313,559	309,190	1,605,110	1,339,282
Operating income		28,171	48,297	233,243	220,052
Financial expenses		4,223	4,844	17,859	17,090
Income before income taxes		23,948	43,453	215,384	202,962
Provision for income taxes					
Current		4,387	8,196	47,526	51,359
Deferred		1,035	2,263	13,960	10,226
		5,422	10,459	61,486	61,585
Net income for the period		18,526	32,994	153,898	141,377
Basic earnings per common share	5	0.27	0.48	2.22	2.05
Diluted earnings per common	5	0.27	0.48	2.22	2.04

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 December 31,		For the twelve-month periods ended December 31,	
	2016	2015	2016	2015
	$	$	$	$
Net income for the period	18,526	32,994	153,898	141,377
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	28,439	37,861	(26,863)	164,401
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	(1,089)	(2,228)	2,895	(6,991)
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(12,368)	(14,067)	7,291	(65,849)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	1,083	2,307	(2,639)	9,272
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	8,868	1,670	4,897	(422)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(2,332)	(441)	(1,283)	87
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	3,394	(1,544)	40	(1,014)
Income taxes on remeasurements of post-retirement benefit obligations	(1,076)	686	(31)	294
	24,919	24,244	(15,693)	99,778
Comprehensive income	43,445	57,238	138,205	241,155

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 twelve-month periods ended December 31, 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		153,898	141,377
Adjustments for			
Depreciation of property, plant and equipment		15,784	12,402
Amortization of intangible assets		15,803	10,932
Loss on disposal of assets		313	473
Employee future benefits		(228)	490
Stock-based compensation		156	55
Gain on derivative financial instruments		(1,242)	-
Financial expenses		17,859	17,090
Current income taxes expense		47,526	51,359
Deferred income taxes		13,960	10,226
Restricted stock units expense		5,538	8,914
Other		(498)	1,012
		268,869	254,330
Changes in non-cash working capital components and others			
Accounts receivable		21,017	(1,551)
Inventories		(39,858)	(153,388)
Prepaid expenses		3,117	(3,095)
Income taxes receivable		(499)	(119)
Accounts payable and accrued liabilities		5,785	(7,453)
Asset retirement obligations		2,038	435
Provisions and other long-term liabilities		(21,676)	(3,027)
		(30,076)	(168,198)
Interest paid		(18,648)	(16,742)
Income taxes paid		(38,317)	(62,639)
		181,828	6,751
Financing activities			
Increase in deferred financing costs		(1,051)	(204)
Net change in committed revolving credit facility		70,738	130,026
Repayment of long-term debt		(59,176)	(12,628)
Non-competes payable		5,452	1,084
Dividend on common shares		(27,689)	(22,089)
Proceeds from issuance of common shares		2,244	2,110
		(9,482)	98,299
Investing activities			
Decrease (increase) in other assets		952	(154)
Business acquisitions	3	(107,305)	(62,644)
Increase in intangible assets		(6,381)	(2,008)
Purchase of property, plant and equipment		(63,212)	(37,363)
Proceeds from disposal of assets		346	2,564
		(175,600)	(99,605)
Net change in cash and cash equivalents during the period		(3,254)	5,445
Cash and cash equivalents – Beginning of period		6,973	1,528
Cash and cash equivalents – End of period		3,719	6,973

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 March 16, 2017.

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, L.L.C., Kisatchie Pole & Piling, L.L.C., 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, L.L.C., Kisatchie Pole & Piling, L.L.C. and Kisatchie Trucking LLC, merged into McFarland, the surviving entity.

3 Business acquisitions

a) 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, and were acquired for synergistic reasons.

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

Total cash outlay associated with the acquisition was approximately $19,249, excluding acquisition costs of approximately $1,048, recognized in the interim 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 these interim 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.

Assets acquired	**$**
Inventories	4,584
Property, plant and equipment	10,308
Goodwill	5,160
Deferred income tax assets	274
	20,326
Liabilities assumed	
Accounts payable and accrued liabilities	79
Site remediation provision	937
Total net assets acquired and liabilities assumed	19,310
Consideration transferred	
Cash	19,249
Consideration payable	61
Consideration transferred	19,310

Goodwill is amortized and is 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. Goodwill is allocated to a cash-generating unit ("CGU") defined as plants specialized in the treatment of utility poles and residential lumber.

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

In the period from December 21 to December 31, 2016, no sales were recorded in the interim consolidated financial statements. Pro forma information for the period ended December 31, 2016, had the KMS and NPTW acquisitions occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the twelve-month period.

b) 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 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 \$873, 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 twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

(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	2,628
Accounts receivable	5,312
Inventories	12,930
Prepaids	150
Property, plant and equipment	21,217
Customer relationships	6,860
Goodwill	17,523
	66,620
Liabilities assumed	
Accounts payable and accrued liabilities	1,680
Long-term debt	8,775
Deferred income tax liabilities	63
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

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.00%. 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. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

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

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 Pineville facility having a balance of US$5,685. The unsecured promissory note bears interest at 1.41% and is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020 and US$4,500 in June 2021. This unsecured promissory note was recorded at a fair value of $7,838 (US$6,056), using an effective interest rate of 5.00%. The secured promissory note bears interest of 5.76%, 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 effective interest rate of 4.00%.

In the period from June 3 to December 31, 2016, sales and net income for the Converse and Pineville plants amounted to $25,324 and $431, respectively. Pro forma information for the period ended December 31, 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.

c) 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 $978, 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 twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

(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	19,734
Inventories	5,261
Property, plant and equipment	16,244
Customer relationships	10,290
Goodwill	23,701
	76,304
Liabilities assumed	
Accounts payable and accrued liabilities	13,777
Deferred income tax liabilities	9,421
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 amortized at a declining rate of 20.00%. 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. Goodwill is allocated to a CGU defined as 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 three instalments, including interest, of US$1,500 in June 2019 and 2020 and US$4,500 in June 2021. The unsecured promissory note was fair valued at $7,838 (US$6,056) using an effective interest rate of 5.00%.

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

In the period from June 3 to December 31, 2016, sales and net loss for the Lufkin plant amounted to $18,154 and $176, respectively. Pro forma information for the period ended December 31, 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 exercised a portion of the US$200,000 accordion option resulting in an increase of its committed revolving credit facility of US$75,000. 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 effective interest rate of 5.00%. The notes are payable in in three instalments, including interest, of US$1,500 in June 2019 and 2020 and US$4,500 in June 2021.

As part of the Kisatchie acquisition, the Company assumed a promissory note secured by the land of the Pineville facility, having a balance of US$5,685 and bearing interest of 5.76%. This promissory note was recorded at a fair value of $8,775 (US$6,780) using an effective interest rate of 4.00% and is payable in quarterly installments of US$162 up to July 2028.

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

5 Capital stock

The following table provides the number of common share outstanding for the twelve-month periods ending December 31:

	2016	**2015**
Number of common shares outstanding – Beginning of period*	69,137	68,949
Stock option plan*	139	165
Employee share purchase plans*	27	23
Number of common shares outstanding – End of period*	69,303	69,137

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:

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

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

b) Earnings per share

The following table provides the reconciliation, as at December 31, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2016	**2015**	**2016**	**2015**
Net income applicable to common shares	$18,526	$32,994	$153,898	$141,377
Weighted average number of common shares outstanding*	69,285	69,101	69,215	69,018
Effect of dilutive stock options*	15	138	16	135
Weighted average number of diluted common shares outstanding*	69,300	69,239	69,231	69,153
Basic earnings per common share **	$0.27	$0.48	$2.22	$2.05
Diluted earnings per common share **	$0.27	$0.48	$2.22	$2.04

* 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 December 31, 2016	As at December 31, 2015
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	$	$
Recurring fair value measurements		
Current assets		
Interest rate swap agreements	311	-
Derivative commodity contracts	1,428	-
	1,739	-
Non-current assets		
Interest rate swap agreements	4,989	832
Derivative commodity contracts	67	-
	5,056	832
Non-current liabilities		
Interest rate swap agreements	109	538
Foreign exchange forward contracts	254	-
	363	538

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

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.

On September 28, 2016, the Company entered into an interest rate swap agreement on a US$100,000 debt, 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.

During the fourth quarter of 2016 the Company entered into derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to help manage its cash flows with regards to these commodities. These hedges fix the cost on 5.3 million gallons of diesel and petroleum products. The Company does not designate these derivatives as cash flow hedges of anticipated purchases of diesel and petroleum. Gains or losses from these derivative financial instruments are recorded in the interim consolidated statements of income under other losses, net.

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.

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

8 Segment information

The Company operates within two business segments which are the production and sale of pressure-treated wood and the procurement and sales of logs and lumber.

The pressure-treated wood segment includes railway ties, utility poles, residential lumber and industrial products.

The logs and lumber segment is comprised of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

9 Subsequent events

a) On January 17, 2017, the Company concluded a US$150,000 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$75,000 bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US$75,000 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.

b) 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.

c) On March 16, 2017, the Board of Directors 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.

10 Comparative figures

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