Stella-Jones Inc.

Consolidated Financial Statements

December 31, 2016 and 2015

(expressed in thousands of Canadian dollar)

Consolidated Financial Statements

December 31, 2016 and 2015

Management's Statement of Responsibility for Financial Information

The consolidated financial statements are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for the Management's Discussion and Analysis (MD&A) and for ensuring that information contained in the MD&A is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been examined by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of five independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements and the MD&A have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

Brian McManus	Éric Vachon, CPA, CA
President and Chief Executive Officer	Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 16, 2017

March 16, 2017

Independent Auditor's Report

To the Shareholders of
Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

---

[1] FCPA auditor, FCA, public accountancy permit No. A116853

Stella-Jones Inc.
Consolidated Statements of Financial Position
As at December 31, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Note	2016 $	2015 $
Assets			
Current assets			
Cash		2,267	2,681
Restricted cash	4	1,452	4,292
Accounts receivable	5	160,755	159,862
Derivative financial instruments	17	1,739	-
Inventories	6	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	7	467,035	375,534
Intangible assets	8	146,264	140,936
Goodwill	8	285,592	245,696
Derivative financial instruments	17	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	9	101,142	77,766
Current portion of long-term debt	10	6,919	60,874
Current portion of provisions and other long-term liabilities	11	14,590	20,840
		122,651	159,480
Non-current liabilities			
Long-term debt	10	687,466	609,007
Deferred income taxes	14	101,827	78,564
Provisions and other long-term liabilities	11	16,480	10,655
Employee future benefits	15	6,753	7,153
Derivative financial instruments	17	363	538
		935,540	865,397
Shareholders' equity			
Capital stock	12	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
Commitments and contingencies	16		
Subsequent events	21		

Approved by the Board of Directors,

Tom A. Bruce Jones, CBE
Director

George J. Bunze, CPA, CMA
Director

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity

For the years 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 $	Unrecognized 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 year	-	-	153,898	-	-	-	-	153,898
Other comprehensive income (loss)	-	-	9	(23,968)	4,652	3,614	(15,702)	(15,693)
Comprehensive income (loss) for the year	-	-	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 (note 12)	-	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 consolidated financial statements.

Stella-Jones Inc.
Consolidated Statements of Change in Shareholders' Equity…continued
For the years ended December 31, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Capital stock $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive income: Foreign currency translation adjustment $	Translation of long-term debts designated as net investment hedges $	Unrecognized 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 year	-	-	141,377	-	-	-	-	141,377
Other comprehensive income (loss)	-	-	(720)	157,410	(56,577)	(335)	100,498	99,778
Comprehensive income (loss) for the year	-	-	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 (note 12)	-	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 consolidated financial statements.

Stella-Jones Inc.
Consolidated Statements of Income
For the years ended December 31, 2016 and 2015

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

	Note	2016 $	2015 $
Sales		1,838,353	1,559,334
Expenses			
Cost of sales		1,504,639	1,252,031
Selling and administrative		94,962	85,583
Other losses, net		5,509	1,668
	13	1,605,110	1,339,282
Operating income		233,243	220,052
Financial expenses	13	17,859	17,090
Income before income taxes		215,384	202,962
Provision for income taxes			
Current	14	47,526	51,359
Deferred	14	13,960	10,226
		61,486	61,585
Net income for the year		153,898	141,377
Basic earnings per common share	12	2.22	2.05
Diluted earnings per common share	12	2.22	2.04

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

Stella-Jones Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

(expressed in thousands of Canadian dollars)

	2016 $	2015 $
Net income for the year	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	(26,863)	164,401
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	2,895	(6,991)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	7,291	(65,849)
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(2,639)	9,272
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	4,897	(422)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(1,283)	87
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	40	(1,014)
Income taxes on remeasurements of post-retirement benefit obligations	(31)	294
	(15,693)	99,778
Comprehensive income for the year	138,205	241,155

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

Stella-Jones Inc.

Consolidated Statements of Cash Flows

For the years 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 year		153,898	141,377
Adjustments for			
Depreciation of property, plant and equipment	7	15,784	12,402
Amortization of intangible assets	8	15,803	10,932
Loss on disposal of assets		313	473
Employee future benefits		(228)	490
Stock-based compensation	12	156	55
Gain on derivative financial instruments		(1,242)	-
Financial expenses		17,859	17,090
Current income taxes expense	14	47,526	51,359
Deferred income taxes	14	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	4	(107,305)	(62,644)
Increase in intangible assets		(6,381)	(2,008)
Purchase of property, plant and equipment		(63,212)	(37,363)
Proceeds on disposal of assets		346	2,564
		(175,600)	(99,605)
Net change in cash and cash equivalents during the year		(3,254)	5,445
Cash and cash equivalents – Beginning of year		6,973	1,528
Cash and cash equivalents – End of year		3,719	6,973

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

These consolidated financial statements were approved by the Board of Directors on March 16, 2017.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, except for the newly adopted standards.

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

Principles of consolidation

Subsidiaries

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

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation ("SJ Holding")	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 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, L.L.C. It 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.

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenue and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses, net, except for qualifying cash flow hedges which are recognized in other comprehensive income and deferred in accumulated other comprehensive income in shareholders' equity.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of available-for-sale (equity) investments and foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment, which are recognized in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated in the functional currency at historical exchange rates.

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

c) Foreign operations

The financial statements of entities that have a functional currency different from that of the Company are translated using the rate in effect at the statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income in shareholders' equity.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the translation of a financial liability designated as a hedge of net investment in foreign operations are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income. When the hedged portion of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition

Revenue from the sale of products is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, the entity does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the sale, can be measured reliably. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company also offers to treat wood products owned by third parties. Revenue from these treating services are recognized when the service is rendered.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with initial maturities of three months or less.

Restricted cash

Restricted cash consists of an amount deposited in an escrow account and intended for capital improvements.

Accounts receivable

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

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

Inventories

Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling price less cost necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Rolling stock	3 to 20 years
Office equipment	2 to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis.

	Method	**Useful life**
Customer relationships	Straight-line	3 to 12 years
Customer relationships	Declining balance	6% to 20%
Non-compete agreements	Straight-line	2 to 5 years
Creosote registration	-	Indefinite

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

Standing timber costs are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. In Canada, the Company has perpetual cutting rights where planning and site preparation costs for specific geographical areas are capitalized until the harvest process can begin. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the specific area.

Cutting rights are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a forty-year period, and are applied against the historical cost.

The amortization expense is included in cost of sales in the consolidated statements of income.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill

In the context of an acquisition, goodwill represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

Impairment

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration, except goodwill.

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

Non-financial assets

The carrying values of non-financial assets with finite useful lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases

The Company leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sales transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost of disposal if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use.

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

Provisions

Provisions for site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next twelve months.

Site remediation obligations

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with the accretion expense on existing obligations, in other losses, net in the consolidated statement of income.

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Income taxes

The tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly to shareholders' equity.

Current tax

The current income tax charge is based on the results for the period as adjusted for items that are not taxable or not deductible. Tax adjustments from prior years are also recorded in current tax. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. During the year, the tax provision calculation is based on an estimate of the annual tax rate.

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

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Employee future benefits

Other post-retirement benefit programs

The Company provides other post-retirement healthcare benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions.

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

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred.

Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Stock-based compensation and other stock-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Company or cash payments.

Equity-settled plan

The Company accounts for stock options granted to employees using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and is charged to operations over the vesting period of the options granted, with a corresponding credit to contributed surplus. For grants of share-based awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related stock-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has restricted stock units ("RSUs") and measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expenses are recognized in the consolidated statements of income over the vesting periods. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statements of income.

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and financial liabilities at fair value through profit or loss: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Interest rate swap agreements, foreign exchange forward contracts and derivative commodity contracts are considered by the Company as derivative financial instruments and, if required, are designated as cash flow hedges (see (e) below).

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income as part of other gains and losses in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the consolidated statement of financial position date, which is classified as non-current.

b) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

   Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless they mature within twelve months, or Management expects to dispose of them within twelve months.

   Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income as part of other gains and losses when the Company’s right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income and are included in other gains and losses.

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

c) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if any.

d) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank indebtedness and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

e) Derivative financial instruments: The Company uses derivatives in the form of interest rate swap agreements to manage risks related to its variable rate debt, foreign exchange forward contracts to limit its exposure to the fluctuations of the U.S. dollar and derivative commodity contracts to limit its exposure to the fluctuation of diesel and petroleum prices. All derivatives classified as held-for-trading are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instrument, with gains and losses on remeasurement recorded in income. All derivatives qualifying for hedge accounting are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instruments, with gains and losses on remeasurement included in other comprehensive income.

Hedging transactions

As part of its hedging strategy, the Company considers foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars from its Canadian-based operations. The Company also considers interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These contracts are treated as cash flow hedges for accounting purposes and are not fair-valued through profit and loss.

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

Effective derivative financial instruments held for cash flow hedging purposes are recognized at fair value, and the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. The changes in fair value related to the ineffective portion of the hedge are immediately recorded in the consolidated statement of income. The changes in fair value of foreign exchange forward contracts and interest rate swap agreements recognized in other comprehensive income are reclassified in the consolidated statement of income under sales and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income.

When the derivative financial instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, hedge accounting, if applicable, is discontinued prospectively. Accumulated other comprehensive income related to a foreign exchange forward contract or interest swap hedges that cease to be effective is reclassified in the consolidated statement of income under foreign exchange gain or loss and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive income is then reclassified in the consolidated statement of income.

The Company designated a portion of its U.S. dollar-denominated long-term debt as a hedge of its net investment in foreign operations. For such debt designated as a hedge of the net investment in foreign operations, exchange gains and losses are recognized in accumulated other comprehensive income.

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

Change 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.

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

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

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.

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.

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

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.

3 Critical accounting estimates and judgments

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, determination of the fair value of the assets acquired and liabilities assumed and impairment of long-lived assets. Management also makes estimates and assumptions in the context of business combinations mainly with sales forecast, margin forecast, income tax rate and discount rate. 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.

4 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.

   Total cash outlay associated with the acquisition was approximately $19,249, excluding acquisition costs of approximately $1,048, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

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

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing these 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 CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from December 21 to December 31, 2016, no sales were recorded in the 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.

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

Total cash outlay associated with the acquisition was approximately $46,153 (US$35,659), excluding acquisition costs of approximately $873, 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 these 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.

	$
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

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

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.

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, respectively 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 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 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, respectively 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.

d) On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of United Wood Treating Company, Inc. ("United Wood") located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles, as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was $11,708 (US$8,761), excluding acquisition costs of approximately $158, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	1,018
Inventories	3,761
Property, plant and equipment	6,044
Customer relationships	1,069
Goodwill	2,034
	13,926
Liabilities assumed	
Deferred income tax liabilities	399
Site remediation provision	65
Total net assets acquired and liabilities assumed	13,462
Consideration transferred	
Cash	11,708
Unsecured promissory note	1,754
Consideration transferred	13,462

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

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 6.00%. 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.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of $1,939 (US$1,451) bears interest at 1.68%, is payable in three equal annual instalments and was fair valued at $1,754, using an effective interest rate of 7.00%.

e) On October 1, 2015, the Company completed the acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"). Through its wholly-owned subsidiaries, Ram Forest Products Inc. and Trent Timber Treating Ltd., Ram Forest Group manufactures and sells pressure treated wood products and accessories to the retail building materials industry. Ram Forest Products Inc. and Trent Timber Treating Ltd. operate wood treating facilities in Gormley and Peterborough, Ontario, respectively. Ramfor Lumber is a lumber purchasing entity serving Ram Forest Products and Trent Timber Treating.

Total cash outlay associated with the acquisition was $45,204 which includes an amount of $4,292 deposited in escrow to be used for capital expenditures at the Gormley and Peterborough facilities. The cash outlay excludes acquisition costs of approximately $991, recognized in 2015 in the consolidated statement of income under selling and administrative expenses. In addition, the Company recognized a balance of purchase price of $5,430.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination.

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

	$
Assets acquired	
Accounts receivable	7,765
Inventories	12,047
Other assets	1,514
Property, plant and equipment	17,690
Customer relationships	21,300
Goodwill	6,026
	66,342
Liabilities assumed	
Accounts payable and accrued liabilities	3,269
Bank indebtedness	9,839
Deferred income tax liabilities	6,892
Total net assets acquired and liabilities assumed	46,342
Consideration transferred	
Cash	40,912
Balance of purchase price	5,430
Consideration transferred	46,342

The Company's valuation of intangible assets has identified customer relationships having a twelve year useful life. 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 Canadian tax purposes, and represents the future economic value associated with the increased distribution 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.

As of the acquisition date, an amount of $4,292 was deposited in an escrow account intended for capital improvements. The Company has until April 1, 2017 to complete specific investment projects. Otherwise the remaining funds in the escrow account will be returned to the seller. Management believes that the investments will be completed before the deadline.

As of December 31, 2015, the Company had a consideration payable of $317 for a net working capital adjustment. On March 22, 2016 the consideration payable was settled.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and a balance of purchase price of $5,800. This deferred payment bears no interest and is payable on the anniversary of the transaction in the amounts of $2,900 in 2016, $500 in 2017, $800 in 2018, $800 in 2019 and $800 in 2020. The balance of purchase price was recorded under long-term debt at a fair value of $5,430 calculated using an interest rate of 2.91%.

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

f) On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of Treated Materials Co., Inc. (“Treated Materials”) located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was $5,393 (US$4,052), excluding acquisition costs of approximately $142, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	1,080
Inventories	1,651
Property, plant and equipment	5,253
Favourable land lease agreement	1,062
Goodwill	683
	9,729
Liabilities assumed	
Deferred income tax liabilities	459
Site remediation provision	602
Total net assets acquired and liabilities assumed	8,668
Consideration transferred	
Cash	5,393
Unsecured promissory note	3,275
Consideration transferred	8,668

The Company’s valuation of intangible assets has identified a favourable land lease agreement. 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 and an unsecured promissory note. The unsecured promissory note of $3,993 (US$3,000) bears no interest, is repayable in five equal instalments over a five-year period and was fair valued at $3,275, using an effective interest rate of 7.00%.

g) On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. (“McCormick”), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company’s wood procurement operations.

Total cash outlay associated with the acquisition was $4,685 (US$3,752), excluding acquisition costs of approximately $226, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	701
Inventories	1,486
Property, plant and equipment	726
Customer relationships	849
Goodwill	3,151
	6,913
Liabilities assumed	
Deferred income tax liabilities	81
Total net assets acquired and liabilities assumed	6,832
Consideration transferred	
Cash	4,685
Unsecured promissory note – twelve months	1,342
Unsecured promissory note – twenty-four months	805
Consideration transferred	6,832

The Company’s valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is three years. 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,

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

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 two unsecured promissory notes. The first unsecured promissory note of $1,429 (US$1,144), bearing interest at 0.48% and fair valued at $1,342, was repaid in a single instalment in April 2016. The second unsecured promissory note of $928 (US$743) bears interest at 0.48%, is payable in a single instalment in April 2017 and was fair valued at $805, using an effective interest rate of 7.00%.

5 Accounts receivable

	2016	2015
	$	$
Trade receivables	142,801	155,332
Less: Provision for doubtful accounts	(268)	(178)
Trade receivables – net	142,533	155,154
Other receivables	18,222	4,708
	160,755	159,862

As at December 31, 2016, trade receivables of $58,556 (2015 – $47,640) were past due but not impaired.

The aging of gross trade receivables at each reporting date was as follows:

	2016	2015
	$	$
Current	83,976	107,514
Past due 1-30 days	40,129	34,439
Past due 31-60 days	6,311	8,036
Past due more than 60 days	12,385	5,343
	142,801	155,332

6 Inventories

	2016	2015
	$	$
Raw materials	554,142	541,102
Finished goods	300,510	263,376
	854,652	804,478

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

7 Property, plant and equipment

	Land $	Buildings $	Production equipment $	Rolling stock $	Others $	Total $
As at January 1, 2015						
Cost	29,852	70,131	223,930	13,485	12,590	349,988
Accumulated depreciation	-	(10,483)	(45,401)	(6,774)	(5,723)	(68,381)
Net book amount	29,852	59,648	178,529	6,711	6,867	281,607
Year ended December 31, 2015						
Opening net book amount	29,852	59,648	178,529	6,711	6,867	281,607
Business acquisitions	7,372	6,268	13,698	2,282	93	29,713
Additions	1,428	1,571	29,144	1,092	2,076	35,311
Disposals	-	-	(145)	(333)	(444)	(922)
Depreciation	-	(2,233)	(6,927)	(2,313)	(929)	(12,402)
Depreciation included in inventory	-	(179)	(480)	(293)	(381)	(1,333)
Exchange differences	3,955	9,869	28,373	1,039	324	43,560
Closing net book amount	42,607	74,944	242,192	8,185	7,606	375,534
As at December 31, 2015						
Cost	42,607	88,980	298,481	18,167	14,461	462,696
Accumulated depreciation	-	(14,036)	(56,289)	(9,982)	(6,855)	(87,162)
Net book amount	42,607	74,944	242,192	8,185	7,606	375,534
Year ended December 31, 2016						
Opening net book amount	42,607	74,944	242,192	8,185	7,606	375,534
Business acquisitions	3,788	7,623	25,173	10,863	295	47,742
Additions	270	18,740	42,001	2,456	5,031	68,498
Disposals	-	-	(83)	(576)	-	(659)
Depreciation	-	(2,541)	(8,584)	(3,511)	(1,148)	(15,784)
Depreciation included in inventory	-	(193)	(544)	(455)	(523)	(1,715)
Exchange differences	(684)	(1,347)	(4,678)	138	(10)	(6,581)
Closing net book amount	45,981	97,226	295,477	17,100	11,251	467,035
As at December 31, 2016						
Cost	45,981	113,768	360,079	30,001	19,736	569,565
Accumulated depreciation	-	(16,542)	(64,602)	(12,901)	(8,485)	(102,530)
Net book amount	45,981	97,226	295,477	17,100	11,251	467,035

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

8 Intangible assets and goodwill

The intangible assets include customer relationships, non-compete agreements, cutting rights, standing timber, a favourable land lease agreement and a creosote registration.

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships.

The acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate ranging from 2.90% to 5.00%.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to dispose ("FVLCTD") calculations. FVLCTD calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on Management's forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTD have considered the current economic environment.

The carrying value of goodwill is allocated to the following CGUs:

	2016 $	2015 $
CGUs		
Plants specialized in the treatment of utility poles and residential lumber	134,291	89,740
Plants specialized in the treatment of railway ties	151,301	155,956
	285,592	245,696

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

Impairment tests for intangible assets with indefinite useful life

The only intangible asset with an indefinite useful life is the creosote registration. This registration provides the Company with the right to produce and import creosote out of its Memphis, Tennessee facility. The Company's approach to creosote supply is to produce a portion of its requirements and to buy the remainder on the open market. As a result, the creosote registration procures the advantage of being able to produce, which is less expensive than buying on the market. Moreover, when procuring creosote on the market, the import feature of the registration enables the Company to negotiate advantageous pricing.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest forecasts for cost savings as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

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

The net book amount of these intangible assets was as follows:

	Intangible assets						
	Cutting rights $	Customer relationships $	Non-compete agreements $	Others $	Creosote registration $	Total $	Goodwill $
As at January 1, 2015							
Cost	7,951	99,766	8,162	7,359	36,230	159,468	195,015
Accumulated amortization	(1,244)	(35,188)	(7,519)	(5,192)	-	(49,143)	-
Net book amount	6,707	64,578	643	2,167	36,230	110,325	195,015
Year ended December 31, 2015							
Opening net book balance	6,707	64,578	643	2,167	36,230	110,325	195,015
Business acquisitions	-	22,149	-	1,062	-	23,211	12,803
Additions	-	-	1,706	302	-	2,008	-
Disposals	(1,000)	-	-	(1,073)	-	(2,073)	-
Amortization	-	(10,375)	(557)	-	-	(10,932)	-
Amortization included in inventory	(128)	-	-	(376)	-	(504)	-
Exchange differences	-	11,634	233	42	6,992	18,901	37,878
Closing net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696
As at December 31, 2015							
Cost	6,821	141,262	11,601	7,606	43,222	210,512	245,696
Accumulated amortization	(1,242)	(53,276)	(9,576)	(5,482)	-	(69,576)	-
Net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696
Year ended December 31, 2016							
Opening net book balance	5,579	87,986	2,025	2,124	43,222	140,936	245,696
Business acquisitions	-	18,244	-	-	-	18,244	45,476
Additions	-	-	6,051	330	-	6,381	-
Amortization	-	(14,349)	(1,454)	-	-	(15,803)	-
Amortization included in inventory	(213)	-	-	(473)	-	(686)	-
Exchange differences	-	(1,513)	27	(33)	(1,289)	(2,808)	(5,580)
Closing net book amount	5,366	90,368	6,649	1,948	41,933	146,264	285,592
As at December 31, 2016							
Cost	6,821	156,576	17,413	7,903	41,933	230,646	285,592
Accumulated amortization	(1,455)	(66,208)	(10,764)	(5,955)	-	(84,382)	-
Net book amount	5,366	90,368	6,649	1,948	41,933	146,264	285,592

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

9 Accounts payable and accrued liabilities

	Note	2016	2015
		$	$
Trade payables		31,770	25,183
Amounts due to related parties	19	632	110
Accrued expenses		39,507	39,300
Other payables		29,233	13,173
		101,142	77,766

10 Long-term debt

	Note	2016	2015
		$	$
Committed revolving credit facility	10(a)	646,487	585,690
Unsecured promissory note	10(b)	10,872	14,460
Secured promissory note	10(c)	8,682	-
Unsecured promissory note	10(d)	8,265	-
Unsecured promissory note	10(e)	8,265	-
Unsecured promissory note	10(f)	4,143	4,964
Unsecured promissory note	10(g)	2,776	3,484
Balance of purchase price	10(h)	2,701	5,430
Unsecured promissory note	10(i)	1,214	1,816
Unsecured promissory note	10(j)	980	942
Unsecured promissory note	10(k)	-	1,558
Unsecured, subordinated and non-convertible debenture	10(k)	-	34,600
Unsecured and non-convertible debenture	10(k)	-	13,840
Unsecured promissory note	10(k)	-	3,110
		694,385	669,894
Deferred financing costs		-	(13)
		694,385	669,881
Less: Current portion of long-term debt		6,919	60,887
Less: Current portion of deferred financing costs		-	(13)
Total current portion of long-term debt		6,919	60,874
		687,466	609,007

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

a) On February 26, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fourth amended and restated credit agreement dated as of March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) makes available a committed revolving credit facility for a period of five years and increases the borrowing limit from US$450,000 to US$500,000 for the first two years. Subsequently, the committed revolving credit facility will be reduced to US$450,000 in the third year to finally be reduced to US$350,000 for the fourth and fifth years. The amended agreement also includes an accordion option allowing the borrowers to request an increase of up to US$200,000 to the committed revolving credit facility, subject to customary conditions. The committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and will mature on February 26, 2021. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on a pricing grid.

The fifth amended and restated credit agreement provides that the committed revolving credit facility is unsecured, subject to a negative pledge, other than permitted liens, in favour of the bank syndicate.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2016, the Company was in full compliance with these covenants, requirements and ratios. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.00% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 3.25:1. In the case where the total debt to EBITDA ratio is lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

As at December 31, 2016, borrowings by Canadian entities denominated in U.S. dollars represented $516,206 of which $514,254 (US$383,000) were designated as a hedge of net investment in foreign operations.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2016 are provided in Note 17, Financial instruments.

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

On May 18, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fifth amended and restated credit agreement dated as of February 26, 2016. The amended agreement (the first amending agreement to the fifth amended and restated credit agreement) increases its committed revolving credit facility by US$75,000 by exercising a portion of its US$200,000 accordion option. The increase was granted by the banking syndicate under the same conditions as the fifth amended and restated committed revolving credit facility and increases the committed revolving credit facility from US$500,000 to US$575,000 for the first two years of the agreement. This additional credit availability was used to partially finance the Kisatchie and Lufkin Creosoting acquisitions as well as provide funding for working capital.

On February 26, 2016, the Company entered into demand loan agreements with two banks participating in the committed revolving credit facility syndication. The demand loans make available financing up to US$50,000 under the same conditions as the fifth amended and restated committed revolving credit facility. This indebtedness, if required by the Company, would be presented under short term liabilities as the banks have the option to request reimbursement of the loan at any time. As at December 31, 2016 no amounts were drawn under the loan agreements.

b) Pursuant to a business acquisition on May 22, 2014, the Company issued an unsecured promissory note of $15,466 (US$14,169) bearing interest at 1.93%. The note is payable in five equal annual instalments, including interest, of US$3,000, up to May 2019. The note was initially recorded at a fair value of $13,426 (US$12,301) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

c) As part of the Kisatchie acquisition, the Company assumed a promissory note, secured by the land of the Pineville facility, of US$5,685 bearing interest at 5.76%. The note is payable in quarterly instalments, including interest, of US$163, up to July 2028. The note was initially recorded at a fair value of $8,775 (US$6,780) using an effective interest rate of 4.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

d) As part of the Kisatchie acquisition, the Company recorded an unsecured promissory note of $9,128 (US$7,052) bearing interest at 1.41%. The note is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020, respectively and US$4,500 in June 2021. The note was initially recorded at a fair value of $7,838 (US$6,056) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

e) As part of the Lufkin Creosoting acquisition, the Company recorded an unsecured promissory note of $9,128 (US$7,052) bearing interest at 1.41%. The note is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020, respectively and US$4,500 in June 2021. The note was initially recorded at a fair value of $7,838 (US$6,056) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

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

f) Pursuant to a business acquisition on December 7, 2011, the Company issued an unsecured promissory note of $6,574 (US$6,507) bearing interest at 2.67%. The note is payable in ten equal annual instalments, including interest, of US$750, up to December 2021. The note was initially recorded at a fair value of $5,322 (US$5,268) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

g) As part of the Treated Materials acquisition, the Company issued an unsecured promissory note of $3,993 (US$3,000) bearing no interest. The note is payable in five equal annual instalments of US$600, up to September 2020. The note was initially recorded at a fair value of $3,275 (US$2,460) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

h) As part of the Ram acquisition, the Company recorded a balance of purchase price of $5,800 bearing no interest. The balance of purchase price is payable in five annual instalments of $2,900 in October 2016, $500 in October 2017 and $800 in October 2018, 2019 and 2020, respectively. The balance of purchase price was initially recorded at a fair value of $5,430 using an interest rate of 2.91%. The difference between the face value and the fair value of the balance of purchase price is being accreted on an effective yield basis over its term.

   The balance of purchase price is guaranteed by five irrevocable letters of credit in the same amount and with the same maturity date as the future payments.

i) As part of the United Wood acquisition, the Company issued an unsecured promissory note of $1,939 (US$1,451) bearing interest at 1.68%. The note is payable in three equal instalments, including interest, of US$500, up to December 2018. The note was initially recorded at a fair value of $1,754 (US$1,312) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

j) As part of the McCormick acquisition, the Company issued an unsecured promissory note of $928 (US$743) bearing interest at 0.48%. The entire amount of the note is payable in April 2017. The note was initially recorded at a fair value of $805 (US$645) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

k) These debts were reimbursed in 2016 in accordance with their respective agreements.

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

l) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	Principal $
2017	8,094
2018	7,532
2019	10,861
2020	6,910
2021	659,308
Thereafter	4,853
	697,558
Fair value adjustment	(3,173)
	694,385

m) The aggregate fair value of the Company's long-term debt was estimated at $694,385 as at December 31, 2016 (2015 – $669,894) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11 Provisions and other long-term liabilities

	Provisions			**Other long-term liabilities**			
	Site remediation	**Others**	**Total**	**RSUs**	**Non-competes payable**	**Total**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance as at January 1, 2015	8,916	3,048	11,964	8,049	953	9,002	20,966
Additions	2,165	1,791	3,956	8,914	1,706	10,620	14,576
Business acquisitions	634	-	634	-	-	-	634
Provision reversal	(456)	(312)	(768)	-	-	-	(768)
Payments	(1,426)	(574)	(2,000)	(3,744)	(622)	(4,366)	(6,366)
Interest accretion	-	-	-	-	32	32	32
Exchange differences	1,808	327	2,135	-	286	286	2,421
Balance as at December 31, 2015	11,641	4,280	15,921	13,219	2,355	15,574	31,495
Additions	5,121	785	5,906	10,951	5,936	16,887	22,793
Business acquisitions	2,974	-	2,974	-	-	-	2,974
Provision reversal	(62)	(858)	(920)	-	-	-	(920)
Payments	(2,954)	(455)	(3,409)	(21,214)	(598)	(21,812)	(25,221)
Interest accretion	-	-	-	-	127	127	127
Exchange differences	(233)	(88)	(321)	-	143	143	(178)
Balance as at December 31, 2016	16,487	3,664	20,151	2,956	7,963	10,919	31,070

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

Analysis of provisions and other long-term liabilities:

	2016 $	2015 $
Current		
Provisions	10,785	8,077
Other long-term liabilities	3,805	12,763
Total current	14,590	20,840
Non-current		
Provisions	9,366	7,844
Other long-term liabilities	7,114	2,811
Total non-current	16,480	10,655
	31,070	31,495

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from one to seventeen years. These discounted cash flows have been estimated using a pre-tax rate of 1.36% that reflect current market assessment of the time value of money and the risk specific to the obligation.

As of December 31, 2016, a total site remediation provision of $16,487 ($11,641 – 2015) was recorded to support the ongoing compliance efforts of which Kisatchie, Lufkin Creosoting, KMS and NPTW represent $2,974.

Other long-term liabilities

Restricted stock units

The Company has a long-term incentive plan, for certain executives and key employees, under which grants of RSUs are permitted upon the Company attaining a minimum 12.50% return on capital employed. When this condition is met, the number of RSUs granted is based on a percentage of the individual's salary, divided by the average trading price of the Company's common shares on the TSX for the five days immediately preceding the grant date.

The RSUs are full-value phantom shares payable in cash on the third anniversary of their date of grant, provided the individual is still employed by the Company. The amount to be paid is determined by multiplying the number of RSUs by the six-month average trading price of the Company's common shares on the TSX immediately preceding the anniversary.

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

The RSUs granted on March 25, 2013 reached their anniversary on March 25, 2016 and were fully paid.

On March 17, 2014, March 16, 2015 and March 21, 2016 the Company granted a total of 107,721 RSUs to certain executives and key employees as part of the long-term incentive plan.

On May 6, 2013, as part of a five-year incentive agreement and pursuant to the Stella-Jones Inc. long-term incentive plan, the Company granted 400,000 RSUs to the President and Chief Executive Officer (the "President"), with a vesting date of May 6, 2016. As part of the agreement, in the event that the President voluntarily leaves the employment of the Company prior to the fifth anniversary of the incentive agreement, any amounts paid to him will be reimbursed to the Company. In the event that the President is required to cease his functions prior to the fifth anniversary of the incentive agreement due to long-term disability or death, he shall be entitled to a prorated payment. The compensation expense related to the five-year agreement will be recognized in the consolidated statement of income over a five-year period. On May 6, 2016, the full amount of $19,106 was paid under these RSUs. The difference between the amount paid and the expense recognized in the consolidated statement of income has been recorded as a prepaid expense and will be amortized over the remaining two-year period.

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

12 Capital stock

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

b) Earnings per share

The following table provides the reconciliation between basic earnings per common share and diluted earnings per common share:

	2016 $	2015 $
Net income applicable to common shares	$153,898	$141,377
Weighted average number of common shares outstanding*	69,215	69,018
Effect of dilutive stock options*	16	135
Weighted average number of diluted common shares outstanding*	69,231	69,153
Basic earnings per common share **	$2.22	$2.05
Diluted earnings per common share **	$2.22	$2.04

* Number of shares is presented in thousands.
** Basic and diluted earnings per common share are presented in dollars per share.

c) Stock option plan

The Company has a stock option plan (the “Plan”) for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose (“Committee”) may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board of Directors or such Committee. The stated purpose of the Plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by directors, officers and employees of the Company.

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

The aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5.00% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

Changes in the number of options outstanding under the Plan were as follows:

	2016		2015	
	Number of options*	Weighted average exercise price** $	Number of options*	Weighted average exercise price** $
Outstanding – Beginning of year	194	15.35	329	8.00
Exercised	(139)	7.75	(165)	6.82
Granted	-	-	30	49.01
Outstanding – End of year	55	34.57	194	15.35
Options exercisable – End of year	31	28.59	158	9.72

The following options were outstanding under the Plan as at December 31, 2016:

	Options outstanding		Options exercisable		
Date granted	**Number of options***	**Exercise price** $**	**Number of options***	**Exercise price** $**	**Expiration date**
August 2007	10	9.90	10	9.90	August 2017
May 2013	15	22.13	9	22.13	May 2023
November 2015	30	49.01	12	49.01	November 2025
	55		31		

* Number of options is presented in thousands.

** Exercise price is presented in dollars per option.

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

d) Stock-based compensation

The Company records expenses related to the fair value of the stock options granted under the Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to income over the vesting period. No options were granted during 2016. The 2016 expense recorded for stock-based compensation amortized to earnings was $156 (2015 – $55).

e) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 1,000,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.00% of the market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2016, 13,271 common shares (2015 – 10,709) were issued to Canadian resident employees at an average price of $39.50 per share (2015 – $37.72).

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2016, 13,680 common shares (2015 – 12,877) were issued to U.S. resident employees at an average price of $43.11 per share (2015 – $41.89).

As of December 31, 2016 the total number of common shares issued under these plans is 857,187 (2015 – 830,236), which represents a market value of $37,356, using the December 31, 2016 TSX share price of $43.58.

13 Expenses by nature

	2016 $	2015 $
Raw materials and consumables	1,252,578	1,047,648
Employee benefit expenses	141,839	109,796
Depreciation and amortization	31,587	23,334
Other expenses incurred in manufacturing process	44,767	43,755
Freight	91,141	76,482
Other expenses	43,198	38,267
	1,605,110	1,339,282

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

	2016 $	2015 $
Employee benefit expenses		
Salaries, wages and benefits	128,863	94,481
Share options granted to directors and employees	156	55
RSUs	5,538	8,914
Pension costs	1,971	1,928
Group registered retirement savings plans	5,311	4,418
	141,839	109,796

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

	2016 $	2015 $
Financial expenses		
Bank interest	14,760	10,771
Interest on promissory notes and non-compete agreements	2,278	3,092
Interest on debentures	821	3,227
	17,859	17,090

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

14 Income taxes

	2016 $	2015 $
Current tax		
Current tax on income for the year	50,464	49,771
Adjustments in respect of prior years	(2,938)	1,588
Total current tax	47,526	51,359
Deferred tax		
Origination and reversal of temporary differences	11,020	11,330
Impact of change in tax rate	(225)	(391)
Adjustment in respect of prior years	3,165	(713)
Total deferred tax	13,960	10,226
Income tax expense	61,486	61,585

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities as follows:

	2016 $	2015 $
Income before income tax	215,384	202,962
Tax calculated at domestic tax rates of 26.40% (2015 – 26.31%) applicable to income in the respective countries	56,861	53,399
Tax effects of:		
Difference in tax rate of foreign subsidiaries	14,074	16,482
Income not subject to tax	(6,999)	(6,935)
Expenses not deductible for tax purposes	475	1,238
Remeasurement of deferred tax – change in tax rate	(225)	(391)
Adjustment in respect of prior years	227	875
Exchange revaluation of deferred tax	8	(51)
Manufacturing and processing tax credit	(2,935)	(3,032)
Income tax expense	61,486	61,585

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

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016	2015
	$	$
Deferred tax assets		
To be recovered after more than 12 months	4,474	3,854
To be recovered within 12 months	12,473	13,190
Deferred tax liabilities		
To be reversed after more than 12 months	(118,318)	(95,608)
To be reversed within 12 months	(456)	-
Deferred tax liability, net	(101,827)	(78,564)

. The gross movement on the deferred income tax account is as follows:

	2016	2015
	$	$
As at January 1	(78,564)	(54,173)
Recognized in the statement of income	(13,960)	(10,226)
Recognized in other comprehensive income	(1,058)	2,647
Business acquisition	(9,622)	(7,421)
Exchange differences	1,377	(9,391)
As at December 31	(101,827)	(78,564)

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

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Reserves $	Deferred pension benefits $	Cumulative losses $	Others $	Total $
Deferred tax assets					
As at January 1, 2015	10,598	1,766	756	339	13,459
Recognized in the statement of income	1,529	21	(240)	(263)	1,047
Recognized in other comprehensive income	-	293	504	(84)	713
Business acquisition	(104)	-	145	-	41
Exchange differences	1,563	203	-	18	1,784
As at December 31, 2015	13,586	2,283	1,165	10	17,044
Recognized in the statement of income	(1,205)	(40)	1,571	57	383
Recognized in other comprehensive income	-	(31)	(504)	29	(506)
Business acquisition	310	-	-	-	310
Exchange differences	(237)	(47)	-	-	(284)
As at December 31, 2016	12,454	2,165	2,232	96	16,947

	Property, plant and equipment $	Intangible assets $	Unrealized foreign exchange on debts and translation of foreign operations $	Others $	Total $
Deferred tax liabilities					
As at January 1, 2015	(45,285)	(19,158)	(2,955)	(234)	(67,632)
Recognized in the statement of income	(10,216)	(527)	(502)	(28)	(11,273)
Recognized in other comprehensive income	-	-	1,778	156	1,934
Business acquisition	(1,426)	(6,036)	-	-	(7,462)
Exchange differences	(7,403)	(3,772)	-	-	(11,175)
As at December 31, 2015	(64,330)	(29,493)	(1,679)	(106)	(95,608)
Recognized in the statement of income	(13,568)	919	(1,130)	(564)	(14,343)
Recognized in other comprehensive income	-	-	760	(1,312)	(552)
Business acquisition	(5,906)	(4,026)	-	-	(9,932)
Exchange differences	1,081	580	-	-	1,661
As at December 31, 2016	(82,723)	(32,020)	(2,049)	(1,982)	(118,774)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $318,721 as at December 31, 2016 (2015 – $250,194).

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

15 Employee future benefits

For its Canadian operations, the Company recognizes costs for several types of employee future benefits. Post-employment benefits are offered to certain retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. The Company contributes to a multi-employer plan for certain hourly employees and to three defined benefit pension plans for salaried and certain non-union hourly wage employees.

For its U.S. operations, the Company's wholly-owned subsidiary, McFarland, contributes to two defined benefit pension plans.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.00% of the employee's annual base salary. The recognized costs for employee future benefits were as follows:

	2016	2015
	$	$
Post-retirement benefits	166	200
Defined benefit pension plans	1,392	1,346
Contributions to multi-employer plan	413	382
Contributions to group registered retirement savings plans	5,311	4,418

The net amount recognized on the consolidated statement of financial position is detailed as follows:

	2016	2015
	$	$
Liabilities		
Accrued benefit liability included in employee future benefits	(4,534)	(4,826)
Accrued benefit obligation, included in employee future benefits	(2,219)	(2,327)
	(6,753)	(7,153)

a) The post-retirement benefits program is not funded and, since June 1, 2011, this program is closed to new participants. For this program, the Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as at July 1, 2015, and the next required valuation will be as at July 1, 2018.

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

The following information as established by independent actuaries pertains to the Company's post-retirement benefits program:

	2016 $	2015 $
Accrued benefit obligation		
Balance – Beginning of year	2,327	2,298
Current service cost	71	107
Interest cost	95	93
Benefits payments	(66)	(65)
Remeasurement adjustments		
Plan experience	(124)	(86)
Changes in demographic assumptions	(114)	-
Changes in financial assumptions	30	(20)
Balance – End of year	2,219	2,327
Plan assets		
Employer's contributions	66	65
Benefits paid	(66)	(65)
Fair value – End of year	-	-
Accrued benefit obligation	2,219	2,327

The significant assumptions used are as follows:

	2016 %	2015 %
Accrued benefit obligation as at December 31		
Discount rate	3.90	4.00
Benefit costs for the year ended December 31		
Discount rate	4.00	3.90

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

For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2015. This rate is assumed to decrease gradually by 0.38% per year, to reach 5.00% in 2020. An increase or decrease of 1.00% in this rate would have the following impact:

	Increase of 1% **$**	**Decrease of 1%** **$**
Impact on accrued benefit obligation	60	(53)
Impact on benefit costs	3	(2)

The items of the Company's post-retirement benefits program costs recognized during the year are as follows:

	2016 **$**	**2015** **$**
Current service cost	71	107
Interest cost	95	93
Post-retirement benefits program costs recognized	166	200

Consolidated statement of comprehensive income	**2016** **$**	**2015** **$**
Year ended December 31		
Actuarial gains	208	106
Total recognized in other comprehensive income before income tax	208	106

Accumulated actuarial (losses) gains recognized in other comprehensive income	**2016** **$**	**2015** **$**
Balance of actuarial losses as at January 1	(351)	(429)
Net actuarial gains recognized in the year (net of tax)	123	78
Balance of actuarial losses as at December 31	(228)	(351)

b) The Company's Canadian defined benefit pension plans base the benefits on the length of service and final average earnings. The McFarland defined benefit pension plans base the benefits on the length of service and flat dollar amounts payable monthly. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

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

Actuarial valuations are updated every three years, and the latest valuations performed for the five pension plans are as follows:

	Date of last actuarial valuation
Plan 1 – Canadian pension plan	December 31, 2013
Plan 2 – Canadian pension plan	December 31, 2014
Plan 3 – Canadian pension plan	December 31, 2015
Plan 4 – U.S. pension plan	December 31, 2015
Plan 5 – U.S. pension plan	December 31, 2015

Information about the Company's defined benefit pension plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2016 **$**	**2015** **$**
Accrued benefit obligation		
Balance – Beginning of year	27,545	24,105
Current service cost	1,009	937
Past service cost	-	86
Interest cost	1,099	945
Benefits payments	(2,730)	(693)
Remeasurement adjustments		
Plan experience	778	777
Changes in demographic assumptions	(172)	314
Changes in financial assumptions	443	(438)
Exchange difference	(532)	1,512
Balance – End of year	27,440	27,545
Plan assets		
Fair value – Beginning of year	22,719	21,299
Interest income on plan assets	680	598
Return on plan asset excluding interest income	1,133	(467)
Employer's contributions	1,468	1,165
Employee's contributions	36	24
Effect of asset ceiling	(263)	-
Benefits paid	(2,730)	(693)
Exchange difference	(137)	793
Fair value – End of year	22,906	22,719
Accrued benefit liability	(4,534)	(4,826)

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

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of benefit plans that are not fully funded:

	2016	2015
	$	$
Accrued benefit obligation	(12,716)	(13,817)
Fair value of plan assets	7,340	8,311
Funded status – Plan deficit	(5,376)	(5,506)

The percentage of plan assets consists of the following for the year ended December 31:

	2016	2015
	%	%
Listed equity securities	55.00	40.00
Listed debt securities	43.00	58.00
Short-term investments and cash	2.00	2.00
	100.00	100.00

The significant weighted average assumptions used are as follows:

	2016	2015
	%	%
Accrued benefit obligation as at December 31		
Discount rate	3.90	4.00
Rate of compensation increase	3.25	3.25
Benefit costs for the year ended December 31		
Discount rate	4.00	3.90

The items of the Company’s defined benefit plan costs recognized during the year are as follows:

	2016	2015
	$	$
Current service cost, net of employee contributions	973	913
Interest cost	1,099	945
Interest income on plan assets	(680)	(598)
Past service cost	-	86
Defined benefit plan expense	1,392	1,346

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

Expected contributions to the defined benefit pension plans for the year ending December 31, 2017 are $1,401.

Consolidated statement of comprehensive income	**2016**	**2015**
	$	**$**
Year ended December 31		
Actuarial losses	(168)	(1,120)
Total recognized in other comprehensive income before income tax	(168)	(1,120)

Accumulated actuarial losses recognized in other comprehensive income	**2016**	**2015**
	$	**$**
Balance of actuarial losses as at January 1	(3,039)	(2,241)
Net actuarial losses recognized in the year, net of tax	(114)	(798)
Balance of actuarial losses as at December 31	(3,153)	(3,039)

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

16 Commitments and contingencies

a) The Company has issued guarantees amounting to $28,880 (2015 – $37,952) 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. As a result, no provisions have been recorded in the consolidated financial statements.

b) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

	$
2017	24,095
2018	18,740
2019	13,681
2020	9,029
2021	5,101
Thereafter	14,854
	85,500

c) 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.

d) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $281 (2015 – $170). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation.

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

17 Financial instruments

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the long-term receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements.

The fair value of interest rate swap agreements, foreign exchange forward contracts and derivative commodity contacts have been recorded using mark-to-market information. The following table provides a summary of these fair values which are detailed further in this note:

	2016 $	2015 $
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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2016, the Company's credit exposure consists primarily of the carrying amount of cash and cash equivalents, restricted cash, accounts receivable and derivative financial instruments.

Credit risk associated with cash and cash equivalent, restricted cash and derivative financial instruments is minimized by dealing with creditworthy financial institutions.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals

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

primarily with railroad companies, public service companies and utility and telecommunication companies as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management for each selling location. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 5 provides details on the receivable aging as well as on the provision for doubtful accounts for the years ended December 31, 2016 and 2015. The Company's largest customer had sales representing 15.30% of the total sales for the twelve-month period ending December 31, 2016 (2015 – 10.10%) and an account receivable balance of $4,127 as at December 31, 2016 (2015 – $799).

Price risk

The Company is exposed to commodity price risk on diesel and petroleum. The Company uses 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. 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 consolidated statements of income under other losses, net. There were no derivative commodity contracts in place as at December 31, 2015. The following table summarizes the derivative commodity contracts as at December 31, 2016:

				2016
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	3,000,000*	January 2017	December 2017	US$1.50
Diesel and petroleum	1,680,000*	January 2017	December 2017	US$1.65
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.72

* Represents annual volume based on a portion of forecasted monthly usage.

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

The fair value of the above derivative commodity hedges based on cash settlement requirements as at December 31, 2016 is an asset of $1,495 of which an asset of $1,428 is recorded under current assets and an asset of $67 is recorded under non-current assets in the consolidated statement of financial position. The fair value of these hedge agreements have been determined by obtaining mark-to-market values as at December 31, 2016 from a third party. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* 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).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The Company ensures that it has sufficient credit facilities to support working capital, meet expected operational expenses and service financial obligations. Inventories are a significant component of working capital because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is made.

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

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 10(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2016, an amount of $112,513 (2015 – $17,556) was available under the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

						2016
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	101,142	101,142	101,142	-	-	-
Long-term debt obligations	694,385	773,926	25,184	53,315	689,583	5,844
Interest rate swap agreements	363	141	723	(153)	(429)	-
Non-competes payable	7,963	8,550	2,238	2,921	2,686	705
	803,853	883,759	129,287	56,083	691,840	6,549

						2015
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	77,766	77,766	77,766	-	-	-
Long-term debt obligations	669,881	725,423	78,613	629,477	16,297	1,036
Interest rate swap agreements	538	517	620	(103)	-	-
Non-competes payable	2,355	2,519	1,112	1,407	-	-
	750,540	806,225	158,111	630,781	16,297	1,036

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

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

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to 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. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions to mitigate its currency risk. The Company's basic hedging activity consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges.

On November 1, 2016, the Company entered into a sixty-month foreign exchange forward contract agreement, selling US$500 per month at a strike rate of 1.385 and a fade-in rate of 1.178. The Company will obtain the strike rate as long as the spot exchange rate on the transaction date is greater than or equal to the fade-in rate. If the spot exchange rate is lower than the fade-in rate, the transaction will not occur. The fair value of this hedge agreement has been determined by obtaining mark-to-market values as at December 31, 2016 from a third party. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. This foreign exchange forward contract agreement does not qualify for hedge accounting and its fair value based on cash settlement requirements as at December 31, 2016 is a $254 liability recorded under non-current liabilities. The Company had no foreign exchange forward contract agreement in place as at December 31, 2015.

The following table provides information on the impact of a 10.00% strengthening of the U.S. dollar against the Canadian dollar on net income and equity for the years ended December 31, 2016 and 2015. For a 10.00% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income, comprehensive income and equity:

	2016	**2015**
	$	**$**
Decrease of net income	107	348
Increase of equity	51,425	39,582

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

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities:

	2016 $	2015 $
Assets		
Accounts receivable	3,506	2,106
Liabilities		
Accounts payable and accrued liabilities	2,624	2,916
Long-term debt	1,952	2,671
	4,576	5,587

The foreign exchange impact from the U.S. dollar-denominated long-term debt in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income as the long-term debt is designated as a hedge of net investment in foreign operations (Note 10).

Interest rate risk

As at December 31, 2016, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 66.25% (2015 – 58.50%) of the Company's long-term debt is at fixed rates.

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. 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.

The committed revolving credit facility defined in Note 10(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.00% increase in these rates on the closing annual balance of the committed revolving credit facility, for borrowings that have not been swapped, would have increased interest expense by $684 for the year ended December 31, 2016 (2015 – $245).

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

The following tables summarize the Company's interest rate swap agreements as at December 31:

					2016
Notional amount	**Related debt instrument**	**Fixed rate**	**Effective date**	**Maturity date**	**Notional equivalent**
		%			**CA$**
CA$63,000	Committed revolving credit facility	0.70*	February 2016	February 2018	63,000
US$75,000	Committed revolving credit facility	0.97*	June 2014	June 2017	100,702
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.69*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.70*	December 2012	December 2017	33,567
US$85,000	Committed revolving credit facility	1.68*	December 2015	April 2021	114,129
US$100,000	Committed revolving credit facility	1.06*	December 2017	December 2021	134,270

					2015
Notional amount	**Related debt instrument**	**Fixed rate**	**Effective date**	**Maturity date**	**Notional equivalent**
		%			**CA$**
CA$10,000	Committed revolving credit facility	1.57*	August 2011	August 2016	10,000
CA$75,000	Committed revolving credit facility	0.97*	June 2014	June 2017	103,800
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.69*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.70*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	1.16*	December 2011	December 2016	34,600
US$15,000	Committed revolving credit facility	1.45*	August 2011	August 2016	20,760
US$85,000	Committed revolving credit facility	1.68*	December 2015	April 2021	117,640

* Plus applicable spread of 1.00% to 2.25 % based on a pricing grid included in the committed revolving credit facility.

The Company's interest rate swap agreements are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2016, all cash flow hedges were effective.

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

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2016 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2016 is a net asset of $5,191 (2015 – net asset of $294), of which an asset of $311 (nil in 2015) is recorded in current assets, an asset of 4,989 (2015 – $832) is recorded in non-current assets and a liability of $109 (2015 – $538) is recorded in non-current liabilities in the consolidated statement of financial position. A 10.00% decrease in interest rates as at December 31, 2016 would have reduced the net gain recognized in other comprehensive income by approximately $519 (2015 – $29). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

18 Capital disclosures

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or acquire or sell assets to improve its financial performance and flexibility.

The Company's capital is composed of total debt, which includes bank indebtedness, and shareholders' equity, which includes capital stock.

	2016	**2015**
	$	**$**
Total debt	694,385	669,881
Shareholders' equity	1,026,418	913,502
Total capital	1,720,803	1,583,383
Total debt to total capitalization ratio	0.40:1	0.42:1

The Company's primary uses of capital are to finance non-cash working capital and capital expenditures for capacity expansion as well as acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its committed revolving credit facility. However, future corporate acquisitions may require new sources of financing.

The primary measure used by the Company to monitor its financial leverage is the total debt to total capitalization ratio, which it aims to maintain within a range of 0.30:1 to 0.60:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

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

19 Related party transactions

a) Transactions

The Company had the following transactions with related parties:

	2016 **$**	**2015** **$**
Stella Jones International S.A.*		
Marketing and technical service fees paid	200	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	100	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	1,202	429

*Stella Jones International S.A. holds, directly or indirectly, approximately 38.30% of the outstanding common shares of the Company.

**Stella International S.A. and James Jones & Sons Limited hold 51.0% and 49.0% of all voting shares of Stella Jones International S.A., respectively.

These transactions occurred in the normal course of operations and have been measured at fair value.

As at December 31, the consolidated statement of financial position includes the following amounts with related parties:

	2016 **$**	**2015** **$**
Accounts payable to Stella International S.A. and James Jones & Sons Limited	25	25
Accounts payable to Stella Jones International S.A.	50	50
Accounts payable to a firm in which a director of the Company is a partner	557	35
	632	110

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

b) Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management. The compensation expensed with regards to key management for employee services is as follows:

	2016 $	2015 $
Salaries, compensation and benefits	5,494	4,690
Share-based expenses	4,435	6,796
	9,929	11,486

20 Segment information

The Company operates within two business segments which are the production and sales 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.

Operating plants are located in five Canadian provinces and nineteen American states. The Company also operates a large distribution network across North America.

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

Sales attributed to countries based on location of customer are as follows:

	2016	**2015**
	$	**$**
Canada	535,800	285,741
U.S.	1,302,553	1,273,593
	1,838,353	1,559,334

Sales by product as at December 31 are as follows:

	2016	**2015**
	$	**$**
Pressure-treated wood		
Railway ties	716,292	709,671
Utility poles	579,208	527,707
Residential lumber	345,749	182,593
Industrial products	96,310	97,347
Logs and lumber	100,794	42,016
	1,838,353	1,559,334

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

Property, plant and equipment, intangible assets and goodwill attributed to the countries based on location are as follows:

Property, plant and equipment

	2016	**2015**
	$	**$**
Canada	108,220	86,741
U.S.	358,815	288,793
	467,035	375,534

Intangible assets

	$	**$**
Canada	25,324	27,899
U.S.	120,940	113,037
	146,264	140,936

Goodwill

	$	**$**
Canada	12,389	7,229
U.S.	273,203	238,467
	285,592	245,696

21 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 (Note 10(a)). 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.

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

22 Comparative figures

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