MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2017 compared with the three-month period ended March 31, 2016

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on May 3, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2017 compared with the three-month period ended March 31, 2016. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2017 and 2016 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2016.

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

The condensed interim unaudited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants ("CPA") Canada Handbook Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

OUR BUSINESS

Stella-Jones Inc. is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at March 31, 2017, the Company operated thirty-seven treating plants, sixteen pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at March 31, 2017, the Company's workforce numbered approximately 1,910 employees.

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

OUR MISSION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

Reconciliation of EBITDA and operating income to net income* (millions of dollars)	**Three-month periods ended** March 31, 2017	March 31, 2016
Net income for the period	$25.9	$35.0
Plus:		
Provision for income taxes	$10.2	$14.8
Financial expenses	$4.8	$4.8
Operating income	$40.8	$54.6
Depreciation and amortization	$8.2	$7.1
EBITDA	$49.1	$61.7

* Numbers may not add exactly due to rounding

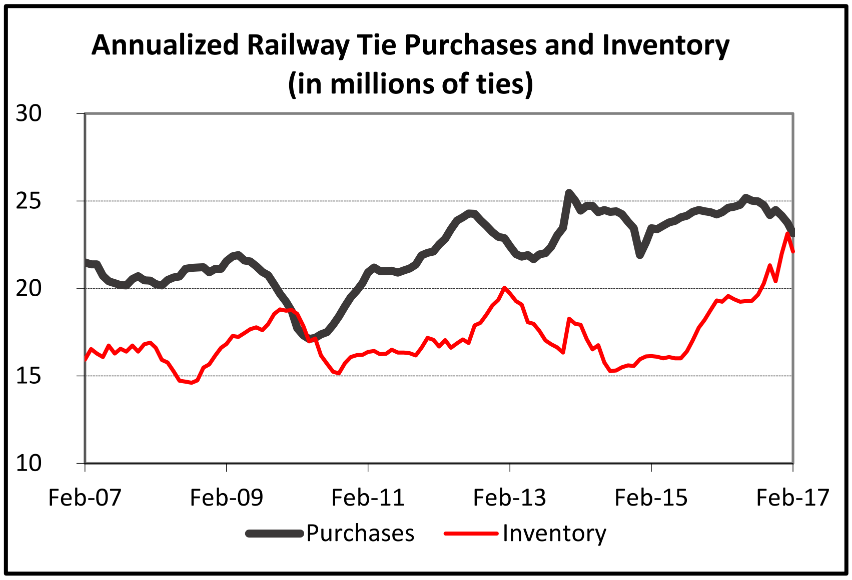
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended March 31, 2017 and 2016, as well as the period ended December 31, 2016. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$ rate	**2017** Average rate for the three-month period ended March 31, 2017	**2017** Closing rate as at March 31, 2017	**2016** Average rate for the three-month period ended March 31, 2016	**2016** Closing rate as at December 31, 2016
	1.3240	1.3310	1.3792	1.3427

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for the first two months of 2017 were 2.5 million ties, versus 3.5 million ties for the same period in 2016, resulting in industry purchases of 23.2 million ties for the 12-month period ended February 28, 2017. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Lower purchases led to higher industry inventory, which reached 22.1 million ties as at February 28, 2017. As a result, the inventory-to-sales ratio was 0.95:1 as at February 28, 2017, above the previous ten-year average ratio of 0.79:1.



Source: Railway Tie Association

Total traffic on North American railroads increased 4.4% in the first three months of 2017, according to data released by the Association of American Railroads. While carload volume increased by 6.6%, mainly due to higher shipments of coal, as well as of metals and minerals, the volume of intermodal trailers and containers rose 2.2% from 2016 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended March 31, 2017 reached $396.9 million, versus sales of $421.0 million for the same period last year. Acquisitions contributed sales of approximately $22.8 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a negative impact of $11.3 million on the value of U.S. dollar denominated sales when compared with last year's first quarter. Excluding these factors, sales decreased approximately $35.5 million, or 8.4%, due to lower railway tie sales, partially offset by higher utility pole sales, as detailed below.

Sales by product category

Railway ties

Railway tie sales for the first quarter of 2017 amounted to $158.5 million, representing a decrease of $41.8 million from sales of $200.3 million in the first quarter of 2016. Excluding the currency conversion effect, railway tie sales declined approximately $35.9 million, or 17.9%, primarily as a result of lower year-over-year industry demand and lower pricing. Last year's railway tie sales also benefitted from the timing of deliveries that had been pushed from the fourth quarter of 2015 into the first quarter of 2016 by certain customers. Railway tie sales accounted for 40.0% of the Company's first-quarter sales.

Utility poles

Utility pole sales reached $151.0 million in the first quarter of 2017, up 14.5% from sales of $131.8 million in the corresponding period in 2016. Acquisitions contributed sales of approximately $22.0 million, while the currency conversion effect reduced the value of U.S. dollar denominated sales by about $3.8 million when compared with the first quarter of last year. Excluding these factors, utility pole sales increased approximately $1.0 million reflecting sales synergies from acquisitions in the southeastern United States concluded in 2015 and 2016. Utility pole sales accounted for 38.0% of the Company's total sales in the first quarter of 2017.

Residential lumber

Sales in the residential lumber category totalled $38.6 million in the first quarter of 2017, versus $41.9 million a year earlier. The variation mainly reflects unfavourable weather conditions in the northwestern United States, the Company's main customer base in that country. Residential lumber accounted for 9.7% of Stella-Jones' sales in the first quarter of 2017.

Industrial products

Industrial product sales reached $21.9 million in the first quarter of 2017, compared with $26.7 million in the first quarter of 2016. Excluding the contribution from acquisitions and the currency conversion effect, sales decreased 18.5% mainly due to the timing of orders for rail-related products in the United States. Industrial products represented 5.5% of the Company's sales in the three-month period ended March 31, 2017.

Logs and lumber

For the first three months of 2017, logs and lumber sales amounted to $26.9 million, versus $20.2 million in the first three months of 2016. This variation reflects the timing of lumber purchase and resale activities as well as the timing of timber harvesting. Logs and lumber sales represented 6.8% of the Company's sales in the three-month period ended March 31, 2017.

Sales by destination

Sales in the United States amounted to $305.7 million, representing 77.0% of Stella-Jones' total sales in the first quarter of 2017, versus $330.0 million in the corresponding period of 2016. This year-over-year decrease is mainly attributable to lower railway tie sales and to the effect of local currency translation on U.S.-dollar denominated sales, partially offset by higher sales of utility poles.

Sales in Canada in the first quarter of 2017 reached $91.3 million, representing 23.0% of sales, compared with $91.0 million in the first quarter of 2016. This slight year-over-year increase reflects higher sales in the utility pole and residential lumber product categories, partially offset by lower railway tie sales.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $333.1 million, or 83.9% of sales, for the three-month period ended March 31, 2017. This compares with $342.1 million, or 81.3% of sales, in the three-month period ended March 31, 2016. The decrease in absolute dollars essentially reflects lower business activity, as explained in the sales section, and the effect of currency translation, partially offset by the contribution from acquisitions. The increase as a percentage of sales reflects lower business activity, lower selling prices for railway ties and a less favourable geographical mix in the utility pole category.

Depreciation and amortization charges reached $8.2 million for the three-month period ended March 31, 2017, versus $7.1 million in the corresponding period of 2016.

As a result, gross profit reached $63.8 million, or 16.1% of sales, in the first quarter of 2017, compared with $78.8 million, or 18.7% of sales, in the first quarter of 2016.

Selling and administrative

Selling and administrative expenses for the first quarter of 2017 were $22.8 million, compared with expenses of $24.0 million in the first quarter of 2016. This variation is mainly related to reductions in profit sharing expenses and stock-based compensation, as well as the effect of currency translation. Last year's first quarter selling and administrative expenses included acquisition costs of $479,000. As a percentage of sales, selling and administrative expenses were stable year-over-year at 5.7% of sales.

Other losses, net

Stella-Jones' other net losses of $176,000 for the three-month period ended March 31, 2017, essentially consisted of a $2.7 million expense on freight and distribution accruals as well as a $1.2 million loss related to the mark-to-market effect of diesel and petroleum derivative commodity contracts. These factors were partially offset by a $3.7 million foreign exchange gain. Last year's other net losses of $239,000 essentially consisted of a foreign exchange loss.

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar denominated long-term debt held by its Canadian company. Stella-Jones U.S. Holding Corporation, the Company's wholly-owned U.S. subsidiary, is a foreign operation that has a different functional currency from that of the Company and foreign exchange gains and losses on translating its financial statements are deferred in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Its basic hedging activity for economic purposes consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

Financial expenses

Financial expenses for the first quarter of 2017 amounted to $4.8 million, stable in comparison with the first quarter of 2016. The stability reflects higher year-over-year borrowings following acquisitions made in the past twelve months, offset by the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $36.1 million, or 9.1% of sales, in the first quarter of 2017, versus income before income taxes of $49.8 million, or 11.8% of sales, in the first quarter of 2016.

Stella-Jones' provision for income taxes totalled $10.2 million in the first quarter of 2017, representing an effective tax rate of 28.2%. In the first quarter of 2016, the income tax expense stood at $14.8 million, equivalent to an effective tax rate of 29.7%. The lower effective tax rate for the first quarter of 2017 is attributable to a more favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the three-month period ended March 31, 2017 reached $25.9 million, or $0.37 per diluted share, versus net income of $35.0 million, or $0.51 per diluted share, in the three-month period ended March 31, 2016.

QUARTERLY RESULTS

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

2017

For the quarters ended	**March 31**				
(millions of dollars, except per share data)	**$**				
Sales	396.9				
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	49.1				
Operating income [1]	40.8				
Net income for the period	25.9				
Earnings per common share Basic Diluted	 0.37 0.37				

2016

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

2015

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(millions of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	340.7	428.1	433.1	357.5	1,559.3
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	53.3	66.6	68.8	54.5	243.4
Operating income [1]	47.6	61.1	62.9	48.3	220.1
Net income for the period	30.1	38.9	39.3	33.0	141.4
Earnings per common share Basic Diluted	 0.44 0.43	 0.56 0.56	 0.57 0.57	 0.48 0.48	 2.05 2.04

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

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at March 31, 2017, compared to December 31, 2016 (see "Foreign Exchange" on page 2"), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2017, total assets reached $2.00 billion, versus $1.96 billion as at December 31, 2016. The increase mostly reflects an increase in current assets, as detailed below.

The value of accounts receivable was $196.0 million as at March 31, 2017, compared with $160.8 million as at December 31, 2016. The increase is attributable to higher sales in the latter part of the first quarter of 2017, when compared to the latter part of the fourth quarter of 2016, partially offset by the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $873.4 million as at March 31, 2017, up from $854.7 million as at December 31, 2016. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters, partially offset by the effect of local currency translation on U.S. inventories.

Because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. In addition, important raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. However, solid relationships and long-term contracts with customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flow from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $470.4 million as at March 31, 2017, compared with $467.0 million as at December 31, 2016. This increase is mainly related to the purchase of property, plant and equipment of $11.7 million during the first quarter of 2017, partially offset by depreciation of $4.4 million for the period and the effect of local currency translation on U.S.-based property, plant and equipment.

The value of intangible assets and goodwill reached $141.3 million and $283.2 million, respectively, as at March 31, 2017. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable lease agreement. As at December 31, 2016, intangible assets and goodwill were $146.3 million and $285.6 million, respectively. The decrease in the value of intangible assets stems from an amortization charge of $3.8 million in the first three months of 2017 and from the effect of local currency translation on U.S.-based intangible assets. The decrease in goodwill is explained by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at March 31, 2017, Stella-Jones' total liabilities stood at $967.0 million, up from $935.5 million as at December 31, 2016. This variation mainly reflects an increase in current liabilities, as detailed below.

The value of current liabilities was $150.6 million as at March 31, 2017, versus $122.7 million as at December 31, 2016. This variation is attributable to a $28.0 million increase in accounts payable and accrued liabilities, as a result of greater business activity in the latter part of the first quarter of 2017, when compared to the latter part of the fourth quarter of 2016, partially offset by the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $698.5 million as at March 31, 2017, versus $694.4 million as at December 31, 2016. The increase mainly reflects higher working capital requirements, as per normal seasonal demand patterns, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt.

On January 17, 2017, the Company concluded a US$150.0 million private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of a series A senior note of US$75.0 million bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US$75.0 million bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the Company's committed revolving credit facility. With this reimbursement, an amount of $305.2 million was available against the Company's committed revolving credit facility of $765.3 million (US$575.0 million) as at March 31, 2017.

Shareholders' equity

Shareholders' equity reached $1.04 billion as at March 31, 2017 compared with $1.03 billion as at December 31, 2016. The increase during the period is attributable to net income of $25.9 million partially offset by an accrued dividend of $7.6 million and an $8.6 million unfavourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month Periods Ended**	
(millions of dollars)	**March 31, 2017**	**March 31, 2016**
Operating activities	$7.2	$15.8
Financing activities	$5.3	($10.8)
Investing activities	($14.1)	($5.2)
Net change in cash and cash equivalents during the period	($1.6)	($0.2)
Cash and cash equivalents - beginning	$3.7	$7.0
Cash and cash equivalents - end	$2.1	$6.8

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, long-term debt and the issuance of common shares. Stella-Jones plans on spending between $30.0 million to $35.0 million on property, plant and equipment in 2017, of which half is related to efficiency improvements and the balance dedicated to sustaining operations. The Company's committed revolving credit facility is made available for a five-year term and is thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid (recovered) was $50.4 million for the three-month period ended March 31, 2017, compared with $62.9 million for the same period in 2016. This decrease mostly reflects a lower net income for the period.

Changes in non-cash working capital components reduced liquidity by $34.5 million in the first quarter of 2017. This was mainly due to increases of $36.2 million and $23.5 million in accounts receivable and inventories, respectively, as a result of normal seasonal working capital requirements, partially offset by a $21.4 million increase in accounts payable and accrued liabilities. In the first quarter of 2016, changes in non-cash working capital components had used liquidity of $44.3 million.

Interest and income taxes paid further reduced liquidity by $4.8 million and $3.8 million, respectively, in the first quarter of 2017. This compares with interest paid of $4.8 million and income taxes recovered of $2.1 million a year earlier.

As a result, cash flows provided by operating activities reached $7.2 million in the first quarter of 2017, versus $15.8 million in the first quarter of 2016.
Financing activities for the quarter ended March 31, 2017 increased liquidity by $5.3 million. Long-term debt increased $195.9 million as a result of the January 17, 2017 private placement for which proceeds were used to pay down a portion of the Company's committed revolving credit facility. This resulted in a $189.8 million net

decrease in the outstanding amount of the committed revolving credit facility. For the quarter ended March 31, 2016, financing activities reduced liquidity by $10.8 million.

Investing activities used $14.1 million in liquidity during the first quarter of 2017. This cash requirement mainly consisted of purchases related to property, plant and equipment, primarily for the addition of various equipment upgrades and expansions for an amount of $11.7 million. For the quarter ended March 31, 2016, cash flows from investing activities decreased liquidity by $5.2 million.

The following table details the maturities of the financial obligations as at March 31, 2017:

(in millions of dollars)	**Carrying Amount $**	**Contractual Cash flow $**	**Less than 1 year $**	**1 – 3 years $**	**4 – 5 years $**	**After 5 years $**
Accounts payable and accrued liabilities	129.1	129.1	129.1	-	-	-
Long-term debt obligations	698.5	825.5	27.9	58.5	508.9	230.2
Interest rate swap agreements	0.2	0.2	0.1	0.1	-	-
Minimum payments under operating lease obligations	-	85.5	24.1	32.4	14.1	14.9
Non-compete agreements	7.6	8.1	1.9	2.9	2.7	0.6
Total	835.4	1,048.4	183.1	93.9	525.7	245.7

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2017, the capital stock issued and outstanding consisted of 69,320,710 common shares (69,303,307 as at December 31, 2016). The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2017:

Number of shares (in '000s)	**Three-month Period Ended March 31, 2017**
Balance – Beginning of period	69,303
Exercise of stock options	10
Employee share purchase plans	8
Balance – End of period	69,321

As at May 3, 2017, the capital stock issued and outstanding consisted of 69,321,243 common shares.

As at March 31, 2017, the number of outstanding options to acquire common shares issued under the Company’s Stock Option Plan was 45,000 (December 31, 2016 – 55,000) of which 21,000 (December 31, 2016 – 31,000) were exercisable. As at May 3, 2017, the number of outstanding options was 45,000, of which 21,000 were exercisable.

DIVIDENDS

On May 3, 2017, the Board of Directors declared a quarterly dividend of $0.11 per common share payable on June 27, 2017 to shareholders of record at the close of business on June 5, 2017.

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

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company’s annual MD&A contained in its 2016 Annual Report.

CURRENT ECONOMIC CONDITIONS

Operations

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

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

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

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

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

Liquidity

As at March 31, 2017, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at March 31, 2017, an amount of $305.2 million was available against the Company’s committed revolving credit facility of $765.3 million (US$575.0 million).

Accounts receivable increased during the first three months of 2017 as a result of higher sales in the latter part of the first quarter of 2017, when compared to the latter part of the fourth quarter of 2016, partially offset by the effect of local currency translation on U.S.-based accounts receivable. Management considers that all recorded receivables are fully collectible as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories also increased during the first three months of 2017 due to the normal seasonal inventory build-up in anticipation of higher projected peak sales volumes in the second and third quarters, partially offset by the effect of local currency translation on U.S.-based inventories. To ensure efficient treatment operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2016 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

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

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

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and such differences could be material. Estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the financial statements of the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at March 31, 2017 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at March 31, 2017.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from January 1, 2017 to March 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

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

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

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

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

As one of the largest North American providers of industrial treated wood products, Stella-Jones will leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, while diligently seeking market opportunities in all product categories. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company is taking the necessary steps to adjust production levels, maximize operating efficiencies and minimize costs throughout the organization. Additionally, the Company will continue to focus on the integration of its recent acquisitions and on ramping up production of its new facility in Cameron, Wisconsin. Cash generation and maintaining a prudent use of leverage remain priorities for Management. The solid cash flows provided by operating activities will be used to reduce debt, invest in working capital as well as in property, plant and equipment and in maintaining an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact, as Management believes that the fundamentals of each product category will remain strong. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

May 3, 2017