MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine month periods ended September 30, 2017 compared with the three- and nine-month periods ended September 30, 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 November 2, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the three- and nine-month periods ended September 30, 2017 compared with the three- and nine-month periods ended September 30, 2016. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 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 September 30, 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 September 30, 2017, the Company's workforce numbered approximately 1,880 employees.

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

OUR MISSION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

Reconciliation of EBITDA and operating income to net income* (millions of dollars)	**Three-month periods ended** Sept. 30, 2017	**Three-month periods ended** Sept. 30, 2016	**Nine-month periods ended** Sept. 30, 2017	**Nine-month periods ended** Sept. 30, 2016
Net income for the period	$42.0	$45.7	$116.8	$135.4
Plus:				
Provision for income taxes	$16.8	$17.4	$46.5	$56.1
Financial expenses	$4.3	$4.2	$15.1	$13.6
Operating income	$63.1	$67.3	$178.4	$205.1
Depreciation and amortization	$8.2	$9.0	$25.1	$22.8
EBITDA	$71.3	$76.3	$203.5	$227.9

* Numbers may not add exactly due to rounding

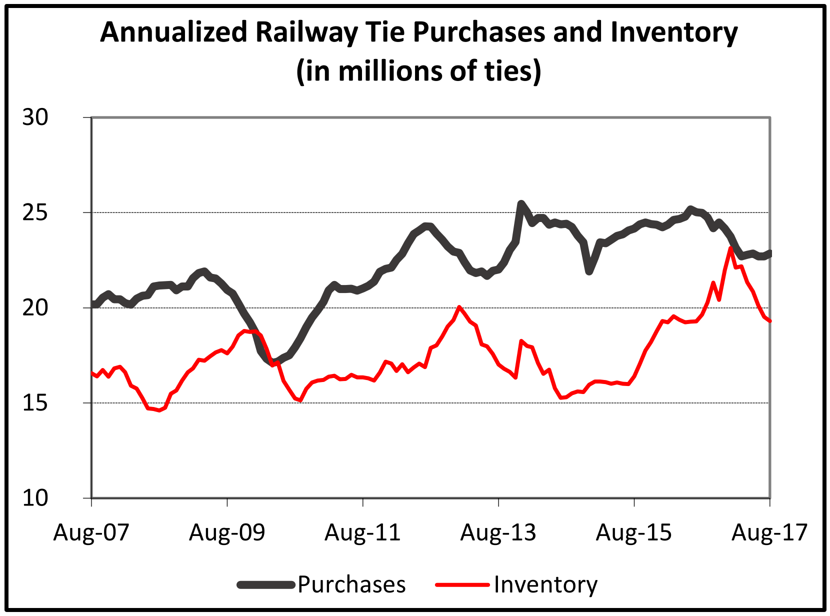
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended September 30, 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**		**2016**	
	Average rate for the three-month period ended Sept. 30, 2017	**Closing rate as at Sept. 30, 2017**	**Average rate for the three-month period ended Sept. 30, 2016**	**Closing rate as at December 31, 2016**
	1.2664	1.2480	1.3030	1.3427

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for the first eight months of 2017 were 16.2 million ties, versus 17.5 million ties for the same period in 2016, resulting in industry purchases of 22.9 million ties for the 12-month period ended August 31, 2017. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Meanwhile, ongoing production adjustments by RTA members have further reduced industry inventory, which stood at 19.3 million ties as at August 31, 2017. As a result, the August 31, 2017 inventory-to-sales ratio declined to 0.84:1, slightly above the previous ten-year average ratio of 0.79:1.



Source: Railway Tie Association

Total traffic on North American railroads increased 5.0% in the first nine months of 2017, according to data released by the Association of American Railroads. While carload volume increased by 5.3%, mainly due to higher shipments of coal, as well as of metals and minerals, the volume of intermodal trailers and containers rose 4.7% from 2016 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2017 reached $517.6 million, up $5.0 million, or 1.0%, over last year's sales of $512.6 million for the same period. Acquisitions contributed sales of approximately $2.1 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 $9.9 million on the value of U.S. dollar denominated sales when compared with last year's third quarter. Excluding these factors, sales increased by $12.9 million, or 2.5%, as higher sales of utility poles and residential lumber were partially offset by lower railway tie sales, as detailed below.

For the nine-month period ended September 30, 2017, sales amounted to $1.51 billion, versus $1.50 billion for the corresponding period a year earlier. Acquisitions contributed sales of $40.9 million, while the currency conversion effect had a negative impact of $4.3 million on the value of U.S. dollar denominated sales. Excluding these factors, sales decreased approximately $24.4 million, or 1.6%.

Sales by product category

Railway ties

Railway tie sales for the third quarter of 2017 amounted to $160.8 million, representing a decrease of $25.7 million, or 13.8%, from sales of $186.6 million in the third quarter of 2016. Excluding the currency conversion effect, railway tie sales declined approximately $21.7 million, or 11.6%, mainly due to lower pricing. Railway tie sales accounted for 31.1% of the Company's third-quarter sales.

For the first nine months of 2017, railway tie sales totalled $533.6 million, versus $603.2 million in the first nine months of 2016. Excluding the currency conversion effect, railway tie sales decreased approximately $67.9 million, or 11.3%.

Utility poles
Utility pole sales reached $172.5 million in the third quarter of 2017, up 7.8% from sales of $160.0 million in the corresponding period in 2016. Acquisitions contributed sales of approximately $2.1 million, while the currency conversion effect decreased the value of U.S. dollar denominated sales by about $3.9 million when compared with the same period last year. Excluding these factors, utility pole sales increased approximately $14.4 million, or 9.0%, reflecting organic sales growth in the southeastern United States and a gradual return to historical maintenance demand. Utility pole sales accounted for 33.3% of the Company's total sales in the third quarter of 2017.

In the nine-month period ended September 30, 2017, sales of utility poles amounted to $491.0 million, compared with $434.6 million a year earlier. Excluding the contribution from acquisitions and the currency conversion effect, sales increased approximately $19.1 million, or 4.4%.

Residential lumber
Sales in the residential lumber category reached $125.8 million in the third quarter of 2017, up from $107.3 million a year earlier. Excluding the currency conversion effect, residential lumber sales increased approximately $20.2 million, or 18.8%, mainly reflecting higher selling prices due to increased untreated lumber costs and more favourable weather in Canada during the third quarter of 2017 compared to the same period last year. Residential lumber accounted for 24.3% of Stella-Jones' sales in the third quarter of 2017.

For the nine-month period ended September 30, 2017, residential lumber sales totalled $317.6 million, compared with $301.3 million for the corresponding period in 2016.

Industrial products
Industrial product sales reached $25.6 million in the third quarter of 2017, down from $27.5 million in the third quarter of 2016. This variation is mainly due to lower sales of marine pilings in Canada, partially offset by higher sales of rail-related products in the United States. Industrial products represented 4.9% of the Company's sales in the three-month period ended September 30, 2017.

For the first nine months of 2017, industrial product sales amounted to $74.6 million, versus $81.3 million in the first nine months of 2016.

Logs and lumber
For the third quarter of 2017, logs and lumber sales totalled $32.9 million, versus $31.3 million in the third quarter of 2016. This variation reflects the timing of lumber purchase and resale activities, the timing of timber harvesting, as well as higher selling prices due to increased lumber costs. Logs and lumber sales represented 6.4% of the Company's sales in the three-month period ended September 30, 2017.

In the nine-month period ended September 30, 2017, logs and lumber sales stood at $92.0 million, up from $76.3 million in the nine-month period ended September 30, 2016.

Sales by destination

Sales in the United States amounted to $344.3 million, representing 66.5% of Stella-Jones' total sales in the third quarter of 2017, versus $354.1 million in the corresponding period of 2016. This year-over-year decrease of 2.8% is mainly due to lower railway tie sales and the effect of local currency translation on U.S.-dollar denominated sales. These factors were partially offset by higher sales in the utility pole and residential lumber product categories. For the first nine months of 2017, sales in the United States stood at $1.05 billion, stable compared to the corresponding period last year.

Sales in Canada in the third quarter of 2017 reached $173.3 million, representing 33.5% of sales, compared with $158.5 million in the third quarter of 2016. This 9.3% year-over-year increase mainly reflects higher sales in the residential lumber product category. For the first nine months of 2017, sales in Canada totalled $462.7 million, compared with $450.8 million in the first nine months of 2016.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $434.1 million, or 83.9% of sales, for the three-month period ended September 30, 2017. This compares with $419.3 million, or 81.8% of sales, in the three-month period ended September 30, 2016. The increase in absolute dollars essentially reflects a higher business volume and increased untreated lumber costs in the residential lumber category. The increase as a percentage of sales reflects 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 September 30, 2017, versus $9.0 million in the corresponding period of 2016. As a result, gross profit reached $83.6 million, or 16.1% of sales, in the third quarter of 2017, compared with $93.3 million, or 18.2% of sales, in the third quarter of 2016.

For the nine-month period ended September 30, 2017, cost of sales amounted to $1.26 billion, or 83.7% of sales, versus $1.21 billion, or 81.2% of sales, in the nine-month period ended September 30, 2016. Depreciation and amortization reached $25.1 million for the nine-month period ended September 30, 2017, versus $22.8 million in the corresponding period of 2016. As a result, gross profit stood at $246.4 million, or 16.3% of sales, in the first nine months of 2017, compared with $281.7 million, or 18.8% of sales, in the first nine months of 2016.

Selling and administrative

Selling and administrative expenses for the third quarter of 2017 were $20.5 million, compared with expenses of $23.9 million in the third quarter of 2016. This variation is mainly related to a reduction in profit sharing expenses of $2.0 million as well as lower administrative expenses and the effect of currency translation. As a percentage of sales, selling and administrative expenses represented 4.0% of sales in the third quarter of 2017, down from 4.7% of sales in the third quarter of 2016.

For the nine-month period ended September 30, 2017, selling and administrative expenses amounted to $69.6 million, or 4.6% of sales, compared with $74.4 million, or 5.0% of sales, in the nine-month period ended September 30, 2016.

Other losses (gains), net

Stella-Jones' other net gains of $16,000 for the three-month period ended September 30, 2017, essentially consisted of a gain related to the mark-to-market effect of diesel and petroleum derivative commodity contracts, partially offset by a loss on asset disposal and a foreign exchange loss. Last year's other net losses of $2.1 million essentially consisted of a foreign exchange loss and a provision for site remediation.

In the first nine months of 2017, other net gains totalled $1.6 million, while other net losses amounted to $2.3 million in the first nine months of 2016.

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 three- and nine-month periods ended September 30, 2017 amounted to $4.3 million and $15.1 million, respectively, up from $4.2 million and $13.6 million, respectively, in the three- and nine-month periods ended September 30, 2016. These variations reflect a higher fixed interest rate applicable to the senior notes issued through a private placement on January 17, 2017, partially 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 $58.8 million, or 11.4% of sales, in the third quarter of 2017, versus income before income taxes of $63.1 million, or 12.3% of sales, in the third quarter of 2016. The provision for income taxes totalled $16.8 million in the third quarter of 2017, representing an effective tax rate of 28.6%. In the third quarter of 2016, the income tax expense stood at $17.4 million, equivalent to an effective tax rate of 27.6%.

For the nine-month period ended September 30, 2017, income before income taxes stood at $163.3 million, or 10.8% of sales, while the provision for income taxes amounted to $46.5 million, representing an effective tax rate of 28.5%. In the nine-month period ended September 30, 2016, income before income taxes was $191.4 million, or 12.8% of sales, while the provision for income taxes amounted to $56.1 million, representing an effective tax rate of 29.3%.

For the three- and nine-month periods ended September 30, 2017, the year-over-year decrease in income before income taxes results from the decrease in gross profit, while fluctuations in the effective tax rate are attributable to variations in the allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the three-month period ended September 30, 2017 reached $42.0 million, or $0.61 per diluted share, versus net income of $45.7 million, or $0.66 per diluted share, in the three-month period ended September 30, 2016.

For the nine-month period ended September 30, 2017, net income totalled $116.8 million, or $1.68 per diluted share, compared with $135.4 million, or $1.96 per diluted share, in the nine-month period ended September 30, 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 eleven quarters.

2017

For the quarters ended	**March 31**	**June 30**	**Sept. 30**		
(millions of dollars, except per share data)	**$**	**$**	**$**		
Sales	396.9	594.2	517.6		
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	49.1	83.1	71.3		
Operating income [1]	40.8	74.5	63.1		
Net income for the period	25.9	48.9	42.0		
Earnings per common share					
Basic	0.37	0.71	0.61		
Diluted	0.37	0.71	0.61		

2016

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

2015

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

[1] Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in Stella-Jones' condensed interim unaudited 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 September 30, 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 September 30, 2017, total assets reached $1.80 billion, versus $1.96 billion as at December 31, 2016. The reduction in the value of total assets balance mostly reflects a decrease in inventory as well as the effect of local currency translation on U.S.-based assets, partially offset by an increase in accounts receivable, as explained below.

The value of accounts receivable was $222.4 million as at September 30, 2017, compared with $160.8 million as at December 31, 2016. The increase is attributable to higher sales in the third quarter of 2017, when compared to the fourth quarter of 2016, partially offset by the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $676.1 million as at September 30, 2017, down from $854.7 million as at December 31, 2016. This decrease mainly reflects lower untreated railway tie prices, the seasonal reduction in residential lumber inventory and 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 $454.3 million as at September 30, 2017, compared with $467.0 million as at December 31, 2016. This decrease during the first nine months of 2017 is mainly related to the depreciation of property, plant and equipment totalling $13.5 million and the effect of local currency translation on U.S.-based property, plant and equipment. These factors were partially offset by purchases of property, plant and equipment totalling $32.7 million during the same period.

The value of intangible assets and goodwill reached $127.6 million and $268.1 million, respectively, as at September 30, 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 $11.6 million in the first nine months of 2017 and the effect of local currency translation on U.S.-based intangible assets. The decrease in goodwill is also explained by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at September 30, 2017, Stella-Jones' total liabilities stood at $735.6 million, down from $935.5 million as at December 31, 2016. This variation mainly reflects a decrease in long-term debt, as detailed below.

The value of current liabilities was $170.6 million as at September 30, 2017, versus $122.7 million as at December 31, 2016. This variation is attributable to a $38.6 million increase in accounts payable and accrued liabilities as a result of greater business activity in the third quarter of 2017, when compared to the fourth quarter of 2016, as well as a $11.4 million increase in income taxes payable. This increase in current liabilities was 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 $454.1 million as at September 30, 2017, versus $694.4 million as at December 31, 2016. The decrease mainly reflects a solid cash flow generation between the two dates as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at September 30, 2017, an amount of $352.4 million was available against the Company's committed revolving credit facility of $592.8 million (US$475.0 million).

Shareholders' equity

Shareholders' equity reached $1.06 billion as at September 30, 2017 compared with $1.03 billion as at December 31, 2016. The increase is attributable to net income of $116.8 million during the nine-month period ended September 30, 2017, partially offset by dividend payments amounting to $22.9 million and a $57.0 million unfavourable variation in the value of accumulated other comprehensive income resulting from the effect of currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-Month Periods Ended**		**Nine-Month Periods Ended**	
(millions of dollars)	**Sept. 30, 2017**	**Sept. 30, 2016**	**Sept. 30, 2017**	**Sept. 30, 2016**
Operating activities	$175.5	$127.8	$277.2	$176.6
Financing activities	($150.2)	($108.3)	($231.0)	($46.8)
Investing activities	($11.9)	($19.6)	($34.3)	($130.7)
Net change in cash and cash equivalents during the period	$13.4	($0.1)	$11.9	($0.9)
Cash and cash equivalents - beginning	$2.2	$6.2	$3.7	$7.0
Cash and cash equivalents - end	$15.6	$6.1	$15.6	$6.1

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, available cash, long-term debt and the issuance of common shares. Stella-Jones plans on spending approximately $40.0 million on property, plant and equipment in 2017, of which half is related to efficiency improvements and the balance dedicated to maintaining 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 was $72.6 million for the three-month period ended September 30, 2017, compared with $77.1 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 increased liquidity by $116.6 million in the third quarter of 2017. This was mainly due to decreases of $55.4 million and $58.3 million, respectively, in accounts receivable and inventory. These variations mostly reflect normal seasonal variations, including the seasonal reduction in residential lumber inventory, as well as the effect of lower untreated railway tie pricing on inventory. In the third quarter of 2016, changes in non-cash working capital components had provided liquidity of $83.0 million.

Interest and income taxes paid further reduced liquidity by $6.0 million and $7.7 million, respectively, in the third quarter of 2017. This compares with interest and income taxes paid of $7.2 million and $25.1 million, respectively, a year earlier.

As a result, cash flows provided by operating activities reached $175.5 million in the third quarter of 2017, versus $127.8 million in the third quarter of 2016.

For the nine-month period ended September 30, 2017, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid stood at $206.2 million, compared with $231.0 million in the nine-month period ended September 30, 2016. Changes in non-cash working capital components provided liquidity of $106.6 million in the first nine months of 2017, as opposed to a liquidity reduction of $3.8 million in the first nine months of 2016. Interest and income taxes paid further reduced liquidity by $13.8 million and $21.8 million, respectively, in the first nine months of 2017, compared with liquidity reductions of $17.5 million and $33.1 million, respectively, a year earlier. As a result, cash flows provided by operating activities reached $277.2 million in the nine-month period ended September 30, 2017, versus $176.5 million in the corresponding period of 2016.

Financing activities for the quarter ended September 30, 2017 reduced liquidity by $150.2 million. This cash usage essentially stems from a $142.2 million reduction in the committed revolving credit facility resulting from solid operating cash flow generation during the quarter. For the quarter ended September 30, 2016, financing activities had reduced liquidity by $108.3 million.

For the first nine months of 2017, financing activities reduced liquidity by $231.0 million, compared to a liquidity reduction of $46.8 million in the first nine months of 2016.

Investing activities used $11.9 million in liquidity during the third 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 $12.1 million. For the third quarter of 2016, cash flows from investing activities had decreased liquidity by $19.6 million.

For the nine-month period ended September 30, 2017, investing activities reduced liquidity by $34.3 million, versus a reduction of $130.7 million explained in most part by the purchase of property, plant and equipment and acquisitions realized in the nine-month period ended September 30, 2016.

The following table details the maturities of the financial obligations as at September 30, 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	139.7	139.7	139.7	-	-	-
Long-term debt obligations	454.1	538.2	19.3	42.1	265.2	211.6
Interest rate swap agreements	-	-	-	-	-	-
Minimum payments under operating lease obligations	-	73.5	21.3	27.9	12.0	12.3
Non-compete agreements	5.8	6.2	1.8	3.2	1.2	-
Total	599.6	757.6	182.1	73.2	278.4	223.9

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2017, the capital stock issued and outstanding consisted of 69,335,726 common shares (69,303,307 as at December 31, 2016). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2017:

Number of shares (in '000s)	**Three-month Period Ended September 30, 2017**	**Nine-month Period Ended September 30, 2017**
Balance – Beginning of period	69,329	69,303
Exercise of stock options	-	10
Employee share purchase plans	7	23
Balance – End of period	69,336	69,336

As at November 2, 2017, the capital stock issued and outstanding consisted of 69,335,726 common shares.

As at September 30, 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 27,000 (December 31, 2016

– 31,000) were exercisable. As at November 2, 2017, the number of outstanding options was 45,000, of which 27,000 were exercisable.

DIVIDENDS

On November 2, 2017, the Board of Directors declared a quarterly dividend of $0.11 per common share payable on December 21, 2017 to shareholders of record at the close of business on December 4, 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 slightly higher year-over-year sales for Stella-Jones in 2017. However, operating margins will remain 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. The Company anticipates that railway tie sales for the fourth quarter of 2017 will be relatively stable compared with the same period last year as lower pricing is offset by higher volumes. These market conditions are also expected to result in 2018 annual sales being fairly similar to 2017 levels. Moreover, softer pricing in the railway tie product category is expected to continue to negatively impact operating margins, which should gradually return to historical levels by the end of 2018.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Following softer demand in 2016, the Company has experienced a gradual return to normal patterns in 2017 and such patterns are expected to continue in 2018. Stella-Jones is also encouraged by the improving demand for transmission poles. Operating margins for this product category are also expected to slightly improve in 2018.

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 September 30, 2017, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at September 30, 2017, and subject to debt covenants, an amount of $352.4 million was available against the Company's committed revolving credit facility of $592.8 million (US$475.0 million).

Accounts receivable increased during the first nine months of 2017 as a result of higher sales in the third quarter of 2017, when compared to 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 decreased during the first nine months of 2017 due to lower untreated railway tie prices, the seasonal reduction in residential lumber inventory and the effect of local currency translation on U.S. 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.

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. Management is currently refining its analysis of the impact of the transition to IFRS 15, however, at this time, Management has not identified any material impacts resulting from the transition.

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 September 30, 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 September 30, 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 July 1, 2017 to September 30, 2017 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

Based on current market conditions, Management expects slightly higher year-over-year sales for Stella-Jones in 2017. However, operating margins will remain 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. The Company anticipates that railway tie sales for the fourth quarter of 2017 will be relatively stable compared with the same period last year as lower pricing is offset by higher volumes. These market conditions are also expected to result in 2018 annual sales being fairly similar to 2017 levels. Moreover, softer pricing in the railway tie product category is expected to continue to negatively impact operating margins, which should gradually return to historical levels by the end of 2018.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Following softer demand in 2016, the Company has experienced a gradual return to normal patterns in 2017 and such patterns are expected to continue in 2018. Stella-Jones is also encouraged by the improving demand for transmission poles. Operating margins for this product category are also expected to slightly improve in 2018.

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 growth 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 optimize production levels, maximize operating efficiencies and minimize costs throughout the organization. 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.

November 2, 2017