



Source: Stella-Jones Inc.

Contacts: **Éric Vachon, CPA, CA**
Senior Vice-President and Chief Financial Officer
Tel.: (514) 940-3903
evachon@stella-jones.com

Martin Goulet, CFA
MaisonBrison Communications
Tel.: (514) 731-0000
martin@maisonbrison.com

STELLA-JONES REPORTS 2017 THIRD QUARTER RESULTS

- Sales of \$517.6 million, up 1.0% from \$512.6 million a year ago
- Operating income of \$63.1 million, compared with \$67.3 million in the prior year
- Diluted EPS of \$0.61, compared with \$0.66 a year ago
- Cash flows from operating activities increased \$47.8 million compared to last year

Montreal, Quebec – November 3, 2017 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its third quarter ended September 30, 2017.

“Stella-Jones’ growing reach in the utility pole and residential lumber markets led to solid sales growth in these product categories during the third quarter, more than offsetting the effect of lower year-over-year pricing in the railway tie product category. Furthermore, a strong operating cash flow generation allowed us to significantly reduce our long-term debt and positions us for future expansion,” said Brian McManus, President and Chief Executive Officer.

Financial highlights (in millions of Canadian dollars, except per share data)	Quarters ended Sept. 30,		Nine-months ended Sept. 30,	
	2017	2016	2017	2016
Sales	517.6	512.6	1,508.8	1,496.6
Operating income	63.1	67.3	178.4	205.1
Net income for the period	42.0	45.7	116.8	135.4
Per share - basic and diluted (\$)	0.61	0.66	1.68	1.96
Weighted average shares outstanding (basic, in ‘000s)	69,330	69,255	69,319	69,200

THIRD QUARTER RESULTS

Sales reached \$517.6 million, up 1.0% from \$512.6 million last year. 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. Excluding these factors, sales increased by \$12.9 million, or 2.5%.

Railway tie sales amounted to \$160.8 million, compared with sales of \$186.6 million in last year’s third quarter. Excluding the currency conversion effect, railway tie sales declined approximately \$21.7 million, or 11.6%, mainly due to lower pricing.

Utility pole sales reached \$172.5 million in the third quarter of 2017, representing a 7.8% increase over sales of \$160.0 million a year ago. Excluding the contribution from acquisitions and the currency conversion effect, 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.

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.

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. 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.

Operating income stood at \$63.1 million, or 12.2% of sales, compared with \$67.3 million, or 13.1% of sales in the third quarter of the previous year. The decrease as a percentage of sales essentially reflects lower selling prices for railway ties and a less favourable geographical mix in the utility pole category.

Net income for the third quarter of 2017 was \$42.0 million, or \$0.61 per diluted share, versus \$45.7 million, or \$0.66 per diluted share, in the third quarter of 2016.

NINE-MONTH RESULTS

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%.

Operating income reached \$178.4 million, or 11.8% of sales, compared with \$205.1 million, or 13.7% of sales, last year. Net income totalled \$116.8 million, or \$1.68 per diluted share, versus \$135.4 million, or \$1.96 per diluted share, in the prior year.

SOLID FINANCIAL POSITION

As at September 30, 2017, the Company's financial position remained solid with long-term debt, including the current portion, of \$454.1 million, down significantly from \$615.8 million three months earlier. The decrease in long-term debt reflects a solid operating cash flow generation during the quarter and, to a lesser extent, the effect of local currency translation on U.S. dollar denominated long-term debt. As at September 30, 2017, Stella-Jones' total debt to total capitalization ratio was 0.30:1, down from 0.37:1 three months earlier.

QUARTERLY DIVIDEND OF \$0.11 PER SHARE

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.

OUTLOOK

"Based on current trends, we expect to conclude 2017 with slightly higher sales compared to the previous year. Looking ahead to 2018, conditions prevailing in the railway tie category should yield relatively stable sales. Meanwhile, normal maintenance patterns and improving demand for transmission poles should provide further momentum in the utility pole category. We also expect margins to slightly improve throughout 2018. Our focus remains on growing shareholder value by maximizing operating cash flow through ensuring efficient and cost-effective operations. Funds generated will be invested in working capital and our existing network, while maintaining an optimal dividend policy and examining expansion opportunities that offer strategic value in our main product categories," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on November 3, 2017, at 10:00 AM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 83494502. This recording will be available on Friday, November 3, 2017 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, November 10, 2017.

NON-IFRS FINANCIAL MEASURES

Operating income is a financial measure not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Management considers this non-IFRS measure to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance.

ABOUT STELLA-JONES

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

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, the ability of the Company to raise the capital required for acquisitions, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

- 30 -

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



NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the third quarter ended September 30, 2017 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 2, 2017

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
September 30, 2017 and 2016

Stella-Jones Inc.

Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at September 30, 2017 \$	As at December 31, 2016 \$
Assets			
Current assets			
Cash		15,571	2,267
Restricted cash		-	1,452
Accounts receivable		222,364	160,755
Derivative financial instruments	6	648	1,739
Inventories		676,089	854,652
Prepaid expenses		23,993	23,934
Income taxes receivable		-	5,720
		<u>938,665</u>	<u>1,050,519</u>
Non-current assets			
Property, plant and equipment		454,328	467,035
Intangible assets		127,624	146,264
Goodwill		268,098	285,592
Derivative financial instruments	6	4,201	5,056
Other assets		6,973	7,492
		<u>1,799,889</u>	<u>1,961,958</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		139,735	101,142
Income taxes payable		11,352	-
Current portion of long-term debt	4	5,122	6,919
Current portion of provisions and other long-term liabilities		14,377	14,590
		<u>170,586</u>	<u>122,651</u>
Non-current liabilities			
Long-term debt	4	449,027	687,466
Deferred income taxes		100,464	101,827
Provisions and other long-term liabilities		8,574	16,480
Employee future benefits		6,922	6,753
Derivative financial instruments	6	-	363
		<u>735,573</u>	<u>935,540</u>
Shareholders' equity			
Capital stock	5	220,232	219,119
Contributed surplus		279	258
Retained earnings		766,394	672,620
Accumulated other comprehensive income		77,411	134,421
		<u>1,064,316</u>	<u>1,026,418</u>
		<u>1,799,889</u>	<u>1,961,958</u>
Subsequent events	9		

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the nine-month periods ended September 30, 2017 and 2016

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive income</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2017	219,119	258	672,620	223,124	(92,532)	3,829	134,421	1,026,418
Comprehensive income (loss)								
Net income for the period	-	-	116,773	-	-	-	-	116,773
Other comprehensive income (loss)	-	-	(122)	(81,085)	24,756	(681)	(57,010)	(57,132)
Comprehensive income (loss) for the period	-	-	116,651	(81,085)	24,756	(681)	(57,010)	59,641
Dividends on common shares	-	-	(22,877)	-	-	-	-	(22,877)
Exercise of stock options	146	(47)	-	-	-	-	-	99
Employee share purchase plans	967	-	-	-	-	-	-	967
Stock-based compensation	-	68	-	-	-	-	-	68
	1,113	21	(22,877)	-	-	-	-	(21,743)
Balance – September 30, 2017	220,232	279	766,394	142,039	(67,776)	3,148	77,411	1,064,316

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity...continued

(Unaudited)

For the nine-month periods ended September 30, 2017 and 2016

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive income</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized losses on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2016	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502
Comprehensive income (loss)								
Net income for the period	-	-	135,372	-	-	-	-	135,372
Other comprehensive income (loss)	-	-	(2,309)	(51,318)	15,937	(2,922)	(38,303)	(40,612)
Comprehensive income (loss) for the period	-	-	133,063	(51,318)	15,937	(2,922)	(38,303)	94,760
Dividends on common shares	-	-	(20,760)	-	-	-	-	(20,760)
Exercise of stock options	1,279	(346)	-	-	-	-	-	933
Employee share purchase plans	847	-	-	-	-	-	-	847
Stock-based compensation	-	117	-	-	-	-	-	117
	2,126	(229)	(20,760)	-	-	-	-	(18,863)
Balance – September 30, 2016	218,600	274	658,705	195,774	(81,247)	(2,707)	111,820	989,399

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

Stella-Jones Inc.

Interim Consolidated Statements of Income (Unaudited)

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,		
Note	2017 \$	2016 \$	2017 \$	2016 \$	
Sales	517,628	512,589	1,508,786	1,496,623	
Expenses					
Cost of sales	434,058	419,258	1,262,367	1,214,895	
Selling and administrative	20,536	23,923	69,594	74,389	
Other losses (gains), net	(16)	2,122	(1,561)	2,267	
	454,578	445,303	1,330,400	1,291,551	
Operating income	63,050	67,286	178,386	205,072	
Financial expenses	4,259	4,185	15,107	13,636	
Income before income taxes	58,791	63,101	163,279	191,436	
Provision for income taxes					
Current	19,579	10,891	41,827	43,139	
Deferred	(2,760)	6,533	4,679	12,925	
	16,819	17,424	46,506	56,064	
Net income for the period	41,972	45,677	116,773	135,372	
Basic earnings per common share	5	0.61	0.66	1.68	1.96
Diluted earnings per common share	5	0.61	0.66	1.68	1.96

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income (Unaudited)

(expressed in thousands of Canadian dollars)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017 \$	2016 \$	2017 \$	2016 \$
Net income for the period	41,972	45,677	116,773	135,372
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in losses on translation of financial statements of foreign operations	(44,872)	18,938	(87,025)	(55,302)
Income taxes on change in losses on translation of financial statements of foreign operations	4,224	137	5,940	3,984
Change in gains on translation of long-term debt designated as hedges of net investment in foreign operations	19,644	(8,303)	33,666	19,659
Income taxes on change in gains on translation of long-term debt designated as hedges of net investment in foreign operations	(7,066)	(24)	(8,910)	(3,722)
Change in losses on fair value of derivatives designated as cash flow hedges	(314)	1,507	(879)	(3,971)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	49	(398)	198	1,049
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	644	(28)	(167)	(3,354)
Income taxes on remeasurements of post-retirement benefit obligations	(211)	43	45	1,045
	(27,902)	11,872	(57,132)	(40,612)
Comprehensive income	14,070	57,549	59,641	94,760

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

Stella-Jones Inc.

Interim Consolidated Statements of Cash Flows

(Unaudited)

For the nine-month periods ended September 30, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
	\$	\$
Cash flows provided by (used in)		
Operating activities		
Net income for the period	116,773	135,372
Adjustments for		
Depreciation of property, plant and equipment	13,510	11,521
Amortization of intangible assets	11,562	11,305
Financial expenses	15,107	13,636
Current income taxes expense	41,827	43,139
Deferred income taxes	4,679	12,925
Restricted stock units expense	3,197	4,283
Other	(456)	(1,157)
	<u>206,199</u>	<u>231,024</u>
Changes in non-cash working capital components and others		
Accounts receivable	(72,589)	(61,203)
Inventories	143,290	27,704
Prepaid expenses	(1,352)	(2,672)
Income taxes receivable	(2,708)	(5)
Accounts payable and accrued liabilities	45,159	53,953
Asset retirement obligations	(3,006)	(310)
Provisions and other long-term liabilities	(2,223)	(21,280)
	<u>106,571</u>	<u>(3,813)</u>
Interest paid	(13,780)	(17,533)
Income taxes paid	(21,828)	(33,131)
	<u>277,162</u>	<u>176,547</u>
Financing activities		
Increase in deferred financing costs	(717)	(1,051)
Net change in committed revolving credit facility	(392,100)	24,640
Increase in long-term debt	195,870	-
Repayment of long-term debt	(10,370)	(53,926)
Net change in non-competes payable	(1,830)	2,536
Dividend on common shares	(22,877)	(20,760)
Proceeds from issuance of common shares	1,066	1,780
	<u>(230,958)</u>	<u>(46,781)</u>
Investing activities		
Decrease (increase) in other assets	(1,679)	967
Business acquisitions	-	(88,317)
Increase in intangible assets	(353)	(3,274)
Purchase of property, plant and equipment	(32,740)	(40,437)
Proceeds from disposal of assets	420	396
	<u>(34,352)</u>	<u>(130,665)</u>
Net change in cash and cash equivalents during the period	11,852	(899)
Cash and cash equivalents – Beginning of period	<u>3,719</u>	<u>6,973</u>
Cash and cash equivalents – End of period	<u>15,571</u>	<u>6,074</u>

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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

1 Description of the business

Stella-Jones Inc. (the "Company") is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones Inc. also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company's headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 2, 2017.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

Principles of consolidation

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

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc.	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

Change in accounting policies

The Company has adopted the following revised standard, along with any consequential amendments, effective January 1, 2017. This change was made in accordance with the applicable transitional provisions.

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 adoption of this revised standard will require the Company to provide incremental disclosures in its 2017 annual 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. Management is currently refining its analysis of the

(2)

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

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

3 Business acquisitions

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

Total cash outlay associated with the acquisition was \$19,249, excluding acquisition costs of approximately \$1,048, recognized in the fourth quarter of 2016 interim consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

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.

Assets acquired	\$
Inventories	4,488
Property, plant and equipment	6,923
Customer relationships	1,050
Goodwill	6,934
Deferred income tax assets	930
	<u>20,325</u>
Liabilities assumed	
Accounts payable and accrued liabilities	78
Site remediation provision	937
Total net assets acquired and liabilities assumed	<u>19,310</u>
Consideration transferred	
Cash	19,249
Consideration payable	61
Consideration transferred	<u>19,310</u>

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

The Company's valuation of intangible assets has identified customer relationships having a thirty-five month 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 amortized and is deductible for Canadian tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a cash-generating unit defined as plants specialized in the treatment of utility poles and residential lumber.

4 Long-term debt

On January 17, 2017, the Company concluded a US\$150,000 private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of a series A senior note of US\$75,000 bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US\$75,000 bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the committed revolving credit facility. The notes were designated as hedges of net investment in foreign operations.

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.

On July 5, 2017, the Company reduced its committed revolving credit facility by US\$100,000, reducing total borrowings to a maximum of US\$475,000. As at September 30, 2017, the committed revolving credit facility's availability was \$352,350.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

5 Capital stock

The following table provides the number of common share outstanding for the nine-month periods ending September 30:

	2017	2016
Number of common shares outstanding – Beginning of period*	69,303	69,137
Stock option plan*	10	115
Employee share purchase plans*	23	19
Number of common shares outstanding – End of period*	<u>69,336</u>	<u>69,271</u>

* 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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

b) Earnings per share

The following table provides the reconciliation, as at September 30, between basic earnings per common share and diluted earnings per common share:

	For the		For the	
	three-month periods ended		nine-month periods ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income applicable to common shares	\$41,972	\$45,677	\$116,773	\$135,372
Weighted average number of common shares outstanding*	69,330	69,255	69,319	69,200
Effect of dilutive stock options*	8	40	10	36
Weighted average number of diluted common shares outstanding*	69,338	69,295	69,329	69,236
Basic earnings per common share **	\$0.61	\$0.66	\$1.68	\$1.96
Diluted earnings per common share **	\$0.61	\$0.66	\$1.68	\$1.96

* Number of shares is presented in thousands.

** Basic and diluted earnings per common share are presented in dollars per share.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

6 Fair value measurement and financial instruments

The following table provides information about assets and liabilities measured at fair value in the statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

	<u>As at September 30, 2017</u>	<u>As at December 31, 2016</u>
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	\$	\$
Recurring fair value measurements		
Current assets		
Interest rate swap agreements	171	311
Derivative commodity contracts	477	1,428
	<u>648</u>	<u>1,739</u>
Non-current assets		
Interest rate swap agreements	4,097	4,989
Derivative commodity contracts	104	67
	<u>4,201</u>	<u>5,056</u>
Non-current liabilities		
Interest rate swap agreements	-	109
Foreign exchange forward contracts	-	254
	<u>-</u>	<u>363</u>

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

The fair value of these financial instruments has been estimated using the discounted future cash flow method and has been classified as Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*, as it is based mainly on observable market data, namely government bond yields and interest rates. A description of each level of the hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value that is equal to its fair value.

7 Seasonality

The Company's operations follow a seasonal pattern, with utility pole, railway tie and industrial product shipments strongest in the second and third quarters to provide industrial end-users with product for their summer maintenance projects. Residential lumber sales follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season.

8 Segment information

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

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

The logs and lumber segment comprises 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.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

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

Sales attributed to countries based on location of customer for the nine-month periods ended September 30 are as follows:

	2017	2016
	\$	\$
Canada	462,706	450,804
U.S.	1,046,080	1,045,819
	<u>1,508,786</u>	<u>1,496,623</u>

Sales by product for the nine-month periods ended September 30 are as follows:

	2017	2016
	\$	\$
Pressure-treated wood		
Railway ties	533,571	603,175
Utility poles	491,036	434,598
Residential lumber	317,589	301,277
Industrial products	74,566	81,260
Logs and lumber	92,024	76,313
	<u>1,508,786</u>	<u>1,496,623</u>

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2017 and 2016

(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:

	<u>As at September 30, 2017</u>	<u>As at December 31, 2016</u>
Property, plant and equipment		
	\$	\$
Canada	115,021	108,220
U.S.	339,307	358,815
	<hr/> 454,328	<hr/> 467,035
Intangible assets		
	\$	\$
Canada	24,644	25,324
U.S.	102,980	120,940
	<hr/> 127,624	<hr/> 146,264
Goodwill		
	\$	\$
Canada	14,164	12,389
U.S.	253,934	273,203
	<hr/> 268,098	<hr/> 285,592

9 Subsequent events

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.

10 Comparative figures

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