MANAGEMENT'S DISCUSSION & ANALYSIS

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 audited consolidated financial statements were approved by the Board of Directors on March 13, 2018. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2017 compared with the fiscal year ended December 31, 2016. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and the notes thereto.

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 Company's audited 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 Accountant ("CPA") Canada Handbook Part I. 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 13, 2018, the Company operated thirty-eight wood treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2017, Stella-Jones' 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

This MD&A contains financial measures not prescribed by IFRS and not likely to be comparable to similar measures presented by other issuers. These measures are as follows:

- 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.
- Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid.
- Operating margin: Operating income divided by sales.
- Return on average equity: Net income divided by the mathematical average of current year's shareholders' equity and the previous year's shareholders' equity.
- Working capital ratio: Total current assets divided by total current liabilities.
- Total debt to total capitalization: Long-term debt (including the current portion) divided by the sum of shareholders' equity and long-term debt (including the current portion).
- Total debt to EBITDA: Long-term debt (including the current portion) divided by EBITDA.

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*	**Three-month periods ended**		**Fiscal years ended**	
	Dec. 31, 2017	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**51.1**	18.5	**167.9**	153.9
Plus:				
Provision for (recovery of) income taxes	**(26.0)**	5.4	**20.5**	61.5
Financial expenses	**3.9**	4.2	**19.0**	17.9
Operating income	**29.0**	28.2	**207.4**	233.2
Depreciation and amortization	**8.1**	8.8	**33.2**	31.6
EBITDA	**37.1**	36.9	**240.6**	264.8

* Numbers may not add exactly due to rounding.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	**2017**	2016	2015
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,886.1**	1,838.4	1,559.3
Operating income	**207.4**	233.2	220.1
Net income	**167.9**	153.9	141.4
Basic earnings per common share	**2.42**	2.22	2.05
Diluted earnings per common share	**2.42**	2.22	2.04

Financial Position	**2017**	2016	2015
(in millions of dollars)	**$**	$	$
Current assets	**908.4**	1,050.4	1,013.8
Total assets	**1,786.0**	1,960.9	1,778.9
Long-term debt[1]	**455.6**	694.0	669.9
Total liabilities	**670.4**	934.5	865.4
Shareholders' equity	**1,115.5**	1,026.4	913.5

[1] Including the current portion.

KEY PERFORMANCE INDICATORS

For the years ended December 31	**2017**	2016	2015
Operating margin	**11.0%**	12.7%	14.1%
Return on average equity	**15.7%**	15.9%	17.6%
Working capital ratio	**7.04**	8.58	6.36
Total debt to total capitalization	**0.29:1**	0.40:1	0.42:1
Total debt to EBITDA	**1.89**	2.62	2.75
Dividend per share	**$0.44**	$0.40	$0.32

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2017 and 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.

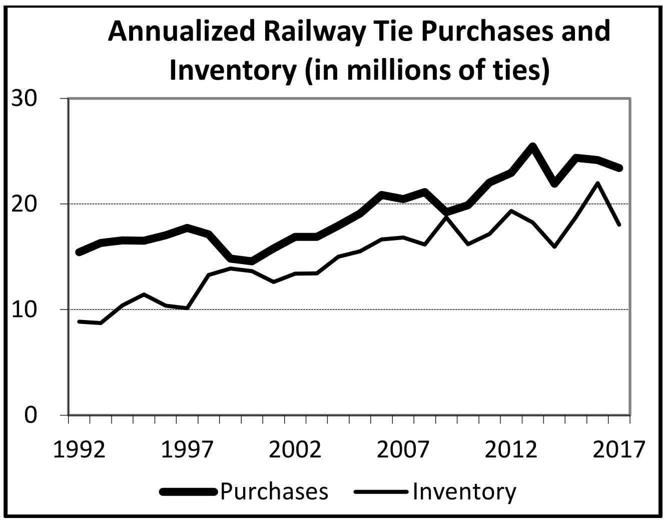
Cdn$/US$	**2017**		**2016**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.3240	1.3310	1.3792	1.2987
Second Quarter	1.3491	1.2977	1.2886	1.2917
Third Quarter	1.2664	1.2480	1.3030	1.3117
Fourth Quarter	1.2754	1.2545	1.3319	1.3427
Fiscal Year	1.3038	1.2545	1.3257	1.3427

INDUSTRY OVERVIEW

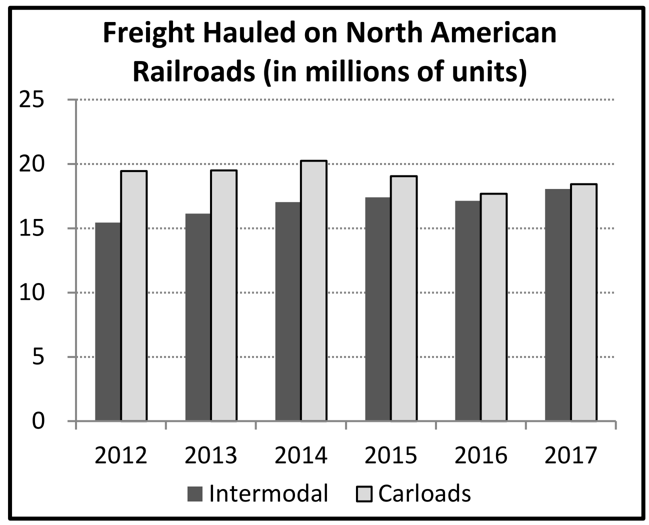
Railway ties

As reported by the Railway Tie Association ("RTA"), railway tie purchases for 2017 stood at 23.4 million ties, representing a slight decrease from 24.2 million ties in 2016. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Lower demand led to adjustments in production levels, resulting in a sharp reduction in industry inventory, which stood at 18.0 million ties as at December 31, 2017. As a result, the inventory-to-sales ratio reached 0.77:1 as at December 31, 2017, down from 0.91:1 twelve months earlier, and in-line with the previous ten-year average ratio of 0.79:1.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.



Source: Railway Tie Association



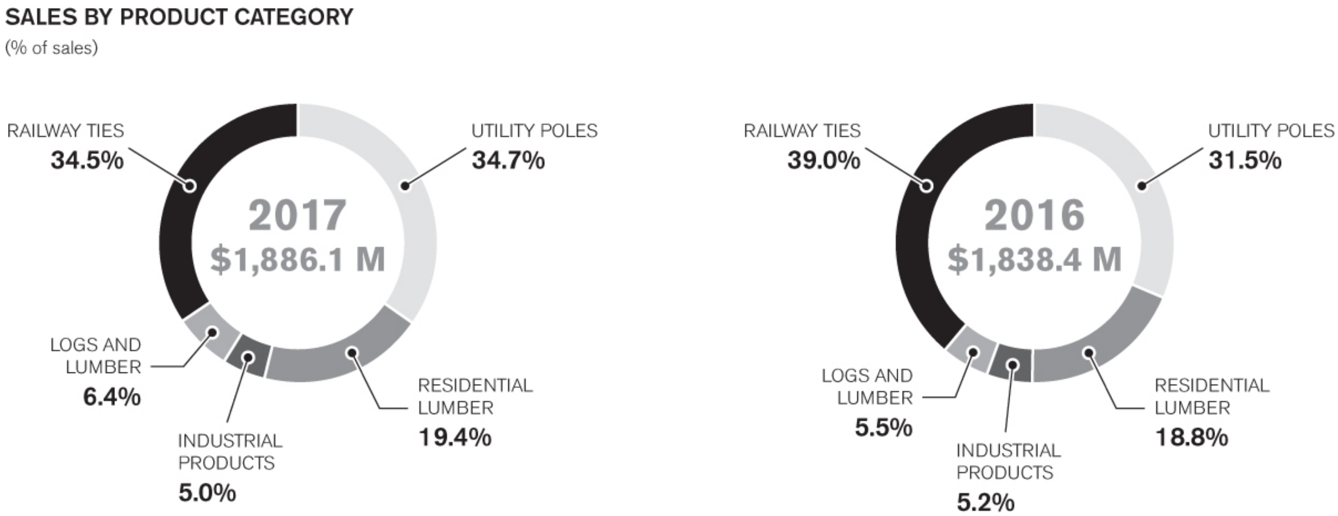
Source: Association of American Railroads

Reflecting a stronger economy compared to the previous year, total traffic on North American railroads increased by 4.8% in 2017, according to data released by the Association of American Railroads. Carload volume increased by 4.2%, mainly due to higher shipments of coal, as well as of metals and minerals, while intermodal trailer and container volume rose 5.3% from 2016 levels.

OPERATING RESULTS

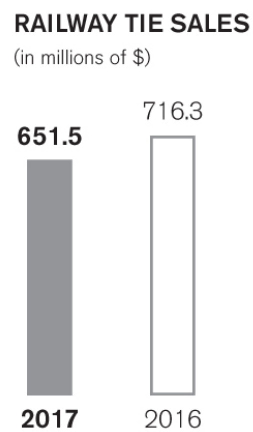
Sales

Sales for the year ended December 31, 2017 reached $1,886.1 million, up 2.6% from last year's sales of $1,838.4 million. Acquisitions completed in 2016 contributed additional sales of $44.0 million throughout 2017, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $17.0 million when compared with the previous year. Excluding these factors, sales increased approximately $20.8 million, or 1.1%.



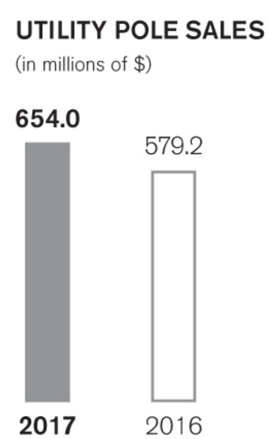
Railway ties

Railway tie sales for 2017 amounted to $651.5 million, versus sales of $716.3 million in 2016. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales decreased approximately $58.0 million, or 8.1%, mainly due to lower year-over-year pricing. Railway tie sales accounted for 34.5% of the Company's total sales in 2017.



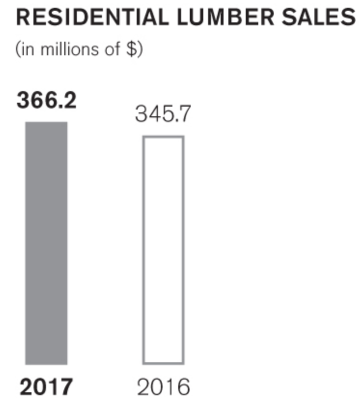
Utility poles

Utility pole sales reached $654.0 million in 2017, representing an increase of $74.7 million, or 12.9%, from sales of $579.2 million in 2016. Excluding the additional contribution from acquisitions completed in 2016 and the currency conversion effect, sales increased approximately $40.0 million, or 6.9%. This improvement essentially reflects organic sales growth in the southeastern United States and a return to historical maintenance demand in 2017. Utility pole sales accounted for 34.7% of the Company's total sales in 2017.



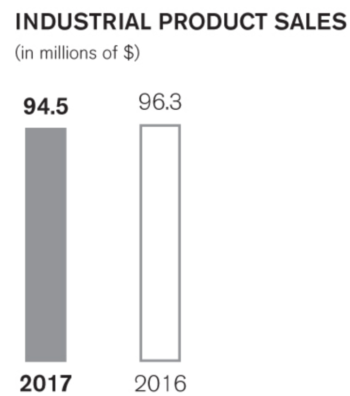
Residential lumber

Sales in the residential lumber category totalled $366.2 million in 2017, up from $345.7 million in 2016. Excluding the currency conversion effect, sales increased $21.5 million, or 6.2%, mainly reflecting higher year-over-year selling prices explained by untreated lumber cost increases. Residential lumber accounted for 19.4% of Stella-Jones' sales in 2017.



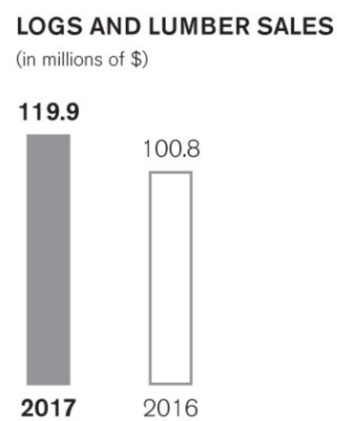
Industrial products

Industrial product sales were $94.5 million in 2017, compared with $96.3 million in 2016. Excluding the additional contribution from acquisitions completed in 2016 and the currency conversion effect, sales decreased 2.3%, mainly due to lower sales of marine pilings in Canada. Industrial products represented 5.0% of sales in 2017.

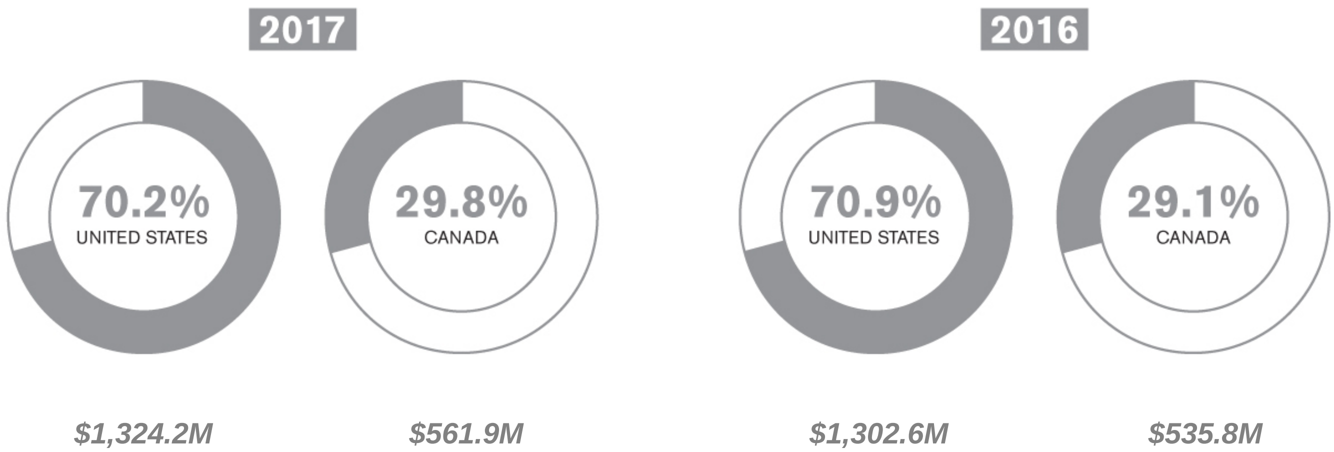


Logs and lumber

Logs and lumber sales amounted to $119.9 million in 2017, up from $100.8 million in 2016. This increase 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 represented 6.4% of sales in 2017.



SALES BY GEOGRAPHIC REGION
(% of sales)



Sales in the United States amounted to $1,324.2 million, or 70.2% of sales in 2017, representing an increase of $21.6 million, or 1.7%, over 2016. The year-over-year rise mainly stems from higher sales in the utility pole and residential lumber product categories, as well as from the additional contribution from acquisitions completed in 2016. These factors were partially offset by lower railway tie sales and a lower conversion rate on U.S. dollar denominated sales.

Sales in Canada increased by $26.1 million, or 4.9% in 2017 to reach $561.9 million, representing 29.8% of Stella-Jones' total sales. The variation is attributable to higher sales in the residential lumber and logs and lumber product categories mainly arising from higher year-over-year selling prices due to increased lumber costs.

Cost of sales
Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,586.3 million, or 84.1% of sales, in 2017. This compares with $1,504.6 million, or 81.8% of sales, in 2016. The increase in absolute dollars essentially reflects a higher business volume for the year and increased untreated lumber costs in the residential lumber category, partially offset by a lower average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the increase is mainly attributable to lower selling prices for railway ties and a less favourable geographical mix in the utility pole category.

Depreciation and amortization charges totalled $33.2 million for the year ended December 31, 2017, versus $31.6 million a year earlier. The year-over-year increase is mainly due to the depreciation and amortization charges related to the tangible and intangible assets of the 2016 acquisitions for the full year, as well as to higher depreciation charges related to the completion of construction of a new wood treating facility in Cameron, Wisconsin.

As a result, gross profit reached $299.9 million or 15.9% of sales in 2017, versus $333.7 million or 18.2% of sales in 2016.

Selling and administrative
Selling and administrative expenses for 2017 were $93.8 million, or 5.0% of sales, compared with expenses of $95.0 million, or 5.2% of sales, in 2016. The variation in monetary terms mainly results from a decrease of $2.1 million in profit sharing expenses, a $1.1 million reduction in stock-based compensation, as well as the effect of currency translation on U.S.-based selling and administrative expenses. Last year’s expenses also included approximately $2.9 million in acquisition costs directly related to business acquisitions completed in 2016.

Other losses (gains), net
Stella-Jones' other net gains of $1.3 million for the year ended December 31, 2017 mainly consisted of a $4.1 million foreign exchange gain and a $2.1 million reversal of a provision for site remediation, partially offset by a $3.2 million expense on freight and distribution accruals and a $1.3 million loss on asset disposal. In 2016, other net losses of $5.5 million were mostly related to final site remediation provisions of $5.2 million related to a non-operating site.

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 reached $19.0 million in 2017, up from $17.9 million in 2016. This increase is attributable to 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 expenses
Stella-Jones generated income before income taxes of $188.4 million, or 10.0% of sales, in 2017, versus $215.4 million, or 11.7% of sales, in 2016. The year-over-year decrease in income before income taxes is attributable to lower gross profit, as detailed above.

Stella-Jones' provision for income taxes totaled $20.5 million in 2017, representing an effective tax rate of 10.9%. In 2016, income tax expenses stood at $61.5 million, equivalent to an effective rate of 28.5%. The lower effective tax rate for 2017 reflects changes to the U.S. Federal Corporate income tax rate following the enactment of the Tax Cuts and Jobs Act (the "Act") on December 22, 2017. The Act will favourably affect the Company's U.S. subsidiaries, specifically by reducing the top federal corporate income tax rate from 35.0% to 21.0%, effective January 1, 2018. Although the Act only comes into effect on January 1, 2018, changes to the tax rates required the remeasurement of the deferred income tax liability as at December 31, 2017. As a result of the reduction in tax rates, a one-off non-cash deferred tax benefit of $30.0 million was recognized in the statement of income for the fourth quarter ended December 31, 2017 which explains the lower effective tax rate for 2017. Management expects the Company's overall effective tax rate for 2018 to be approximately 26.0%.

Net income
Net income for the year ended December 31, 2017 reached $167.9 million, or $2.42 per diluted share, compared with $153.9 million, or $2.22 per diluted share, in 2016. This represents a year-over-year increase in net income of 9.1%.

BUSINESS ACQUISITION

On December 19, 2017, the Company completed the acquisition of substantially all the operating assets employed in the business of Wood Products Industries Inc. ("WPI") located in South River, Ontario. The Company plans on using these assets to treat residential lumber.

Total cash outlay associated with the acquisition was approximately $4.2 million, excluding acquisition costs of approximately $234,000, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

SUBSEQUENT EVENT

On February 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of Prairie Forest Products ("PFP"), a division of Prendiville Industries Ltd. located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures, sells and distributes utility poles and residential lumber and sales for the twelve-month period ending October 31, 2017 were approximately $35.1 million.

Total cash outlay associated with the acquisition was $26.5 million, excluding acquisition costs of approximately $326,000 of which $159,000 was recognized in the 2017 consolidated statement of income under selling and administrative expenses. The Company financed the transaction through its existing syndicated credit facilities.

At the time of preparing the MD&A, Management did not have on hand all the required information to determine the fair value of assets acquired and liabilities assumed. Preliminary information indicates that property plant and equipment and inventory represent approximately $7.8 million and $9.5 million, respectively, from the total purchase price of $26.5 million.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole 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 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 levels.

The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2017

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(millions of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	396.9	594.2	517.6	377.4	1,886.1
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	49.1	83.1	71.3	37.1	240.6
Operating income [1]	40.8	74.5	63.1	29.0	207.4
Net income for the period	25.9	48.9	42.0	51.1	167.9
Earnings per common share Basic and diluted	0.37	0.71	0.61	0.74	2.42

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 and diluted	0.51	0.79	0.66	0.27	2.22

[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 the 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.

Fourth Quarter Results

Sales for the fourth quarter of 2017 amounted to $377.4 million, up 10.4% from sales of $341.7 million for the same period in 2016. Excluding the conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, sales increased approximately $48.3 million, or 14.1%.

Sales of railway ties reached $118.0 million, versus $113.1 million last year. Excluding the currency conversion effect, railway tie sales rose 8.7% driven by higher year-over-year volume. Utility pole sales amounted to $162.9 million, up 12.7% from $144.6 million last year. Excluding the contribution from acquisitions and the currency conversion effect, sales grew 14.5% as a result of organic sales growth in the southeastern United States and healthy maintenance demand. Residential lumber sales reached $48.6 million, up from $44.5 million last year, reflecting solid market demand. Industrial product sales amounted to $20.0 million, up from $15.0 million a year ago, as a result of higher sales of rail related products. Finally, logs and lumber sales stood at $27.9 million, versus $24.5 million last year, driven in most part by the passthrough of higher lumber cost to customers

Gross profit amounted to $53.5 million, or 14.2% of sales, in the fourth quarter of 2017, versus $52.0 million, or 15.2% of sales, in the fourth quarter of 2016. The decrease as a percentage of sales mainly reflects the sales mix within each product category and softer pricing in certain regions. Operating income totalled $29.0 million, or 7.7% of sales, in the fourth quarter of 2017, versus $28.2 million, or 8.2% of sales, last year.

Net income for the period reached $51.1 million, or $0.74 per diluted share, compared with $18.5 million, or $0.27 per diluted share, in the prior year. The year-over-year increase is attributable to a one-off non-cash tax benefit stemming from the remeasurement of deferred tax liabilities following a reduction in the U.S. top federal corporate income tax rate.

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 December 31, 2017, compared to December 31, 2016 (see Foreign Exchange on page 3), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets
As at December 31, 2017, total assets and current assets reached $1.79 billion and $908.4 million, respectively, down from $1.96 billion and $1.05 billion, respectively, as at December 31, 2016. These decreases are mainly attributable to a reduction in inventories and to the effect of local currency translation on U.S.-based assets.

The value of accounts receivable stood at $163.5 million as at December 31, 2017, up from $160.8 million as at December 31, 2016. The variation results from higher business activity in the fourth quarter of 2017 compared to last year, partially offset by the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $718.5 million as at December 31, 2017, versus $854.6 million as at December 31, 2016. This decrease essentially stems from lower untreated railway tie prices and volumes as well as 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 certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flows from operations and available credit facilities are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment amounted to $472.0 million as at December 31, 2017, compared with $463.7 million as at December 31, 2016. This increase is essentially related to purchases of property, plant and equipment for the year ($52.2 million), partially offset by a depreciation charge of $17.9 million and the effect of local currency translation on U.S.-based property, plant and equipment.

The value of intangible assets reached $124.4 million as at December 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 land lease agreement. As at December 31, 2016, intangible assets were $147.3 million. The year-over-year decrease is mainly explained by an amortization charge of $15.3 million for 2017 and the effect of local currency translation on U.S. dollar denominated intangible assets.

As at December 31, 2017, the value of goodwill stood at $270.3 million, down from $287.4 million a year earlier. This decrease in goodwill mostly reflects the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities
As at December 31, 2017, Stella-Jones' total liabilities stood at $670.4 million, down from $934.5 million as at December 31, 2016. This variation mainly reflects the decrease in total long-term debt, as explained below, and the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $129.0 million as at December 31, 2017, up from $122.4 million a year earlier. This variation is essentially due to a $10.1 million increase in accounts payable and accrued liabilities related to higher business activity in the fourth quarter of 2017 compared to last year.

The Company's long-term debt, including the current portion, amounted to $455.6 million as at December 31, 2017, versus $694.0 million as at December 31, 2016. The decrease essentially reflects a solid operating cash flow generation during the year, as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2017, an amount of $354.5 million was available against the Company's syndicated credit facilities of $595.9 million (US$475.0 million).

Shareholders' equity
Shareholders' equity was $1.12 billion as at December 31, 2017 compared with $1.03 billion as at December 31, 2016. This increase is attributable to net income of $167.9 million for the year, partially offset by dividends on common shares totalling $30.5 million and a $48.7 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	**Years ended**	
(millions of dollars)	**Dec. 31, 2017 $**	**Dec. 31, 2016 $**
Operating activities	301.1	181.8
Financing activities	(239.9)	(9.5)
Investing activities	(58.5)	(175.6)
Net change in cash and cash equivalents	2.7	(3.3)
Cash and cash equivalents - beginning	3.7	7.0
Cash and cash equivalents - end	6.4	3.7

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. The Company plans on spending between $30.0 million to $40.0 million on property, plant and equipment in the upcoming year, half of which is related to efficiency improvements with the balance dedicated to sustaining operations. The Company's syndicated credit facilities are made available for a five-year term and are thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $245.7 million for the year ended December 31, 2017, versus $268.9 million in 2016. This variation mostly reflects a lower operating income for the year.

Changes in non-cash working capital components increased liquidity by $105.7 million in 2017. The main element of this variation was a decrease of $103.2 million in inventories related to lower untreated railway tie prices and volumes. In 2016, changes in non-cash working capital components had reduced liquidity by $30.1 million, mainly due to a $39.9 million increase in inventories.

Interest and income taxes paid further reduced liquidity by $15.8 million and $34.5 million, respectively, in 2017, versus $18.6 million and $38.3 million, respectively, a year earlier. The decrease in interest paid mainly stems from lower year-over-year borrowings, while the decrease in income taxes paid reflects a lower balance of taxes receivable as at December 31, 2017.

As a result, cash flows provided by operating activities were $301.1 million in 2017, up significantly in comparison with $181.8 million in 2016.

Financing activities for the year ended December 31, 2017 reduced liquidity by $239.9 million. The main factor explaining this cash usage was a net decrease of $391.8 million in the syndicated credit facilities resulting from a solid operating cash flow generation and the payment of dividends on common shares totalling $30.5 million. These factors were partially offset by a $184.4 million net increase in long-term debt mainly resulting from the January 17, 2017 private placement for which proceeds were used to pay down a portion of the Company's syndicated credit facilities. For the year ended December 31, 2016, financing activities had required liquidity of $9.5 million.

Investing activities required $58.5 million in cash during 2017. Purchases of property, plant and equipment required an investment of $52.2 million, including $4.1 million to finalize the construction of a new pole peeling and pole treating facility in Cameron, Wisconsin, while business acquisitions resulted in a cash outlay of $5.8 million. In 2016, cash flows from investing activities had decreased liquidity by $175.6 million due to business acquisitions ($107.3 million) and purchases of property, plant and equipment ($63.2 million).

FINANCIAL OBLIGATIONS

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

(in millions of dollars)	**Carrying Amount ($)**	**Contractual Cash flow ($)**	**Less than 1 year ($)**	**1 – 3 years ($)**	**4 – 5 years ($)**	**More than 5 years ($)**
Accounts payable and accrued liabilities	111.2	111.2	111.2	-	-	-
Long-term debt obligations	455.6	538.4	20.1	42.3	265.2	210.8
Minimum payments under operating lease obligations	-	80.1	22.7	30.7	14.1	12.6
Non-compete agreements	5.5	5.8	1.7	2.9	1.2	-
Total	572.3	735.5	155.7	75.9	280.5	223.4

Note: due to rounding, the sum of results may differ slightly from totals.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2017, the capital stock issued and outstanding consisted of 69,342,095 common shares (69,303,307 as at December 31, 2016). The following table presents the outstanding capital stock activity for the year ended December 31, 2017:

Year Ended December 31, 2017	**Number of shares (in '000s)**
Balance – Beginning of year	69,303
Stock option plan	10
Employee share purchase plans	29
Balance – End of year	69,342

As at March 13, 2018, the capital stock issued and outstanding consisted of 69,342,095 common shares.

As at December 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 33,000 (December 31, 2016 – 31,000) were exercisable. As at March 13, 2018, the number of outstanding options was 45,000 of which 33,000 were exercisable.

DIVIDENDS

In 2017, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.11 per common share payable on April 28, 2017 to shareholders of record at the close of business on April 3, 2017.
- $0.11 per common share payable on June 27, 2017 to shareholders of record at the close of business on June 5, 2017.

- $0.11 per common share payable on September 22, 2017 to shareholders of record at the close of business on September 1, 2017.
- $0.11 per common share payable on December 21, 2017 to shareholders of record at the close of business on December 4, 2017.

Subsequent to the end of the year, on March 13, 2018, the Board declared a quarterly dividend of $0.12 per common share payable on April 27, 2018 to shareholders of record at the close of business on April 6, 2018.

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 Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $19.0 million (2016 – $28.9 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

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, and assuming stable currencies, Stella-Jones' total sales and operating margins are expected to improve progressively in 2018 when compared to 2017. Operating margins will remain softer in the first half of 2018.

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 is anticipating that 2018 annual railway tie sales should be relatively stable when compared to 2017. Meanwhile, softer pricing is expected to continue to negatively impact operating margins in the first half of the year, 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 a return to normal demand patterns in 2017, the Company expects a better sales mix within the product category in 2018. However, these factors should be offset by slight cost increases for certain wood species and the timing of price adjustments.

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. Sales for 2018 are also expected to increase as a result of higher wood cost.

Liquidity
As at December 31, 2017, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2017 an amount of $354.5 million was available against the Company's syndicated credit facilities of $595.9 million (US$475.0 million).

Accounts receivable increased slightly in 2017, as the impact of higher business activity in the fourth quarter of 2017 compared to last year more than offset the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable 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 in 2017 due to lower untreated railway tie prices and volumes as well as the effect of local currency translation on U.S. inventories. To ensure efficient treating 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

Economic Conditions
The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers
The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2017, the Company's top ten customers accounted for approximately 46.4% of its sales. During this same period, the Company's two largest customers accounted for approximately 15.6% and 10.0%, respectively, of its total sales.

Availability and Cost of Raw Materials
Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

While the Company has been party to environmental litigation in the past, which have included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

Risks Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk
The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage
The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk
The Company is exposed to currency risks due to its export of goods manufactured in Canada. The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuations
As at December 31, 2017, all of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk
The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railways, as well as with utility and telecommunication companies and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence by Stella Jones International S.A.
As at December 31, 2017, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.3% of the outstanding common shares. On February 21, 2018, SJ International sold 5,000,000 shares as part of a secondary offering and reduced its ownership to 31.1%. Under this current share ownership, SJ International maintains the ability to influence all matters submitted to the shareholders for approval,

including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not in all cases be aligned with interests of the other shareholders.

Cyber risk
The Company relies on information technology to process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breach due to employee error, malfeasance or other disruptions. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls.

Corporate tax risk
In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be sustained by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates, and anticipated business in the various jurisdictions in which Stella-Jones operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that Stella-Jones may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have a material adverse effect on net income or cash flow.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest rate risk management
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. As at December 31, 2017, the Company had several interest rate swap agreements hedging $232.1 million in debts and having maturity dates ranging from April 2021 to December 2021. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2017, of fixed and floating debt was 100.0% and 0.0%, respectively, including the effects of interest rate swap positions (66.25% and 33.75%, respectively, as at December 31, 2016).

Foreign exchange risk management

The Company's financial results are reported in Canadian dollars, while a portion of its Canadian-based operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2017, the Company had no foreign exchange forward contract agreements in place.

Diesel and petroleum price risk management

Diesel and petroleum price risk is the risk that future cash flows will fluctuate because of changes in price of diesel and petroleum. In order to manage its exposure to diesel and petroleum prices and to help mitigate volatility in operating cash flow, the Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to reduce the risk of fluctuating prices on these commodities. As at December 31, 2017, the Company had commodity hedges for 1.2 million gallons of diesel and petroleum. These instruments are presented at fair value and were not designated for hedge accounting purposes.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2017 and 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

CHANGES 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. The adoption of this revised standard requires the Company to provide incremental disclosure in its annual consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IFRS 9 - *Financial Instruments*
The final version of IFRS 9, *Financial instruments* ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. Management has not identified any material impacts resulting from the transition to IFRS 9.

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. Management has not identified any material impacts resulting from the transition to IFRS 15.

IFRS 16 - *Leases*
In January 2016, the IASB released IFRS 16, *Leases*, which supersedes IAS 17, *Leases, and the related interpretations on leases*: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the standard on its consolidated financial statements. The Company's future minimum payments under operating leases amount to $80.1 million. Under the new standard the Company will recognize, in the statement of financial position, an asset (the right to use the leased items), equivalent to the actualized cash flows of the future minimum payments, and a corresponding financial liability.

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 and operating 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 December 31, 2017, and have concluded that such DC&P were designed and operating 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 and operating effectiveness 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 appropriately designed and operating effectively, as at December 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 October 1, 2017 to December 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

The Company's railway tie and utility pole product categories are essential components of the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained which provides Stella-Jones with relatively steady demand for these 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, and assuming stable currencies, Stella-Jones' total sales and operating margins are expected to improve progressively in 2018 when compared to 2017. Operating margins will remain softer in the first half of 2018. The Company's overall effective tax rate for 2018 is expected to be approximately 26.0%.

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 is anticipating that 2018 annual railway tie sales should be relatively stable when compared to 2017. Meanwhile, softer pricing may continue to negatively impact operating margins in the first half of the year, 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 a return to normal demand patterns in 2017, the Company expects a better sales mix within the product category in 2018. However, these factors should be offset by slight cost increases for certain wood species and the timing of price adjustments.

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. Sales for 2018 are also expected to increase as pricing will reflect the higher wood cost.

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 will focus on integrating the PFP acquisition as well as optimizing operating capacity and minimizing 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.

March 13, 2018