MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2018 compared with the three-month period ended March 31, 2017

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on May 2, 2018. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2018 compared with the three-month period ended March 31, 2017. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2018 and 2017 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2017.

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

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

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

OUR BUSINESS

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

As at May 2, 2018, the Company operated thirty-nine 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 March 31, 2018, the Company's workforce numbered approximately 2,000 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.

HIGHLIGHTS - FIRST QUARTER

Selected Key Indicators (in millions of dollars except margins, EPS and ratio)				
Income statement	**Q1-18**	**Q1-17**	**Variation ($)**	**Variation (%)**
Sales	398.8	396.9	1.8	0.5%
Gross profit(1)	56.5	63.8	(7.4)	(11.5%)
EBITDA(1)	43.4	49.1	(5.7)	(11.6%)
EBITDA margin(1)	10.9%	12.4%	n/a	(149 bps)
Operating income(1)	35.5	40.8	(5.4)	(13.2%)
Net income	23.1	25.9	(2.8)	(10.9%)
EPS – basic & diluted	0.33	0.37	(0.04)	(10.8%)
Cash Flow Statement				
Cash flow from operating activities	(64.6)	7.2	(71.8)	
Cash flow from financing activities	96.4	5.3	91.1	
Cash flow from investing activities	(38.2)	(14.1)	(24.1)	
Financial position	**As at March 31, 2018**	**As at December 31, 2017**	**Variation ($)**	
Inventories	801.9	718.5	83.4	
Long-term debt(2)	565.4	455.6	109.8	
Total debt to EBITDA ratio(1)	2.41x	1.89x	0.51	

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Refer to the Non-IFRS financial measure section of this MD&A.
(2) Including current portion of long-term debt.
*Numbers are rounded.

- After the end of the first quarter, on April 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of Wood Preservers Incorporated ("WP"), located at its wood treating facility in Warsaw, Virginia.
- On March 15, 2018, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2023.
- 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.

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:

- Gross Profit: Sales less cost of sales.
- 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.
- Total debt to EBITDA: Long-term debt (including the current portion) divided by the twelve-month rolling 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* (millions of dollars)	**Three-month periods ended**	
	March 31, 2018	**March 31, 2017**
Net income for the period	23.1	25.9
Plus:		
Provision for income taxes	8.1	10.2
Financial expenses	4.3	4.8
Operating income	35.5	40.8
Depreciation and amortization	7.9	8.2
EBITDA	43.4	49.1

* Numbers may not add exactly due to rounding

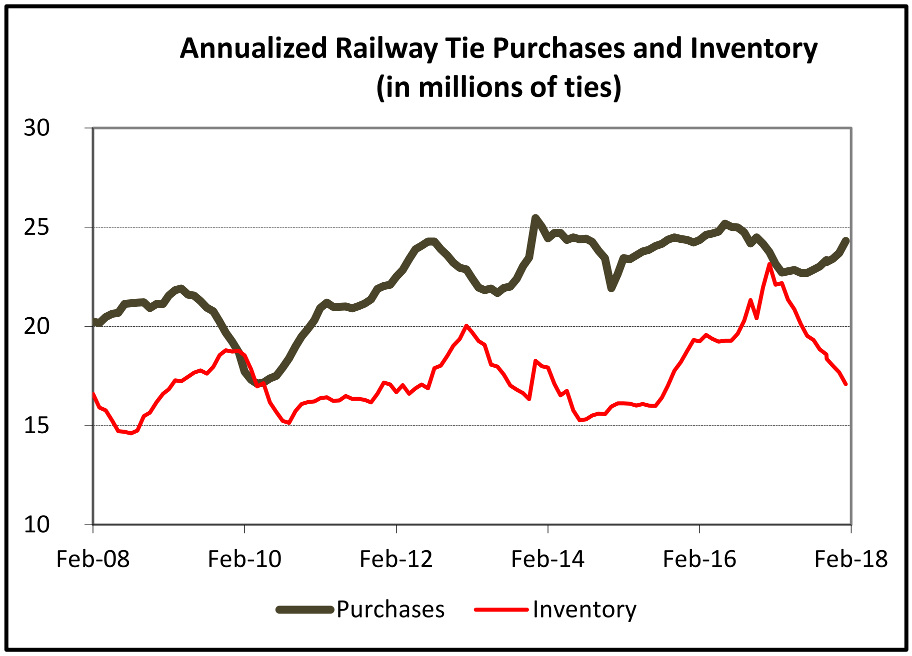
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended March 31, 2018 and 2017, as well as the period ended December 31, 2017. 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 denominated in U.S. dollars.

Cdn$/US$ rate	**2018**		**2017**	
	Average rate for the three-month period ended March 31, 2018	**Closing rate as at March 31, 2018**	**Average rate for the three-month period ended March 31, 2017**	**Closing rate as at December 31, 2017**
	1.2549	1.2894	1.3240	1.2545

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for the first two months of 2018 were 3.4 million ties, versus 2.5 million ties for the same period in 2017, resulting in industry purchases of 24.3 million ties for the 12-month period ended February 28, 2018. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Higher purchases led to lower industry inventory, which reached 17.1 million ties as at February 28, 2018. As a result, the inventory-to-sales ratio was 0.72:1 as at February 28, 2018, beneath the previous ten-year average ratio of 0.79:1.



Source: Railway Tie Association

Total traffic on North American railroads increased 2.6% in the first three months of 2018, according to data released by the Association of American Railroads. While carload volume decreased by 0.7%, mainly due to lower shipments of motor vehicles and parts, as well as of grain, the volume of intermodal trailers and containers rose 6.1% from 2017 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended March 31, 2018 reached $398.8 million, versus sales of $396.9 million for the same period last year. Acquisitions contributed sales of approximately $3.1 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 $16.1 million on the value of U.S. dollar denominated sales when compared with last year's first quarter. Excluding these factors, sales increased approximately $14.9 million, or 3.8%, due to higher residential lumber, utility pole and logs and lumber sales, partially offset by lower railway ties and industrial product sales, as detailed below.

Sales by product category

(in millions of dollars)	Railway Ties	Utility Poles	Residential Lumber	Industrial Products	Logs & Lumber	Consolidated Sales
2017 Sales	**158.5**	**151.0**	**38.6**	**21.9**	**26.9**	**396.9**
Acquisitions	-	0.4	2.4	0.3	-	3.1
FX impact	(7.2)	(6.5)	(1.5)	(0.8)	(0.4)	(16.1)
Organic growth	(4.9)	8.0	10.6	(0.6)	1.8	14.9
2018 Sales	**146.4**	**153.0**	**50.3**	**20.8**	**28.3**	**398.8**
Organic growth %	(3.1%)	5.3%	27.5%	(2.6%)	6.7%	3.8%

* Numbers may not add exactly due to rounding

Railway ties

Railway tie sales for the first quarter of 2018 amounted to $146.4 million, representing a decrease of $12.1 million from sales of $158.5 million in the first quarter of 2017. Excluding the currency conversion effect, railway tie sales declined approximately $4.9 million, or 3.1%, primarily as a result of continued pricing pressures in certain regions and low railcar availability which limited shipments. Additionally, railway tie sales were impacted by lower sales to a Class 1 railroad customer which commenced depletion of its inventory in view of transitioning from a "treating service only" program to a full service "black-tie" program. Railway tie sales accounted for 36.7% of the Company's first-quarter sales.

Utility poles

Utility pole sales reached $153.0 million in the first quarter of 2018, up 1.3% from sales of $151.0 million in the corresponding period in 2017. The currency conversion effect reduced the value of U.S. dollar denominated sales by about $6.5 million when compared with the first quarter of last year. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $8.0 million, or 5.3%, driven by higher volume for replacement programs. Utility pole sales accounted for 38.3% of the Company's total sales in the first quarter of 2018.

Residential lumber

Sales in the residential lumber category totalled $50.3 million in the first quarter of 2018, versus $38.6 million a year earlier. This favourable variance is primarily explained by higher selling prices, as a result of lumber cost escalations passed through to customers, and to a lesser extent to increased volume. Residential lumber accounted for 12.6% of Stella-Jones' sales in the first quarter of 2018.

Industrial products

Industrial product sales reached $20.8 million in the first quarter of 2018, compared with $21.9 million in the first quarter of 2017. Excluding the contribution from acquisitions and the currency conversion effect, sales decreased 2.6% mainly due to the timing of projects related to bridges and timbers. Industrial products represented 5.2% of the Company's sales in the three-month period ended March 31, 2018.

Logs and lumber

For the first three months of 2018, logs and lumber sales amounted to $28.3 million, versus $26.9 million in the first three months of 2017. This variation reflects higher selling prices due to increased lumber costs. Logs and lumber sales represented 7.1% of the Company's sales in the three-month period ended March 31, 2018.

Sales by destination

Sales in the United States amounted to $299.0 million, representing 75.0% of Stella-Jones' total sales in the first quarter of 2018, versus $305.7 million in the corresponding period of 2017. This year-over-year decrease is mainly attributable to lower railway tie sales and the effect of local currency translation on U.S.-dollar denominated sales, partially offset by higher utility pole and residential lumber sales.

Sales in Canada in the first quarter of 2018 reached $99.8 million, representing 25.0% of total sales, compared with $91.2 million in the first quarter of 2017. This year-over-year increase reflects higher sales in the residential lumber product category, 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 $342.3 million, or 85.8% of sales, for the three-month period ended March 31, 2018. This compares with $333.1 million, or 83.9% of sales, in the three-month period ended March 31, 2017. The increase in absolute dollars is explained in most part by the Company supporting the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program. To accelerate this transition, the Company acquired untreated railway ties from the Class 1 railroad customer which increased cost of sales once these ties were treated and sold. Moreover, cost of sales was slightly impacted by increasing utility pole fiber costs which

will be mitigated as selling prices will progressively be adjusted over the coming months. These cost increases were partially offset by the effect of currency translation.
Depreciation and amortization charges reached $7.9 million for the three-month period ended March 31, 2018, versus $8.2 million in the corresponding period of 2017.

As a result, gross profit reached $56.5 million, or 14.2% of sales, in the first quarter of 2018, compared with $63.8 million, or 16.1% of sales, in the first quarter of 2017.

Selling and administrative

Selling and administrative expenses for the first quarter of 2018 were $22.2 million, compared with expenses of $22.8 million in the first quarter of 2017. This variation is mainly related to higher severance expenses in 2017 of $1.0 million. As a percentage of sales, selling and administrative expenses were stable year-over-year at 5.6% of sales.

Other losses (gains), net

Stella-Jones' other net gains of $1.2 million for the three-month period ended March 31, 2018, essentially consisted of a $1.1 million reversal of a provision for site remediation as well as a $155,000 foreign exchange gain. Last year's other net losses of $176,000 essentially consisted of a $2.7 million expense on freight and distribution accruals and a $1.2 million loss related to the mark-to-market effect of diesel and petroleum derivative commodity contracts. These 2017 expenses were partially offset by a $3.7 million foreign exchange gain.

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

Financial expenses

Financial expenses for the first quarter of 2018 amounted to $4.3 million, a decrease of $0.5 million in comparison with the first quarter of 2017. This decrease is primarily due to lower year-over-year borrowings coupled with the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $31.1 million, or 7.8% of sales, in the first quarter of 2018, versus income before income taxes of $36.1 million, or 9.1% of sales, in the first quarter of 2017.

Stella-Jones' provision for income taxes totalled $8.1 million in the first quarter of 2018, representing an effective tax rate of 25.9%. In the first quarter of 2017, the income tax expense stood at $10.2 million, equivalent to an effective tax rate of 28.2%. The lower effective tax rate for the first quarter of 2018 reflects changes to the U.S. Federal Corporate income tax rate following the enactment of the Tax Cuts and Jobs Act on December 22, 2017.

Net income

Net income for the three-month period ended March 31, 2018 reached $23.1 million, or $0.33 per diluted share, versus net income of $25.9 million, or $0.37 per diluted share, in the three-month period ended March 31, 2017.

BUSINESS ACQUISITION

On February 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of 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 treated wood utility poles as well as treated residential lumber.

Total cash outlay associated with the acquisition was approximately $26.5 million of which $1.5 million was deposited in an escrow account and will be paid to the seller on the second anniversary of the acquisition, assuming no applicable deductions. The total cash outlay transferred does not include acquisition costs of approximately $425,000 of which $159,000 was recognized in the 2017 consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the MD&A. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date.

(Tabular information presented in millions of dollars)	
Assets acquired	
Inventories	9.5
Property, plant and equipment	7.8
Goodwill	10.3
Deferred income tax assets	0.3
Total assets acquired	**27.9**
Liabilities assumed	
Site remediation provision	1.4
Total net assets acquired and liabilities assumed	**26.5**
Consideration transferred	
Cash	25.0
Consideration payable	1.5
Consideration transferred	**26.5**

SUBSEQUENT EVENT

On April 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of WP, located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation piling and treated wood utility poles. Sales for the twelve-month period ended December 31, 2016 were approximately US$34.6 million.

Total cash outlay associated with the acquisition was approximately $27.5 million (US$21.6 million), of which $3.1 million (US$2.5 million) was deposited in an escrow account and will be paid to the seller on the third anniversary of the acquisition, assuming no applicable deductions. The total cash outlay transferred does not include acquisition costs of approximately $137,000 recognized in the interim consolidated statement of income under selling and administrative expenses. The Company financed the acquisition 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 $18.3 million and $7.6 million, respectively, from the total purchase price of $27.5 million.

QUARTERLY RESULTS

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

2018

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(millions of dollars, except per share data)					
Sales	398.8				
EBITDA [1]	43.4				
Operating income [1]	35.5				
Net income for the period	23.1				
Earnings per common share Basic and diluted	0.33				

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
EBITDA[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
EBITDA[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 ("EBITDA") 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 interim consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the appreciation of the U.S. dollar relative to the Canadian dollar as at March 31, 2018, compared to December 31, 2017 (see "Foreign Exchange" on page 3), results in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2018, total assets reached $1.98 billion, versus $1.79 billion as at December 31, 2017. The higher balance of total assets mostly reflects an increase in current assets, as detailed below.

Assets (in millions of dollars)	**As at March 31, 2018**	**As at December 31, 2017**	**Variance**
Accounts Receivable	221.7	163.5	58.3
Inventories	801.9	718.5	83.4
Other current assets	32.4	26.5	6.0
Total current assets	**1,056.0**	**908.4**	**147.7**
PP&E	495.4	472.0	23.4
Intangible assets	123.7	124.4	(0.7)
Goodwill	288.1	270.3	17.8
Other non-current assets	13.5	10.9	2.5
Total non-current assets	**920.6**	**877.6**	**43.0**
TOTAL ASSETS	**1,976.7**	**1,786.0**	**190.7**

* Numbers may not add exactly due to rounding

The value of accounts receivable was $221.7 million as at March 31, 2018, compared with $163.5 million as at December 31, 2017. The increase is attributable to higher sales near the end of the period, as per normal seasonal demand patterns, coupled with the effect of local currency translation on U.S.-based accounts receivable. Management considers that all recorded receivables are fully collectible as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories stood at $801.9 million as at March 31, 2018, up from $718.5 million as at December 31, 2017. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters and the value of untreated railway ties acquired from a Class 1 railroad customer transitioning from a "treating services only" program to a full service "black-tie" program. Moreover the effect of local currency translation on U.S. inventories also contributed to this increase.

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. As such, inventory turnover has historically been relatively low. In addition, important raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. However, solid relationships and long-term contracts with customers enable the Company to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization. The Company believes that its cash flow from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $495.4 million as at March 31, 2018, compared with $472.0 million as at December 31, 2017. This increase is mainly related to the purchase of property, plant and equipment of $11.5 million during the first quarter of 2018, the additional property, plant and equipment from recent acquisitions and the effect of local currency translation on U.S-based property, plant and equipment, partially offset by depreciation of $4.6 million for the period.

The value of intangible assets and goodwill reached $123.7 million and $288.1 million, respectively, as at March 31, 2018. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable lease agreement. As at December 31, 2017, intangible assets and goodwill were $124.4 million and $270.3 million, respectively. The decrease in the value of intangible assets stems from an amortization charge of $3.3 million in the first three months of 2018, partially offset by the effect of local currency translation on U.S.-based intangible assets. The increase in goodwill is primarily explained by acquisitions as well as the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at March 31, 2018, Stella-Jones' total liabilities stood at $821.3 million, up from $670.4 million as at December 31, 2017. This variation mainly reflects an increase in non-current liabilities, as detailed below.

Liabilities (in millions of dollars)	**As at March 31, 2018**	**As at December 31, 2017**	**Variance**
Accounts payable & accrued liabilities	149.8	111.2	38.6
Current portion of long-term debt	5.8	5.7	0.2
Other current liabilities	12.6	12.1	0.5
Total current liabilities	**168.3**	**129.0**	**39.3**
Long-term debt	559.6	449.9	109.6
Other non-current liabilities	93.4	91.5	1.9
Total non-current liabilities	**653.0**	**541.4**	**111.5**
TOTAL LIABILITIES	**821.3**	**670.4**	**150.8**

* Numbers may not add exactly due to rounding

The value of current liabilities was $168.3 million as at March 31, 2018, versus $129.0 million as at December 31, 2017. This variation is primarily attributable to a $38.6 million increase in accounts payable and accrued liabilities, as a result of greater business activity in the latter part of the first quarter of 2018, when compared to the latter part of the fourth quarter of 2017 coupled with the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $565.4 million as at March 31, 2018, versus $455.6 million as at December 31, 2017. The increase mainly reflects higher working capital requirements, as per normal seasonal demand patterns, financing required for the acquisition of PFP as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at March 31, 2018, an amount of $204.7 million was available against the Company's syndicated credit facilities of $548.0 million (US$425.0 million).

As at March 31, 2018, the Company is in full compliance with its debt covenants and contractual obligations.

Shareholders' equity

Shareholders' equity reached $1.16 billion as at March 31, 2018 compared with $1.12 billion as at December 31, 2017. This variation reflects an increase in retained earnings and accumulated other comprehensive income as detailed below.

Shareholders' Equity (in millions of dollars)	**As at March 31, 2018**	**As at December 31, 2017**	**Variance**
Capital Stock	220.7	220.5	0.3
Contributed surplus	0.3	0.3	-
Retained earnings	824.6	809.0	15.6
Accumulated other comprehensive income	109.8	85.8	24.0
TOTAL SHAREHOLDERS' EQUITY	**1,155.4**	**1,115.5**	**39.9**

* Numbers may not add exactly due to rounding

The increase during the period is attributable to net income of $23.1 million and a $24.0 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations, partially offset by an accrued dividend of $8.3 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month Periods Ended**	
(millions of dollars)	**March 31, 2018**	**March 31, 2017**
Operating activities	(64.6)	7.2
Financing activities	96.4	5.3
Investing activities	(38.2)	(14.1)
Net change in cash and cash equivalents during the period	(6.4)	(1.6)
Cash and cash equivalents - beginning	6.4	3.7
Cash and cash equivalents - end	**-**	**2.1**

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, available cash, long-term debt and the issuance of common shares. The Company plans on spending between $30.0 million to $40.0 million on property, plant and equipment in 2018, 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 thus considered long-term debt.

Cash flows from operating activities

Cash flows provided by operating activities used $64.6 million in liquidity in the first quarter of 2018, versus an inflow of $7.2 million in the first quarter of 2017. This variation mainly reflects changes in non-cash working capital components, as detailed below.

Cash flow from operating activities (in millions of dollars)	**Q1-18**	**Q1-17**	**Variance**
Net income	23.1	25.9	(2.8)
Current income tax expense	5.9	8.5	(2.6)
Other	16.1	16.0	0.1
Cash flow from operating activities before changes in non-cash working capital components & interest & income tax paid	**45.0**	**50.4**	**(5.4)**
Accounts receivable	(54.4)	(36.2)	(18.2)
Inventories	(59.5)	(23.5)	(36.0)
Prepaid expenses	(10.5)	4.2	(14.8)
Accounts payable & accrued liabilities	28.5	21.4	7.1
Other	(1.8)	(0.5)	1.3
Changes in non-cash working capital components	**(97.7)**	**(34.5)**	**(63.2)**
Interest paid	(6.1)	(4.8)	(1.3)
Income taxes paid	(5.8)	(3.8)	(2.0)
Cash flow from operating activities	**(64.6)**	**7.2**	**(71.8)**

* Numbers may not add exactly due to rounding

Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $45.0 million for the three-month period ended March 31, 2018, compared with $50.4 million for the same period in 2017. This decrease mostly reflects a lower net income for the period as well as lower income tax expense.

Changes in non-cash working capital components reduced liquidity by $97.7 million in the first quarter of 2018. This was mainly due to increases of $54.4 million and $59.5 million in accounts receivable and inventories, respectively, as a result of normal seasonal working capital requirements, as well as the timing of certain purchases and the value of inventory acquired to support a Class 1 railroad customer's transition to a full service "black-tie" program. It was partially offset by a $28.5 million increase in accounts payable and accrued liabilities. In the first quarter of 2017, changes in non-cash working capital components had used liquidity of $34.5 million.

Interest and income taxes paid further reduced liquidity by $6.1 million and $5.8 million, respectively, in the first quarter of 2018. This compares with interest paid of $4.8 million and income taxes paid of $3.8 million a year earlier.

Cash flows from financing activities

Financing activities for the quarter ended March 31, 2018 increased liquidity by $96.4 million explained by a $96.5 million increase in long-term debt to support working capital requirements and the financing of the PFP acquisition. For the quarter ended March 31, 2017, financing activities increased liquidity by $5.3 million. Long-term debt increased $195.9 million as a result of the January 17, 2017 private placement for which proceeds were used to pay down a portion of the Company's unsecured revolving facility. This resulted in a $189.8 million net decrease in the outstanding amount of the syndicated credit facilities.

Cash flow from financing activities (in millions of dollars)	**Q1-18**	**Q1-17**	**Variance**
Net change in syndicated credit facilities	96.5	(189.8)	286.3
Increase in long-term debt	-	195.9	(195.9)
Other	(0.2)	(0.8)	0.6
Cash flow from financing activities	**96.4**	**5.3**	**91.1**

* Numbers may not add exactly due to rounding

On March 15, 2018, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2023. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016 and amended on May 18, 2016 (the "Credit Agreement"). The amendment also increases the accordion option, made available by the Credit Agreement, from US$125.0 million to US$350.0 million. This option applies to the unsecured revolving credit facility and is made available upon request. Finally, the definition of total debt used in the Credit Agreement for ratio calculation purposes, was amended to consider cash and cash equivalent balances up to a maximum of US$75.0 million. All the conditions of the Credit Agreement, other than these modifications, remain substantially unchanged.

Cash flows from investing activities

Investing activities used $38.2 million in liquidity during the first quarter of 2018, as compared to $14.1 million last year. This variation is mainly explained by the business acquisition of $26.5 million as detailed below.

Cash flow from investing activities	**Q1-18**	**Q1-17**	**Variance**
Business acquisition	(26.5)	-	(26.5)
Purchase of property, plant and equipment	(11.5)	(11.7)	0.2
Other	(0.2)	(2.5)	2.2
Cash flow from investing activities	**(38.2)**	**(14.1)**	**(24.1)**

* Numbers may not add exactly due to rounding

Financial Obligations

The following table details the maturities of the financial obligations as at March 31, 2018:

(in millions of dollars)	Carrying Amount $	Contractual Cash flow $	Less than 1 year $	1 – 3 years $	4 – 5 years $	After 5 years $
Accounts payable and accrued liabilities	149.8	149.8	149.8	-	-	-
Long-term debt obligations	565.4	671.8	23.8	50.0	383.3	214.7
Minimum payments under operating lease obligations	-	98.3	24.9	33.7	15.9	23.8
Non-compete agreements	5.7	6.1	1.7	3.0	1.3	-
Total	**720.9**	**925.9**	**200.2**	**86.7**	**400.5**	**238.5**

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2018, the capital stock issued and outstanding consisted of 69,348,748 common shares (69,342,095 as at December 31, 2017). The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2018:

Number of shares (in '000s)	Three-month Period Ended March 31, 2018
Balance – Beginning of period	69,342
Stock option plan	-
Employee share purchase plans	7
Balance – End of period	**69,349**

As at May 2, 2018, the capital stock issued and outstanding consisted of 69,348,748 common shares.

As at March 31, 2018, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 45,000 (December 31, 2017 – 45,000) of which 33,000 (December 31, 2017 – 33,000) were exercisable. As at May 2, 2018, the number of outstanding options was 45,000, of which 33,000 were exercisable.

DIVIDENDS

On May 2, 2018, the Board of Directors declared a quarterly dividend of $0.12 per common share payable on June 27, 2018 to shareholders of record at the close of business on June 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 commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2017 Annual Report.

RISKS AND UNCERTAINTIES

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2017 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2017 audited consolidated financial statements as well as in the impact of new accounting pronouncements MD&A section with regards to accounting policy changes for revenue recognition and financial instruments.

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.

Impact of new accounting pronouncements

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. The adoption of this new standard had no significant impact on the Company's interim consolidated financial statements and the new accounting policy was defined as follows:

The Company sells treated wood products and wood products (the "Products"), as well as treating services. Revenue from the sale of Products is recognized when the Company satisfies a performance obligation by transferring a promised product to a customer. Products are transferred when the customer obtains control of the Products, being either at the Company's manufacturing site or at the customer's location. Control of the Products refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the Product.

The Company offers to treat wood products owned by third parties. Revenue from these treating services is recognized at a point in time given the short timeframe to treat wood products.

Product sales can be subject to retrospective volume discounts based on aggregate sales over a twelve months period per certain contractual conditions. Revenue from these sales is recognized based on the price specified in a contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that the contractual conditions will be met. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Products sales can also be subject to retrospective price discounts based on aggregate sales over a twelve months period per certain contractual conditions. Revenue from these sales is recognized based on the expected average sales price over the specified period. Accumulated experience is used to estimate and provide for the price discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that the contractual conditions will be met. The customer is invoiced at the contract price and a liability is recognized to adjust to the average price.

A receivable is recognized when the control of the products is transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

IFRS 9 – *Financial Instruments*

The final version of IFRS 9, *Financial instruments*, 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. The adoption of this new standard had no significant impact on the Company's interim consolidated financial statements and the new accounting policy was defined as follows:

The Company recognizes a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets

The Company will classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on its business model for managing the financial asset and the financial asset's contractual cash flow characteristics. The three categories are defined as follows:

a) Amortized cost—a financial asset is measured at amortized cost if both of the following conditions are met:

   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income—financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

c) Fair value through profit or loss—any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

When, and only when, the Company changes its business model for managing financial assets it must reclassify all affected financial assets.

The Company financial assets comprise of cash, cash equivalents, accounts receivable and derivative financial instruments. Cash, cash equivalents and accounts receivable are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured at fair value through other comprehensive income.

Financial liabilities
The Company's liabilities include accounts payable and accrued liabilities, bank indebtedness, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities, bank indebtedness and long-term debt are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured fair value through other comprehensive income. After initial recognition, an entity cannot reclassify any financial liability.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Hedging transactions
As part of its hedging strategy, the Company considers derivative financial instruments such as foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars from its Canadian-based operations. The Company also considers interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These derivative financial instruments are treated as cash flow hedges for accounting purposes and are fair-valued through other comprehensive income.

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within other income (expenses).

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at March 31, 2018 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at March 31, 2018.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from January 1, 2018 to March 31, 2018 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. 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 and WP acquisitions 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.

May 2, 2018