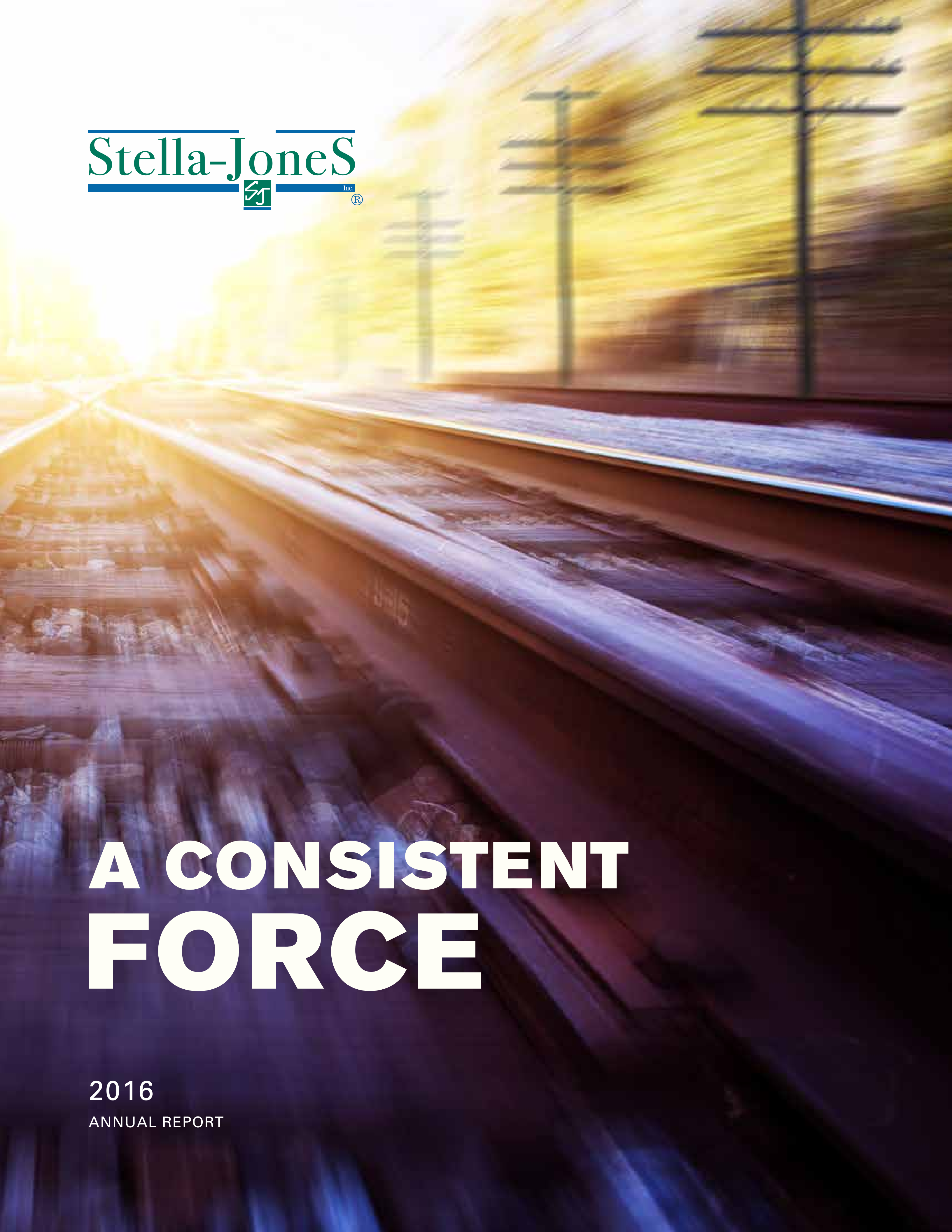


Stella-Jones Inc.

A CONSISTENT FORCE

2016

ANNUAL REPORT

Stella-Jones Inc.®

CONSISTENCY HAS BEEN PARAMOUNT FOR THE LAST 16 YEARS.

THE FACTORS CONTRIBUTING TO THE STEADY INCREASE IN SHAREHOLDER VALUE AT STELLA-JONES OVER THE LAST SIXTEEN YEARS ARE EASILY IDENTIFIABLE. IN EACH OF THOSE YEARS, THE COMPANY ADHERED STRICTLY TO ITS CORE COMPETENCE WHILE PURSUING A DISCIPLINED STRATEGY OF EXPANSION – THEREBY ANNUALLY GENERATING HIGHER LEVELS OF REVENUE AND PROFIT. THE CONSISTENT AND DEDICATED FOCUS OF STELLA-JONES HAS MADE THE COMPANY A PRINCIPAL SUPPLIER THROUGHOUT NORTH AMERICA.

A CONSISTENT RETURN TO INVESTORS

FOR THE YEARS ENDED DECEMBER 31	2016	2015	2014	2013	2012
(millions of dollars, except per share data and ratios)	**$**	$	$	$	$
OPERATING RESULTS					
Sales	**1,838.4**	1,559.3	1,249.5	1,011.3	732.4
Operating income [1]	**233.2**	220.1	155.7	138.7	109.6
Net income	**153.9**	141.4	103.8	92.5	73.1
FINANCIAL POSITION					
Working capital	**927.9**	854.4	615.1	517.0	444.8
Total assets	**1,962.0**	1,778.9	1,289.0	1,071.9	955.9
Total debt [2]	**694.4**	669.9	444.6	372.9	363.6
Shareholders' equity	**1,026.4**	913.5	692.3	572.2	468.8
PER SHARE DATA					
Basic earnings per common share	**2.22**	2.05	1.51	1.35	1.14
Diluted earnings per common share	**2.22**	2.04	1.50	1.34	1.13
Book value	**14.81**	13.21	10.04	8.33	6.83
Dividend per share	**0.40**	0.32	0.28	0.20	0.16
Average number of shares outstanding (000's)	**69,215**	69,018	68,802	68,681	64,313
Average number of diluted shares outstanding (000's)	**69,231**	69,153	69,027	69,053	64,597
Shares outstanding at year end (000's)	**69,303**	69,137	68,949	68,697	68,674
FINANCIAL RATIOS					
Operating margin	**12.7%**	14.1%	12.5%	13.7%	15.0%
Return on average equity	**15.9%**	17.6%	16.4%	17.8%	18.3%
Total debt [2] to total capitalization	**0.40:1**	0.42:1	0.39:1	0.39:1	0.44:1
Total debt [2] to trailing 12-month EBITDA [1]	**2.62**	2.75	2.52	2.41	3.02
Working capital	**8.57**	6.36	8.33	8.97	5.94

SALES
(in millions of $)

OPERATING INCOME [1]
(in millions of $)

NET INCOME
(in millions of $)

[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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Chartered Professional Accountant Canada Handbook Part 1 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 IFRS financial statements, as there are no adjustments for unusual or non-recurring items.

[2] Including the current portion of long-term debt.

A CONSISTENT PACE
2016 HIGHLIGHTS

- 2016 marked the sixteenth consecutive year of growth in both sales and net income for Stella-Jones.

- The Company pursued its strategy of geographic expansion through acquisition, as Stella-Jones added facilities in Louisiana and Texas to its continental production chain. The Company also acquired operating assets in Québec and Northern Ontario. These acquisitions have together, strenghthened the Company's continental network efficiency.

- In the state of Wisconsin, Stella-Jones constructed a new, state-of-the-art pole peeling and treating facility, a strategic initiative that has made the Company a stronger supplier to existing customers and a superior competitor in its core product categories.

- In the residential lumber category, Stella-Jones progressed from providing treating services only for wholesalers, to offering a value-added full service directly to retailers – a key step that has helped the Company substantially enlarge its role as a supplier to residential lumber clients.

- Ongoing integration of acquisitions unlocked further synergies throughout the year, rendering Stella-Jones' network even stronger and more reliable.

2016 HIGHLIGHTS

A FORCE TO RECKON WITH

"A CONSISTENT FORCE". IF WE REFLECT ON THE PAST SIXTEEN YEARS OF STELLA-JONES, CONSISTENCY HAS BEEN PARAMOUNT:

- in our business model, with a total focus on our key core categories – railway ties, utility poles and residential lumber,
- in our year-on-year growth in sales and profitability, and
- in our annually increased dividend.

This consistency continued in 2016 in spite of a slowdown in railway tie sales in the fourth quarter. Sales of $1.84 billion and net income of $153.9 million, respectively, both set new records for the Company. 2016 was the first full year of contribution from Ram Forest Products acquired in October 2015, and Stella-Jones is now a major supplier of residential lumber in both Canada and northwestern United States.

We made key strategic acquisitions during the year, adding three new utility pole treating plants in Texas and Louisiana. At the end of the year, we also acquired plants in Quebec and Ontario to complement our existing operations in these provinces and enhance the supply and service we can provide to our customers.

We started construction of a new greenfield utility pole treating plant in Cameron, Wisconsin, strategically located to access high quality raw material supply and to better service regional customers. The plant was commissioned in the first quarter of 2017 and will supply both central Canada and the United States with transmission and distribution poles.

Katherine A. Lehman joined Stella-Jones as a director in October 2016, bringing added financial expertise to the Board. A graduate of The Wharton School, University of Pennsylvania and of Columbia Business School, Kate has extensive work and board experience in the private equity sector in United States. She is also a member of the Audit Committee.

We believe that railway tie sales will continue to be somewhat slow during the current year, but should be picking up thereafter, and any serious increase in infrastructure spending in the USA will give added impetus to our business both in railway ties and utility poles. Stella-Jones' financial position remains strong and our outlook continues to be positive.

On behalf of the Board, I thank all our shareholders and our employees for their fine contributions in 2016.

Tom A. Bruce Jones, CBE
Chairman of the Board

A CONSISTENT PERFORMANCE

FOR MANY YEARS, STELLA-JONES HAS ADHERED TO ITS CORE COMPETENCE WHILE STRATEGICALLY ENLARGING ITS PRODUCTION NETWORK, DEVELOPING NEW BUSINESS AND DELIVERING A STRONG FINANCIAL PERFORMANCE. THE EFFECT OF THIS STEADY DISCIPLINE OVER THE LONG-TERM HAS MADE STELLA-JONES **A CONSISTENT FORCE**.

- **CONSISTENT** IN RELIABLY DELIVERING THE FINEST QUALITY PRODUCTS TO OUR CUSTOMERS;
- **CONSISTENT** IN LEVERAGING THE SYNERGIES OF OUR CONTINENTAL OPERATIONS; AND
- **CONSISTENT** IN BUILDING VALUE FOR OUR SHAREHOLDERS. AND THUS, TODAY, STELLA-JONES STANDS AS A LEADING, RESPECTED **FORCE** IN THE NORTH AMERICAN WOOD TREATING INDUSTRY.

2016 marked the sixteenth consecutive year of sales and net income growth for Stella-Jones. These results reflect the efficiency of our operations and benefits of our expansion strategy. Most significantly, they point to the Company's deeply rooted role as a principal North American provider of treated wood products in our core categories.

As the economies of the United States and Canada were generally positive in 2016, demand remained healthy for our railway ties, utility poles, residential lumber and ancillary products. In the fourth quarter, we saw lower year-over-year financial results primarily due to lower railway tie demand. Despite this, consolidated sales in 2016 totalled $1.84 billion, representing a year-over-year increase of 17.9%. Net income amounted to $153.9 million, or $2.22 per diluted share, representing a year-over-year increase of 8.9%.

Excluding the revenue from recent acquisitions and the benefit we gained from the exchange value of U.S.-dollar denominated sales, the Company's organic growth reached 4.4%.

This financial achievement resulted from solid demand for our products, but equally, from a host of efficiency initiatives and customer service enhancements. Moreover, our sustained efforts in regard to network optimization and customer relationship management, as well as investments in our network, have positioned Stella-Jones for additional growth in our traditional product categories.

NETWORK GROWTH

In 2016, we completed an acquisition in the state of Texas, another in the state of Louisiana, and at year-end, we also acquired two companies in Canada. Similar to all previous acquisitions, these represented logical "next steps" in our expansion program. They have made Stella-Jones a stronger supplier to existing customers and a stronger competitor in new geographic regions.

In both Texas and Louisiana, the additions to our network include facilities that produce treated utility poles. These acquisitions have not only brought new customers to Stella-Jones, but have also enhanced our brand. In Canada, we acquired operating assets in Québec and Northern Ontario that manufacture treated utility poles, further enhancing our network.

These initiatives have also, once again, signalled to our customers across the continent that Stella-Jones possesses deep, multi-faceted, geographically widespread capacity to supply their requirements, no matter how large, specific or urgent those requirements may be. Since welcoming these plants into the Stella-Jones network, we have applied anew our extensive experience in facility integration. The effect has been to unlock synergies which, in turn, have strengthened the Company's overall productivity.

In addition, the expansion of our network in 2016 included the construction of a new, state-of-the-art pole peeling and treating facility in Cameron, Wisconsin. This facility became fully operational in February 2017. It allows us to expand our production capacity and ability to service the utility pole market.

RAILWAY TIES

Rail remains a central pillar of the North American transport system for the shipment of freight, and it thrives in tandem with the general economy. The constant need to maintain and upgrade the railway infrastructure, as well as requirements for further network development, contribute directly to the sales performance of Stella-Jones, as our customers in the industry encompass the major Class 1 railways as well as many short line operators.

Stella-Jones' railway tie sales amounted to $716.2 million, a slight increase over the previous year, and remain our largest product category. As anticipated, after a strong start to the year, demand was softer in the second half of 2016.

2016 marked the sixteenth consecutive year of sales and net income growth for Stella-Jones. These results reflect the efficiency of our operations and the benefits of our expansion strategy.

UTILITY POLES

The treated wood poles produced by Stella-Jones form a basic component of electrical transmission and distribution infrastructure throughout North America. In 2016, demand for these poles, which comprise our second largest product category, remained fairly stable.

Revenue from utility pole sales came to $579.2 million, up 9.8% from the year previous. Excluding the contribution of acquired operations and the currency exchange effect, utility pole sales decreased slightly due to lower maintenance demand for distribution poles in certain regions of North America.

RESIDENTIAL LUMBER

Stella-Jones' presence in the residential lumber category grew substantially in 2016 following the acquisition of Ram Forest Products in the final quarter of 2015. Revenue amounted to $345.7 million, an increase of 89.4% over the previous year.

Higher sales in this category not only reflect this strategic acquisition, but also represent an important advance in our overall approach. We have progressed from providing treating services only for wholesalers to offering a value-added full service directly to retailers. This new marketing approach has firmly positioned Stella-Jones as a leading provider of residential treated lumber.

INDUSTRIAL PRODUCTS

In the industrial products category, demand remained relatively stable with sales of $96.3 million in 2016. This important source of ancillary revenue speaks to the Company's proven expertise in the field, and consistent reliability as a supplier. As the Stella-Jones brand is regarded with exceptional trust in the treated wood industry, we are confident in the continued strength of our industrial products.

LOGS AND LUMBER

In the product category of logs and lumber, Stella-Jones sells logs that are unsuitable for use as utility poles and re-sells excess purchased lumber into local home-building markets. Revenue from these supplementary sources was $100.8 million in 2016, an increase of $58.8 million over the previous year, mainly reflecting the addition of the lumber portion of this category.

OUTLOOK

In the year ahead, as the North American economy remains generally healthy, we anticipate sustained demand for our core products. In the railway tie category, we expect the year-over-year decrease in sales and volume experienced in the latter half of 2016 to continue throughout 2017. Thereafter, we are confident that the railway industry will progressively accelerate, once again, its pace of investment in track upgrade and new lines.

In the utility pole category, we expect a gradual return to a regular business flow from maintenance requirements, while demand from special projects should improve following a stabilization in resource prices. Over time, we expect a gradual increase in orders as aging poles are retired and replaced.

Considering the various forces affecting our principal businesses, we expect weaker sales in the first half of 2017, when compared to 2016, with an expected year-over-year increase in the second half of the year. Operating margins will be negatively impacted by product mix and softer pricing in certain regions.

With our continental production network solidly established and still growing, we are confident that our reputation as a consistent, reliable force will only strengthen. This will facilitate our approach to new sources of sales revenue in all of our product categories.

Growth may also come from further expansion. As always, however, we will extend our reach only if prospective acquisitions represent highly strategic additions to our existing network. Discipline, efficiency and long-term vision have allowed Stella-Jones to consistently create value for its shareholders over the past two decades.

I wish to take this opportunity to thank all the employees of Stella-Jones for their commitment, the members of our Board for their counsel, our shareholders for their continuing support, and our customers for their ongoing trust.

Brian McManus
President and CEO

Stella-Jones's presence in the residential lumber category grew substantially in 2016 following the acquisition of Ram Forest Products in the final quarter of 2015. Revenue amounted to $345.7 million, an increase of 89.4% over the previous year.

A CONSISTENT DISPLAY OF EXPERTISE

RAILWAY TIES

Over decades, Stella-Jones has demonstrated exceptional skill regarding the treatment of wood, and absolute dependability as a supplier. These fundamental aspects of the Company explain why Class 1 and Short Line railway operators have developed longstanding relationships with the Company and made it a principal North American source of treated railway crossties. The Company's focused expertise provides a product second to none in quality, while its continental network ensures highly competitive pricing and delivery capability.

$716.2 M
2016 SALES

39.0%
OF SALES

UTILITY POLES

Continually updated technology and efficiency initiatives at Stella-Jones have enabled the Company to remain one of the foremost North American providers of utility poles for electrical transmission and communications networks. Employing the full spectrum of wood species and preservative treatments, Stella-Jones has earned an unsurpassed reputation as a single-source supplier. Moreover, during weather events that create sudden and immediate demand, the size and flexibility of the Company's production network has time and again allowed it to rapidly meet the urgent needs of its clients.

$579.2 M
2016 SALES

31.5%
OF SALES

RESIDENTIAL LUMBER

Stella-Jones' long-established expertise in regards to the pressure treatment of wood has facilitated the Company's increased participation in the residential lumber business. While remaining dedicated to its core competence, the Company has successfully diversified and has made residential lumber an additional – and quickly growing – core product. Reflecting this enlarged role, in 2016 Stella-Jones moved forward in its offering from providing treating services exclusively for wholesalers to offering a value-added complete service directly to retailers.

$345.7 M
2016 SALES

18.8%
OF SALES

INDUSTRIAL PRODUCTS

Applying specialized expertise, Stella-Jones pressure treats wood for use as marine pilings and bridge timbers. The Company also performs pre-plating for railway customers and generates additional ancillary revenue with products such as guardrail posts and crossing planks.

$96.3 M
2016 SALES

5.2%
OF SALES

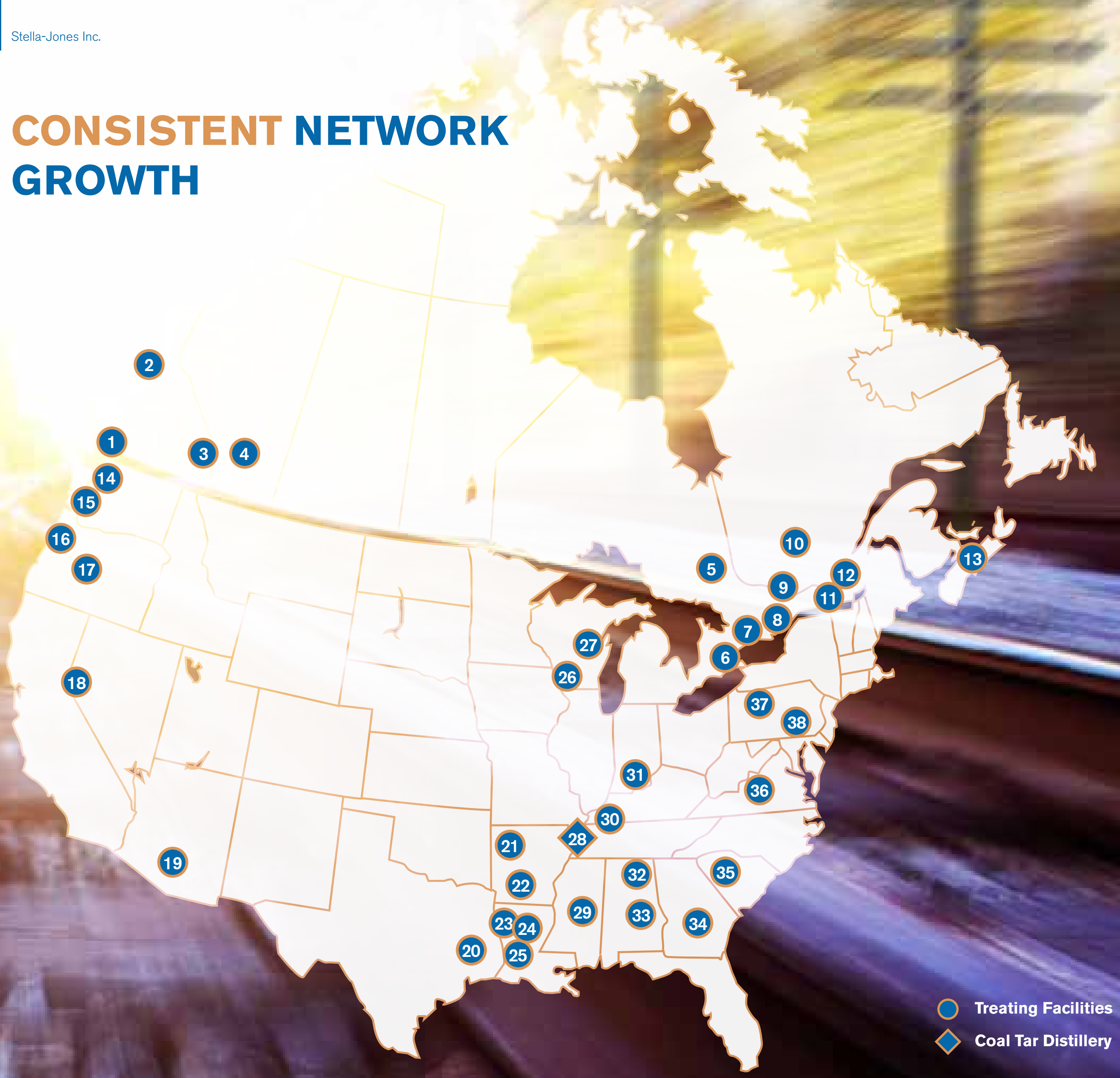
LOGS AND LUMBER

Stella-Jones markets logs that cannot be used as utility poles. Additionally, the Company re-sells untreated purchased lumber into home-building markets.

$100.8 M
2016 SALES

5.5%
OF SALES

CONSISTENT NETWORK GROWTH



Stella-Jones Inc.

1 New Westminster, BC
2 Prince George, BC
3 Galloway, BC
4 Carseland, AB
5 Kirkland Lake, ON
6 Guelph, ON
7 Gormley, ON
8 Peterborough, ON
9 Gatineau, QC
10 Rivière-Rouge, QC
11 Delson, QC
12 Sorel-Tracy, QC
13 Truro, NS
14 Arlington, WA
15 Tacoma, WA
16 Sheridan, OR
17 Eugene, OR
18 Silver Springs, NV
19 Eloy, AZ
20 Lufkin, TX
21 Russellville, AR
22 Rison, AR
23 Converse, LA
24 Pineville, LA
25 Alexandria, LA
26 Bangor, WI
27 Cameron, WI
28 Memphis, TN
29 Scooba, MS
30 Fulton, KY
31 Winslow, IN
32 Montevallo, AL
33 Clanton, AL
34 Cordele, GA
35 Whitmire, SC
36 Goshen, VA
37 Dubois, PA
38 McAllisterville, PA

Stella-Jones Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

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 16, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2016 compared with the fiscal year ended December 31, 2015. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2016 and 2015 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 December 31, 2016, the Company operated thirty-six wood treating plants, sixteen pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2016, Stella-Jones' workforce numbered approximately 1,930 employees.

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

OUR MISSION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

Reconciliation of EBITDA and operating income to net income*

	Three-month periods ended		Fiscal years ended	
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**18.5**	33.0	**153.9**	141.4
Plus:				
Provision for income taxes	**5.4**	10.5	**61.5**	61.6
Financial expenses	**4.2**	4.8	**17.9**	17.1
Operating income	**28.2**	48.3	**233.2**	220.1
Depreciation and amortization	**8.8**	6.2	**31.6**	23.3
EBITDA	**36.9**	54.5	**264.8**	243.4

* Numbers may not add exactly due to rounding.

MAJOR ACHIEVEMENTS OF 2016

Stella-Jones recorded a solid performance in the year ended December 31, 2016. The Company proceeded with further network expansion through strategic acquisitions, while on the operating front, it achieved record sales and net income. Stella-Jones also generated a solid cash flow which allowed the Company to conclude the year in a healthy financial position. Going forward, Stella-Jones remains committed to executing its operating strategy based on continental expansion in its core railway tie and utility pole markets, as well as capturing select opportunities in other markets for its treated wood products.

Network expansion

KMS and NPTW

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

Total cash outlay associated with the acquisition was approximately $19.2 million, excluding acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

Kisatchie

On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the equity interests of 440 Investments, LLC, the parent company of Kisatchie Treating, L.L.C., Kisatchie Pole & Piling, L.L.C., Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie"). Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Converse and Pineville, Louisiana.

Total cash outlay associated with the acquisition was approximately $46.2 million (US$35.7 million), excluding acquisition costs of approximately $873,000, recognized in the consolidated statement of income under selling and administrative expenses.

Lufkin Creosoting

On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting"). Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas.

Total cash outlay associated with the acquisition was approximately $46.5 million (US$35.9 million), excluding acquisition costs of approximately $978,000, recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2016 reached $1,838.4 million, up 17.9% from last year's sales of $1,559.3 million. The acquisitions of Kisatchie and Lufkin Creosoting, both completed on June 3, 2016, generated combined sales of $43.5 million, while the acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. (together "Ram"), completed on October 1, 2015, contributed additional sales of $91.5 million over the first nine months of 2016. Finally, acquisitions in the southeastern United States completed in the second half of 2015 provided additional sales of $21.8 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $53.1 million when compared with the previous year. Excluding these factors, sales increased approximately $69.1 million, or 4.4%.

Stella-Jones' annual operating income reached $233.2 million, or 12.7% of sales, in 2016. This represents a 6.0% increase over $220.1 million, or 14.1% of sales, in the prior year. As a result, net income for the year grew 8.9% to $153.9 million, or $2.22 per diluted share, compared with $141.4 million, or $2.04 per diluted share, a year ago. The Company generated a 15.9% return on average equity in 2016.

Stella-Jones produced strong cash flows in 2016 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to $268.9 million, up 5.7% from $254.3 million in 2015. These funds allowed the Company to proceed with strategic acquisitions and to invest in its network, while maintaining a sound financial position. As at December 31, 2016, Stella-Jones' total debt to total capital ratio stood at 0.40:1, down slightly from 0.42:1 twelve months earlier. The Company also increased its annual dividend payout for the twelfth consecutive year.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	2016	2015	2014
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,838.4**	1,559.3	1,249.5
Operating income	**233.2**	220.1	155.7
Net income	**153.9**	141.4	103.8
Basic earnings per common share	**2.22**	2.05	1.51
Diluted earnings per common share	**2.22**	2.04	1.50

Financial Position	2016	2015	2014
(in millions of dollars)	**$**	$	$
Current assets	**1,050.5**	1,013.8	699.0
Total assets	**1,962.0**	1,778.9	1,289.0
Long-term debt [1]	**694.4**	669.9	444.6
Total liabilities	**935.5**	865.4	596.8
Shareholders' equity	**1,026.4**	913.5	692.3

[1] Including the current portion.

KEY PERFORMANCE INDICATORS (years ended December 31)

	2016	2015	2014
Operating margin [1]	**12.7%**	14.1%	12.5%
Return on average equity [2]	**15.9%**	17.6%	16.4%
Working capital ratio [3]	**8.57**	6.36	8.33
Total debt to total capitalization [4]	**0.40:1**	0.42:1	0.39:1
Total debt to EBITDA [5]	**2.62**	2.75	2.52
Dividend per share	**$0.40**	$0.32	$0.28

1 Operating income divided by sales.
2 Net income divided by the mathematical average of current year's shareholders' equity and the previous year's shareholders' equity.
3 Total current assets divided by total current liabilities.
4 Long-term debt (including the current portion) divided by the sum of shareholders' equity and long-term debt (including the current portion).
5 Long-term debt (including the current portion) divided by EBITDA.

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2016 and 2015. 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.

	2016		2015	
Cdn$/US$	**Average**	**Closing**	**Average**	**Closing**
First Quarter	**1.3792**	**1.2987**	1.2272	1.2666
Second Quarter	**1.2886**	**1.2917**	1.2389	1.2490
Third Quarter	**1.3030**	**1.3117**	1.2909	1.3345
Fourth Quarter	**1.3319**	**1.3427**	1.3258	1.3840
Fiscal Year	**1.3257**	**1.3427**	1.2707	1.3840

INDUSTRY OVERVIEW

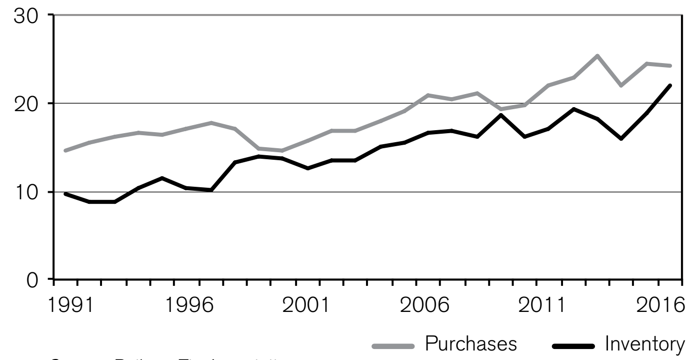
Railway ties

As reported by the Railway Tie Association ("RTA"), railway tie purchases for 2016 stood at 24.2 million ties, representing a slight decrease from 24.4 million ties in 2015. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. The reduction in purchases in the late stages of 2016 is therefore implied by an increase in industry inventory, which stood at 22.0 million ties as at December 31, 2016. As a result, the inventory-to-sales ratio reached 0.91:1 as at December 31, 2016, up from 0.77:1 twelve months earlier, and higher than the previous ten-year average ratio of 0.78:1.

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.

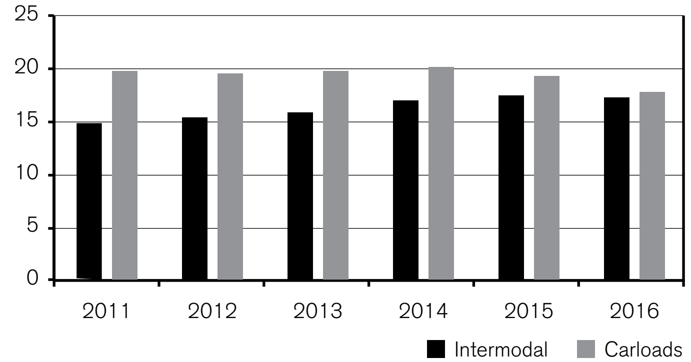
Reflecting a softer North American economy compared to the previous year, total traffic on North American railroads decreased by 4.5% in 2016, according to data released by the Association of American Railroads. Carload volume decreased by 7.2%, mainly due to lower shipments of coal, petroleum and petroleum products, while intermodal trailer and container volume declined 1.5% from 2015 levels.

ANNUALIZED RAILWAY TIE PURCHASES AND INVENTORY
(in millions of ties)



Source: Railway Tie Association

FREIGHT HAULED ON NORTH AMERICAN RAILROADS
(in millions of units)



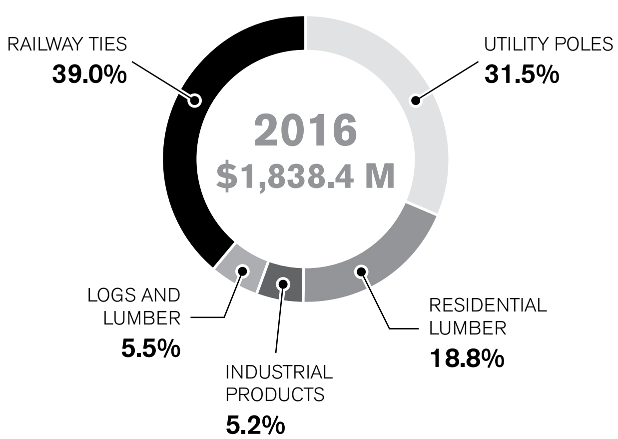
Source: Association of American Railroads

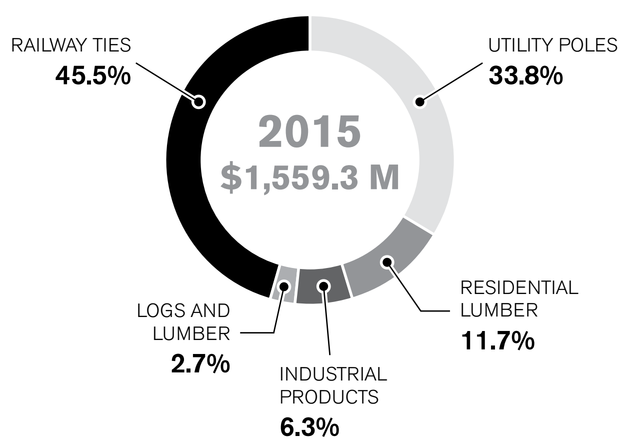
OPERATING RESULTS

Sales

Sales for the year ended December 31, 2016 reached $1,838.4 million, up 17.9% from last year's sales of $1,559.3 million. The acquisitions of Kisatchie and Lufkin Creosoting, both completed on June 3, 2016, generated combined sales of $43.5 million, while the acquisition of Ram, completed on October 1, 2015, contributed additional sales of $91.5 million over the first nine months of 2016. Finally, acquisitions in the southeastern United States completed in the second half of 2015 provided additional sales of $21.8 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $53.1 million when compared with the previous year. Excluding these factors, sales increased approximately $69.1 million, or 4.4%.

SALES BY PRODUCT CATEGORY
(% of sales)

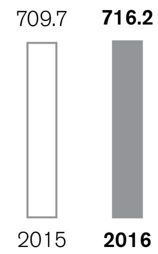




Railway ties

Railway tie sales for 2016 amounted to $716.2 million, up from sales of $709.7 million in 2015. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales decreased approximately $22.9 million, or 3.2%, as lower industry demand in the second half of the year offset strong first-half demand. Railway tie sales accounted for 39.0% of the Company's total sales in 2016.

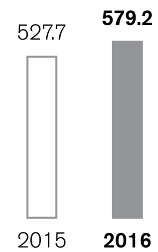
RAILWAY TIE SALES
(in millions of $)



Utility poles

Utility pole sales reached $579.2 million in 2016, representing an increase of $51.5 million, or 9.8%, from sales of $527.7 million in 2015. Excluding the currency conversion effect and the contribution from the acquisitions of Kisatchie, Lufkin Creosoting, as well as acquisitions in the southeastern U.S. completed in the second half of 2015, sales declined approximately $24.8 million, or 4.7%. This variation reflects a decline in sales of distribution poles due to reduced maintenance demand in certain regions, while sales of transmission poles held relatively steady. Utility pole sales accounted for 31.5% of the Company's total sales in 2016.

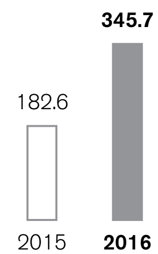
UTILITY POLE SALES
(in millions of $)



Residential lumber

Sales in the residential lumber category totalled $345.7 million in 2016, up from $182.6 million in 2015. This $163.2 million, or 89.4%, increase mostly reflects additional sales of $91.5 million from the Ram acquisition in the first nine months of 2016. Excluding this factor and the currency conversion effect, sales increased $68.5 million, or 37.6%, reflecting the transition from treating services only for wholesalers to a value-added full service direct offering to retailers. Residential lumber accounted for 18.8% of Stella-Jones' sales in 2016.

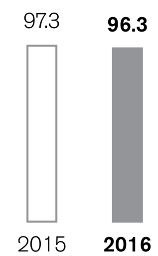
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial products

Industrial product sales were $96.3 million in 2016, compared with $97.3 million in 2015. This decrease is mainly attributable to the timing of orders for rail-related products in the United States, partially offset by the currency conversion effect. Industrial products represented 5.2% of sales in 2016.

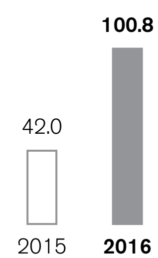
INDUSTRIAL PRODUCT SALES
(in millions of $)



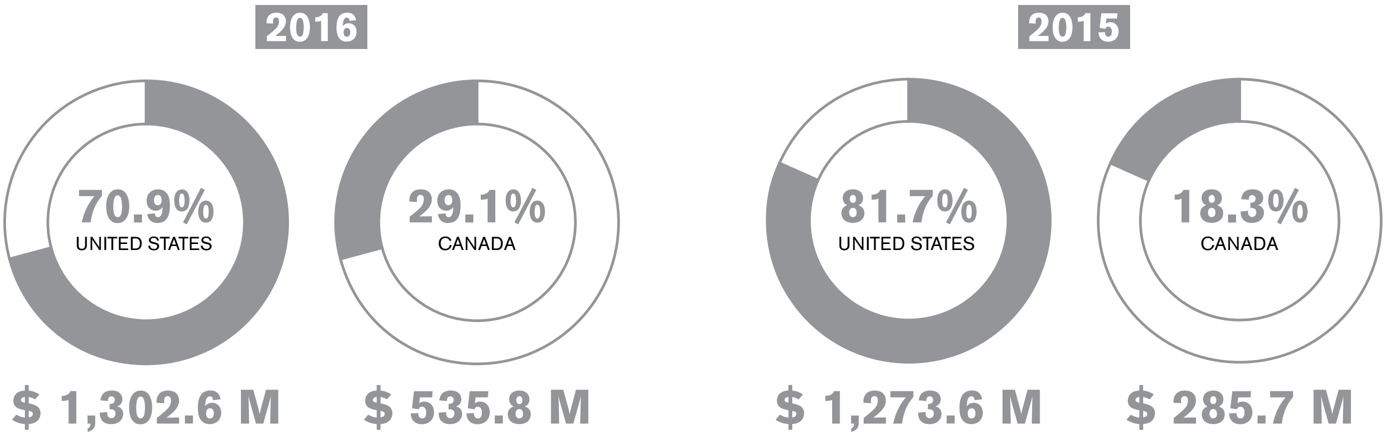
Logs and lumber

Logs and lumber sales amounted to $100.8 million in 2016, up from $42.0 million in 2015. This increase is explained by the addition of the purchase and resale of lumber resulting from procurement efforts to support residential lumber requirements and by the timing of timber harvesting. Logs and lumber represented 5.5% of sales in 2016.

LOGS AND LUMBER SALES
(in millions of $)



SALES BY GEOGRAPHIC REGION
(% of sales)



Sales in the United States amounted to $1,302.6 million, or 70.9% of sales in 2016, representing an increase of $29.0 million, or 2.3%, over 2015. The year-over-year rise mainly stems from a higher conversion rate on U.S. dollar denominated sales and the contribution from the acquisitions of Kisatchie and Lufkin Creosoting. Excluding these factors, sales decreased as a result of lower railway tie sales in the second half of the year and lower sales of distribution poles due to reduced maintenance demand in certain regions.

Sales in Canada increased by $250.1 million, or 87.5% in 2016 to reach $535.8 million, representing 29.1% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales due to the Ram acquisition and the transition from treating services only for wholesalers to a value-added full service direct offering to retailers.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,504.6 million, or 81.8% of sales, in 2016. This compares with $1,252.0 million, or 80.3% of sales, in 2015. The increase in absolute dollars essentially reflects higher business activity for the year, business acquisitions and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the increase is mainly attributable to a higher proportion of low-margin logs and lumber sales, a less favourable product mix this year compared to 2015 and softness in selling prices for certain regions. These factors were partially offset by economies of scale generated by higher volumes in the residential lumber category.

Depreciation and amortization charges totalled $31.6 million for the year ended December 31, 2016, versus $23.3 million a year earlier. The year-over-year increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of the 2016 acquisitions, of Ram for the full year, and to a higher average rate applied to convert U.S. dollar denominated depreciation and amortization.

As a result, gross profit reached $333.7 million or 18.2% of sales in 2016, versus $307.3 million or 19.7% of sales in 2015.

Selling and administrative

Selling and administrative expenses for 2016 were $95.0 million, or 5.2% of sales, compared with expenses of $85.6 million, or 5.5% of sales, in 2015. The variation in monetary terms is mainly attributable to additional selling expenses of approximately $6.0 million related to the Company's expanded presence in the residential lumber category, an increase of $2.9 million in profit sharing expenses and incremental salaries and severance expenses of approximately $2.3 million. These elements were partially offset by a reduction in the restricted stock unit expense. This year's expenses also included approximately $2.9 million in acquisition costs directly related to the 2016 business acquisitions, while last year's expenses included approximately $1.5 million in acquisition costs.

Other losses, net

Stella-Jones' other net losses of $5.5 million for the year ended December 31, 2016 mainly consisted of $5.2 million in final provisions for site remediation related to a non-operating site. In 2015, other net losses of $1.7 million were mostly related to a $1.8 million remediation provision adjustment.

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 $17.9 million in 2016, up from $17.1 million in 2015. This increase is attributable to higher year-over-year borrowings in 2016 as a result of acquisitions, as well as 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 $215.4 million, or 11.7% of sales, in 2016. This represents an increase of 6.1% over the prior year of $203.0 million, or 13.0% of sales. The year-over-year increase in income before income taxes is attributable to higher gross profit, partially offset by higher selling and administrative expenses, whereas the decrease as a percentage of sales essentially reflects a lower gross profit as a percentage of sales.

Stella-Jones' provision for income taxes totalled $61.5 million in 2016, representing an effective tax rate of 28.5%. In 2015, income tax expenses stood at $61.6 million, equivalent to an effective tax rate of 30.3%. The lower effective tax rate for 2016 is mainly attributable to a more favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the year ended December 31, 2016 reached $153.9 million, or $2.22 per diluted share, compared with $141.4 million, or $2.04 per diluted share, in 2015. This represents a year-over-year increase in net income of 8.9%.

BUSINESS ACQUISITIONS

KMS and NPTW

On December 21, 2016, the Company completed the acquisition of substantially all the operating assets employed in the businesses of KMS and NPTW. KMS and NPTW manufacture treated wood utility poles at their facilities located in Rivière-Rouge, Québec and Kirkland Lake, Ontario, respectively.

Total cash outlay associated with the acquisition was approximately $19.2 million, excluding acquisition costs of approximately $1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing committed revolving credit facility.

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 Company's consolidated financial statements. 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	4.6
Property, plant and equipment	10.3
Goodwill	5.2
Deferred income tax assets	0.2
	20.3
Liabilities assumed	
Accounts payable and accrued liabilities	0.1
Site remediation provision	0.9
Total net assets acquired and liabilities assumed	**19.3**
Consideration transferred	
Cash	19.2
Consideration payable	0.1
Consideration transferred	**19.3**

Goodwill is amortized and deductible for Canadian tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash-generating units ("CGUs") as defined in the Company's accounting policies. In the case of the KMS and NPTW acquisitions, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

Kisatchie

On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the equity interests of 440 Investments, LLC, the parent company of Kisatchie. Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Converse and Pineville, Louisiana.

Total cash outlay associated with the acquisition was approximately $46.2 million (US$35.7 million), excluding acquisition costs of approximately $873,000, recognized in the consolidated statement of income under selling and administrative expenses.

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 consolidated financial statements. 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. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in millions of dollars)	$
Assets acquired	
Cash acquired	2.6
Accounts receivable	5.3
Inventories	12.9
Prepaids	0.2
Property, plant and equipment	21.2
Customer relationships	6.9
Goodwill	17.5
	66.6
Liabilities assumed	
Accounts payable and accrued liabilities	1.7
Long-term debt	8.8
Deferred income tax liabilities	0.1
Site remediation provision	1.1
Total net assets acquired and liabilities assumed	**54.9**
Consideration transferred	
Cash	46.2
Unsecured promissory note	7.8
Consideration payable	0.9
Consideration transferred	**54.9**

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.0%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the Kisatchie acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility, an unsecured promissory note of $9.1 million (US$7.1 million) and assumed a promissory note, secured by the land of the Pineville facility, having a balance of US$5.7 million. The unsecured promissory note bears interest at 1.4% and is payable in three instalments, including interest of US$1.5 million in June 2019 and 2020 and of US$4.5 million in June 2021. This unsecured promissory note was recorded at a fair value of $7.8 million (US$6.1 million), using an effective interest rate of 5.0%. The secured promissory note bears interest at 5.8%, is payable in quarterly instalments of US$162,000 up to July 2028 and was recorded at a fair value of $8.8 million (US$6.8 million), using an effective interest rate of 4.0%.

Lufkin Creosoting

On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the shares of Lufkin Creosoting. Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas.

Total cash outlay associated with the acquisition was approximately $46.5 million (US$35.9 million), excluding acquisition costs of approximately $978,000, recognized in the consolidated statement of income under selling and administrative expenses.

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 consolidated financial statements. 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. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in millions of dollars)	$
Assets acquired	
Cash acquired	1.1
Accounts receivable	19.7
Inventories	5.3
Property, plant and equipment	16.2
Customer relationships	10.3
Goodwill	23.7
	76.3
Liabilities assumed	
Accounts payable and accrued liabilities	13.8
Deferred income tax liabilities	9.4
Site remediation provision	0.8
Total net assets acquired and liabilities assumed	**52.3**
Consideration transferred	
Cash	46.5
Unsecured promissory note	7.8
Consideration receivable	(2.0)
Consideration transferred	**52.3**

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.0%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is not amortized and not deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the Lufkin Creosoting acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of $9.1 million (US$7.1 million), bearing interest at 1.4% and is payable in three instalments, including interest, of US$1.5 million in June 2019 and 2020 and US$4.5 million in June 2021. The unsecured promissory note was fair valued at $7.8 million (US$6.1 million), using an effective interest rate of 5.0%.

SUBSEQUENT EVENTS

On January 17, 2017, the Company concluded a US$150.0 million private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of a series A senior note of US$75.0 million bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US$75.0 million bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the committed revolving credit facility. The notes were designated as hedges of net investment in foreign operations.

On February 3, 2017, the Company obtained a one-year extension to February 26, 2022 of its committed revolving credit facility as provided in the fifth amended and restated credit agreement dated as of February 26, 2016 and amended on May 18, 2016. All the conditions of the credit agreement, other than the committed revolving credit facility maturity date, remain unchanged.

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 levels.

In 2016, the Company achieved solid year-over-year revenue and net income growth in the first three quarters, whereas fourth-quarter results were mainly affected by lower railway tie sales. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

2016

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

2015

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

1 Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS 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 2016 amounted to $341.7 million, versus $357.5 million for the same period in 2015. Acquisitions accounted for sales of approximately $19.5 million, while the conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $1.1 million when compared with last year. Excluding these factors, sales decreased approximately $36.4 million, or 10.2%.

Sales of railway ties reached $113.1 million, versus $147.5 million last year. This decrease reflects lower railway tie demand at the end of the year. Utility pole sales amounted to $144.6 million, up 11.7% from $129.5 million last year. Excluding acquisitions, sales decreased approximately $3.6 million as a result of slight decreases in sales of both distribution and transmission poles. Residential lumber sales reached $44.6 million, up from $40.1 million last year, reflecting solid market demand and higher direct sales to retailers. Industrial product sales amounted to $15.3 million, down from $23.6 million a year ago, as a result of lower sales of rail related products. Finally, logs and lumber sales were $24.1 million, versus $16.7 million last year, due to the timing of lumber purchase and resale activities and the timing of timber harvesting.

Gross profit amounted to $52.0 million, or 15.2% of sales, in the fourth quarter of 2016, versus $69.3 million, or 19.4% of sales, in the fourth quarter of 2015. The decrease in absolute dollars and as a percentage of sales mainly reflects lower business activity in railway tie sales and a less favourable product mix. Reflecting factors that affected gross profit, operating income was $28.2 million, or 8.2% of sales, in the fourth quarter of 2016, versus $48.3 million, or 13.5% of sales, in the fourth quarter of 2015. Net income for the period reached $18.5 million, or $0.27 per diluted share, compared with $33.0 million, or $0.48 per diluted share, last year.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2016, compared to December 31, 2015 (see Foreign Exchange on page 15), results in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2016, total assets and current assets reached $1.96 billion and $1.05 billion, respectively, up from $1.78 billion and $1.01 billion, respectively, as at December 31, 2015. These increases are mainly attributable to acquisitions, partially offset by the effect of local currency translation on U.S.-based assets.

The value of accounts receivable remained relatively stable at $160.8 million as at December 31, 2016, versus $159.9 million as at December 31, 2015, as the timing of non-trade related accounts receivable was partially offset by the impact of lower business activity in the fourth quarter of 2016 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $854.7 million as at December 31, 2016, up from $804.5 million as at December 31, 2015. This increase essentially reflects business acquisitions made during the year, partially offset by the effect of local currency translation on U.S.-based 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 facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $467.0 million as at December 31, 2016, compared with $375.5 million as at December 31, 2015. This increase is essentially related to business acquisitions ($47.7 million), to purchases of property, plant and equipment for the year ($63.2 million), partially offset by the effect of local currency translation on U.S.-based property, plant and equipment and a depreciation charge of $15.8 million.

The value of intangible assets reached $146.3 million as at December 31, 2016. 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, 2015, intangible assets were $140.9 million. The year-over-year increase is mainly explained by business acquisitions ($18.2 million) and purchases of intangible assets ($6.4 million), partially offset by the effect of local currency translation on U.S. dollar denominated intangible assets as well as an amortization charge of $15.8 million for 2016.

As at December 31, 2016, the value of goodwill stood at $285.6 million, up from $245.7 million a year earlier. This increase in goodwill reflects acquisitions ($45.5 million), partially offset by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2016, Stella-Jones' total liabilities stood at $935.5 million, up from $865.4 million as at December 31, 2015. This variation mainly reflects the increase in total debt, as explained below, partially offset by the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $122.7 million as at December 31, 2016, down from $159.5 million a year earlier. This variation is essentially due to a $54.0 million decrease in the current portion of long-term debt, mainly due to the repayment at maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of US$25.0 million, as well as of an unsecured and non-convertible debenture of US$10.0 million. This factor was partially offset by an increase of $23.4 million in accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, stood at $694.4 million as at December 31, 2016, versus $669.9 million as at December 31, 2015. The increase essentially reflects higher borrowings to finance the acquisitions completed in 2016, partially offset by the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2016, an amount of $112.5 million was available against the Company's committed revolving credit facility of $772.1 million (US$575.0 million).

Shareholders' equity

Shareholders' equity was $1.03 billion as at December 31, 2016 compared with $913.5 million as at December 31, 2015. This increase is attributable to net income of $153.9 million for the year, partially offset by dividends on common shares totalling $27.7 million and a $15.7 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 December 31)

	2016	2015
(in millions of dollars)	**$**	$
Operating activities	**181.8**	6.8
Financing activities	**(9.5)**	98.3
Investing activities	**(175.6)**	(99.6)
Net change in cash and cash equivalents	**(3.3)**	5.5
Cash and cash equivalents – beginning	**7.0**	1.5
Cash and cash equivalents – end	**3.7**	7.0

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

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $268.9 million for the year ended December 31, 2016, up 5.7% from $254.3 million in 2015. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $30.1 million in 2016. The main element of this variation was an increase of $39.9 million in inventories related to year-end inventory build-up in preparation for 2017. In 2015, changes in non-cash working capital components had reduced liquidity by $168.2 million, mainly due to a $153.4 million increase in inventories.

Interest and income taxes paid further reduced liquidity by $18.6 million and $38.3 million, respectively, in 2016, versus $16.7 million and $62.6 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings, while the decrease in income taxes paid reflects a lower balance of taxes receivable as at December 31, 2016.

As a result, cash flows provided by operating activities were $181.8 million in 2016, versus $6.8 million in 2015.

Financing activities for the year ended December 31, 2016 reduced liquidity by $9.5 million. The main factor explaining this cash reduction was the payment of dividends on common shares totalling $27.7 million, partially offset by a net increase in long-term debt of $11.6 million. For the year ended December 31, 2015, financing activities had provided liquidity of $98.3 million, mainly due to a $117.4 million net increase in long-term debt, partially offset by the payment of dividends on common shares totalling $22.1 million.

Investing activities required $175.6 million in cash during 2016. Business acquisitions resulted in a cash outlay of $107.3 million, while purchases of property, plant and equipment required an investment of $63.2 million, including $30.5 million for the construction of a new pole peeling and pole treating facility in Cameron, Wisconsin. In 2015, cash flows from investing activities had decreased liquidity by $99.6 million due to business acquisitions ($62.6 million) and purchases of property, plant and equipment ($37.4 million).

FINANCIAL OBLIGATIONS

The following table details the maturities of the financial obligations as at December 31, 2016:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in millions of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	101.1	101.1	101.1	–	–	–
Long-term debt obligations	694.4	773.9	25.2	53.3	689.6	5.8
Interest rate swap agreements	0.4	0.1	0.7	(0.2)	(0.4)	–
Minimum payments under operating lease obligations	–	85.5	24.1	32.4	14.1	14.9
Non-compete agreements	8.0	8.5	2.2	2.9	2.7	0.7
Total	803.9	969.1	153.3	88.4	706.0	21.4

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

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2016, the capital stock issued and outstanding consisted of 69,303,307 common shares (69,137,356 as at December 31, 2015). The following table presents the outstanding capital stock activity for the year ended December 31, 2016:

Year Ended Dec. 31, 2016	Number of shares (in '000s)
Balance – Beginning of year	69,137
Stock option plan	139
Employee share purchase plans	27
Balance – End of year	69,303

As at March 16, 2017, the capital stock issued and outstanding consisted of 69,310,710 common shares.

As at December 31, 2016, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 55,000 (December 31, 2015 – 194,000) of which 31,000 (December 31, 2015 – 158,000) were exercisable. As at March 16, 2017, the number of outstanding options was 55,000, of which 31,000 were exercisable.

DIVIDENDS

In 2016, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.10 per common share payable on April 29, 2016 to shareholders of record at the close of business on April 1, 2016.
- $0.10 per common share payable on June 28, 2016 to shareholders of record at the close of business on June 6, 2016.
- $0.10 per common share payable on September 23, 2016 to shareholders of record at the close of business on September 2, 2016.
- $0.10 per common share payable on December 21, 2016 to shareholders of record at the close of business on December 2, 2016.

Subsequent to the end of the year, on March 16, 2017, the Board declared a quarterly dividend of $0.11 per common share payable on April 28, 2017 to shareholders of record at the close of business on April 3, 2017.

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

COMMITMENTS AND CONTINGENCIES

The 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 $28.9 million (2015 – $38.0 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, sales for Stella-Jones' main product categories are expected to be weaker in the first half of 2017 when compared to 2016 with an expected year-over-year increase in the second half of the year. Operating margins will be negatively impacted by product mix and softer pricing in certain regions.

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

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

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

Liquidity

As at December 31, 2016, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2016 an amount of $112.5 million was available against the Company's committed revolving credit facility of $772.1 million (US$575.0 million).

Accounts receivable remained relatively stable in 2016, as the timing of non-trade related accounts receivable was partially offset by the impact of lower business activity in the fourth quarter of 2016 compared to last year and 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 rose in 2016 as a result of business acquisitions made during the year, partially offset by the effect of local currency translation on U.S.-based 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, 2016, the Company's top ten customers accounted for approximately 48.9% of its sales. During this same period, the Company's two largest customers accounted for approximately 15.3% and 9.4%, 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 special 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, 2016, approximately 33.8% of the Company's long-term debt was at variable interest rates, thereby exposing the Company 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 a material 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, 2016, 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. As a result of this share ownership, SJ International has 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.

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, 2016, the Company had several interest rate swap agreements hedging $378.5 million in debts and having maturity dates ranging from June 2017 to December 2021. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2016, of fixed and floating debt was 66.25% and 33.75%, respectively, including the effects of interest rate swap positions (58.5% and 42.5%, respectively, as at December 31, 2015).

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, 2016, the Company had a sixty-month foreign exchange forward contract agreement, selling US$500,000 per-month. These instruments are presented at fair value and did not qualify for hedge accounting.

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, 2016, the Company had commodity hedges for 5.3 million gallons of diesel and petroleum covering, respectively, approximately 44.4% and 5.7% of the Company's 2017 and 2018 anticipated purchases 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, 2016 and 2015 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 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, 2016. This change was made in accordance with the applicable transitional provisions.

IAS 1 - Presentation of Financial Statements

In 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The adoption of this revised standard had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IAS 7 - Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company is currently evaluating the impact of IAS 7 on its consolidated financial statements.

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 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Company is currently assessing the impact, if any, that this new standard will have on the Company's consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts* with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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.

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, 2016, 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, 2016.

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, 2016 to December 31, 2016 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, sales for Stella-Jones' main product categories are expected to be weaker in the first half of 2017 when compared to 2016 with an expected year-over-year increase in the second half of the year. Operating margins will be negatively impacted by product mix and softer pricing in certain regions.

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

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

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

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

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

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

March 16, 2017

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been examined by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of five independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

Brian McManus
President and Chief Executive Officer

Éric Vachon, CPA, CA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 16, 2017

INDEPENDENT AUDITOR'S REPORT

pwc

To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and 2015 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Québec
March 16, 2017

[1] FCPA auditor, CA, public accountancy permit No. A116853

As at December 31, 2016 and 2015
(expressed in thousands of Canadian dollars)

	Note	2016	2015
		$	$
ASSETS			
Current assets			
Cash		2,267	2,681
Restricted cash	4	1,452	4,292
Accounts receivable	5	160,755	159,862
Derivative financial instruments	17	1,739	–
Inventories	6	854,652	804,478
Prepaid expenses		23,934	27,543
Income taxes receivable		5,720	14,987
		1,050,519	1,013,843
Non-current assets			
Property, plant and equipment	7	467,035	375,534
Intangible assets	8	146,264	140,936
Goodwill	8	285,592	245,696
Derivative financial instruments	17	5,056	832
Other assets		7,492	2,058
		1,961,958	1,778,899
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	101,142	77,766
Current portion of long-term debt	10	6,919	60,874
Current portion of provisions and other long-term liabilities	11	14,590	20,840
		122,651	159,480
Non-current liabilities			
Long-term debt	10	687,466	609,007
Deferred income taxes	14	101,827	78,564
Provisions and other long-term liabilities	11	16,480	10,655
Employee future benefits	15	6,753	7,153
Derivative financial instruments	17	363	538
		935,540	865,397
Shareholders' equity			
Capital stock	12	219,119	216,474
Contributed surplus		258	503
Retained earnings		672,620	546,402
Accumulated other comprehensive income		134,421	150,123
		1,026,418	913,502
		1,961,958	1,778,899
Commitments and contingencies	16		
Subsequent events	21		

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

Approved by the Board of Directors,

Tom A. Bruce Jones, CBE
Director

George J. Bunze, CPA, CMA
Director

For the years ended December 31, 2016 and 2015
(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrecognized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2015	213,858	954	427,834	89,682	(40,607)	550	49,625	692,271
Comprehensive income (loss)								
Net income for the year	–	–	141,377	–	–	–	–	141,377
Other comprehensive income (loss)	–	–	(720)	157,410	(56,577)	(335)	100,498	99,778
Comprehensive income (loss) for the year	–	–	140,657	157,410	(56,577)	(335)	100,498	241,155
Dividends on common shares	–	–	(22,089)	–	–	–	–	(22,089)
Exercise of stock options	1,629	(506)	–	–	–	–	–	1,123
Employee share purchase plans	987	–	–	–	–	–	–	987
Stock-based compensation (note 12)	–	55	–	–	–	–	–	55
	2,616	(451)	(22,089)	–	–	–	–	(19,924)
Balance – December 31, 2015	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502
Balance – January 1, 2016	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502
Comprehensive income (loss)								
Net income for the year	–	–	153,898	–	–	–	–	153,898
Other comprehensive income (loss)	–	–	9	(23,968)	4,652	3,614	(15,702)	(15,693)
Comprehensive income (loss) for the year	–	–	153,907	(23,968)	4,652	3,614	(15,702)	138,205
Dividends on common shares	–	–	(27,689)	–	–	–	–	(27,689)
Exercise of stock options	1,479	(401)	–	–	–	–	–	1,078
Employee share purchase plans	1,166	–	–	–	–	–	–	1,166
Stock-based compensation (note 12)	–	156	–	–	–	–	–	156
	2,645	(245)	(27,689)	–	–	–	–	(25,289)
Balance – December 31, 2016	**219,119**	**258**	**672,620**	**223,124**	**(92,532)**	**3,829**	**134,421**	**1,026,418**

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

For the years ended December 31, 2016 and 2015
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2016	2015
		$	$
Sales		**1,838,353**	1,559,334
Expenses			
Cost of sales		**1,504,639**	1,252,031
Selling and administrative		**94,962**	85,583
Other losses, net		**5,509**	1,668
	13	**1,605,110**	1,339,282
Operating income		**233,243**	220,052
Financial expenses	13	**17,859**	17,090
Income before income taxes		**215,384**	202,962
Provision for income taxes			
Current	14	**47,526**	51,359
Deferred	14	**13,960**	10,226
		61,486	61,585
Net income for the year		**153,898**	141,377
Basic earnings per common share	12	**2.22**	2.05
Diluted earnings per common share	12	**2.22**	2.04

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

For the years ended December 31, 2016 and 2015
(expressed in thousands of Canadian dollars)

	2016	2015
	$	$
Net income for the year	**153,898**	141,377
Other comprehensive income		
Items that may subsequently be reclassified to net income		
Net change in gains (losses) on translation of financial statements of foreign operations	**(26,863)**	164,401
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	**2,895**	(6,991)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**7,291**	(65,849)
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(2,639)**	9,272
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	**4,897**	(422)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	**(1,283)**	87
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	**40**	(1,014)
Income taxes on remeasurements of post-retirement benefit obligations	**(31)**	294
	(15,693)	99,778
Comprehensive income for the year	**138,205**	241,155

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

For the years ended December 31, 2016 and 2015
(expressed in thousands of Canadian dollars)

	Note	2016	2015
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		**153,898**	141,377
Adjustments for			
Depreciation of property, plant and equipment	7	**15,784**	12,402
Amortization of intangible assets	8	**15,803**	10,932
Loss on disposal of assets		**313**	473
Employee future benefits		**(228)**	490
Stock-based compensation	12	**156**	55
Gain on derivative financial instruments		**(1,242)**	–
Financial expenses		**17,859**	17,090
Current income taxes expense	14	**47,526**	51,359
Deferred income taxes	14	**13,960**	10,226
Restricted stock units expense		**5,538**	8,914
Other		**(498)**	1,012
		268,869	254,330
Changes in non-cash working capital components and others			
Accounts receivable		**21,017**	(1,551)
Inventories		**(39,858)**	(153,388)
Prepaid expenses		**3,117**	(3,095)
Income taxes receivable		**(499)**	(119)
Accounts payable and accrued liabilities		**5,785**	(7,453)
Asset retirement obligations		**2,038**	435
Provisions and other long-term liabilities		**(21,676)**	(3,027)
		(30,076)	(168,198)
Interest paid		**(18,648)**	(16,742)
Income taxes paid		**(38,317)**	(62,639)
		181,828	6,751
Financing activities			
Increase in deferred financing costs		**(1,051)**	(204)
Net change in committed revolving credit facility		**70,738**	130,026
Repayment of long-term debt		**(59,176)**	(12,628)
Non-competes payable		**5,452**	1,084
Dividend on common shares		**(27,689)**	(22,089)
Proceeds from issuance of common shares		**2,244**	2,110
		(9,482)	98,299
Investing activities			
Decrease (increase) in other assets		**952**	(154)
Business acquisitions	4	**(107,305)**	(62,644)
Increase in intangible assets		**(6,381)**	(2,008)
Purchase of property, plant and equipment		**(63,212)**	(37,363)
Proceeds on disposal of assets		**346**	2,564
		(175,600)	(99,605)
Net change in cash and cash equivalents during the year		**(3,254)**	5,445
Cash and cash equivalents – Beginning of year		**6,973**	1,528
Cash and cash equivalents – End of year		**3,719**	6,973

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

1 DESCRIPTION OF THE BUSINESS

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I.

These consolidated financial statements were approved by the Board of Directors on March 16, 2017.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, except for the newly adopted standards.

Principles of consolidation

Subsidiaries

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

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. ("McFarland")	Stella-Jones Corporation	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Canadalux S.à.r.l.	Stella-Jones Inc.	Luxembourg
Stella-Jones CDN Finance Inc.	Stella-Jones Inc.	Canada
Stella-Jones U.S. Finance II Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. II LLC	Stella-Jones U.S. Holding Corporation	United States
Kisatchie Midnight Express, LLC	McFarland Cascade Holdings, Inc.	United States
Lufkin Creosoting Co., Inc.	McFarland Cascade Holdings, Inc.	United States

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Subsidiaries (continued)
On June 3, 2016, the Company completed the acquisition of the equity interests of 440 Investments, LLC, the parent company of Kisatchie Treating, L.L.C., Kisatchie Pole & Piling, L.L.C., Kisatchie Trucking, LLC and Kisatchie Midnight Express, L.L.C. It also completed the acquisition of the shares of Lufkin Creosoting Co., Inc.

On June 9, 2016, 440 Investments, LLC, Kisatchie Treating, L.L.C., Kisatchie Pole & Piling, L.L.C. and Kisatchie Trucking LLC, merged into McFarland, the surviving entity.

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Business combinations
The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

b) Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenue and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses, net, except for qualifying cash flow hedges which are recognized in other comprehensive income and deferred in accumulated other comprehensive income in shareholders' equity.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of available-for-sale (equity) investments and foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment, which are recognized in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated in the functional currency at historical exchange rates.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

c) Foreign operations
The financial statements of entities that have a functional currency different from that of the Company are translated using the rate in effect at the statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income in shareholders' equity.

d) Hedges of net investments in foreign operations
Foreign currency differences arising on the translation of a financial liability designated as a hedge of net investment in foreign operations are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income. When the hedged portion of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition
Revenue from the sale of products is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, the entity does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the sale, can be measured reliably. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company also offers to treat wood products owned by third parties. Revenue from these treating services are recognized when the service is rendered.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with initial maturities of three months or less.

Restricted cash
Restricted cash consists of an amount deposited in an escrow account and intended for capital improvements.

Accounts receivable
Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

Inventories
Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling price less cost necessary to make the sale.

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Rolling stock	3 to 20 years
Office equipment	2 to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis.

	Method	Useful life
Customer relationships	Straight-line	3 to 12 years
Customer relationships	Declining balance	6% to 20%
Non-compete agreements	Straight-line	2 to 5 years
Creosote registration	–	Indefinite

Standing timber costs are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. In Canada, the Company has perpetual cutting rights where planning and site preparation costs for specific geographical areas are capitalized until the harvest process can begin. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the specific area.

Cutting rights are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a forty-year period, and are applied against the historical cost.

The amortization expense is included in cost of sales in the consolidated statements of income.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

In the context of an acquisition, goodwill represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

Impairment

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration, except goodwill.

Non-financial assets

The carrying values of non-financial assets with finite useful lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases

The Company leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sales transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost of disposal if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions for site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next twelve months.

Site remediation obligations

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with the accretion expense on existing obligations, in other losses, net in the consolidated statement of income.

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Income taxes

The tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly to shareholders' equity.

Current tax

The current income tax charge is based on the results for the period as adjusted for items that are not taxable or not deductible. Tax adjustments from prior years are also recorded in current tax. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. During the year, the tax provision calculation is based on an estimate of the annual tax rate.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee future benefits

Other post-retirement benefit programs

The Company provides other post-retirement healthcare benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions.

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred.

Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Stock-based compensation and other stock-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Company or cash payments.

Equity-settled plan

The Company accounts for stock options granted to employees using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and is charged to operations over the vesting period of the options granted, with a corresponding credit to contributed surplus. For grants of share-based awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related stock-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has restricted stock units ("RSUs") and measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expenses are recognized in the consolidated statements of income over the vesting periods. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statements of income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and financial liabilities at fair value through profit or loss: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Interest rate swap agreements, foreign exchange forward contracts and derivative commodity contracts are considered by the Company as derivative financial instruments and, if required, are designated as cash flow hedges (see (e) below).

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income as part of other gains and losses in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the consolidated statement of financial position date, which is classified as non-current.

b) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

   Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless they mature within twelve months, or Management expects to dispose of them within twelve months.

   Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income and are included in other gains and losses.

c) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature.

   Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

d) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank indebtedness and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

   Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

e) Derivative financial instruments: The Company uses derivatives in the form of interest rate swap agreements to manage risks related to its variable rate debt, foreign exchange forward contracts to limit its exposure to the fluctuations of the U.S. dollar and derivative commodity contracts to limit its exposure to the fluctuation of diesel and petroleum prices. All derivatives classified as held-for-trading are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instrument, with gains and losses on remeasurement recorded in income. All derivatives qualifying for hedge accounting are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instruments, with gains and losses on remeasurement included in other comprehensive income.

Hedging transactions

As part of its hedging strategy, the Company considers 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 contracts are treated as cash flow hedges for accounting purposes and are not fair-valued through profit and loss.

Effective derivative financial instruments held for cash flow hedging purposes are recognized at fair value, and the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. The changes in fair value related to the ineffective portion of the hedge are immediately recorded in the consolidated statement of income. The changes in fair value of foreign exchange forward contracts and interest rate swap agreements recognized in other comprehensive income are reclassified in the consolidated statement of income under sales and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income.

When the derivative financial instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, hedge accounting, if applicable, is discontinued prospectively. Accumulated other comprehensive income related to a foreign exchange forward contract or interest swap hedges that cease to be effective is reclassified in the consolidated statement of income under foreign exchange gain or loss and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive income is then reclassified in the consolidated statement of income.

The Company designated a portion of its U.S. dollar-denominated long-term debt as a hedge of its net investment in foreign operations. For such debt designated as a hedge of the net investment in foreign operations, exchange gains and losses are recognized in accumulated other comprehensive income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

Change in accounting policies

The Company has adopted the following revised standard, along with any consequential amendments, effective January 1, 2016. This change was made in accordance with the applicable transitional provisions.

IAS 1 - Presentation of Financial Statements

In 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The adoption of this revised standard had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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.

IAS 7 - Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company is currently evaluating the impact of IAS 7 on its consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of accounting pronouncements not yet implemented (continued)

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 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Company is currently assessing the impact, if any, that this new standard will have on the Company's consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 and impairment of long-lived assets. Management also makes estimates and assumptions in the context of business combinations mainly with sales forecast, margin forecast, income tax rate and discount rate. 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.

4 BUSINESS ACQUISITIONS

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

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

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 these consolidated financial statements. 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.

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4 BUSINESS ACQUISITIONS (CONTINUED)

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

	$
Assets acquired	
Inventories	4,584
Property, plant and equipment	10,308
Goodwill	5,160
Deferred income tax assets	274
	20,326
Liabilities assumed	
Accounts payable and accrued liabilities	79
Site remediation provision	937
Total net assets acquired and liabilities assumed	**19,310**
Consideration transferred	
Cash	19,249
Consideration payable	61
Consideration transferred	**19,310**

Goodwill is amortized and is deductible for Canadian tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from December 21 to December 31, 2016, no sales were recorded in the consolidated financial statements. Pro forma information for the period ended December 31, 2016, had the KMS and NPTW acquisitions occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the twelve-month period.

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

4 BUSINESS ACQUISITIONS (CONTINUED)

b) On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the equity interests of 440 Investments, LLC, the parent company of Kisatchie Treating, L.L.C., Kisatchie Pole & Piling, L.L.C., Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie"). Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Converse and Pineville, Louisiana and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $46,153 (US$35,659), excluding acquisition costs of approximately $873, recognized in the consolidated statement of income under selling and administrative expenses.

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 these consolidated financial statements. 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. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Cash acquired	2,628
Accounts receivable	5,312
Inventories	12,930
Prepaids	150
Property, plant and equipment	21,217
Customer relationships	6,860
Goodwill	17,523
	66,620
Liabilities assumed	
Accounts payable and accrued liabilities	1,680
Long-term debt	8,775
Deferred income tax liabilities	63
Site remediation provision	1,195
Total net assets acquired and liabilities assumed	**54,907**
Consideration transferred	
Cash	46,153
Unsecured promissory note	7,838
Consideration payable	916
Consideration transferred	**54,907**

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company financed the acquisition through a combination of its existing committed revolving credit facility, an unsecured promissory note of $9,128 (US$7,052) and assumed a promissory note secured by the land of the Pineville facility having a balance of US$5,685. The unsecured promissory note bears interest at 1.41% and is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020 and US$4,500 in June 2021. This unsecured promissory note was recorded at a fair value of $7,838 (US$6,056), using an effective interest rate of 5.00%. The secured promissory note bears interest of 5.76%, is payable in quarterly installments of US$162 up to July 2028 and was recorded at a fair value of $8,775 (US$6,780) using an effective interest rate of 4.00%.

In the period from June 3 to December 31, 2016, sales and net income for the Noble and Pineville plants amounted to $25,324 and $431, respectively. Pro forma information for the period ended December 31, 2016, had the Kisatchie acquisition occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the first five months of the year.

c) On June 3, 2016, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting"). Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $46,503 (US$35,929), excluding acquisition costs of approximately $978, recognized in the consolidated statement of income under selling and administrative expenses.

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 these consolidated financial statements. 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. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Cash acquired	1,074
Accounts receivable	19,734
Inventories	5,261
Property, plant and equipment	16,244
Customer relationships	10,290
Goodwill	23,701
	76,304
Liabilities assumed	
Accounts payable and accrued liabilities	13,777
Deferred income tax liabilities	9,421
Site remediation provision	842
Total net assets acquired and liabilities assumed	**52,264**
Consideration transferred	
Cash	46,503
Unsecured promissory note	7,838
Consideration receivable	(2,077)
Consideration transferred	**52,264**

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 20.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is not amortized and not deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of $9,128 (US$7,052), bearing interest at 1.41% and payable in three instalments, including interest, of US$1,500 in June 2019 and 2020 and US$4,500 in June 2021. The unsecured promissory note was fair valued at $7,838 (US$6,056) using an effective interest rate of 5.00%.

In the period from June 3 to December 31, 2016, sales and net loss for the Lufkin plant amounted to $18,154 and $176, respectively. Pro forma information for the period ended December 31, 2016, had the Lufkin Creosoting acquisition occurred as of January 1, 2016, cannot be estimated as Management does not have all the required discrete financial information for the first five months of the year.

d) On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of United Wood Treating Company, Inc. ("United Wood") located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles, as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was $11,708 (US$8,761), excluding acquisition costs of approximately $158, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	1,018
Inventories	3,761
Property, plant and equipment	6,044
Customer relationships	1,069
Goodwill	2,034
	13,926
Liabilities assumed	
Deferred income tax liabilities	399
Site remediation provision	65
Total net assets acquired and liabilities assumed	**13,462**
Consideration transferred	
Cash	11,708
Unsecured promissory note	1,754
Consideration transferred	**13,462**

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships amortized at a declining rate of 6.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of $1,939 (US$1,451) bears interest at 1.68%, is payable in three equal annual instalments and was fair valued at $1,754, using an effective interest rate of 7.00%.

e) On October 1, 2015, the Company completed the acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"). Through its wholly-owned subsidiaries, Ram Forest Products Inc. and Trent Timber Treating Ltd., Ram Forest Group manufactures and sells pressure treated wood products and accessories to the retail building materials industry. Ram Forest Products Inc. and Trent Timber Treating Ltd. operate wood treating facilities in Gormley and Peterborough, Ontario, respectively. Ramfor Lumber is a lumber purchasing entity serving Ram Forest Products and Trent Timber Treating.

Total cash outlay associated with the acquisition was $45,204 which includes an amount of $4,292 deposited in escrow to be used for capital expenditures at the Gormley and Peterborough facilities. The cash outlay excludes acquisition costs of approximately $991, recognized in 2015 in the consolidated statement of income under selling and administrative expenses. In addition, the Company recognized a balance of purchase price of $5,430.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination.

	$
Assets acquired	
Accounts receivable	7,765
Inventories	12,047
Other assets	1,514
Property, plant and equipment	17,690
Customer relationships	21,300
Goodwill	6,026
	66,342
Liabilities assumed	
Accounts payable and accrued liabilities	3,269
Bank indebtedness	9,839
Deferred income tax liabilities	6,892
Total net assets acquired and liabilities assumed	**46,342**
Consideration transferred	
Cash	40,912
Balance of purchase price	5,430
Consideration transferred	**46,342**

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships having a twelve year useful life. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is not amortized and not deductible for Canadian tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

As of the acquisition date, an amount of $4,292 was deposited in an escrow account intended for capital improvements. The Company has until April 1, 2017 to complete specific investment projects. Otherwise the remaining funds in the escrow account will be returned to the seller. Management believes that the investments will be completed before the deadline.

As of December 31, 2015, the Company had a consideration payable of $317 for a net working capital adjustment. On March 22, 2016 the consideration payable was settled.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and a balance of purchase price of $5,800. This deferred payment bears no interest and is payable on the anniversary of the transaction in the amounts of $2,900 in 2016, $500 in 2017, $800 in 2018, $800 in 2019 and $800 in 2020. The balance of purchase price was recorded under long-term debt at a fair value of $5,430 calculated using an interest rate of 2.91%.

f) On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of Treated Materials Co., Inc. ("Treated Materials") located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was $5,393 (US$4,052), excluding acquisition costs of approximately $142, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	1,080
Inventories	1,651
Property, plant and equipment	5,253
Favourable land lease agreement	1,062
Goodwill	683
	9,729
Liabilities assumed	
Deferred income tax liabilities	459
Site remediation provision	602
Total net assets acquired and liabilities assumed	**8,668**
Consideration transferred	
Cash	5,393
Unsecured promissory note	3,275
Consideration transferred	**8,668**

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

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified a favourable land lease agreement. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of $3,993 (US$3,000) bears no interest, is repayable in five equal instalments over a five-year period and was fair valued at $3,275, using an effective interest rate of 7.00%.

g) On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. ("McCormick"), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was $4,685 (US$3,752), excluding acquisition costs of approximately $226, recognized in 2015 in the consolidated statement of income under selling and administrative expenses.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. No significant adjustments were made to the preliminary fair value determination. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Accounts receivable	701
Inventories	1,486
Property, plant and equipment	726
Customer relationships	849
Goodwill	3,151
	6,913
Liabilities assumed	
Deferred income tax liabilities	81
Total net assets acquired and liabilities assumed	**6,832**
Consideration transferred	
Cash	4,685
Unsecured promissory note – twelve months	1,342
Unsecured promissory note – twenty-four months	805
Consideration transferred	**6,832**

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is three years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of $1,429 (US$1,144), bearing interest at 0.48% and fair valued at $1,342, was repaid in a single instalment in April 2016. The second unsecured promissory note of $928 (US$743) bears interest at 0.48%, is payable in a single instalment in April 2017 and was fair valued at $805, using an effective interest rate of 7.00%.

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5 ACCOUNTS RECEIVABLE

	2016	2015
	$	$
Trade receivables	**142,801**	155,332
Less: Provision for doubtful accounts	**(268)**	(178)
Trade receivables – net	**142,533**	155,154
Other receivables	**18,222**	4,708
	160,755	159,862

As at December 31, 2016, trade receivables of $58,556 (2015 – $47,640) were past due but not impaired.

The aging of gross trade receivables at each reporting date was as follows:

	2016	2015
	$	$
Current	**83,976**	107,514
Past due 1-30 days	**40,129**	34,439
Past due 31-60 days	**6,311**	8,036
Past due more than 60 days	**12,385**	5,343
	142,801	155,332

6 INVENTORIES

	2016	2015
	$	$
Raw materials	**554,142**	541,102
Finished goods	**300,510**	263,376
	854,652	804,478

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Production equipment	Rolling stock	Others	Total
	$	$	$	$	$	$
As at January 1, 2015						
Cost	29,852	70,131	223,930	13,485	12,590	349,988
Accumulated depreciation	–	(10,483)	(45,401)	(6,774)	(5,723)	(68,381)
Net book amount	29,852	59,648	178,529	6,711	6,867	281,607
Year ended December 31, 2015						
Opening net book amount	29,852	59,648	178,529	6,711	6,867	281,607
Business acquisitions	7,372	6,268	13,698	2,282	93	29,713
Additions	1,428	1,571	29,144	1,092	2,076	35,311
Disposals	–	–	(145)	(333)	(444)	(922)
Depreciation	–	(2,233)	(6,927)	(2,313)	(929)	(12,402)
Depreciation included in inventory	–	(179)	(480)	(293)	(381)	(1,333)
Exchange differences	3,955	9,869	28,373	1,039	324	43,560
Closing net book amount	42,607	74,944	242,192	8,185	7,606	375,534
As at December 31, 2015						
Cost	42,607	88,980	298,481	18,167	14,461	462,696
Accumulated depreciation	–	(14,036)	(56,289)	(9,982)	(6,855)	(87,162)
Net book amount	42,607	74,944	242,192	8,185	7,606	375,534
Year ended December 31, 2016						
Opening net book amount	42,607	74,944	242,192	8,185	7,606	375,534
Business acquisitions	3,788	7,623	25,173	10,863	295	47,742
Additions	270	18,740	42,001	2,456	5,031	68,498
Disposals	–	–	(83)	(576)	–	(659)
Depreciation	–	(2,541)	(8,584)	(3,511)	(1,148)	(15,784)
Depreciation included in inventory	–	(193)	(544)	(455)	(523)	(1,715)
Exchange differences	(684)	(1,347)	(4,678)	138	(10)	(6,581)
Closing net book amount	45,981	97,226	295,477	17,100	11,251	467,035
As at December 31, 2016						
Cost	45,981	113,768	360,079	30,001	19,736	569,565
Accumulated depreciation	–	(16,542)	(64,602)	(12,901)	(8,485)	(102,530)
Net book amount	**45,981**	**97,226**	**295,477**	**17,100**	**11,251**	**467,035**

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

8 INTANGIBLE ASSETS AND GOODWILL

The intangible assets include customer relationships, non-compete agreements, cutting rights, standing timber, a favourable land lease agreement and a creosote registration.

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships.

The acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate ranging from 2.90% to 5.00%.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to dispose ("FVLCTD") calculations. FVLCTD calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on Management's forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTD have considered the current economic environment.

The carrying value of goodwill is allocated to the following CGUs:

CGUs	2016	2015
	$	$
Plants specialized in the treatment of utility poles and residential lumber	**134,291**	89,740
Plants specialized in the treatment of railway ties	**151,301**	155,956
	285,592	245,696

Impairment tests for intangible assets with indefinite useful life

The only intangible asset with an indefinite useful life is the creosote registration. This registration provides the Company with the right to produce and import creosote out of its Memphis, Tennessee facility. The Company's approach to creosote supply is to produce a portion of its requirements and to buy the remainder on the open market. As a result, the creosote registration procures the advantage of being able to produce, which is less expensive than buying on the market. Moreover, when procuring creosote on the market, the import feature of the registration enables the Company to negotiate advantageous pricing.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest forecasts for cost savings as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The net book amount of these intangible assets was as follow:

	Intangible assets						
	Cutting rights	Customer relationships	Non-compete agreements	Others	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
As at January 1, 2015							
Cost	7,951	99,766	8,162	7,359	36,230	159,468	195,015
Accumulated amortization	(1,244)	(35,188)	(7,519)	(5,192)	–	(49,143)	–
Net book amount	6,707	64,578	643	2,167	36,230	110,325	195,015
Year ended December 31, 2015							
Opening net book amount	6,707	64,578	643	2,167	36,230	110,325	195,015
Business acquisitions	–	22,149	–	1,062	–	23,211	12,803
Additions	–	–	1,706	302	–	2,008	–
Disposals	(1,000)	–	–	(1,073)	–	(2,073)	–
Amortization	–	(10,375)	(557)	–	–	(10,932)	–
Amortization included in inventory	(128)	–	–	(376)	–	(504)	–
Exchange differences	–	11,634	233	42	6,992	18,901	37,878
Closing net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696
As at December 31, 2015							
Cost	6,821	141,262	11,601	7,606	43,222	210,512	245,696
Accumulated amortization	(1,242)	(53,276)	(9,576)	(5,482)	–	(69,576)	–
Net book amount	**5,579**	**87,986**	**2,025**	**2,124**	**43,222**	**140,936**	**245,696**
Year ended December 31, 2016							
Opening net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696
Business acquisitions	–	18,244	–	–	–	18,244	45,476
Additions	–	–	6,051	330	–	6,381	–
Amortization	–	(14,349)	(1,454)	–	–	(15,803)	–
Amortization included in inventory	(213)	–	–	(473)	–	(686)	–
Exchange differences	–	(1,513)	27	(33)	(1,289)	(2,808)	(5,580)
Closing net book amount	5,366	90,368	6,649	1,948	41,933	146,264	285,592
As at December 31, 2016							
Cost	6,821	156,576	17,413	7,903	41,933	230,646	285,592
Accumulated amortization	(1,455)	(66,208)	(10,764)	(5,955)	–	(84,382)	–
Net book amount	**5,366**	**90,368**	**6,649**	**1,948**	**41,933**	**146,264**	**285,592**

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

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2016	2015
		$	$
Trade payables		**31,770**	25,183
Amounts due to related parties	19	**632**	110
Accrued expenses		**39,507**	39,300
Other payables		**29,233**	13,173
		101,142	77,766

10 LONG-TERM DEBT

	Note	2016	2015
		$	$
Committed revolving credit facility	10(a)	**646,487**	585,690
Unsecured promissory note	10(b)	**10,872**	14,460
Secured promissory note	10(c)	**8,682**	–
Unsecured promissory note	10(d)	**8,265**	–
Unsecured promissory note	10(e)	**8,265**	–
Unsecured promissory note	10(f)	**4,143**	4,964
Unsecured promissory note	10(g)	**2,776**	3,484
Balance of purchase price	10(h)	**2,701**	5,430
Unsecured promissory note	10(i)	**1,214**	1,816
Unsecured promissory note	10(j)	**980**	942
Unsecured promissory note	10(k)	**–**	1,558
Unsecured, subordinated and non-convertible debenture	10(k)	**–**	34,600
Unsecured and non-convertible debenture	10(k)	**–**	13,840
Unsecured promissory note	10(k)	**–**	3,110
		694,385	669,894
Deferred financing costs		**–**	(13)
		694,385	669,881
Less: Current portion of long-term debt		**6,919**	60,887
Less: Current portion of deferred financing costs		**–**	(13)
Total current portion of long-term debt		**6,919**	60,874
		687,466	609,007

10 LONG-TERM DEBT (CONTINUED)

a) On February 26, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fourth amended and restated credit agreement dated as of March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) makes available a committed revolving credit facility for a period of five years and increases the borrowing limit from US$450,000 to US$500,000 for the first two years. Subsequently, the committed revolving credit facility will be reduced to US$450,000 in the third year to finally be reduced to US$350,000 for the fourth and fifth years. The amended agreement also includes an accordion option allowing the borrowers to request an increase of up to US$200,000 to the committed revolving credit facility, subject to customary conditions. The committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and will mature on February 26, 2021. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on a pricing grid.

The fifth amended and restated credit agreement provides that the committed revolving credit facility is unsecured, subject to a negative pledge, other than permitted liens, in favour of the bank syndicate.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2016, the Company was in full compliance with these covenants, requirements and ratios. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.00% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 3.25:1. In the case where the total debt to EBITDA ratio is lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

As at December 31, 2016, borrowings by Canadian entities denominated in U.S. dollars represented $516,206 of which $514,254 (US$383,000) were designated as a hedge of net investment in foreign operations.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2016 are provided in Note 17, Financial instruments.

On May 18, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fifth amended and restated credit agreement dated as of February 26, 2016. The amended agreement (the first amending agreement to the fifth amended and restated credit agreement) increases its committed revolving credit facility by US$75,000 by exercising a portion of its US$200,000 accordion option. The increase was granted by the banking syndicate under the same conditions as the fifth amended and restated committed revolving credit facility and increases the committed revolving credit facility from US$500,000 to US$575,000 for the first two years of the agreement. This additional credit availability was used to partially finance the Kisatchie and Lufkin Creosoting acquisitions as well as provide funding for working capital.

On February 26, 2016, the Company entered into demand loan agreements with two banks participating in the committed revolving credit facility syndication. The demand loans make available financing up to US$50,000 under the same conditions as the fifth amended and restated committed revolving credit facility. This indebtedness, if required by the Company, would be presented under short term liabilities as the banks have the option to request reimbursement of the loan at any time. As at December 31, 2016 no amounts were drawn under the loan agreements.

b) Pursuant to a business acquisition on May 22, 2014, the Company issued an unsecured promissory note of $15,466 (US$14,169) bearing interest at 1.93%. The note is payable in five equal annual instalments, including interest, of US$3,000, up to May 2019. The note was initially recorded at a fair value of $13,426 (US$12,301) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

10 LONG-TERM DEBT (CONTINUED)

c) As part of the Kisatchie acquisition, the Company assumed a promissory note, secured by the land of the Pineville facility, of US$5,685 bearing interest at 5.76%. The note is payable in quarterly instalments, including interest, of US$163, up to July 2028. The note was initially recorded at a fair value of $8,775 (US$6,780) using an effective interest rate of 4.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

d) As part of the Kisatchie acquisition, the Company recorded an unsecured promissory note of $9,128 (US$7,052) bearing interest at 1.41%. The note is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020, respectively and US$4,500 in June 2021. The note was initially recorded at a fair value of $7,838 (US$6,056) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

e) As part of the Lufkin Creosoting acquisition, the Company recorded an unsecured promissory note of $9,128 (US$7,052) bearing interest at 1.41%. The note is payable in three instalments, including interest, of US$1,500 in June 2019 and 2020, respectively and US$4,500 in June 2021. The note was initially recorded at a fair value of $7,838 (US$6,056) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

f) Pursuant to a business acquisition on December 7, 2011, the Company issued an unsecured promissory note of $6,574 (US$6,507) bearing interest at 2.67%. The note is payable in ten equal annual instalments, including interest, of US$750, up to December 2021. The note was initially recorded at a fair value of $5,322 (US$5,268) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

g) As part of the Treated Materials acquisition, the Company issued an unsecured promissory note of $3,993 (US$3,000) bearing no interest. The note is payable in five equal annual instalments of US$600, up to September 2020. The note was initially recorded at a fair value of $3,275 (US$2,460) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

h) As part of the Ram acquisition, the Company recorded a balance of purchase price of $5,800 bearing no interest. The balance of purchase price is payable in five annual instalments of $2,900 in October 2016, $500 in October 2017 and $800 in October 2018, 2019 and 2020, respectively. The balance of purchase price was initially recorded at a fair value of $5,430 using an interest rate of 2.91%. The difference between the face value and the fair value of the balance of purchase price is being accreted on an effective yield basis over its term.

The balance of purchase price is guaranteed by five irrevocable letters of credit in the same amount and with the same maturity date as the future payments.

i) As part of the United Wood acquisition, the Company issued an unsecured promissory note of $1,939 (US$1,451) bearing interest at 1.68%. The note is payable in three equal instalments, including interest, of US$500, up to December 2018. The note was initially recorded at a fair value of $1,754 (US$1,312) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

j) As part of the McCormick acquisition, the Company issued an unsecured promissory note of $928 (US$743) bearing interest at 0.48%. The entire amount of the note is payable in April 2017. The note was initially recorded at a fair value of $805 (US$645) using an effective interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

k) These debts were reimbursed in 2016 in accordance with their respective agreements.

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

10 LONG-TERM DEBT (CONTINUED)

l) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	Principal $
2017	8,094
2018	7,532
2019	10,861
2020	6,910
2021	659,308
Thereafter	4,853
	697,558
Fair value adjustment	(3,173)
	694,385

m) The aggregate fair value of the Company's long-term debt was estimated at $694,385 as at December 31, 2016 (2015 – $669,894) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions			Other long-term liabilities			
	Site remediation $	Others $	Total $	RSUs $	Non-competes payable $	Total $	Total $
Balance as at January 1, 2015	8,916	3,048	11,964	8,049	953	9,002	20,966
Additions	2,165	1,791	3,956	8,914	1,706	10,620	14,576
Business acquisitions	634	–	634	–	–	–	634
Provision reversal	(456)	(312)	(768)	–	–	–	(768)
Payments	(1,426)	(574)	(2,000)	(3,744)	(622)	(4,366)	(6,366)
Interest accretion	–	–	–	–	32	32	32
Exchange differences	1,808	327	2,135	–	286	286	2,421
Balance as at December 31, 2015	11,641	4,280	15,921	13,219	2,355	15,574	31,495
Additions	5,121	785	5,906	10,951	5,936	16,887	22,793
Business acquisitions	2,974	–	2,974	–	–	–	2,974
Provision reversal	(62)	(858)	(920)	–	–	–	(920)
Payments	(2,954)	(455)	(3,409)	(21,214)	(598)	(21,812)	(25,221)
Interest accretion	–	–	–	–	127	127	127
Exchange differences	(233)	(88)	(321)	–	143	143	(178)
Balance as at December 31, 2016	**16,487**	**3,664**	**20,151**	**2,956**	**7,963**	**10,919**	**31,070**

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

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Analysis of provisions and other long-term liabilities:

	2016	2015
	$	$
Current		
Provisions	**10,785**	8,077
Other long-term liabilities	**3,805**	12,763
Total current	**14,590**	20,840
Non-current		
Provisions	**9,366**	7,844
Other long-term liabilities	**7,114**	2,811
Total non-current	**16,480**	10,655
	31,070	31,495

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from one to seventeen years. These discounted cash flows have been estimated using a pre-tax rate of 1.36% that reflect current market assessment of the time value of money and the risk specific to the obligation.

As of December 31, 2016, a total site remediation provision of $16,487 ($11,641 – 2015) was recorded to support the ongoing compliance efforts of which Kisatchie, Lufkin Creosoting, KMS and NPTW represent $2,974.

Other long-term liabilities

Restricted stock units

The Company has a long-term incentive plan, for certain executives and key employees, under which grants of RSUs are permitted upon the Company attaining a minimum 12.50% return on capital employed. When this condition is met, the number of RSUs granted is based on a percentage of the individual's salary, divided by the average trading price of the Company's common shares on the TSX for the five days immediately preceding the grant date.

The RSUs are full-value phantom shares payable in cash on the third anniversary of their date of grant, provided the individual is still employed by the Company. The amount to be paid is determined by multiplying the number of RSUs by the six-month average trading price of the Company's common shares on the TSX immediately preceding the anniversary.

The RSUs granted on March 25, 2013 reached their anniversary on March 25, 2016 and were fully paid.

On March 17, 2014, March 16, 2015 and March 21, 2016 the Company granted a total of 107,721 RSUs to certain executives and key employees as part of the long-term incentive plan.

On May 6, 2013, as part of a five-year incentive agreement and pursuant to the Stella-Jones Inc. long-term incentive plan, the Company granted 400,000 RSUs to the President and Chief Executive Officer (the "President"), with a vesting date of May 6, 2016. As part of the agreement, in the event that the President voluntarily leaves the employment of the Company prior to the fifth anniversary of the incentive agreement, any amounts paid to him will be reimbursed to the Company. In the event that the President is required to cease his functions prior to the fifth anniversary of the incentive agreement due to long-term disability or death, he shall be entitled to a prorated payment. The compensation expense related to the five-year agreement will be recognized in the consolidated statement of income over a five-year period. On May 6, 2016, the full amount of $19,106 was paid under these RSUs. The difference between the amount paid and the expense recognized in the consolidated statement of income has been recorded as a prepaid expense and will be amortized over the remaining two-year period.

December 31, 2016 and 2015
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12 CAPITAL STOCK

	2016	2015
Number of common shares outstanding – Beginning of year*	**69,137**	68,949
Stock option plan*	**139**	165
Employee share purchase plans*	**27**	23
Number of common shares outstanding – End of year*	**69,303**	69,137

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:
Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

b) Earnings per share
The following table provides the reconciliation between basic earnings per common share and diluted earnings per common share:

	2016	2015
Net income applicable to common shares	**$ 153,898**	$ 141,377
Weighted average number of common shares outstanding*	**69,215**	69,018
Effect of dilutive stock options*	**16**	135
Weighted average number of diluted common shares outstanding*	**69,231**	69,153
Basic earnings per common share**	**$ 2.22**	$ 2.05
Diluted earnings per common share**	**$ 2.22**	$ 2.04

* Number of shares is presented in thousands.
** Basic and diluted earnings per common share are presented in dollars per share.

c) Stock option plan
The Company has a stock option plan (the “Plan”) for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose (“Committee”) may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board of Directors or such Committee. The stated purpose of the Plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by directors, officers and employees of the Company.

The aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5.00% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

12 CAPITAL STOCK (CONTINUED)

Changes in the number of options outstanding under the Plan were as follows:

	2016		2015	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		$		$
Outstanding – Beginning of year	**194**	**15.35**	329	8.00
Exercised	**(139)**	**7.75**	(165)	6.82
Granted	**–**	**–**	30	49.01
Outstanding – End of year	**55**	**34.57**	194	15.35
Options exercisable – End of year	**31**	**28.59**	158	9.72

The following options were outstanding under the Plan as at December 31, 2016:

	Options outstanding		Options exercisable		
Date granted	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		$		$	
August 2007	10	9.90	10	9.90	August 2017
May 2013	15	22.13	9	22.13	May 2023
November 2015	30	49.01	12	49.01	November 2025
	55		**31**		

* Number of options is presented in thousands.
** Exercise price is presented in dollars per option.

d) Stock-based compensation

The Company records expenses related to the fair value of the stock options granted under the Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to income over the vesting period. No options were granted during 2016. The 2016 expense recorded for stock-based compensation amortized to earnings was $156 (2015 – $55).

e) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 1,000,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.00% of the market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2016, 13,271 common shares (2015 – 10,709) were issued to Canadian resident employees at an average price of $39.50 per share (2015 – $37.72).

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

12 CAPITAL STOCK (CONTINUED)

e) Employee share purchase plans (continued)

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2016, 13,680 common shares (2015 – 12,877) were issued to U.S. resident employees at an average price of $43.11 per share (2015 – $41.89).

As of December 31, 2016 the total number of common shares issued under these plans is 857,187 (2015 – 830,236), which represents a market value of $37,356, using the December 31, 2016 TSX share price of $43.58.

13 EXPENSES BY NATURE

	2016	2015
	$	$
Raw materials and consumables	**1,252,578**	1,047,648
Employee benefit expenses	**141,839**	109,796
Depreciation and amortization	**31,587**	23,334
Other expenses incurred in the manufacturing process	**44,767**	43,755
Freight	**91,141**	76,482
Other expenses	**43,198**	38,267
	1,605,110	1,339,282

	2016	2015
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**128,863**	94,481
Share options granted to directors and employees	**156**	55
RSUs	**5,538**	8,914
Pension costs	**1,971**	1,928
Group registered retirement savings plans	**5,311**	4,418
	141,839	109,796

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

	2016	2015
	$	$
Financial expenses		
Bank interest	**14,760**	10,771
Interest on promissory notes and non-compete agreements	**2,278**	3,092
Interest on debentures	**821**	3,227
	17,859	17,090

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

14 INCOME TAXES

	2016	2015
	$	$
Current tax		
Current tax on income for the year	**50,464**	49,771
Adjustments in respect of prior years	**(2,938)**	1,588
Total current tax	**47,526**	51,359
Deferred tax		
Origination and reversal of temporary differences	**11,020**	11,330
Impact of change in tax rate	**(225)**	(391)
Adjustment in respect of prior years	**3,165**	(713)
Total deferred tax	**13,960**	10,226
Income tax expense	**61,486**	61,585

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities as follows:

	2016	2015
	$	$
Income before income tax	**215,384**	202,962
Tax calculated at domestic tax rates of 26.40% (2015 – 26.31%) applicable to income in the respective countries	**56,861**	53,399
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**14,074**	16,482
Income not subject to tax	**(6,999)**	(6,935)
Expenses not deductible for tax purposes	**475**	1,238
Remeasurement of deferred tax – change in tax rate	**(225)**	(391)
Adjustment in respect of prior years	**227**	875
Exchange revaluation of deferred tax	**8**	(51)
Manufacturing and processing tax credit	**(2,935)**	(3,032)
Income tax expense	**61,486**	61,585

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

14 INCOME TAXES (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016	2015
	$	$
Deferred tax assets		
To be recovered after more than 12 months	**4,474**	3,854
To be recovered within 12 months	**12,473**	13,190
Deferred tax liabilities		
To be reversed after more than 12 months	**(118,318)**	(95,608)
To be reversed within 12 months	**(456)**	–
Deferred tax liability, net	**(101,827)**	(78,564)

The gross movement on the deferred income tax account is as follows:

	2016	2015
	$	$
As at January 1	**(78,564)**	(54,173)
Recognized in the statement of income	**(13,960)**	(10,226)
Recognized in other comprehensive income	**(1,058)**	2,647
Business acquisitions	**(9,622)**	(7,421)
Exchange differences	**1,377**	(9,391)
As at December 31	**(101,827)**	(78,564)

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

14 INCOME TAXES (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Reserves	Deferred pension benefits	Cumulative losses	Others	Total
	$	$	$	$	$
Deferred tax assets					
As at January 1, 2015	10,598	1,766	756	339	13,459
Recognized in the statement of income	1,529	21	(240)	(263)	1,047
Recognized in other comprehensive income	–	293	504	(84)	713
Business acquisitions	(104)	–	145	–	41
Exchange differences	1,563	203	–	18	1,784
As at December 31, 2015	13,586	2,283	1,165	10	17,044
Recognized in the statement of income	(1,205)	(40)	1,571	57	383
Recognized in other comprehensive income	–	(31)	(504)	29	(506)
Business acquisitions	310	–	–	–	310
Exchange differences	(237)	(47)	–	–	(284)
As at December 31, 2016	12,454	2,165	2,232	96	16,947

	Property, plant and equipment	Intangible assets	Unrealized foreign exchange on debts and translation of foreign operations	Others	Total
	$	$	$	$	$
Deferred tax liabilities					
As at January 1, 2015	(45,285)	(19,158)	(2,955)	(234)	(67,632)
Recognized in the statement of income	(10,216)	(527)	(502)	(28)	(11,273)
Recognized in other comprehensive income	–	–	1,778	156	1,934
Business acquisitions	(1,426)	(6,036)	–	–	(7,462)
Exchange differences	(7,403)	(3,772)	–	–	(11,175)
As at December 31, 2015	(64,330)	(29,493)	(1,679)	(106)	(95,608)
Recognized in the statement of income	(13,568)	919	(1,130)	(564)	(14,343)
Recognized in other comprehensive income	–	–	760	(1,312)	(552)
Business acquisitions	(5,906)	(4,026)	–	–	(9,932)
Exchange differences	1,081	580	–	–	1,661
As at December 31, 2016	(82,723)	(32,020)	(2,049)	(1,982)	(118,774)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $318,721 as at December 31, 2016 (2015 – $250,194).

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

15 EMPLOYEE FUTURE BENEFITS

For its Canadian operations, the Company recognizes costs for several types of employee future benefits. Post-employment benefits are offered to certain retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. The Company contributes to a multi-employer plan for certain hourly employees and to three defined benefit pension plans for salaried and certain non-union hourly wage employees.

For its U.S. operations, the Company's wholly-owned subsidiary, McFarland, contributes to two defined benefit pension plans.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.00% of the employee's annual base salary. The recognized costs for employee future benefits were as follows:

	2016	2015
	$	$
Post-retirement benefits	**166**	200
Defined benefit pension plans	**1,392**	1,346
Contributions to multi-employer plan	**413**	382
Contributions to group registered retirement savings plans	**5,311**	4,418

The net amount recognized on the consolidated statement of financial position is detailed as follows:

	2016	2015
	$	$
Liabilities		
Accrued benefit liability included in employee future benefits	**(4,534)**	(4,826)
Accrued benefit obligation, included in employee future benefits	**(2,219)**	(2,327)
	(6,753)	(7,153)

a) The post-retirement benefits program is not funded and, since June 1, 2011, this program is closed to new participants. For this program, the Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as at July 1, 2015, and the next required valuation will be as at July 1, 2018.

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

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following information as established by independent actuaries pertains to the Company's post retirement benefits program:

	2016	2015
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**2,327**	2,298
Current service cost	**71**	107
Interest cost	**95**	93
Benefits payments	**(66)**	(65)
Remeasurement adjustments		
Plan experience	**(124)**	(86)
Changes in demographic assumptions	**(114)**	-
Changes in financial assumptions	**30**	(20)
Balance – End of year	**2,219**	2,327
Plan assets		
Employer's contributions	**66**	65
Benefits paid	**(66)**	(65)
Fair value – End of year	**–**	–
Accrued benefit obligation	**2,219**	2,327

The significant assumptions used are as follows:

	2016	2015
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.90**	4.00
Benefit costs for the year ended December 31		
Discount rate	**4.00**	3.90

For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2015. This rate is assumed to decrease gradually by 0.38% per year, to reach 5.00% in 2020. An increase or decrease of 1.00% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	$
Impact on accrued benefit obligation	**60**	(53)
Impact on benefit costs	**3**	(2)

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The items of the Company's post-retirement benefits program costs recognized during the year are as follows:

	2016	2015
	$	$
Current service cost	**71**	107
Interest cost	**95**	93
Post-retirement benefits program costs recognized	**166**	200

Consolidated statement of comprehensive income	2016	2015
	$	$
Year ended December 31		
Actuarial gains	**208**	106
Total recognized in other comprehensive income before income tax	**208**	106

Accumulated actuarial (losses) gains recognized in other comprehensive income	2016	2015
	$	$
Balance of actuarial losses as at January 1	**(351)**	(429)
Net actuarial gains recognized in the year; net of tax	**123**	78
Balance of actuarial losses as at December 31	**(228)**	(351)

b) The Company's Canadian defined benefit pension plans base the benefits on the length of service and final average earnings. The McFarland defined benefit pension plans base the benefits on the length of service and flat dollar amounts payable monthly. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

Actuarial valuations are updated every three years, and the latest valuations performed for the five pension plans are as follows:

	Date of last actuarial valuation
Plan 1 – Canadian pension plan	December 31, 2013
Plan 2 – Canadian pension plan	December 31, 2014
Plan 3 – Canadian pension plan	December 31, 2015
Plan 4 – U.S. pension plan	December 31, 2015
Plan 5 – U.S. pension plan	December 31, 2015

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

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Information about the Company's defined benefit pension plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2016	2015
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**27,545**	24,105
Current service cost	**1,009**	937
Past service cost	**–**	86
Interest cost	**1,099**	945
Benefits payments	**(2,730)**	(693)
Remeasurement adjustments		
Plan experience	**778**	777
Changes in demographic assumptions	**(172)**	314
Changes in financial assumptions	**443**	(438)
Exchange difference	**(532)**	1,512
Balance – End of year	**27,440**	27,545
Plan assets		
Fair value – Beginning of year	**22,719**	21,299
Interest income on plan assets	**680**	598
Return on plan asset excluding interest income	**1,133**	(467)
Employer's contributions	**1,468**	1,165
Employee's contributions	**36**	24
Effect of asset ceiling	**(263)**	–
Benefits paid	**(2,730)**	(693)
Exchange difference	**(137)**	793
Fair value – End of year	**22,906**	22,719
Accrued benefit liability	**(4,534)**	(4,826)

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of benefit plans that are not fully funded:

	2016	2015
	$	$
Accrued benefit obligation	**(12,716)**	(13,817)
Fair value of plan assets	**7,340**	8,311
Funded status – Plan deficit	**(5,376)**	(5,506)

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

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The percentage of plan assets consists of the following for the year ended December 31:

	2016	2015
	%	%
Listed equity securities	**55.00**	40.00
Listed debt securities	**43.00**	58.00
Short-term investments and cash	**2.00**	2.00
	100.00	100.00

The significant weighted average assumptions used are as follows:

	2016	2015
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.90**	4.00
Rate of compensation increase	**3.25**	3.25
Benefit costs for the year ended December 31		
Discount rate	**4.00**	3.90

The items of the Company's defined benefit plan costs recognized during the year are as follows:

	2016	2015
	$	$
Current service cost, net of employee contributions	**973**	913
Interest cost	**1,099**	945
Interest income on plan assets	**(680)**	(598)
Past service cost	**–**	86
Defined benefit plan expense	**1,392**	1,346

Expected contributions to the defined benefit pension plans for the year ending December 31, 2017 are $1,401.

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

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Consolidated statement of comprehensive income	2016	2015
	$	$
Year ended December 31		
Actuarial losses	**(168)**	(1,120)
Total recognized in other comprehensive income before income tax	**(168)**	(1,120)

Accumulated actuarial losses recognized in other comprehensive income	2016	2015
	$	$
Balance of actuarial losses as at January 1	**(3,039)**	(2,241)
Net actuarial losses recognized in the year, net of tax	**(114)**	(798)
Balance of actuarial losses as at December 31	**(3,153)**	(3,039)

16 COMMITMENTS AND CONTINGENCIES

a) The Company has issued guarantees amounting to $28,880 (2015 – $37,952) 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. As a result, no provisions have been recorded in the consolidated financial statements.

b) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

	$
2017	24,095
2018	18,740
2019	13,681
2020	9,029
2021	5,101
Thereafter	14,854
	85,500

c) 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.

d) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $281 (2015 – $170). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation.

December 31, 2016 and 2015
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17 FINANCIAL INSTRUMENTS

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the long-term receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements.

The fair value of interest rate swap agreements, foreign exchange forward contracts and derivative commodity contacts have been recorded using mark-to-market information. The following table provides a summary of these fair values which are detailed further in this note:

	2016	2015
	$	$
Current assets		
Interest rate swap agreements	**311**	–
Derivative commodity contracts	**1,428**	–
	1,739	–
Non-current assets		
Interest rate swap agreements	**4,989**	832
Derivative commodity contracts	**67**	–
	5,056	832
Non-current liabilities		
Interest rate swap agreements	**109**	538
Foreign exchange forward contracts	**254**	–
	363	538

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2016, the Company's credit exposure consists primarily of the carrying amount of cash and cash equivalents, restricted cash, accounts receivable and derivative financial instruments.

Credit risk associated with cash and cash equivalent, restricted cash and derivative financial instruments is minimized by dealing with creditworthy financial institutions.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals primarily with railroad companies, public service companies and utility and telecommunication companies as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management for each selling location. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

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

17 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Note 5 provides details on the receivable aging as well as on the provision for doubtful accounts for the years ended December 31, 2016 and 2015. The Company's largest customer had sales representing 15.30% of the total sales for the twelve-month period ending December 31, 2016 (2015 – 10.10%) and an account receivable balance of $4,127 as at December 31, 2016 (2015 – $799).

Price risk

The Company is exposed to commodity price risk on diesel and petroleum. The Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to help manage its cash flows with regards to these commodities. The Company does not designate these derivatives as cash flow hedges of anticipated purchases of diesel and petroleum. Gains or losses from these derivative financial instruments are recorded in the consolidated statements of income under other losses, net. There were no derivative commodity contracts in place as at December 31, 2015. The following table summarizes the derivative commodity contracts as at December 31, 2016:

				2016
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	3,000,000*	January 2017	December 2017	US$1.50
Diesel and petroleum	1,680,000*	January 2017	December 2017	US$1.65
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.72

* Represents a portion of annual volume based on forecasted monthly usage.

The fair value of the above derivative commodity hedges based on cash settlement requirements as at December 31, 2016 is an asset of $1,495 of which an asset of $1,428 is recorded under current assets and an asset of $67 is recorded under non-current assets in the consolidated statement of financial position. The fair value of these hedge agreements have been determined by obtaining mark-to-market values as at December 31, 2016 from a third party. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. A description of each level of the hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The Company ensures that it has sufficient credit facilities to support working capital, meet expected operational expenses and service financial obligations. Inventories are a significant component of working capital because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is made.

December 31, 2016 and 2015
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17 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 10(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2016, an amount of $112,513 (2015 – $17,556) was available under the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

2016

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	101,142	101,142	101,142	–	–	–
Long-term debt obligations	694,385	773,926	25,184	53,315	689,583	5,844
Interest rate swap agreements	363	141	723	(153)	(429)	–
Non-competes payable	7,963	8,550	2,238	2,921	2,686	705
	803,853	883,759	129,287	56,083	691,840	6,549

2015

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	77,766	77,766	77,766	–	–	–
Long-term debt obligations	669,881	725,423	78,613	629,477	16,297	1,036
Interest rate swap agreements	538	517	620	(103)	–	–
Non-competes payable	2,355	2,519	1,112	1,407	–	–
	750,540	806,225	158,111	630,781	16,297	1,036

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

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

17 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to 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. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions to mitigate its currency risk. The Company's basic hedging activity consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges.

On November 1, 2016, the Company entered into a sixty-month foreign exchange forward contract agreement, selling US$500 per month at a strike rate of 1.385 and a fade-in rate of 1.178. The Company will obtain the strike rate as long as the spot exchange rate on the transaction date is greater than or equal to the fade-in rate. If the spot exchange rate is lower than the fade-in rate, the transaction will not occur. The fair value of this hedge agreement has been determined by obtaining mark-to-market values as at December 31, 2016 from a third party. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. This foreign exchange forward contract agreement does not qualify for hedge accounting and its fair value based on cash settlement requirements as at December 31, 2016 is a $254 liability recorded under non-current liabilities. The Company had no foreign exchange forward contract agreement in place as at December 31, 2015.

The following table provides information on the impact of a 10.00% strengthening of the U.S. dollar against the Canadian dollar on net income and equity for the years ended December 31, 2016 and 2015. For a 10.00% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income, comprehensive income and equity:

	2016	2015
	$	$
Decrease of net income	**107**	348
Increase of equity	**51,425**	39,582

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities:

	2016	2015
	$	$
Assets		
Accounts receivable	**3,506**	2,106
Liabilities		
Accounts payable and accrued liabilities	**2,624**	2,916
Long-term debt	**1,952**	2,671
	4,576	5,587

The foreign exchange impact from the U.S. dollar-denominated long-term debt in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income as the long-term debt is designated as a hedge of net investment in foreign operations (Note 10).

December 31, 2016 and 2015
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17 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

As at December 31, 2016, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 66.25% (2015 – 58.50%) of the Company's long-term debt is at fixed rates.

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. 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.

The committed revolving credit facility defined in Note 10(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.00% increase in these rates on the closing annual balance of the committed revolving credit facility, for borrowings that have not been swapped, would have increased interest expense by $684 for the year ended December 31, 2016 (2015 – $245).

The following tables summarize the Company's interest rate swap agreements as at December 31:

2016

Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent
		%			CA$
CA$63,000	Committed revolving credit facility	0.70*	February 2016	February 2018	63,000
US$75,000	Committed revolving credit facility	0.97*	June 2014	June 2017	100,702
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.69*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	33,567
US$25,000	Committed revolving credit facility	0.70*	December 2012	December 2017	33,567
US$85,000	Committed revolving credit facility	1.68*	December 2015	April 2021	114,129
US$100,000	Committed revolving credit facility	1.06*	December 2017	December 2021	134,270

2015

Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent
		%			CA$
CA$10,000	Committed revolving credit facility	1.57*	August 2011	August 2016	10,000
CA$75,000	Committed revolving credit facility	0.97*	June 2014	June 2017	103,800
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.69*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.71*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	0.70*	December 2012	December 2017	34,600
US$25,000	Committed revolving credit facility	1.16*	December 2011	December 2016	34,600
US$15,000	Committed revolving credit facility	1.45*	August 2011	August 2016	20,760
US$85,000	Committed revolving credit facility	1.68*	December 2015	April 2021	117,640

* Plus applicable spread of 1.00% to 2.25% based on a pricing grid included in the committed revolving credit facility.

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

17 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The Company's interest rate swap agreements are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2016, all cash flow hedges were effective.

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2016 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2016 is a net asset of $5,191 (2015 – net asset of $294), of which an asset of $311 (nil in 2015) is recorded in current assets, an asset of 4,989 (2015 – $832) is recorded in non-current assets and a liability of $109 (2015 – $538) is recorded in non-current liabilities in the consolidated statement of financial position. A 10.00% decrease in interest rates as at December 31, 2016 would have reduced the net gain recognized in other comprehensive income by approximately $519 (2015 – $29). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

18 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or acquire or sell assets to improve its financial performance and flexibility.

The Company's capital is composed of total debt, which includes bank indebtedness, and shareholders' equity, which includes capital stock.

	2016	2015
	$	$
Total debt	**694,385**	669,881
Shareholders' equity	**1,026,418**	913,502
Total capital	**1,720,803**	1,583,383
Total debt to total capitalization ratio	**0.40:1**	0.42:1

The Company's primary uses of capital are to finance non-cash working capital and capital expenditures for capacity expansion as well as acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its committed revolving credit facility. However, future corporate acquisitions may require new sources of financing.

The primary measure used by the Company to monitor its financial leverage is the total debt to total capitalization ratio, which it aims to maintain within a range of 0.30:1 to 0.60:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

19 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2016	2015
	$	$
Stella Jones International S.A.*		
Marketing and technical service fees paid	**200**	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	**100**	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	**1,202**	429

* Stella Jones International S.A. holds, directly or indirectly, approximately 38.30% of the outstanding common shares of the Company.
** Stella International S.A. and James Jones & Sons Limited hold 51.00% and 49.00% of all voting shares of Stella Jones International S.A., respectively.

These transactions occurred in the normal course of operations and have been measured at fair value.

As at December 31, the consolidated statement of financial position includes the following amounts with related parties:

	2016	2015
	$	$
Accounts payable to Stella International S.A. and James Jones & Sons Limited	**25**	25
Accounts payable to Stella Jones International S.A.	**50**	50
Accounts payable to a firm in which a director of the Company is a partner	**557**	35
	632	110

b) Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management. The compensation expensed with regards to key management for employee services is as follows:

	2016	2015
	$	$
Salaries, compensation and benefits	**5,494**	4,690
Share-based expenses	**4,435**	6,796
	9,929	11,486

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

20 SEGMENT INFORMATION

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

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

The logs and lumber segment is comprised of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

Operating plants are located in five Canadian provinces and nineteen American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer are as follows:

	2016	2015
	$	$
Canada	**535,800**	285,741
U.S.	**1,302,553**	1,273,593
	1,838,353	1,559,334

Sales by product as at December 31 are as follows:

	2016	2015
	$	$
Pressure-treated wood		
Railway ties	**716,292**	709,671
Utility poles	**579,208**	527,707
Residential lumber	**345,749**	182,593
Industrial products	**96,310**	97,347
Logs and lumber	**100,794**	42,016
	1,838,353	1,559,334

December 31, 2016 and 2015
(amounts expressed in thousands of Canadian dollars, except as otherwise indicated)

20 SEGMENT INFORMATION (CONTINUED)

Property, plant and equipment, intangible assets and goodwill attributed to the countries based on location are as follows:

	2016	2015
	$	$
Property, plant and equipment		
Canada	**108,220**	86,741
U.S.	**358,815**	288,793
	467,035	375,534
Intangible assets		
Canada	**25,324**	27,899
U.S.	**120,940**	113,037
	146,264	140,936
Goodwill		
Canada	**12,389**	7,229
U.S.	**273,203**	238,467
	285,592	245,696

21 SUBSEQUENT EVENTS

a) On January 17, 2017, the Company concluded a US$150,000 private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of a series A senior note of US$75,000 bearing interest at 3.54%, payable in a single instalment at maturity on January 17, 2024 and a series B senior note of US$75,000 bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Both notes are unsecured and proceeds were used to reimburse a portion of the committed revolving credit facility (Note 10(a)). The notes were designated as hedges of net investment in foreign operations.

b) On February 3, 2017, the Company obtained a one-year extension to February 26, 2022 of its committed revolving credit facility as provided in the fifth amended and restated credit agreement dated as of February 26, 2016, and amended on May 18, 2016. All the conditions of the credit agreement, other than the committed revolving credit facility maturity date, remain unchanged.

c) On March 16, 2017, the Board of Directors declared a quarterly dividend of $0.11 per common share payable on April 28, 2017 to shareholders of record at the close of business on April 3, 2017.

22 COMPARATIVE FIGURES

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

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Tom A. Bruce Jones, CBE (1)
Chairman of the Board,
Stella-Jones Inc.
Chairman of the Board,
James Jones & Sons Limited
(Forest products company)
Larbert, Scotland
Director since July 1993

George J. Bunze, CPA, CMA (2) (3)
Vice-Chairman and Director,
Kruger Inc.
(Manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirits products)
Montréal, Québec
Director since May 2001

Gianni Chiarva (3)
Vice-Chairman of the Board,
Stella-Jones Inc.
Chairman,
Stella Jones International S.A.
Milan, Italy
Director since July 1993

Katherine A. Lehman (2)
Managing Partner, Hilltop Private Capital LLC
New York, NY, USA
Director since October 2016

Brian McManus
President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since June 2001

Nycol Pageau-Goyette (1) (2) (3) (4)
President, Pageau Goyette et associés limitée
(Management services firm)
President, Corporation Montrésor Inc.
(Real estate investment fund)
Montréal, Québec
Director since July 1993

James A. Manzi, Jr. (2)
Corporate Director
Tampa, FL, USA
Director since April 2015

Simon Pelletier (2)
Senior Vice-President,
North American Sales and Operations,
Metso (Manufacturer of mineral processing equipment and service provider to mining industry)
Senneville, Québec
Director since May 2012

Daniel Picotte (1)
Partner, Fasken Martineau DuMoulin LLP (Law firm)
Montréal, Québec
Director since July 1993

Mary Webster (1)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Environmental, Health and Safety Committee
(2) Member of the Audit Committee
(3) Member of the Remuneration Committee
(4) Lead Director

A full report of Stella-Jones' corporate governance practices is set out in the Management Proxy Circular for the May 4, 2017 Annual and Special Meeting of Shareholders.

OFFICERS

Tom A. Bruce Jones, CBE
Chairman of the Board

Gianni Chiarva
Vice-Chairman of the Board

Brian McManus
President and
Chief Executive Officer

Éric Vachon, CPA, CA
Senior Vice-President and
Chief Financial Officer

Marla Eichenbaum
Vice-President,
General Counsel and
Secretary

Ian Jones
Senior Vice-President

Gordon Murray
Vice-President, Environment and Technology and General Manager,
Atlantic Region

André Daigle
Vice-President,
Central Region

SUBSIDIARIES–SENIOR MANAGEMENT

Shane Campbell
Vice-President, Operations
McFarland Cascade Holdings, Inc.

George Caric
Vice-President, Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President, Poles and Residential Sales
McFarland Cascade Holdings, Inc.

W.G. Downey, Jr.
Vice-President,
U.S. Tie Procurement
Stella-Jones Corporation

Marcell Driessen
Vice-President, Human Resources
Stella-Jones Corporation and McFarland Cascade Holdings, Inc.

Ian Jones
Senior Vice-President
McFarland Cascade Holdings, Inc.

James Kenner
Vice-President and
General Counsel, U.S. Operations
Stella-Jones Corporation

Patrick Kirkham
Vice-President, Operations
Stella-Jones Corporation

Jim Raines
Vice-President, Sales
Stella-Jones Corporation

Glen Ritchie
Vice-President, Fibre
Stella-Jones Inc.

Michael Sylvester
Senior Vice-President,
Stella-Jones Corporation

Dave Whitted
Vice-President,
Sales Operations
Stella-Jones Corporation

Jon Younce
Vice-President, U.S. Fibre and Pole Production
McFarland Cascade Holdings, Inc.

Ron Zeegers
Vice-President,
Operations, Western Canada
Stella-Jones Inc.

OPERATING LOCATIONS – CANADA

CORPORATE HEAD OFFICE

Stella Jones Inc.
3100 de la Côte-Vertu Blvd.
Suite 300
Saint-Laurent, Québec
H4R 2J8
T: (514) 934-8666
F: (514) 934-5327
montreal@stella-jones.com

ALBERTA

Plant
39 miles SE of Calgary
Hwy. 24
Carseland, Alberta
T0J 0M0
T: (403) 934-4600
F: (403) 934-5880
carseland@stella-jones.com

BRITISH COLUMBIA

Plant and Sales Office
25 Braid Street
New Westminster
British Columbia
V3L 3P2
T: (604) 521-4385
F: (604) 526-8597
n.west@stella-jones.com

BRITISH COLUMBIA

Plant
7400 Galloway Mill Road
Galloway
British Columbia
V0B 7P0
T: (250) 429-3493
F: (250) 429-3931
galloway@stella-jones.com

Plant and Sales Office
7177 Pacific Street
Prince George
British Columbia
V2N 5S4
T: (250) 561-1161
F: (250) 561-0903
p.george@stella-jones.com

Fibre & Woodlands Dept.
4661 60th Street SE
Salmon Arm
British Columbia
V1E 1X2
T: (250) 832-1180
F: (250) 832-7933
salmonarm@stella-jones.com

NOVA SCOTIA

Plant and Sales Office
278 Park Street
Truro, Nova Scotia
B2N 5C1
T: (902) 893-9456
F: (902) 893-3874
truro@stella-jones.com

ONTARIO

Plant and Sales Office
Guelph Utility Pole
7818 Wellington Road 22
R.R. #5
Guelph, Ontario
N1H 6J2
T: (519) 822-3901
F: (519) 822-5411
info@guelphpole.com

Plant and Sales Office
1 Ram Forest Road
Gormley, Ontario
L0H 1G0
T: (905) 727-1164
F: (905) 727-7758
gormley@stella-jones.com

Plant and Sales Office
321 Lansdowne Street East
Peterborough, Ontario
K9J 7X6
T: (705) 745-3223
F: (705) 745-3793
peterborough@stella-jones.com

Plant
Esker Park Road
Kirkland Lake, Ontario
P2N 3H7
T: (705) 567-2113
F: (705) 567-1413
whammond@stella-jones.com

QUÉBEC

Plant and Sales Office
41 Rodier Street
Delson, Québec
J5B 2H8
T: (450) 632-2011
T: 1 (800) 387-5027
F: (450) 632-3211
delson@stella-jones.com

Plant and Sales Office
426 chemin de
Montréal East
Gatineau, Québec
J8M 1V6
T: (819) 986-8998
F: (819) 986-9875
mlauzon@stella-jones.com

Plant
2210 chemin St-Roch
Sorel-Tracy, Québec
J3R 3L2
T: (450) 742-5977
F: (450) 742-8832
jgaudreau@stella-jones.com

Plant
2549 Chemin Francisco
Rivière-Rouge, Québec
J0T 0T0
T: (819) 275-3353
F: (819) 275-1002
rouge@stella-jones.com

OPERATING LOCATIONS – UNITED STATES

CORPORATE OFFICE

Stella-Jones Corporation
Park West One
1000 Cliff Mine Road
Suite 500
Pittsburgh, PA
15275 U.S.A
T: (412) 325-0202
F: (412) 774-1689
sjcorp@stella-jones.com

LEGAL AND COMPLIANCE

Stella-Jones Corporation
15700 College Blvd.,
Suite 300
Lenexa, KS
66219 U.S.A.
T: (913) 948-9478
F: (913) 538-2226
sjcorp@stella-jones.com

ALABAMA

Plant
Stella-Jones Corporation
100 McKinney Drive
Clanton, AL
35045 U.S.A.
T: (205) 280-3950
F: (205) 665-2545
sjcorp@stella-jones.com

Plant
Stella-Jones Corporation
1051 Highway 25 South
Montevallo, AL
35115 U.S.A.
T: (205) 679-4005
F: (205) 665-2545
sjcorp@stella-jones.com

ARIZONA

Plant
McFarland Cascade
850 West Chambers St.
Eloy, AZ
85231 U.S.A.
T: (520) 466-7801
F: (520) 466-3607
info@mcfarland
cascade.com

ARKANSAS

Plant
Stella-Jones Corporation
4260 South
Arkansas Ave.
Russellville, AR
72802 U.S.A.
T: (479) 968-5085
F: (479) 968-4636
sjcorp@stella-jones.com

Plant
McFarland Cascade
6040 Highway 79N
Rison, AR
71665 U.S.A.
T: (870) 325-7070
F: (870) 325-7050
info@mcfarland
cascade.com

GEORGIA

Plant
Stella-Jones Corporation
3500 Pateville Road
Cordele, GA
31015 U.S.A.
T: (229) 273-8012
F: (229) 273-8220
sjcorp@stella-jones.com

INDIANA

Plant
Stella-Jones Corporation
3818 S. County Road
50 E
Winslow, IN
47598 U.S.A.
T: (812) 789-5331
F: (812) 789-5335
sjcorp@stella-jones.com

KENTUCKY

Plant
Stella-Jones Corporation
3855 Highway 51 North
Fulton, KY
42041 U.S.A.
T: (270) 472-5557
F: (270) 472-5559
sjcorp@stella-jones.com

LOUISIANA

Plant
Stella-Jones Corporation
3600 Koppers Road
Alexandria, LA
71302 U.S.A.
T: (318) 442-5733
F: (318) 473-4378
sjcorp@stella-jones.com

Plant
McFarland Cascade
10020 Highway 483
Converse, LA
71419 U.S.A.
T: (318) 645-7525
F: (318) 645-7530
info@mcfarlandcascade.
com

Plant
McFarland Cascade
74 Wadley Street
Pineville, LA
71360 U.S.A.
T: (318) 442-4414
F: (318) 445-9144
info@mcfarlandcascade.
com

MISSISSIPPI

Plant
McFarland Cascade
13539 Highway 45
Scooba, MS
39358-7611 U.S.A.
T: (662) 476-8000
F: (662) 476-8005
info@mcfarland
cascade.com

NEVADA

Plant
McFarland Cascade
1680 E Spruce Avenue
Silver Springs, NV
89429 U.S.A.
T: (775) 577-2000
F: (775) 577-9045
info@mcfarland
cascade.com

OREGON

Plant and Office
McFarland Cascade
90049 Highway 99N.
Eugene, OR
97402 U.S.A.
T: (541) 689-1278
F: (541) 689-6027
info@mcfarland
cascade.com

Plant
McFarland Cascade
22125 SW
Rock Creek Road
Sheridan, OR
97378 U.S.A.
T: (503) 843-2122
F: (503) 843-7058
info@mcfarland
cascade.com

PENNSYLVANIA

Plant
Stella-Jones Corporation
5865 Route 235
McAlisterville, PA
17049 U.S.A.
T: (717) 463-2131
F: (717) 463-3998
sjcorp@stella-jones.com

Plant
Stella-Jones Corporation
392 Larkeytown Road
Dubois, PA
15801 U.S.A.
T: (814) 371-7331
F: (814) 375-0946
sjcorp@stella-jones.com

OPERATING LOCATIONS – UNITED STATES

SOUTH CAROLINA

Plant
McFarland Cascade
1121 Delta Road
Whitmire, SC
29178 U.S.A.
T: (803) 694-3668
F: (803) 694-3976
info@mcfarland
cascade.com

TENNESSEE

Coal Tar Distillation Facility
Stella-Jones Corporation
1471 Channel Avenue
Memphis, TN
38109 U.S.A.
T: (901) 942-3326
F: (901) 942-3128
sjcorp@stella-jones.com

TEXAS

Plant
McFarland Cascade
5865 US Highway 69
Lufkin, TX
75901 U.S.A.
T: (936) 824-2297
F: (936) 634-2100
info@mcfarlandcascade.
com

VIRGINIA

Plant
Stella-Jones Corporation
9223 Maury River Road
Goshen, VA
24439 U.S.A.
T: (540) 997-9251
F: (540) 997-0047
sjcorp@stella-jones.com

WASHINGTON

Plant and Corporate Office
McFarland Cascade
1640 East Marc St.
Tacoma, WA
98421 U.S.A.
T: (253) 572-3033
F: (253) 382-3000
info@mcfarland
cascade.com

WASHINGTON

Plant
McFarland Cascade
6520 - 188th NE
Arlington, WA
98223 U.S.A.
T: (360) 435-2146
F: (360) 435-3035
info@mcfarland
cascade.com

WISCONSIN

Plant
Stella-Jones Corporation
W1038 County Road U
Bangor, WI
54614 U.S.A.
T: (608) 486-2700
F: (608) 486-4538
sjcorp@stella-jones.com

Plant
McFarland Cascade
1014 S. 1st Street
Cameron, WI
54822 U.S.A.
T: (715) 458-2018
F: (715) 458-2024
info@mcfarlandcascade.
com

CORPORATE INFORMATION

Annual and Special Meeting of Shareholders

May 4, 2017
10:00 a.m.
Hotel Omni Mont-Royal
Salon Pierre De Coubertin
1050 Sherbrooke Street West
Montréal, Québec

Stock Information

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2016): $51.62 / $40.11
Share price at March 16, 2017: $41.53
Common shares outstanding as at December 31, 2016: 69.30 million

Dividend Policy

The Board of Directors considers a dividend on a quarterly basis, subject to the company's financial covenants and conditional upon its financial performance and cash requirements.

On March 16, 2017, the Board of Directors declared a quarterly dividend of $0.11 per common share.

Transfer Agent and Registrar

Computershare Investor Services Inc.

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Fasken Martineau Dumoulin LLP
Cohen & Grigsby, P.C.
Foley & Lardner LLP

Stella-JoneS Inc.

WWW.STELLA-JONES.COM