MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine-month periods ended September 30, 2018 compared with the three- and nine-month periods ended September 30, 2017

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors (the "Board") on November 1, 2018. The MD&A provides a review of the significant developments and results of operations of the Company during the three- and nine-month periods ended September 30, 2018 compared with the three- and nine-month periods ended September 30, 2017. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 2018 and 2017 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2017.

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

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

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

OUR BUSINESS

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

As at September 30, 2018, the Company operated thirty-nine treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at September 30, 2018, the Company's workforce numbered approximately 2,110 employees.

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

OUR MISSION

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

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

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

HIGHLIGHTS

Third Quarter of 2018

Selected Key Indicators (in millions of dollars except margins, EPS and ratio)	**Q3-18**	**Q3-17**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	630.0	517.6	112.4	21.7%
Gross profit(1)	94.0	83.6	10.4	12.4%
EBITDA(1)	76.7	71.3	5.4	7.6%
EBITDA margin(1)	12.2%	13.8%	n/a	(160 bps)
Operating income(1)	67.9	63.1	4.8	7.6%
Net income	45.8	42.0	3.8	9.0%
EPS – basic & diluted	0.66	0.61	0.05	8.2%
Cash Flow				
Cash flow from operating activities	91.3	175.5		
Cash flow from financing activities	(81.0)	(150.2)		
Cash flow from investing activities	(10.3)	(11.9)		
Financial position	**As at September 30, 2018**	**As at December 31, 2017**	**Variation ($)**	
Inventories	708.7	718.5	(9.8)	
Long-term debt(2)	499.0	455.6	43.4	
Total debt to EBITDA ratio(1)	2.11x	1.89x	0.22	

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

- On September 25, 2018, Stella-Jones announced the appointment of Katherine A. Lehman as the new Chair of the Board, the establishment of a Governance and Nomination Committee and the implementation of additional governance initiatives.
- On August 14, 2018, Stella Jones International S.A. sold its remaining share ownership in Stella-Jones Inc. through a bought deal public offering of 8,445,911 common shares and a concurrent private placement of an aggregate of 13,126,925 common shares.

Year-To-Date 2018

Selected Key Indicators (in millions of dollars except margins and EPS)	**YTD Q3-18**	**YTD Q3-17**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	1,691.1	1,508.8	182.3	12.1%
Gross profit(1)	247.1	246.4	0.7	0.3%
EBITDA(1)	199.7	203.5	(3.8)	(1.9%)
EBITDA margin(1)	11.8%	13.5%	n/a	(168 bps)
Operating income(1)	174.5	178.4	(3.9)	(2.2%)
Net income	117.0	116.8	0.2	0.2%
EPS – basic & diluted	1.69	1.68	0.01	0.6%
Cash Flow				
Cash flow from operating activities	89.2	277.2		
Cash flow from financing activities	(1.1)	(231.0)		
Cash flow from investing activities	(94.5)	(34.4)		

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Refer to the Non-IFRS financial measures section of this MD&A.

Note: Numbers are rounded.

- On April 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Wood Preservers Incorporated ("WP"), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation pilings and treated wood utility poles.

  Total cash outlay associated with the acquisition was approximately $27.5 million (US$21.6 million), excluding acquisition costs of approximately $423,000 recognized in the interim consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities. The consideration transferred also comprises a balance of purchase price bearing no interest and payable annually on the anniversary of the transaction in six instalments of US$500,000. This balance of purchase price was recorded at a fair value of $3.3 million (US$2.6 million), using an effective interest rate of 4.17%.

- On February 9, 2018, the Company completed the acquisition of substantially all of the operating assets employed in the business of Prairie Forest Products ("PFP"), a division of Prendiville Industries Ltd., located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures treated wood utility poles as well as treated residential lumber.

  Total cash outlay associated with the acquisition was approximately $27.0 million excluding acquisition costs of approximately $425,000 of which $159,000 was recognized in the 2017 consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

NON-IFRS FINANCIAL MEASURES

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

- Gross Profit: Sales less cost of sales
- Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"])
- EBITDA margin: EBITDA divided by sales for the corresponding period
- Operating income

- Operating margins: Operating income divided by sales for the corresponding period
- Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid
- Total debt to EBITDA: Long-term debt (including the current portion) divided by the twelve-month rolling EBITDA

Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and operating results as they provide additional measures about its performance.

Reconciliation of EBITDA and operating income to net income (millions of dollars)	**Three-month periods ended**		**Nine-month periods ended**	
	Sept. 30, 2018	**Sept. 30, 2017**	**Sept. 30, 2018**	**Sept. 30, 2017**
Net income for the period	45.8	42.0	117.0	116.8
Plus:				
Provision for income taxes	17.3	16.8	43.1	46.5
Financial expenses	4.8	4.3	14.3	15.1
Operating income	67.9	63.1	174.5	178.4
Depreciation and amortization	8.7	8.3	25.2	25.1
EBITDA	76.7	71.3	199.7	203.5

Note: Numbers may not add exactly due to rounding.

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2017 and 2018. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

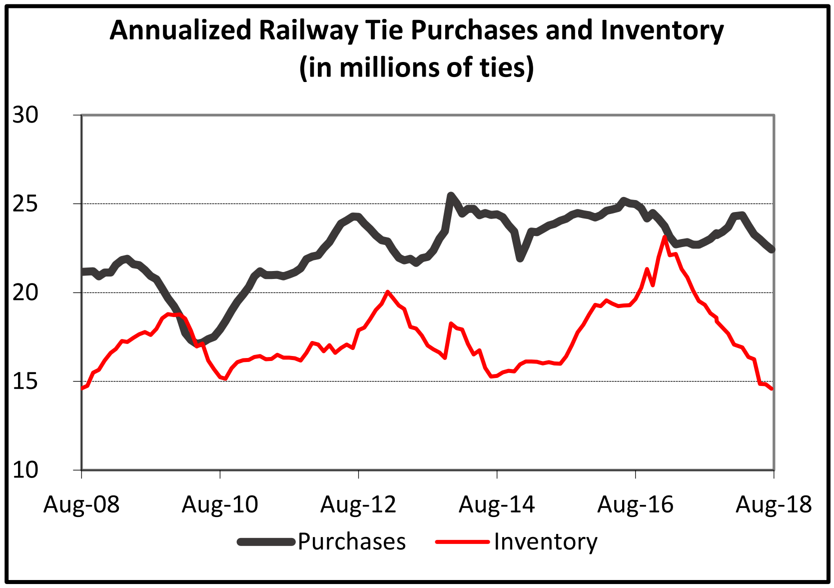
Cdn$/US$ rate	**2018**		**2017**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.2549	1.2894	1.3240	1.3310
Second Quarter	1.2893	1.3168	1.3491	1.2977
Third Quarter	1.3080	1.2945	1.2664	1.2480
Fourth Quarter			1.2754	1.2545
Fiscal Year			1.3038	1.2545

For the third quarter:

- The appreciation of the U.S. dollar relative to the Canadian dollar from the third quarter of 2017 compared to the third quarter of 2018 (average rate) resulted in a positive impact on sales and an unfavorable impact on costs of sales.
- The appreciation of the U.S. dollar relative to the Canadian dollar as at September 30, 2018, compared to December 31, 2017 (closing rate) resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for the first eight months of 2018 were 15.2 million ties, versus 16.2 million ties for the same period in 2017, resulting in industry purchases of 22.4 million ties for the 12-month period ended August 31, 2018. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. This level of purchases led to lower industry inventory, which stood at 14.6 million ties as at August 31, 2018. As a result, the inventory-to-sales ratio was 0.65:1 as at August 31, 2018, beneath the previous ten-year average ratio of 0.79:1.



Source: Railway Tie Association

Total traffic on North American railroads increased 3.6% in the first nine months of 2018, according to data released by the Association of American Railroads. Carload volume increased 1.9%, mainly due to higher shipments of petroleum and petroleum products, non-metallic minerals and chemicals, whereas the volume of intermodal trailers and containers rose 5.3% from 2017 levels.

OPERATING RESULTS

Sales

Sales for the third quarter of 2018 reached $630.0 million, versus sales of $517.6 million for the corresponding period last year. Acquisitions contributed sales of approximately $19.9 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $12.9 million on the value of U.S. dollar denominated sales when compared with last year's third quarter. Excluding these factors, sales increased approximately $79.6 million, or 15.4%, due to higher sales across all product categories.

Sales (in millions of dollars)	**Railway Ties**	**Utility Poles**	**Residential Lumber**	**Industrial Products**	**Logs & Lumber**	**Consolidated Sales**
Q3-2017	**160.8**	**172.5**	**125.8**	**25.6**	**32.9**	**517.6**
Acquisitions	-	0.1	15.2	4.3	0.3	19.9
FX impact	5.1	5.1	1.5	0.7	0.5	12.9
Organic growth	21.8	22.9	18.0	1.8	15.1	79.6
Q3-2018	**187.7**	**200.6**	**160.5**	**32.4**	**48.8**	**630.0**
Organic growth %	13.5%	13.3%	14.3%	7.0%	45.9%	15.4%

Note: Numbers may not add exactly due to rounding.

For the first nine months of 2018, sales amounted to $1.69 billion, versus $1.51 billion for the corresponding period last year. Acquisitions contributed sales of $49.0 million, while the currency conversion effect had a negative impact of $21.9 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately $155.2 million, or 10.3%, as detailed below.

Sales (in millions of dollars)	**Railway Ties**	**Utility Poles**	**Residential Lumber**	**Industrial Products**	**Logs & Lumber**	**Consolidated Sales**
YTD 2017	**533.6**	**491.0**	**317.6**	**74.6**	**92.0**	**1,508.8**
Acquisitions	-	1.1	36.7	10.5	0.7	49.0
FX impact	(10.2)	(7.7)	(2.4)	(1.3)	(0.3)	(21.9)
Organic growth	12.0	48.5	62.5	2.2	30.0	155.2
YTD 2018	**535.4**	**532.9**	**414.4**	**86.0**	**122.4**	**1,691.1**
Organic growth %	2.2%	9.9%	19.7%	2.9%	32.6%	10.3%

Note: Numbers may not add exactly due to rounding.

Railway ties

Railway tie sales for the third quarter of 2018 amounted to $187.7 million, representing an increase of 16.7%, from sales of $160.8 million in the corresponding period last year. Excluding the currency conversion effect, railway tie sales increased approximately $21.8 million, or 13.5%, primarily as a result of price increases. Railway tie sales accounted for 29.8% of the Company's third-quarter sales.

For the first nine months of 2018, railway tie sales totalled $535.4 million, versus $533.6 million for the corresponding period last year. Excluding the currency conversion effect, railway tie sales increased approximately $12.0 million, or 2.2%.

Utility poles

Utility pole sales reached $200.6 million in the third quarter of 2018, up 16.3% from sales of $172.5 million in the corresponding period last year. Acquisitions contributed sales of $0.1 million, while the currency conversion effect increased the value of U.S. dollar denominated sales by about $5.1 million. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $22.9 million, or 13.3%, primarily driven by increased sales in the U.S. Southeast, increased projects related to transmission poles and healthy demand for replacement programs. Utility pole sales accounted for 31.8% of the Company's third-quarter sales.

For the first nine months of 2018, utility pole sales totalled $532.9 million, versus $491.0 million for the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $48.5 million, or 9.9%.

Residential lumber

Sales in the residential lumber category totalled $160.5 million in the third quarter of 2018, up 27.6% from sales of $125.8 million for the corresponding period last year. Acquisitions contributed sales of approximately $15.2 million, while the currency conversion effect increased the value of U.S. dollar denominated sales by about $1.5 million when compared with the same period last year. Excluding these factors, residential lumber sales increased approximately $18.0 million, or 14.3% as a percentage of sales. This is primarily explained by higher selling prices as a result of higher lumber costs passed through to customers. Residential lumber accounted for 25.5% of the Company's third-quarter sales.

For the first nine months of 2018, residential lumber sales totalled $414.4 million, versus $317.6 million for the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, residential lumber sales increased approximately $62.5 million, or 19.7%.

Industrial products

Industrial product sales reached $32.4 million in the third quarter of 2018, compared with $25.6 million in the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, sales increased 7.0%, explained in most part by demand for rail-related products. Industrial products represented 5.1% of the Company's third-quarter sales.

For the first nine months of 2018, industrial product sales totalled $86.0 million, versus $74.6 million for the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, industrial product sales increased slightly by 2.9%.

Logs and lumber

Sales in the logs and lumber category totalled $48.8 million in the third quarter of 2018, compared with $32.9 million in the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, logs and lumber sales increased 45.9%. This significant variance reflects higher selling prices due to higher lumber costs coupled with increased harvesting activity related to procurement activities to support strong pole sales. Logs and lumber sales represented 7.7% of the Company's third-quarter sales.

For the first nine months of 2018, logs and lumber sales totalled $122.4 million, versus $92.0 million for the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, logs and lumber sales increased approximately $30.0 million, or 32.6%.

Sales by destination

Sales in the United States in the third quarter of 2018 amounted to $412.9 million, representing 65.5% of total sales, versus $344.3 million in the corresponding period last year. This year-over-year increase is mainly attributable to higher sales across all product categories, coupled with the contribution of the WP acquisition and the positive effect of local currency translation on U.S.-dollar denominated sales. For the first nine months of 2018, sales in the United States stood at $1.12 billion, up from $1.05 billion in the corresponding period last year.

Sales in Canada in the third quarter of 2018 reached $217.1 million, representing 34.5% of total sales, compared with $173.3 million in the corresponding period last year. This year-over-year increase primarily reflects higher sales in the residential lumber product category, the PFP acquisition and higher year-over-year selling prices due to higher lumber costs. Moreover, the increase was also impacted by higher sales in the utility pole and logs and lumber product categories. For the first nine months of 2018, sales in Canada stood at $569.3 million, up from $462.7 million in the corresponding period last year.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $536.1 million, or 85.1% of sales, in the third quarter of 2018. This compares with $434.1 million, or 83.9% of sales, for the corresponding period last year. This increase is primarily explained by the increasing cost of untreated railway ties and certain untreated species of poles. In addition, the higher lumber costs, which are passed through in a timely manner towards customers via higher selling prices, have contributed to increased cost of sales but have also put downward pressure on margins as a percentage of sales. These cost increases were also impacted by the effect of foreign currency translation. Depreciation and amortization charges reached $8.7 million in the third quarter of 2018, up from $8.3 million in the corresponding period last year. As a result, gross profit reached $94.0 million, or 14.9% of sales, in the third quarter of 2018, compared with $83.6 million, or 16.1% of sales, in the corresponding period last year.

For the first nine months of 2018, cost of sales amounted to $1.44 billion, or 85.4% of sales, versus $1.26 billion, or 83.7% of sales, in the corresponding period last year. Depreciation and amortization reached $25.2 million in the first nine months of 2018, versus $25.1 million in the corresponding period last year. As a result, gross profit stood at $247.1 million, or 14.6% of sales, in the first nine months of 2018, compared with $246.4 million, or 16.3% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the third quarter of 2018 were $25.4 million, compared with expenses of $20.5 million in the corresponding period last year. This variation is primarily explained by higher taxable tax credits of $2.6 million, recognized in the third quarter of 2017, coupled with greater stock-based compensation expenses of $1.0 million. The increase is also due to higher selling expenses and the unfavorable effect of currency translation. As a percentage of sales, selling and administrative expenses represented 4.0% of sales in the third quarter of 2018, in line with the corresponding period last year.

For the first nine months of 2018, selling and administrative expenses amounted to $73.4 million, or 4.3% of sales, compared with $69.6 million, or 4.6% of sales, in the corresponding period last year.

Other losses (gains), net

Stella-Jones' other net losses of $607,000 for the third quarter of 2018, essentially consisted of a loss on asset disposal and a loss on foreign exchange, partially offset by a gain related to the mark-to-market effect of diesel and petroleum derivative commodity contracts. Last year's other net gains of $16,000 essentially consisted of a gain related to the mark-to-market effect of diesel and petroleum derivative commodity contracts, partially offset by a loss on asset disposal and a foreign exchange loss.

In the first nine months of 2018, other net gains totalled $0.8 million, as compared to $1.6 million in the corresponding period last year.

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

Financial expenses

Financial expenses for the three-month period ended September 30, 2018 amounted to $4.8 million, compared to $4.3 million for the corresponding period last year. This variation stems from higher year-over-year borrowings in the quarter, mainly resulting from acquisitions, coupled with the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Financial expenses for the first nine months of 2018 amounted to $14.3 million, compared to $15.1 million in the corresponding period last year. This variation is explained by the lower average year-over-year borrowings for this period, coupled with the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $63.2 million, or 10.0% of sales, in the third quarter of 2018, versus income before income taxes of $58.8 million, or 11.4% of sales, in the corresponding period last year. This increase resulted from higher gross profit. Stella-Jones' provision for income taxes totalled $17.3 million in the third quarter of 2018, representing an effective tax rate of 27.4%. In the third quarter of 2017, the income tax expense stood at $16.8 million, equivalent to an effective tax rate of 28.6%.

For the first nine months of 2018, income before income taxes stood at $160.2 million, or 9.5% of sales, while the provision for income taxes amounted to $43.1 million, representing an effective tax rate of 26.9%. In the first nine months of 2017, income before income taxes was $163.3 million, or 10.8% of sales, while the provision for income taxes amounted to $46.5 million, representing an effective tax rate of 28.5%. The year-over-year decrease in income before income taxes resulted from lower operating income as explained above.

The lower effective tax rate for the three- and nine-month periods ended September 30, 2018 reflects changes to the U.S. Federal Corporate income tax rate following the enactment of the Tax Cuts and Jobs Act on December 22, 2017.

Net income

Net income for the third quarter of 2018 reached $45.8 million, or $0.66 per diluted share, versus net income of $42.0 million, or $0.61 per diluted share, in the corresponding period last year.

For the first nine months of 2018, net income totalled $117.0 million, or $1.69 per diluted share, compared with $116.8 million, or $1.68 per diluted share, in the corresponding period last year.

QUARTERLY RESULTS

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

2018

For the quarters ended (millions of dollars, except per share data)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	398.8	662.3	630.0		
EBITDA (1)	43.4	79.6	76.7		
Operating income (1)	35.5	71.0	67.9		
Net income for the period	23.1	48.1	45.8		
Earnings per common share Basic and diluted	0.33	0.69	0.66		

2017

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

2016

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

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Refer to the Non-IFRS financial measures section of this MD&A.

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the appreciation of the U.S. dollar relative to the Canadian dollar as at September 30, 2018, compared to December 31, 2017 (see "Foreign Exchange" on page 4), results in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at September 30, 2018, total assets reached $2.01 billion, versus $1.79 billion as at December 31, 2017. The higher balance of total assets mostly reflects an increase in current assets, as detailed below.

Assets (in millions of dollars)	**As at September 30, 2018**	**As at December 31, 2017**	**Variance**
Accounts Receivable	308.7	163.5	145.2
Inventories	708.7	718.5	(9.8)
Other current assets	39.8	26.4	13.4
Total current assets	**1,057.2**	**908.4**	**148.8**
Property, plant and equipment	528.9	472.0	56.9
Intangible assets	124.6	124.4	0.2
Goodwill	285.0	270.3	14.7
Other non-current assets	14.5	10.9	3.6
Total non-current assets	**953.0**	**877.6**	**75.4**
Total assets	**2,010.2**	**1,786.0**	**224.2**

Note: Numbers may not add exactly due to rounding.

The value of accounts receivable was $308.7 million as at September 30, 2018, compared with $163.5 million as at December 31, 2017. The increase is attributable to higher sales in the third quarter of 2018, when compared to the fourth quarter of 2017, as per normal seasonal demand patterns, coupled with the effect of local currency translation on U.S.-based accounts receivable. Management considers that all recorded receivables in the statement of financial position are fully collectible as major customers, mainly Class 1 railroad operators, large retailers and large-scale utility service providers, have good credit standing and limited history of default.

Inventories stood at $708.7 million as at September 30, 2018, down from $718.5 million as at December 31, 2017. This decrease reflects the seasonal reduction in residential lumber inventory, coupled with a lower railway tie inventory due to a tighter supply market. This decrease was partially offset by the effect of local currency translation on U.S. dollar denominated inventories and the inventories pertaining to the PFP and WP acquisitions.

Because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. As such, inventory turnover has historically been relatively low. In addition, important raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. However, solid relationships and long-term contracts with customers enable the Company to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization. The Company believes that its cash flow from operations and available syndicated credit facilities are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $528.9 million as at September 30, 2018, compared with $472.0 million as at December 31, 2017. This increase is mainly related to the purchase of property, plant and equipment of $38.2 million during the first nine months of 2018, the additional property, plant and equipment from recent acquisitions totalling $26.0 million and the effect of local currency translation on U.S-based property, plant and equipment, partially offset by depreciation totalling $14.9 million for the period.

The value of intangible assets and goodwill reached $124.6 million and $285.0 million, respectively, as at September 30, 2018. Intangible assets include customer relationships, the discounted value of non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable lease agreement. As at December 31, 2017, intangible assets and goodwill were $124.4 million and $270.3 million, respectively. The slight increase in the value of intangible assets stems primarily from the effect of local currency translation on U.S.-based intangible assets and customer relationships from recent acquisitions, partially offset by an amortization charge of $10.3 million in the first nine months of 2018. The increase in goodwill is primarily explained by acquisitions and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at September 30, 2018, Stella-Jones' total liabilities stood at $771.8 million, up from $670.4 million as at December 31, 2017. This variation reflects an increase in non-current liabilities as well as current liabilities, as detailed below.

Liabilities (in millions of dollars)	**As at September 30, 2018**	**As at December 31, 2017**	**Variance**
Accounts payable & accrued liabilities	156.0	111.2	44.8
Current portion of long-term debt	9.8	5.7	4.1
Other current liabilities	10.7	12.1	(1.4)
Total current liabilities	**176.5**	**129.0**	**47.5**
Long-term debt	489.2	449.9	39.3
Other non-current liabilities	106.1	91.5	14.6
Total non-current liabilities	**595.3**	**541.4**	**53.9**
Total liabilities	**771.8**	**670.4**	**101.4**

Note: Numbers may not add exactly due to rounding.

The value of current liabilities was $176.5 million as at September 30, 2018, versus $129.0 million as at December 31, 2017. This variation is primarily attributable to a $44.8 million increase in accounts payable and accrued liabilities when compared to the fourth quarter of 2017. This is a result of greater business activity in the third quarter of 2018, coupled with the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $499.0 million as at September 30, 2018, versus $455.6 million as at December 31, 2017. The increase mainly reflects higher working capital requirements, financing required for the acquisitions of PFP and WP, higher capital expenditures as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at September 30, 2018, an amount of $266.1 million was available against the Company's syndicated credit facilities of $550.2 million (US$425.0 million). The Company's syndicated credit facilities are made available for a five-year term and thus considered long-term debt.

As at September 30, 2018, the Company is in full compliance with its debt covenants and contractual obligations.

Shareholders' equity

Shareholders' equity reached $1.24 billion as at September 30, 2018 compared with $1.12 billion as at December 31, 2017. This variation reflects an increase in retained earnings and accumulated other comprehensive income, as detailed below.

Shareholders' Equity (in millions of dollars)	**As at September 30, 2018**	**As at December 31, 2017**	**Variance**
Capital Stock	221.4	220.5	0.9
Contributed surplus	0.3	0.3	-
Retained earnings	902.5	809.0	93.5
Accumulated other comprehensive income	114.2	85.8	28.4
Total shareholders' equity	**1,238.4**	**1,115.5**	**122.8**

Note: Numbers may not add exactly due to rounding.

The increase is attributable to net income of $117.0 million during the first nine months of 2018 and a $28.4 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations, partially offset by dividends of $25.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (millions of dollars)	**Three-month periods ended**		**Nine-month periods ended**	
	Sept. 30, 2018	**Sept. 30, 2017**	**Sept. 30, 2018**	**Sept. 30, 2017**
Operating activities	91.3	175.5	89.2	277.2
Financing activities	(81.0)	(150.2)	(1.1)	(231.0)
Investing activities	(10.3)	(11.9)	(94.5)	(34.3)
Net change in cash and cash equivalents during the period	-	13.4	(6.4)	11.9
Cash and cash equivalents - beginning	-	2.2	6.4	3.7
Cash and cash equivalents - end	**-**	**15.6**	**-**	**15.6**

Note: Numbers may not add exactly due to rounding.

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, available cash, long-term debt and the issuance of common shares. The Company plans on spending up to $45.0 million on property, plant and equipment in 2018, half of which is related to efficiency improvements with the balance dedicated to sustaining operations.

Cash flows from operating activities

Cash flows provided by operating activities in the third quarter of 2018 was $91.3 million, versus $175.5 million for the corresponding period last year. This variation mainly reflects changes in non-cash working capital components, as detailed below.

Cash flow from operating activities (in millions of dollars)	**Q3-18**	**Q3-17**	**YTD Q3-18**	**YTD Q3-17**
Net income	45.8	42.0	117.0	116.8
Current income taxes expense	15.0	19.6	30.9	41.8
Deferred income taxes	2.3	(2.8)	12.2	4.7
Other	16.4	13.8	46.1	42.9
Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid	**79.5**	**72.6**	**206.2**	**206.2**
Accounts receivable	8.2	55.4	(137.1)	(72.6)
Inventories	30.2	58.3	47.0	143.3
Prepaid expenses	(4.5)	(4.5)	(19.4)	(1.4)
Accounts payable and accrued liabilities	(5.6)	11.0	43.7	45.2
Other	(1.0)	(3.6)	(4.6)	(7.9)
Changes in non-cash working capital components	**27.3**	**116.6**	**(70.4)**	**106.6**
Interest paid	(6.3)	(6.0)	(15.8)	(13.8)
Income taxes paid	(9.2)	(7.7)	(30.9)	(21.8)
Cash flow from operating activities	**91.3**	**175.5**	**89.2**	**277.2**

Note: Numbers may not add exactly due to rounding.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $79.5 million in the third quarter of 2018, compared with $72.6 million for the corresponding period last year. This increase mostly reflects higher net income and deferred income taxes.

Changes in non-cash working capital components increased liquidity by $27.3 million in the third quarter of 2018. This was mainly due to a decrease in inventory, reflecting the tight supply of untreated railway ties. In the third quarter of 2017, changes in non-cash working capital components had increased liquidity by $116.6 million.

Interest and income taxes paid reduced liquidity by $6.3 million and $9.2 million, respectively, in the third quarter of 2018. This compares with interest paid of $6.0 million and income taxes paid of $7.7 million in the corresponding period last year.

For the first nine months of 2018, cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid stood at $206.2 million in line with the corresponding period last year. Changes in non-cash working capital components reduced liquidity by $70.4 million in the first nine months of 2018, compared with an increase in liquidity of $106.6 million in the first nine months of 2017. Interest and income taxes paid further reduced liquidity by $15.8 million and $30.9 million, respectively, in the first nine months of 2018, compared with liquidity reductions of $13.8 million and $21.8 million, respectively, a year earlier. As a result, cash flows from operating activities generated $89.2 million in the first nine months of 2018, versus $277.2 million in the corresponding period last year.

Cash flows from financing activities

Financing activities for the third quarter of 2018 reduced liquidity by $81.0 million, primarily related to a $72.0 million reduction in borrowings on the syndicated credit facilities, as the Company used its solid operating cash flow to reduce debt. For the third quarter of 2017, financing activities reduced liquidity by $150.2 million, mainly due to a $142.2 million reduction in borrowings on the syndicated credit facilities.

Cash flow from financing activities (in millions of dollars)	**Q3-18**	**Q3-17**	**YTD Q3-18**	**YTD Q3-17**
Net change in syndicated credit facilities	(72.0)	(142.2)	29.8	(392.1)
Increase in long-term debt	-	-	-	195.9
Dividends on common shares	(8.3)	(7.6)	(25.0)	(22.9)
Other	(0.7)	(0.4)	(5.9)	(11.9)
Cash flow from financing activities	**(81.0)**	**(150.2)**	**(1.1)**	**(231.0)**

Note: Numbers may not add exactly due to rounding.

For the first nine months of 2018, financing activities reduced liquidity slightly by $1.1 million, compared to a reduction in liquidity of $231.0 million in the first nine months of 2017.

Cash flows from investing activities

Investing activities used $10.3 million in liquidity in the third quarter of 2018, slightly down from the $11.9 million in the corresponding period last year, as detailed below.

Cash flow from investing activities (in millions of dollars)	**Q3-18**	**Q3-17**	**YTD Q3-18**	**YTD Q3-17**
Business acquisitions	-	-	(54.5)	-
Purchase of property, plant and equipment	(11.2)	(12.1)	(38.2)	(32.7)
Other	0.9	0.2	(1.8)	(1.7)
Cash flow from investing activities	**(10.3)**	**(11.9)**	**(94.5)**	**(34.4)**

Note: Numbers may not add exactly due to rounding.

For the first nine months of 2018, investing activities reduced liquidity by $94.5 million, driven by the PFP and WP acquisitions as well as purchases of property, plant and equipment of $38.2 million. This compares to a reduction in liquidity of $34.4 million from investing activities for the same period in 2017, explained in most part by purchases of property, plant and equipment of $32.7 million.

Financial Obligations

The following table details the maturities of the financial obligations as at September 30, 2018:

Financial Obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flow**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	156.0	156.0	156.0	-	-	-
Long-term debt obligations	499.0	591.0	26.0	51.9	300.9	212.2
Minimum payments under operating lease obligations	-	103.2	26.1	36.0	19.1	22.0
Non-compete agreements	4.3	4.7	1.8	2.9	-	-
Financial Obligations	**659.3**	**854.9**	**209.9**	**90.8**	**320.0**	**234.2**

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2018, the capital stock issued and outstanding consisted of 69,364,204 common shares (69,342,095 as at December 31, 2017). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2018:

Number of shares (in thousands)	**Three-month Period Ended September 30, 2018**	**Nine-month Period Ended September 30, 2018**
Balance – Beginning of period	69,356	69,342
Employee share purchase plans	8	22
Balance – End of period	**69,364**	**69,364**

As at November 1, 2018, the capital stock issued and outstanding consisted of 69,364,204 common shares.

As at September 30, 2018, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 45,000 (December 31, 2017 – 45,000) of which 33,000 (December 31, 2017 – 33,000) were exercisable. As at November 1, 2018, the number of outstanding options was 45,000, of which 33,000 were exercisable.

DIVIDENDS

On November 1, 2018, the Board of Directors declared a quarterly dividend of $0.12 per common share payable on December 20, 2018 to shareholders of record at the close of business on December 3, 2018. This dividend is designated to be an eligible dividend.

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

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2017 Annual Report.

RISKS AND UNCERTAINTIES

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

SIGNIFICANT ACCOUNTING POLICIES

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

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and CPA Canada Handbook Part I.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

Impact of new accounting pronouncements

IFRS 15 – *Revenue from Contracts with Customers*
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. The adoption of this new standard had no significant impact on the Company's interim consolidated financial statements and the new accounting policy was defined as follows:

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

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

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

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

A receivable is recognized when the control of the Product is transferred because it is at this point in time that the consideration becomes unconditional since only the passage of time remains before payment is due.

IFRS 9 – *Financial Instruments*
The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. The adoption of this new standard had no significant impact on the Company's interim consolidated financial statements and the new accounting policy was defined as follows:

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

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

a) Amortized cost—a financial asset is measured at amortized cost if both of the following conditions are met:
   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

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

Impact of new accounting pronouncement not yet implemented

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. Under the new standard the Company will recognize, in the statement of financial position, an asset (the right to use the leased items), equivalent to the actualized cash flows of the future minimum payments, and a corresponding financial liability.

The following table outlines the key areas that will be impacted by the adoption of IFRS 16:

Impacted areas of the business	Analysis	Impact
Financial Reporting	The analysis includes determining which contracts will be in scope as well as the options available under the new standard, such as whether to early adopt the two recognition and measurement exemptions and whether to apply the new standard on a full retrospective application in accordance with IAS 8 or retrospectively without restatement of comparative amounts.	The Corporation is in the process of analyzing the full impact of the adoption of IFRS 16 on the Company's consolidated statement of financial position and consolidated statement of income and comprehensive income. As at September 30, 2018, the Corporation intends to adopt IFRS 16 for its fiscal year beginning January 1, 2019 retrospectively without restatement of comparative amounts and to use the exemptions for short-term leases and leases for which the underlying asset is of low value.
Information systems	The Company is analyzing the need to make changes within its information systems environment to optimize the management of more than 700 leases that will fall within the scope of the new standard.	The Company has chosen an IT solution for the eventual recognition and measurement of leases in scope. Integration testing began in the third quarter of Fiscal 2018 and the implementation will be completed before the end of the fourth quarter of Fiscal 2018.
Internal controls	The Company will be performing an analysis of the changes to the control environment as a result of the adoption of IFRS 16.	The Company is currently evaluating the impact of IFRS 16 on its control environment.
Stakeholders	The Company will be performing an analysis of the impact on the disclosure to its stakeholders as a result of the adoption of IFRS 16.	The Company has begun discussing the impact of IFRS 16 to internal and external stakeholders.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at September 30, 2018 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at September 30, 2018.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from July 1, 2018 to September 30, 2018 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

The Company's railway tie and utility pole product categories are essential components of the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained, which provides Stella-Jones with relatively steady demand for these products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

For 2018, based on current market conditions and assuming stable currencies, Management expects higher year-over-year overall sales for Stella-Jones driven by stronger pricing as well as increased market reach for the residential lumber and the utility pole product categories. Operating margins are improving thus far in the second half of 2018 when compared to the first half of the year. However, the progression of operating margins in the fourth quarter of 2018 will continue to be impacted by higher untreated railway tie costs until sales prices can be adjusted. The Company plans on spending up to $45.0 million on property, plant and equipment in 2018, driven by capacity enhancement projects and its overall effective tax rate is expected to be approximately 27.0%.

In the railway tie product category, North American railroads will continue to maintain their continental rail network, as operators constantly seek optimal line efficiency. Sales for the first half of 2018 were impacted by softer pricing and the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program. Pricing started to improve in the third quarter of 2018 but related margin gains were partially offset by rapidly increasing costs of untreated railway ties due to the tightening of supply. This trend should continue in the fourth quarter. Management expects that this raw material cost increase, combined with a tighter market supply, will lead to continued upward selling price adjustments for the quarters ahead. As a result, these pricing adjustments should have a positive effect on sales and margins in 2019.

In the utility pole product category, demand for regular maintenance projects has historically been relatively steady. Sales for the first nine months of 2018 benefited from both pricing adjustments and strong demand. Management expects that this trend will be maintained for the remainder of the year. In 2019, Management expects strong demand for replacement programs and increased project-based sales. As a result, sales and margins are expected to improve year-over-year.

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. For the first nine months of the year, sales benefited from both market demand and increased pricing driven by higher wood costs. The effect of adjusting residential lumber selling prices as a result of higher wood costs had a slight downward impact on operating margins as a percentage of sales. It is important to note that Management closely monitors variations in these commodity prices, and adjusts its procurement practices accordingly, in order to maintain dollar margins on similar volume. For 2019, Management expects continued strong demand for this product category.

It is important to highlight that sales for the logs and lumber product category, an activity used to optimize procurement and which does not generate margin, is fairly tied to the price of lumber. Therefore, an increase in the price of lumber will lead to higher sales but lower overall margins when taken as a whole with other product categories and vice versa.

For 2019, based on current market conditions and assuming stable currencies, Management expects higher year-over-year overall sales for Stella-Jones driven by stronger pricing in some product categories as well as increased market reach for utility poles and residential lumber product categories. Operating margins are expected to improve over 2018 primarily driven by increased pricing for railway ties and higher volume and improved product mix for utility poles.

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

In the short-term, the Company will focus on integrating the PFP and WP acquisitions as well as optimizing operating capacity and minimizing costs throughout the organization. Cash generation and maintaining a prudent use of leverage remain priorities for Management. The solid cash flows provided from 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 synergies, and add value for shareholders.

November 1, 2018