Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS 2018 FIRST QUARTER RESULTS

Annual meeting of shareholders later this morning

- **Sales increased 0.5% to $398.8 million, organic growth up 3.8%**
- **Diluted EPS decreased 10.8% to $0.33**
- **Maintained a solid financial position with a total debt to EBITDA ratio of 2.4x**
- **Acquired Prairie Forest Products, located in Manitoba**
- **Acquired Wood Preservers Incorporated, located in Virginia, following the end of the quarter**

Montreal, Quebec – May 3, 2018 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its first quarter ended March 31, 2018.

"First quarter results were in line with our expectations. Our railway ties category continued to face headwinds from pricing pressures, while sales in our utility pole product category increased on replacement programs and our residential lumber category benefited from an increased pricing environment. We continued to follow our strategy of continental expansion with two tuck-in acquisitions, which further reinforced the reliability of our production network and increased our distribution capabilities. Looking forward, we continue to expect sales and operating margins to improve progressively in 2018, when compared to last year, with operating margins stronger in the second half," said Brian McManus, President and Chief Executive Officer.

Financial Highlights (in millions of Canadian dollars, except per share data)	**Q1-18**	**Q1-17**
Sales	398.8	396.9
EBITDA	43.4	49.1
Operating income	35.5	40.8
Net income for the period	23.1	25.9
Per share – basic and diluted ($)	0.33	0.37
Weighted average shares outstanding (basic, in '000s)	69,343	69,306

FIRST QUARTER RESULTS

Sales reached $398.8 million, an increase of 0.5%, when compared to $396.9 million for the same period last year. Acquisitions contributed sales of approximately $3.1 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a negative impact of $16.1 million. Excluding these factors, sales increased approximately $14.9 million, or 3.8%.

Railway tie sales amounted to $146.4 million, down 7.6%, as compared to sales of $158.5 million for the same period last year. Excluding the conversion effect, railway tie sales decreased approximately $4.9 million, or 3.1%, primarily as a result of continued pricing pressures in certain regions and low railcar availability which limited shipments. Additionally, railway tie sales were impacted by lower sales from a Class 1 railroad customer which commenced the depletion of its inventory in preparation for a transition from a "treating service only" program to a full service "black-tie" program.

Utility pole sales reached $153.0 million, up 1.3%, as compared to sales of 151.0 million for the same period last year. Excluding the contribution from acquisitions and the currency conversion effect, sales increased approximately $8.0 million, or 5.3%, driven by higher volume for replacement programs.

Sales in the residential lumber category totalled $50.3 million, up 30.3%, as compared to sales of $38.6 million for the same period last year. This significant increase is primarily explained by higher selling prices, as a result of higher lumber costs passed through to customers, and to a lesser extent, to increased volume.

Industrial product sales reached $20.8 million, down 5.2% as compared to sales of $21.9 million for the same period last year. Excluding the contribution from acquisitions and the currency conversion effect, sales decreased 2.6%, mainly due to the timing of projects related to bridges and timber.

Logs and lumber sales amounted to $28.3 million, up 5.4%, as compared to sales of $26.9 million for the same period last year. This variation reflects higher selling prices due to increased lumber costs.

Operating income stood at $35.5 million, or 8.9% of sales, compared with $40.8 million, or 10.3% of sales in the first quarter of the previous year. The decrease in absolute dollars is explained in most part, by the Company supporting the transition of a Class 1 railroad customer from a “treating services only” program to a full service “black-tie” program. To accelerate this transition, the Company acquired untreated railway ties from the Class 1 customer which increased cost of sales once these ties were treated and sold. Moreover, cost of sales was slightly impacted by increasing utility pole fiber costs which will be mitigated as selling prices will progressively be adjusted over the coming months. These cost increases were partially offset by the effect of currency translation.

Net income for the first quarter of 2018 was $23.1 million, or $0.33 per diluted share, down from $25.9 million, or $0.37 per diluted share, in the first quarter of 2017.

ACQUISITIONS

On February 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of Prairie Forest Products (“PFP”), a division of Prendiville Industries Ltd. located at its wood treating facility in Neepawa, Manitoba, as well as at its peeling facility in Birch River, Manitoba. PFP manufactures treated wood utility poles as well as treated residential lumber. Total cash outlay associated with the acquisition was approximately $26.5 million. The Company financed the acquisition through its existing syndicated credit facilities.

SUBSEQUENT EVENT

On April 9, 2018 the Company completed the acquisition of substantially all the operating assets employed in the business of Wood Preservers Incorporated (“WP”), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation piling and treated wood utility poles. Sales for the twelve-month period ended December 31, 2016 were approximately US$34.6 million. Total cash outlay associated with the acquisition was approximately $27.5 million. The Company financed the acquisition through its existing syndicated credit facilities

SOLID FINANCIAL POSITION

As at March 31, 2018, the Company’s long-term debt, including the current portion, stood at $565.4 million compared with $455.6 million three months earlier. The increase mainly reflects higher working capital requirements, as per normal seasonal demand patterns, financing required for the PFP acquisition as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at March 31, 2018, Stella-Jones’ total debt to EBITDA was 2.4x, up from 1.9x three months earlier.

QUARTERLY DIVIDEND OF $0.12 PER SHARE

On May 2, 2018, the Board of Directors declared a quarterly dividend of $0.12 per common share, payable on June 27, 2018 to shareholders of record at the close of business on June 6, 2018.

OUTLOOK

While operating margins will remain softer in the first half of 2018, we anticipate sales and operating margins to improve progressively in 2018. Railway tie sales should be relatively stable and softer pricing may further impact margins in the first half of the year, which should gradually return to historical levels by the end of the year. In the utility pole product category, while we anticipate a better sales mix in 2018, we expect it will be offset by slight cost increases for certain wood species and the timing of price adjustments. As for residential lumber, we expect to further benefit from continued demand for new construction and outdoor renovation projects in North America, while sales should also rise as pricing continues to reflect higher wood costs. Stella-Jones will also benefit from an overall lower effective tax rate of about 26.0%. In keeping with our proven capital allocation strategy, cash flow will be used to reduce debt, invest in working capital and our existing network, while sustaining an optimal dividend policy and exploring expansion opportunities that create lasting shareholder value.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on May 3, 2018, at 1:30 PM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 5768978. This recording will be available on Thursday, May 3, 2018 as of 4:30 PM Eastern Time until 11:59 PM Eastern Time on Thursday, May 10, 2018.

NON-IFRS FINANCIAL MEASURES

EBITDA (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 these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance.

ABOUT STELLA-JONES

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

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

NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the first quarter ended March 31, 2018 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
May 2, 2018

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2018 and 2017

Stella-Jones Inc.
Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at March 31, 2018 $	As at December 31, 2017 $
Assets			
Current assets			
Cash		-	6,430
Restricted cash	3	1,500	-
Accounts receivable		221,727	163,458
Derivative financial instruments	6	437	473
Inventories		801,899	718,462
Prepaid expenses		29,438	18,435
Income taxes receivable		1,036	1,122
		1,056,037	908,380
Non-current assets			
Property, plant and equipment		495,428	472,041
Intangible assets		123,669	124,364
Goodwill		288,052	270,261
Derivative financial instruments	6	9,125	6,173
Other assets		4,357	4,761
		1,976,668	1,785,980
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		149,803	111,206
Current portion of long-term debt	4	5,847	5,695
Current portion of provisions and other long-term liabilities		12,648	12,114
		168,298	129,015
Non-current liabilities			
Long-term debt	4	559,570	449,945
Deferred income taxes		75,209	72,408
Provisions and other long-term liabilities		11,300	11,392
Employee future benefits		6,881	7,675
		821,258	670,435
Shareholders' equity			
Capital stock	5	220,744	220,467
Contributed surplus		312	298
Retained earnings		824,601	809,022
Accumulated other comprehensive income		109,753	85,758
		1,155,410	1,115,545
		1,976,668	1,785,980
Subsequent events	9		

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

Stella-Jones Inc.
Interim Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
For the three-month periods ended March 31, 2018 and 2017

(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	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2018	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545
Comprehensive income (loss)								
Net income for the period	-	-	23,066	-	-	-	-	23,066
Other comprehensive income (loss)	-	-	835	31,989	(10,185)	2,191	23,995	24,830
Comprehensive income (loss) for the period	-	-	23,901	31,989	(10,185)	2,191	23,995	47,896
Dividends on common shares	-	-	(8,322)	-	-	-	-	(8,322)
Employee share purchase plans	277	-	-	-	-	-	-	277
Stock-based compensation	-	14	-	-	-	-	-	14
	277	14	(8,322)	-	-	-	-	(8,031)
Balance – March 31, 2018	220,744	312	824,601	182,609	(79,606)	6,750	109,753	1,155,410

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity…*continued*
(Unaudited)
For the three-month periods ended March 31, 2018 and 2017

(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**	**Unrealized gains on cash flow hedges**	**Total**	**Total shareholders' equity**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2017	219,119	258	672,620	223,124	(92,532)	3,829	134,421	1,026,418
Comprehensive income (loss)								
Net income for the period	-	-	25,898	-	-	-	-	25,898
Other comprehensive income (loss)	-	-	169	(10,254)	1,154	499	(8,601)	(8,432)
Comprehensive income (loss) for the period	-	-	26,067	(10,254)	1,154	499	(8,601)	17,466
Dividends on common shares	-	-	(7,625)	-	-	-	-	(7,625)
Exercise of stock options	146	(47)	-	-	-	-	-	99
Employee share purchase plans	283	-	-	-	-	-	-	283
Stock-based compensation	-	28	-	-	-	-	-	28
	429	(19)	(7,625)	-	-	-	-	(7,215)
Balance – March 31, 2017	219,548	239	691,062	212,870	(91,378)	4,328	125,820	1,036,669

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

Stella-Jones Inc.
Interim Consolidated Statements of Income
(Unaudited)
For the three-month periods ended March 31, 2018 and 2017

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

	Note	2018 $	2017 $
Sales		398,790	396,946
Expenses			
Cost of sales		342,321	333,113
Selling and administrative		22,203	22,809
Other losses (gains), net		(1,210)	176
		363,314	356,098
Operating income		35,476	40,848
Financial expenses		4,340	4,796
Income before income taxes		31,136	36,052
Provision for income taxes			
Current		5,850	8,458
Deferred		2,220	1,696
		8,070	10,154
Net income for the period		23,066	25,898
Basic earnings per common share	5	0.33	0.37
Diluted earnings per common share	5	0.33	0.37

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income

(Unaudited)

For the three-month periods ended March 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	2018 $	2017 $
Net income for the period	23,066	25,898
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Net change in gains (losses) on translation of financial statements of foreign operations	31,989	(10,699)
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	-	445
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(11,692)	1,328
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	1,507	(174)
Change in gains on fair value of derivatives designated as cash flow hedges	2,978	677
Income taxes on change in gains on fair value of derivatives designated as cash flow hedges	(787)	(178)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	1,120	230
Income taxes on remeasurements of post-retirement benefit obligations	(285)	(61)
	24,830	(8,432)
Comprehensive income	47,896	17,466

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

Stella-Jones Inc.

Interim Consolidated Statements of Cash Flows

(Unaudited)

For the three-month periods ended March 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Note	2018 $	2017 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		23,066	25,898
Adjustments for			
Depreciation of property, plant and equipment		4,599	4,446
Amortization of intangible assets		3,282	3,779
Financial expenses		4,340	4,796
Current income taxes expense		5,850	8,459
Deferred income taxes		2,220	1,696
Restricted stock units expense		1,246	756
Other		367	527
		44,970	50,357
Changes in non-cash working capital components and others			
Accounts receivable		(54,355)	(36,173)
Inventories		(59,534)	(23,527)
Prepaid expenses		(10,505)	4,245
Income taxes receivable		7	(4)
Accounts payable and accrued liabilities		28,465	21,390
Asset retirement obligations		(1,388)	(109)
Provisions and other long-term liabilities		(385)	(347)
		(97,695)	(34,525)
Interest paid		(6,069)	(4,799)
Income taxes paid		(5,781)	(3,798)
		(64,575)	7,235
Financing activities			
Increase in deferred financing costs		(255)	(717)
Net change in syndicated credit facilities		96,520	(189,797)
Increase in long-term debt		-	195,870
Repayment of long-term debt		(186)	(110)
Net change in non-competes payable		-	(327)
Proceeds from issuance of common shares		277	382
		96,356	5,301
Investing activities			
Increase in other assets		(226)	(2,625)
Business acquisitions	3	(26,494)	-
Increase in intangible assets		(98)	(96)
Purchase of property, plant and equipment		(11,483)	(11,654)
Proceeds from disposal of assets		90	243
		(38,211)	(14,132)
Net change in cash and cash equivalents during the period		(6,430)	(1,596)
Cash and cash equivalents – Beginning of period		6,430	3,719
Cash and cash equivalents – End of period		-	2,123

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

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

1 Description of the business

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

2 Significant accounting policies

Basis of presentation

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

These condensed interim consolidated financial statements were approved by the Board of Directors on May 2, 2018.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2017, except as described below in the Changes in accounting policies section.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

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

Principles of consolidation

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

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc.	Stella-Jones Corporation	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
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
Stella-Jones U.S. Finance III Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. III L.L.C.	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

Changes in accounting policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

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.

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

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

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

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

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

IFRS 9 – Financial Instruments

The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and 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.

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

Financial assets

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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.

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

3 Business acquisition

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

Total cash outlay associated with the acquisition was approximately $26,494 of which $1,500 was deposited in an escrow account and will be paid to the seller on the second anniversary of the acquisition, assuming no applicable deductions. The total cash outlay does not include acquisition costs of approximately $425 of which $159 was recognized in the 2017 consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing these interim 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.

Assets acquired	**$**
Inventories	9,529
Property, plant and equipment	7,763
Goodwill	10,248
Deferred income tax assets	372
	27,912
Liabilities assumed	
Site remediation provision	1,418
Total net assets acquired and liabilities assumed	26,494
Consideration transferred	
Cash	24,994
Consideration payable	1,500
Consideration transferred	26,494

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

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

In the period from February 9 to March 31, 2018, sales and net loss for the Neepawa plant amounted to $3,062 and $49, respectively. Pro forma information for the three-month period ended March 31, 2018, had the PFP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first month of the year.

4 Long-term debt

On March 15, 2018, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2023. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, and amended on May 18, 2016 (the "Credit Agreement"). The amendment also increases the accordion option, made available by the Credit Agreement, from US$125,000 to US$350,000. This option applies to the unsecured revolving credit facility and is made available upon request. Finally, the definition of total debt used in the Credit Agreement for ratio calculation purposes, was amended to consider cash and cash equivalent balances up to a maximum of US$75 000. All the conditions of the Credit Agreement, other than these modifications, remain unchanged.

5 Capital stock

The following table provides the number of common share outstanding for the three-month periods ending March 31:

	2018	2017
Number of common shares outstanding – Beginning of period*	69,342	69,303
Stock option plan*	-	10
Employee share purchase plans*	7	8
Number of common shares outstanding – End of period*	69,349	69,321

* Number of common shares is presented in thousands.

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

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, as at March 31, between basic earnings per common share and diluted earnings per common share:

	2018	**2017**
Net income applicable to common shares	$23,066	$25,898
Weighted average number of common shares outstanding*	69,343	69,306
Effect of dilutive stock options*	8	13
Weighted average number of diluted common shares outstanding*	69,351	69,319
Basic earnings per common share **	$0.33	$0.37
Diluted earnings per common share **	$0.33	$0.37

* Number of shares is presented in thousands.

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

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

6 Fair value measurement and financial instruments

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

	As at March 31, 2018	As at December 31, 2017
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	$	$
Recurring fair value measurements		
Current assets		
Derivative commodity contracts	437	473
	437	473
Non-current assets		
Interest rate swap agreements	9,125	6,173
	9,125	6,173

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

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

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The

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

fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value of $565,417 (December 31, 2017 – $455,640) and a fair value of $559,960 (December 31, 2017 – $453,478).

7 Seasonality

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

8 Segment information

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

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

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

Operating plants are located in six 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 for the three-month periods ended March 31 are as follows:

	2018	2017
	$	$
Canada	99,789	91,268
U.S.	299,001	305,678
	398,790	396,946

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

Sales by product for the three-month periods ended March 31 are as follows:

	2018	**2017**
	$	**$**
Pressure-treated wood		
Railway ties	146,438	158,500
Utility poles	152,908	151,010
Residential lumber	50,330	38,632
Industrial products	20,767	21,900
Logs and lumber	28,347	26,904
	398,790	396,946

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

	As at March 31, 2018	**As at December 31, 2017**
Property, plant and equipment		
	$	**$**
Canada	128,542	120,804
U.S.	366,886	351,237
	495,428	472,041
Intangible assets		
	$	**$**
Canada	23,328	23,989
U.S.	100,341	100,375
	123,669	124,364
Goodwill		
	$	**$**
Canada	25,550	14,864
U.S.	262,502	255,397
	288,052	270,261

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

9 Subsequent events

a) On April 9, 2018, the Company completed the acquisition of substantially all the operating assets employed in the business of Wood Preservers Incorporated ("WP"), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation piling and treated wood utility poles. Sales for the twelve-month period ended December 31, 2016 were approximately US$34,625. The Company acquired WP for synergistic reasons.

   Total cash outlay associated with the acquisition was approximately $27,506 (US$21,609) of which $3,137 (US$2,500) was deposited in an escrow account and will be paid to the seller on the third anniversary of the acquisition, assuming no applicable deductions. The total cash outlay transferred does not include acquisition costs of approximately $137 recognized in the interim consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

   At the time of preparing these interim consolidated financial statements, Management did not have on hand all the required information to determine the fair value of assets acquired and liabilities assumed. Preliminary information indicates that property plant and equipment and inventory represent approximately $18,328 and $7,637, respectively, from the total purchase price of $27,506.

b) On May 2, 2018, the Board of Directors declared a quarterly dividend of $0.12 per common share payable on June 27, 2018 to shareholders of record at the close of business on June 6, 2018.

10 Comparative figures

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