Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS 2018 FOURTH QUARTER AND ANNUAL RESULTS

Eighteenth consecutive year of sales growth

- **Sales increased 12.6% to $2.12 billion in fiscal 2018**
- **EBITDA up 0.5% to $244.4 million versus a year ago**
- **Net income and diluted EPS stood at $137.6 million and $1.98 per share for the year**
- **Quarterly dividend increased by 16.7% to $0.14 per share**
- **Solid financial position maintained with a total debt to EBITDA ratio of 2.1x**

Montreal, Quebec – March 15, 2019 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its fourth quarter and fiscal year ended December 31, 2018.

"We finished the year with very solid results. Sales for the quarter increased 14.7% to $432.8 million and EBITDA increased 10.0% to $41.8 million, despite a $7.9 million non-cash mark-to-market loss on derivative commodity contracts. For the year, sales amounted to $2.1 billion and increased in all product categories, driven by a combination of sales price increases, market demand and acquisitions. Our EBITDA was up marginally for the year, while our net income was down primarily due to a one-off non-cash tax benefit resulting from the U.S. tax reform in 2017. Stella-Jones remains in a very healthy financial position and today announced a dividend increase, for the fifteenth consecutive year.

Looking to 2019, based on current market conditions, currencies and lumber prices, we expect Stella-Jones to generate higher year-over-year sales and margin improvement. As always, we will continue to remain focused on optimizing our operations across the organization while diligently seeking market opportunities in all product categories," said Brian McManus, President and Chief Executive Officer.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	**Q4-18**	**Q4-17**	**Fiscal 2018**	**Fiscal 2017**
Sales	432.8	377.4	2,123.9	1,886.1
EBITDA	41.8	38.0	244.4	243.1
EBITDA margin (%)	9.7%	10.1%	11.5%	12.9%
Operating income	31.8	29.0	206.3	207.4
Net income for the period	20.6	51.1	137.6	167.9
Per share – basic and diluted ($)	0.30	0.74	1.98	2.42
Weighted average shares outstanding (basic, in '000s)	69,358	69,336	69,352	69,324

2018 RESULTS

Sales for the year ended December 31, 2018 reached $2,123.9 million, up 12.6% versus last year's sales of $1,886.1 million. Acquisitions contributed sales of approximately $60.5 million, while the currency conversion effect had a negative impact of $12.9 million. Excluding these factors, sales increased approximately $190.2 million, or 10.1%.

Railway tie sales for 2018 amounted to $662.4 million, representing an increase of 1.7%, from sales of $651.5 million in 2017. The currency conversion effect decreased sales by about $6.9 million. Excluding the currency conversion effect, railway tie sales increased approximately $17.8 million, or 2.7%, primarily as a result of price increases in the second half of the year, partially offset 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 in the first half of the year.

Utility pole sales reached $725.0 million in 2018, up 10.9% from sales of $654.0 million in 2017. Acquisitions contributed sales of $1.4 million, while the currency conversion effect decreased sales by about $3.4 million. Excluding the contribution from acquisitions and the currency conversion effect, utility pole sales increased approximately $73.0 million, or 11.2%, primarily driven by increased sales in the U.S. Southeast, increased projects related to transmission poles, healthy demand for replacement programs and increased sales prices.

Sales in the residential lumber category totalled $474.7 million in 2018, up 29.6% from sales of $366.2 million in 2017. Acquisitions contributed sales of approximately $43.9 million, while the currency conversion effect decreased sales by about $1.7 million when compared with 2017. Excluding these factors, residential lumber sales increased approximately $66.3 million, or 18.1%. This favourable variance is primarily explained by higher selling prices as a result of higher lumber costs passed through to customers and to increased volume due to the Company's expanding market presence.

Industrial product sales reached $109.0 million in 2018, compared with $94.5 million last year. Acquisitions contributed sales of approximately $14.4 million, while the currency conversion effect decreased sales by about $0.9 million when compared with 2017. Excluding the contribution from acquisitions and the currency conversion effect, sales increased 1.1%, explained in most part by demand for rail-related products and projects requiring laminated products, partially offset by lower demand for bridges and timbers.

Sales in the logs and lumber product category totalled $152.8 million in 2018, compared with $119.9 million in 2017. Excluding the contribution from acquisitions, sales for this product category increased 26.8%. This significant variance reflects higher selling prices due to higher lumber costs coupled with increased harvesting activities to procure raw material to support strong pole sales.

Operating income was $206.3 million, or 9.7% of sales, compared with $207.4 million, or 11.0% of sales, in 2017. While operating income in absolute dollars is in line with last year, it is lower on a percentage of sales basis. The decrease as a percentage of sales is mainly attributable to the Company supporting the transition of a Class 1 railroad customer from a "treating services only" program to a full service "black-tie" program in the first half of the year. To accelerate this transition, the Company acquired untreated railway ties from the Class 1 railroad customer which increased cost of sales once these ties were treated and sold. Operating income was also negatively impacted by the increasing cost of untreated railway ties and certain untreated species of poles combined with the lag effect of passing these increases to customers. In addition, the higher lumber costs for the year, which were passed through to customers via higher selling prices, have contributed to increased cost of sales in the residential product category but have also put downward pressure on margins as a percentage of sales.

Net income for 2018 decreased 18.0% to $137.6 million, or $1.98 per diluted share, down from $167.9 million, or $2.42 per diluted share, in 2017. The year-over-year decrease is primarily explained by a one-off non-cash tax benefit of $30.0 million, recorded in the fourth quarter of 2017, resulting from the remeasurement of deferred tax liabilities following a reduction in the U.S. top federal corporate income tax rate.

FOURTH QUARTER RESULTS
Sales for the fourth quarter of 2018 amounted to $432.8 million, up 14.7% from sales of $377.4 million for the same period in 2017. Acquisitions contributed sales of approximately $11.4 million, while the conversion effect had a positive impact of $9.0 million on sales. Excluding these factors, sales increased approximately $35.0 million, or 9.3%.

Sales of railway ties reached $127.0 million, versus $118.0 million last year. Excluding the currency conversion effect, railway tie sales rose 4.8%, driven by price increases. Utility pole sales amounted to $192.0 million, up 17.9% from $162.9 million last year. Excluding the contribution from acquisitions and the currency conversion effect, sales grew 15.0% as a result of greater market reach in the U.S. Southeast, increased project activity requiring transmission poles, healthy demand for replacement programs and requirements following the California wildfires in late 2018. Residential lumber sales reached $60.3 million, up from $48.6 million last year. Excluding the contribution from acquisitions and the currency conversion effect, sales grew 8.0%, reflecting stronger volume in Canada, partially offset by lower selling prices in the U.S. Industrial product sales amounted to $23.1 million, up from $20.0 million a year ago. Excluding acquisitions and the currency conversion effect, sales decreased 6.0% as a result of lower bridge and timber demand. Finally, logs and lumber sales stood at $30.4 million, versus $27.9 million last year. Excluding the currency conversion effect, sales grew 7.9%, driven, in most part, by heightened pole procurement efforts to support the utility pole product category, partially offset by lower selling prices on lumber.

Gross profit amounted to $67.0 million, or 15.5% of sales, in the fourth quarter of 2018, versus $53.5 million, or 14.2% of sales, in the fourth quarter of 2017. The increase as a percentage of sales mainly reflects better year-over-year overhead absorption driven by greater production activity while product margins were comparable to the previous year. Operating income totalled $31.8 million, or 7.4% of sales, in the fourth quarter of 2018, versus $29.0 million, or 7.7% of sales, last year and was impacted by a non-cash loss of $7.9 million related to the mark-to-market fair value of diesel and petroleum derivative commodity contracts.

Net income for the period reached $20.6 million, or $0.30 per diluted share, compared with $51.1 million, or $0.74 per diluted share, in the prior year. The year-over-year decrease is attributable to a one-off non-cash tax benefit in the fourth quarter of 2017, stemming from the remeasurement of deferred tax liabilities following a reduction in the U.S. top federal corporate income tax rate.

SOLID FINANCIAL POSITION
As at December 31, 2018, the Company's long-term debt, including the current portion, stood at $513.5 million compared with $455.6 million as at December 31, 2017. The increase mainly reflects higher working capital requirements, financing required for the acquisitions of Prairie Forest Products and Wood Preservers Incorporated, as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2018, Stella-Jones' total debt to EBITDA was 2.1x, up from 1.9x as at December 31, 2017.

QUARTERLY DIVIDEND INCREASED 16.7 % TO $0.14 PER SHARE
On March 14, 2019, the Board of Directors declared a quarterly dividend of $0.14 per share, representing an increase of 16.7 % over the previous quarterly dividend, on the outstanding common shares of the Corporation, payable on April 26, 2019 to shareholders of record at the close of business on April 5, 2019. This dividend is designated to be an eligible dividend.

OUTLOOK
For 2019, based on current market conditions and assuming stable currencies and the current level of lumber prices, Management expects higher year-over-year sales for Stella-Jones, driven by stronger pricing for railway ties and utility poles as well as increased market reach for the residential lumber and the utility pole product categories. Management also expects improved year-over-year margins across all product categories. Higher margins will be primarily driven by increased pricing and volume for railway ties coupled with improved product mix for utility poles. Furthermore, it is important to note that the 2019 EBITDA will be positively impacted by

the implementation of IFRS 16 while net income will be negatively impacted by higher financing expenses. The Company plans on spending a similar level of capital expenditures in 2019 as compared to 2018 ($51.6 million in 2018), which will include a plant expansion in Cameron, Wisconsin.

For additional details per product category, please refer to the Management's Discussion and Analysis for the years ended December 31, 2018 and 2017.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on March 15, 2019, at 10:00 AM 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 2087356. This recording will be available on Friday, March 15, 2019 as of 3:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, March 22, 2019.

NON-IFRS FINANCIAL MEASURES

EBITDA (operating income before depreciation of property, plant and equipment and amortization of intangible assets), operating income and operating margins 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. Please refer to the non-IFRS financial measures section in the Management's Discussion and Analysis.

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 fourth quarter ended December 31, 2018 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
March 14, 2019

Stella-Jones Inc.

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

Stella-Jones Inc.

Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2018 $	As at December 31, 2017 $
Assets			
Current assets			
Cash		-	6,430
Accounts receivable		192,380	163,458
Derivative financial instruments	6	-	473
Inventories		838,558	718,462
Income taxes receivable		1,882	1,122
Other current assets		35,567	18,435
		1,068,387	908,380
Non-current assets			
Property, plant and equipment		551,785	466,056
Intangible assets		131,658	130,349
Goodwill		298,270	270,261
Derivative financial instruments	6	7,545	6,173
Other non-current assets		4,559	4,761
		2,062,204	1,785,980
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		133,259	111,206
Derivative financial instruments	6	4,381	-
Current portion of long-term debt	4	9,714	5,695
Current portion of provisions and other long-term liabilities		12,016	12,114
		159,370	129,015
Non-current liabilities			
Long-term debt	4	503,767	449,945
Deferred income taxes		92,557	72,408
Provisions and other long-term liabilities		13,959	11,392
Employee future benefits		7,393	7,675
Derivative financial instruments	6	3,748	-
		780,794	670,435
Shareholders' equity			
Capital stock	5	221,328	220,467
Contributed surplus		348	298
Retained earnings		909,060	809,022
Accumulated other comprehensive income		150,674	85,758
		1,281,410	1,115,545
		2,062,204	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 twelve-month periods ended December 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	-	-	137,597	-	-	-	-	137,597
Other comprehensive income (loss)	-	-	927	101,529	(37,602)	989	64,916	65,843
Comprehensive income (loss) for the period	-	-	138,524	101,529	(37,602)	989	64,916	203,440
Dividends on common shares	-	-	(33,290)	-	-	-	-	(33,290)
Employee share purchase plans	1,330	-	-	-	-	-	-	1,330
Repurchase of common shares	(469)	-	(5,196)	-	-	-	-	(5,665)
Share-based compensation	-	50	-	-	-	-	-	50
	861	50	(38,486)	-	-	-	-	(37,575)
Balance – December 31, 2018	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410

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 twelve-month periods ended December 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income: 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	-	-	167,889	-	-	-	-	167,889
Other comprehensive income (loss)	-	-	(983)	(72,504)	23,111	730	(48,663)	(49,646)
Comprehensive income (loss) for the period	-	-	166,906	(72,504)	23,111	730	(48,663)	118,243
Dividends on common shares	-	-	(30,504)	-	-	-	-	(30,504)
Exercise of stock options	146	(47)	-	-	-	-	-	99
Employee share purchase plans	1,202	-	-	-	-	-	-	1,202
Share-based compensation	-	87	-	-	-	-	-	87
	1,348	40	(30,504)	-	-	-	-	(29,116)
Balance –December 31, 2017	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545

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

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

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

	Note	For the three-month periods ended December 31, 2018 $	2017 $	For the twelve-month periods ended December 31, 2018 $	2017 $
Sales		432,763	377,356	2,123,893	1,886,142
Expenses					
Cost of sales		365,721	323,896	1,809,733	1,586,263
Selling and administrative		25,581	24,234	98,995	93,828
Other losses (gains), net		9,617	224	8,864	(1,337)
		400,919	348,354	1,917,592	1,678,754
Operating income		31,844	29,002	206,301	207,388
Financial expenses		4,805	3,902	19,102	19,009
Income before income taxes		27,039	25,100	187,199	188,379
Provision for (recovery of) income taxes					
Current		8,086	(261)	39,018	41,566
Deferred		(1,622)	(25,755)	10,584	(21,076)
		6,464	(26,016)	49,602	20,490
Net income for the period		20,575	51,116	137,597	167,889
Basic earnings per common share	5	0.30	0.74	1.98	2.42
Diluted earnings per common share	5	0.30	0.74	1.98	2.42

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

Stella-Jones Inc.
Interim Consolidated Statements of Comprehensive Income
(Unaudited)

(expressed in thousands of Canadian dollars)

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2018 $	2017 $	2018 $	2017 $
Net income for the period	20,575	51,116	137,597	167,889
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	65,005	5,105	101,529	(81,920)
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	-	3,476	-	9,416
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(20,932)	(4,334)	(34,332)	29,332
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(5,362)	2,689	(3,270)	(6,221)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	(3,024)	1,905	1,372	1,026
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	820	(494)	(383)	(296)
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(643)	(570)	1,209	(737)
Income taxes on remeasurements of post-retirement benefit obligations	172	(291)	(282)	(246)
	36,036	7,486	65,843	(49,646)
Comprehensive income	56,611	58,602	203,440	118,243

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 twelve-month periods ended December 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		137,597	167,889
Adjustments for			
Depreciation of property, plant and equipment		21,086	19,078
Amortization of intangible assets		17,016	16,656
Loss on derivative financial instruments		8,601	770
Financial expenses		19,102	19,009
Current income taxes expense		39,018	41,566
Deferred income taxes		10,584	(21,076)
Restricted stock units expense		7,189	4,549
Other		2,060	(199)
		262,253	248,242
Changes in non-cash working capital components and others			
Accounts receivable		(13,230)	(11,026)
Inventories		(56,716)	100,683
Income taxes receivable		-	(2,746)
Accounts payable and accrued liabilities		13,428	16,694
Asset retirement obligations		(2,304)	(3,369)
Provisions and other long-term liabilities		(1,968)	(1,494)
Other current assets		(15,335)	4,380
		(76,125)	103,122
Interest paid		(18,693)	(15,797)
Income taxes paid		(39,371)	(34,454)
		128,064	301,113
Financing activities			
Increase in deferred financing costs		(255)	(1,132)
Net change in syndicated credit facilities		18,742	(391,796)
Increase in long-term debt		-	195,870
Repayment of long-term debt		(6,705)	(11,507)
Repayment of non-competes payable		(1,745)	(2,156)
Dividends on common shares		(33,290)	(30,504)
Repurchase of common shares		(4,038)	-
Proceeds from issuance of common shares		1,330	1,301
		(25,961)	(239,924)
Investing activities			
Increase in other assets		(836)	(710)
Business acquisitions	3	(54,491)	(5,792)
Addition of intangible assets		(4,028)	(2,080)
Purchase of property, plant and equipment		(51,568)	(50,572)
Proceeds from disposal of assets		2,390	676
		(108,533)	(58,478)
Net change in cash and cash equivalents during the period		(6,430)	2,711
Cash and cash equivalents – Beginning of period		6,430	3,719
Cash and cash equivalents – End of period		-	6,430

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. The Company 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 - Accounting, 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 March 14, 2019.

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	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 LLC	Stella-Jones U.S. Holding Corporation	United States
Kisatchie Midnight Express, L.L.C.	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 retrospective 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 and untreated wood products (the "Products"), as well as wood 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 considered to be transferred once the customer takes control of them, being either at the Company's manufacturing site or at the customer's location. Control of the Products refers to the ability to direct its use and obtain substantially all 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 manufacturing 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 the 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 a significant reversal will not occur. A liability is recognized for expected volume discounts payable to customers in relation to sales transacted to the end of the reporting period.

Product sales may also be subject to retrospective price discounts based on aggregate sales over a twelve-month period, according to 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 specified 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 control of the Products is transferred to the customer because it is at this point in time that the consideration becomes unconditional since only the passage of time remains 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 retrospective 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 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.

(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 investment in debt securities 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. 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)

Impact of accounting pronouncements not yet implemented

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The standard 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.

Under the new standard, the Company will recognize, in the statement of financial position, assets (right to use the leased assets) totaling approximately $119,000, equivalent to the discounted cash flows of the future minimum payments, and corresponding financial liabilities. The assets will be depreciated over the duration of the lease agreements, which has a weighted average of 78 months. The liabilities will be depleted upon contractual payment to the lessors and a corresponding financing expense will be recorded to the consolidated statement of income. The Company is currently assessing the impact of the new standard on its net income.

The Company will adopt IFRS 16 for its fiscal year beginning January 1, 2019 retrospectively without restatement of comparative amounts and will use the exemptions for short-term leases and leases for which the underlying asset is of low value.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- most likely amount: single most likely amount in a range of possible outcomes;
- expected value: sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company will not early adopt IFRIC 23 and does not expect a significant impact.

IFRS 3 – Business Combinations

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted.

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

3 Business acquisitions

a) 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 $27,506 (US$21,609), excluding acquisition costs of approximately $423 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 is also comprised of an unsecured promissory note bearing no interest and payable annually on the anniversary of the transaction in six instalments of US$500. This unsecured promissory note was recorded at a fair value of $3,339 (US$2,623), using an effective interest rate of 4.17%.

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

Assets acquired	**$**
Accounts receivable	3,923
Inventories	8,485
Property, plant and equipment	18,212
Customer relationships	242
Goodwill	1,061
	31,923
Liabilities assumed	
Deferred income tax liabilities	424
Total net assets acquired and liabilities assumed	31,499
Consideration transferred	
Cash	27,506
Consideration payable	654
Unsecured promissory note	3,339
Consideration transferred	31,499

The Company's valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 4.00%. Significant assumptions used in the determination of intangible assets, as defined by

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

Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and is deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a cash-generating unit ("CGU") defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from April 9, 2018 to December 31, 2018, sales and net income for the Warsaw plant amounted to $28,760 and $1,859, respectively. Pro forma information for the twelve-month period ended December 31, 2018, had the WP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first three months of the year.

b) 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 $26,985 excluding acquisition costs of approximately $425 of which $159 and $266 were recognized respectively in the 2017 and 2018 consolidated statements of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

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

Assets acquired	**$**
Inventories	10,536
Property, plant and equipment	7,763
Customer relationships	5,880
Goodwill	3,995
Deferred income tax assets	229
	28,403
Liabilities assumed	
Site remediation provision	1,418
Total net assets acquired and liabilities assumed	26,985
Consideration transferred	
Cash	26,985
Consideration transferred	26,985

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

The Company’s valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 10.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and is deductible for Canadian tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company’s operations. Goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from February 9, 2018 to December 31, 2018, sales and net income for the Neepawa plant amounted to $31,657 and $890, respectively. Pro forma information for the twelve-month period ended December 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. 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 twelve-month periods ending December 31:

	2018	**2017**
Number of common shares outstanding – Beginning of period*	69,342	69,303
Stock option plan*	-	10
Employee share purchase plans*	31	29
Repurchase of common shares*	(105)	-
Number of common shares outstanding – End of period*	69,268	69,342

* 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 December 31, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2018	**2017**	**2018**	**2017**
Net income applicable to common shares	$20,575	$51,116	$137,597	$167,889
Weighted average number of common shares outstanding*	69,358	69,336	69,352	69,324
Effect of dilutive stock options*	7	9	8	9
Weighted average number of diluted common shares outstanding*	69,365	69,345	69,360	69,333
Basic earnings per common share **	$0.30	$0.74	$1.98	$2.42
Diluted earnings per common share **	$0.30	$0.74	$1.98	$2.42

* Number of shares is presented in thousands.

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

c) Normal Course Issuer Bid

On December 18, 2018 the TSX accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid. The Normal Course Issuer Bid was initiated for a twelve-month period starting on December 20, 2018. During this period, the Company may purchase for cancellation up to 3,000,000 common shares. As at December 31, 2018, the Company repurchased 105,000 common shares for cancellation in consideration of $4,038 representing an average price of $38.15 per common share. As at December 31, 2018, the Company

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

had unsettled transactions to repurchase 42,000 common shares for a cash consideration of $1,627 representing an average price of $39.05 per common share. As of December 31, 2018, the Company recorded a financial liability with an offset amount in equity in the amount of $1,627. The settlement of these transactions occurred in early January 2019 and the cancellation of the corresponding common share was done at the same time.

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 December 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	-	473
	-	473
Non-current assets		
Interest rate swap agreements	7,545	6,173
	7,545	6,173
Current Liabilities		
Derivative commodity contracts	4,381	-
	4,381	-
Non-current liabilities		
Derivative commodity contracts	3,748	-
	3,748	-

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

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 which 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 fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt has a carrying value of $513,481 (December 31, 2017 – $455,640) and a fair value of $501,950 (December 31, 2017 – $453,478).

Price risk

The Company is exposed to commodity price risk on diesel and petroleum. The Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to help manage its cash flows with regards to these commodities. The Company does not designate these derivatives as cash flow hedges of anticipated purchases of diesel and petroleum. Gains or losses from these derivative financial instruments are recorded in the consolidated statements of income under other losses (gain), net. The following table summarizes the derivative commodity contracts as at December 31, 2018 and 2017:

				2018
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	6,000,000*	January 2019	December 2019	US$2.23
Diesel and petroleum	6,000,000*	January 2020	December 2020	US$2.23

				2017
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.72
Diesel and petroleum	600,000*	January 2018	December 2018	US$1.61

*Represents a volume evenly split throughout the year

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

The fair value of the above derivative commodity hedges based on cash settlement requirements as at December 31, 2018 is a total liability of $8,129 of which $4,381 is recorded under current liabilities and $3,748 recorded under non-current liabilities (2017 – a current asset of $473) in the consolidated statement of financial position.

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 twelve-month periods ended December 31 are as follows:

	2018	2017
	$	$
Canada	679,642	561,905
U.S.	1,444,251	1,324,237
	2,123,893	1,886,142

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

Sales by product for the twelve-month periods ended December 31 are as follows:

	2018	**2017**
	$	**$**
Pressure-treated wood		
Railway ties	662,414	651,549
Utility poles	724,950	653,946
Residential lumber	474,680	366,225
Industrial products	109,035	94,516
Logs and lumber	152,814	119,906
	2,123,893	1,886,142

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

	As at December 31, 2018	**As at December 31, 2017**
Property, plant and equipment		
	$	**$**
Canada	124,246	114,819
U.S.	427,539	351,237
	551,785	466,056
Intangible assets		
	$	**$**
Canada	33,977	29,974
U.S.	97,681	100,375
	131,658	130,349
Goodwill		
	$	**$**
Canada	19,403	14,864
U.S.	278,867	255,397
	298,270	270,261

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

9 Subsequent events

a) On January 14, 2019, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2024. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016 and March 15, 2018.

b) On March 14, 2019, the Board of Directors declared a quarterly dividend of $0.14 per common share payable on April 26, 2019 to shareholders of record at the close of business on April 5, 2019.

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