Stella-Jones Inc.

Consolidated Financial Statements
December 31, 2019 and 2018
(expressed in thousands of Canadian dollars)

December 31, 2019 and 2018

Management's Statement of Responsibility for Financial Information

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

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

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

(s) Eric Vachon

Éric Vachon, CPA, CA
President and Chief Executive Officer

(s) Silvana Travaglini

Silvana Travaglini, CPA, CA
Senior Vice-President and
Chief Financial Officer

Saint-Laurent, Québec

March 10, 2020

Independent auditor's report

To the Shareholders of
Stella-Jones Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report, and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sonia Boisvert.

//S// PricewaterhouseCoopers LLP

Montréal, Quebec
March 10, 2020

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

Stella-Jones Inc.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Note	2019	2018
		$	$
Assets			
Current assets			
Accounts receivable	5	179,161	192,380
Inventories	6	970,569	838,558
Income taxes receivable		5,976	1,882
Other current assets		36,027	35,567
		1,191,733	1,068,387
Non-current assets			
Property, plant and equipment	7	567,804	551,785
Right-of-use assets	9	116,755	-
Intangible assets	8	114,740	131,658
Goodwill	8	284,901	298,270
Derivative financial instruments	19	1,239	7,545
Other non-current assets		3,885	4,559
		2,281,057	2,062,204
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	10	136,237	133,259
Income taxes payable		1,046	-
Derivative financial instruments	19	1,998	4,381
Current portion of long-term debt	11	6,540	9,714
Current portion of lease liabilities	9	29,232	-
Current portion of provisions and other long-term liabilities	12	7,075	12,016
		182,128	159,370
Non-current liabilities			
Long-term debt	11	598,371	503,767
Lease liabilities	9	88,910	-
Deferred income taxes	16	100,520	92,557
Provisions and other long-term liabilities	12	11,663	13,959
Employee future benefits	17	11,035	7,393
Derivative financial instruments	19	128	3,748
		992,755	780,794
Shareholders' equity			
Capital stock	14	216,958	221,328
Contributed surplus		386	348
Retained earnings		967,823	909,060
Accumulated other comprehensive income		103,135	150,674
		1,288,302	1,281,410
		2,281,057	2,062,204
Commitments and contingencies	18		
Subsequent events	23		

Approved by the Board of Directors,

(s) Katherine A. Lehman
Katherine A. Lehman
Director

(s) Karen Laflamme
Karen Laflamme, FCPA, FCA, ASC
Director

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity

For the years ended December 31, 2019 and 2018

(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, 2019	221,328	348	909,060	252,149	(107,023)	5,548	150,674	1,281,410
Comprehensive income (loss)								
Net income for the year	-	-	163,078	-	-	-	-	163,078
Other comprehensive income (loss)	-	-	(2,581)	(60,824)	18,012	(4,727)	(47,539)	(50,120)
Comprehensive income (loss) for the year	-	-	160,497	(60,824)	18,012	(4,727)	(47,539)	112,958
Dividends on common shares	-	-	(38,469)	-	-	-	-	(38,469)
Employee share purchase plans	1,387	-	-	-	-	-	-	1,387
Repurchase of common shares (note 14)	(5,757)	-	(63,265)	-	-	-	-	(69,022)
Share-based compensation (note 14)	-	38	-	-	-	-	-	38
	(4,370)	38	(101,734)	-	-	-	-	(106,066)
Balance – December 31, 2019	216,958	386	967,823	191,325	(89,011)	821	103,135	1,288,302

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity…continued

For the years ended December 31, 2019 and 2018

(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 year	-	-	137,597	-	-	-	-	137,597
Other comprehensive income (loss)	-	-	927	101,529	(37,602)	989	64,916	65,843
Comprehensive income (loss) for the year	-	-	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 (note 14)	(469)	-	(5,196)	-	-	-	-	(5,665)
Share-based compensation (note 14)	-	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 consolidated financial statements.

Stella-Jones Inc.
Consolidated Statements of Income
For the years ended December 31, 2019 and 2018

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

	Note	2019 $	2018 $
Sales		2,169,023	2,123,893
Expenses			
Cost of sales (including depreciation and amortization of $55,927 (2018 – $24,298))	24	1,810,504	1,795,928
Selling and administrative (including depreciation and amortization of $14,596 (2018 – $13,804))	24	116,598	112,800
Other losses (gains), net		(416)	8,864
	15	1,926,686	1,917,592
Operating income		242,337	206,301
Financial expenses	15	23,655	19,102
Income before income taxes		218,682	187,199
Provision for income taxes			
Current	16	41,335	39,018
Deferred	16	14,269	10,584
		55,604	49,602
Net income for the year		163,078	137,597
Basic and diluted earnings per common share	14	2.37	1.98

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

Stella-Jones Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	2019 $	2018 $
Net income for the year	163,078	137,597
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	(60,824)	101,529
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	18,012	(34,332)
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	-	(3,270)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	(6,434)	1,372
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	1,707	(383)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	(3,428)	1,209
Income taxes on remeasurements of post-retirement benefit obligations	847	(282)
	(50,120)	65,843
Comprehensive income for the year	112,958	203,440

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

Stella-Jones Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Note	2019 $	2018 $
Cash flows provided by (used in)			
Operating activities			
Net income for the year		163,078	137,597
Adjustments for			
Depreciation of property, plant and equipment	7	23,831	21,086
Amortization of intangible assets	8	14,331	17,016
Depreciation of right-of-use assets	9	32,361	-
Loss (gain) on derivative financial instruments		(6,131)	8,601
Financial expenses		23,655	19,102
Current income taxes expense	16	41,335	39,018
Deferred income taxes	16	14,269	10,584
Provisions and other long-term liabilities		(5,153)	2,917
Other		3,454	2,060
		305,030	257,981
Changes in non-cash working capital components			
Accounts receivable		6,162	(13,230)
Inventories		(162,231)	(56,716)
Accounts payable and accrued liabilities		11,438	13,428
Other current assets		(1,743)	(15,335)
		(146,374)	(71,853)
Interest paid		(24,216)	(18,693)
Income taxes paid		(44,522)	(39,371)
		89,918	128,064
Financing activities			
Increase in deferred financing costs		(259)	(255)
Net change in syndicated credit facilities	13	125,974	18,742
Increase in long-term debt	13	667	-
Repayment of long-term debt	13	(10,183)	(6,705)
Repayment of lease liabilities	13	(31,094)	-
Repayment of non-competes payable	13	(1,560)	(1,745)
Dividends on common shares		(38,469)	(33,290)
Repurchase of common shares		(70,649)	(4,038)
Proceeds from issuance of common shares		1,387	1,330
		(24,186)	(25,961)
Investing activities			
Decrease (increase) in other assets		995	(836)
Business acquisitions	4	-	(54,491)
Addition of intangible assets		(1,884)	(4,028)
Purchase of property, plant and equipment		(65,840)	(51,568)
Proceeds on disposal of assets		997	2,390
		(65,732)	(108,533)
Net change in cash and cash equivalents during the year		-	(6,430)
Cash and cash equivalents – Beginning of year		-	6,430
Cash and cash equivalents – End of year		-	-

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

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

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as 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 prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Chartered Professional Accountants Canada Handbook Part I – Accounting.

These consolidated financial statements were approved by the Board of Directors on March 10, 2020.

Basis of measurement

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

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

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. 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
Cascade Pole and Lumber Company	Stella-Jones Corporation	United States
McFarland Cascade Pole & Lumber Company	Stella-Jones Corporation	United States
Kisatchie Midnight Express, L.L.C.	Stella-Jones Corporation	United States

On December 31, 2019, Stella-Jones CDN Finance Inc., a wholly owned subsidiary, was liquidated into Stella-Jones Inc. On the same date, Stella-Jones U.S. Finance II Corporation, Stella-Jones U.S. Finance III Corporation, Stella-Jones U.S. II LLC and Stella-Jones U.S. III LLC, all wholly owned subsidiaries, were liquidated into SJ Holding.

On December 31, 2019, Lufkin Creosoting Co., Inc. merged into McFarland Cascade Holding, Inc. Shortly after, on the same date, the surviving entity, McFarland Cascade Holding, Inc., merged into Stella-Jones Corporation.

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

Business combinations

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

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

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

Foreign currency translation

a) Functional and presentation currency

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

b) Foreign currency transactions

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

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

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

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

c) Foreign operations

The financial statements of operations that have a functional currency different from that of the Company are translated using the rate in effect at the consolidated statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income in shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the financial position rate.

d) Hedges of net investments in foreign operations

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

Revenue recognition

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 Products.

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 time frame 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. The Company's significant 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.

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

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within twelve months or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less credit loss allowance.

Inventories

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

Property, plant and equipment

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

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The depreciation expense is included in cost of sales in the consolidated statement of income.

Financial expenses

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

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

Intangible assets

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

	Method	Useful life
Software	Straight-line	10 years
Customer relationships	Straight-line	5 to 12 years
Customer relationships	Declining balance	4% to 20%
Non-compete agreements	Straight-line	3 to 5 years
Creosote registration	-	Indefinite

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

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

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

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

Goodwill

Goodwill is not amortized and tested annually for impairment, or more frequently, whenever indicators of potential impairment exist. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units (“CGUs”) or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

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

Impairment

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment when events or changes in circumstances warrant such consideration.

Leases

IFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The new standard replaces the provisions of IAS 17, *Leases*, and the related interpretations on leases.

The adoption of IFRS 16, *Leases*, from January 1, 2019 resulted in a change in accounting policies applied retrospectively, without restatement of comparative amounts as permitted under the specific transitional provisions.

The Company leases certain property, plant and equipment.

Lease accounting policy prior to the adoption of IFRS 16 on January 1, 2019:

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

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

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

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

Provisions

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

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

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

Site remediation obligations

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

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

Income taxes

The income tax expense or credit for the period is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Employee future benefits

Other post-retirement benefit programs

The Company provides other post-retirement healthcare benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income.

The amounts recognized in other comprehensive income are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Share-based compensation and other share-based payments

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

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

Equity-settled plan

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

Cash-settled plan

The Company has liability-based awards, restricted stock units (“RSUs”) and deferred share units (“DSUs”), which are initially measured at fair value at the grant date using the Black-Scholes valuation model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statements of income. The compensation expenses are recognized in the consolidated statements of income over the vesting periods, based on the fair value of the awards at the end of each reporting period.

Financial instruments

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

Financial assets

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

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

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

c) Fair value through profit or loss – any financial assets that are not held in one of the two business models

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

mentioned in a) and b) are measured at fair value through profit or loss.

If 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.

A financial asset is derecognized when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset.

When the transfer of a customer receivable results in the derecognition of the asset, the corresponding cash proceeds are classified as cash flows from operating activities.

Financial liabilities

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

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost. 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, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

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

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. 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 losses (gains).

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.

Earnings per share

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

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

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

Segment reporting

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

Change in accounting policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, ("IFRS 16") 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 Company retrospectively adopted IFRS 16, on January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognized in the opening balance of the consolidated statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.30%.

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statements of financial position as at December 31, 2018.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;

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

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As at January 1, 2019, the following right-of-use assets and lease liabilities by type of assets were recorded in the consolidated statements of financial position:

Right-of-use assets	**January 1, 2019**
	$
Rolling stock (mobile equipment, road vehicles and rail cars)	79,588
Land	33,334
Other assets	7,809
Total	**120,731**

As at December 31, 2018, the Company reported future minimum payments under operating leases of $132,775 which corresponds to the present value of lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019 of $120,731.

The allocation between current lease liabilities and non-current lease liabilities is as follows:

Lease liabilities	**January 1, 2019**
	$
Current lease liabilities	28,263
Non-current lease liabilities	92,468
Total	**120,731**

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. On January 1, 2019, the Company early adopted, as permitted, the amendments prospectively to acquisitions occurring from that date. The adoption of these amendments had no significant impact on the Company's consolidated financial statements.

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

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.

The Company applied IFRIC 23 beginning on January 1, 2019. The application of this new interpretation had no significant impact on the Company's consolidated financial statements.

IAS 39, IFRS 9 and IFRS 7 – Interest Rate Benchmark Reform

In September 2019, the IASB issued *Exposure Draft*, *Interest Rate Benchmark Reform*, *Amendments* to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments Recognition and Measurement*, and IFRS 7, *Financial Instrument Disclosures*, enabling hedge accounting to continue during the period of uncertainty before existing interest rate benchmarks are replaced with alternative risk-free interest rates. The amendments are effective as of January 1, 2020, with early adoption permitted, and apply to hedge relationships that exist at the beginning of the reporting period or are designated thereafter, and to the gains or losses that exist in other comprehensive income on adoption. Adopting these amendments will allow the Company to maintain current hedge accounting relationships and to assume that the current benchmark rates will continue to exist, with no consequential impact on the consolidated financial statements. During the fourth quarter, the Company early adopted this amended standard and this change had no impact on the Company's consolidated financial statements.

3 Critical accounting estimates and judgments

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

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

4 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 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

(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 4.00%. 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 CGU defined as plants specialized in the treatment of utility poles and residential lumber.

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

The Company's valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 10.00%. 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

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

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.

5 Accounts receivable

	2019 $	2018 $
Trade receivables	174,199	184,376
Less: Credit loss allowance	(412)	(2,209)
Trade receivables – net	173,787	182,167
Amounts receivable from related parties	-	454
Other receivables	5,374	9,759
	179,161	192,380

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

	2019 $	2018 $
Current	118,900	113,783
Past due 1–30 days	36,580	51,214
Past due 31–60 days	10,385	11,251
Past due more than 60 days	8,334	8,128
	174,199	184,376

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

In the normal course of its business, the Company has a facility, to which it can sell, without credit recourse, eligible receivables. No receivables were outstanding under such facility as at December 31, 2019 and 2018. During the year 2019, trade receivables of $25,991 (nil in 2018) were sold to this facility.

6 Inventories

	2019	2018
	$	$
Raw materials	655,074	516,742
Finished goods	315,495	321,816
	970,569	838,558

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

7 Property, plant and equipment

	Land $	Buildings $	Production equipment $	Rolling stock $	Others $	Total $
As at January 1, 2018						
Cost	48,452	112,272	376,203	27,944	14,762	579,633
Accumulated depreciation	-	(18,672)	(71,795)	(15,388)	(7,722)	(113,577)
Net book amount	48,452	93,600	304,408	12,556	7,040	466,056
Year ended December 31, 2018						
Opening net book amount	48,452	93,600	304,408	12,556	7,040	466,056
Business acquisitions	1,121	7,823	12,797	4,117	117	25,975
Additions	1,630	3,165	43,919	669	1,031	50,414
Disposals/impairments	(1,622)	-	(478)	(853)	(3)	(2,956)
Depreciation	-	(3,406)	(12,260)	(4,272)	(1,148)	(21,086)
Exchange differences	2,618	7,416	21,386	1,189	773	33,382
Closing net book amount	52,199	108,598	369,772	13,406	7,810	551,785
As at December 31, 2018						
Cost	52,199	131,933	457,904	32,998	16,959	691,993
Accumulated depreciation	-	(23,335)	(88,132)	(19,592)	(9,149)	(140,208)
Net book amount	52,199	108,598	369,772	13,406	7,810	551,785
Year ended December 31, 2019						
Opening net book amount	52,199	108,598	369,772	13,406	7,810	551,785
Additions	7,760	5,671	48,940	1,293	1,020	64,684
Disposals/impairments	(1,708)	(690)	(1,280)	(400)	-	(4,078)
Depreciation	-	(3,680)	(15,036)	(3,894)	(1,221)	(23,831)
Exchange differences	(1,474)	(4,510)	(14,027)	(499)	(246)	(20,756)
Closing net book amount	56,777	105,389	388,369	9,906	7,363	567,804
As at December 31, 2019						
Cost	56,777	131,460	487,791	31,239	17,546	724,813
Accumulated depreciation	-	(26,071)	(99,422)	(21,333)	(10,183)	(157,009)
Net book amount	56,777	105,389	388,369	9,906	7,363	567,804

8 Intangible assets and goodwill

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

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

The non-compete agreements were established based on the discounted value of future payments using a discount rate of 2.95%.

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

Impairment tests for goodwill

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

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

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

CGUs	2019 $	2018 $
Plants specialized in the treatment of utility poles and residential lumber	138,547	144,546
Plants specialized in the treatment of railway ties	146,354	153,724
	284,901	298,270

Impairment tests for intangible assets with indefinite useful life

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

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for cost savings as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 10.10%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

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

The net book amount of these intangible assets and goodwill was as follows:

	Intangible assets							
	Cutting rights $	Customer relationships $	Non-compete agreements $	Software $	Others $	Creosote registration $	Total $	Goodwill $
As at January 1, 2018								
Cost	6,821	148,740	16,270	8,743	8,310	39,178	228,062	270,261
Accumulated amortization	(1,631)	(75,022)	(11,828)	(2,758)	(6,474)	-	(97,713)	-
Net book amount	5,190	73,718	4,442	5,985	1,836	39,178	130,349	270,261
Year ended December 31, 2018								
Opening net book balance	5,190	73,718	4,442	5,985	1,836	39,178	130,349	270,261
Business acquistions	-	6,122	-	-	-	-	6,122	5,599
Additions	-	-	-	869	3,159	-	4,028	-
Amortization	(256)	(12,193)	(1,612)	(831)	(2,124)	-	(17,016)	-
Exchange differences	-	4,363	298	-	88	3,426	8,175	22,410
Closing net book amount	4,934	72,010	3,128	6,023	2,959	42,604	131,658	298,270
As at December 31, 2018								
Cost	6,821	165,931	17,692	9,612	11,557	42,604	254,217	298,270
Accumulated amortization	(1,887)	(93,921)	(14,564)	(3,589)	(8,598)	-	(122,559)	-
Net book amount	4,934	72,010	3,128	6,023	2,959	42,604	131,658	298,270
Year ended December 31, 2019								
Opening net book balance	4,934	72,010	3,128	6,023	2,959	42,604	131,658	298,270
Additions	-	-	-	1,664	220	-	1,884	-
Amortization	(199)	(10,763)	(1,219)	(900)	(1,250)	-	(14,331)	-
Exchange differences	-	(2,254)	(122)	-	(53)	(2,042)	(4,471)	(13,369)
Closing net book amount	4,735	58,993	1,787	6,787	1,876	40,562	114,740	284,901
As at December 31, 2019								
Cost	6,821	159,330	16,844	11,276	11,724	40,562	246,557	284,901
Accumulated amortization	(2,086)	(100,337)	(15,057)	(4,489)	(9,848)	-	(131,817)	-
Net book amount	4,735	58,993	1,787	6,787	1,876	40,562	114,740	284,901

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

9 Leases

The consolidated statement of financial position shows the following amounts relating to leases:

Right-of-use assets	**December 31, 2019 $**	**January 1, 2019 $**
Rolling stock	82,140	79,588
Land	28,735	33,334
Other assets	5,880	7,809
	116,755	120,731

Lease liabilities	**December 31, 2019 $**	**January 1, 2019 $**
Current lease liabilities	29,232	28,263
Non-current lease liabilities	88,910	92,468
	118,142	120,731

The following table provides a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position for the period ended December 31, 2019*:*

Right-of-use	**Rolling stock**	**Land**	**Other assets**	**Total**
	$	**$**	**$**	**$**
As at January 1, 2019	79,588	33,334	7,809	120,731
Additions	28,864	523	161	29,548
Disposals	(1,520)	-	-	(1,520)
Depreciation	(26,027)	(3,819)	(2,515)	(32,361)
Remeasurement	4,675	78	565	5,318
Exchange differences	(3,440)	(1,381)	(140)	(4,961)
As at December 31, 2019	82,140	28,735	5,880	116,755

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

The following table provides a reconciliation of the lease liabilities, presented in the consolidated statements of financial position for period ended December 31, 2019:

Lease liabilities	**Rolling stock**	**Land**	**Other assets**	**Total**
	$	**$**	**$**	**$**
As at January 1, 2019	79,588	33,334	7,809	120,731
Payments under lease agreements	(28,555)	(3,906)	(2,620)	(35,081)
Finance costs	2,690	1,065	232	3,987
Additions	28,864	523	161	29,548
Lease termination payments	(1,346)	-	-	(1,346)
Remeasurement	4,675	78	565	5,318
Exchange differences	(3,468)	(1,405)	(142)	(5,015)
As at December 31, 2019	82,448	29,689	6,005	118,142

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods of 1 to 10 years and may have extension options that are considered when it is reasonably certain that the option will be exercised.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

Prior to January 1, 2019, the Company's leases were mainly composed of operating leases for which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee. From January 1, 2019, leases are recognized as a right-of-use with a corresponding liability at the date the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. A lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.30%.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office furniture.

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

10 Accounts payable and accrued liabilities

	2019	2018
	$	$
Trade payables	65,314	53,021
Amounts due to related parties	-	54
Accrued expenses	54,265	60,815
Other payables	16,658	19,369
	136,237	133,259

11 Long-term debt

	Note	2019	2018
		$	$
Unsecured syndicated credit facilities	11 (a)	384,552	273,055
Unsecured senior notes	11 (b)	194,820	204,630
Unsecured promissory notes	11 (c)	14,480	17,930
Secured promissory note	11 (d)	6,256	7,321
Other	11 (e)	5,311	11,150
		605,419	514,086
Deferred financing costs		(508)	(605)
		604,911	513,481
Less: Current portion of long-term debt		6,628	9,810
Less: Current portion of deferred financing costs		(88)	(96)
Total current portion of long-term debt		6,540	9,714
		598,371	503,767

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

a) On May 3, 2019, the Company amended and restated the fifth amended and restated credit agreement dated as of February 26, 2016, as amended on May 18, 2016, on March 15, 2018 and on January 14, 2019 (as so amended, the "Existing Credit Agreement"), pursuant to a sixth amended and restated credit agreement (the "Syndicated Credit Agreement"). Under the terms of the Syndicated Credit Agreement, the following syndicated credit facilities are made available to Stella-Jones Inc., Stella-Jones Corporation and SJ Holding (collectively, the "Borrowers"), by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325,000 made available to the Borrowers until February 27, 2024, (ii) an unsecured non-revolving term facility in the amount of US$50,000 made available to Stella-Jones Corporation until February 26, 2021 and (iii) an unsecured non-revolving term facility in the amount of US$50,000 made available to Stella-Jones Corporation until February 28, 2022. As at December 31, 2019 the syndicated credit facilities provided financing up to US$425,000 of which US$116,127 was available. Additionally, the Syndicated Credit Agreement makes available an accordion option whereas upon request, the Borrowers may increase the syndicated credit facilities by increasing the amount of one or more of the syndicated credit facilities or by adding one or more new non-revolving single draw term loans, in each case, up to an aggregate amount of US$350,000, provided that no more than five term loans in total may be outstanding at any time. The Borrowers may obtain such new term loans upon written request and are subject to lenders' approval.

Borrowings under the syndicated credit facilities may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BAs"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin will range from 0.00% to 1.25% with respect to Canadian prime rate loans and U.S. base rate loans and from 1.00% to 2.25% with respect to BAs, LIBOR loans and fees for letters of credit, in each case based on a leverage ratio.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2019 are provided in Note 19, *Financial instruments*.

As at December 31, 2019, borrowings by Canadian entities denominated in U.S. dollars represented $153,258 (US$118,000) and the total amount was designated as a hedge of net investment in foreign operations.

The Company has demand loan agreements, with two banks participating in the syndicated credit facilities, providing financing up to US$75,000 under terms and conditions similar to those under the Syndicated Credit Agreement. This indebtedness, if required by the Company, will be presented under short term liabilities as the banks have the option to request reimbursement of their loans at any time. As at December 31, 2019 no amounts were drawn under the demand loan facilities.

In order to maintain the syndicated credit facilities and the demand loans in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios. The Company is required to maintain a net funded debt to EBITDA ratio, which includes the impact of IFRS 16, *Leases*, of no more than 3.50:1 and an interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2019, the Company was in full compliance with these covenants, requirements and ratios.

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

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

In order to maintain the senior notes in place, the Company is required to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the net funded debt to EBITDA ratio, which includes the impact of IFRS 16, *Leases*, of not more than 3.50:1, the interest coverage ratio equal to or greater than 2.50:1 and a priority debt to equity ratio not more than 15.00%. As at December 31, 2019, the Company was in full compliance with these covenants, requirements and ratios.

c) Pursuant to two business acquisitions dated June 3, 2016, the Company issued two unsecured promissory notes totalling $18,256 (US$14,104) bearing interest at 1.41%. The notes are payable in three instalments, including interest, totalling US$3,000 in June 2019 and 2020 and US$9,000 in June 2021. The notes were initially recorded at a fair value totalling $15,676 (US$12,112) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the notes is being accreted on an effective yield basis over its term.

d) As part of a business acquisition dated June 3, 2016, the Company assumed a promissory note bearing interest at 5.76%, secured by the land of the Pineville facility and having a balance of US$5,685. The note is payable in quarterly instalments, including interest, of US$163, up to July 2028. The note was initially recorded at a fair value of $8,775 (US$6,780) using an effective interest rate of 4.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

e) Pursuant to several business acquisitions, the Company issued promissory notes and recorded a balance of purchase price totalling $14,989.

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

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

	Principal $
2020	7,069
2021	13,065
2022	1,236
2023	1,270
2024	483,269
Thereafter	100,238
	606,147
Fair value adjustment	(728)
	605,419

g) The aggregate fair value of the Company's long-term debt was estimated at $598,736 as at December 31, 2019 (2018 – $501,950) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

12 Provisions and other long-term liabilities

	Provisions			Other long-term liabilities			
	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Grand total
	$	$	$	$	$	$	$
Balance as at January 1, 2018	12,044	3,706	15,750	2,248	5,508	7,756	23,506
Additions	1,519	506	2,025	5,597	-	5,597	7,622
Business acquisitions	1,418	-	1,418	-	-	-	1,418
Provision reversal	(830)	(523)	(1,353)	-	-	-	(1,353)
Payments	(2,867)	(537)	(3,404)	(1,539)	(1,745)	(3,284)	(6,688)
Interest accretion	-	-	-	-	124	124	124
Exchange differences	812	142	954	-	392	392	1,346
Balance as at December 31, 2018	12,096	3,294	15,390	6,306	4,279	10,585	25,975
Additions	2,211	735	2,946	5,080	-	5,080	8,026
Provision reversal	(2,067)	(1,705)	(3,772)	(2,486)	-	(2,486)	(6,258)
Payments	(2,730)	(579)	(3,309)	(3,612)	(1,560)	(5,172)	(8,481)
Interest accretion	-	-	-	-	116	116	116
Exchange differences	(409)	(57)	(466)	-	(174)	(174)	(640)
Balance as at December 31, 2019	9,101	1,688	10,789	5,288	2,661	7,949	18,738

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

Analysis of provisions and other long-term liabilities:

	2019	2018
	$	$
Current		
Provisions	5,614	9,294
Other long-term liabilities	1,461	2,722
Total current	7,075	12,016
Non-current		
Provisions	5,175	6,095
Other long-term liabilities	6,488	7,864
Total non-current	11,663	13,959
	18,738	25,975

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from one to fifteen years. These discounted cash flows have been estimated using a pre-tax rate of 3.10% that reflect current market assessment of the time value of money and the risk specific to the obligation.

As of December 31, 2019, a total site remediation provision of $9,101 (2018 – $12,096) was recorded to support the ongoing compliance efforts.

Other long-term liabilities

Restricted stock units

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

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

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

The RSUs granted on March 21, 2016 reached their third-year anniversary on March 21, 2019 and were fully paid.

On March 19, 2018 and March 19, 2019, the Company granted a total of 62,606 RSUs to certain executives and key employees as part of the long-term incentive plan.

On March 13, 2018, the Remuneration Committee and Board of Directors departed from the RSU award calculation and granted a special long-term incentive to senior management totalling 200,000 RSUs. Subsequently, on May 7, 2018, a special long-term incentive award of 7,632 RSUs was given to a newly added member of the senior management team.

On May 2, 2018, the Company granted Mr. Brian McManus, the Company's former President and Chief Executive Officer, 200,000 RSUs, with an effective grant date of May 7, 2018. Scheduled vesting dates were May 7, 2019 (for the first 60,000 RSUs); May 7, 2020 (for the second 60,000 RSUs) and May 7, 2021 (for the final 80,000 RSUs), subject to additional terms and conditions relating to resignation, disability, death and others. On May 7, 2019, the first 60,000 RSUs were paid. Mr. McManus stepped down as President and Chief Executive Officer, effective October 11, 2019 and forfeited all remaining RSUs. Therefore, the related provision of $2,486 was reversed.

Deferred share units

On May 1, 2019, the Company's Board of Directors approved a Deferred Share Unit Plan for non-executive directors of Stella-Jones Inc. ("DSU Plan") having the purpose of providing DSU Plan participants with a supplemental form of compensation while promoting greater alignment of the interests of the participants and the shareholders of the Company in creating long-term shareholder value.

Under the DSU Plan, on or about July 1 of each year ("DSU Award Date"), participants who are non-executive Board members as well as the Chair of the Board, receive a minimum participation amount of $15 and $25 respectively, or such other amount as shall be determined by the Board of Directors in any given year, and to which they may add a portion of their Board fees ("Deferred Remuneration"), which is then divided by the average closing price of the Company's common shares on the Toronto Stock Exchange during the 5 trading days immediately preceding the DSU Award Date ("DSU Value"). Each participant receives such number of DSUs as is obtained by dividing the Deferred Remuneration by the DSU Value on the DSU Award Date.

On July 3, 2019, a total of 2,126 DSUs were awarded.

All DSUs vest and are settled for cash on the Settlement Date, which is triggered when a participant ceases to be a Board member. On the Settlement Date, total vested DSUs are multiplied by the average closing price of the Company's common shares on the Toronto Stock Exchange during the 5 trading days immediately preceding the Settlement Date.

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

13 Cash flow information

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2019 and 2018:

	Liabilities from financing activities				
	Long-term debt $	**Syndicated credit facilities $**	**Lease liabilities $**	**Non-competes payable $**	**Total $**
Balance as at January 1, 2018	(223,557)	(232,083)	-	(5,508)	(461,148)
Cash flows	6,705	(18,742)	-	1,745	(10,292)
Foreign exchange adjustments	(22,740)	(22,230)	-	(392)	(45,362)
Other non-cash movements	(833)	-	-	(124)	(957)
Balance as at December 31, 2018	(240,425)	(273,055)	-	(4,279)	(517,759)
Recognized on adoption of IFRS 16 (note 9)	-	-	(120,731)	-	(120,731)
Cash flows	9,516	(125,974)	31,094	1,560	(83,804)
Foreign exchange adjustments	11,197	14,477	5,015	174	30,863
Lease additions	-	-	(27,849)	-	(27,849)
Other non-cash movements	(647)	-	(5,671)	(116)	(6,434)
Balance as at December 31, 2019	(220,359)	(384,552)	(118,142)	(2,661)	(725,714)

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

14 Capital stock

	2019	**2018**
Number of common shares outstanding – Beginning of year*	69,268	69,342
Employee share purchase plans*	35	32
Repurchase of common shares*	(1,836)	(106)
Number of common shares outstanding – End of year*	67,467	69,268

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:

Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

b) Earnings per share

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

	2019	**2018**
Net income applicable to common shares	$163,078	$137,597
Weighted average number of common shares outstanding*	68,761	69,352
Effect of dilutive stock options*	7	8
Weighted average number of diluted common shares outstanding*	68,768	69,360
Basic and diluted earnings per common share **	$2.37	$1.98

* 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)

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. During the twelve-month period ended December 31, 2019, the Company repurchased 1,794,588 common shares for cancellation in consideration of $69,022 representing an average price of $38.46 per common share. As at December 31, 2018, the Company had unsettled transactions to repurchase 41,662 common shares for a cash consideration of $1,627 representing an average price of $39.05 per common share. At that date, the Company had 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.

d) Stock option plan

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

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

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

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

	2019		2018	
	Number of options*	**Weighted average exercise price****	**Number of options***	**Weighted average exercise price****
		$		**$**
Outstanding – End of year	45	40.05	45	40.05
Options exercisable – End of year	45	40.05	39	38.67

The following options were outstanding under the Plan as at December 31, 2019:

	Options outstanding		Options exercisable		
Date granted	**Number of options***	**Exercise price****	**Number of options***	**Exercise price****	**Expiration date**
		$		**$**	
May 2013	15	22.13	15	22.13	May 2023
November 2015	30	49.01	30	49.01	November 2025
	45		45		

* Number of options is presented in thousands.

** Exercise price is presented in dollars per option.

e) Share-based compensation

The Company records expenses related to the fair value of the stock options granted under the Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to income over the vesting period. No options were granted during 2019. The 2019 expense recorded for share-based compensation amortized to earnings was $38 (2018 – $50).

f) Employee share purchase plans

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

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.00% of the market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2019, 20,482 common shares (2018 – 17,591) were issued to Canadian resident employees at an average price of $34.58 per share (2018 – $37.02).

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

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for eighteen months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.00% of the amount of their contributions made on the date of acquisition. In 2019, 14,745 common shares (2018 – 13,889) were issued to U.S. resident employees at an average price of $37.55 per share (2018 – $40.11).

g) Related party transactions

As of January 1, 2018, Stella Jones International S.A. held, directly or indirectly, approximately 38.30% of the outstanding common shares of the Company. Pursuant to a secondary offering closed on February 21, 2018, the percentage of outstanding common shares held by Stella International S.A. was reduced to 31.10%. On August 14, 2018, Stella Jones International S.A. sold its remaining share ownership in the Company through a bought public offering and concurrent private placement.

15 Expenses by nature

	2019 $	2018 $
Raw materials and consumables	1,512,171	1,537,542
Employee benefit expenses	148,014	143,473
Depreciation and amortization	70,523	38,102
Other expenses incurred in manufacturing process	45,680	43,746
Freight	109,128	105,513
Other expenses	41,170	49,216
	1,926,686	1,917,592

	2019 $	2018 $
Employee benefit expenses		
Salaries, wages and benefits	136,566	127,587
Share options granted to directors and employees	38	50
RSUs	2,594	7,189
Pension costs	2,252	2,259
Group registered retirement savings plans	6,564	6,388
	148,014	143,473

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

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

	2019 $	2018 $
Financial expenses		
Interest on syndicated credit facilities	10,994	10,168
Interest on promissory notes and non-compete agreements	1,382	1,797
Interest on unsecured senior notes	7,292	7,137
Interest on lease liabilities	3,987	-
	23,655	19,102

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

16 Income taxes

	2019 $	2018 $
Current tax		
Current tax on income for the year	41,191	38,710
Adjustments in respect of prior years	144	308
Total current tax	41,335	39,018
Deferred tax		
Origination and reversal of temporary differences	16,420	10,965
Impact of change in tax rate	(795)	(191)
Adjustments in respect of prior years	(1,356)	(190)
Total deferred tax	14,269	10,584
Income tax expense	55,604	49,602

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

	2019 $	2018 $
Income before income tax	218,682	187,199
Tax calculated at domestic tax rates of 26.39% (2018 – 26.46%) applicable to income in the respective countries	57,710	49,533
Tax effects of:		
Difference in tax rate of foreign subsidiaries	521	454
Income not subject to tax	(5,029)	(5,368)
Expenses not deductible for tax purposes	4,362	5,062
Remeasurement of deferred tax – change in tax rate	(795)	(191)
Adjustments in respect of prior years' tax expense	(706)	118
Recognition of prior years' tax credits	(506)	-
Other	47	(6)
Income tax expense	55,604	49,602

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

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

	2019	2018
	$	$
Deferred tax assets		
To be recovered after 12 months	3,187	2,894
To be recovered within 12 months	9,150	11,454
Deferred tax liabilities		
To be reversed after 12 months	(112,857)	(106,905)
Deferred tax liability, net	(100,520)	(92,557)

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

	2019	2018
	$	$
As at January 1	(92,557)	(72,408)
Recognized in the consolidated statement of income	(14,269)	(10,584)
Recognized in other comprehensive income	2,554	(3,935)
Business acquisitions	-	(2)
Exchange differences	3,752	(5,628)
As at December 31	(100,520)	(92,557)

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

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

	Reserves $	Deferred pension benefits $	Unrealized foreign exchange on debts and translation of foreign operations $	Other $	Total $
Deferred tax assets					
As at January 1, 2018	8,465	1,951	3,381	-	13,797
Recognized in the consolidated statement of .	120	165	(17)	2,152	2,420
Recognized in other comprehensive income	-	(282)	(3,270)	-	(3,552)
Business acquisitions	1,094	-	-	-	1,094
Exchange differences	615	68	(94)	-	589
As at December 31, 2018	10,294	1,902	-	2,152	14,348
Recognized in the consolidated statement of .	(1,330)	72	-	(1,231)	(2,489)
Recognized in other comprehensive income	-	847	-	-	847
Exchange differences	(335)	(27)	-	(7)	(369)
As at December 31, 2019	8,629	2,794	-	914	12,337

	Property, plant and equipment $	Intangible assets $	Other $	Total $
Deferred tax liabilities				
As at January 1, 2018	(59,869)	(24,435)	(1,901)	(86,205)
Recognized in the consolidated statement of income	(13,158)	35	119	(13,004)
Recognized in other comprehensive income	-	-	(383)	(383)
Business acquisitions	(1,096)	-	-	(1,096)
Exchange differences	(4,610)	(1,607)	-	(6,217)
As at December 31, 2018	(78,733)	(26,007)	(2,165)	(106,905)
Recognized in the consolidated statement of income	(11,504)	(299)	23	(11,780)
Recognized in other comprehensive income	-	-	1,707	1,707
Exchange differences	3,124	997	-	4,121
As at December 31, 2019	(87,113)	(25,309)	(435)	(112,857)

As of December 31, 2019, the Company did not recognize deferred income tax assets of $2,069 (2018 – $1,925) in respect of capital losses amounting to $15,598 (2018 – $14,579) that can be carried forward indefinitely against future taxable capital gains.

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

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $527,956 as at December 31, 2019 (2018 – $461,407).

17 Employee future benefits

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

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

The defined benefit pension plans, other than the multi-employer plan, are closed to new participants.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.00% of the employee's annual base salary.

The recognized costs for employee future benefits are as follows:

	2019 $	2018 $
Contributions to group registered retirement savings plans	6,564	6,388
Defined benefit pension plans	1,420	1,467
Contributions to multi-employer plan	697	625
Other post-retirement benefits	135	167

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

	2019 $	2018 $
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	(8,515)	(5,185)
Other post-retirement benefits liability	(2,520)	(2,208)
	(11,035)	(7,393)

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

The Company's Canadian defined benefit pension plans benefits are based on years of service and final average earnings. The Stella-Jones Corporation defined benefit pension plans benefits are based on years of service and flat dollar amounts payable monthly. The other post-retirement benefits plan is not funded and, since June 1, 2011, this plan is closed to new participants.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan, and other post-retirement benefits plan:

	Defined benefit pension plans		Other post-retirement plan	
	2019	2018	2019	2018
	$	$	$	$
Accrued benefit obligation				
Balance – Beginning of year	29,213	29,402	2,208	2,501
Current service cost	936	1,002	49	80
Employees' contributions	33	36	-	-
Interest cost	1,171	1,055	86	87
Benefits payments	(1,220)	(1,406)	(76)	(71)
Remeasurement adjustments				
Plan experience	285	20	-	(237)
Changes in demographic assumptions	201	(31)	-	-
Changes in financial assumptions	4,053	(1,726)	253	(152)
Exchange difference	(480)	861	-	-
Balance – End of year	34,192	29,213	2,520	2,208
Plan assets				
Fair value – Beginning of year	24,028	24,228	-	-
Interest income on plan assets	687	590	-	-
Return on plan asset excluding interest income	1,156	(738)	-	-
Employer's contributions	1,139	933	76	71
Employees' contributions	33	36	-	-
Effect of asset ceiling	201	(193)	-	-
Benefits paid	(1,220)	(1,406)	(76)	(71)
Exchange difference	(347)	578	-	-
Fair value – End of year	25,677	24,028	-	-
Net benefit liability	(8,515)	(5,185)	(2,520)	(2,208)

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

Expected contributions to the defined benefit pension plans for the year ending December 31, 2020 are $997.

The pension benefit deficit of plans that are not fully funded is $8,515 as at December 31, 2019 ($7,756 as at December 31, 2018).

The items of the Company's defined benefit plans and other post-retirement benefit plan costs recognized during the year are as follows:

	Defined benefit pension plans		Other post-retirement plan	
Consolidated statement of income	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Current service cost	936	1,002	49	80
Interest cost	1,171	1,055	86	87
Interest income on plan assets	(687)	(590)	-	-
Total cost recognized	1,420	1,467	135	167
Consolidated statement of comprehensive income				
Actuarial gains (losses)	(3,175)	820	(253)	389
Total recognized in other comprehensive income before income tax	(3,175)	820	(253)	389
Accumulated actuarial gains (losses) recognized in other comprehensive income				
Balance of actuarial losses as at January 1	(3,371)	(4,012)	(66)	(352)
Net actuarial (losses) gains recognized in the year, net of tax	(2,394)	641	(187)	286
Balance of actuarial losses as at December 31	(5,765)	(3,371)	(253)	(66)

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

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		Other post-retirement plan	
	2019	**2018**	**2019**	**2018**
	%	**%**	**%**	**%**
Accrued benefit obligation as at December 31				
Discount rate	3.10	3.90	3.10	3.90
Rate of compensation increase	3.25	3.25	n/a	n/a
Benefit costs for the year ended December 31				
Discount rate	3.90	3.50	3.90	3.40

To determine the benefit obligation for the other post-retirement benefit plan, a 5.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2020. This rate is assumed to decrease gradually, on a straight-line basis, to reach 5.00% in 2023. An increase or decrease of 1.00% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	**$**
Impact on accrued benefit obligation	31	(27)
Impact on benefit costs	1	(1)

The percentage of plan assets held by the defined benefit plans consists of the following as at December 31:

	2019	2018
	%	**%**
Listed equity securities	29.00	27.00
Listed debt securities	43.00	42.00
Guaranteed insurance contracts	27.00	30.00
Short-term investments and cash	1.00	1.00
	100.00	100.00

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

18 Commitments and contingencies

a) The Company has issued guarantees amounting to $27,456 (2018 – $29,716) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

b) The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

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

19 Financial instruments

Financial instruments, carrying values and fair values

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

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

	2019 $	2018 $
Non-current assets		
Interest rate swap agreements	1,239	7,545
	1,239	7,545
Current liabilities		
Derivative commodity contracts	1,998	4,381
	1,998	4,381
Non-current liabilities		
Interest rate swap agreements	128	-
Derivative commodity contracts	-	3,748
	128	3,748

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2019, the Company’s credit exposure consists primarily of the carrying amount of cash and cash equivalents, accounts receivable and derivative financial instruments.

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

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals primarily with Class 1 railroad operators, large retailers and large-scale utility providers as well as other major corporations.

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

Note 5 provides details on the receivable aging as well as on the credit loss allowance for the years ended December 31, 2019 and 2018. The Company's largest customer had sales representing 15.84% of the total sales for the twelve-month period ending December 31, 2019 (2018 – 16.60%) and an account receivable balance of $6,970 as at December 31, 2019 (2018 – $5,678). The sales for this customer are included in the residential lumber product category.

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 (gains), net. The following table summarizes the derivative commodity contracts as at December 31, 2019 and 2018:

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

				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

*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, 2019 is a current liability of $1,998 (2018 – a current liability of $4,381 and a non-current liability of $3,748) in the consolidated statement of financial position. The fair value of these hedge agreements was determined by obtaining mark-to-market values as at December 31, 2019 and 2018 from a third party. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* A description of each level of the hierarchy is as follows:

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

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

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

Liquidity risk

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

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

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

The operating activities of the Company are the primary source of cash flows. The Company also has syndicated credit facilities (Note 11(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2019, an amount of $150,826 (US$116,127) (2018 – $291,569 (US$213,729)) was available under the Company's syndicated credit facilities. The following table details the maturities of the financial liabilities as at December 31:

						2019
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	136,237	136,237	136,237	-	-	-
Long-term debt obligations*	604,911	696,101	25,773	51,828	510,363	108,137
Minimum payment under lease liabilities	118,142	131,532	32,546	51,621	24,830	22,535
Derivative commodity contracts	1,998	2,019	1,833	186	-	-
Non-competes payable	2,661	2,825	1,526	1,299	-	-
	863,949	968,714	197,915	104,934	535,193	130,672

						2018
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	133,259	133,259	133,259	-	-	-
Long-term debt obligations*	513,481	601,849	25,507	51,683	303,142	221,517
Derivative commodity contracts	8,129	8,354	4,108	4,246	-	-
Non-competes payable	4,279	4,570	1,603	2,967	-	-
	659,148	748,032	164,477	58,896	303,142	221,517

*Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2019.

Market risk

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

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

Currency risk

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

The following table provides information on the impact of a 10.00% strengthening of the U.S. dollar against the Canadian dollar on net income and other comprehensive income for the years ended December 31, 2019 and 2018. For a 10.00% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and other comprehensive income.

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totalling $5,458 ($1,720 as at December 31, 2018) and $6,697 ($5,566 as at December 31, 2018), respectively.The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been included in the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 11).

	2019	**2018**
	$	**$**
Decrease of net income	124	385
Decrease of other comprehensive income	34,813	37,510

Interest rate risk

As at December 31, 2019, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 76.20% (2018 – 96.00%) of the Company's long-term debt is at fixed rates.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements.

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

The syndicated credit facilities defined in Note 11(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.00% increase in these rates on the closing annual balance of the syndicated credit facilities, for borrowings that have not been swapped, would have increased interest expense by $487 for the year ended December 31, 2019 (2018 – $370).

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

					2019
Notional amount	**Related debt instrument**	**Fixed rate %**	**Effective date**	**Maturity date**	**Notional equivalent CA$**
US$85,000	Syndicated credit facilities	1.68*	December 2015	April 2021	110,398
US$100,000	Syndicated credit facilities	1.06*	December 2017	December 2021	129,880

					2018
Notional amount	**Related debt instrument**	**Fixed rate %**	**Effective date**	**Maturity date**	**Notional equivalent CA$**
US$85,000	Syndicated credit facilities	1.68*	December 2015	April 2021	115,957
US$100,000	Syndicated credit facilities	1.06*	December 2017	December 2021	136,420

* Plus applicable spread of 1.00% to 2.25% based on pricing grid included in the Credit Agreement.

The Company's interest rate swap agreements are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2019, all cash flow hedges were effective.

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2019 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2019 is a non-current asset of $1,239 and a non-current liability of $128 recorded in the consolidated statement of financial position (2018 – a non-current asset of $7,545). A 10.00% decrease in interest rates as at December 31, 2019 would have reduced the net gain recognized in other comprehensive income by approximately $111 (2018 – $755). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

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

20 Capital disclosures

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

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

	2019 $	2018 $
Total debt	604,911	513,481
Shareholders' equity	1,288,302	1,281,410
Total capital	1,893,213	1,794,891
Total debt to total capitalization ratio	0.32:1	0.29:1

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

The primary measure used by the Company to monitor its financial leverage is the total debt to total capitalization ratio, which it aims to maintain within a range of 0.20:1 to 0.50:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

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

21 Related party transactions

Key management compensation

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

	2019	**2018**
	$	**$**
Salaries, compensation and benefits	3,808	5,010
Share-based compensation	459	5,293
	4,267	10,303

22 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 utility poles, railway ties, 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.

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

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

	2019	**2018**
	$	**$**
Canada	654,466	679,642
U.S.	1,514,557	1,444,251
	2,169,023	2,123,893

Sales by product as at December 31 are as follows:

	2019	**2018**
	$	**$**
Pressure-treated wood		
Utility poles	779,199	725,009
Railway ties	678,187	662,392
Residential lumber	471,665	474,399
Industrial products	128,210	109,195
Logs and lumber	111,762	152,898
	2,169,023	2,123,893

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

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

	2019 $	2018 $
Property, plant and equipment		
Canada	149,083	124,246
U.S.	418,721	427,539
	567,804	551,785
Intangible assets		
Canada	30,892	33,977
U.S.	83,848	97,681
	114,740	131,658
Goodwill		
Canada	19,403	19,403
U.S.	265,498	278,867
	284,901	298,270
Right-of-use assets		
Canada	17,810	-
U.S.	98,945	-
	116,755	-

23 Subsequent events

a) On February 24, 2020, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2025. This extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019.

b) On March 10, 2020, the Board of Directors declared a quarterly dividend of $0.15 per common share payable on April 24, 2020 to shareholders of record at the close of business on April 3, 2020.

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

24 Comparative Figures

Certain comparative figures have been adjusted to conform to the current year's presentation. For the twelve-month period ended December 31, 2018, an amortization expense for customer relationships and non-compete agreements of $13,804 has been reclassified from cost of sales to selling and administrative expenses.