Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS 2018 THIRD QUARTER RESULTS

- **Sales increased over 20% to $630.0 million, driven by all product categories**
- **Operating margins continue to trend upward from previous 2018 quarters**
- **Net income and diluted EPS increased to $45.8 million and $0.66 per share**
- **Solid financial position maintained with a total debt to EBITDA ratio of 2.1x**

Montreal, Quebec – November 2, 2018 - Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or the "Company") today announced financial results for its third quarter ended September 30, 2018.

"Third quarter results demonstrated strong sales growth and continued improvement in operating margins on a sequential basis. Sales increased in all product categories driven by sales prices, market demand and acquisitions. While margins are up when compared to previous 2018 quarters, the pace of improvement was mitigated by the timing of customer price adjustments for higher untreated railway tie costs.

Looking forward, we are encouraged by the improving market conditions in the railway tie product category and the rising demand for utility poles. Given current market conditions and the recent decrease in residential lumber prices, we are on track to improve our operating margins in 2019. As always, we will continue to remain focused on optimizing our operations across the organization while diligently seeking market opportunities in all product categories," said Brian McManus, President and Chief Executive Officer.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	**Q3-18**	**Q3-17**	**YTD Q3-18**	**YTD Q3-17**
Sales	630.0	517.6	1,691.1	1,508.8
EBITDA	76.7	71.3	199.7	203.5
EBITDA margin (%)	12.2%	13.8%	11.8%	13.5%
Operating income	67.9	63.1	174.5	178.4
Net income for the period	45.8	42.0	117.0	116.8
Per share – basic and diluted ($)	0.66	0.61	1.69	1.68
Weighted average shares outstanding (basic, in '000s)	69,357	69,330	69,350	69,319

THIRD QUARTER RESULTS

Sales for the third quarter of 2018 reached $630.0 million, versus sales of $517.6 million for the corresponding period last year. Acquisitions contributed sales of approximately $19.9 million, while the currency conversion effect had a positive impact of $12.9 million. Excluding these factors, sales increased approximately $79.6 million, or 15.4%.

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

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

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

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

Sales in the logs and lumber category totalled $48.8 million in the third quarter of 2018, compared with $32.9 million in the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, logs and lumber sales increased 45.9%. This significant variance reflects higher selling prices due to escalating lumber costs coupled with increased harvesting activity related to procurement activities to support strong pole sales. Since this product category does not generate margin, sales growth of this product category reduces overall margin as a percentage of sales.

Operating income stood at $67.9 million, or 10.8% of sales, compared with $63.1 million, or 12.2% of sales in the corresponding period last year. While operating income in absolute dollars is higher than last year, it is lower on a percentage of sales basis. This variation is primarily explained by the increasing cost of untreated railway ties and certain untreated species of poles. In addition, the higher lumber costs, which are passed through in a timely manner to customers via higher selling prices, have contributed to increased cost of sales but have also put downward pressure on margins as a percentage of sales. These cost increases were also exacerbated by the effect of currency translation.

Net income for the third quarter of 2018 was $45.8 million, or $0.66 per diluted share, versus $42.0 million, or $0.61 per diluted share, in the third quarter of 2017.

NINE-MONTH RESULTS

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

Operating income reached $174.5 million, or 10.3% of sales, compared with $178.4 million, or 11.8% of sales last year. Net income totalled $117.0 million, or $1.69 per diluted share, versus $116.8 million, or $1.68 per diluted share last year.

SOLID FINANCIAL POSITION

As at September 30, 2018, the Company's long-term debt, including the current portion, stood at $499.0 million compared with $455.6 million as at December 31, 2017. The increase mainly reflects higher working capital requirements, financing required for the acquisitions of Prairie Forest Products and Wood Preservers Incorporated, higher capital expenditures as well as the effect of local currency translation on U.S. dollar denominated long-term debt. As at September 30, 2018, Stella-Jones' total debt to EBITDA was 2.1x, up from 1.9x as at December 31, 2017.

QUARTERLY DIVIDEND OF $0.12 PER SHARE

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

OUTLOOK

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

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

For details per product category please refer to the Management's Discussion and Analysis for the quarter.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on November 2, 2018, at 10:00 AM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 5563718. This recording will be available on Friday, November 2, 2018 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, November 9, 2018.

NON-IFRS FINANCIAL MEASURES

EBITDA (operating income before depreciation of property, plant and equipment and amortization of intangible assets), operating income and operating margins are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance. Please refer to the non-IFRS financial measures section in the Management's Discussion and Analysis.

ABOUT STELLA-JONES

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

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, the ability of the Company to raise the capital required for acquisitions, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

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

NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the third quarter ended September 30, 2018 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 1, 2018

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
September 30, 2018 and 2017

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

(expressed in thousands of Canadian dollars)

	Note	As at September 30, 2018 $	As at December 31, 2017 $
Assets			
Current assets			
Cash		-	6,430
Accounts receivable		308,744	163,458
Derivative financial instruments	6	340	473
Inventories		708,725	718,462
Prepaid expenses		38,262	18,435
Income taxes receivable		1,177	1,122
		1,057,248	908,380
Non-current assets			
Property, plant and equipment		528,928	472,041
Intangible assets		124,584	124,364
Goodwill		285,032	270,261
Derivative financial instruments	6	10,543	6,173
Other assets		3,825	4,761
		2,010,160	1,785,980
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		155,968	111,206
Current portion of long-term debt	4	9,828	5,695
Current portion of provisions and other long-term liabilities		10,744	12,114
		176,540	129,015
Non-current liabilities			
Long-term debt	4	489,201	449,945
Deferred income taxes		86,947	72,408
Provisions and other long-term liabilities		12,637	11,392
Employee future benefits		6,469	7,675
		771,794	670,435
Shareholders' equity			
Capital stock	5	221,388	220,467
Contributed surplus		336	298
Retained earnings		902,475	809,022
Accumulated other comprehensive income		114,167	85,758
		1,238,366	1,115,545
		2,010,160	1,785,980
Subsequent events	9		

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders’ Equity
(Unaudited)
For the nine-month periods ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders’ equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2018	220,467	298	809,022	150,620	(69,421)	4,559	85,758	1,115,545
Comprehensive income (loss)								
Net income for the period	-	-	117,022	-	-	-	-	117,022
Other comprehensive income (loss)	-	-	1,398	36,524	(11,308)	3,193	28,409	29,807
Comprehensive income (loss) for the period	-	-	118,420	36,524	(11,308)	3,193	28,409	146,829
Dividends on common shares	-	-	(24,967)	-	-	-	-	(24,967)
Employee share purchase plans	921	-	-	-	-	-	-	921
Stock-based compensation	-	38	-	-	-	-	-	38
	921	38	(24,967)	-	-	-	-	(24,008)
Balance – September 30, 2018	221,388	336	902,475	187,144	(80,729)	7,752	114,167	1,238,366

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity…*continued*
(Unaudited)
For the nine-month periods ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive income				
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2017	219,119	258	672,620	223,124	(92,532)	3,829	134,421	1,026,418
Comprehensive income (loss)								
Net income for the period	-	-	116,773	-	-	-	-	116,773
Other comprehensive income (loss)	-	-	(122)	(81,085)	24,756	(681)	(57,010)	(57,132)
Comprehensive income (loss) for the period	-	-	116,651	(81,085)	24,756	(681)	(57,010)	59,641
Dividends on common shares	-	-	(22,877)	-	-	-	-	(22,877)
Exercise of stock options	146	(47)	-	-	-	-	-	99
Employee share purchase plans	967	-	-	-	-	-	-	967
Stock-based compensation	-	68	-	-	-	-	-	68
	1,113	21	(22,877)	-	-	-	-	(21,743)
Balance – September 30, 2017	220,232	279	766,394	142,039	(67,776)	3,148	77,411	1,064,316

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

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

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

	Note	For the three-month periods ended September 30, 2018 $	2017 $	For the nine-month periods ended September 30, 2018 $	2017 $
Sales		630,035	517,628	1,691,130	1,508,786
Expenses					
Cost of sales		536,066	434,058	1,444,012	1,262,367
Selling and administrative		25,419	20,536	73,414	69,594
Other losses (gains), net		607	(16)	(753)	(1,561)
		562,092	454,578	1,516,673	1,330,400
Operating income		67,943	63,050	174,457	178,386
Financial expenses		4,765	4,259	14,297	15,107
Income before income taxes		63,178	58,791	160,160	163,279
Provision for (recovery of) income taxes					
Current		14,998	19,579	30,932	41,827
Deferred		2,332	(2,760)	12,206	4,679
		17,330	16,819	43,138	46,506
Net income for the period		45,848	41,972	117,022	116,773
Basic earnings per common share	5	0.66	0.61	1.69	1.68
Diluted earnings per common	5	0.66	0.61	1.69	1.68

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

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

(expressed in thousands of Canadian dollars)

	For the three-month periods ended September 30, 2018 $	2017 $	For the nine-month periods ended September 30, 2018 $	2017 $
Net income for the period	45,848	41,972	117,022	116,773
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	(21,090)	(44,872)	36,524	(87,025)
Income taxes on change in gains (losses) on translation of financial statements of foreign operations	-	4,224	-	5,940
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	7,471	19,644	(13,400)	33,666
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(987)	(7,066)	2,092	(8,910)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	312	(314)	4,396	(879)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(89)	49	(1,203)	198
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	823	644	1,852	(167)
Income taxes on remeasurements of post-retirement benefit obligations	(212)	(211)	(454)	45
	(13,772)	(27,902)	29,807	(57,132)
Comprehensive income	32,076	14,070	146,829	59,641

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

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the nine-month periods ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Note	2018 $	2017 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		117,022	116,773
Adjustments for			
Depreciation of property, plant and equipment		14,883	13,510
Amortization of intangible assets		10,322	11,562
Financial expenses		14,297	15,107
Current income taxes expense		30,932	41,827
Deferred income taxes		12,206	4,679
Restricted stock units expense		5,503	3,197
Other		1,070	(456)
		206,235	206,199
Changes in non-cash working capital components and others			
Accounts receivable		(137,148)	(72,589)
Inventories		46,988	143,290
Prepaid expenses		(19,368)	(1,352)
Income taxes receivable		(6)	(2,708)
Accounts payable and accrued liabilities		43,733	45,159
Asset retirement obligations		(2,676)	(3,006)
Provisions and other long-term liabilities		(1,935)	(2,223)
		(70,412)	106,571
Interest paid		(15,771)	(13,780)
Income taxes paid		(30,882)	(21,828)
		89,170	277,162
Financing activities			
Increase in deferred financing costs		(255)	(717)
Net change in syndicated credit facilities		29,791	(392,100)
Increase in long-term debt		-	195,870
Repayment of long-term debt		(5,075)	(10,370)
Net change in non-competes payable		(1,518)	(1,830)
Dividend on common shares		(24,967)	(22,877)
Proceeds from issuance of common shares		921	1,066
		(1,103)	(230,958)
Investing activities			
Increase in other assets		(282)	(1,679)
Business acquisitions	3	(54,491)	-
Increase in intangible assets		(3,039)	(353)
Purchase of property, plant and equipment		(38,194)	(32,740)
Proceeds from disposal of assets		1,509	420
		(94,497)	(34,352)
Net change in cash and cash equivalents during the period		(6,430)	11,852
Cash and cash equivalents – Beginning of period		6,430	3,719
Cash and cash equivalents – End of period		-	15,571

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

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

1 Description of the business

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

2 Significant accounting policies

Basis of presentation

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

These condensed interim consolidated financial statements were approved by the Board of Directors on November 1, 2018.

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

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

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

Principles of consolidation

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

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

Changes in accounting policies

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

IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

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

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

IFRS 9 – Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

Impairment
The Company assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment

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

methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Hedging transactions

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

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

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

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

Impact of accounting pronouncement not yet implemented

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company is currently

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

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

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

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

3 Business acquisitions

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

Total cash outlay associated with the acquisition was approximately $27,506 (US$21,609), excluding acquisition costs of approximately $423 recognized in the interim consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities. The consideration transferred also contains a balance of purchase price bearing no interest and payable annually on the anniversary of the transaction in six instalments of US$500. This balance of purchase price was recorded at a fair value of $3,339 (US$2,623), using an effective interest rate of 4.17%.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing these interim consolidated financial statements. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. 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	2,054
	32,916
Liabilities assumed	
Deferred income tax liabilities	1,417
Total net assets acquired and liabilities assumed	31,499
Consideration transferred	
Cash	27,506
Consideration payable	654
Balance of purchase price	3,339
Consideration transferred	31,499

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The Company's valuation of intangible assets has identified customer relationships which are amortized at a declining rate of 4.00%. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and is deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. Goodwill is allocated to a cash-generating unit ("CGU") defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from April 9 to September 30, 2018, sales and net income for the Warsaw plant amounted to $19,917 and $1,694, respectively. Pro forma information for the nine-month period ended September 30, 2018, had the WP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first three months of the year.

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

Total cash outlay associated with the acquisition was approximately $26,985 excluding acquisition costs of approximately $425 of which $159 was recognized in the 2017 consolidated statement of income under selling and administrative expenses. The Company financed the acquisition through its existing syndicated credit facilities.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing these interim consolidated financial statements. This fair value determination is expected to be completed within twelve months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

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

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

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

In the period from February 9 to September 30, 2018, sales and net income for the Neepawa plant amounted to $29,082 and $1,167, respectively. Pro forma information for the nine-month period ended September 30, 2018, had the PFP acquisition occurred as of January 1, 2018, cannot be estimated as Management does not have all the required discrete financial information for the first month of the year.

4 Long-term debt

On March 15, 2018, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2023. This extension was granted through an amendment to the fifth amended and restated credit agreement dated as of February 26, 2016, and amended on May 18, 2016 (the "Credit Agreement"). The amendment also increases the accordion option, made available by the Credit Agreement, from US$125,000 to US$350,000. This option applies to the unsecured revolving credit facility and is made available upon request. Finally, the definition

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of total debt used in the Credit Agreement for ratio calculation purposes, was amended to consider cash and cash equivalent balances up to a maximum of US$75 000. All the conditions of the Credit Agreement, other than these modifications, remain unchanged.

5 Capital stock

The following table provides the number of common share outstanding for the nine-month periods ending September 30:

	2018	**2017**
Number of common shares outstanding – Beginning of period*	69,342	69,303
Stock option plan*	-	10
Employee share purchase plans*	22	23
Number of common shares outstanding – End of period*	69,364	69,336

* 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

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

b) Earnings per share

The following table provides the reconciliation, as at September 30, between basic earnings per common share and diluted earnings per common share:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income applicable to common shares	$45,848	$41,972	$117,022	$116,773
Weighted average number of common shares outstanding*	69,357	69,330	69,350	69,319
Effect of dilutive stock options*	8	8	8	10
Weighted average number of diluted common shares outstanding*	69,365	69,338	69,358	69,329
Basic earnings per common share **	$0.66	$0.61	$1.69	$1.68
Diluted earnings per common share **	$0.66	$0.61	$1.69	$1.68

* Number of shares is presented in thousands.

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

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

6 Fair value measurement and financial instruments

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

	As at September 30, 2018	As at December 31, 2017
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	$	$
Recurring fair value measurements		
Current assets		
Derivative commodity contracts	340	473
	340	473
Non-current assets		
Interest rate swap agreements	10,543	6,173
	10,543	6,173

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

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

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

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

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

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fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt has a carrying value of $499 029 (December 31, 2017 – $455,640) and a fair value of $490,466 (December 31, 2017 – $453,478).

7 Seasonality

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

8 Segment information

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

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

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

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

Sales attributed to countries based on location of customer for the nine-month periods ended September 30 are as follows:

	2018	**2017**
	$	**$**
Canada	569,305	462,706
U.S.	1,121,825	1,046,080
	1,691,130	1,508,786

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

Sales by product for the nine-month periods ended September 30 are as follows:

	2018	2017
	$	$
Pressure-treated wood		
Railway ties	535,420	533,571
Utility poles	532,963	491,036
Residential lumber	414,376	317,589
Industrial products	85,951	74,566
Logs and lumber	122,420	92,024
	1,691,130	1,508,786

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

	As at September 30, 2018	As at December 31, 2017
Property, plant and equipment		
	$	$
Canada	129,962	120,804
U.S.	398,966	351,237
	528,928	472,041
Intangible assets		
	$	$
Canada	29,130	23,989
U.S.	95,454	100,375
	124,584	124,364
Goodwill		
	$	$
Canada	19,403	14,864
U.S.	265,629	255,397
	285,032	270,261

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9 Subsequent events

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

10 Comparative figures

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