



EXPANDING POSSIBILITIES

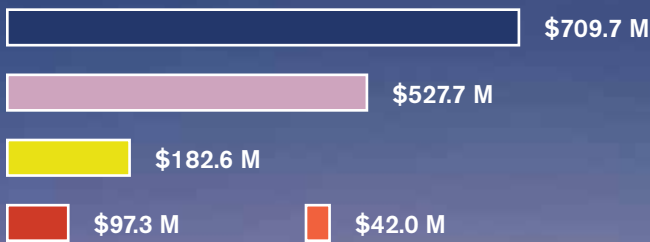
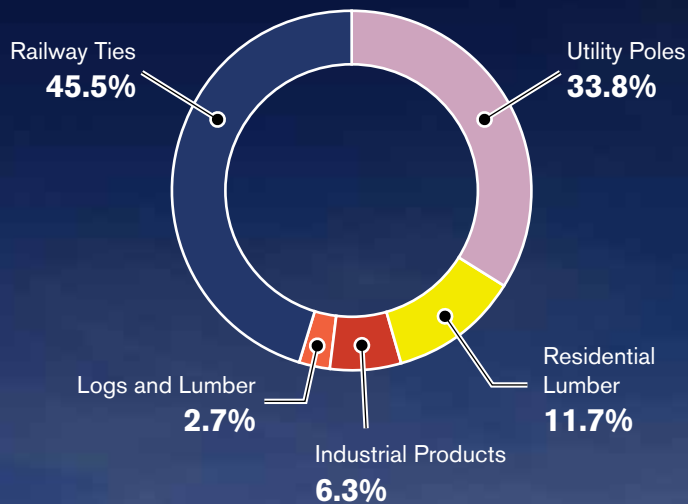
2015 annual report



1.56

BILLION DOLLARS IN TOTAL SALES

Sales by Product Category



2015 Highlights

Record Results

2015 marked the fifteenth consecutive year of growth for Stella-Jones with record sales and net income.

Far-Reaching Network

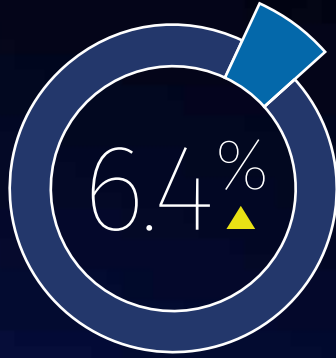
The reach of the Company's network improved still further with the acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. in Ontario, as well as the wood-treating assets of Treated Materials Co., Inc. and United Wood Treating Company, Inc., both in the U.S. Southeast.

Strong Customer Relationships

Stella-Jones further enriched its customer relationships as the Company's product range, distribution abilities and reputation for dependability continued to expand throughout North America.

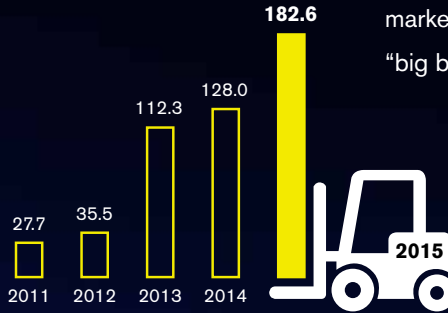
Organic Growth

(excluding acquisitions and currency variations)



Acquisition of RAM Forest Group

RESIDENTIAL LUMBER SALES (in millions of \$)



Enhanced Stella-Jones' ability to broaden its geographical reach in the residential lumber market and to become a full service provider to "big box" and other building material retailers.



FIFTEEN YEARS OF CONTINUOUS GROWTH

NET INCOME (in millions of \$)

Between 2001 and 2015, Stella-Jones' net income rose from \$0.5 M to \$141.4 M.





- Treating Facilities
- ◆ Coal Tar Distillery
- Proposed Acquisitions



- | | | |
|------------------------------|------------------------------|----------------------------------|
| 1 New Westminster, BC | 13 Tacoma, WA | 25 Winslow, IN |
| 2 Prince George, BC | 14 Sheridan, OR | 26 Montevallo, AL |
| 3 Galloway, BC | 15 Eugene, OR | 27 Clanton, AL |
| 4 Carseland, AB | 16 Silver Springs, NV | 28 Cordele, GA |
| 5 Guelph, ON | 17 Eloy, AZ | 29 Whitmire, SC |
| 6 Gormley, ON | 18 Russellville, AR | 30 Goshen, VA |
| 7 Peterborough, ON | 19 Rison, AR | 31 Dubois, PA |
| 8 Gatineau, QC | 20 Alexandria, LA | 32 McAllisterville, PA |
| 9 Delson, QC | 21 Bangor, WI | A Lufkin, TX |
| 10 Sorel-Tracy, QC | 22 Memphis, TN | B Noble and Pineville, LA |
| 11 Truro, NS | 23 Electric Mills, MS | |
| 12 Arlington, WA | 24 Fulton, KY | |

5-Year Financial Performance

FOR THE YEARS ENDED DECEMBER 31	2015	2014	2013	2012	2011
(millions of dollars, except per share data and ratios)	\$	\$	\$	\$	\$
OPERATING RESULTS					
Sales	1,559.3	1,249.5	1,011.3	732.4	651.6
Operating income ¹	220.1	155.7	138.7	109.6	88.0
Net income	141.4	103.8	92.5	73.1	55.7
FINANCIAL POSITION					
Working capital	854.4	615.1	517.0	444.8	273.2
Total assets	1,776.2	1,287.5	1,071.9	955.9	617.1
Total debt ²	669.9	444.6	372.9	363.6	182.7
Shareholders' equity	913.5	692.3	572.2	468.8	331.9
PER SHARE DATA					
Basic earnings per common share	2.05	1.51	1.35	1.14	0.87
Diluted earnings per common share	2.04	1.50	1.34	1.13	0.87
Book value	13.21	10.04	8.33	6.83	5.20
Dividend per share	0.32	0.28	0.20	0.16	0.13
Average number of shares outstanding (000's)	69,018	68,802	68,681	64,313	63,782
Average number of diluted shares outstanding (000's)	69,153	69,027	69,053	64,597	64,027
Shares outstanding at year end (000's)	69,137	68,949	68,697	68,674	63,821
FINANCIAL RATIOS					
Operating margin	14.1%	12.5%	13.7%	15.0%	13.5%
Return on average equity	17.6%	16.4%	17.8%	18.3%	18.2%
Total debt ² to total capitalization	0.42:1	0.39:1	0.39:1	0.44:1	0.35:1
Total debt ² to trailing 12-month EBITDA ¹	2.75	2.52	2.41	3.02	1.89
Working capital	6.45	8.46	8.97	5.94	5.77

SALES

(in millions of \$)



OPERATING INCOME ¹

(in millions of \$)




NET INCOME

(in millions of \$)



¹ Operating income before depreciation of property, plant and equipment and amortization of intangible assets ("EBITDA") and operating income are financial measures not prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Chartered Professional Accountant Canada Handbook Part 1 and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

² Including short-term bank indebtedness.



WE ARE REPORTING ON ANOTHER YEAR OF EXCITING GROWTH FOR STELLA-JONES, WITH SALES INCREASING FROM \$1.25 BILLION IN 2014 TO \$1.56 BILLION IN 2015, AND NET INCOME FROM \$103.8 MILLION TO \$141.4 MILLION. THESE RESULTS WERE ACHIEVED BOTH BY ORGANIC GROWTH AND THROUGH NEW ACQUISITIONS. WE FINISHED 2015 WITH A STRONG FOURTH QUARTER AND A GOOD FORWARD ORDER BOOK GOING INTO 2016. THERE WAS SOME SOFTNESS IN CERTAIN AREAS OF THE UTILITY POLE MARKET, BUT THIS WAS MORE THAN OFFSET BY GOOD DEMAND FOR RAILWAY TIES BOTH IN CANADA AND THE USA. IN 2014, SUPPLIES OF UNTREATED TIES FOR OUR TREATING PLANTS WERE VERY TIGHT IN MOST REGIONS, BUT BY MID-2015 THIS HAD BEEN LARGELY CORRECTED GIVING US IMPROVED PRODUCTION AND REDUCED MANUFACTURING COSTS.

CHAIRMAN'S REPORT



LAST YEAR, THE THEME OF OUR ANNUAL REPORT WAS “WELL POSITIONED”; THIS YEAR, IT IS “EXPANDING POSSIBILITIES”, CHOSEN PARTLY BECAUSE WE HAVE SPECIFICALLY FOCUSED ON GROWTH IN ONE OF OUR EXISTING PRODUCT CATEGORIES WHICH TO DATE, HAS PLAYED A RELATIVELY MINOR PART IN THE OVERALL COMPOSITION OF OUR BUSINESS, NAMELY RESIDENTIAL LUMBER.

The acquisition, in October 2015, of Ram Forest Products with two plants in Ontario, coupled with a vital strategic alliance with a major big box chain, will bring sales of treated lumber and associated products in 2016 to about 20% of our total sales, up from only 11% in 2015. It will also make Stella-Jones one of the largest buyers of premium grade lumber in Canada.

In the wood pole category, we made three new acquisitions during the year. We acquired substantially all of the operating assets of McCormick Piling & Lumber Co., a pole peeling company in Oregon, and two pole treatment companies, Treated Materials Co., Inc. in Arkansas and United Wood Treating Company, Inc. in South Carolina.

We are proud that Stella-Jones qualified in 2015 for admission to the S&P/TSX Composite Index. This has given the Company added exposure in financial markets and significantly increased average daily share trades.

Jim Manzi, a US corporate lawyer, was appointed to the Board in April 2015. Jim is a retired partner of Foley & Lardner LLP in Boston, in which capacity he advised Stella-Jones in numerous acquisitions carried out in the United States. His qualifications to serve as a Director of the Company therefore need no further emphasis.

On behalf of the Board, I wish to thank our shareholders and customers for their support, and I congratulate all our employees on their outstanding contribution in 2015.

Tom A. Bruce Jones, CBE
Chairman



IN 2015, STELLA-JONES EARNED THE HIGHEST REVENUES IN ITS HISTORY, AND POSITIONED ITSELF IN A NUMBER OF KEY WAYS FOR FURTHER GROWTH. THE COMPANY'S CONTINENTAL PRODUCTION NETWORK ONCE AGAIN EXPANDED THROUGH ACQUISITION, THUS ENHANCING THE COMPANY'S ALREADY ENTRENCHED ROLE AS A LEADING SOURCE AND RELIABLE SUPPLIER OF TREATED WOOD PRODUCTS. IN THE YEARS AHEAD, BENEFITING FROM ECONOMIES OF SCALE AND CONTINUOUS EFFICIENCY IMPROVEMENT, STELLA-JONES ANTICIPATES STILL GREATER POSSIBILITIES IN ITS TRADITIONAL MARKETPLACE AND STEADILY INCREASING PARTICIPATION IN UNTAPPED MARKETS.

PRESIDENT'S MESSAGE



OVER THE PAST FIFTEEN YEARS, STELLA-JONES HAS ENGAGED IN A STEADY AND HIGHLY FOCUSED STRATEGY OF EXPANSION. AT THE SAME TIME, WE HAVE ADHERED RIGOROUSLY TO OUR BUSINESS MODEL, AND HAVE NEVER DIVERGED FROM A PRECISELY DEFINED GOAL. IN THE INTEREST OF BUILDING SHAREHOLDER VALUE, WE HAVE AIMED AT BECOMING THE PRINCIPAL NORTH AMERICAN PROVIDER OF TREATED WOOD PRODUCTS IN OUR CATEGORIES.

That goal is being progressively achieved. In 2015, Stella-Jones reached record milestones in sales and net income driven by the ever-increasing efficiency of our operations and confidence of our clients.

As demand remained healthy for our treated wood railway ties, utility poles and lumber, the year's sales amounted to \$1.56 billion. Net income totalled \$141.4 million, representing an improvement of 36.1% over the previous year. Excluding the revenue contribution of our most recent acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar, sales rose by approximately 6.4%, reflecting healthy product demand.

EXPANDING POSSIBILITIES

With every strategic step that Stella-Jones has taken in the course of expansion, we have improved our operations and enhanced our offering. In 2015, we took two more logical next steps. The Company executed several acquisitions which together augmented our capacity and market coverage.

In the province of Ontario, Stella-Jones' acquisition of Ram Forest Group Inc. and Ramfor Lumber Inc. enhanced our procurement, production and distribution capabilities. Most particularly, this acquisition should help us further grow the residential lumber category. Ram Forest Group produces pressure treated wood products and accessories for the retail building materials industry, while Ramfor Lumber is a purchasing entity for Ram Forest Group.

In the southeastern U.S., we acquired the operating assets of Treated Materials Co., Inc. and of United Wood Treating Company, Inc., two respected producers of treated utility poles. These transactions have strengthened our production network, and we are leveraging the synergies they have afforded us.



RAILWAY TIES

Leveraging Customer Relationships

As Stella-Jones' reach and authority grow in the railway tie market, so too does the opportunity to provide the Company's clients with value-added services such as pre-plating. In addition, the Company's 'black tie' program manages all of a client's needs in reference to railway ties, from sourcing to treating to warehousing. These comprehensive offerings are aimed at increasingly strengthening customer loyalty and creating additional revenue streams.

“THE BUSINESS MODEL WE HAVE METHODICALLY FOLLOWED OVER THE LAST FIFTEEN YEARS HAS ENABLED STELLA-JONES TO CONSISTENTLY ENLARGE ITS MARKET PARTICIPATION AND OPEN NEW PATHWAYS TO GROWTH. THE YEAR 2015 REFLECTED THE STRATEGY’S ACCELERATING BENEFITS. WITH RECORD SALES AND NET INCOME, OUR COMPANY NOW ENJOYS A HOST OF EXPANDING POSSIBILITIES.”

These additions to the Stella-Jones network have brought assets and personnel that complement our core expertise. Most significantly, they have also introduced the Company to new customer bases. Numerous possibilities have thus opened for both diversifying and widening our principal markets.

RAILWAY TIES

Pressure treated railway ties remained Stella-Jones’ largest product category in 2015. During the year, we generated strong sales, as North American railways responded to an encouraging economic environment. Among our clients in the railway industry, we count the most prominent Class 1 operators in addition to many regional companies. With freight volumes at healthy levels, these core suppliers of continental transportation maintained their physical infrastructures and invested in new track. Stella-Jones’ revenues in 2015 from railway tie sales amounted to \$709.7 million, a 33.9% increase over the previous year, reflecting sustained demand for our products, selling price adjustments and a favourable currency conversion effect.

UTILITY POLES

In 2015, our Company continued to play a key supplier role in regards to North America’s electrical transmission and communications infrastructure, as demand remained steady for our second largest product category, utility poles. Revenue from pole sales came to \$527.7 million, up \$57.2 million from the previous year. We saw a



UTILITY POLES

Replacement Cycle Pending

Enhanced market reach in the utility pole category is expected to be strengthened by Stella-Jones’ strategic acquisitions in the southeastern U.S. Furthermore, in addition to steady annual demand for new poles, a major replacement cycle for aged poles should transpire over the next few years. The mass retirement of aged poles will fuel significant supplementary demand for this vital component of continent-wide infrastructure.

weakening in the market for transmission poles as special projects lagged, reflecting decreased activity in the oil and gas as well as mining industries. The decline on the transmission pole side was offset by an increase in sales of distribution poles as regular maintenance projects went ahead.

RESIDENTIAL LUMBER

The residential lumber market has proven to be a significant source of growth for Stella-Jones. Our escalating participation in this consumer category is particularly apt in light of our Company's core expertise in the treatment of wood. Clients have complete confidence in the quality of our product, and they value the security of supply provided by our continental network of facilities. In 2015, our presence in the residential lumber market continued to progress. Sales amounted to \$182.6 million, a 42.6% increase over the previous year. This improvement comes mainly from the Ram acquisition, higher sales in the U.S., and our higher sales in western Canada.

INDUSTRIAL PRODUCTS

The industrial products category remained an important source of ancillary revenue for Stella-Jones in 2015. Our manufacture of specially treated bridge and construction timbers has made the Company a trusted supplier of treated wood for the marine and building sectors. Our products in this category are preserved to withstand the most demanding environmental conditions. Sales came to \$97.3 million during the year, representing an 8.9% increase relative to 2014. The rise is mainly attributable to a favourable currency conversion effect.

LOGS & LUMBER

In this category, logs comprise the logs harvested in the course of our procurement process that we determine to be unsuitable for use as utility poles. Additionally, in the course of procuring sufficient competitively priced residential lumber volumes, we engage in reselling excess lumber into local home-building markets. The sale of these logs and lumber items generated \$42.0 million in 2015, an increase of \$10.4 million over the previous year. The improvement in this category resulted from additional lumber sales.



RESIDENTIAL LUMBER

Growing Opportunity

Stella-Jones' acquisition in 2015 of the Ram Forest Group, a producer of treated wood products for the retail building materials industry, marks a dynamic additional component in the Company's growth plan. The transaction confirms Stella-Jones' increasing involvement in the residential lumber market.

OUTLOOK

As a supplier of basic infrastructure, the success of Stella-Jones has always been a reflection of the investments made in several of the North American economy's most fundamental physical components: the railway tracks on which freight is moved; and the electrical and telecom networks through which much of the continent's power and communications are delivered. Stella-Jones not only thrives on the regular upkeep of those vast systems, the Company grows as they grow. Indications are that in the year ahead, the economy will maintain its momentum. Accordingly, we expect the demand for our core products to remain healthy.

Subsequent to year-end, we signed non-binding letters of intent to acquire Lufkin Creosoting, a producer of treated poles and timbers in the state of Texas, and Kisatchie, a producer of treated poles, pilings and timbers in the state of Louisiana. The sales of these potential acquisitions totaled approximately US\$34.2 million and US\$51.8 million, respectively, in 2015. We expect both transactions to close in the second quarter of 2016.

Internally, during the year ahead, two key objectives will complement Stella-Jones' emphasis on building additional shareholder value. We will focus on the integration of our 2015 acquisitions, as well as on the integration of the facilities we expect to acquire in April. Simultaneously, we will identify further means to enhance network productivity.

I want to take this opportunity to express my gratitude to the nearly two thousand employees of Stella-Jones for another year of hard work and dedication, and to thank the shareholders of the Company for their confidence and support.



Brian McManus

President and Chief Executive Officer



INDUSTRIAL PRODUCTS/LOGS AND LUMBER Entering Untapped Markets

Stella-Jones offers unrivalled expertise with preservatives and a production network with continental scope. These factors have positioned the Company to make it a supplier of choice in untapped markets for marine and foundation pilings, bridge timbers and highway guardrail posts.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

MANAGEMENT'S DISCUSSION & ANALYSIS

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

This MD&A and the Company's audited consolidated financial statements were approved by the Board of Directors on March 15, 2016. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2015 compared with the fiscal year ended December 31, 2014. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 and the notes thereto.

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

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountant ("CPA") Canada Handbook Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

OUR BUSINESS

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

As at December 31, 2015, the Company operated thirty-one wood treating plants, eleven pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and seventeen American states and are complemented by an extensive distribution network across North America. As at December 31, 2015, Stella-Jones' workforce numbered approximately 1,760 employees.

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

OUR MISSION

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

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

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

NON-IFRS FINANCIAL MEASURES

Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid 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 operating results as they provide additional measures of its performance.

Reconciliation of EBITDA and operating income to net income	Three-month periods ended		Fiscal years ended	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
(in millions of dollars)	\$	\$	\$	\$
Net income for the period	33.0	23.0	141.4	103.8
Plus:				
Provision for income taxes	10.5	7.1	61.6	38.9
Financial expenses	4.8	3.8	17.1	13.0
Operating income	48.3	33.9	220.1	155.7
Depreciation and amortization	6.2	5.8	23.3	20.6
EBITDA	54.5	39.7	243.4	176.3

MAJOR ACHIEVEMENTS OF 2015

Stella-Jones recorded a solid performance in the year ended December 31, 2015. The Company proceeded with further network expansion through several strategic acquisitions in both Canada and the United States. On the operating front, it achieved record sales and net income, while concluding the year in a healthy financial position. Going forward, Stella-Jones remains committed to executing its operating strategy based on continental expansion in its core railway tie and utility pole markets, as well as capturing select opportunities in other markets for its treated wood products.

Network expansion

Canada

Ram Forest Group Inc. and Ramfor Lumber Inc.

On October 1, 2015, the Company completed the acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"), which, through their wholly-owned subsidiaries, operate wood treating facilities in Gormley and Peterborough Ontario. Ramfor Lumber Inc. is a lumber purchasing entity serving Ram Forest Group Inc.

Total cash outlay associated with the acquisition was approximately \$44.9 million which includes an amount of \$4.3 million deposited in escrow to be used for capital expenditures at the wood treating facilities. The cash outlay excludes acquisition costs of approximately \$1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. In addition, a balance of purchase price of \$5.4 million was recognized as well as a consideration payable of \$0.3 million for a net working capital adjustment.

United States

United Wood Treating Company, Inc.

On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of United Wood Treating

Company, Inc. ("United Wood") located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles, as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$12.0 million (US\$9.0 million), excluding acquisition costs of approximately \$158,000, recognized in the consolidated statement of income under selling and administrative expenses.

Treated Materials Co., Inc.

On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of Treated Materials Co., Inc. ("Treated Materials") located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$5.4 million (US\$4.1 million), excluding acquisition costs of approximately \$142,000, recognized in the consolidated statement of income under selling and administrative expenses.

McCormick Piling and Lumber Co.

On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. ("McCormick"), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximately \$4.7 million (US\$3.8 million), excluding acquisition costs of approximately \$226,000, recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2015 reached \$1,559.3 million, up 24.8% from last year's sales of \$1,249.5 million. The Ram acquisition completed on October 1, 2015 generated sales of \$14.8 million, while the wood treating facilities acquired from Boatright Railroad Products, Inc. ("Boatright") on May 22, 2014 contributed additional sales of \$48.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$166.3 million when compared with the previous year. Excluding these factors, sales increased approximately \$80.4 million, or 6.4%.

Stella-Jones' annual operating income reached \$220.1 million, or 14.1% of sales, in 2015. This represents a 41.3% increase over \$155.7 million, or 12.5% of sales, in the prior year. As a result, net income for the year grew 36.1% to \$141.4 million, or \$2.04 per diluted

share, compared with \$103.8 million, or \$1.50 per diluted share, a year ago. The Company generated a 17.6% return on average equity in 2015.

Stella-Jones produced strong cash flows in 2015 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to \$254.3 million, up 40.2% from \$181.5 million in 2014. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the eleventh consecutive year. Although the Ram acquisition was completed in the last quarter of the year and was mostly financed through the Company's existing committed revolving credit facility, Stella-Jones' total debt to total capitalization ratio remained sound as at December 31, 2015, reaching 0.42:1, compared with 0.39:1 twelve months earlier.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	2015	2014	2013
(in millions of dollars, except per share data)	\$	\$	\$
Sales	1,559.3	1,249.5	1,011.3
Operating income	220.1	155.7	138.7
Net income	141.4	103.8	92.5
Basic earnings per common share	2.05	1.51	1.35
Diluted earnings per common share	2.04	1.50	1.34

Financial Position	2015	2014	2013
(in millions of dollars)	\$	\$	\$
Current assets	1,011.2	697.5	581.9
Total assets	1,776.2	1,287.5	1,071.9
Long-term debt*	669.9	444.6	372.9
Total liabilities	862.7	595.2	499.7
Shareholders' equity	913.5	692.3	572.2

* Including current portion

KEY PERFORMANCE INDICATORS (years ended December 31)

	2015	2014	2013
Operating margin	14.1%	12.5%	13.7%
Return on average equity	17.6%	16.4%	17.8%
Working capital ratio	6.45	8.46	8.97
Total debt to total capitalization	0.42:1	0.39:1	0.39:1
Total debt to trailing 12-month EBITDA	2.75	2.52	2.41
Dividend per share	\$0.32	\$0.28	\$0.20

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2015 and 2014. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn\$/US\$	2015		2014	
	Average	Closing	Average	Closing
First Quarter	1.2272	1.2666	1.0949	1.1055
Second Quarter	1.2389	1.2490	1.0952	1.0670
Third Quarter	1.2909	1.3345	1.0816	1.1200
Fourth Quarter	1.3258	1.3840	1.1304	1.1601
Fiscal Year	1.2707	1.3840	1.1005	1.1601

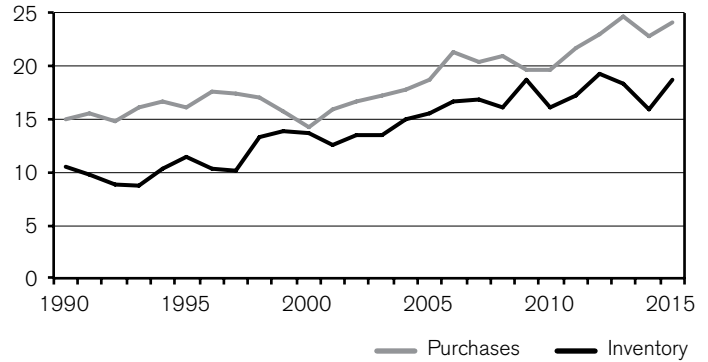
RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association, railway tie purchases for 2015 stood at 24.1 million ties, representing a 5.3% increase over the previous year. In parallel, greater availability of untreated railway ties allowed for a gradual inventory rebuilding as 2015 progressed. As a result, the inventory-to-sales ratio reached 0.78:1, as at December 31, 2015, up from 0.70:1 twelve months earlier, and back in line with the previous ten-year average ratio.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

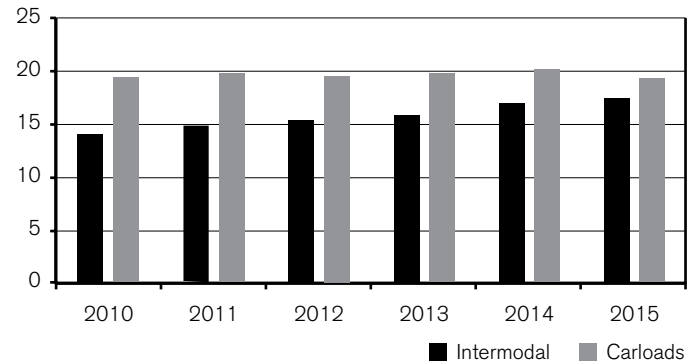
Reflecting weaker resources and manufacturing markets, as well as a softer global economy compared with the previous year, total traffic on North American railroads decreased by 2.2% in 2015, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 2.1% in 2015, the volume of carloads decreased 5.8% from 2014 levels, due to a reduction in shipments of metal-related products, coal and petroleum-related products.

ANNUALIZED RAILWAY TIE PURCHASES AND INVENTORY
(in millions of ties)



Source: Railway Tie Association

FREIGHT HAULED ON NORTH AMERICAN RAILROADS
(in millions of units)



Source: Association of American Railroads

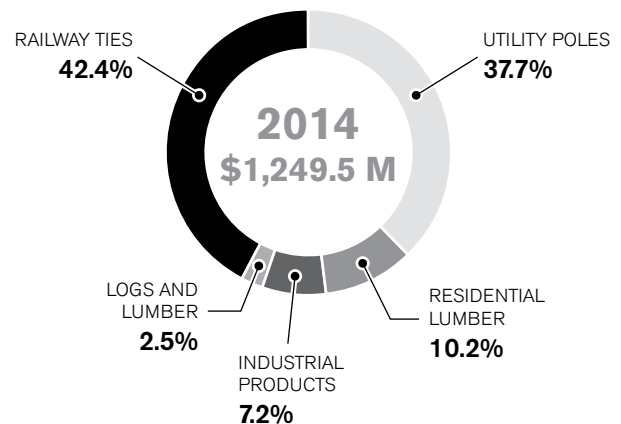
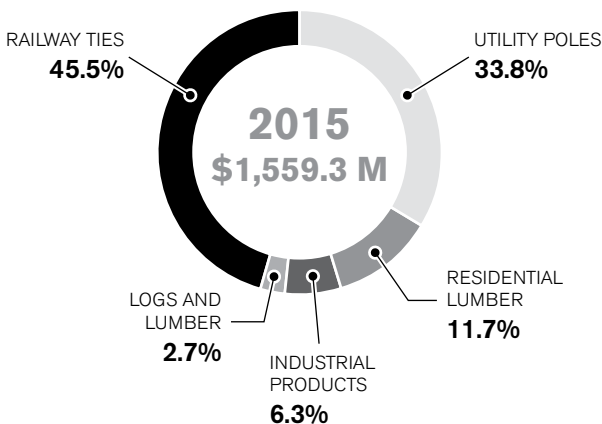
OPERATING RESULTS

Sales

Sales for the year ended December 31, 2015 reached \$1,559.3 million, up 24.8% from last year's sales of \$1,249.5 million. The Ram acquisition completed on October 1, 2015 generated sales of \$14.8 million, while the wood treating facilities acquired from Boatright on May 22, 2014 contributed additional sales of \$48.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$166.3 million when compared with the previous year. Excluding these factors, sales increased approximately \$80.4 million, or 6.4%.

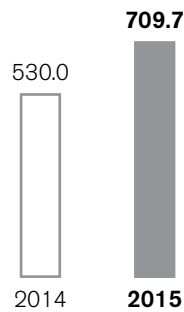
SALES BY PRODUCT CATEGORY

(% of sales)

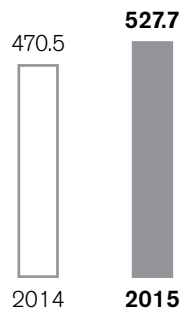


1 RAILWAY TIE SALES

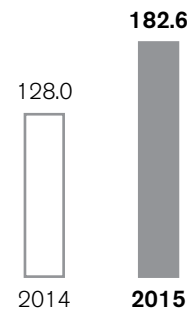
(in millions of \$)

**2 UTILITY POLE SALES**

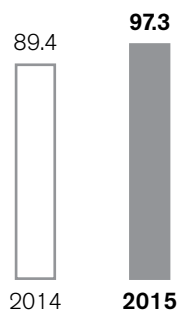
(in millions of \$)

**3 RESIDENTIAL LUMBER SALES**

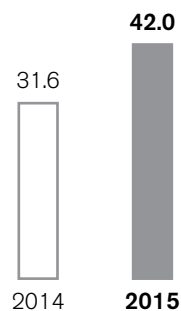
(in millions of \$)

**4 INDUSTRIAL PRODUCT SALES**

(in millions of \$)

**5 LOGS AND LUMBER SALES**

(in millions of \$)

**1. Railway ties**

Railway tie sales for 2015 amounted to \$709.7 million, up \$179.7 million, or 33.9%, from \$530.0 million in 2014. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales rose approximately \$50.8 million, or 9.6%. This increase reflects higher year-over-year selling prices and healthy industry demand resulting from tie replacement programs. Railway tie sales accounted for 45.5% of the Company's total sales in 2015.

2. Utility poles

Utility pole sales reached \$527.7 million in 2015, representing an increase of \$57.2 million, or 12.2%, from sales of \$470.5 million in 2014. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, sales rose approximately \$4.1 million, or 0.9%. This increase reflects a steady rise in sales of distribution poles stemming from regular replacement programs, partially offset by lower sales of transmission poles. Decreased demand in special projects as a result of the weakness in the oil and gas as well as mining industries explain the lower sales of transmission poles. Utility pole sales accounted for 33.8% of the Company's total sales in 2015.

3. Residential lumber

Sales in the residential lumber category totalled \$182.6 million in 2015, up from \$128.0 million in 2014. This \$54.6 million, or 42.6%, increase mainly reflects the Ram acquisition and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S.

currency. Excluding these factors, sales increased \$23.8 million, or 18.6% due to higher sales in the United States, as well as higher sales in Western Canada, mostly explained by the Company's increasing reach in British Columbia. Residential lumber accounted for 11.7% of Stella-Jones' sales in 2015.

4. Industrial products

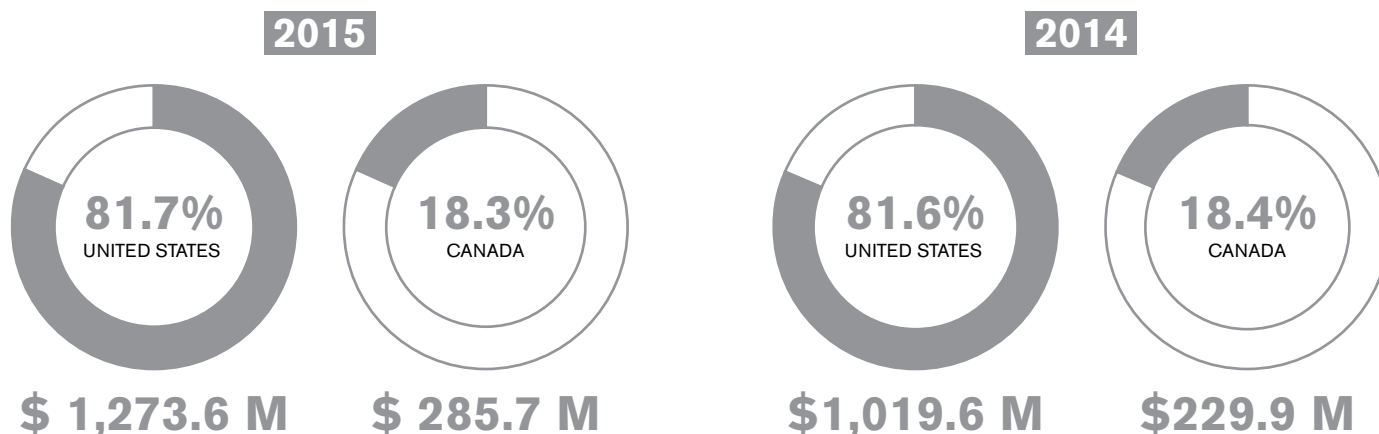
Industrial product sales were \$97.3 million in 2015, compared with \$89.4 million in 2014. This increase is mainly attributable to higher sales of treated wood for bridge structures as a result of capacity addition at the Russellville, Arkansas facility and to the currency conversion effect. These factors were partially offset by less demand for piling and laminated poles in the United States. Industrial products represented 6.3% of sales in 2015.

5. Logs and lumber

In the last quarter of 2015, Stella-Jones enlarged its procurement department to support residential lumber requirements. In order to procure sufficient lumber at competitive pricing for this product category, the Company is engaged in purchasing greater volumes and subsequently, reselling excess product into local home-building markets. Margins on resold lumber are nominal, as they are performed at a value close to cost of sales. These lumber sales, along with non-pole-quality log sales, amounted to \$42.0 million in 2015, up from \$31.6 million in 2014. This increase is due to the purchase and resale of lumber, as well as the timing of timber harvesting. Logs and lumber represented 2.7% of sales in 2015.

SALES BY GEOGRAPHIC REGION

(% of sales)



Sales in the United States amounted to \$1,273.6 million, or 81.7% of sales in 2015, representing an increase of \$254.0 million, or 24.9%, over 2014. The year-over-year rise mainly stems from a higher conversion rate on U.S. dollar denominated sales, the additional contribution from the Boatright operations, and higher railway tie sales, primarily resulting from selling price increases and healthy industry demand.

Sales in Canada increased by \$55.8 million, or 24.3%, in 2015 to reach \$285.7 million, representing 18.3% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales due to the Ram acquisition and a greater reach in British Columbia, as well as increasing railway tie sales resulting from higher pricing.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was \$1,252.0 million, or 80.3% of sales, in 2015. This compares with \$1,025.3 million, or 82.1% of sales, in 2014. The increase in absolute dollars essentially reflects higher business activity, the Ram acquisition, additional costs resulting from the full-year contribution of the Boatright assets, and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the decrease is mainly attributable to adjusted pricing for railway ties and greater efficiencies throughout the Company's plant network.

Depreciation and amortization charges totalled \$23.3 million for the year ended December 31, 2015, versus \$20.6 million a year earlier. The year-over-year increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of the 2015 acquisitions, of Boatright for the full year, and to a higher average rate applied to convert U.S. dollar denominated depreciation and amortization.

As a result, gross profit reached \$307.3 million or 19.7% of sales in 2015, up from \$224.2 million or 17.9% of sales in 2014.

Selling and administrative

Selling and administrative expenses for 2015 were \$85.6 million, or 5.5% of sales, compared with expenses of \$69.1 million, or 5.5% of sales, in 2014. The variation in monetary terms is mainly attributable to a \$4.0 million increase in stock-based compensation following the appreciation of the Company's share price on the TSX, an increase in profit sharing and the effect of currency translation on U.S. dollar denominated selling and administrative expenses. This year's expenses also included approximately \$1.5 million in acquisition costs directly related to the 2015 business acquisitions, while last year's expenses included approximately \$753,000 in acquisition costs directly related to the Boatright transaction.

Other losses (gains), net

Stella-Jones' other net losses of \$1.7 million for the year ended December 31, 2015 included a \$1.8 million remediation provision adjustment, a \$558,000 loss on the sale of timber licenses and plant closure provision adjustments of \$305,000. These elements were partially offset by a \$929,000 gain on foreign currency conversion. In 2014, other net gains of \$643,000 included a \$5.7 million gain on the sale of a timber license, \$3.9 million of environmental provision reversals and a \$1.3 million gain on foreign currency conversion, partially offset by losses on disposal of long-term assets of \$5.5 million and by \$2.2 million of plant closure costs.

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

Financial expenses

Financial expenses reached \$17.1 million in 2015, up from \$13.0 million in 2014. This increase is attributable to higher year-over-year borrowings as a result of the Ram acquisition, increased working capital requirements and the effect of local currency on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of \$203.0 million, or 13.0% of sales, in 2015. This represents an increase of 42.2%, over income before income taxes of \$142.7 million, or 11.4% of sales, in 2014. The year-over-year increase in income before income taxes as a percentage of sales essentially reflects a higher gross profit as a percentage of sales.

Stella-Jones' provision for income taxes totalled \$61.6 million in 2015, representing an effective tax rate of 30.3%. In 2014, the income tax expenses stood at \$38.9 million, equivalent to an effective tax rate of 27.2%. The higher effective tax rate for 2015 is mainly attributable to a less favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the year ended December 31, 2015 reached \$141.4 million, or \$2.04 per diluted share, compared with \$103.8 million, or \$1.50 per diluted share, in 2014. This represents a year-over-year increase in net income of 36.1%.

BUSINESS ACQUISITIONS

United Wood Treating Company, Inc.

On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of United Wood, located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$12.0 million (US\$9.0 million), excluding acquisition costs of approximately \$158,000, recognized in the consolidated statement of income under selling and administrative expenses.

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 the consolidated financial statements. This fair value determination is expected to be completed within 12 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.

(tabular information presented in thousands of dollars)		\$
Assets acquired		
Accounts receivable		1,018
Inventories		3,773
Property, plant and equipment		6,044
Goodwill		2,943
Deferred income tax assets		12
		13,790
Liabilities assumed		
Site remediation provision		65
Total net assets acquired and liabilities assumed		13,725
Consideration transferred		
Cash		11,971
Unsecured promissory note		1,754
Consideration transferred		13,725

Goodwill is amortized and 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. For impairment test purposes, goodwill is allocated to cash generating units ("CGU") as defined in the Company's accounting policies. In the case of the United Wood acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of \$1.9 million (US\$1.5 million) bears interest at 1.7%, is payable in three equal annual instalments and was fair valued at \$1.8 million, using an interest rate of 7.0%.

Ram Forest Group Inc. and Ramfor Lumber Inc.

On October 1, 2015, the Company completed the acquisition of Ram, which manufactures and sells pressure treated wood products and accessories to the retail building materials industry. It operates wood treating facilities in Gormley and Peterborough, Ontario and also has a lumber purchasing entity.

Total cash outlay associated with the acquisition was approximately \$44.9 million, which includes an amount of \$4.3 million deposited in escrow to be used for capital expenditures at the wood treating facilities. The cash outlay excludes acquisition costs of approximately \$1.0 million, recognized in the consolidated statement of income under selling and administrative expenses. In addition, the Company recognized a balance of purchase price of \$5.4 million as well as a consideration payable of \$317,000 for a net working capital adjustment.

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 the consolidated financial statements. This fair value determination is expected to be completed within 12 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.

(tabular information presented in thousands of dollars)		\$
Assets acquired		
Accounts receivable		7,765
Inventories		12,047
Other assets		1,514
Property, plant and equipment		17,690
Customer relationships		21,300
Goodwill		6,026
		66,342
Liabilities assumed		
Accounts payable and accrued liabilities		3,269
Bank indebtedness		9,839
Deferred income tax liabilities		6,892
Total net assets acquired and liabilities assumed		46,342
Consideration transferred		
Cash		40,595
Balance of purchase price		5,430
Consideration payable		317
Consideration transferred		46,342

The Company's valuation of intangible assets has identified customer relationships having a 12 year useful life. 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 not amortized and not deductible for Canadian tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU, as defined in the Company's accounting policies. In the case of the Ram acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

As of the acquisition date, an amount of \$4.3 million was deposited in an escrow account intended for capital improvements. The Company has until April 1, 2017 to complete specific investment projects. Otherwise, the remaining funds in the escrow account will be returned to the seller. Management believes that the capital investments will be completed before the deadline.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and a balance of purchase price of \$5.8 million. This deferred payment bears no interest and is payable on the anniversary of the transaction in the amounts of \$2.9 million in 2016, \$0.5 million in 2017, \$0.8 million in 2018, \$0.8 million in 2019 and \$0.8 million in 2020. The balance of purchase price was recorded under long-term debt at a fair value of \$5.4 million using an interest rate of 2.9%. The difference between the face value and the fair value of this consideration payable is being accreted on an effective yield.

Treated Materials Co., Inc.

On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of Treated Materials located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$5.4 million (US\$4.1 million), excluding acquisition costs of approximately \$142,000, recognized in the consolidated statement of income under selling and administrative expenses.

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 the consolidated financial statements. This fair value determination is expected to be completed within 12 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.

(tabular information presented in thousands of dollars)		\$
Assets acquired		
Accounts receivable	1,080	
Inventories	1,651	
Property, plant and equipment	5,253	
Favourable land lease agreement	1,062	
Goodwill	683	
	9,729	
Liabilities assumed		
Deferred income tax liabilities	459	
Site remediation provision	602	
Total net assets acquired and liabilities assumed	8,668	
Consideration transferred		
Cash	5,393	
Unsecured promissory note	3,275	
Consideration transferred	8,668	

The Company's valuation of intangible assets has identified a favourable land lease agreement. 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 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. For impairment test purposes, goodwill is allocated to a CGU, as defined in the Company's accounting policies. In the case of the Treated Materials acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of \$4.0 million (US\$3.0 million) bears no interest, is payable in five equal instalments over a five-year period and was fair valued at \$3.3 million, using an interest rate of 7.0%.

McCormick Piling and Lumber Co.

On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of McCormick, a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximately \$4.7 million (US\$3.8 million), excluding acquisition costs of approximately \$226,000, recognized in the consolidated statement of income under selling and administrative expenses.

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 the consolidated financial statements. This fair value determination is expected to be completed within 12 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.

(tabular information presented in thousands of dollars)		\$
Assets acquired		
Accounts receivable	701	
Inventories	1,486	
Property, plant and equipment	726	
Customer relationships	849	
Goodwill	3,151	
	6,913	
Liabilities assumed		
Deferred income tax liabilities	81	
Total net assets acquired and liabilities assumed	6,832	
Consideration transferred		
Cash	4,685	
Unsecured promissory note – 12 months	1,342	
Unsecured promissory note – 24 months	805	
Consideration transferred	6,832	

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is three years. 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 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. For impairment test purposes, goodwill is allocated to a CGU, as defined in the Company's accounting policies. In the case of the McCormick acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of \$1.4 million (US\$1.1 million) bears interest at 0.48%, is payable in a single instalment on April 8, 2016 and was fair valued at \$1.3 million, using an interest rate of 7.0%. The second unsecured promissory note of \$928,000 (US\$742,800) bears interest at 0.48%, is payable in a single instalment on April 8, 2017 and was fair valued at \$805,000, using an interest rate of 7.0%.

SUBSEQUENT EVENTS

Network expansion

On February 3, 2016, the Company announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of 440 Investments, LLC, the parent company of Kisatchie Treating, LLC, Kisatchie Pole & Piling, LLC, Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie"). Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Noble and Pineville, Louisiana. Kisatchie's consolidated sales for the year ended December 31, 2015 reached approximately US\$51.8 million.

Also on February 3, 2016, Stella-Jones announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting"). Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas. Its consolidated sales for the year ended December 31, 2015 reached approximately US\$34.2 million.

These transactions, if finalized, are expected to close in the second quarter of 2016 and are subject to customary conditions, including satisfactory due diligence and the signature of definitive share purchase agreements.

New and amended credit agreements

On February 26, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fourth amended and restated credit agreement dated March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) will make available a committed revolving credit facility for a period of five years and will be increased from US\$450.0 million to US\$500.0 million for the first two years. Subsequently, the committed revolving credit facility will be reduced to US\$450.0 million in the third year and finally be reduced

to US\$350.0 million for the fourth and fifth years. The amended agreement also includes an accordion option allowing the request of an increase of up to US\$200.0 million to the committed revolving credit facility, subject to customary conditions. The committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and will mature on February 26, 2021. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on a pricing grid.

The committed revolving credit facility is unsecured, subject to a negative pledge, other than permitted liens, in favor of the bank syndicate.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the interest charge coverage ratio equal to or greater than 3.00:1. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.0% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 3.25:1. In the case where the total debt to EBITDA ratio is lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

Also on February 26, 2016, the Company entered into demand loan agreements with two banks participating in the committed revolving credit facility syndication. The demand loans make available financing up to US\$50.0 million under the same conditions as the fifth amended and restated committed revolving credit facility. This indebtedness, if required by the Company, will be presented under short-term liabilities as the banks have the option to request reimbursement of the loan at any time.

QUARTERLY RESULTS

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

In 2015, the Company achieved year-over-year revenue and net income growth in all quarters, driven by solid demand for its core products, selling price adjustments, the effect of currency variations, the Ram acquisition in the fourth quarter and the additional contribution of the Boatright assets in the first half of the year. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

	2015				
For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	340.7	428.1	433.1	357.5	1,559.3
Operating income before depreciation of property, plant and equipment and amortization of intangible assets ¹	53.3	66.6	68.8	54.5	243.4
Operating income ¹	47.6	61.1	62.9	48.3	220.1
Net income for the period	30.1	38.9	39.3	33.0	141.4
Earnings per common share					
Basic	0.44	0.56	0.57	0.48	2.05
Diluted	0.43	0.56	0.57	0.48	2.04

	2014				
For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	257.5	344.8	357.3	289.9	1,249.5
Operating income before depreciation of property, plant and equipment and amortization of intangible assets ¹	39.1	46.2	51.3	39.7	176.3
Operating income ¹	34.7	41.6	45.5	33.9	155.7
Net income for the period	22.5	28.8	29.5	23.0	103.8
Earnings per common share					
Basic	0.33	0.42	0.43	0.33	1.51
Diluted	0.33	0.42	0.43	0.33	1.50

¹ Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

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

Fourth Quarter Results

Sales for the fourth quarter of 2015 amounted to \$357.5 million, up 23.3% from \$289.9 million for the same period in 2014. This increase is attributable to sales of \$14.8 million from the Ram acquisition, while the conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by \$41.6 million when compared with last year. Excluding these factors, sales increased approximately \$11.2 million, or 3.9%.

Sales of railway ties reached \$147.5 million, versus \$131.1 million last year. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales decreased \$4.3 million, or 3.3%, mainly due to the delivery timing of certain orders this year compared to last. Utility pole sales rose \$15.7 million, or 13.8%, to \$129.5 million. Excluding the conversion effect from currency fluctuations, sales increased approximately \$1.4 million, as higher sales of distribution poles stemming from regular replacement programs was partially offset by lower sales of transmission poles due to decreased demand in special projects as a result of the weakness in the oil and gas as well as mining industries. Residential lumber sales reached \$40.1 million, up from \$17.9 million last year, reflecting the Ram acquisition. Industrial product sales amounted to \$23.6 million, up from \$18.7 million a year ago, as a result of higher sales of treated wood for bridge structures. Logs and lumber sales were \$16.7 million, versus \$8.4 million last year due to the purchase and resale of lumber, as well as the timing of timber harvesting.

Gross profit amounted to \$69.3 million, or 19.4% of sales, in the fourth quarter of 2015, versus \$51.4 million, or 17.7% of sales, in the fourth quarter of 2014. The increase in absolute dollars reflects higher business activity, the contribution from the Ram acquisition, as well as the favourable impact of the conversion effect from currency fluctuations. The increase as a percentage of sales is attributable to adjusted pricing for railway ties and greater efficiencies throughout the Company's plant network.

Reflecting factors that affected gross profit, operating income was \$48.3 million, or 13.5% of sales, in the fourth quarter of 2015, versus \$33.9 million, or 11.7% of sales, in the fourth quarter of 2014. Net income for the period reached \$33.0 million, or \$0.48 per diluted share, compared with \$23.0 million, or \$0.33 per diluted share, last year. This represents a year-over-year increase in net income of 43.7%.

STATEMENT OF FINANCIAL POSITION

Assets

As at December 31, 2015, total assets and current assets reached \$1,776.2 million and \$1,011.2 million, respectively, up from \$1,287.5 million and \$697.5 million, respectively, as at December 31, 2014. These increases are mainly attributable to the rebuilding

of railway tie inventory, the Ram acquisition and the effect of local currency translation on U.S.-based assets.

The value of accounts receivable was \$159.9 million as at December 31, 2015 compared with \$127.5 million as at December 31, 2014. This increase mainly reflects higher business activity in the fourth quarter of 2015 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached \$804.5 million as at December 31, 2015, up from \$547.2 million as at December 31, 2014. This increase is mainly due to the rebuilding of inventory as untreated railway tie availability returned to appropriate levels, the addition of Ram's inventories and the effect of local currency translation on U.S.-based inventories.

Because of the long periods required to air season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. However, solid relationships and long-term contracts with certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flows from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at \$375.5 million as at December 31, 2015, compared with \$281.6 million as at December 31, 2014. This increase is essentially related to business acquisitions (\$29.7 million), to purchases of property, plant and equipment for the year (\$37.4 million) and to the effect of local currency translation on U.S.-based property, plant and equipment. These factors were partially offset by the depreciation charge (\$12.4 million).

The value of intangible assets reached \$140.9 million as at December 31, 2015. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights, standing timber and a favourable land lease agreement. As at December 31, 2014, intangible assets were \$110.3 million. The year-over-year increase is mainly explained by business acquisitions (\$23.2 million) and the effect of local currency translation on U.S. dollar denominated intangible assets, partially offset by an amortization charge of \$10.9 million for 2015.

As at December 31, 2015, the value of goodwill stood at \$245.7 million, up from \$195.0 million a year earlier. This increase in goodwill reflects acquisitions (\$12.8 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2015, Stella-Jones' total liabilities stood at \$862.7 million, up from \$595.2 million as at December 31, 2014. This variation reflects the increase in total debt, as explained below, as well as the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was \$156.8 million as at December 31, 2015, up from \$82.4 million a year earlier. This variation is essentially due to a \$55.1 million increase in the current portion of long-term debt mainly due to the maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of \$34.6 million (US\$25.0 million), as well as of an unsecured and non-convertible debenture of \$13.8 million (US\$10.0 million). The Company intends to repay these debentures through its committed revolving credit facility and its cash flow from operating activities.

The Company's long-term debt, including the current portion, stood at \$669.9 million as at December 31, 2015, versus \$444.6 million as at December 31, 2014. The increase essentially reflects higher borrowings following the Ram acquisition, increased working capital requirements due to higher business activity and the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2015 an amount of \$17.6 million was available against the Company's committed revolving credit facility of \$622.8 million (US\$450.0 million).

On February 26, 2016, the Company and SJ Holding, as borrowers, entered into agreements to amend the fourth amended and restated credit agreement dated March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) will make available a committed revolving credit facility for a period of five years and will be increased from US\$450.0 million to US\$500.0 million for the first two years (see "Subsequent Events" above).

Shareholders' equity

Shareholders' equity was \$913.5 million as at December 31, 2015 compared with \$692.3 million as at December 31, 2014. This increase is attributable to net income of \$141.4 million for the year and a \$100.5 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations. These factors were partially offset by dividends on common shares totalling \$22.1 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (years ended December 31)

	2015	2014
(in millions of dollars)	\$	\$
Operating activities	5.6	76.9
Financing activities	98.3	5.1
Investing activities	(99.6)	(85.2)
Net change in cash and cash equivalents	4.3	(3.2)
Cash and cash equivalents – beginning	–	3.2
Cash and cash equivalents – end	4.3	–

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, long-term debt, and the issuance of common shares. The Company's committed revolving credit facility is made available for a five-year term and is thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was \$254.3 million for the year ended December 31, 2015, up 40.2% from \$181.5 million in 2014. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by \$169.4 million in 2015. The main element of this variation is an increase of \$153.4 million in inventories related to the rebuilding of inventory, as untreated railway tie availability returned to more appropriate levels. In 2014, changes in non-cash working capital components had reduced liquidity by \$52.5 million, mainly due to a \$48.2 million increase in inventories.

Interest and income taxes paid further reduced liquidity by \$16.7 million and \$62.6 million, respectively, in 2015, versus \$14.9 million and \$37.1 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings, while the increase in income taxes paid reflects an increase of income before income taxes and a higher balance of income taxes receivable as at December 31, 2015.

As a result, cash flows provided by operating activities were \$5.6 million in 2015, versus \$76.9 million in 2014.

Financing activities for the year ended December 31, 2015 provided liquidity of \$98.3 million. The main factor explaining this cash generation was a net increase in long-term debt of \$117.4 million, mainly to finance the Ram transaction and the rebuilding of inventory, partially offset by the payment of dividends on common shares totalling \$22.1 million. For the year ended December 31, 2014, financing activities had provided liquidity of \$5.1 million, mainly due to a \$23.2 million net increase in long-term debt and the payment of dividends on common shares totalling \$19.3 million.

Investing activities required \$99.6 million in cash during 2015. Business acquisitions resulted in a cash outlay of \$62.6 million, while purchases of property, plant and equipment required an investment of \$37.4 million. In 2014, cash flows from investing activities had decreased liquidity by \$85.2 million due to business acquisitions (\$61.1 million) and purchases of property, plant and equipment (\$24.2 million).

FINANCIAL OBLIGATIONS

The following table details the maturities of the financial obligations as at December 31, 2015:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in millions of dollars)	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	75.1	75.1	75.1	–	–	–
Long-term debt obligations	669.9	725.4	78.6	629.5	16.3	1.0
Interest rate swap agreements	0.5	0.6	0.6	–	–	–
Minimum payments under operating lease obligations	–	80.7	21.5	29.9	13.1	16.2
Non-compete agreements	2.4	2.5	1.1	1.4	–	–
Total	747.9	884.3	176.9	660.8	29.4	17.2

Note: Due to rounding, the sum of results may differ slightly from totals.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2015, the capital stock issued and outstanding consisted of 69,137,356 common shares (68,949,064 as at December 31, 2014). The following table presents the outstanding capital stock activity for the year ended December 31, 2015:

Year Ended Dec. 31, 2015	Number of shares (in '000s)
Balance – Beginning of year	68,949
Stock option plan	165
Employee share purchase plans	23
Balance – End of year	69,137

As at March 15, 2016, the capital stock issued and outstanding consisted of 69,142,858 common shares.

As at December 31, 2015, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 194,000 (December 31, 2014 – 328,706) of which 158,000 (December 31, 2014 – 310,706) were exercisable. As at March 15, 2016, the number of outstanding options was 194,000 of which 158,000 were exercisable.

DIVIDENDS

In 2015, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- \$0.08 per common share payable on April 30, 2015 to shareholders of record at the close of business on April 2, 2015.
- \$0.08 per common share payable on June 26, 2015 to shareholders of record at the close of business on June 2, 2015.
- \$0.08 per common share payable on September 25, 2015 to shareholders of record at the close of business on September 4, 2015.
- \$0.08 per common share payable on December 21, 2015 to shareholders of record at the close of business on December 2, 2015.

Subsequent to the end of the year, on March 15, 2016, the Board declared a quarterly dividend of \$0.10 per common share payable on April 29, 2016 to shareholders of record at the close of business on April 1, 2016.

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

COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to \$38.0 million (2014 – \$29.3 million) 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 and, as such, no provisions have been recorded in the consolidated financial statements.

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.

CURRENT ECONOMIC CONDITIONS

Operations

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

Based on current market conditions, Management expects demand for the Company's core products to remain healthy in 2016. In the railway tie market, North American railroads will continue to maintain the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while regular maintenance demand is expected to hold, lower resource prices continue to create headwinds, mainly through a decrease in demand for special projects. Stella-Jones nonetheless believes that industry demand should pick up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

Liquidity

As at December 31, 2015, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2015, an amount of \$17.6 million was available against the Company's committed revolving credit facility of \$622.8 million (US\$450.0 million) (see "Subsequent Events" above).

Accounts receivable increased in 2015 due to higher business activity in the fourth quarter of 2015 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default.

Inventories rose in 2015 mainly due to the rebuilding of inventory as untreated railway tie availability returned to normal levels, the addition of Ram's inventories, and the effect of local currency translation on U.S.-based inventories. To ensure efficient treating operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

Economic Conditions

The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2015, the Company's top ten customers accounted for approximately 46.3% of its sales. During this same period, the Company's two largest customers accounted for approximately 10.1% and 6.7%, respectively, of its total sales.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there is a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emission to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

While the Company has been party to environmental litigation in the past, which have included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

Risks Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage

The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits or outside the coverage of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk

The Company is exposed to currency risks due to its export of goods manufactured in Canada. The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves special risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuations

As at December 31, 2015, approximately 41.5% of the Company's long-term debt was at variable interest rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its 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. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have a material adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railways, as well as with utility and telecommunications companies and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence by Stella Jones International S.A.

As at December 31, 2015, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.4% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not in all cases be aligned with interests of the other shareholders.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2015 and 2014 audited consolidated financial statements.

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

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

CHANGES IN ACCOUNTING POLICIES

Impact of accounting pronouncements not yet implemented

IAS 1 - Presentation of Financial Statements

In 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016, and therefore the Company will apply these amendments in the first quarter of 2016. The Company does not expect any significant impact on its consolidated financial statements disclosures as a result of adopting these amendments.

IAS 7 - Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, Statement of Cash Flows. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company is currently evaluating the impact of IAS 7 on its consolidated financial statements.

IFRS 9 - Financial Instruments

The final version of IFRS 9, Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace 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. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Company is currently assessing the impact, if any, that this new standard will have on the Company's consolidated financial statements.

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. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 16 - Leases

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

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2015, and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2015.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from October 1, 2015 to December 31, 2015 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

Despite the softening in certain sectors of the North American economy, Management expects demand for the Company's core products to remain healthy in 2016. In the railway tie market, North American railroads will continue to maintain the continental rail network, as operators constantly seek optimal line efficiency.

In the utility pole market, lower resource prices continue to create headwinds, mainly through a decrease in demand for special projects, while regular maintenance demand is expected to hold. Stella-Jones nonetheless believes that industry demand should pick up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

As one of the largest North American providers of industrial treated wood products, Stella-Jones will leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, while diligently seeking

market opportunities in all product categories. Supporting the above, the Ram acquisition allows Stella-Jones to broaden its reach and its product offering in the residential lumber category. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company will continue to focus on the expansion of its continental network and will look to close the Lufkin Creosoting and Kisatchie proposed acquisitions in the second quarter of 2016. Cash generation and maintaining a prudent use of leverage remain priorities for Management. The solid cash flows provided by operating activities will be used to reduce debt, invest in working capital as well as in property, plant and equipment and in maintaining an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

March 15, 2016

CONSOLIDATED FINANCIAL STATEMENTS



December 31, 2015 and 2014

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 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.

A handwritten signature in black ink, appearing to read 'B. McManus'.

Brian McManus
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Éric Vachon'.

Éric Vachon, CPA, CA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 15, 2016

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and 2014 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

Montréal, Québec

March 15, 2016

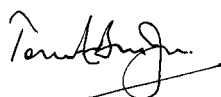
¹ CPA auditor, CA, public accountancy permit No. A116853

As at December 31, 2015 and 2014
(expressed in thousands of Canadian dollars)

	Note	2015	2014
		\$	\$
ASSETS			
Current assets			
Restricted cash	4	4,292	—
Accounts receivable	5	159,862	127,545
Inventories	6	804,478	547,215
Prepaid expenses		27,543	20,750
Income taxes receivable		14,987	1,986
		1,011,162	697,496
Non-current assets			
Property, plant and equipment	7	375,534	281,607
Intangible assets	8	140,936	110,325
Goodwill	8	245,696	195,015
Derivative financial instruments	17	832	1,423
Other assets		2,058	1,630
		1,776,218	1,287,496
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	75,085	69,719
Current portion of long-term debt	10	60,874	5,754
Current portion of provisions and other long-term liabilities	11	20,840	6,939
		156,799	82,412
Non-current liabilities			
Long-term debt	10	609,007	438,803
Deferred income taxes	14	78,564	54,173
Provisions and other long-term liabilities	11	10,655	14,027
Employee future benefits	15	7,153	5,104
Derivative financial instruments	17	538	706
		862,716	595,225
Shareholders' equity			
Capital stock	12	216,474	213,858
Contributed surplus		503	954
Retained earnings		546,402	427,834
Accumulated other comprehensive gain		150,123	49,625
		913,502	692,271
		1,776,218	1,287,496
Commitments and contingencies	16		
Subsequent events	21		

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

Approved by the Board of Directors,



Tom A. Bruce Jones, CBE
Director



George J. Bunze, CPA, CMA
Director

	Accumulated other comprehensive gain							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrecognized gains (losses) on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2014	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183
Comprehensive income (loss)								
Net income for the year	–	–	103,847	–	–	–	–	103,847
Other comprehensive income (loss)	–	–	(2,278)	60,468	(24,763)	(216)	35,489	33,211
Comprehensive income (loss) for the year	–	–	101,569	60,468	(24,763)	(216)	35,489	137,058
Dividends on common shares	–	–	(19,267)	–	–	–	–	(19,267)
Exercise of stock options	1,758	(504)	–	–	–	–	–	1,254
Employee share purchase plans	938	–	–	–	–	–	–	938
Stock-based compensation	–	105	–	–	–	–	–	105
	2,696	(399)	(19,267)	–	–	–	–	(16,970)
Balance – December 31, 2014	213,858	954	427,834	89,682	(40,607)	550	49,625	692,271
Balance – January 1, 2015	213,858	954	427,834	89,682	(40,607)	550	49,625	692,271
Comprehensive income (loss)								
Net income for the year	–	–	141,377	–	–	–	–	141,377
Other comprehensive income (loss)	–	–	(720)	157,410	(56,577)	(335)	100,498	99,778
Comprehensive income (loss) for the year	–	–	140,657	157,410	(56,577)	(335)	100,498	241,155
Dividends on common shares	–	–	(22,089)	–	–	–	–	(22,089)
Exercise of stock options	1,629	(506)	–	–	–	–	–	1,123
Employee share purchase plans	987	–	–	–	–	–	–	987
Stock-based compensation	–	55	–	–	–	–	–	55
	2,616	(451)	(22,089)	–	–	–	–	(19,924)
Balance – December 31, 2015	216,474	503	546,402	247,092	(97,184)	215	150,123	913,502

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

Consolidated Statements of Income

For the years ended December 31, 2015 and 2014
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2015	2014
		\$	\$
Sales		1,559,334	1,249,493
Expenses			
Cost of sales		1,252,031	1,025,317
Selling and administrative		85,583	69,114
Other losses (gains), net		1,668	(643)
	13	1,339,282	1,093,788
Operating income		220,052	155,705
Financial expenses		17,090	13,007
Income before income taxes		202,962	142,698
Provision for income taxes			
Current	14	51,359	33,937
Deferred	14	10,226	4,914
		61,585	38,851
Net income for the year		141,377	103,847
Basic earnings per common share	12	2.05	1.51
Diluted earnings per common share	12	2.04	1.50

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

	2015	2014
	\$	\$
Net income for the year	141,377	103,847
Other comprehensive income		
Items that may subsequently be reclassified to net income		
Net change in gains on translation of financial statements of foreign operations	164,401	65,792
Income taxes on change in gains on translation of financial statements of foreign operations	(6,991)	(5,324)
Change in losses on translation of long-term debts designated as hedges of net investment in foreign operations	(65,849)	(28,440)
Income taxes on change in losses on translation of long-term debts designated as hedge of net investment in foreign operations	9,272	3,677
Change in losses on fair value of derivatives designated as cash flow hedges	(422)	(270)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	87	54
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	(1,014)	(3,342)
Income taxes on remeasurements of post-retirement benefit obligations	294	1,064
	99,778	33,211
Comprehensive income for the year	241,155	137,058

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

Consolidated Statements of Cash Flow

 For the years ended December 31, 2015 and 2014
 (expressed in thousands of Canadian dollars)

	Note	2015	2014
		\$	\$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		141,377	103,847
Adjustments for			
Depreciation of property, plant and equipment		12,402	9,691
Amortization of intangible assets		10,932	10,885
Loss (gain) on disposal of assets		473	(221)
Employee future benefits		490	(155)
Stock-based compensation		55	105
Financial expenses		17,090	13,007
Income taxes		51,359	33,937
Deferred income taxes		10,226	4,914
Restricted stock units expense		8,914	5,015
Other		1,012	441
		254,330	181,466
Changes in non-cash working capital components and others			
Accounts receivable		(1,551)	(5,828)
Inventories		(153,388)	(48,163)
Prepaid expenses		(3,095)	(7,306)
Income taxes receivable		(119)	362
Accounts payable and accrued liabilities		(8,606)	12,755
Asset retirement obligations		435	(4,525)
Provisions and other long-term liabilities		(3,027)	168
		(169,351)	(52,537)
Interest paid		(16,742)	(14,928)
Income taxes paid		(62,639)	(37,071)
		5,598	76,930
Financing activities			
Increase in deferred financing costs		(204)	(160)
Increase in long-term debt		130,026	26,776
Repayment of long-term debt		(12,628)	(3,543)
Non-competes payable		1,084	(947)
Dividends on common shares		(22,089)	(19,267)
Proceeds from issuance of common shares		2,110	2,192
		98,299	5,051
Investing activities			
Decrease (increase) in other assets		(154)	11
Business acquisitions	4	(62,644)	(61,051)
Increase in intangible assets		(2,008)	(412)
Purchase of property, plant and equipment		(37,363)	(24,214)
Proceeds on disposal of assets		2,564	494
		(99,605)	(85,172)
Net change in cash and cash equivalents during the year		4,292	(3,191)
Cash and cash equivalents – Beginning of year		–	3,191
Cash and cash equivalents – End of year		4,292	–

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

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 provides residential lumber and customized services to retailers and wholesalers 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.

These consolidated financial statements were approved by the Board of Directors on March 15, 2016.

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.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company owns 100% of the equity interests 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 ("SJ Corp")	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. ("McFarland")	Stella-Jones Corporation	United States
Electric Mills Wood Preserving LLC	McFarland Cascade Holdings, Inc.	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Ram Forest Group Inc.	Stella-Jones Inc.	Canada
Ram Forest Products Inc.	Ram Forest Group Inc.	Canada
Trent Timber Treating Ltd.	Ram Forest Group Inc.	Canada
Ramfor Lumber Inc.	Stella-Jones Inc.	Canada
Canadalux S.à.r.l.	Stella-Jones Inc.	Luxembourg
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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Subsidiaries (continued)

On January 1, 2015, Guelph Utility Pole Company Ltd., Stella-Jones Canada Inc. and Stella-Jones Inc. merged and the surviving corporation was Stella-Jones Inc.

On February 9, 2015, Stella-Jones Inc. formed Stella-Jones CDN Finance Inc., a wholly-owned corporation incorporated under the *Canada Business Corporation Act*.

On February 16, 2015, Stella-Jones Inc. formed Stella-Jones U.S. LLC, a wholly-owned Limited Liability Company ("LLC") under the laws of Delaware. On the same date, SJ Holding incorporated Stella-Jones U.S. II LLC, a wholly-owned LLC and Stella-Jones U.S. Finance II Corporation, a wholly-owned corporation, both under the laws of Delaware.

On February 28, 2015, 4552822 Canada Inc. and 4552831 Canada Inc. were liquidated into Stella-Jones Inc.

On April 1, 2015, Stella-Jones U.S. LLC and Stella-Jones Inc. merged and the surviving corporation was Stella-Jones Inc. On the same date Stella-Jones U.S. Finance Corporation and SJ Holding merged and the surviving corporation was SJ Holding.

On January 1, 2016, Ram Forest Group Inc., Ram Forest Products Inc., Trent Timber Treating Ltd., Ramfor Lumber Inc. and Stella-Jones Inc. merged and the surviving corporation was Stella-Jones Inc. On the same date, Electric Mills Wood Preserving LLC and McFarland merged and the surviving corporation was McFarland.

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.

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 incurred and the equity interests issued by the group. 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.

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 group'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. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated. 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 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. Revenue 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

b) Foreign currency transactions (continued)

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, except for differences arising on the translation of available-for-sale (equity) investments and 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 remain translated in the functional currency at historical exchange rates.

c) Foreign operations

The financial statements of entities that have a functional currency different from that of the Company are translated using the rate in effect at the 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.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the translation of a financial liability 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. 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

Revenue from the sale of products is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, the entity does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the sale, can be measured reliably. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company also offers to treat wood products owned by third parties. Revenue from these treating services are recognized when the service is rendered.

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.

Restricted cash

Restricted cash consists of an amount deposited in an escrow account and intended for capital improvements.

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 one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

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 cost necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property, plant and equipment**

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation. 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 15 years
Office equipment	2 to 10 years

Roads used by the log harvesting activities are recorded at cost less accumulated depreciation, which is provided on the basis of timber volumes harvested. Depreciation amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the licensed area served by the road, and are applied against the historical cost.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

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.

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
Customer relationships	Straight-line	3 to 12 years
Customer relationships	Declining balance	10% to 15%
Non-compete agreements	Straight-line	3 to 6 years
Creosote registration	–	Indefinite

Standing timber costs are recorded at cost less accumulated amortization, which 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, which 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 40-year period, and are applied against the historical cost.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

In the context of an acquisition, goodwill represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non controlling interest in the acquiree at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. 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. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

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. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration, except goodwill.

Non-financial assets

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. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 at each reporting date.

Leases

The Company leases certain property, plant and equipment.

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 charges 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.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sales transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost of disposal if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions for reforestation, 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 12 months.

Reforestation obligations

The *Forest Act* (British Columbia) and the *Forests Act* (Alberta) require the industry to assume the costs of reforestation on certain harvest licences. Accordingly, the Company records its best estimate, which is the fair value of the cost of reforestation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of the estimated future cash flows. Reforestation costs are included in the costs of current production.

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 tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly to shareholders' equity.

Current tax

The current income tax charge is based on the results for the period as adjusted for items that are not taxable or not deductible. Tax adjustments from prior years are also recorded in current tax. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. During the year, the tax provision calculation is based on an estimate of the annual tax rate.

Deferred tax

Deferred tax is recognized, 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. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

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. 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.

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.

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.

Stock-based compensation and other stock-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.

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 charged to operations 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 stock-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has restricted stock units ("RSUs") and measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expenses are recognized in the consolidated statements of income over the vesting periods. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- a) Financial assets and financial liabilities at fair value through profit or loss: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Interest rate swap agreements and foreign exchange forward contracts are considered by the Company as derivative financial instruments and, if required, are designated as cash flow hedges (see (e) below).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income as part of other gains and losses in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as non-current.

- b) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless they mature within 12 months, or Management expects to dispose of them within 12 months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income and are included in other gains and losses.

- c) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

- d) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank indebtedness and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

- e) Derivative financial instruments: The Company uses derivatives in the form of interest rate swap agreements to manage risks related to its variable rate debt and foreign exchange forward contracts to limit its exposure to the fluctuations of the U.S. dollar. All derivatives classified as held-for-trading are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instrument, with gains and losses on remeasurement recorded in income. All derivatives qualifying for hedge accounting are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instruments, with gains and losses on remeasurement included in other comprehensive income.

Hedging transactions

As part of its hedging strategy, the Company considers 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 contracts are treated as cash flow hedges for accounting purposes and are not fair-valued through profit and loss.

Effective derivative financial instruments held for cash flow hedging purposes are recognized at fair value, and the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. The changes in fair value related to the ineffective portion of the hedge are immediately recorded in the consolidated statement of income. The changes in fair value of foreign exchange forward contracts and interest rate swap agreements recognized in other comprehensive income are reclassified in the consolidated statement of income under sales and financial expenses, respectively, in the periods during which the cash flows constituting the hedged item affect income.

When the derivative financial instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, hedge accounting, if applicable, is discontinued prospectively. Accumulated other comprehensive income related to a foreign exchange forward contract or interest swap hedges that cease to be effective is reclassified in the consolidated statement of income under foreign exchange gain or loss and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive income is then reclassified in the consolidated statement of income.

The Company designated a portion of its U.S. dollar-denominated long-term debt as a hedge of its net investment in foreign operations. For such debt designated as a hedge of the net investment in foreign operations, exchange gains and losses are recognized in accumulated other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to equity owners 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.

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.

Impact of accounting pronouncements not yet implemented

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. In September 2015, the IASB issued an amendment to IFRS 15 to defer the effective date by one year to 2018. Earlier application of IFRS 15 continues to be permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016, and therefore the Company will apply these amendments in the first quarter of 2016. The Company does not expect any significant impact on its consolidated financial statement disclosures as a result of adopting these amendments.

IFRS 16 - Leases

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

IAS 7 - Statement of Cash Flows

On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company is currently evaluating the impact of IAS 7 on its consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of accounting pronouncements not yet implemented (continued)

IFRS 9 - Financial Instruments

The final version of IFRS 9, *Financial instruments* ("IFRS 9"), was issued by the IASB in July 2014 and will replace 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. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Company is currently assessing the impact, if any, that this new standard will have on the Company's consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4 BUSINESS ACQUISITIONS

- a) On December 4, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of United Wood Treating Company, Inc. ("United Wood") located in Whitmire, South Carolina. This facility manufactures, sells and distributes utility poles, as well as marine pilings, and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$11,971 (US\$8,958), excluding acquisition costs of approximately \$158, recognized in the consolidated statement of income under selling and administrative expenses.

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 consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

4 BUSINESS ACQUISITIONS (CONTINUED)

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	1,018
Inventories	3,773
Property, plant and equipment	6,044
Goodwill	2,943
Deferred income tax assets	12
	13,790
Liabilities assumed	
Site remediation provision	65
Total net assets acquired and liabilities assumed	13,725
Consideration transferred	
Cash	11,971
Unsecured promissory note	1,754
Consideration transferred	13,725

Goodwill is amortized and 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. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the United Wood acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of \$1,939 (US\$1,451) bears interest at 1.68%, is payable in three equal annual instalments and was fair valued at \$1,754, using an interest rate of 7.00%.

In the period from December 4 to December 31, 2015, sales and operating loss for the Whitmire plant amounted to \$433 (US\$362) and \$96 (US\$72), respectively. Pro forma information for the period ended December 31, 2015, had the United Wood acquisition occurred as of January 1, 2015, cannot be estimated as Management does not have all the required discrete financial information for the first eleven months of the year.

4 BUSINESS ACQUISITIONS (CONTINUED)

- b) On October 1, 2015, the Company completed the acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. (collectively "Ram"). Through its wholly-owned subsidiaries, Ram Forest Products Inc. and Trent Timber Treating Ltd., Ram Forest Group manufactures and sells pressure treated wood products and accessories to the retail building materials industry. Ram Forest Products Inc. and Trent Timber Treating Ltd. operate wood treating facilities in Gormley and Peterborough, Ontario, respectively. Ramfor Lumber is a lumber purchasing entity serving Ram Forest Products and Trent Timber Treating.

Total cash outlay associated with the acquisition was approximately \$44,887 which includes an amount of \$4,292 deposited in escrow to be used for capital expenditures at the Gormley and Peterborough facilities. The cash outlay excludes acquisition costs of approximately \$991, recognized in the consolidated statement of income under selling and administrative expenses. In addition, the Company recognized a balance of purchase price of \$5,430 as well as a consideration payable of \$317 for a net working capital adjustment.

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 consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

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

Assets acquired	\$
Accounts receivable	7,765
Inventories	12,047
Other assets	1,514
Property, plant and equipment	17,690
Customer relationships	21,300
Goodwill	6,026
	66,342
Liabilities assumed	
Accounts payable and accrued liabilities	3,269
Bank indebtedness	9,839
Deferred income tax liabilities	6,892
Total net assets acquired and liabilities assumed	46,342
Consideration transferred	
Cash	40,595
Balance of purchase price	5,430
Consideration payable	317
Consideration transferred	46,342

The Company's valuation of intangible assets has identified customer relationships having a 12 year useful life. 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 not amortized and not deductible for Canadian tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the Ram acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

4 BUSINESS ACQUISITIONS (CONTINUED)

As of the acquisition date, an amount of \$4,292 was deposited in an escrow account intended for capital improvements. The Company has until April 1, 2017 to complete specific investment projects otherwise the remaining funds in the escrow account will be returned to the seller. Management believes that the investments will be completed before the deadline.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and a balance of purchase price of \$5,800. This deferred payment bears no interest and is payable on the anniversary of the transaction in the amounts of \$2,900 in 2016, \$500 in 2017, \$800 in 2018, \$800 in 2019 and \$800 in 2020. The balance of purchase price was recorded under long-term debt at a fair value of \$5,430 calculated using an interest rate of 2.91%. The difference between the face value and the fair value of this balance of purchase price is being accreted on an effective yield.

In the period from October 1 to December 31, 2015, the Ram plant sales and operating income amounted to \$14,768 and \$781, respectively. On a pro forma basis, Management's estimate of sales and operating income before income taxes of the combined operations of the Company and Ram for the year ended December 31, 2015 would have been approximately \$1,647,383 and \$232,172, respectively, had the Ram acquisition occurred as of January 1, 2015. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition, as well as adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2015.

- c) On September 1, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all the operating assets employed at the wood treating facility of Treated Materials Co., Inc. ("Treated Materials") located in Rison, Arkansas. This facility manufactures, sells and distributes utility poles and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$5,393 (US\$4,052), excluding acquisition costs of approximately \$142, recognized in the consolidated statement of income under selling and administrative expenses.

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 consolidated financial statements. This fair value determination is expected to be completed within 12 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	1,080
Inventories	1,651
Property, plant and equipment	5,253
Favourable land lease agreement	1,062
Goodwill	683
	9,729
Liabilities assumed	
Deferred income tax liabilities	459
Site remediation provision	602
Total net assets acquired and liabilities assumed	8,668
Consideration transferred	
Cash	5,393
Unsecured promissory note	3,275
Consideration transferred	8,668

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified a favourable land lease agreement. 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 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. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the Treated Materials acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note. The unsecured promissory note of \$3,993 (US\$3,000) bears no interest, is repayable in five equal instalments over a five-year period and was fair valued at \$3,275, using an interest rate of 7.00%.

In the period from September 1 to December 31, 2015, sales and operating income for the Rison plant amounted to \$3,284 (US\$2,477) and \$252 (US\$190), respectively. Pro forma information for the period ended December 31, 2015, had the Treated Materials acquisition occurred as of January 1, 2015, cannot be estimated as Management does not have all the required discrete financial information for the first nine months of the year.

- d) On April 7, 2015, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. ("McCormick"), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximately \$4,685 (US\$3,752), excluding acquisition costs of approximately \$226, recognized in the consolidated statement of income under selling and administrative expenses.

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 consolidated financial statements. This fair value determination is expected to be completed within 12 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	701
Inventories	1,486
Property, plant and equipment	726
Customer relationships	849
Goodwill	3,151
	6,913
Liabilities assumed	
Deferred income tax liabilities	81
Total net assets acquired and liabilities assumed	6,832
Consideration transferred	
Cash	4,685
Unsecured promissory note - 12 months	1,342
Unsecured promissory note - 24 months	805
Consideration transferred	6,832

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is 3 years. 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 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. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the McCormick acquisition, goodwill is allocated to plants specialized in the treatment of utility poles and residential lumber.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of \$1,429 (US\$1,144) bears interest at 0.48%, is payable in a single instalment on April 8, 2016 and was fair valued at \$1,342, using an interest rate of 7.00%. The second unsecured promissory note of \$928 (US\$743) bears interest at 0.48%, is payable in a single instalment on April 8, 2017 and was fair valued at \$805, using an interest rate of 7.00%.

The newly acquired pole peeling assets have been integrated directly into the Company's existing operations and are now used for the Company's internal requirements. Accordingly, it is impractical to provide the required pro forma disclosures on post-acquisition sales and income before taxes for these assets as the Company does not maintain such detailed financial information.

- e) On May 22, 2014, the Company completed, through a wholly-owned U.S. subsidiary, the acquisition of substantially all of the operating assets employed in the wood treating facilities of Boatright Railroad Products, Inc. ("Boatright") located in Montevallo and Clanton, Alabama. These facilities manufacture, sell and distribute creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers to the railroad industry and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was \$58,830 (US\$53,898), excluding acquisition costs of approximately \$753 (US\$690), recognized in the 2014 consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities is based on Management's best estimates. No significant adjustments were made to the preliminary fair value determination.

The following is a final 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	\$
Inventories	9,718
Property, plant and equipment	22,527
Customer relationships	17,486
Customer backlog	1,463
Goodwill	23,316
Deferred income tax assets	935
	75,445
Liabilities assumed	
Accounts payable and accrued liabilities	160
Site remediation provision	3,029
Total net assets acquired and liabilities assumed	72,256
Consideration transferred	
Cash	58,830
Unsecured promissory note	13,426
Consideration transferred	72,256

4 BUSINESS ACQUISITIONS (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 6 months for customer backlog. 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 deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGUs as defined in the Company's accounting policies. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of \$15,466 (US\$14,169), bearing interest at 1.93% and payable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at \$13,426 (US\$12,301), using an interest rate of 7.00%.

5 ACCOUNTS RECEIVABLE

	2015	2014
	\$	\$
Trade receivables	155,332	117,634
Less: Provision for doubtful accounts	(178)	—
Trade receivables – net	155,154	117,634
Other receivables	4,708	9,911
	159,862	127,545

As at December 31, 2015, trade receivables of \$47,640 (2014 – \$39,509) were past due but not impaired.

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

	2015	2014
	\$	\$
Current	107,514	78,125
Past due 1-30 days	34,439	25,107
Past due 31-60 days	8,036	8,670
Past due more than 60 days	5,343	5,732
	155,332	117,634

5 ACCOUNTS RECEIVABLE (CONTINUED)

As at December 31, 2015, trade receivables of \$178 were impaired and provided for (2014 - nil). Details of the provision for doubtful accounts are as follows:

	2015	2014
	\$	\$
Balance – Beginning of year	–	201
Provision (reversal)	695	(208)
Bad debt write-off	(531)	–
Foreign exchange adjustments	14	7
Balance – End of year	178	–

The variation of the provision for doubtful accounts has been included in selling and administrative expenses in the consolidated statement of income.

6 INVENTORIES

	2015	2014
	\$	\$
Raw materials	541,102	367,736
Finished goods	263,376	179,479
	804,478	547,215

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Roads	Buildings	Production equipment	Rolling stock	Office equipment	Total
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014							
Cost	27,758	3,809	58,816	181,781	11,516	7,181	290,861
Accumulated depreciation	–	(2,583)	(8,238)	(38,708)	(4,692)	(2,406)	(56,627)
Net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
Year ended December 31, 2014							
Opening net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
Business acquisition	846	–	6,249	13,670	1,632	130	22,527
Additions	15	475	1,969	20,608	641	1,219	24,927
Disposals	(404)	–	(1,285)	(3,544)	(692)	(13)	(5,938)
Depreciation	–	–	(1,816)	(5,351)	(1,790)	(734)	(9,691)
Depreciation included in inventory	–	(343)	(156)	(333)	(422)	(44)	(1,298)
Exchange differences	1,637	–	4,109	10,406	518	176	16,846
Closing net book amount	29,852	1,358	59,648	178,529	6,711	5,509	281,607
As at December 31, 2014							
Cost	29,852	4,284	70,131	223,930	13,485	8,306	349,988
Accumulated depreciation	–	(2,926)	(10,483)	(45,401)	(6,774)	(2,797)	(68,381)
Net book amount	29,852	1,358	59,648	178,529	6,711	5,509	281,607
Year ended December 31, 2015							
Opening net book amount	29,852	1,358	59,648	178,529	6,711	5,509	281,607
Business acquisitions	7,372	–	6,268	13,698	2,282	93	29,713
Additions	1,428	498	1,571	29,144	1,092	1,578	35,311
Disposals	–	(444)	–	(145)	(333)	–	(922)
Depreciation	–	–	(2,233)	(6,927)	(2,313)	(929)	(12,402)
Depreciation included in inventory	–	(332)	(179)	(480)	(293)	(49)	(1,333)
Exchange differences	3,955	–	9,869	28,373	1,039	324	43,560
Closing net book amount	42,607	1,080	74,944	242,192	8,185	6,526	375,534
As at December 31, 2015							
Cost	42,607	3,953	88,980	298,481	18,167	10,508	462,696
Accumulated depreciation	–	(2,873)	(14,036)	(56,289)	(9,982)	(3,982)	(87,162)
Net book amount	42,607	1,080	74,944	242,192	8,185	6,526	375,534

8 INTANGIBLE ASSETS AND GOODWILL

The intangible assets, which include customer relationships, non-compete agreements, cutting rights, standing timber, a favourable land lease agreement and a creosote registration, were initially evaluated at fair value, which subsequently became the cost. The presentation in the consolidated statements of financial position is at cost less accumulated amortization and the related amortization expense is included in cost of sales in the consolidated statements of income.

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 acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate ranging from 8.90% to 10.20%.

As part of a past acquisition, the Company allocated value to a creosote registration. This intangible asset has an indefinite useful life and is therefore not amortized. The creosote registration was initially evaluated at fair value, which subsequently became the cost.

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 based on financial budgets covering a five-year period that are based on the latest budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on Management's forecast 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	2015	2014
	\$	\$
Plants specialized in the treatment of utility poles and residential lumber	89,740	64,289
Plants specialized in the treatment of railway ties	155,956	130,726
	245,696	195,015

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 import 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. Moreover, when procuring creosote on the market, the import feature of the registration enables the Company to negotiate better pricing.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest forecasts for cost savings as approved by senior management. Cash flow projections beyond five years are based on Management's forecast and assume a growth rate not exceeding domestic product for the respective countries. Post-tax cash flow projections are discounted using a real pre-tax discount rate of 10.00%. 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).

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The net book amount of these intangible assets was as follow:

	Intangible assets						Goodwill
	Cutting rights	Customer relationships and backlog	Non-compete agreements	Others	Creosote registration	Total	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014							
Cost	7,951	72,503	7,483	6,947	33,216	128,100	156,208
Accumulated amortization	(1,014)	(22,479)	(6,164)	(4,455)	—	(34,112)	—
Net book amount	6,937	50,024	1,319	2,492	33,216	93,988	156,208
Year ended December 31, 2014							
Opening net book balance	6,937	50,024	1,319	2,492	33,216	93,988	156,208
Additions	—	—	—	412	—	412	—
Business acquisition	—	19,439	—	—	—	19,439	23,281
Amortization	—	(10,129)	(756)	—	—	(10,885)	—
Amortization included in inventory	(230)	—	—	(737)	—	(967)	—
Exchange differences	—	5,244	80	—	3,014	8,338	15,526
Closing net book amount	6,707	64,578	643	2,167	36,230	110,325	195,015
As at December 31, 2014							
Cost	7,951	99,766	8,162	7,359	36,230	159,468	195,015
Accumulated amortization	(1,244)	(35,188)	(7,519)	(5,192)	—	(49,143)	—
Net book amount	6,707	64,578	643	2,167	36,230	110,325	195,015
Year ended December 31, 2015							
Opening net book balance	6,707	64,578	643	2,167	36,230	110,325	195,015
Additions	—	—	1,706	302	—	2,008	—
Business acquisitions	—	22,149	—	1,062	—	23,211	12,803
Disposals	(1,000)	—	—	(1,073)	—	(2,073)	—
Amortization	—	(10,375)	(557)	—	—	(10,932)	—
Amortization included in inventory	(128)	—	—	(376)	—	(504)	—
Exchange differences	—	11,634	233	42	6,992	18,901	37,878
Closing net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696
As at December 31, 2015							
Cost	6,821	141,262	11,601	7,606	43,222	210,512	245,696
Accumulated amortization	(1,242)	(53,276)	(9,576)	(5,482)	—	(69,576)	—
Net book amount	5,579	87,986	2,025	2,124	43,222	140,936	245,696

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2015	2014
		\$	\$
Trade payables		25,183	28,041
Amounts due to related parties	19	110	127
Accrued expenses		39,300	35,175
Other payables		10,492	6,376
		75,085	69,719

10 LONG-TERM DEBT

	Note	2015	2014
		\$	\$
Committed revolving credit facility	10(a)	585,690	375,460
Unsecured, subordinated and non-convertible debenture	10(b)	34,600	29,003
Unsecured promissory note	10(c)	14,460	14,668
Unsecured and non-convertible debenture	10(d)	13,840	11,601
Balance of purchase price	10(e)	5,430	—
Unsecured promissory note	10(f)	4,964	4,704
Unsecured promissory note	10(g)	3,484	—
Unsecured promissory note	10(h)	3,110	5,039
Unsecured promissory note	10(i)	1,816	—
Unsecured promissory note	10(j)	1,558	—
Unsecured promissory note	10(k)	942	—
Bond – County of Fulton, Kentucky	10(l)	—	4,148
		669,894	444,623
Deferred financing costs		(13)	(66)
		669,881	444,557
Less: Current portion of long-term debt		60,887	5,807
Less: Current portion of deferred financing costs		(13)	(53)
Total current portion of long-term debt		60,874	5,754
		609,007	438,803

10 LONG-TERM DEBT (CONTINUED)

- a) On March 3, 2015, the Company and SJ Holding, as borrowers, entered into an agreement to amend the third amended and restated credit agreement dated November 21, 2012. The amended agreement (the fourth amended and restated credit agreement) increases the committed revolving credit facility from \$450,000 to US\$450,000 in order to partially finance the Ram acquisition as well as provide funding for working capital. The US\$450,000 committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and is maturing December 13, 2018. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.00% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.00% based on a pricing grid. As at December 31, 2015, borrowings by Canadian entities denominated in U.S. dollars represented \$347,384 (US\$251,000), which was entirely designated as a hedge of net investment in foreign operations.

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, 2015 are provided in Note 17, Financial instruments.

As collateral for the committed revolving credit facility, the bank lenders hold a first ranking charge over all of the assets, tangible and intangible, present and future, of the Company, SJ Holding and their material subsidiaries, with the exception of the Fulton plant assets as outlined in the agreement.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the fixed charge coverage ratio equal to or greater than 1.25:1. As at December 31, 2015, the Company was in full compliance with these covenants, requirements and ratios. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.00% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 2.50:1. In the case where the total debt to EBITDA ratio is lower than 2.50:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement. See Note 21c, Subsequent events.

- b) Unsecured, subordinated and non-convertible debenture bearing interest at 7.27%, and is payable in a single instalment of US\$25,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.
- c) As part of the Boatright acquisition, SJ Corp issued an unsecured promissory note of \$15,466 bearing interest at 1.93%. The note is payable in 5 equal annual instalments up to May 2019. The note was initially recorded at a fair value of \$13,426 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- d) Unsecured and non-convertible debenture bearing interest at 7.27%, and is payable in a single instalment of US\$10,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.
- e) As part of the Ram acquisition, the Company recorded a balance of purchase price of \$5,800 bearing no interest. The balance of purchase price is payable on the anniversary of the transaction in the amounts of \$2,900 in October 2016, \$500 in October 2017 and \$800 in October 2018, 2019 and 2020, respectively. The balance of purchase price was initially recorded at a fair value of \$5,430 using an interest rate of 2.91%. The difference between the face value and the fair value of the balance of purchase price is being accreted on an effective yield basis over its term.

The balance of purchase price is guaranteed by five irrevocable letters of credit in the same amount and with the same maturity date as the future payments.

- f) Pursuant to a business acquisition on December 7, 2011, the Company issued an unsecured promissory note of \$6,617 bearing interest at 2.67%. The note is payable in 10 equal annual instalments up to December 2021. The note was initially recorded at a fair value of \$5,357 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

10 LONG-TERM DEBT (CONTINUED)

- g) As part of the Treated Materials acquisition, the Company issued an unsecured promissory note of \$3,993 bearing no interest. The note is payable in 5 equal annual instalments up to September 2020. The note was initially recorded at a fair value of \$3,275 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- h) Pursuant to a business acquisition on November 15, 2013, the Company issued an unsecured promissory note of \$7,413 bearing interest at 0.27%. The note is payable in 12 equal quarterly instalments up to November 2016. The note was initially recorded at a fair value of \$6,664 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- i) As part of the United Wood acquisition, the Company issued an unsecured promissory note of \$1,939 bearing interest at 1.68%. The note is payable in 3 annual instalments of \$636 in December 2016, \$646 in December 2017 and \$657 in December 2018. The note was initially recorded at a fair value of \$1,754 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- j) As part of the McCormick acquisition, the Company issued an unsecured promissory note of \$1,429 bearing interest at 0.48%. The entire amount of the note is payable in April 2016. The note was initially recorded at a fair value of \$1,342 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- k) As part of the McCormick acquisition, the Company issued an unsecured promissory note of \$928 bearing interest at 0.48%. The entire amount of the note is payable in April 2017. The note was initially recorded at a fair value of \$805 using an interest rate of 7.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- l) Bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US\$200 starting July 2008 through July 2011, US\$300 starting August 2011 through July 2019 and US\$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all property, plant and equipment of the Fulton facility, which have a net book value of US\$7,153 as at December 31, 2014. The bond was initially recorded in the consolidated financial statements at a fair value of US\$4,835 using an interest rate of 6.50%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term. In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries have made available a US\$4,349 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.75% of the outstanding loan balance. The letter of credit expires on January 17, 2026. In December 2015, the Company fully reimbursed the bond and the letter of credit was cancelled.
- m) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	Principal
	\$
2016	62,369
2017	7,858
2018	592,931
2019	6,663
2020	2,615
Thereafter	1,012
	673,448
Fair value adjustment	(3,554)
	669,894

- n) The aggregate fair value of the Company's long-term debt was estimated at \$669,894 as at December 31, 2015 (2014 – \$444,575) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions				Other long-term liabilities			
	Reforestation	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2014	1,648	9,036	1,261	11,945	3,034	1,752	4,786	16,731
Addition	290	846	251	1,387	5,015	–	5,015	6,402
Business acquisition	–	3,481	–	3,481	–	–	–	3,481
Provision reversal	–	(3,909)	(33)	(3,942)	–	–	–	(3,942)
Payment	(443)	(1,310)	(49)	(1,802)	–	(947)	(947)	(2,749)
Interest accretion	–	–	–	–	–	39	39	39
Exchange differences	–	772	123	895	–	109	109	1,004
Balance as at December 31, 2014	1,495	8,916	1,553	11,964	8,049	953	9,002	20,966
Addition	651	2,165	1,140	3,956	8,914	1,706	10,620	14,575
Business acquisitions	–	634	–	634	–	–	–	634
Provision reversal	(43)	(456)	(269)	(768)	–	–	–	(768)
Payment	(459)	(1,426)	(115)	(2,000)	(3,744)	(622)	(4,366)	(6,366)
Interest accretion	–	–	–	–	–	32	32	32
Exchange differences	–	1,808	327	2,135	–	287	287	2,422
Balance as at December 31, 2015	1,644	11,641	2,636	15,921	13,219	2,355	15,574	31,495

Analysis of provisions and other long-term liabilities:

	2015	2014
	\$	\$
Current		
Provisions	8,077	3,234
Other long-term liabilities	12,763	3,705
Total current	20,840	6,939
Non-current		
Provisions	7,844	8,733
Other long-term liabilities	2,811	5,294
Total non-current	10,655	14,027
	31,495	20,966

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Provisions

Reforestation

The Company has asset retirement obligations relating to reforestation that have been estimated using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation of 2.75% (2014 – 2.75%) to approximate the present value of future expenditures.

Reforestation obligations represent discounted cash flow estimates of future silviculture costs relating to logged areas that are the Company's responsibility to reforest.

Future non-discounted reforestation expenditures are estimated at between \$417 and \$663 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential regulatory changes as well as the impact of weather-related changes on reforested areas. Accordingly, the actual cost of reforestation may differ from current estimates.

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 1 to 19 years. Those discounted cash flows have been estimated using pre-tax rates that reflect current market assessment of the time value of money and the risk specific to the obligation, ranging from 1.20% to 2.60%.

As of December 31, 2015, a total site remediation provision of \$11,641 (\$8,916 as of December 31, 2014) was recorded to support the ongoing compliance efforts of which \$634 relate to Treated Material and United Wood.

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.

The RSUs granted on March 19, 2012 reached their third year anniversary on March 19, 2015 and were fully paid.

On March 25, 2013, March 17, 2014 and March 16, 2015, the Company granted RSUs to certain executives and key employees as part of the long-term incentive plan.

On May 6, 2013, as part of a five-year incentive agreement and pursuant to the Stella-Jones Inc. long-term incentive plan, the Company granted 400,000 RSUs to the President and Chief Executive Officer (the "President"), with a vesting date of May 6, 2016. As part of the agreement, in the event that the President voluntarily leaves the employment of the Company prior to the fifth anniversary of the RSUs grant date, any amounts paid to him will be reimbursed to the Company. In the event that the President is required to cease his functions prior to the fifth anniversary of the RSUs grant date due to long-term disability or death, he shall be entitled to a prorated payment. The compensation expense related to the five-year agreement will be recognized in the consolidated statement of income over a five-year period.

As at December 31, 2015, the provision for RSUs was valued at \$13,219 (\$8,049 as at December 31, 2014). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant.

12 CAPITAL STOCK

	2015	2014
Number of common shares outstanding – Beginning of year*	68,949	68,697
Stock option plan*	165	222
Employee share purchase plans*	23	30
Number of common shares outstanding – End of year*	69,137	68,949

* 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:

	2015	2014
Net income applicable to common shares	\$ 141,377	\$ 103,847
Weighted average number of common shares outstanding*	69,018	68,802
Effect of dilutive stock options*	135	225
Weighted average number of diluted common shares outstanding*	69,153	69,027
Basic earnings per common share**	\$ 2.05	\$ 1.51
Diluted earnings per common share**	\$ 2.04	\$ 1.50

* Number of shares is presented in thousands.

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

c) 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.

Under the Plan adopted on June 13, 1994 and amended on May 3, 1995, March 15, 2001, May 3, 2007, December 10, 2010 and October 21, 2013, 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.

12 CAPITAL STOCK (CONTINUED)

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

	2015		2014	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		\$		\$
Outstanding – Beginning of year	329	8.00	550	7.06
Exercised	(165)	6.82	(221)	5.66
Granted	30	49.01	–	–
Outstanding – End of year	194	15.35	329	8.00
Options exercisable – End of year	158	9.72	311	7.18

The following options were outstanding under the Plan as at December 31, 2015:

Date granted	Options outstanding		Options exercisable		Expiration date
	Number of options*	Exercise price**	Number of options*	Exercise price**	
		\$		\$	
July 2006	60	4.88	60	4.88	July 2016
August 2006	12	5.14	12	5.14	August 2016
August 2007	30	9.90	30	9.90	August 2017
December 2009	32	6.01	32	6.01	December 2016
May 2013	30	22.13	18	22.13	May 2023
November 2015	30	49.01	6	49.01	November 2025
	194		158		

* Number of options is presented in thousands.

** Exercise price is presented in dollars per option.

d) Stock-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.

12 CAPITAL STOCK (CONTINUED)

On November 10, 2015, 30,000 options were granted at a fair value of \$329 and the expense amortized to earnings amounted to \$25. No options were granted during 2014. The fair value was estimated with the following weighted average assumptions:

	2015
Risk-free interest rate	1.00%
Dividend yield	1.00%
Expected life	10 years
Volatility	21.72%
Weighted average of fair value of options granted during the year	\$ 10.99

In 2015, the total expense relating to stock-based compensation amortized to earnings was \$55 (2014 – \$105).

e) 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 18 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 2015, 10,709 common shares (2014 – 14,883) were issued to Canadian resident employees at an average price of \$37.72 per share (2014 – \$26.55).

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 18 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 2015, 12,877 common shares (2014 – 15,121) were issued to U.S. resident employees at an average price of \$41.89 per share (2014 – \$29.36).

As at December 31, 2015, the total number of common shares issued under these plans is 830,236 (2014 – 806,650).

13 EXPENSES BY NATURE

	2015	2014
	\$	\$
Raw materials and consumables	1,047,648	854,385
Employee benefit expenses	109,796	87,422
Depreciation and amortization	23,334	20,576
Other expenses incurred in the manufacturing process	43,755	34,305
Freight	76,482	67,731
Other expenses	38,267	29,369
	1,339,282	1,093,788

	2015	2014
	\$	\$
Employee benefit expenses		
Salaries, wages and benefits	94,481	77,435
Share options granted to directors and employees	55	105
RSUs	8,914	5,015
Pension costs	1,928	1,520
Group registered retirement savings plans	4,418	3,347
	109,796	87,422

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

14 INCOME TAXES

	2015	2014
	\$	\$
Current tax		
Current tax on income for the year	49,771	34,490
Adjustments in respect of prior years	1,588	(553)
Total current tax	51,359	33,937
Deferred tax		
Origination and reversal of temporary differences	11,330	4,575
Impact of change in tax rate	(391)	(506)
Adjustment in respect of prior years	(713)	845
Total deferred tax	10,226	4,914
Income tax expense	61,585	38,851

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:

	2015	2014
	\$	\$
Income before income tax	202,962	142,698
Tax calculated at domestic tax rates of 26.31% (2014 – 26.98%) applicable to income in the respective countries	53,399	38,500
Tax effects of:		
Difference in tax rate of foreign subsidiaries	16,482	6,817
Income not subject to tax	(6,935)	(6,223)
Expenses not deductible for tax purposes	1,238	1,740
Remeasurement of deferred tax – change in tax rate	(391)	(506)
Adjustment in respect of prior years	875	292
Exchange revaluation of deferred tax	(51)	(51)
Manufacturing and processing tax credit	(3,032)	(1,718)
Income tax expense	61,585	38,851

14 INCOME TAXES (CONTINUED)

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

	2015	2014
	\$	\$
Deferred tax assets		
To be recovered after more than 12 months	3,854	4,129
To be recovered within 12 months	13,190	9,330
Deferred tax liabilities		
To be reversed after more than 12 months	(95,608)	(67,632)
Deferred tax liability, net	(78,564)	(54,173)

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

	2015	2014
	\$	\$
As at January 1	(54,173)	(46,200)
Statement of income credit	(10,226)	(4,914)
Tax charge (credit) relating to components of other comprehensive income	2,647	(594)
Tax charge (credit) relating to business acquisitions	(7,421)	1,024
Foreign exchange	(9,391)	(3,489)
As at December 31	(78,564)	(54,173)

14 INCOME TAXES (CONTINUED)

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:

	Financing fees	Reserves	Derivative financial instruments	Deferred pension benefits	Intangible assets	Cumulative losses	Total
	\$	\$	\$	\$	\$	\$	\$
Deferred tax assets							
As at January 1, 2014	593	8,838	155	1,226	87	92	10,991
Charged (credited) to statement of income	(407)	495	—	(589)	(8)	(12)	(521)
Charged (credited) to other comprehensive income	—	—	(98)	1,063	—	676	1,641
Business acquisition	—	545	—	—	—	—	545
Exchange differences	3	720	14	66	—	—	803
As at December 31, 2014	189	10,598	71	1,766	79	756	13,459
Charged (credited) to statement of income	(184)	1,529	—	21	(79)	(240)	1,047
Charged (credited) to other comprehensive income	—	—	(84)	293	—	504	713
Business acquisitions	—	(104)	—	—	—	145	41
Exchange differences	5	1,563	13	203	—	—	1,784
As at December 31, 2015	10	13,586	—	2,283	—	1,165	17,044

	Property, plant and equipment	Deferred pension benefits and financing fee	Intangible assets	Derivative financial instruments	Investment tax credit	Unrealized foreign exchange on debts and translation of foreign operations	Total
	\$	\$	\$	\$	\$	\$	\$
Deferred tax liabilities							
As at January 1, 2014	(36,263)	(501)	(19,365)	(373)	(108)	(581)	(57,191)
Charged (credited) to statement of income	(6,254)	501	1,252	—	108	—	(4,393)
Credited (credited) to other comprehensive income	—	—	—	139	—	(2,374)	(2,235)
Business acquisition	(63)	—	542	—	—	—	479
Exchange differences	(2,705)	—	(1,587)	—	—	—	(4,292)
As at December 31, 2014	(45,285)	—	(19,158)	(234)	—	(2,955)	(67,632)
Credited to statement of income	(10,216)	(28)	(527)	—	—	(502)	(11,273)
Charged to other comprehensive income	—	—	—	156	—	1,778	1,934
Business acquisitions	(1,426)	—	(6,036)	—	—	—	(7,462)
Exchange differences	(7,403)	—	(3,772)	—	—	—	(11,175)
As at December 31, 2015	(64,330)	(28)	(29,493)	(78)	—	(1,679)	(95,608)

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 \$250,194 as at December 31, 2015 (2014 – \$171,308).

15 EMPLOYEE FUTURE BENEFITS

The Company recognizes costs for several types of employee future benefits. Other 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.

In the U.S., the Company's wholly-owned subsidiary, McFarland, contributes to two benefit pension plans.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches 1.5 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 were as follows:

	2015	2014
	\$	\$
Post-retirement benefits	200	163
Defined benefit pension plans	1,346	967
Contributions to multi-employer plan	382	390
Contributions to group registered retirement savings plans	4,418	3,347

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

	2015	2014
	\$	\$
Liabilities		
Accrued benefit liability included in employee future benefits	(4,826)	(2,806)
Accrued benefit obligation, included in employee future benefits	(2,327)	(2,298)
	(7,153)	(5,104)

- a) The post-retirement benefits program is not funded and, since June 1, 2011, this program is closed to new participants. For this program, the Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as at July 1, 2015, and the next required valuation will be as at July 1, 2018.

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following information as established by independent actuaries pertains to the Company's post retirement benefits program:

	2015	2014
	\$	\$
Accrued benefit obligation		
Balance – Beginning of year	2,298	1,752
Current service cost	107	78
Interest cost	93	85
Benefits payments	(65)	(52)
Remeasurement adjustments		
Plan experience	(86)	201
Changes in financial assumptions	(20)	234
Balance – End of year	2,327	2,298
Plan assets		
Employer's contributions	65	52
Benefits paid	(65)	(52)
Fair value – End of year	–	–
Accrued benefit obligation	2,327	2,298

The significant assumptions used are as follows:

	2015	2014
	%	%
Accrued benefit obligation as at December 31		
Discount rate	4.00	3.90
Benefit costs for the year ended December 31		
Discount rate	3.90	4.70

For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2015. This rate is assumed to decrease gradually by 0.38% per year, to reach 5.00% in 2020. 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	71	(62)
Impact on benefit costs	3	(3)

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The items of the Company's post-retirement benefits program costs recognized during the year are as follows:

	2015	2014
	\$	\$
Current service cost	107	78
Interest cost	93	85
Post-retirement benefits program costs recognized	200	163

Consolidated statement of comprehensive income	2015	2014
	\$	\$
Year ended December 31		
Actuarial (losses) gains	106	(435)
Total recognized in other comprehensive income before income tax	106	(435)

Accumulated actuarial (losses) gains recognized in other comprehensive income	2015	2014
	\$	\$
Balance of actuarial losses as at January 1	(429)	(107)
Net actuarial (losses) gains recognized in the year (net of tax)	78	(322)
Balance of actuarial losses as at December 31	(351)	(429)

- b) The Company's defined benefit pension plans base the benefits on the length of service and final average earnings. The McFarland defined benefit pension plans base the benefits on the length of service and flat dollar amounts payable monthly. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

Actuarial valuations are updated every three years, and the latest valuations performed for the five existing pension plans are as follows:

	Date of last actuarial valuation
Plan 1	December 31, 2013
Plan 2	December 31, 2014
Plan 3	December 31, 2015
Plan 4	December 31, 2015
Plan 5	December 31, 2015

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Information about the Company's defined benefit pension plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2015	2014
	\$	\$
Accrued benefit obligation		
Balance – Beginning of year	24,105	19,122
Current service cost	937	784
Past service cost	86	–
Interest cost	945	941
Benefits payments	(693)	(766)
Remeasurement adjustments		
Plan experience	777	(311)
Changes in demographic assumptions	314	(37)
Changes in financial assumptions	(438)	3,872
Exchange difference	1,512	499
Balance – End of year	27,545	24,105
Plan assets		
Fair value – Beginning of year	21,299	19,130
Interest income on plan assets	598	734
Return on plan asset excluding interest income	(467)	616
Employer's contributions	1,165	1,249
Employee's contributions	24	24
Benefits paid	(693)	(766)
Exchange difference	793	312
Fair value – End of year	22,719	21,299
Accrued benefit liability	(4,826)	(2,806)

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of benefit plans that are not fully funded:

	2015	2014
	\$	\$
Accrued benefit obligation	13,817	10,845
Fair value of plan assets	8,311	6,918
Funded status – Plan deficit	(5,506)	(3,927)

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The percentage of plan assets consists of the following for the year ended December 31:

	2015	2014
	%	%
Listed equity securities	40.00	45.00
Listed debt securities	58.00	53.00
Short-term investments and cash	2.00	2.0
	100.0	100.0

The significant weighted average assumptions used are as follows:

	2015	2014
	%	%
Accrued benefit obligation as at December 31		
Discount rate	4.00	3.90
Rate of compensation increase	3.25	3.25
Benefit costs for the year ended December 31		
Discount rate	3.90	4.90

The items of the Company's defined benefit plan costs recognized during the year are as follows:

	2015	2014
	\$	\$
Current service cost, net of employees' contributions	913	760
Interest cost	945	941
Interest income on plan assets	(598)	(734)
Past service cost	86	-
Defined benefit plan expense	1,346	967

Expected contributions to the defined benefit pension plans for the year ending December 31, 2015 are \$918.

15 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Consolidated statement of comprehensive income	2015	2014
	\$	\$
Year ended December 31		
Actuarial losses	(1,120)	(2,908)
Total recognized in other comprehensive income before income tax	(1,120)	(2,908)
<hr/>		
Accumulated actuarial losses recognized in other comprehensive income	2015	2014
	\$	\$
Balance of actuarial losses as at January 1	(2,241)	(285)
Net actuarial losses recognized in the year (net of tax)	(798)	(1,956)
Balance of actuarial losses as at December 31	(3,039)	(2,241)

16 COMMITMENTS AND CONTINGENCIES

- a) The Company has issued guarantees amounting to \$37,952 (2014 – \$29,353) 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) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

	\$
2016	21,497
2017	17,318
2018	12,546
2019	8,022
2020	5,094
Thereafter	16,252
	<hr/> 80,729

- c) 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.
- d) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be \$170 (2014 – \$590). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation.

17 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 has been recorded using mark-to-market information.

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, 2015, the Company's credit exposure consists primarily of the carrying amount of cash and cash equivalents, restricted cash, accounts receivable and derivative financial instruments.

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

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 railroad companies, public service companies and utility and telecommunication companies 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 provision for doubtful accounts for the years ended December 31, 2015 and 2014. In 2015, the Company had one customer representing 10.10% of its sales (2014 – 9.80%). As at December 31, 2015, the accounts receivable balance from this customer amounted to \$799 (2014 – \$6,622).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall 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.

17 FINANCIAL INSTRUMENTS (CONTINUED)**Liquidity risk (continued)**

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 10(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2015, an amount of \$17,556 was available under the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

	2015					
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	75,085	75,085	75,085	—	—	—
Long-term debt obligations	669,881	725,423	78,613	629,477	16,297	1,036
Interest rate swap agreements	538	620	620	—	—	—
Non-competes payable	2,355	2,519	1,112	1,407	—	—
	747,859	803,647	155,430	630,884	16,297	1,036

	2014					
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	69,719	69,719	69,719	—	—	—
Long-term debt obligations	444,557	484,507	19,128	69,169	391,179	5,031
Interest rate swap agreements	706	1,189	1,189	—	—	—
Non-competes payable	953	1,030	551	479	—	—
	515,935	556,445	90,587	69,648	391,179	5,031

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.

17 FINANCIAL INSTRUMENTS (CONTINUED)**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 companies. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions 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. As at December 31, 2015, the Company had no foreign exchange forward contracts outstanding.

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 equity for the years ended December 31, 2015 and 2014. 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, comprehensive income and equity:

	2015	2014
	\$	\$
Decrease of net income	348	200
Increase of equity	65,587	45,851

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:

	2015	2014
	\$	\$
Assets		
Accounts receivable	2,106	1,427
Liabilities		
Accounts payable and accrued liabilities	2,916	1,104
Long-term debt	2,671	2,325
	5,587	3,429

The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 10).

Interest rate risk

As at December 31, 2015, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 58.50% (2014 – 76.10%) 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.

17 FINANCIAL INSTRUMENTS (CONTINUED)**Interest rate risk (continued)**

The committed revolving credit facility defined in Note 10(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 swap agreements as detailed below. The impact of a 10.00% increase in these rates on the average annual balance of operating credit facilities, for borrowings that have not been swapped, would have increased interest expense by \$245 for the year ended December 31, 2015 (2014 – \$120).

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

				2015
Notional amount	Related debt instrument	Fixed rate	Maturity date	Notional equivalent
				CA\$
		%		
CA\$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US\$75,000	Committed revolving credit facility	0.97*	June 2017	103,800
US\$25,000	Committed revolving credit facility	0.71*	December 2017	34,600
US\$25,000	Committed revolving credit facility	0.69*	December 2017	34,600
US\$25,000	Committed revolving credit facility	0.71*	December 2017	34,600
US\$25,000	Committed revolving credit facility	0.70*	December 2017	34,600
US\$25,000	Committed revolving credit facility	1.16*	December 2016	34,600
US\$15,000	Committed revolving credit facility	1.45*	August 2016	20,760
US\$85,000	Committed revolving credit facility	1.68*	April 2021	117,640

				2014
Notional amount	Related debt instrument	Fixed rate	Maturity date	Notional equivalent
				CA\$
		%		
CA\$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US\$75,000	Committed revolving credit facility	0.97*	June 2017	87,007
US\$25,000	Committed revolving credit facility	0.71*	December 2017	29,002
US\$25,000	Committed revolving credit facility	0.69*	December 2017	29,002
US\$25,000	Committed revolving credit facility	0.71*	December 2017	29,002
US\$25,000	Committed revolving credit facility	0.70*	December 2017	29,002
US\$25,000	Committed revolving credit facility	1.16*	December 2016	29,002
US\$15,000	Committed revolving credit facility	1.45*	August 2016	17,401
US\$5,000	Committed revolving credit facility	5.80	July 2015	5,800
US\$5,000	Committed revolving credit facility	5.54	July 2015	5,800
US\$1,000	Committed revolving credit facility	4.69	December 2015	1,160
US\$5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	6,497

* Plus applicable spread of 1% to 2% based on a pricing grid.

17 FINANCIAL INSTRUMENTS (CONTINUED)**Interest rate risk (continued)**

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, 2015, 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, 2015 from different third parties. 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).

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2015 is a net asset of \$294 (2014 – net asset of \$717), of which an asset of \$832 (2014 – \$1,423) is recorded in non-current assets and a liability of \$538 (2014 - \$706) is recorded in non-current liabilities in the consolidated statement of financial position. A 10.00% decrease in interest rates as at December 31, 2015 would have reduced the net gain recognized in other comprehensive income by approximately \$29 (2014 – \$72). For a 10.00% increase in the interest rates, there would be an equal and opposite impact on the net gain.

18 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.

	2015	2014
	\$	\$
Total debt	669,881	444,557
Shareholders' equity	913,502	692,271
Total capital	1,583,383	1,136,828
Total debt to total capitalization ratio	0.42:1	0.39:1

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 committed revolving credit facility. 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 0.75:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

19 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2015	2014
	\$	\$
Stella Jones International S.A.*		
Marketing and technical service fees paid	200	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	100	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	429	320

* Stella Jones International S.A. holds, directly or indirectly, approximately 38.40% of the outstanding common shares of the Company.

** Stella International S.A. and James Jones & Sons Limited hold 51.00% and 49.00% of all voting shares of Stella Jones International S.A., respectively.

These transactions occurred in the normal course of operations and have been measured at fair value.

As at December 31, the consolidated statement of financial position includes the following amounts with related parties:

	2015	2014
	\$	\$
Accounts payable to Stella International S.A. and James Jones & Sons Limited	25	25
Accounts payable to Stella Jones International S.A.	50	50
Accounts payable to a firm in which a director of the Company is a partner	35	52
	110	127

b) 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:

	2015	2014
	\$	\$
Salaries, compensation and benefits	4,690	4,522
Share-based compensation	6,796	3,761
	11,486	8,283

20 SEGMENT INFORMATION

The Company operates within one business segment which is the production and sale of pressure-treated wood products and related services. Operating plants are located in five Canadian provinces and seventeen American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer as at December 31 are as follows:

	2015	2014
	\$	\$
Canada	285,741	229,913
U.S.	1,273,593	1,019,580
	1,559,334	1,249,493

Sales by product as at December 31 are as follows:

	2015	2014
	\$	\$
Railway ties	709,671	530,008
Utility poles	527,707	470,509
Residential lumber	182,593	128,009
Industrial products	97,347	89,376
Logs and lumber	42,016	31,591
	1,559,334	1,249,493

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

	2015	2014
	\$	\$
Property, plant and equipment		
Canada	86,741	65,629
U.S.	288,793	215,978
	375,534	281,607
Intangible assets		
Canada	27,899	8,874
U.S.	113,037	101,451
	140,936	110,325
Goodwill		
Canada	7,229	1,204
U.S.	238,467	193,811
	245,696	195,015

21 SUBSEQUENT EVENTS

- a) On February 3, 2016, the Company announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of 440 Investments, LLC, the parent company of Kisatchie Treating, LLC, Kisatchie Pole & Piling, LLC, Kisatchie Trucking, LLC and Kisatchie Midnight Express, LLC (collectively, "Kisatchie").

Kisatchie produces treated poles, pilings and timbers, with two wood treating facilities in Noble and Pineville, Louisiana. Kisatchie's consolidated sales for the year ended December 31, 2015 reached approximately US\$51.8 million.

The transaction, if finalized, is expected to close during the second quarter of 2016 and is subject to customary conditions, including satisfactory due diligence and signature of a definitive share purchase agreement.

- b) Also on February 3, 2016, the Company announced that, through a wholly-owned subsidiary, it has signed a non-binding letter of intent to purchase the shares of Lufkin Creosoting Co., Inc. ("Lufkin Creosoting").

Lufkin Creosoting produces treated poles and timbers at its wood treating facility in Lufkin, Texas. Its consolidated sales for the year ended December 31, 2015 reached approximately US\$34.2 million.

The transaction, if finalized, is expected to close during the second quarter of 2016 and is subject to customary conditions, including satisfactory due diligence and signature of a definitive share purchase agreement.

- c) On February 26, 2016, the Company and SJ Holding, as borrowers, entered into an agreement to amend the fourth amended and restated credit agreement dated March 3, 2015. The amended agreement (the fifth amended and restated credit agreement) will make available a committed revolving credit facility for a period of five years and will be increased from US\$450,000 to US\$500,000 for the first two years. Subsequently, the committed revolving credit facility will be reduced to US\$450,000 in the third year to finally be reduced to US\$350,000 for the fourth and fifth years. The amended agreement also includes an accordion option allowing the borrowers to request an increase of up to US\$200,000 to the committed revolving credit facility, subject to customary conditions. The committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders and will mature on February 26, 2021. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.00% to 1.25% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.00% to 2.25% based on a pricing grid.

The committed revolving credit facility is unsecured, subject to a negative pledge, other than permitted liens, in favour of the bank syndicate.

In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the interest charge coverage ratio equal to or greater than 3.00:1. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.00% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 3.25:1. In the case where the total debt to EBITDA ratio is lower than 3.25:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

- d) On February 26, 2016, the Company entered into demand loan agreements with two banks participating in the committed revolving credit facility syndication. The demand loans make available financing up to US\$50,000 under the same conditions as the fifth amended and restated committed revolving credit facility. This indebtedness, if required by the Company, will be presented under short term liabilities as the banks have the option to request reimbursement of the loan at any time.
- e) On March 15, 2016, the Board of Directors declared a quarterly dividend of \$0.10 per common share payable on April 29, 2016 to shareholders of record at the close of business on April 1, 2016.

22 COMPARATIVE FIGURES

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

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Tom A. Bruce Jones, CBE⁽¹⁾

Chairman of the Board,
Stella-Jones Inc.
Chairman of the Board,
James Jones & Sons Limited
(Forest products company)
Larbert, Scotland
Director since July 1993

George J. Bunze, CPA, CMA⁽²⁾⁽³⁾

Vice-Chairman and Director,
Kruger Inc.
(Manufacturer of paper, tissue,
wood products, energy (hydro/
wind) and wine and spirits
products)
Montréal, Québec
Director since May 2001

Gianni Chiarva⁽³⁾

Vice-Chairman of the Board,
Stella-Jones Inc.
Chairman,
Stella Jones International S.A.
Milan, Italy
Director since July 1993

Brian McManus

President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since June 2001

Nycol Pageau-Goyette⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

President, Pageau Goyette
et associés limitée
(Management services firm)
Chairperson, Sorinco Inc.
(Waste management company)
Montréal, Québec
Director since July 1993

James A. Manzi, Jr.⁽²⁾

Corporate Director
Tampa, FL, USA
Director since April 2015

Simon Pelletier⁽²⁾

Senior Vice-President,
Global Sales and Marketing
Metso Services Business Area
(manufacturer of mineral
processing and construction
equipment)
Senneville, Québec
Director since May 2012

Daniel Picotte⁽¹⁾

Partner, Fasken Martineau
DuMoulin LLP (Law firm)
Montréal, Québec
Director since July 1993

Mary Webster⁽¹⁾

Corporate Director
Wayzata, MN, USA
Director since May 2007

- (1) Member of the Environmental,
Health and Safety Committee
(2) Member of the Audit Committee
(3) Member of the Remuneration
Committee
(4) Lead Director

A full report of Stella-Jones' corporate
governance practices is set out in the
Proxy Circular for the April 28, 2016
Annual Meeting of Shareholders.

OFFICERS

Tom A. Bruce Jones, CBE

Chairman of the Board

Gianni Chiarva

Vice-Chairman of the Board

Brian McManus

President and
Chief Executive Officer

Éric Vachon, CPA, CA

Senior Vice-President and
Chief Financial Officer

Marla Eichenbaum

Vice-President,
General Counsel and
Secretary

Ian Jones

Senior Vice-President

Gordon Murray

Vice-President, Environment and
Technology and General Manager,
Atlantic Region

Rémi Godin

Vice-President and
Chief Accounting Officer

André Daigle

Vice-President,
Central Region

SUBSIDIARIES—SENIOR MANAGEMENT

Shane Campbell

Vice-President, Operations
McFarland Cascade
Holdings, Inc.

George Caric

Vice-President, Marketing
Stella-Jones Corporation

Kevin Comerford

Vice-President, Poles
and Residential Sales
McFarland Cascade
Holdings, Inc.

W.G. Downey, Jr.

Vice-President,
U.S. Tie Procurement
Stella-Jones Corporation

Ian Jones

Senior Vice-President
McFarland Cascade
Holdings, Inc.

James Kenner

Vice-President and
General Counsel, U.S. Operations
Stella-Jones Corporation

Patrick Kirkham

Vice-President, Operations
Stella-Jones Corporation

Jim Raines

Vice-President, Sales
Stella-Jones Corporation

Glen Ritchie

Vice-President, Fibre
Stella-Jones Inc.

Michael Sylvester

Senior Vice-President,
Stella-Jones Corporation

Rick Thompson

Vice-President and
General Manager,
Guelph Utility Pole facility

Dave Whitted

Vice-President,
Sales Operations
Stella-Jones Corporation

Jon Younce

Vice-President, U.S. Fibre
and Pole Production
McFarland Cascade Holdings, Inc.

Ron Zeegers

Vice-President,
Operations, Western Canada
Stella-Jones Inc.

OPERATING LOCATIONS – CANADA

CORPORATE HEAD OFFICE

Stella Jones Inc.

3100 de la Côte-Vertu Blvd.
Suite 300
Saint-Laurent, Québec
H4R 2J8
T: (514) 934-8666
F: (514) 934-5327
montreal@stella-jones.com

ALBERTA

Plant

39 miles SE of Calgary
Hwy. 24
P.O. Box 99
Carseland, Alberta
TOJ 0M0
T: (403) 934-4600
F: (403) 934-5880
carseland@stella-jones.com

BRITISH COLUMBIA

Plant and Sales Office

25 Braid Street
New Westminster
British Columbia
V3L 3P2
T: (604) 521-4385
F: (604) 526-8597
n.west@stella-jones.com

Plant

7400 Galloway Mill Road
Galloway
British Columbia
V0B 7P0
T: (250) 429-3493
F: (250) 429-3931

Plant and Sales Office

7177 Pacific Street
Prince George
British Columbia
V2N 5S4
T: (250) 561-1161
F: (250) 561-0903
p.george@stella-jones.com

Fibre & Woodlands Dept.

4661 60th Street SE
Salmon Arm
British Columbia
V1E 1X2
T: (250) 832-1180
F: (250) 832-7933
salmonarm@stella-jones.com

NOVA SCOTIA

Plant and Sales Office

278 Park Street
P.O. Box 278
Truro, Nova Scotia
B2N 5C1
T: (902) 893-9456
F: (902) 893-3874
truro@stella-jones.com

ONTARIO

Plant and Sales Office

Guelph Utility Pole
7818 Wellington Road 22
P.O. Box 154, R.R. #5
Guelph, Ontario
N1H 6J2
T: (519) 822-3901
F: (519) 822-5411
info@guelphpole.com

Plant and Sales Office

1 Ram Forest Road
Gormley, Ontario
LOH 1G0
T: (905) 727-1164
F: (905) 727-7758
gormley@stella-jones.com

Plant and Sales Office

321 Lansdowne Street East
Peterborough, Ontario
K9J 7X6
T: (705) 745-3223
F: (705) 745-3793
peterborough@stella-jones.com

QUÉBEC

Plant and Sales Office

41 Rodier Street
Delson, Québec
J5B 2H8
T: (450) 632-2011
T: 1 (800) 387-5027
F: (450) 632-3211
delson@stella-jones.com

Plant and Sales Office

426 chemin de
Montréal East
Gatineau, Québec
J8M 1V6
T: (819) 986-8998
F: (819) 986-9875
mlauzon@stella-jones.com

Plant

2210 chemin St-Roch
Sorel-Tracy, Québec
J3R 3L2
T: (450) 742-5977
F: (450) 742-8832
jgaudreau@stella-jones.com

OPERATING LOCATIONS – UNITED STATES

CORPORATE OFFICE	LEGAL AND COMPLIANCE	ALABAMA		
Stella-Jones Corporation Two Gateway Center Suite 1000 603 Stanwix Street Pittsburgh, PA 15222 U.S.A. T: (412) 325-0202 F: (412) 325-0208 sjcorp@stella-jones.com	Stella-Jones Corporation 15700 College Blvd. Suite 300 Lenexa, KS 66219 U.S.A. T: (913) 948-9478 F: (913) 538-2226 sjcorp@stella-jones.com	Plant Stella-Jones Corporation 100 McKinney Drive Clanton, AL 35045 U.S.A. T: (205) 280-3950 F: (205) 665-2545 sjcorp@stella-jones.com	Plant Stella-Jones Corporation 1051 Highway 25 South Montevallo, AL 35115 U.S.A. T: (205) 679-4005 F: (205) 665-2545 sjcorp@stella-jones.com	
ARIZONA	ARKANSAS	GEORGIA		INDIANA
Plant McFarland Cascade 850 West Chambers St. Eloy, AZ 85231 U.S.A. T: (520) 466-7801 F: (520) 466-3607 info@mcfarland cascade.com	Plant Stella-Jones Corporation 4260 South Arkansas Ave. Russellville, AR 72802 U.S.A. T: (479) 968-5085 F: (479) 968-4636 sjcorp@stella-jones.com	Plant McFarland Cascade 6040 Highway 79N Rison, AR 71665 U.S.A. T: (870) 325-7070 F: (870) 325-7050 info@mcfarland cascade.com	Plant Stella-Jones Corporation 3500 Pateville Road Cordele, GA 31015 U.S.A. T: (229) 273-8012 F: (229) 273-8220 sjcorp@stella-jones.com	Plant Stella-Jones Corporation 3818 S. County Road 50 E. Winslow, IN 47598 U.S.A. T: (812) 789-5331 F: (812) 789-5335 sjcorp@stella-jones.com
KENTUCKY	LOUISIANA	MISSISSIPPI	NEVADA	OREGON
Plant Stella-Jones Corporation 3855 Highway 51 North Fulton, KY 42041 U.S.A. T: (270) 472-5557 F: (270) 472-5559 sjcorp@stella-jones.com	Plant Stella-Jones Corporation 3600 Koppers Road Alexandria, LA 71302 U.S.A. T: (318) 442-5733 F: (318) 473-4378 sjcorp@stella-jones.com	Plant McFarland Cascade 13539 Highway 45 Scooba, MS 39358-7611 U.S.A. T: (662) 476-8000 F: (662) 475-8005 info@mcfarland cascade.com	Plant McFarland Cascade 1680 E Spruce Avenue Silver Springs, NV 89429 U.S.A. T: (775) 577-2000 F: (775) 577-9045 info@mcfarland cascade.com	Plant McFarland Cascade 90049 Highway 99N. Eugene, OR 97402 U.S.A. T: (541) 689-1278 F: (541) 689-6027 info@mcfarland cascade.com
OREGON	PENNSYLVANIA	SOUTH CAROLINA		TENNESSEE
Plant McFarland Cascade 22125 SW Rock Creek Road Sheridan, OR 97378 U.S.A. T: (503) 843-2122 F: (503) 843-7058 info@mcfarland cascade.com	Plant Stella-Jones Corporation 5865 Route 235 McAlisterville, PA 17049 U.S.A. T: (717) 463-2131 F: (717) 463-3998 sjcorp@stella-jones.com	Plant Stella-Jones Corporation 392 Larkeytown Road Dubois, PA 15801 U.S.A. T: (814) 371-7331 F: (814) 375-0946 sjcorp@stella-jones.com	Plant McFarland Cascade 1121 Delta Road Whitmire, SC 29178 U.S.A. T: (803) 694-3668 F: (803) 694-3976 info@mcfarland cascade.com	Coal Tar Distillation Facility Stella-Jones Corporation 1471 Channel Avenue Memphis, TN 38106 U.S.A. T: (901) 942-3326 F: (901) 942-3128 sjcorp@stella-jones.com
VIRGINIA	WASHINGTON	WISCONSIN		
Plant Stella-Jones Corporation 9223 Maury River Road Goshen, VA 24439 U.S.A. T: (540) 997-9251 F: (540) 997-0047 sjcorp@stella-jones.com	Plant and Corporate Office McFarland Cascade 1640 East Marc St. Tacoma, WA 98421 U.S.A. T: (253) 572-3033 F: (253) 382-3000 info@mcfarland cascade.com	Plant and Sales Office McFarland Cascade 6520 - 188th NE. Arlington, WA 98223 U.S.A. T: (360) 435-2146 F: (360) 435-3035 info@mcfarland cascade.com	Plant Stella-Jones Corporation W1038 County Road U. Bangor, WI 54614 U.S.A. T: (608) 486-2700 F: (608) 486-4538 sjcorp@stella-jones.com	

CORPORATE INFORMATION

Annual Meeting of Shareholders

April 28, 2016

10:00 a.m.

Ritz-Carlton Montréal

Gold and Grey Room

1228 Sherbrooke Street West

Montréal, Québec

Stock Information

Shares listed: Toronto Stock Exchange

Ticker symbol: SJ

Initial public offering: 1994

52-week high/low (Jan. 1 – Dec. 31, 2015): \$54.00 / \$31.99

Share price at March 15, 2016: \$49.16

Common shares outstanding as at December 31, 2015: 69.1 million

Dividend Policy

The Board of Directors considers a dividend on a quarterly basis, subject to the company's financial covenants and conditional upon its financial performance and cash requirements.

On March 15, 2016, the Board of Directors declared a quarterly dividend of \$0.10 per common share.

Transfer Agent and Registrar

Computershare Investor Services Inc.

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Fasken Martineau Dumoulin LLP

Foley & Lardner LLP

Cohen & Grigsby, P.C.



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