

**STELLA-JONES INC.**

**ANNUAL INFORMATION FORM  
For the financial year ended December 31, 2011**

**March 22, 2012**

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## ITEM 1 DATE OF ANNUAL INFORMATION FORM

This Annual Information Form (“AIF”) is dated as of March 22, 2012. Unless otherwise indicated, the information contained in this AIF is stated as at December 31, 2011.

## ITEM 2 CORPORATE STRUCTURE

### 2.1 NAME AND INCORPORATION

Stella-Jones Inc. (“SJI”) was incorporated as 2865165 Canada Inc. on October 26, 1992 under the *Canada Business Corporations Act* and changed its name to Stella-Jones Inc. on February 19, 1993. SJI’s Articles were amended on March 31, 1994 to delete private company restrictions. The Articles were again amended on June 13, 1994, subdividing all 100,001 common shares issued and outstanding into 6,200,000 common shares redesignated “Common Shares”, creating Preferred Shares, issuable in series, cancelling all authorized but non-issued preferred shares and creating the Series 1 Preferred Shares. On May 27, 1996, SJI’s Articles were further amended to add a provision to the effect that the directors may appoint a limited number of additional directors to hold office until the close of the next annual meeting of shareholders.

The registered office of SJI is located at 3100 de la Côte-Vertu Blvd., Suite 300, Montréal, Québec, H4R 2J8.

### 2.2 INTERCORPORATE RELATIONSHIPS

As at December 31, 2011, Stella-Jones Corporation (“SJ Corporation”), Stella-Jones Canada Inc., Guelph Utility Pole Company Ltd. (“Guelph”), I.P.B. - W.P.I. International Inc. (“I.P.B.”), Stella-Jones U.S. Holding Corporation (“Holding Corporation”), Stella-Jones U.S. Finance Corporation (“Finance Corporation”), 4552822 Canada Inc. (“Canco 1”), 4552831 Canada Inc. (“Canco 2”) and Canadalux S.à.r.l. (“Canadalux”) were the significant subsidiaries of the Company.

Name of Subsidiary	Percentage of voting shares owned by the Corporation	Jurisdiction of Incorporation
SJ Corporation	100%	Delaware
Stella-Jones Canada Inc.	100%	Canada
Guelph	100%	Ontario
I.P.B.	100%	Canada
Holding Corporation	100%	Delaware
Finance Corporation	100%	Delaware
Canco 1	100%	Canada
Canco 2	100%	Canada
Canadalux	100%	Luxembourg

### **ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS**

*Unless the context dictates otherwise, “SJ” and “the Company” mean Stella-Jones Inc. and its subsidiaries.*

#### **3.1 THREE YEAR HISTORY**

Stella-Jones Inc. (TSX: SJ) is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges.

On April 1, 2010, the Company, through its wholly-owned US subsidiary, Holding Corporation, acquired Tangent Rail Corporation (“Tangent”), a provider of wood crosstie supply chain services, serving the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Winslow, Indiana; Alexandria, Louisiana and McAlisterville, Pennsylvania. The wood preservative, creosote, was produced at its distillery in Memphis, Tennessee. Lifecycle solutions, consisting of used tie pickup and disposal, were carried out at facilities in Alabama, Minnesota and North Carolina. The purchase price totalled approximately US\$170.0 million.

Financing for the transaction was secured through an \$80,050,000 private placement of subscription receipts, which successfully closed on March 15, 2010, as well as through the issuance to the Solidarity Fund QFL of a US\$25,000,000 unsecured debenture, the increase of existing operating debt facilities and the addition of a US\$40,000,000 term facility which successfully closed on March 24, 2010. The subscription receipts were exchanged as at the close of business on April 1, 2010, for common shares in the share capital of the Company on the basis of one common share per subscription receipt. As this was a significant acquisition, the Company filed a Form 51-102F4 (Business Acquisition Report) in respect of this transaction. Tangent and SJ Corporation were merged following the close of business on December 31, 2010. Tangent, the surviving Delaware Corporation, changed its name to Stella-Jones Corporation concurrently with the merger.

On December 7, 2011, the Company through its wholly-owned U.S. subsidiary, SJ Corporation, completed the acquisition of Thompson Industries, Inc. (“Thompson”), a provider of treated wood products to the railroad industry. Thompson produced treated wood products, mainly railway ties and timbers, at a facility located in Russellville, Arkansas. Thompson’s sales for its fiscal year ended September 30, 2011 were approximately US\$49.0 million. The purchase price totalled approximately US\$34.9 million, subject to post closing adjustments. Stella-Jones financed the acquisition through existing credit facilities and an unsecured vendor note of US\$6.5 million. This transaction was not a significant acquisition for the purposes of Part 8 of National Instrument 51-102 and therefore, Form 51-102F4 (Business Acquisition Report) was not filed in respect of this acquisition. Immediately following the acquisition, Thompson and SJ Corporation were merged, with SJ Corporation being the surviving Corporation.

## **ITEM 4 DESCRIPTION OF THE BUSINESS**

### **4.1 GENERAL**

The Company operates within one business segment, the production and sale of pressure treated wood for several different product groups (described below). Wood treating facilities are located in the Canadian provinces of Nova Scotia, Québec, Ontario, Alberta, and British Columbia, and the states of Wisconsin, Washington, Pennsylvania, Virginia, West Virginia, Kentucky, Indiana, Alabama, Arkansas and Louisiana in the USA. Additionally, the Company carries out crosstie recycling services at facilities in Alabama, Minnesota and North Carolina and distills coal tar and distributes products from that process at its Memphis, Tennessee distillery.

### **4.2 DESCRIPTION OF PRODUCT GROUPS AND SERVICES**

#### **Railway Ties**

Since railway products must have a high resistance to wear and decay, an oil-based treatment is required to provide the maximum protection. In the Canadian market, the larger (Class 1) railway companies formerly provided their own wood and preservatives and only used the treating company for treating services. They are now, for the most part, purchasing treated ties as a finished product. In the United States market, many Class 1 railroads still continue to require treating services only but also purchase treated ties as finished products.

Historically, demand for railway ties has been comprised primarily of replacement requirements with limited activity in new track construction. Since 2004, Class 1 railroads have increased their spending on track maintenance which has caused an increased demand for railway crossties. Growth in port traffic and intermodal trains has led to congestion problems throughout the North American railroad industry. As a result, capital expenditures on track and infrastructure improvements should remain solid in the years to come.

A relatively stable volume of new ties is required for maintenance purposes, as management estimates that approximately 1.5% to 3% of all ties on active railway lines are in need of replacement every year. In addition to servicing the demands of the Class 1 railroads for railway ties and timbers, the Company also sells to many short line railroads and to contractors that install and repair rail lines.

#### **Utility Poles**

Customers for transmission and distribution poles are predominantly regional telecommunication and electric utility companies. Although there exist alternative transmission methods, treated wood poles are the preferred method due to their durability (poles could typically last from 40 to 50 years or more) and their relatively low cost of purchase, installation and maintenance. Furthermore, wood poles can be easily drilled and cross cut and allow greater ease for servicing by linesmen. Steel, cement and composite poles are more expensive than wood poles in most sizes and applications. Due to the higher cost and characteristics such as conductivity, potential for corrosion, poor serviceability, flexibility and workability (drilling, machining, climbing), wood poles continue to be the preferred choice of most utilities. Underground cable is used mainly in urban centers where existing underground infrastructures exist but is less preferred in rural areas due to the higher cost and difficult accessibility.

## **Industrial Products**

These products include foundation and marine piling, railway bridge and crossing timbers, construction timbers and highway guardrail posts. Demand for these products typically follows the construction cycle and producers compete on quality, price, service and access to raw wood.

The Company also manufactures the wood preservative creosote for use in its wood treating activities, as well as other coal tar based products such as roof pitch and road tar, which are sold to third party customers. Additionally, the Company provides crosstie recycling services, which are performed for railroad operators and include collecting and stacking used ties on the railroads right of way, and picking up and delivering the used ties to the Company operated recycling plants. Used crossties are verified at the track site for potential resale as landscape ties to landscape companies. Those ties which are not usable as landscape ties are processed into woodchips at the recycling plants (biomass) and sold primarily to paper or energy companies to be used by them as boiler fuel.

## **Residential Lumber**

This service consists primarily of treating consumer lumber owned by the Company's customers for use in patios, decks, fences and other outdoor applications. The Company provides this service exclusively to the Canadian market.

### **4.3 DESCRIPTION OF MANUFACTURING PROCESS**

Preservation is the process by which wood is protected against decay and pests through controlled pressure impregnation with preservatives that are resistant to wood destroying organisms.

The manufacturing process involves at least two stages: drying and impregnation with preservatives through hydraulic pressure. The preservatives, all of which are approved by Health Canada and the United States Environmental Protection Agency, are either oil-based or water-based. The raw materials consist of wood and preservatives.

In the first phase of treatment, excessive moisture in the wood is reduced prior to impregnation with the preservative. This is accomplished by air-seasoning, kiln drying or through a "conditioning process" in the treatment cylinder itself.

In the second phase, treatment is performed on batches of wood that are similar in species, shape and moisture content. Such batches are inserted into the treatment cylinder, where either a vacuum or a pressurized condition is created prior to the admission of the preservative. Following the admission of the preservative, hydraulic pressure is maintained in the treatment cylinder until the wood has absorbed the preservative to a pre-determined amount. Upon completion of the absorption process, excess preservative is returned to the storage tanks and a few remaining process steps are taken to avoid preservative concentrations on wood surfaces prior to removal from the treatment cylinder.

#### **4.4 MANUFACTURING OPERATIONS**

The Company operates eight wood treating facilities in Canada and eleven wood treating facilities in the United States. In Canada, the facilities are located in Truro (Nova Scotia), Delson (Québec), Sorel-Tracy (Québec), Gatineau (Québec), Guelph (Ontario), Carseland (Alberta), New Westminster (British Columbia) and Prince George (British Columbia). In the United States, the facilities are located in Bangor (Wisconsin), Arlington (Washington), DuBois and McAlister (Pennsylvania), Goshen (Virginia), Spencer (West Virginia), Fulton (Kentucky), Winslow (Indiana), Warrior (Alabama), Russellville (Arkansas) and Alexandria (Louisiana).

The wood preservative, creosote, is produced at the Company's distillery in Memphis (Tennessee), and lifecycle solutions consisting of used tie pick-up and disposal are carried out at facilities in Alabama, Minnesota and North Carolina.

The Company operates pole peeling facilities at each of its Prince George (British Columbia), Gatineau (Québec) and Arlington (Washington) treating plants, as well as in Revelstoke (British Columbia) and in Juliaetta (Idaho). The Company is also serviced by numerous pole peeling sites operated by third parties in both Canada and the United States.

The Company also operates, through a joint venture agreement with a third party, a pole peeling operation in Maple Ridge, British Columbia along the banks of the Fraser River. This facility accesses pole quality timber along the West Coast of British Columbia and directs a portion of the poles to the Company's treating facilities for further processing and treating.

##### **Truro, Nova Scotia**

Originally constructed in 1924, this facility operates on just over 27 hectares of land. The facilities include two oil cylinders and two water-borne preservative cylinders, giving a combined annual treating capacity of approximately 200,000 cubic metres. The facilities also include a 160,000 fbM kiln, a lumber/timber framing and incising line, mobile handling equipment, a maintenance shop, a quality control laboratory, a fully equipped research laboratory and offices for production, sales and wood procurement personnel for the region.

In 2011, capital expenditures at the Truro plant totalled approximately \$787,000, primarily for a treatment system conversion, replacement of the roof of the main cylinder house and improvements to the CCA cylinder conveyor.

The plant currently produces a broad range of products, serving the utilities and telecommunications, industrial, residential and export market sectors. It is located along the Canadian National Railway Company main line, with easy truck access to domestic and United States markets and major eastern ports for offshore export shipments.

##### **Delson, Québec**

The Delson plant was constructed in 1925, operates on 66 hectares of land and includes three oil cylinders, two water-borne cylinders and two dry kilns. The total annual treating capacity approaches 280,000 cubic metres. The plant has a modern railway tie mill, residential lumber processing equipment and an industrial lumber/timber framing and incising line.

For the year ended December 31, 2011, total capital expenditures at the Delson plant totalled approximately \$400,000. The major portion of these expenditures were for a water treatment system and a vacuum pump upgrade.

The plant currently produces a wide range of products, serving all major market sectors. The Delson plant is located within minutes of Montreal, on both the Canadian National Railway Company and Canadian Pacific Railway main lines. It has good truck access to major population centres in Central and Eastern Canada and the United States and to major eastern ports for offshore export shipments.

### **Gatineau, Québec**

The Gatineau plant was built in 1987. The plant, which has a total annual treating capacity of approximately 60,000 cubic metres, operates on 8 hectares of land and has a water-borne preservative cylinder, three dry kilns and a pole peeler. The plant, located approximately 30 kilometres east of Gatineau, Québec, specializes in the production of utility poles.

For the year ended December 31, 2011, capital expenditures made at the Gatineau plant totalled approximately \$95,000, mainly for the construction of a dry kiln cover and an unloading platform.

### **Sorel-Tracy, Québec**

The Sorel-Tracy plant was built in 1939 and has a total annual treating capacity of approximately 75,000 cubic metres, operates on approximately 9 hectares of land and is equipped with two water-borne preservative cylinders, a dry kiln, and a framing line. The plant specializes in custom treated lumber and specialty products as well as ACQ and borate wood treatment for the residential construction market.

For the year ended December 31, 2011, no capital expenditures were made at the Sorel-Tracy plant.

### **Guelph, Ontario**

Constructed in 1988, the Guelph facility operates on approximately 9 hectares of land and has three water-borne cylinders, two pole butt treating tanks, four dry kilns and full fixation capacity for all of its 3 cylinders. The total annual treating capacity approaches 160,000 cubic metres. The facilities also include an incising/framing line and an automated lumber packaging line.

In 2011, approximately \$237,000 was spent for capital assets at the Guelph plant, primarily for a new high pressure locking door and end shell for the pressure retort.

The plant produces utility poles and residential lumber and benefits from access to a rail loading and unloading facility within minutes of the plant.

### **Carseland, Alberta**

Constructed in 1978, the Carseland facility is situated on a 64 hectare site of which 32 hectares are utilized for the production and storage of utility poles and dimensional lumber. The operation includes one state of the art PCP pressure system, one ACQ water-borne pressure system, along with two drying/stabilization chambers. In addition, there is a pole butt treating tank, an incising/framing line and an automated lumber packaging line. Total annual treating capacity is approximately 150,000 cubic metres. The plant location is well situated to provide utility poles to Western Canada and US markets.

The treating plant is supported by a long established forestry operation headquartered at Salmon Arm, British Columbia, which manages the Company's forest tenures in British Columbia and Alberta.

In 2011, approximately \$298,000 was spent on capital asset additions at the Carseland facility, relating primarily to yard expansion and process equipment upgrades. The Salmon Arm forestry operation saw capital expenditures of approximately \$349,000, mainly for road construction related to forestry operations.

#### **New Westminster, British Columbia**

The New Westminster facility was originally built in 1929 and is situated on approximately 31 hectares of land. The plant operates three oil cylinders, one water-borne cylinder and a fixation chamber, with a total annual production capacity of over 197,000 cubic metres. The plant is also equipped with a pole peeler and a double track dry kiln.

For the year ended December 31, 2011, capital expenditures at the New Westminster plant totalled approximately \$1,130,000, primarily for their water treatment system, building upgrades and new plant equipment.

The plant produces mainly poles, piling, and timbers for the industrial and railway market sectors. The plant is located near Vancouver on both the CP Rail System and the Burlington Northern main lines. It has easy truck access to Western North American markets, in addition to Western ports for offshore export shipping.

#### **Prince George, British Columbia**

The Prince George plant was built in 1961. The plant operates on 31 hectares. The plant operates two oil cylinders, one water-borne cylinder, a dry kiln and a fixation chamber. The total annual treating capacity is approximately 100,000 cubic metres. The facility also includes a pole peeler, a railway tie mill, and a pole grading and framing line.

The capital expenditures at the Prince George plant for the year ended December 31, 2011 amounted to approximately \$483,000, primarily for a timber framing line and weigh scale.

The plant produces mainly poles and crossties to serve the industrial and railway market sectors. A spur line in the plant connects to the Canadian National Railway Company main line. Truck access is available to British Columbia ports for offshore shipments.

#### **Bangor, Wisconsin**

Located in Bangor, Wisconsin, USA, and operating on approximately 45 hectares of land, the plant specializes in the treating of railway ties. The facilities include three pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 200,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 1.5 million ties annually, a maintenance facility and offices for production, sales and wood procurement personnel.

For the year ended December 31, 2011, capital expenditures at the Bangor plant approximated US\$202,000, which was devoted mainly to improvements to the crosstie building and a boiler conversion.

### **Arlington, Washington**

Located in Arlington, Washington, USA, and operating on approximately 21 hectares, the plant specializes in the treating of utility poles. The facilities include two pressure treating cylinders for oil-borne preservatives and one butt tank providing a combined annual treating capacity of approximately 70,000 cubic metres. In addition, the plant incorporates a peeling mill and framing yard, a maintenance facility and offices for production, sales and wood procurement personnel.

For the year ended December 31, 2011, capital expenditures approximated US\$86,000, primarily for a new weigh scale and preparation for a new cooling tower.

### **DuBois, Pennsylvania**

Located in DuBois, Pennsylvania, USA, this facility operates on 13 hectares and specializes in the production and treating of railway ties and timbers. The facility includes three pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 100,000 cubic meters. This production facility also includes a prefabrication department which can produce flange, crossing and bridge timbers, a maintenance shop, and offices for production and wood procurement personnel.

There were no capital expenditures at the DuBois plant in 2011.

### **McAlisterville, Pennsylvania**

Located in McAlisterville, Pennsylvania, USA, and operating on approximately 18 hectares of land, the plant specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 30,000 cubic metres. The plant also includes a crosstie and switch tie mill and a pre-plating line capable of processing 300,000 ties annually and offices for production and wood procurement personnel.

For the year ended December 31, 2011, there were capital expenditures of approximately US\$97,000 at the McAlisterville plant, mainly for improvements to the trimmer.

### **Goshen, Virginia**

Located in Goshen, Virginia, USA, and operating on approximately 11 hectares of land, the plant specializes in the production and treating of railway ties and timbers. The facility includes five pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 145,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 1 million ties annually, a prefabrication department which can produce flange, crossing and bridge timbers, a maintenance and machine shop facility and offices for production and wood procurement personnel.

For the year ended December 31, 2011, there were capital expenditures made of approximately US\$340,000 at the Goshen plant, primarily for improvements to the infeed deck of the prefabrication line and the construction of a waste hog roof.

### **Spencer, West Virginia**

Located in Billings, West Virginia, USA, and operating on 11 hectares of land and buildings, the plant specializes in treating services for industrial products. The facility includes a pressure treating cylinder for water-borne preservatives, giving an annual treating capacity of approximately 40,000 cubic metres.

During the year ended December 31, 2011, there were no capital expenditures made at the Spencer facility.

### **Fulton, Kentucky**

Located in Fulton, Kentucky, USA, and operating on approximately 32 hectares of land, the plant specializes in the treating of railway ties. The facility includes two pressure treating cylinders for oil-borne preservatives, providing an annual treating capacity of approximately 130,000 cubic metres. The plant also includes a crosstie and switch tie mill and a pre-plating line capable of processing 1 million ties annually, a maintenance facility and offices for production and wood procurement personnel.

For the year ended December 31, 2011, there were no capital additions at the Fulton plant.

### **Winslow, Indiana**

Located in Winslow, Indiana, USA, and operating on approximately 16 hectares of land, the plant specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 150,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 1.5 million ties annually, a maintenance facility, and offices for production and wood procurement personnel.

For the year ended December 31, 2011, capital expenditures at the Winslow plant amounted to approximately US\$372,000, mainly for a waste water system.

### **Warrior, Alabama**

Located in Warrior, Alabama, USA, and operating on approximately 8 hectares of land, the plant specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives and one pressure treating cylinder for borate, giving a combined annual treating capacity of approximately 80,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 750,000 ties annually and offices for production and wood procurement personnel.

For the year ended December 31, 2011, capital expenditures at the Warrior plant amounted to approximately US\$97,000, primarily for incisor improvements and the trimmer automation system.

### **Alexandria, Louisiana**

Located in Alexandria, Louisiana, USA, and operating on approximately 25 hectares of land, the plant specializes in the treating of railway ties. The facilities include four pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 210,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 1.5 million ties annually, a maintenance facility and offices for production and wood procurement personnel.

For the year ended December 31, 2011, capital expenditures at the Alexandria plant amounted to approximately US \$3,015,000. for a new cylinder and building replacement.

### **Russellville, Arkansas**

Located in Russellville, Arkansas, USA, and operating on approximately 19 hectares of land, the plant specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives, with one of them alternating for borate, giving a combined annual treating capacity of approximately 130,000 cubic metres. The plant also includes a crosstie and switch tie mill capable of processing 1.5 million ties annually, and a maintenance facility and offices for production and wood procurement.

The Russellville facility was acquired by the Company in December of 2011, and there were no capital expenditures to the end of the year.

### **Memphis, Tennessee – Coal Tar Distillation**

Located in Memphis, Tennessee, USA, and operating on approximately 2 hectares of land, the plant specializes in coal tar distillation. The coal tar distillation facilities include two batch distillation units with an annual capacity of seventeen million litres of coal tar. The plant also includes a maintenance facility, product testing lab, barge unloading dock, and offices for production and clerical personnel.

For the year ended December 31, 2011, capital expenditures totalled approximately US\$583,000 at the Memphis Plant, primarily for tankage and capacity increases.

### **Mount Meigs, Alabama and Duluth, Minnesota – Tie Recycling Services**

Facilities at Mount Meigs, Alabama, located on a 16 hectares site, and at Duluth, Minnesota, located on approximately 5 hectares of property, comprise operations which recycle railroad ties. Both sites have direct railroad access to the CSX and BNSF respectively and contain railroad tie storage and sorting areas and railroad tie processing equipment, including tie grinding equipment, which process the ties into woodchips which are sold as boiler fuel. Each location has processing capabilities of 1.5 million ties annually. Tie recycling services are also carried out by the Company at a third-party location in North Carolina.

For the year ended December 31, 2011, there were no capital expenditures at the Mount Meigs and Duluth facilities.

### **Kennecott, Utah – Rail Switching Operation**

The property consists of approximately 48 kilometres of railroad track associated with the Rio Tinto copper mine, refinery smelter and other associated facilities near Salt Lake City, Utah. The operation consists of 3 locomotives, track maintenance equipment and a locomotive and railcar repair shop (leased). The operation provides a shunting service for material entering and leaving the mine on standard track as well as track maintenance, track construction, and railcar repair.

The rail switching operation required no capital expenditures for the year ended December 31, 2011.

## 4.5 WOOD SUPPLY

One of the Company's important advantages is its strong wood supply position in key regions of Canada and the United States. During the financial year ended December 31, 2011, the Company obtained its raw material requirements for utility poles from its own timber harvesting licenses (forest licenses, timber quota and *Contrats d'approvisionnement et d'aménagement forestier* ("CAAFs")), state timber sales, private woodland owners and through purchases of timber on the open market. Wood supply for railway ties and timbers are purchased from hundreds of sawmills in various regions throughout Canada and the United States.

### Forest Tenures

Forest tenures are used primarily by the Company for the procurement of utility poles. In Québec, most of the exploitable forest is public property managed by the *Ministère des Ressources naturelles et de la faune* ("Ministère"), which determines the market value of the stumpage. Timber allocation agreements, called "*Contrats d'approvisionnement et d'aménagement forestier*" or "CAAFs", allow the lumber industry to cut an annual volume in return for forest development based on the principle of sustained yield. These forest cutting privileges are reviewed every 5 years. The CAAF, entered into for a term of 25 years, is extended every 5 years if the beneficiary has complied with its obligations.

In British Columbia, the Ministry of Forests, Mines and Lands ("MOF") is responsible for issuing and monitoring tenures which grant the licensee the right to harvest a specific volume of timber on crown lands administered by the MOF. A forest license generally has a term of 15 years and is renewable every 5 years, subject to the licensee satisfactorily performing its administrative, planning, harvesting, silviculture and environmental stewardship operations. Non-renewable forest licenses for a fixed volume to be cut in a specified time may also be granted.

In Alberta, the provincial governmental department of Sustainable Resource Development issues timber quotas for timber on crown lands to a variety of forest product manufacturers. A timber quota gives the producer access to a specified proportion of the annual allowable cut within the forest management unit in which they hold the quota certificate. Generally, quotas have a term of 20 years and are renewed every 5 years providing that the quota holder has satisfied the conditions of the quota pertaining to harvest production, reforestation, and environmental stewardship. Higher level forest management planning for most quotas within the province is the responsibility of larger forest product manufacturers that hold the Forest Management Agreement for specific areas and is overseen by Alberta Sustainable Resource Development.

The Company has the following forest licenses in Québec, British Columbia and Alberta:

COMPANY'S FOREST LICENSES		
Province	Allowable Annual Cut (Cubic metres)	Term
Québec	22,700	25 years
British Columbia	210,329	15 years
Alberta	13,810	20 years

## Purchased Timber

In addition to the forest licenses listed above, the Company has several exclusive supply agreements with major licensees and private woodlands owners who hold cutting licenses in British Columbia, Ontario and Québec. The Company is also very active in the state timber sale program in the states of Washington, Oregon and Idaho in the United States. This program makes available to qualified bidders, pole quality raw material located on specific tracts of land. The Company also purchases raw material from hundreds of private land owners within its operating jurisdictions, and in the case of untreated railway ties, through its dealings with hundreds of sawmills in the United States and Canada.

## Timber Harvesting

The selection and harvesting of wood poles is a process that allows the Company to harvest selectively individual trees of a quality suitable for poles. In order to have access to as many areas of timberland as possible, the Company has entered into trade agreements with a number of sawmilling and forest products companies in British Columbia and in Québec.

## 4.6 SALES, MARKETING AND COMPETITIVE CONDITIONS

By the end of the year 2011, there were approximately 55 wood preserving plants operating in Canada and approximately 400 wood preserving plants operating in the United States. The following describes the competitive conditions in which the Company operates as well as its sales and marketing initiatives.

### Overview

The Company markets its treated wood products through a network of regional sales representatives throughout Canada and the United States.

The following table sets out the Company's sales by major product group for the financial years ended December 31, 2011 and 2010:

COMPANY'S SALES BY PRODUCT GROUP FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010				
<i>(audited)</i>	2011		2010	
	(millions of dollars)	%	(millions of dollars)	%
Railway ties	338.8	53	283.2	50
Utility poles	194.8	31	166.6	30
Industrial Products	78.9	12	81.4	15
Residential Lumber	27.6	4	29.8	5
	<b>640.1</b>	<b>100</b>	<b>561.0</b>	<b>100</b>

## **Railway Ties**

SJI's multiple locations, wide product offering and reputation for quality and service are significant advantages. Through its long tradition of providing consistent high quality services, the Company has developed close relationships with the major railways and is an important supplier of treated ties to this market in North America.

## **Utility Poles**

The majority of the Company's sales of utility poles are made in response to public tenders issued by customers, primarily regional electrical and telecommunication companies. The key criteria in successfully obtaining orders are high quality, consistent on-time delivery, customer service and competitive prices. The Company's ability to offer a variety of species and preservatives, combined with its multiple plant locations and large inventories, creates a competitive advantage.

## **Industrial Products**

Sales comprise construction materials used mainly in public works projects, such as highway guardrail posts. Products are typically sold directly to municipal and provincial authorities in response to tenders for a certain quantity and specification of preserved timber for a particular project. The Company also sells to lumber wholesalers who maintain a certain inventory of preserved lumber products for the construction industry. Quality management systems at all treating locations and timber supply agreements ensure that the demands of customers can be met in an efficient and competitive manner. Piling sales comprise construction materials used mainly in public work projects, including marine and foundation pilings. In addition, the Company sells railway bridge timbers and crossing planks, which are custom manufactured to the specification of the customer. Products are typically sold directly to municipal and provincial authorities in response to tenders for a certain quantity and specification of preserved product. Since the acquisition of Tangent, this category also includes coal tar based products such as creosote, roof pitch and road tar and crosstie recycling services.

## **Residential Lumber**

This product group is highly fragmented, consisting of numerous participants varying in size and competing primarily at a local or regional level. Opportunities exist for high quality producers who can successfully differentiate their product and service. The Company provides both treated residential lumber products and customized treating services to lumber retailers and wholesalers in Canada for outdoor applications. The Company does not supply residential lumber to the U.S. market.

## **Export**

The Company's focus is primarily on North American markets. Nonetheless, the Company has had some success in penetrating emerging market countries for the sale of treated wood poles to national telephone and utility companies and railway ties to international mining companies. These markets mainly include countries in the Middle East, North and West Africa and Latin America. SJI's competitive strengths in such markets have included access to guaranteed raw material supply, strategic geographical locations of its treatment plants offering a variety of treating processes, access to Eastern and Western shipping ports and extensive experience in international freighting and knowledge of international financing for export sales.

The Company continues to monitor overseas export markets and will continue to evaluate export opportunities at price levels that will provide adequate returns for the additional risks inherent in these markets.

COMPANY'S SALES BY REGION FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010				
<i>(audited)</i>	2011		2010	
	\$'000	%	\$'000	%
United States	412,196	64.4	345,719	61.6
Canada	227,952	35.6	215,327	38.4
	<b>640,148</b>	<b>100.0</b>	<b>561,046</b>	<b>100.0</b>

#### 4.7 EMPLOYEES

As at December 31, 2011, the Company had a total of 971 employees of which 239 were non-unionized, 158 were unionized and 574 were paid at an hourly rate.

COUNTRY	NON-UNIONIZED	UNIONIZED	PAID AT HOURLY RATES (NON-UNIONIZED)	TOTAL
Canada	96	158	106	360
U.S.A.	143	-	468	611
<b>TOTAL:</b>	<b>239</b>	<b>158</b>	<b>574</b>	<b>971</b>

#### **4.8 ENVIRONMENT, HEALTH AND SAFETY POLICY**

SJI is committed to sustainable development that requires the protection of human health and the natural environment with the need for economic growth. The Company recognizes the environmental implication of its activities as well as its responsibility to take all reasonable measures in order to conserve and protect the environment, including air, water, land and other natural resources.

Additionally, the Company is committed to the health and safety of its employees and to providing a safe and healthy working environment. To that end, the Company will focus on continuous improvement towards an accident-free workplace through effective administration, education, training and the proper maintenance of its facilities and equipment.

To implement this policy, the Company is committed:

- to constructing and operating its facilities in compliance with all applicable legislation, providing for the protection of the environment, employees and the public;
- to working pro-actively in training management and its employees to anticipate problems;
- to applying cost-effective best-management practices to advance environmental protection and employee health and safety;
- to ensuring every employee is properly trained and responsible and accountable within their sector of activity for conducting operations in compliance with SJI's environmental health and safety policy;
- to responding to legitimate concerns made known to it and to participate actively with interested parties in the understanding of environmental as well as health and safety issues and in the development of rational and effective environmental solutions;
- to encouraging research to expand knowledge of the environmental impact of the industry's activities and to improving treatment technologies; and
- to reporting regularly to the Board of Directors with respect to the execution of this policy, including a review of the Company's operations and facilities to ensure compliance.

##### **Environmental Protection and the Promotion of Health and Safety**

The Company's Vice-President, Environment and Technology and the Vice-President and General Counsel, U.S. Operations, each lead a team of environmental health and safety professionals who, with the support of regional general managers and local plant managers, manage environmental, health and safety matters to ensure that the Company's programs and policies are carried out efficiently and in compliance with applicable legislation, in order to ensure the protection of the environment, employees and the public.

At each site, trained personnel operate plant waste treatment and environmental protection facilities in such a way as to recover any preservatives for reuse in the manufacturing process. Any discharges are continually monitored and analyzed, where necessary, by qualified laboratory personnel. Complete reports on discharges are made regularly to the appropriate authorities at all locations.

Comprehensive health and safety and environmental protection programs exist at all locations. These programs are upgraded and updated on an ongoing basis to ensure that the best management practices are being used to protect the employees, the public and the environment. Contingency plans are in place to anticipate proper corrective and remedial measures prior to the occurrence of any problems.

The Vice-President, Environmental and Technology, as well as the Vice-President and General Counsel, U.S. Operations report to the Company's Environmental, Health and Safety Committee regarding the Company's activities in relation to environmental protection, risk management and health and safety (the "Environmental Report"). The Chairman of the Environmental Committee communicates the key elements of each Environmental Report to the Board of Directors in all instances.

Under the December 2011 Thompson Stock Purchase Agreement, Thompson provided the Company with customary environmental representations and warranties. Additionally, the selling shareholders agreed to provide the Company with specified environmental indemnities relating to certain prior activities.

Under the terms of the April 2010 Tangent stock purchase agreement, the sellers provided customary environmental representations and warranties to the Company. Following the completion of its environmental due diligence, the Company agreed to take responsibility for environmental conditions and the sellers provided an indemnity covering certain environmental matters relating to the activities of a prior operator.

Under the April 2008 Agreement and Plan of Merger with BPB Corporation, the vendors provided customary representations and warranties to the Company. Following the completion of a satisfactory environmental due diligence, the Company agreed to take responsibility for environmental matters at all treating facilities acquired pursuant to the transaction.

Under the terms of the February 2007 J.H. Baxter & Co. Asset Purchase Agreement, the Company leases (and has not purchased) the land under the Arlington, Washington treating facility. Pursuant to the terms of the Arlington ground lease ("Lease"), the seller has undertaken to continue carrying out certain corrective/remedial actions on the property and has agreed to indemnify the Company for environmental liabilities arising from its activities at the property on or prior to closing. The Company has an option to purchase the Arlington land at the end of the Lease's 25-year term.

Pursuant to the Bell Pole Company Asset Purchase Agreement of July 2006, the Company assumed all obligations relating to the environmental condition of the purchased assets, either discovered by the Company's independent environmental due diligence or by information supplied by the seller (together "Known Environmental Conditions"). Furthermore, excluding Known Environmental Conditions, the seller agreed to assume and indemnify the Company for environmental conditions relating to the purchased assets found to be known by seller up to the date of closing of the transaction yet not disclosed to the Company at that time.

Under the terms of the Webster Wood Preserving Purchase and Sale Agreement of August 2005, SJ Corporation is, at its own cost and expense, responsible to continue the existing groundwater pump and treat system installed at the Bangor, Wisconsin facility together with associated environmental containment and treatment systems as were operated and maintained at the closing date of the acquisition in August 2005.

Pursuant to the Cambium Group Inc. Asset Purchase Agreement of July 2003, the Company acquired wood treating facilities located in Gatineau (Québec), Sorel-Tracy (Québec) and Clarenville (Newfoundland). The Clarenville site is leased to the Company by the Government of Newfoundland, who has provided the Company with a full environmental indemnity with respect to environmental contamination present on the site prior to its purchase by the previous owner in 1995. During 2004, the site was closed as a treating facility and appropriately decommissioned. With respect to the Sorel-Tracy facility, the Company operates on this site pursuant to a right of superficies over the land, which the Company has agreed to purchase at a later date upon the fulfillment of certain conditions by the vendor.

Under the terms of the March 2000 Guelph Share Purchase Agreement, the vendors of Guelph (“Sellers”) agreed to indemnify the Company for specified environmental claims discovered up to March 31, 2005 and the Company agreed to take responsibility for disclosed environmental issues. The Guelph Share Purchase Agreement also provided for certain environmental claims which were to be shared by both the Sellers and the Company if discovered prior to March 31, 2003.

Under the Company’s June 1993 operating site leases with Domtar Inc. (“Domtar”) for the lands upon which the Company’s treating plants in Delson (Québec), Prince George and New Westminster (British Columbia) and Truro (Nova Scotia) are situated, Domtar has agreed to indemnify the Company against environmental claims for soil or groundwater contamination relating to the activities of Domtar prior to the 1993 acquisition by SJI of Domtar’s wood preserving division. SJI has agreed to indemnify Domtar for environmental claims relating to the activities of SJI subsequent to the acquisition.

During the year 2000, Technical Recommendations Documents (“TRD”) baseline assessments were carried out on the Company’s Canadian plants as well as on all other wood preserving plants in Canada by environmental consultants on behalf of Environment Canada. By December 31, 2001, all Canadian wood preserving plants were obliged to submit a plan of action to effectively remedy all items for correction noted in the assessments by December 31, 2005. Accordingly, the Company submitted plans of action for all of its Canadian treating facilities and sufficient capital expenditures and resources were devoted by the Company to correct deficiencies. As of December 31, 2006, all of the Company’s Canadian treating facilities were certified compliant.

## **4.9 RISK FACTORS**

### *Economic Conditions*

The continuing difficulties in 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, the current 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 as a whole or the profitability at a particular payment. For the year ended December 31, 2011, the Company’s top ten customers accounted for approximately 47% of its sales. During this same period, the Company’s two largest customers accounted for approximately 14% and 6%, respectively, of its total sales.

### *Availability and Cost of Raw Materials*

Management considers that the Company may be affected by the industry-wide concerns of long-term availability of competitively priced wood and 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 are a limited number of suppliers for certain of the 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.

The enforcement of these environmental laws and regulations by regulatory agencies will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures required for compliance. 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 towards 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, illiquidity and to the extent that the assessment of certain market movements is incorrect, the risk that the use of hedges result in losses greater than if hedging had not been used.

### *Interest Rate Fluctuations*

As at December 31, 2011, approximately 15% of the Company's long-term debt was at variable rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swaps 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 swaps. 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 utility and telecommunication 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, 2011, Stella Jones International S.A. ("SJ International") owned or controlled 8,187,909 common shares of the Company, which represented approximately 51.3% of the outstanding common shares. On February 6, 2012, a secondary offering was completed pursuant to which SJ International sold to a syndicate of underwriters, on a bought deal basis, 2,000,000 of the Stella-Jones common shares held by SJ International at a price of \$42.00 per share.

After giving effect to this offering, SJ International beneficially owns or controls, directly or indirectly, 6,187,909 Common Shares of the Company, which represents approximately 38.8% of the outstanding Common Shares. As a result, SJ International has the ability to significantly 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.

## **ITEM 5 DIVIDENDS – THREE MOST RECENTLY COMPLETED FINANCIAL YEARS**

### **5.1 DIVIDENDS – THREE MOST RECENTLY COMPLETED FINANCIAL YEARS**

On March 11, 2009 and August 12, 2009, the Board of Directors declared semi-annual dividends of \$0.18 per common share. On March 11, 2010, the Board of Directors declared a semi-annual dividend of \$0.18 per common share, which was increased to \$0.20 per common share by the Board of Directors in its declaration of dividend on August 12, 2010. On March 10, 2011, the Board of Directors declared a semi-annual dividend of \$0.24 per common share, which was increased to \$0.26 per common share by the Board of Directors in its declaration of dividend on August 10, 2011. On March 15, 2012, the Board of Directors modified its dividend policy from a semi-annual to a quarterly dividend, and approved a quarterly dividend of \$0.15 per common share.

### **5.2 POLICY AND RESTRICTIONS**

Up to March 14, 2012, the Company's dividend policy provided that the Company consider a dividend on a semi-annual basis. Since March 15, 2012, the Company's dividend policy provides that the Company consider a dividend on a quarterly basis. All decisions by the Company's Board of Directors regarding the payment of dividends continue to be subject to its financial covenants as well as other factors such as the Company's financial performance and cash requirements. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of either (i) 25% of the Company's consolidated net income for the preceding year, or (ii) 40% of the Company's consolidated net income for the preceding year, depending on the attainment of certain financial ratios. Although the Company has historically declared regular cash dividends on the Common Shares, there is no assurance that the Board of Directors of the Company will not reduce, defer or eliminate the dividend in the future.

## **ITEM 6 DESCRIPTION OF CAPITAL STRUCTURE**

### **6.1 GENERAL DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. As of March 15, 2012, there were 15,961,330 Common Shares issued and outstanding and no outstanding Preferred Shares.

The Common Shares provide for the right to receive notice of, attend and vote at all meetings of shareholders and receive dividends, subject to the prior rights of the Preferred Shares and any other shares ranking senior to the Common Shares. The Common Shares are subordinated to the Preferred Shares and any other shares ranking senior to the Common Shares in their entitlement to receive the property and assets of the Company in the event of a dissolution, liquidation, or winding up of the Company.

The Preferred Shares are non-voting. The Preferred Shares are entitled to priority over Common Shares of the Company and over any other shares of the Company ranking junior to the Preferred Shares with respect to priority in payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

## ITEM 7 MARKET FOR SECURITIES

### 7.1 TRADING PRICE AND VOLUME

The Common Shares of the Company are listed on the Toronto Stock Exchange and are identified under the symbol “SJ”. The following table sets forth the market price range, in Canadian dollars, and trading volumes of the Company’s Common Shares on the Toronto Stock Exchange for each month of the most recently completed financial year.

FISCAL YEAR ENDED DECEMBER 31, 2011				
Month (2011)	High \$	Low \$	Close \$	Volume Traded
January	35.49	32.15	34.51	103,497
February	37.48	34.50	37.48	79,263
March	42.74	34.65	40.45	173,235
April	41.30	37.65	39.49	76,415
May	39.48	34.50	34.50	215,938
June	37.10	34.62	37.02	113,453
July	38.87	36.00	36.89	122,060
August	38.84	35.00	37.98	113,474
September	38.49	33.25	36.40	134,644
October	41.30	34.25	39.76	90,839
November	40.97	39.10	40.05	450,963
December	41.25	39.00	40.50	83,620

## ITEM 8 DIRECTORS AND OFFICERS

The tables below set forth the name, place of residence and position held within the Company of the Company’s directors and executive officers, the principal occupation(s) and term of office of each director, the period or periods during which each director has served, as well as the number of Common Shares beneficially held, directly or indirectly, or over which control or direction is exercised by each director of the Company as at March 15, 2012. Each director is elected at the annual meeting of the shareholders to serve until the next annual meeting or until a successor is elected or appointed. Officers are appointed annually and serve at the discretion of the Board of Directors. The Company has an audit committee, a remuneration committee and an environmental, health and safety committee. The Company does not have an executive committee.

## 8.1 NAME, ADDRESS, OCCUPATION AND SECURITY HOLDING

Name and Place of Residence	Office Held with the Company	Director Since	Principal Occupation(s)	Number of Common Shares Beneficially Owned, Directly or Indirectly, or over which Control or Direction is Exercised
RICHARD BELANGER, FCA <sup>(1)</sup> Québec, Canada	Director	March 1997	President, Toryvel Group Inc. (holding company)	8,500
TOM A. BRUCE JONES, CBE <sup>(2)</sup> Glasgow, Scotland	Chairman of the Board and Director	July 1993	Chairman of the Board, James Jones & Sons Limited (British forest products company)	- <sup>(3)</sup>
GEORGE J. BUNZE, CMA <sup>(1)(4)</sup> Québec, Canada	Director	May 2001	Vice-Chairman and Director, Kruger Inc. (manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirits products)	17,500
GIANNI CHIARVA <sup>(4)</sup> Milan, Italy	Vice-Chairman of the Board and Director	July 1993	Chairman, SJ International; Chairman, Fabbri Group, Italy (machines and films for food packaging sector)	- <sup>(5)</sup>
BRIAN MCMANUS Québec, Canada	President, Chief Executive Officer and Director	June 2001	President and Chief Executive Officer, Stella-Jones Inc.	51,787
NYCOL PAGEAU-GOYETTE <sup>(1)(2)(4)(6)</sup> Québec, Canada	Director	July 1993	President, Pageau Goyette et associés limitée (management services firm); Chairperson, Sorinco Inc. (waste management company); President, Montrésor Corporation (holding company)	4,700
DANIEL PICOTTE <sup>(2)</sup> Québec, Canada	Director	July 1993	Partner, Fasken Martineau DuMoulin LLP (law firm)	5,000
JOHN BARRIE SHINETON <sup>(1)</sup> Ontario, Canada	Director	May 2009	President and Chief Executive Officer, Norbord Inc. (producer of oriented strand board)	0
MARY WEBSTER <sup>(2)</sup> Minnesota, U.S.A.	Director	May 2007	Corporate Director	2,200

(1) Member of the Audit Committee.

(2) Member of the Environmental, Health and Safety Committee.

(3) Mrs. Stina Bruce Jones, wife of Mr. Tom A. Bruce Jones, owns 17,833 common shares of the Company and Mr. Tom A. Bruce Jones owns, directly or indirectly, approximately 32% of the voting shares of James Jones and Sons Limited ("JJS") which holds 49% of the voting shares of SJ International which in turn, as of February 6, 2012 holds 6,187,909 or approximately 38.8% of the Common Shares of the Company. Mr. Tom A. Bruce Jones holds directly, an additional 7,500 Common Shares of the Company.

(4) Member of the Remuneration Committee.

(5) Mr. Gianni Chiarva, together with his associates, exercise control or direction, directly or indirectly, over all of the voting shares of Stella International S.A. ("Stella International"), which holds 51% of the voting shares of SJ International which in turn, as of February 6, 2012 holds 6,187,909 or approximately 38.8% of the Common Shares of the Company. Mr. Gianni Chiarva holds directly, an additional 7,500 Common Shares of the Company.

(6) Lead Director.

Within the five preceding years, each of the foregoing has held the same or similar position with the entities indicated above with the exception of Mr. Richard Bélanger, who was President of Theseus Capital Inc. between 2005 and 2008.

**EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS**

<b>Name and municipality of residence</b>	<b>Position within the Company</b>
George Caric Irwin, Pennsylvania	Vice-President, Marketing Stella-Jones Corporation
W.G. Downey, Jr. Reedy, West Virginia	Vice-President, Manufacturing Stella-Jones Corporation
Marla Eichenbaum Hampstead, Québec	Vice-President, General Counsel and Secretary Stella-Jones Inc.
Douglas J. Fox Wexford, Pennsylvania	Senior Vice-President, Engineering and Operations, Stella-Jones Corporation
Rémi Godin, CGA St-Bruno, Québec	Vice-President and Corporate Comptroller Stella-Jones Inc.
Kris Hedding Pittsburgh, Pennsylvania	Vice-President, Sales Stella-Jones Corporation
Ian Jones Vernon, British Columbia	Vice-President and General Manager, Stella-Jones Canada Inc.
James Kenner Olathe, Kansas	Vice-President and General Counsel, U.S. Operations Stella-Jones Corporation
George Labelle, CA Pierrefonds, Québec	Senior Vice-President and Chief Financial Officer Stella-Jones Inc.
Gordon Murray North River, Nova Scotia	Vice-President, Environment and Technology and General Manager, Atlantic Region, Stella-Jones Inc.
Martin Poirier Delson, Québec	Vice-President and General Manager, Central Region Stella-Jones Inc.
Glen Ritchie Salmon Arm, British Columbia	Vice-President, Fibre, Stella-Jones Canada Inc.
Michael Sylvester Granada, Mississippi	Vice-President, Operations Stella-Jones Corporation
Rick Thompson Fergus, Ontario	Vice-President and General Manager, Guelph Utility Pole Company Ltd.
Éric Vachon, CA Pointe Claire, Québec	Vice-President and Treasurer, Stella-Jones Inc.; and Vice-President, Finance – U.S. Operations Stella-Jones Corporation

As of March 15, 2012, the directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over approximately 6,304,000 Common Shares, representing approximately 39.5% of all the issued and outstanding shares of the Company.

The principal occupations over the past five years of the Company's executive officers who have not served in their current principal capacities for over five years are given below:

**George Caric** has served as Vice-President, Marketing of U.S. Operations since SJ Corporation purchased Tangent on April 1, 2010. From 2005 to April 2010, Mr. Caric was Vice-President of Business Development at Tangent.

**W.G. Downey Jr.** held the position of Vice-President, Production, from 1999 to 2008 at BPB Corporation. Following the Company's acquisition of BPB Corporation in April 2008, Mr. Downey served as Vice-President, Operations, for the Company's U.S. Operations and since January 1, 2011, has held the position of Vice-President, Manufacturing of U.S. Operations.

**Douglas Fox** was promoted to Senior Vice-President, Engineering and Operations of SJ Corporation in 2008 after serving as its Manager, Engineering and Operations since August 2005.

**Kris Hedding** has held the position of Vice-President, Sales, in the U.S. since January 2011. From April 2009 to December of 2010, he held the position of General Manager, Sales and Marketing, for SJ Corporation and was Sales Manager of SJ Corporation between September 2005 to April 2009.

**James Kenner** has served as Vice-President and General Counsel, U.S. Operations of SJ Corporation since January 1, 2011, after serving as Assistant Vice-President and General Counsel, U.S. Operations of SJ Corporation since the acquisition of Tangent in April of 2010. Between October 2005 and April 2010, Mr. Kenner was Vice-President and General Counsel of Tangent.

**Michael Sylvester** has served as SJ Corporation's Vice-President, Operations, since the Tangent acquisition in April 2010. From April 2004 until April 2010, he held the position of Vice-President, Operations of Tangent Rail Products, a former subsidiary of Tangent.

**Éric Vachon** has been Director, Treasury and Financial Reporting of Stella-Jones Inc. since February, 2007. In August 2008, his responsibilities were expanded to Vice-President, Finance, U.S. Operations and in June of 2011, he became Vice-President and Treasurer of Stella-Jones Inc. From 2005 to January of 2007, Mr. Vachon served as Comptroller of Mega Brands.

## **8.2 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

George J. Bunze, who has served as director of the Company since May 2001 and who is Vice-Chairman and Director of Kruger Inc., served as Vice-Chairman of Global Tissue LLC (“Global Tissue”), a Delaware limited liability company acquired in 1999 by an indirect partially-owned subsidiary of Kruger Inc. Global Tissue commenced bankruptcy proceedings in 2000 before the U.S. Bankruptcy Court in Delaware.

James Kenner, who has served as Vice-President and General Counsel of SJ Corporation’s U.S. Operations since April 2010, was Assistant-Secretary to certain of Railworks Corporation’s (“Railworks”) U.S. subsidiaries when Railworks and its U.S. subsidiaries filed for Chapter 11 Bankruptcy protection in the United States Bankruptcy Court for the District of Maryland (Baltimore Division) in September, 2001. On September 30, 2003, an order confirming Debtor’s Modified Second Amended Joint Plan of Reorganization was entered by the Bankruptcy Court.

## **ITEM 9 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

### **9.1 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

On January 17, 2012, the Company and its principal shareholder, SJ International, entered into an agreement with a syndicate of underwriters led by RBC Dominion Securities Inc. (“RBC”) (the “Underwriters”), pursuant to which SJ International agreed to sell, and the Underwriters agreed to purchase, on a bought deal basis, 2,000,000 of the Company’s common shares held by SJ International at an offering price of \$42.00 per share. The secondary offering was completed on February 6, 2012. After giving effect to this offering, SJ International owns 6,187,909 common shares of the Company, representing approximately 38.8% of its outstanding common shares. SJI did not receive any proceeds from this offering.

On February 24, 2010, the Company entered into an underwriting agreement with a syndicate of underwriters led by RBC Capital Markets, pursuant to which such underwriters agreed to purchase from treasury, on an underwritten private placement basis, 2,402,000 subscription receipts of the Company (“Subscription Receipts”) at a price of \$25.00 per Subscription Receipt, for aggregate gross proceeds to the Company of \$60,050,000. (the “Underwriters’ Private Placement”).

In addition to the Underwriters’ Private Placement, Stella-Jones received firm commitments at the time from SJ International and the Solidarity Fund QFL whereby such shareholders agreed to purchase Subscription Receipts under the same terms as the Underwriters’ Private Placement for gross proceeds of \$15 million and \$5 million respectively (the “Shareholders’ Private Placement”). Tom A. Bruce Jones, Chairman of the Company, owns approximately 32% of JJS, which holds 49% of the voting shares of SJ International. Gianni Chiarva, Vice-Chairman of the Company, together with his associates, exercises control or direction, directly or indirectly, over all of the shares of Stella International, which holds 51% of the shares of SJ International.

The closing date of the Underwriters’ Private Placement and the Shareholders’ Private Placement (collectively, the “Private Placements”) occurred on March 15, 2010. Net proceeds from the Private Placements were used by the Company to partially fund the acquisition of Tangent (the “Acquisition”), which was completed on April 1, 2010.

The Subscription Receipts were exchangeable, without additional payment, into common shares of the Company on a one-for-one basis upon completion of the Acquisition.

An aggregate of 3,202,000 common shares were issued upon exchange of the Subscription Receipts sold under the Private Placements, representing at the time, 25.2% of the number of outstanding common shares, on a non-diluted basis.

## **ITEM 10 AUDIT COMMITTEE DISCLOSURE**

### **10.1 COMPOSITION OF THE AUDIT COMMITTEE AND RELEVANT EDUCATION AND EXPERIENCE**

The Company's Audit Committee is composed of Mr. George J. Bunze (Chairman), Mr. Richard Bélanger, Ms. Nycol Pageau-Goyette and Mr. John Barrie Shineton. All members of the Committee are "independent" and "financially literate" within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

Mr. George Bunze, a certified management accountant (CMA) since May 1968, is the former Chief Financial Officer of Kruger Inc., a manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirits products. Mr. Bunze currently serves as a Director and Vice-Chairman of Kruger, is a member of its Executive Committee and is also Chairman of its Audit Committee Advisory Board. Mr. Bunze also serves on the Board of Directors and is Chairman of the Audit Committee of Intertape Polymer Group Inc. and is a member of the FM Global Advisory Board of Factory Mutual Insurance Company. Mr. Richard Bélanger has been a chartered accountant since 1981 and was awarded the designation of "Fellow" (FCA) by the *Ordre des comptables agréés du Québec* in May of 2004. Mr. Bélanger sits on several boards of directors, including that of Laurentian Bank of Canada, where he also serves as Chairman of its Audit Committee and as a member of its Risk Management Committee. Since May 2007, Mr. Bélanger sits on the Board of Trustees of Genivar Income Fund, now "Genivar Inc." (member of the Audit Committee) and since March 2011, he is Chairman of the Board. Ms. Nycol Pageau-Goyette is a graduate of the Université de Montréal and is a fellow certified administrator. She is the founder and main shareholder of companies operating in the fields of management (servicing not-for-profit organizations) and environment (processing and recycling wastes from pharmaceutical and cosmetic companies). She has served as director on various boards of public and private companies and has chaired the audit committee of the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, a venture capital firm. Ms. Pageau-Goyette currently chairs the Audit Committee of the Maisonneuve-Rosemont Hospital, for which she also serves as director. Mr. John Barrie Shineton holds a degree in Mechanical Engineering from University of Manitoba and is President and Chief Executive Officer of Norbord Inc. ("Norbord"). Appointed to this role in 2004, Mr. Shineton is responsible for the overall management and strategic direction of Norbord, which employs approximately 2,700 people at 15 manufacturing locations in the United States, Europe and Canada. Publicly traded on the Toronto Stock Exchange, Norbord is one of the world's largest producers of oriented strand board. Mr. Shineton has held various positions within Norbord since joining the company in 1999, including Executive Vice-President of Wood Products, President of Norbord Industries Inc. and Managing Director of European Operations. Mr. Shineton has more than 30 years experience in the forest products industry, having held senior level marketing and sales and operations positions for such companies as International Forest Products and Northwood Pulp and Timber.

## **10.2 MANDATE OF THE AUDIT COMMITTEE**

The mandate of the Audit Committee is to advise and assist the Board of Directors of the Company on financial matters. As such, the Audit Committee is responsible, among others, to make recommendations to the Board of Directors with respect to the nomination and remuneration of external auditors, to review the financial reporting process, to review the internal control procedures of the Company, to assess the Company's compliance with International Financial Reporting Standards (IFRS), and to advise the Board of Directors thereon.

In performing its duties, the Audit Committee maintains effective working relationships with the Board of Directors, management and the external auditors. The mandate of the Audit Committee is attached to this AIF at Appendix "1".

## **10.3 PRE-APPROVAL POLICIES AND PROCEDURES**

On May 5, 2004, the Audit Committee approved procedures for approval of audit and non-audit services by the external auditors ("Procedures"). In summary, the Procedures state that the engagement for the annual audit of the Company's consolidated financial statements is specifically approved on an annual basis by the execution of the audit engagement letter with the auditors.

Engagements of the auditors involving services for any of the Company's entities that fall into the following service definitions are pre-approved by the Audit Committee so long as the fees for each particular engagement are expected to be less or equal to a total of \$50,000:

- tax services such as tax compliance, tax consulting transfer pricing, customs and duties, expatriate tax services; and
- other services such as valuation services and forensic investigations.

In cases of pre-approval, the Chairman of the Audit Committee is to be notified expeditiously of any such services commenced by the auditors.

In respect of services under the preceding paragraph, where the fees for a particular engagement are expected to exceed a total of \$50,000, SJI's management and/or its auditors must seek specific pre-approval by the Audit Committee of the engagement of the auditors. Where particular pre-approval is required, the Audit Committee has delegated the authority to effect such pre-approval to the Chairman of the Audit Committee.

#### 10.4 EXTERNAL AUDITOR SERVICE FEES

The following table sets out the fees billed to the Company by PricewaterhouseCoopers LLP for the last two fiscal years for various professional services:

<b>Fees</b>	<b>Year ended December 31, 2011</b>	<b>Year ended December 31, 2010</b>
Audit Fees	\$559,460	\$698,455
Audit Related Fees	\$ -	\$267,837
Tax Fees	\$157,605	\$225,750
Other Fees	\$398,697	\$197,240
<b>TOTAL</b>	<b>\$1,115,762</b>	<b>\$1,389,282</b>

##### **Audit Fees**

The services comprising these fees include the audit of consolidated financial statements and statutory audits, tax services and accounting consultations required to perform the audit in accordance with Canadian Generally Accepted Auditing Standards.

##### **Audit Related Fees**

These fees apply, among others, to financial due diligence in connection with acquisitions and consultation regarding GAAP.

##### **Tax Fees**

These fees include professional services for tax compliance, such as the preparation and review of tax returns, filings and forms as well as consultations regarding required disclosures and elections, among others, and tax advice on mergers and acquisitions.

##### **Other Fees**

These fees represent the total fees billed to the Company for all services other than those presented under audit fees, audit related fees and tax fees.

#### **ITEM 11 TRANSFER AGENT**

The Company's transfer agent and registrar is Computershare Investor Services Inc. The register of transfers of the Common Shares of SJI maintained by Computershare Investor Services Inc. is located at its offices in Montréal, Québec.

## **ITEM 12 MATERIAL CONTRACTS**

### **12.1 MATERIAL CONTRACTS**

On December 7, 2011, SJI entered into a Stock Purchase Agreement whereby it acquired, through its wholly-owned subsidiary, SJ Corporation, all of the shares of Thompson.

On January 17, 2012, the Company, along with SJ International, entered into an underwriting agreement with a syndicate of underwriters led by RBC.

Particulars of these transactions are provided in this AIF at Item 3.1 “Three Year History”; and at Item 9.1 “Interest of Management and Others in Material Transactions”.

## **ITEM 13 INTERESTS OF EXPERTS**

### **13.1 NAMES OF EXPERTS**

The Company’s auditors are PricewaterhouseCoopers LLP, who have prepared the Independent Auditor’s Report to the shareholders of SJI on page 35 of the Company’s 2011 annual report. PricewaterhouseCoopers LLP is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Québec.

## **ITEM 14 ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including information regarding directors’ and officers’ remuneration and indebtedness, principal holders of securities of the Company, and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company’s information circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information is provided in the Company’s consolidated financial statements and Management’s Discussion & Analysis for its most recently completed financial year.

## APPENDIX “1”

### STELLA-JONES INC. (“THE CORPORATION”)

#### AUDIT COMMITTEE MANDATE

1. **Formation.** The Board of Directors may appoint annually from its members an Audit Committee consisting of such number of members as the Board of Directors may from time to time determine, but not less than three.

The Audit Committee shall determine its own organization and procedure, except as provided in the By-Laws of the Corporation or as may be otherwise determined by the Board of Directors.

2. **Tenure and office.** All members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove from office any member of the Audit Committee, with or without cause. Any vacancy in the membership of the Audit Committee may be filled by the Board of Directors. All members of the Audit Committee shall cease to be in office at the close of each annual meeting of shareholders.
3. **Powers.** The Audit Committee shall advise and assist the Board of Directors on financial matters, including, without limiting the generality of the foregoing, the following:
  - review the recommendations of the officers of the Corporation as to the appointment of external auditors, verify the independence of the external auditors and make recommendations to the Board of Directors with respect to the nomination and remuneration of external auditors to be appointed at each annual meeting of shareholders;
  - oversee the work of the external auditors engaged for the purpose of preparing or issuing an independent auditor’s report or performing other audit review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;
  - review with the external auditors the scope and timing of their audit services and any other services they are asked to perform, their report on the Corporation's accounts following completion of the audit and the Corporation's policies and procedures with respect to internal accounting and financial controls, discussion of quality and depth of staffing in the accounting and financial departments, discussion of implementation of new accounting systems (e.g. computers), discussion of recent prospective releases of the Canadian Institute of Chartered Accountants and their impact on the Corporation's financial statements, discussion of the need to extend the audit examination into areas beyond those required under a normal statutory audit;
  - pre-approve all non-audit services in excess of \$50,000 to be provided to the Corporation or its subsidiary entities by the Corporation’s external auditors;
  - review the audited annual financial statements, the unaudited interim quarterly financial statements, the annual and interim management’s discussion and analysis, the interim and annual CEO and CFO certifications and the annual and interim earnings press releases of the Corporation and report thereon to the Board of Directors of the Corporation before

approval thereof by the Board of Directors and prior to disclosure thereof to securities authorities, shareholders and the public;

- see, to its satisfaction, that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from its financial statements and periodically assess the adequacy of those procedures;
  - review the internal control procedures of the Corporation and advise the directors on auditing practices and procedures as part of the responsibility of directors to meet their moral and legal responsibilities to the Corporation;
  - review the Corporation's timely progress towards International Financial Reporting Standards ("IFRS"), as well as its compliance with IFRS going forward as of January 1, 2011, and to advise the Board of Directors thereon;
  - review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
  - establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (ii) the confidential and anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
  - review the accuracy and reliability of data to be disclosed to interested parties;
  - review the relationship among external auditors, internal auditors, if any, and employees; and
  - review management plans regarding any requirements for revised accounting practices.
4. **Accountability of external auditors.** The external auditors are ultimately accountable to the Board of Directors and the Audit Committee as representatives of shareholders.
  5. **Signed resolution.** A resolution in writing signed by all the members of the Audit Committee entitled to vote on that resolution at a meeting of the Audit Committee is as valid as if it had been passed at a meeting of the Audit Committee. A copy of every resolution referred to in this paragraph shall be kept with the minutes of the meetings of the Audit Committee.
  6. **Chairman, quorum and procedure.** The Audit Committee shall have the power to appoint a Chairman and a Vice-Chairman, to fix its quorum, which quorum shall consist of not less than a majority of its members, and to determine its procedure.
  7. **Meetings.** Meetings of the Audit Committee may be held at the registered office of the Corporation or at such other places within or without Canada as the Audit Committee may from time to time determine. Meetings of the Audit Committee may be called by or by the order of the President of the Corporation, the Chairman of the Audit Committee, or any two (2) members thereof.