

**STELLA-JONES INC.**

**ANNUAL INFORMATION FORM  
For the financial year ended December 31, 2007**

**March 20, 2008**

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## ITEM 1 DATE OF ANNUAL INFORMATION FORM

This Annual Information Form (“AIF”) is dated as of March 20, 2008. Unless otherwise indicated, the information contained in this AIF is stated as at December 31, 2007.

## 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, 2007, Stella-Jones Corporation (“SJ Corporation”), Bell Pole Canada Inc., Guelph Utility Pole Company Ltd. (“Guelph”) and I.P.B. - W.P.I. International Inc. (“I.P.B.”) were the only significant subsidiaries of the Company.

Name of Subsidiary	Percentage of voting shares owned by the Corporation	Jurisdiction of Incorporation
SJ Corporation	100%	Wisconsin
Bell Pole Canada Inc.	100%	Canada
Guelph	100%	Ontario
I.P.B.	100%	Canada

### ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

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

#### 3.1 THREE YEAR HISTORY

SJI is engaged in the manufacture and marketing of industrial treated wood products, specializing in the production of pressure treated railway ties as well as wood poles supplied to electrical utilities and telecommunications companies. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications.

On August 31, 2005, SJI, through its wholly-owned US subsidiary, SJ Corporation, completed the acquisition of the assets of Webster Wood Preserving Company, a Minnesota Limited Partnership (“Webster”). The acquisition of Webster, a privately held producer and marketer of pressure treated wood railway ties based in Bangor, Wisconsin, USA, established SJI’s first manufacturing facility in the United States and gave the Company greater access to the US treated crosstie market.

Assets acquired included the Webster production plant located in Bangor, Wisconsin, USA, as well as all inventories and accounts receivable. The purchase price totalled US\$15.6 million, of which approximately US\$14.0 million was for inventory and receivables.

Financing for the transaction was partially provided by a CDN\$5.0 million private equity placement with SJI’s majority shareholder, Stella Jones International S.A. (“SJ International”) which consisted of the issuance of 555,556 Common Shares at a price of \$9.00 per common share. The balance of the purchase price was financed through various loan arrangements in the US and Canada, including a subordinated loan of US\$750,000 from SJ International to SJ Corporation.

On July 1, 2006, SJI, through its wholly-owned subsidiary, Bell Pole Canada Inc. (formerly 4345207 Canada Inc.), acquired substantially all of the assets and operations of Bell Pole Company, a Canadian manufacturer of wood utility poles based in Western Canada.

Assets acquired included a pole treating plant located in Carseland, Alberta, pole peeling facilities in the province of British Columbia, as well as all inventories and accounts receivable. Assets acquired also included substantial cutting rights in British Columbia and Alberta. The purchase price totalled \$46.4 million of which \$33.6 million were for inventory and receivables. Equity funding for the acquisition was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of \$18,020,000. The remainder of the purchase price was financed by the assumption of liabilities, totalling \$10.9 million, a \$10 million debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)* as well as additional debt funding under existing and new bank facilities. The Company filed a Form 51-102F4 (Business Acquisition Report) in respect of this acquisition.

On February 28, 2007, the Company, through its wholly-owned US subsidiary, SJ Corporation, acquired the wood utility pole business of J.H. Baxter & Co. (“Baxter”). Assets acquired included the Baxter production plant located in Arlington, Washington, USA, its pole peeling facility in Juliaetta, Idaho, USA, as well as all inventories and accounts receivable relating to its wood pole business. The Arlington plant, SJI’s second manufacturing facility in the United States, has given the Company greater access to the US treated wood utility pole market. The Baxter purchase price totalled US\$21.8 million, of

which approximately US\$12.0 million was for inventory and receivables. Financing for the transaction was provided by a subordinated vendor note of US\$8.0 million (recognized at a fair value of US\$7.0 million) as well as additional debt funding under existing and new bank facilities. 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.

On January 7, 2008, SJI announced that it had entered into a letter of intent to acquire The Burke-Parsons-Bowlby Corporation (“BPB”). On March 11, 2008, the Company and BPB entered into a definitive merger agreement. The acquisition is to be structured as a merger between a US-based wholly-owned subsidiary of SJI, and BPB. BPB began operations in 1955 and is a producer of treated wood products, primarily for the railroad industry. BPB owns and operates five treating plants in the USA located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky. For the fiscal year ended March 31, 2007, BPB had sales of approximately US\$85 million. BPB securities are listed on the NASDAQ OTC Bulletin Board. It is anticipated that the proposed transaction, if finalized, would close by April 1, 2008, with the right of SJI to extend the closing date by two 30-day increments. It is expected that the financing for the transaction will be secured through existing and additional debt facilities.

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

### **4.1 GENERAL**

The Company operates within one dominant 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, British Columbia, and the states of Wisconsin, and Washington. The Company also operates distribution centres in the provinces of Newfoundland and Ontario.

### **4.2 DESCRIPTION OF PRODUCT GROUPS**

#### **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. Cement poles are considerably more expensive to manufacture and have not proven durable in colder climates. Similarly, steel poles are significantly more expensive than wood poles. Due to the higher cost and characteristics such as conductivity, potential for corrosion, poor serviceability, flexibility and workability (drilling, machining, climbing), steel poles have not found wide acceptance by the 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.

## **Railway Ties**

Since railway products must have a high resistance to wear and decay, they require oil-based treatment, which offers the maximum protection. In the Canadian market, the larger (Class 1) railway companies who formerly provided their own wood and preservatives and used the treating company for its processing services only, have now, for the most part, moved towards purchasing treated ties as a finished product. In the United States market, many Class 1 railroads still continue to require treating services only.

Historically, demand for railway ties has been comprised primarily of replacement requirements with limited activity in new track construction. However, since 2004, Class 1 railroads have increased their spending on track maintenance which has caused an increased demand for railway crossties. Explosive 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 strong 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 supposed to be replaced every year. Some less-traveled lines have been sold to smaller independent short line operators over the last several years. They will continue to maintain the lines and ensure that they are in a serviceable condition, thus necessitating the purchase of railway ties.

## **Industrial Lumber**

These products include construction timbers and highway guardrail posts. The market is highly fragmented and characterized by commodity pricing and lack of quality standardization. Demand for these products typically follows the construction cycle and producers compete on quality, price, service and access to raw wood. These products also include marine and foundation pilings. Demand for these products typically follows the construction cycle and producers compete on quality, price, service and access to raw wood. In 2004, following its acquisition of *Les Industries Légaré (1998) Ltée* (“Légaré”), the Company began Borate treatment of dimensional lumber used in the interior wood framing market. Borates are particularly effective against termite damage and are approved for interior applications.

## **Consumer 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. With the acquisition of the assets and operations of Bell Pole Company in 2006, the Company has significantly enhanced its position with respect to this product group.

### **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 ten wood treating facilities of which eight are in Canada and two in the USA. They are located in Truro (Nova Scotia), Delson (Québec), Sorel-Tracy (Québec), Gatineau (Québec), Guelph (Ontario), Carseland (Alberta), New Westminster (British Columbia), Prince George (British Columbia), Bangor (Wisconsin) and Arlington (Washington).

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 2007, capital expenditures at the Truro plant totalled approximately \$105,000, primarily for yard improvements.

The plant currently produces a broad range of products, serving the utilities and telecommunications, industrial, consumer 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 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, consumer lumber processing equipment and an industrial lumber/timber framing and incising line.

For the year ended December 31, 2007, total capital expenditures at the Delson plant totalled approximately \$516,000. The major portion of these expenditures were for building repairs and yard improvements.

The plant currently produces a wide range of products, serving all major market sectors. The Delson plant is located within minutes of Montréal, 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, 2007, total capital expenditures at the Gatineau plant totalled approximately \$22,000 for building repairs.

### **Sorel-Tracy, Québec**

The Sorel-Tracy plant was built in 1984 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 an incising/framing line. The plant specializes in custom treated lumber and specialty products as well as ACQ and borate treatment for the interior wood framing market.

For the year ended December 31, 2007, there were no capital expenditures 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 2007, approximately \$490,000 was spent at the Guelph plant for additions to their lumber line and the purchase of production and mobile equipment.

The plant produces utility poles and consumer 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 water-borne pressure system, along with two drying/stabilization chambers. In addition, there is a stand alone pole butt treating tank which includes an efficient hydraulic loading system. The facilities also include 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. Its consumer lumber program benefits from the robust growth that Alberta continues to experience.

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 2007, approximately \$600,000 was spent at the Carseland facility, with approximately \$500,000 going towards infrastructure to streamline treating operations. The remaining funds were directed to yard upgrades. The Salmon Arm forestry operation saw expenditures of approximately \$45,000 that focused primarily on yard improvement and peeler reinforcement.

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

The New Westminster facility was originally built in 1929 and is situated on approximately 31 hectares of land. The plant currently 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, a timber and pole framing/incising line and a dry kiln.

For the year ended December 31, 2007, total capital expenditures at the New Westminster plant totalled approximately \$215,000, of which approximately \$110,000 was spent on an automation control system for the pressure cylinders. The balance of capital went towards plant upgrades and safety controls.

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 and has 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 facilities include 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, 2007 amounted to approximately \$330,000 of which \$250,000 was for major upgrades to the pole peeling process. The balance of expenditures were dedicated to general plant upgrades.

The plant produces mainly poles and crossties to serve the industrial and railway market sectors. A spur line in the plant connects to the British Columbia Rail main line, which has close access 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 85 acres 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, 2007, capital expenditures at the Bangor plant approximated US \$3.1 million, which covered the expansion of the plant through the addition of a new treating cylinder, fabrication and installation of a state of the art switch tie mill, and improvements to the water treating system to handle the plant expansion.

### **Arlington, Washington**

Located in Arlington, Washington, USA, and operating on approximately 35 acres, 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. 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, 2007, capital expenditures approximated US\$699,000, which covered the automation of the plant through the installation of a new PLC control system, upgrading of surge tanks and condensers, and conversion of a cylinder to permit treatment with Copper Naphthenate (CuNap) as well as Pentachlorophenol.

## **4.5 WOOD SUPPLY**

One of the Company's important competitive advantages is its strong wood supply position in several key regions of Canada and the United States. During the financial year ended December 31, 2007, the Company also obtained some of its pole raw material requirements from its own cutting licenses. The remainder of the Company's raw material requirements was sourced through agreements with private woodland owners and through purchases of timber on the open market.

### **Forest Tenures**

In Québec, most of the exploitable forest is public property managed by the *Ministère des Ressources naturelles* ("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 and Range is responsible for issuing forest licenses which grant the right to harvest a specified volume of timber on public lands managed by the Ministry of Forests and Range. A forest license generally has a term of 15 years and is renewable every five years subject to the licensee satisfactorily performing its harvesting and silvicultural 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 <sup>1</sup>	38,865	25 years
British Columbia <sup>2</sup>	232,551	15 years
Alberta	13,810	20 years <sup>3</sup>

### Purchased Timber

In addition to cutting licenses listed above, the Company has several exclusive supply agreements with private owners who hold territories or cutting licenses in British Columbia, Ontario and Québec. The Company also buys timber on the open market in the United States.

### 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.

<sup>1</sup> The Company is in the process of renewing its Québec CAAF and anticipates a reduction in total cubic metres for the period beginning in 2008.

<sup>2</sup> The Company is entitled to an allowable annual cut of 47,048 m<sup>3</sup> of wood in Prince George for 15 years. The Company is also entitled to an allowable annual cut of 22,222 m<sup>3</sup> of wood pursuant to a 20 year non-renewable cutting license in the Takla Lake area of British Columbia, of which 3 years are remaining. Through its acquisition of the assets of Bell Pole Company on July 1, 2006, the Company added to the aforementioned allowable annual cut of 69,270 m<sup>3</sup> (47,048 m<sup>3</sup> plus 22,222 m<sup>3</sup>), six additional forest licenses in British Columbia, with a combined allowable annual cut of 163,281 m<sup>3</sup>.

<sup>3</sup> The Company is entitled to cut 13,810 m<sup>3</sup> of coniferous timber within the B10 Forest Management Unit that is situated along the eastern slopes of the Rocky Mountains in southwestern Alberta and is embedded within the Forest Management Agreement area that is held by Spray Lake Sawmills of Cochrane, Alberta. The quota began a new 5 year cut control period in May of 2006 with approximately 15 years remaining in the term of the quota.

#### 4.6 SALES, MARKETING AND COMPETITIVE CONDITIONS

By the end of the year 2007, there were approximately 68 wood preserving plants operating in Canada and approximately 393 wood preserving plants 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 its ten sales offices located at its facilities in New Westminster (British Columbia), Prince George (British Columbia), Carseland (Alberta), Guelph (Ontario), Delson (Québec), Gatineau (Québec), Truro (Nova Scotia), Clarenville (Newfoundland), Bangor (Wisconsin) and Arlington (Washington).

The following table sets out the Company's sales by major product group for the financial years ended December 31, 2007 and 2006:

<b>COMPANY'S SALES BY PRODUCT GROUP FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006</b>				
<i>(audited)</i>	<b>2007</b>		<b>2006</b>	
	(millions of dollars)	%	(millions of dollars)	%
Utility poles	129.8	48	95.7	43
Railway ties	94.4	35	91.1	41
Consumer Lumber	29.6	11	17.0	7
Industrial Lumber	15.9	6	20.1	9
	<b>269.7</b>	<b>100</b>	<b>223.9</b>	<b>100</b>

##### Utility Poles

The majority of the Company's sales of utility poles are made in response to public tenders issued by customers, particularly Crown corporations and regional electrical companies. The key criteria in successfully obtaining orders are high quality, consistent on-time delivery, customer service and competitive prices.

##### Railway Ties

SJI's multiple locations and its ability to offer oil-based treating 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 Canada. With the Company's August 2005 acquisition of Webster, SJI now enjoys greater access to the US treated crosstie market. The Company supplies treated ties as a finished product to several railway companies, as well as to mining companies and to privately owned lines.

## **Consumer Lumber**

This product group is highly fragmented, consisting of numerous participants varying in size and competing mostly at a local or regional level. Growth opportunities exist for high quality producers who can successfully differentiate their product and service.

The Company provides both treated consumer lumber products and customized treating services to lumber retailers and wholesalers for outdoor applications. With the acquisition of the Carseland, Alberta facility of Bell Pole Company in July 2006, the Company continued to provide the full service consumer lumber products previously sold by the acquired company in the Alberta market. The Carseland plant purchases and sells the consumer lumber that it processes, in addition to the treating service. At the Company's other facilities, treating services are provided primarily to lumber wholesalers seeking to add value to their finished lumber product. Therefore, all raw wood is supplied by the wholesaler and the Company only applies the treatment. The service allows wholesalers to expand their product line by offering treated wood products, without having to operate treatment facilities of their own.

## **Industrial Lumber**

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. Products are typically sold directly to municipal and provincial authorities in response to tenders for a certain quantity and specification of preserved product. Since April of 2004, the Company has also been treating with borates.

## **Export**

The Company has had some success in penetrating emerging market countries, particularly in the sale of treated wood poles to national telephone and utility 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.

While the Company's focus is primarily on higher margin, North American markets, 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.

The Company's international contacts are enhanced by its association with Stella S.p.A. and James Jones and Sons Limited ("JJS"). JJS and Stella International S.A. ("Stella International"), a holding company associated with Stella S.p.A., control SJ International, which holds the majority of Common Shares of the Company. The Company is party to a services agreement with Stella S.p.A., JJS and SJ International whereby technical services are rendered by Stella S.p.A. and JJS and worldwide marketing and promotional services are rendered by SJ International.

COMPANY'S SALES BY REGION FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006				
<i>(audited)</i>	2007		2006	
	\$'000	%	\$'000	%
Canada	163,122	60.5	152,989	68.3
United States	106,592	39.5	70,864	31.7
	<b>269,714</b>	<b>100.0</b>	<b>223,853</b>	<b>100.0</b>

#### 4.7 EMPLOYEES

As at December 31, 2007, the Company had a total of 431 employees of which 106 were non-unionized, 159 were unionized and 166 were paid at an hourly rate.

PROVINCE/STATE	NON-UNIONIZED	UNIONIZED	PAID AT HOURLY RATES (NON- UNIONIZED)	TOTAL
Québec	18	70	-	88
Ontario	6	-	46	52
Nova Scotia	8	24	1	33
British Columbia	31	63	-	94
Newfoundland	2	2	1	5
Wisconsin	13	-	47	60
Alberta	15	-	36	51
Washington	8	-	35	43
Oregon	1	-	-	1
Idaho	2	-	-	2
Nevada	1	-	-	1
New Hampshire	1	-	-	1
<b>TOTAL:</b>	<b>106</b>	<b>159</b>	<b>166</b>	<b>431</b>

## **4.8 ENVIRONMENT – POLICY AND PROTECTION**

### **Environmental 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. 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;
- 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 policy;
- to responding to legitimate concerns made known to it and to participate actively with interested parties in the understanding of environmental 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**

The Company's Vice-President, Environment and Technology, with the support of local plant managers and regional general managers, leads the management of environmental matters and ensures that the Company's environmental 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 are continually being upgraded and updated 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.

Management reports regularly to an Environmental Committee and the Board of Directors with respect to the administration of the Company's health and safety and environmental policies.

During the year 2000, 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.

Under the terms of the Baxter 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 Asset Purchase Agreement, 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 Purchase and Sale Agreement, SJ Corporation is, at its own cost and expense, responsible to continue the existing groundwater pump and treat system installed at the Bangor facility together with associated environmental containment and treatment systems ("Environmental Remediation") as were operated and maintained at the closing date ("Closing Date") of the Webster acquisition ("Webster Acquisition") in August 2005. In the event that changes to Environmental Remediation are required by any governmental entity within three years of the Closing Date, and such changes are due to circumstances beyond the control of SJ Corporation and result or are likely to result in additional costs to SJ Corporation, then the seller shall indemnify SJ Corporation for such additional Environmental Remediation costs.

Pursuant to the Cambium acquisition, the Company acquired wood treating facilities located in Gatineau (Québec), Sorel-Tracy (Québec) and Clarendville (Newfoundland), as well as a pole peeling facility in Senneterre (Québec). The Clarendville 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 I.P.B. 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 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 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 against environmental claims relating to the activities of SJI subsequent to the acquisition.

#### **4.9 RISK FACTORS**

##### **(i) Environmental Risks**

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.

The enforcement of these laws 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 with environmental statutes, regulations or orders could result in civil or criminal enforcement actions. The Company makes financial expenditures in order to comply with regulations governing environmental issues adopted by federal, provincial, state and local regulatory agencies.

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, as more fully set out above in the section entitled "Environmental Protection". 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. Management believes that its commitment to the environmental integrity of the Company's plants and operations, supported by significant investments toward that end, will allow the Company to continue to meet the applicable regulatory requirements.

##### **(ii) Availability of Competitively Priced Wood and Preservatives**

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. Nevertheless, the Company's overall competitiveness in this industry is strengthened by its access to a high quality timber supply provided by its long-term cutting licenses and its long-standing relationships with private woodland owners and other suppliers.

In addition, there are a limited number of suppliers for certain of the preservatives that the Company utilizes in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. The Company mitigates this risk by researching and identifying alternate suppliers outside of its traditional sources of supply.

(iii) Currency Risks

The Company is exposed to currency risks due to its export of goods manufactured in Canada. These risks are partially covered by purchases of goods and services denominated in US dollars. The Company also uses foreign exchange forward contracts to hedge contracted net cash inflows and outflows of US dollars.

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

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

On March 16, 2005 and August 9, 2005, the Board of Directors declared semi-annual dividends of \$0.05 per common share. On March 15, 2006, the Board of Directors declared a semi-annual dividend of \$0.06 per common share, which was increased to \$0.08 per common share by the Board in its declaration of dividend on August 8, 2006. On March 14, 2007, the Board of Directors declared a semi-annual dividend of \$0.10 per common share, which was increased to \$0.14 per common share by the Board in its declaration of dividend on August 14, 2007. On March 12, 2008, the Board of Directors declared a semi-annual dividend of \$0.16 per common share.

**5.2 POLICY AND RESTRICTIONS**

The Corporation's dividend policy provides that the Company consider a dividend on a semi-annual basis. All decisions by the Company's Board of Directors regarding the payment of dividend are subject to its financial covenants as well as factors such as the Company's financial performance and cash requirements. Additionally, SJI's banking arrangements require the Company to obtain the prior written consent of its bankers in the event that it intends to pay dividends aggregating in any one year, in excess of 25% of the Company's net income.

## 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 14, 2008, there were 12,350,088 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, 2007				
Month (2007)	High \$	Low \$	Close \$	Volume Traded
January	35.50	32.00	33.00	117,755
February	33.00	31.00	32.31	95,726
March	34.49	30.85	33.70	101,424
April	38.00	32.60	37.75	372,422
May	47.50	36.49	47.00	309,789
June	48.99	39.50	42.50	356,143
July	48.50	42.50	45.02	132,267
August	46.21	36.00	41.90	197,101
September	45.25	38.50	45.25	96,327
October	46.49	42.50	42.76	255,630
November	45.00	38.61	40.53	330,688
December	43.99	39.19	41.00	56,739

## **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 14, 2008. 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 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 BÉLANGER, FCA <sup>(1)</sup> Québec, Canada	Director	March 1997	President, Toryvel Group Inc. (holding company); President, Theseus Capital Inc. (capital pool company)	8,500
TOM A. BRUCE JONES, CBE Glasgow, Scotland	Chairman of the Board and Director	July 1993	Chairman of the Board, James Jones & Sons Limited (British forest products company)	_ <sup>(2)</sup>
GEORGE J. BUNZE, CMA <sup>(1)(3)</sup> Québec, Canada	Director	May 2001	Vice-Chairman and Director, Kruger Inc. (manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirit products)	14,500
GIANNI CHIARVA <sup>(3)</sup> Milan, Italy	Vice-Chairman of the Board and Director	July 1993	President, Stella S.p.A. (Italian manufacturer of wood and concrete utility poles); Chairman, Sirti S.p.A. (designs, maintains and installs telecommunications, transmission and electrical systems)	_ <sup>(4)</sup>
ARTHUR P. EARLE, C.M. <sup>(1)(5)</sup> Québec, Canada	Director	October 1992	Corporate Director	6,000
BRIAN MCMANUS Québec, Canada	President, Chief Executive Officer and Director	June 2001	President and Chief Executive Officer, Stella-Jones Inc.	1,690
NYCOL PAGEAU-GOYETTE <sup>(1)(3)(5)(6)</sup> Québec, Canada	Director	July 1993	President, Pageau Goyette et associés limitée (management services firm); Chairperson, Sorinco Inc. (pharmaceutical and cosmetic product recycling plant); President, Montrésor Corporation (holding company)	4,200
DANIEL PICOTTE <sup>(5)</sup> Québec, Canada	Director	July 1993	Partner, Fasken Martineau DuMoulin LLP (law firm)	8,000
MARY WEBSTER <sup>(5)</sup> Minnesota, U.S.A.	Director	May 2007	Corporate Director	2,200

(1) Member of the Audit Committee.

(2) 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 30% of the voting shares of JJS which holds 49% of the voting shares of SJ International which in turn, holds 7,587,909 or 61.4% of the Common Shares of the Company. Mr. Tom A. Bruce Jones holds directly, an additional 7,500 Common Shares of the Company.

(3) Member of the Remuneration Committee.

(4) Mr. Gianni Chiarva, together with his associates, exercise control or direction, directly or indirectly, over all of the voting shares of Stella International, which holds 51% of the voting shares of SJ International which in turn, holds 7,587,909 or 61.4% of the Common Shares of the Company. Mr. Gianni Chiarva holds directly, an additional 7,500 Common Shares of the Company.

(5) Member of the Environmental Committee.

(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 those individuals named hereafter: Mr. Richard Bélanger was Senior Vice-President, Eastern Operations and Corporate Development for Canfor Corporation from 2003 to 2004 and held the position of President and Chief Executive Officer of Bois Daaquam inc. from 1995 to 2003. Mr. George J. Bunze was Chief Financial Officer of Kruger Inc. from 1993 to November of 2003. Mrs. Mary Webster was Secretary to the Board of Directors of Webster Industries Inc., a wood pressure treating company, from 1995 to 2005 and also served as Webster's Industries Inc.'s environmental consultant during that period.

#### **EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS**

<b>Name and municipality of residence</b>	<b>Position within the Company</b>
Marla Eichenbaum Hampstead, Québec	Vice-President, General Counsel and Secretary
George Labelle, C.A. Pierrefonds, Québec	Senior Vice-President and Chief Financial Officer
Gordon Murray Truro, Nova Scotia	Vice-President, Environment and Technology and General Manager, Atlantic Region
Martin Poirier Delson, Québec	Vice-President and General Manager, Central Region
Rémi Godin, C.G.A. St-Bruno, Québec	Vice-President and Corporate Comptroller
Rick Thompson Fergus, Ontario	Vice-President & General Manager, Guelph Utility Pole Company Ltd.
Douglas J. Fox La Crosse, Wisconsin	Senior Vice-President, Engineering and Operations Stella-Jones Corporation
Ian Jones Vernon, British Columbia	Vice-President and General Manager Bell Pole Canada Inc.
Glen Ritchie Salmon Arm, British Columbia	Vice-President, Fibre Bell Pole Canada Inc.

As of March 14, 2008, the directors and officers as a group beneficially owned, directly or indirectly, or exercised control or direction over 7,703,784 Common Shares, representing approximately 62.4% 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 is given below:

*Marla Eichenbaum* was promoted to Vice-President, General Counsel and Secretary in December of 2005 after serving as the Company's General Counsel and Secretary since August of 1998.

*George Labelle*, C.A. was promoted to Senior Vice-President and Chief Financial Officer in October of 2003, after serving as the Company's Vice-President, Finance since December of 1999.

*Martin Poirier* was promoted to Vice-President and General Manager, Central Region in January of 2004 after serving as the Company's General Manager, Central Region since January of 2002.

*Rémi Godin* was promoted to Vice-President and Corporate Comptroller in May 2006 after serving as the Company's Comptroller since 1993.

*Rick Thompson* was promoted to Vice-President of Guelph Utility Pole Company in 2004 after serving as its General Manager since 1984.

*Douglas Fox* was promoted to Senior Vice-President, Engineering and Operations of Stella-Jones Corporation in March of 2008 after serving as its Manager, Engineering and Operations since August 2005. Mr. Fox served as Vice-President, Operations (Canada) for Progress Rail from 2003-2005.

*Ian Jones* has served as Vice-President and General Manager of the Company's wholly-owned subsidiary, Bell Pole Canada Inc., since it was acquired by the Company in July of 2006. Between 2001 and June of 2006, Mr. Jones was Vice-President, Operations of Bell Pole Company.

*Glen Ritchie* has served in the position of Vice-President, Fibre, Bell Pole Canada Inc. since it was acquired by the Company in July of 2006. Between 2002 and June of 2006, Mr. Ritchie held the position of Vice-President, Fibre Supply of Bell Pole Company.

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

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

On May 2, 2006, the Company closed a private placement of subscription receipts pursuant to which it issued 1,060,000 subscription receipts ("Subscription Receipts") at a price of \$17.00 per Subscription Receipt. SJ International, the Corporation's principal shareholder, subscribed for 677,353 of the Subscription Receipts. Net proceeds from the private placement were used to partially fund the acquisition of the assets and operations of Bell Pole Company in June 2006. Upon completion of the Bell Pole Company acquisition, common shares of the Company were issued to all holders of Subscription Receipts on a one for one basis.

On August 31, 2005, the Company completed a private placement of 555,556 Common Shares with its principal shareholder, SJ International. The price per share was \$9.00, for a total subscription price of \$5,000,004, which amount was used to partially finance the acquisition of the business of Webster, based in the United States ("Webster Acquisition"). Immediately following the Webster Acquisition, SJ International held 63.9% of the Common Shares of the Company. Mr. Tom A. Bruce Jones, Chairman of the Company and Mr. Gianni Chiarva, Vice-Chairman, together hold directly or indirectly, all the shares of SJ International.

In August 2005, to further finance the Webster Acquisition, SJ International entered into a subordinated loan agreement with SJ Corporation, a wholly owned US subsidiary of the Company, for the amount of US\$750,000 repayable in full on August 3, 2011. The loan is unsecured and subordinated in right of payment to the prior payment in full of SJ Corporation's indebtedness to all of its secured lenders. Interest is payable to SJ International in semi-annual instalments and bears interest at the then applicable LIBOR rate plus four and one half percent (4.5%).

On December 20, 2005, the Company repaid its outstanding unsecured subordinated note in the amount of CAD\$900,000 held by JJS and Stella International. Mr. Gianni Chiarva, Vice-Chairman of the Company, together with his associates, exercises control or direction, directly or indirectly, over all of the voting shares of Stella International. Mr. Tom A. Bruce Jones, Chairman of the Company, owns, directly or indirectly, approximately 30% of the voting shares of JJS.

## **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, Mr. Arthur Earle and Ms. Nycol Pageau-Goyette. 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 spirit products and currently serves as its Vice-Chairman. Mr. Bunze also serves on the Board of Directors and is Chairman of the Audit Committee of Intertape Polymer Group Inc. 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 ("Laurentian"), where he also serves as Chairman of its audit committee. Mr. Bélanger is a member of Laurentian's risk management committee as well. Mr. Arthur Earle, a graduate of Harvard Business School, served for 7 years as Group Vice-President Subsidiaries of Dominion Textile Inc. and 9 years as Chairman of the Board of *Aéroports de Montréal*. Mr. Earle served several years (until March of 2007) on the board of directors and the audit committee of Shermag Inc., a public company specializing in the production and distribution of residential furniture. Mrs. 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.



## **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, and to review the internal control procedures of the Company.

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 its auditors, BDO Dunwoody LLP, for the years ended December 31, 2007 and 2006 for various professional services:

<b>Fees</b>	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
Audit Fees	\$508,000	\$289,867
Audit Related Fees	\$217,662	\$339,058
Tax Fees	\$125,995	\$46,863
Other Fees	\$673,804	\$60,161
<b>TOTAL</b>	<b>\$1,525,461</b>	<b>\$735,949</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 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 PURCHASE AND SALE AGREEMENTS**

On February 28, 2007, pursuant to an Asset Purchase Agreement, the Company, through its wholly-owned US subsidiary, SJ Corporation, purchased the wood utility pole business of J.H. Baxter & Co.

Particulars of this transaction are provided in this AIF at Items 3.1 “Three Year History” and 4.8 “Environmental Protection”.

## **ITEM 13 INTERESTS OF EXPERTS**

### **13.1 NAMES OF EXPERTS**

The Company’s auditors are BDO Dunwoody LLP, who have prepared the Auditors’ Report to the shareholders of SJI on page 30 of the Company’s 2007 annual report. BDO Dunwoody 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 and 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 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 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 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.