Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS CONTINUED STRONG RESULTS IN THIRD QUARTER

- **Sales of $181.8 million, up from $161.3 million in Q3 2010**
- **Operating income of $25.6 million, or 14.1% of sales, versus $19.7 million, or 12.4% of sales, in Q3 2010**
- **33.2% increase in net income to $16.6 million**
- **Diluted EPS of $1.03 per share, up from $0.78 last year**

MONTREAL, QUEBEC – November 11, 2011 - Stella-Jones Inc. (TSX: SJ) today announced financial results for its third quarter ended September 30, 2011. These results reflect the adoption, on January 1, 2011, of International Financial Reporting Standards (“IFRS”). Results for the prior year have been restated.

Financial highlights	**Quarters ended Sept. 30,**		**Nine months ended Sept. 30,**	
(in thousands of Canadian dollars, except per share data)	**2011**	**2010**	**2011**	**2010**
Sales	**181,812**	161,298	**492,628**	427,975
Operating income	**25,569**	19,744	**67,569**	41,496
Net income for the period	**16,569**	12,440	**42,340**	23,791
Per share - basic ($)	**1.04**	0.78	**2.66**	1.60
Per share - diluted ($)	**1.03**	0.78	**2.65**	1.60
Cash flow from operations [1]	**27,796**	23,495	**74,867**	54,910
Weighted average shares outstanding (basic, in ‘000s)	**15,950**	15,901	**15,943**	14,840

[1] Before changes in non-cash working capital components and interest and income tax paid.

THIRD-QUARTER RESULTS

Sales reached $181.8 million, an increase of $20.5 million, or 12.7% over last year’s third-quarter sales of $161.3 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $10.2 million when compared with the previous year. Excluding this conversion effect, sales increased approximately 19.0%, as demand remained robust for the Company's core railway tie and utility pole product categories.

Railway tie sales amounted to $92.3 million, up 9.7% from last year, reflecting solid market demand. Adjusting for a negative foreign exchange effect of $7.1 million due to a lower average conversion rate on U.S. dollar denominated tie sales, year-over-year comparable railway tie sales increased $15.3 million, or 18.2%. Utility pole sales reached $56.2 million, up 31.6% from a year ago. This increase mainly reflects robust demand for transmission poles resulting from orders for special projects, while a lower year-over-year conversion rate reduced the value of U.S. dollar denominated pole sales by $1.7 million. Industrial product sales decreased 9.4% to $22.6 million due to the sale of certain assets of the Terre Haute, Indiana facility in the fourth quarter of 2010 and a $1.4 million negative impact from a lower conversion rate on U.S. dollar denominated sales. However, demand remained solid for the balance of the Company’s principal products and services in this category. Finally, sales of residential lumber increased 12.0% to $10.7 million, as a result of more favourable weather compared with last year.

Operating income was $25.6 million or 14.1% of sales, compared with $19.7 million or 12.4% of sales last year. The increase as a percentage of sales mainly stems from a product mix more heavily weighted towards utility poles and greater efficiencies throughout our plant network. Net income for the period reached $16.6 million or $1.03 per share, fully diluted, up 33.2% from $12.4 million or $0.78 per share, fully diluted, in 2010. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 18.3% to $27.8 million.

"Stella-Jones continues to benefit from robust investment in the North American rail and electrical utility infrastructure, which led to another strong financial performance in the third quarter," said Brian McManus, President and Chief Executive Officer. "A greater geographical reach and a more extensive breadth of products and services have further enhanced Stella-Jones' market position and driven sales growth. More importantly, additional efficiencies from increased throughput provided additional thrust to operating profitability."

NINE-MONTH RESULTS

For the nine-month period ended September 30, 2011, sales reached $492.6 million, up 15.1% from $428.0 million a year earlier. Excluding the additional sales contribution of $37.7 million from the Tangent Rail Corporation operations in the first quarter of 2011, and net of a $20.9 million conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. currency, sales increased approximately 11.0%.

Operating income amounted to $67.6 million, or 13.7% of sales, versus $41.5 million, or 9.7% of sales a year earlier. Last year's nine-month results included non-recurring expenses and asset impairment charges of approximately $7.5 million. Net income for the period totalled $42.3 million, or $2.65 per share, fully diluted, in 2011 versus $23.8 million, or $1.60 per share, fully diluted, in 2010. Finally, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid grew 36.3% to $74.9 million.

SOLID FINANCIAL POSITION

As at September 30, 2011, the Company's financial position remained solid with total debt, including short-term bank indebtedness, of $172.9 million, down from $175.8 million as at June 30, 2011. The ratio of total debt to shareholders' equity was 0.53:1 as at September 30, 2011, down from 0.59:1 three months earlier.

During the quarter, Stella-Jones entered into an agreement to amend its existing revolving credit agreement. The amended facility consists of a $170.0 million committed revolving facility made available for a five-year term. As a result of this agreement, all bank indebtedness is now considered long-term debt with the exception of the Company's proportion of the operating line of its joint venture.

"Operating activities produced a solid cash flow that allowed Stella-Jones to further reduce debt and finance its growth. As a result, the proposed acquisition of Thompson Industries, Inc. ("Thompson") would, if finalized, be entirely financed through readily available sources of funds," added George Labelle, Senior Vice-President and Chief Financial Officer.

OUTLOOK

"Despite recent volatility in the macro-economic environment, we expect demand for our core products to remain solid in the fourth quarter of 2011. In the short-term, our priority is to complete our due diligence and, if satisfactory, proceed with the closing of our proposed acquisition of Thompson. If successful, this network expansion would further enhance Stella-Jones' product and service offering to the North American railroad industry. As fundamentals remain solid in our core product categories, we will proactively assess prospective business opportunities to maintain our market momentum," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on Friday, November 11, 2011, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 416-644-3426 (Toronto or overseas) or 1-800-731-5319 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the

meeting by calling 1-877-289-8525 and entering the passcode 4478464#. This tape recording will be available on Friday, November 11, 2011 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, November 18, 2011.

NON-IFRS FINANCIAL MEASURES

Operating income and cash flow from operations are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these measures to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company.

ABOUT STELLA-JONES

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

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

-30-

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EXCHANGE LISTINGS
The Toronto Stock Exchange
Stock Symbol: SJ

TRANSFER AGENT AND REGISTRAR
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NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the third quarter ended September 30, 2011 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 11, 2011

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
September 30, 2011 and 2010

Stella-Jones Inc.

Interim Consolidated Statement of Financial Position
(Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at September 30, 2011 $	As at December 31, 2010 $
Assets			
Current assets			
Accounts receivable		103,328	56,315
Inventories		216,149	205,335
Prepaid expenses		11,913	4,517
Income taxes receivable		2,500	2,875
		333,890	269,042
Non-current assets			
Property, plant and equipment	4	109,738	104,763
Intangible assets	5	63,766	64,179
Goodwill	5	77,960	73,973
Other assets	6	3,908	5,331
Deferred income taxes		7,433	3,670
		596,695	520,958
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness	7	2,300	31,923
Accounts payable and accrued liabilities		40,297	32,470
Current portion of long-term debt	8	942	10,459
Current portion of provisions and other long-term liabilities	9	7,127	4,705
		50,666	79,557
Non-current liabilities			
Long-term debt	8	169,687	115,369
Deferred income taxes		44,073	38,355
Provisions and other long-term liabilities	9	3,352	3,668
Employee future benefits		3,151	2,572
Derivative financial instruments	10	1,357	1,335
		272,286	240,856
Shareholders' equity			
Capital stock	11	131,165	130,229
Contributed surplus		1,298	1,376
Retained earnings		188,268	155,636
Accumulated other comprehensive income (loss)		3,678	(7,139)
		324,409	280,102
		596,695	520,958

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

Stella-Jones Inc.

Interim Consolidated Statement of Change in Shareholders' Equity
(Unaudited)

For the nine-month periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive loss				
	Capital stock $	**Contributed surplus $**	**Retained earnings $**	**Foreign currency translation adjustment $**	**Translation of long-term debts designated as net investment hedges $**	**Unrecognized loss on cash flow hedges $**	**Total $**	**Total equity $**
Balance – January 1, 2011	130,229	1,376	155,636	(8,469)	2,243	(913)	(7,139)	280,102
Comprehensive income								
Net income for the period	-	-	42,340	-	-	-	-	42,340
Other comprehensive income	-	-	(1,736)	14,676	(3,699)	(160)	10,817	9,081
Comprehensive income for the period	-	-	40,604	14,676	(3,699)	(160)	10,817	51,421
Transactions with shareholders								
Dividends on common shares	-	-	(7,972)	-	-	-	-	(7,972)
Stock option plan	655	-	-	-	-	-	-	655
Exercise of stock options	-	(255)	-	-	-	-	-	(255)
Employee share purchase plans	281	-	-	-	-	-	-	281
Stock-based compensation	-	177	-	-	-	-	-	177
	936	(78)	(7,972)	-	-	-	-	(7,114)
Balance – September 30, 2011	131,165	1,298	188,268	6,207	(1,456)	(1,073)	3,678	324,409

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

Stella-Jones Inc.

Interim Consolidated Statement of Change in Shareholders' Equity . . . *continued*
(Unaudited)

For the nine-month periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive loss				
	Capital stock $	**Contributed surplus $**	**Retained earnings $**	**Foreign currency translation adjustment $**	**Translation of long-term debts designated as net investment hedges $**	**Unrecognized loss on cash flow hedges $**	**Total $**	**Total equity $**
Balance – January 1, 2010	52,019	1,112	128,015	-	(637)	(986)	(1,623)	179,523
Comprehensive income								
Net income for the period	-	-	23,791	-	-	-	-	23,791
Other comprehensive income	-	-	(567)	315	(157)	(355)	(197)	(764)
Comprehensive income for the period	-	-	23,224	315	(157)	(355)	(197)	23,027
Transactions with shareholders								
Dividends on common shares	-	-	(6,041)	-	-	-	-	(6,041)
Exchange of subscription receipts for common shares	77,748	-	-	-	-	-	-	77,748
Stock option plan	124	-	-	-	-	-	-	124
Exercise of stock options	-	(41)	-	-	-	-	-	(41)
Employee share purchase plans	214	-	-	-	-	-	-	214
Stock-based compensation	-	231	-	-	-	-	-	231
	78,086	190	(6,041)	-	-	-	-	72,235
Balance – September 30, 2010	130,105	1,302	145,198	315	(794)	(1,341)	(1,820)	274,785

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

Stella-Jones Inc.

Interim Consolidated Statement of Income
(Unaudited)

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2011 **$**	**2010** **$**	**2011** **$**	**2010** **$**
Sales	181,812	161,298	492,628	427,975
Expenses (income)				
Cost of sales	144,186	134,950	398,082	359,216
Selling and administrative	10,884	7,288	26,080	26,895
Other losses (gains), net	1,173	(684)	897	368
	156,243	141,554	425,059	386,479
Operating income	25,569	19,744	67,569	41,496
Financial expenses				
Interest on long-term debt	1,592	2,499	4,865	6,475
Other interest	217	349	1,262	1,276
	1,809	2,848	6,127	7,751
Income before income taxes	23,760	16,896	61,442	33,745
Provision for (recovery of) income taxes				
Current	7,691	5,441	17,834	12,378
Deferred	(500)	(985)	1,268	(2,424)
	7,191	4,456	19,102	9,954
Net income for the period	16,569	12,440	42,340	23,791
Basic earnings per common share	1.04	0.78	2.66	1.60
Diluted earnings per common share	1.03	0.78	2.65	1.60

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

Stella-Jones Inc.

Interim Consolidated Statement of Comprehensive Income
(Unaudited)

(expressed in thousands of Canadian dollars)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2011 **$**	**2010** **$**	**2011** **$**	**2010** **$**
Net income for the period	16,569	12,440	42,340	23,791
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on translation of financial statements of foreign operations	22,498	(8,869)	14,676	315
Change in unrealized gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations (net of income tax of $700; nil for the three-month period ended September 30, 2010; $297 for the nine-month period ended September 30, 2011; nil for the nine-month period ended September 30, 2010)	(6,335)	3,934	(3,699)	(157)
Change in losses on fair value of derivatives designated as cash flow hedges (net of income tax of $138; $34 for the three-month period ended September 30, 2010; $79 for the nine-month period ended September 30, 2011; $231 for the nine-month period ended September 30, 2010)	(321)	(50)	(160)	(355)
Actuarial gain (loss) on post-retirement benefit obligations (net of income tax of $646; $63 for the three-month period ended September 30, 2010; $579 for the nine-month period ended September 30, 2011; $189 for the nine-month period ended September 30, 2010)	(1,937)	(189)	(1,736)	(567)
	13,905	(5,174)	9,081	(764)
Comprehensive income	30,474	7,266	51,421	23,027

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

Stella-Jones Inc.

Interim Consolidated Statement of Cash Flows
(Unaudited)

For the nine-month periods ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011 $	2010 $
Cash flows provided by (used in)		
Operating activities		
Net income for the period	42,340	23,791
Adjustments for		
Depreciation of property, plant and equipment	3,382	4,320
Amortization of intangible assets	3,008	3,299
Interest accretion	1,037	1,106
Loss (gain) on disposal of property, plant and equipment	31	(28)
Employee future benefits	(616)	374
Stock-based compensation	177	231
Loss on derivative financial instruments	-	1,606
Asset impairment (reversal)	(280)	2,530
Financial expenses	6,127	7,751
Income taxes	17,834	12,378
Deferred income taxes	1,268	(2,424)
Restricted stock units obligation	573	(89)
Other	(14)	65
	74,867	54,910
Changes in non-cash working capital components		
Accounts receivable	(42,796)	(37,733)
Inventories	(4,773)	49,122
Prepaid expenses	(6,744)	22
Income taxes receivable	(447)	698
Accounts payable and accrued liabilities	2,763	10,270
Asset retirement obligations	(620)	(104)
Provisions and other long-term liabilities	2,390	2,375
	(50,227)	24,650
Interest paid	(6,405)	(6,993)
Income tax paid	(16,912)	(7,321)
	1,323	65,246
Financing activities		
Decrease in bank indebtedness	(1,985)	(29,998)
Increase in deferred financing costs	(47)	(1,015)
Increase in long-term debt	89,582	66,027
Repayment of long-term debt	(79,288)	(86,232)
Non-competes payable	(905)	(983)
Dividend on common shares	(3,825)	(2,861)
Proceeds from issuance of common shares	681	297
Proceeds from issuance of subscription receipts	-	76,903
	4,213	22,138
Investing activities		
Decrease (increase) in other assets	(27)	20
Business acquisition	-	(83,565)
Increase in intangible assets	(484)	(683)
Purchase of property, plant and equipment	(5,305)	(3,360)
Assets held for sale	188	-
Proceeds from disposal of property, plant and equipment	92	204
	(5,536)	(87,384)
Net change in cash and cash equivalents during the period	-	-
Cash and cash equivalents – Beginning of period	-	-
Cash and cash equivalents – End of period	-	-

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

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

1 Description of the business

Stella-Jones Inc. (the "Company") is a 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. The Company has treating and pole peeling facilities across Canada and the United States and sells its products mainly in these two countries. The Company's headquarters are located in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange ("TSX") (under the stock symbol SJ).

2 Significant accounting policies

Basis of presentation and adoption of IFRS

The Company prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" or "CA GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of IFRS*. The accounting policies followed in these interim consolidated financial statements are the same as those applied in the Company's interim consolidated financial statements for the periods ended March 31, 2011 and 2010. Subject to certain transition elections, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's consolidated statement of financial position as at September 30, 2010 and consolidated statement of income and comprehensive income for the three and nine months ended September 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

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

The accounting policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 10, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

These interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP consolidated financial statements for the year ended December 31, 2010, and the Company's interim consolidated financial statements for the quarters ended March 31, 2011 and 2010 prepared in accordance with IFRS applicable to interim financial statements.

Principles of consolidation

The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The significant subsidiaries are as follows: Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., 4552822 Canada Inc., 4552831 Canada Inc., Stella-Jones Canada Inc., Stella-Jones U.S. Holding Corporation ("SJ Holding"), Stella-Jones Corporation ("SJ Corp"), Stella-Jones U.S. Finance Corporation, Canadalux S.à.r.l. and Tangent Rail Corporation ("Tangent"). SJ Holding, SJ Corp, Stella-Jones U.S. Finance Corporation, Canadalux S.à.r.l. and Tangent are foreign operations that have a different functional currency from that of the Company.

The consolidated accounts of Stella-Jones Canada Inc. include the accounts of a 50% interest in Kanaka Creek Pole Company Limited ("Kanaka"), a joint venture which is accounted for under the proportionate consolidation method of accounting.

Following the close of business on December 31, 2010, Tangent was merged with SJ Corp. The surviving corporation was Tangent, which changed its name to Stella-Jones Corporation concurrently with the merger.

3 Adoption of IFRS

Impact of transition to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for periods prior to January 1, 2011. The following represents the reconciliations from Canadian GAAP to IFRS for the consolidated statement of financial position as at September 30, 2010, and the consolidated statement of income and comprehensive income for the three-month and nine-month periods ended September 30, 2010.

Reconciliations of total operating, investing, and financing cash flows are not provided, as the changes to these cash flows are not material.

The reconciliations from Canadian GAAP to IFRS required by IFRS 1 for the consolidated statement of financial position as at January 1, 2010 and December 31, 2010 and the consolidated statement of income and comprehensive income for the year ended December 31, 2010 are presented in the Company's March 31, 2011 and 2010 interim consolidated financial statements.

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

Reconciliation of consolidated statement of financial position

	Note	As at September 30, 2010		
		CA GAAP $	**Adj. $**	**IFRS $**
Assets				
Current assets				
Accounts receivable		87,425	-	87,425
Derivative financial instruments		590	-	590
Inventories		192,372	-	192,372
Prepaid expenses		4,312	-	4,312
Deferred income taxes	a	3,914	(3,914)	-
		288,613	(3,914)	284,699
Non-current assets				
Property, plant and equipment	b,c	114,705	(9,134)	105,571
Intangible assets	b,c	58,167	9,134	67,301
Goodwill		75,772	-	75,772
Other assets	d	5,596	(449)	5,147
Deferred income taxes	a,i	2,281	4,060	6,341
		545,134	(303)	544,831
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness		22,492	-	22,492
Accounts payable and accrued liabilities	l	47,855	(2,349)	45,506
Income taxes payable		1,015	-	1,015
Deferred income taxes	a	865	(865)	-
Current portion of long-term debt		21,110	-	21,110
Current portion of provisions and other long-term liabilities	l	2,635	2,349	4,984
		95,972	(865)	95,107
Non-current liabilities				
Long-term debt		126,235	-	126,235
Deferred income taxes	a,j	39,691	1,043	40,734
Provisions and other long-term liabilities	g	3,675	(74)	3,601
Employee future benefits	e	1,903	541	2,444
Derivative financial instruments		1,925	-	1,925
		269,401	645	270,046
Shareholders' equity				
Capital stock		130,105	-	130,105
Contributed surplus	f	1,042	260	1,302
Retained earnings	m	148,181	(2,983)	145,198
Accumulated other comprehensive income	h,n	(3,595)	1,775	(1,820)
		275,733	(948)	274,785
		545,134	(303)	544,831

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

Reconciliation of net income

		For the three-month period ended September 30, 2010			For the nine-month period ended September 30, 2010		
	Note	**CA GAAP $**	**Adj. $**	**IFRS $**	**CA GAAP $**	**Adj. $**	**IFRS $**
Sales		161,298	-	161,298	427,975	-	427,975
Expenses (income)							
Cost of sales	k	131,974	2,976	134,950	351,597	7,619	359,216
Selling and administrative	f,g	7,510	(222)	7,288	27,044	(149)	26,895
Other losses (gains), net		(684)	-	(684)	368	-	368
Depreciation of property, plant and equipment and amortization of intangible assets	k	2,976	(2,976)	-	7,619	(7,619)	-
		141,776	(222)	141,554	386,628	(149)	386,479
Operating income		19,522	222	19,744	41,347	149	41,496
Financial expenses							
Interest on long-term debt		2,499	-	2,499	6,475	-	6,475
Other interest		349	-	349	1,276	-	1,276
		2,848	-	2,848	7,751	-	7,751
Income before income taxes		16,674	222	16,896	33,596	149	33,745
Provision for (recovery of) income taxes							
Current		5,441	-	5,441	12,378	-	12,378
Deferred		(985)	-	(985)	(2,424)	-	(2,424)
		4,456	-	4,456	9,954	-	9,954
Net income for the period		12,218	222	12,440	23,642	149	23,791
Basic earnings per common share		0.77		0.78	1.59		1.60
Diluted earnings per common share		0.77		0.78	1.59		1.60

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

Reconciliation of comprehensive income

		For the three-month period ended September 30, 2010			For the nine-month period ended September 30, 2010		
	Note	**CA GAAP $**	**Adj. $**	**IFRS $**	**CA GAAP $**	**Adj. $**	**IFRS $**
Net income for the period	f,g	12,218	222	12,440	23,642	149	23,791
Other comprehensive income (loss)							
Net change in unrealized gains (losses) on translation of financial statements of foreign operations		(8,869)	-	(8,869)	315	-	315
Change in unrealized gains and losses on translation of long-term debts designated as hedges of net investment in foreign operations		3,934	-	3,934	(157)	-	(157)
Change in losses on fair value of derivatives designated as cash flow hedges (net of income tax of $34; nine-month period – $231)		(50)	-	(50)	(355)	-	(355)
Actuarial loss on post-retirement benefit obligations (net of income tax of $63; nine-month period – $189)	d,j	-	(189)	(189)	-	(567)	(567)
		(4,985)	(189)	(5,174)	(197)	(567)	(764)
Comprehensive income		7,233	33	7,266	23,445	(418)	23,027

a) Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, a current deferred income tax asset of $3,914 reported under Canadian GAAP as at September 30, 2010 has been reclassified as a non-current deferred income tax asset under IFRS. As at September 30, 2010, a current deferred income tax liability of $865 has been reclassified as a non-current deferred income tax liability under IFRS.

b) The Company currently holds cutting rights. Under Canadian GAAP, the Company classified them as capital assets.

   Under IFRS, cutting rights can be accounted for as operating leases, intangible assets or agricultural assets, depending on the nature of the contracts. The Company has concluded that under IFRS the cutting rights should be classified as intangible assets and treated as such under IAS 38, *Intangible Assets*. Accordingly, as at September 30, 2010, $6,031 has been reclassified from property, plant and equipment to intangible assets.

c) The Company currently holds standing timber. Under Canadian GAAP, the Company classified them as capital assets. The Company has analyzed the nature of the standing timber and concluded that under IFRS those assets are classified as intangible assets and are subject to IAS 38. Accordingly, as at September 30, 2010, $3,103 has been reclassified from property, plant and equipment to intangible assets.

d) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

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

Under Canadian GAAP, the Company applied the corridor method of accounting for such gains and losses. Under this method, gains and losses are recognized only if they exceed specified thresholds. The impact of the change of method is a decrease of $449 in the carrying value of the accrued benefit asset as at September 30, 2010 in order to recognize the loss of $756 for the period in other comprehensive income ($252 for the three-month period). The decrease of $449 includes the impact of the recognition of the cumulative actuarial gains and losses through retained earnings at January 1, 2010 for an amount of $307. No actuarial gains or losses were recognized under Canadian GAAP using the corridor method.

e) IAS 19, *Employee Benefits*, indicates that benefits should be attributed from the date that first leads to benefits under the plan to the date that future service leads to no material amount of further benefits. In the Company's case, the attribution period for non-unionized employees would be the last 10 years of service for full eligibility for the benefits.

Under Canadian GAAP, the benefits are attributed from the date of hiring. The impact of the change as at September 30, 2010 is a reduction of $449 in the carrying value of the net liability for employee future benefits obligation. The liability has also been increased by $990, which is the impact of the recognition of the cumulative actuarial losses through retained earnings at January 1, 2010.

f) Under IFRS, for grants of share-based awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value.

Under Canadian GAAP, the fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. As at September 30, 2010, that change reduced contributed surplus and increased income by $75 ($25 for the three-month period). Contributed surplus has also been increased and retained earnings reduced by $335 as at January 1, 2010.

g) The Company has restricted stock units ("RSU") granted on December 18, 2009. Under Canadian GAAP, a liability is accrued based on the intrinsic value of the award with changes recognized in the consolidated statement of income each period.

Under IFRS, an entity must measure the liability incurred at fair value by applying an option pricing model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized as the awards vest. Starting January 1, 2010, the Company used the Black-Scholes valuation model to measure the liability related to its RSU. As at September 30, 2010, the long-term liability was decreased and income increased by $74 ($197 for the three-month period).

h) The Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the Transition Date. Accumulated other comprehensive loss has been increased and retained earnings reduced by $1,775.

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

i) Deferred income tax assets have been adjusted as follows:

	Note	As at September 30, 2010 $
Deferred income tax assets		
Employee future benefits –attribution period	e	146
Reclassification from short-term deferred income tax assets	a	3,914
		4,060

j) Deferred income tax liabilities have been adjusted as follows:

	Note	As at September 30, 2010 $
Deferred income tax liabilities		
Employee future benefits – actuarial losses	d,e	178
Reclassification from short-term deferred income tax liabilities	a	865
		1,043

k) Depreciation and amortization have been reclassified into cost of sales to comply with the presentation under IFRS.

l) An amount of $2,349 has been reclassified as at September 30, 2010 from accounts payable and accrued liabilities to current portion of provisions. This reclassification has been based on the nature of the liability.

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

m) The following is a summary of transition adjustments to retained earnings from Canadian GAAP to IFRS:

	Note	As at September 30, 2010 $
Retained earnings as reported under Canadian GAAP		148,181
IFRS adjustments increase (decrease):		
Employee future benefits – actuarial gains – pension plan	d	307
Employee future benefits – actuarial loss – post-retirement plan	e	(990)
Employee future benefits – attribution period – post-retirement plan	e	449
Employee stock options	f	(260)
Restricted stock units	g	74
Employee future benefits – actuarial loss – pension plan	d	(756)
Deferred income tax – actuarial loss – pension plan	j	189
Cumulative translation adjustment	h	(1,775)
Deferred income tax	i,j	(221)
		(2,983)
Retained earnings as reported under IFRS		145,198

n) The following is a summary of transition adjustments to accumulated other comprehensive loss from Canadian GAAP to IFRS:

	Note	As at September 30, 2010 $
Accumulated other comprehensive loss as reported under Canadian GAAP		(3,595)
IFRS adjustments increase		
Cumulative translation adjustment	h	1,775
Accumulated other comprehensive loss as reported under IFRS		(1,820)

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

4 Property, plant and equipment

	Land $	Roads $	Buildings $	Production and anti-pollution equipment $	Rolling stock $	Office equipment $	Total $
As at January 1, 2010							
Cost	6,498	2,617	22,497	83,167	6,467	1,984	123,230
Accumulated depreciation	-	(853)	(4,712)	(26,863)	(2,178)	(940)	(35,546)
Net book value	6,498	1,764	17,785	56,304	4,289	1,044	87,684
For the year ended December 31, 2010							
Opening net book value	6,498	1,764	17,785	56,304	4,289	1,044	87,684
Acquisition of subsidiary	1,582	-	4,013	13,439	3,612	88	22,734
Additions	-	340	879	3,594	40	681	5,534
Disposals	-	-	-	-	(264)	-	(264)
Depreciation	-	(318)	(654)	(2,489)	(980)	(410)	(4,851)
Transfer to assets held for sale	(314)	-	(1,412)	-	-	-	(1,726)
Impairments	-	-	-	(1,394)	(339)	-	(1,733)
Exchange differences	(152)	-	(565)	(1,653)	(234)	(11)	(2,615)
Closing net book value	7,614	1,786	20,046	67,801	6,124	1,392	104,763
As at December 31, 2010							
Cost	7,614	2,957	25,284	96,691	8,856	2,722	144,124
Accumulated depreciation and impairment	-	(1,171)	(5,238)	(28,890)	(2,732)	(1,330)	(39,361)
Net book value	7,614	1,786	20,046	67,801	6,124	1,392	104,763
For the nine-month period ended September 30, 2011							
Opening net book value	7,614	1,786	20,046	67,801	6,124	1,392	104,763
Additions	-	343	770	3,684	-	508	5,305
Disposals	-	-	-	-	(123)	-	(123)
Depreciation	-	-	(486)	(2,016)	(693)	(187)	(3,382)
Depreciation included in inventory	-	(333)	(15)	(5)	(3)	(35)	(391)
Reversal of impairment	-	-	-	280	-	-	280
Exchange differences	194	-	673	1,997	264	158	3,286
Closing net book value	7,808	1,796	20,988	71,741	5,569	1,836	109,738
As at September 30, 2011							
Cost	7,808	3,355	26,821	103,132	9,066	3,263	153,445
Accumulated depreciation and impairment	-	(1,559)	(5,833)	(31,391)	(3,497)	(1,427)	(43,707)
Net book value	7,808	1,796	20,988	71,741	5,569	1,836	109,738

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

5 Intangible assets and goodwill

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

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships. Intangible assets associated with long-term customer agreements are amortized over the terms of the agreements, which range between three and ten years. Intangible assets associated with ongoing business relationships are amortized over ten years.

The acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate of 10.2%. For cash flow purposes, this has been treated as a non-cash transaction. The intangible asset associated with the non-compete agreements is amortized on a straight-line basis over the terms of the agreements, which are six years.

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

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

The net book value of these intangible assets was as follows:

	Intangible assets						
	Customer relationships $	**Non-compete agreements $**	**Creosote registration $**	**Cutting rights $**	**Standing timber $**	**Total $**	**Goodwill $**
As at January 1, 2010							
Cost	4,603	5,980	-	6,505	4,717	21,805	5,494
Accumulated amortization	(1,259)	(1,744)	-	(355)	(1,666)	(5,024)	-
Net book value	3,344	4,236	-	6,150	3,051	16,781	5,494
For the year ended December 31, 2010							
Opening net book value	3,344	4,236	-	6,150	3,051	16,781	5,494
Additions	-	-	-	287	635	922	-
Addition of Tangent customer relationships	21,575	-	-	-	-	21,575	-
Addition of Tangent creosote registration	-	-	31,723	-	-	31,723	-
Addition of Tangent goodwill	-	-	-	-	-	-	70,239
Amortization	(3,586)	(986)	-	(123)	(807)	(5,502)	-
Exchange differences	(473)	(185)	(662)	-	-	(1,320)	(1,760)
Closing net book value	20,860	3,065	31,061	6,314	2,879	64,179	73,973
As at December 31, 2010							
Cost	25,482	5,659	31,061	6,792	5,352	74,346	73,973
Accumulated amortization	(4,622)	(2,594)	-	(478)	(2,473)	(10,167)	-
Net book value	20,860	3,065	31,061	6,314	2,879	64,179	73,973
For the nine-month period ended September 30, 2011							
Opening net book value	20,860	3,065	31,061	6,314	2,879	64,179	73,973
Additions	-	-	-	-	484	484	-
Amortization	(2,317)	(691)	-	-	-	(3,008)	-
Amortization included in inventory	-	-	-	(88)	(530)	(618)	-
Exchange differences	944	111	1,674	-	-	2,729	3,987
Closing net book value	19,487	2,485	32,735	6,226	2,833	63,766	77,960
As at September 30, 2011							
Cost	26,164	5,964	32,735	6,792	5,836	77,491	77,960
Accumulated amortization	(6,677)	(3,479)	-	(566)	(3,003)	(13,725)	-
Net book value	19,487	2,485	32,735	6,226	2,833	63,766	77,960

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

6 Other assets

	As at September 30, 2011 $	**As at December 31, 2010 $**
Advances against third party cutting rights	246	246
Notes receivable	317	290
Accrued benefit asset	-	1,119
Assets held for sale	3,257	3,318
Other	88	358
	3,908	5,331

7 Bank indebtedness

	As at September 30, 2011 $	**As at December 31, 2010 $**
Demand revolving facility (note 7(a))	-	30,293
Proportionate share of Kanaka demand operating loan (note 7(b))	2,300	1,630
	2,300	31,923

a) On July 28, 2011, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety, their existing revolving credit agreement. The existing demand revolving facility was replaced by a five-year term committed revolving facility and is presented under long-term debt (note 8(a)). Previously, a demand revolving facility was made available to the Company by a syndicate of bank lenders and consisted of Tranche A, a maximum demand operating loan of $50,000 made available to the Company, and Tranche B, a maximum demand operating loan of US$75,000 made available to SJ Holding. Borrowings were obtained by the Company under Tranche A in the form of Canadian prime rate loans, Canadian bankers' acceptances ("BAs"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit up to a maximum of $5,000 of the facility. Borrowings were obtained by SJ Holding under Tranche B in the form of U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans was 0.75% and with respect to BAs, LIBOR loans and fees for letters of credit, the interest rate margin was 2.0%. The borrowing base consisted of 75% in value of acceptable receivables and 50% in value of acceptable inventories up to a maximum of $80,000.

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

b) The Company includes in its consolidated financial statements its 50% proportionate share of Kanaka, which has a credit facility with a Canadian bank comprising a $7,000 demand operating loan. This loan bears interest at the bank's prime rate plus 0.75%, the bank's U.S. base rate plus 0.75%, LIBOR plus 2.25% or BA rate plus 2.25%. One half of the indebtedness, up to a maximum of $5,000, has been guaranteed by Stella-Jones Canada Inc. and the Company.

8 Long-term debt

	As at September 30, 2011 $	**As at December 31, 2010 $**
Committed revolving facility (note 8(a))	122,126	-
Term facilities (note 8(b))	-	55,573
Term loan with a U.S. bank (note 8(c))	-	7,381
Unsecured, subordinated and non-convertible debenture (note 8(d))	26,205	24,865
Unsecured and non-convertible debenture (note 8(e))	10,482	24,865
Promissory note (note 8(f))	-	746
Promissory note (note 8(g))	452	557
Subordinated note (note 8(h))	6,040	6,112
Bond (note 8(i))	4,480	4,399
Promissory note (note 8(j))	250	289
Promissory note (note 8(k))	284	296
Mortgage loans (note 8(l))	689	1,717
	171,008	126,800
Deferred financing costs	(379)	(972)
	170,629	125,828
Less: Current portion of long-term debt	1,011	10,780
Less: Current portion of deferred financing costs	(69)	(321)
	169,687	115,369

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

a) On July 28, 2011, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement. The existing demand revolving facility made available by a syndicate of bank lenders under the March 24, 2010 amendment was replaced by a committed revolving facility in the amount of $170,000, to be used to repay and refinance existing indebtedness and for working capital and general corporate purposes. The $170,000 committed revolving facility has been made available for a five-year term by a syndicate of lenders to the Company and SJ Holding (previously Tranche A, a maximum demand operating loan of $50,000 made available to the Company, and Tranche B, a maximum demand operating loan of US$75,000 made available to SJ Holding). Borrowings may be obtained in the form of prime rate loans, bankers' acceptances in Canadian or U.S. dollars, U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.25% to 1.50% based on a pricing grid (previously 0.75%). The interest rate margin with respect to bankers' acceptances, LIBOR loans and fees for letters of credit will range from 1.25% to 2.50% based on a pricing grid (previously 2.0%). As at September 30, 2011, $55,764 was designated as a hedge of net investment in foreign operations.

   On August 11, 2011, the Company entered into interest rate swap agreements fixing the rates as described in note 10, Financial instruments.

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

b) On March 24, 2010, the Company entered into an agreement with a syndicate of lenders amending and restating, without novation, existing term credit agreements and made available a new five-year term facility. Under this new agreement, four facilities (A, B, C and D) were made available. Credit facility A was a US$40,000 syndicated bank term loan used for the purpose of acquiring Tangent. The term loan bore interest at the bank's U.S. base rate plus 1.5% or LIBOR plus 3.0%, at the Company's option. Repayment was in 19 consecutive quarterly principal instalments of US$1,425 starting July 1, 2010, and a balloon repayment of US$12,925 constituting the twentieth and final payment of the residual capital balance on April 1, 2015. This term loan was designated as a hedge of net investment in foreign operations.

   Credit facility B was a two-year revolving term facility in the aggregate principal amount $27,500 maturing February 14, 2012, under which borrowings could be made in either Canadian or U.S. dollars. Upon the Company's request to the lender, this credit facility could have been extended for additional one-year terms or converted into a five-year term loan. For loans in Canadian dollars, the credit facility bore interest at the bank's prime rate plus 1.50% or BA rate plus 3.00%, and for loans in U.S. dollars, the credit facility bore interest at the bank's U.S. base rate plus 1.50% or LIBOR plus 3.00%. A US$10,000 loan under this facility was designated as a hedge of net investment in foreign operations. The Company entered into an interest rate swap fixing the interest rate on this US$10,000 term loan at a base rate of 1.53%.

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

Credit facility C was a non-revolving term facility in the aggregate principal amount of $2,143 comprising Tranche 1 in the amount of $1,157 maturing February 1, 2011 and Tranche 2 in the amount of $986 maturing December 28, 2010. Tranches 1 and 2 were repaid in their entirety with the proceeds of the committed revolving facilities and without penalties upon maturity.

Credit facility D was a non-revolving term facility in the aggregate principal amount of $300 which matured and was repaid in its entirety with the proceeds of the committed revolving facilities and without penalties upon maturity on September 30, 2010.

On August 11, 2011, the remaining balances on credit facilities A and B were repaid in their entirety.

c) SJ Holding and SJ Corp (collectively, "the U.S. subsidiaries") entered into a US$10,000 term loan agreement with a U.S. bank. The term loan was repayable in 84 consecutive average monthly instalments of US$119 and maturing July 1, 2015. The loan was subject to two interest rate swaps of US$5,000 each, fixing the rates at 5.80% and 5.54% over the term of the loan. On August 11, 2011, the U.S. subsidiaries repaid the term loan in its entirety and without penalties.

d) On April 1, 2011, the Company entered into an agreement to amend and restate a US$25,000 unsecured, subordinated and non-convertible debenture. The amended debenture bears interest at 7.27% (previously 9.75%) and is repayable in a single instalment of US$25,000 on April 1, 2016 (previously, a single instalment of US$25,000 on April 1, 2015). No advance repayment will be permitted under the amended agreement. The amended debenture was designated as a hedge of net investment in foreign operations. The amendment was accounted for as a debt refinancing and without penalties.

e) On April 1, 2011, the Company entered into an agreement to amend and restate a US$25,000 unsecured and non-convertible debenture and repaid US$15,000 of the capital amount. The amended debenture bears interest at 7.27% (previously 7.89%) and is repayable in a single instalment of US$10,000 on April 1, 2016 (previously, five annual principal repayments of US$2,500 starting on April 1, 2013 and a final payment of US$12,500 on April 1, 2018). No advance repayment will be permitted under the amended debenture. The amended debenture was designated as a hedge of net investment in foreign operations. The amendment was accounted for as a debt refinancing and without penalties.

f) SJ Corp borrowed US$750 from the Company's majority shareholder, Stella Jones International S.A., by way of a subordinated promissory note. The note was for a term of six years, bearing interest at LIBOR plus 4.5% and was repayable in full on the sixth annual anniversary of the date of disbursement or August 3, 2011. The note was unsecured and subordinated in right of payment to the prior payment in full of the U.S. subsidiaries' loans to all of its secured lenders. On August 3, 2011, the Company repaid the subordinated promissory note in its entirety to Stella Jones International S.A.

g) As part of a previous acquisition, SJ Corp assumed an unsecured promissory note payable. The imputed interest rate of the note is 8.0%. The note is payable in quarterly instalments of US$53, including interest, and matures on October 1, 2013.

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

h) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter and Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in five annual principal repayments of US$500, with a final payment of US$5,500 on the sixth anniversary date. The note was initially recorded at a fair value of $6,981 using an interest rate of 8.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

i) As part of a previous acquisition, the U.S. subsidiaries assumed a bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US$200 starting July 2008 through July 2011, US$300 starting August 2011 through July 2019 and US$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all assets of the Fulton facility, which have a net book value of US$7,893 as at December 31, 2010. The bond was initially recorded in the consolidated financial statements at a fair value of US$4,835 using an interest rate of 6.50%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term.

   In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries entered into a US$5,200 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.0% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

j) As part of a previous acquisition, the U.S. subsidiaries assumed a promissory note payable to Hickman-Fulton Rural Electric Cooperative Corporation, bearing interest at a fixed rate of 3.0% and repayable in 84 equal monthly instalments of principal and interest of approximately US$7 starting January 15, 2008. The note is secured by a US$500 irrevocable letter of credit issued by a regional financial institution at an annual fee of 1.0% and expiring December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US$462 using an interest rate of 5.55%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

k) As part of a previous acquisition, the U.S. subsidiaries assumed a promissory note payable to Hickman-Fulton Rural Electric Cooperative Corporation, bearing no interest and repayable in 108 equal monthly instalments of US$4 starting January 1, 2009. The note is secured by a US$450 irrevocable letter of credit issued by a regional financial institution, at an annual fee of 1.0% and expiring December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US$354 using an interest rate of 6.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

l) On August 11, 2011, the Company repaid a mortgage loan having a balance of US$915. The remaining mortgage loan bears interest at a rate of 2.5% as at September 30, 2011 (December 31, 2010 – 3.8%), and certain specific assets with a net book value of $917 (December 31, 2010 – $1,891) have been pledged as collateral. The mortgage loan is denominated in U.S. dollars amounting to US$657 (December 31, 2010 – US$1,726). The remaining mortgage loan is repayable in monthly instalments of $9 (December 31, 2010 – $21), including interest, and matures in December 2016.

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

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

Years	Principal $
September 2012	15,533
September 2013	6,516
September 2014	603
September 2015	491
September 2016	144,997
Thereafter	4,138
	172,278
Fair value adjustment	(1,270)
	171,008

9 Provisions and other long-term liabilities

	Provisions				Other long-term liabilities			
	Reforestation $	Site remediation $	Others $	Total $	RSU $	Non-competes payable $	Total $	Grand total $
Balance as at January 1, 2010	1,159	88	-	1,247	15	4,602	4,617	5,864
Period provisions charged to income:								
Addition	209	1,311	2,375	3,895	408	-	408	4,303
Reduction	(283)	(290)	-	(573)	-	(1,300)	(1,300)	(1,873)
Interest accretion	-	-	-	-	-	389	389	389
Exchange differences	-	-	(104)	(104)	-	(206)	(206)	(310)
Balance as at December 31, 2010	1,085	1,109	2,271	4,465	423	3,485	3,908	8,373
Period provisions charged to income:								
Addition	349	1,972	2,390	4,711	573	-	573	5,284
Reduction	(283)	(2,658)	-	(2,941)	-	(905)	(905)	(3,846)
Interest accretion	-	-	-	-	-	215	215	215
Exchange differences	-	-	325	325	-	128	128	453
Balance as at September 30, 2011	1,151	423	4,986	6,560	996	2,923	3,919	10,479

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

Analysis of provisions and other long-term liabilities

	As at September 30, 2011 $	**As at December 31, 2010 $**
Current		
Provisions	6,041	3,746
Other long-term liabilities	1,086	959
Total current	7,127	4,705
Non-current		
Provisions	519	719
Other long-term liabilities	2,833	2,949
Total non-current	3,352	3,668
	10,479	8,373

Provisions

Reforestation

Stella-Jones Canada Inc. has asset retirement obligations relating to reforestation and site remediation that have been estimated using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation of 6.6% (2010 – 6.6%) to approximate the present value of future expenditures.

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

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of former treating sites.

As part of a previous acquisition, the Company acquired a lease on April 1, 2010 for land on which the Terre Haute, Indiana operations are located. Under the lease, the Company is required to return the land to its original condition. In 2010, the Company decided to close the Terre Haute facility. In order to restore the site to its original condition, remediation work was required, for which a provision of $1,311 was recorded in 2010.

Others

Other provisions comprise $3,624 in legal litigation provisions, $1,074 in a provision set up to acquire the land of the Memphis facility, which is presently being leased, and $287 in other provisions.

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

Other long-term liabilities

Restricted stock units (“RSUs”)

On December 18, 2009, certain key executives of the Company were granted RSUs as part of a long-term incentive plan. This plan had been approved by the Company’s Board of Directors on December 10, 2009. The number of RSUs initially granted was based on a percentage of the executive’s salary, divided by the average trading price of the Company’s common shares on the TSX for the five days immediately preceding the grant date. In the case of the President, the number of RSUs initially granted was a fixed number recommended by the Remuneration Committee. Additional RSUs may be issued annually on the anniversary date of the initial grant conditional upon the Company attaining a minimum 12.5% return on capital employed.

As at September 30, 2011, the provision for previously issued RSUs was valued at $996 ($423 as at December 31, 2010). The number of additional RSUs to be issued on the anniversary dates will be calculated in the same manner as the initial grant. No RSUs were granted in 2010.

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

Non-competes payable

As part of a previous acquisition, the Company entered into non-compete agreements for which an intangible asset was recorded (note 5). The payable portion of the non-compete agreements was fair valued at a rate of 10.17%.

10 Financial instruments

Interest rate risk

As at September 30, 2011, the Company has limited exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 76% (December 31, 2010 – 65%) of the Company’s long-term debt is at fixed rates.

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

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

The committed revolving credit facility defined in note 8(a) uses borrowings from a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10% increase in these rates on the average annual balance of the bank indebtedness would have increased interest expense by $86 for the period ended September 30, 2011 (December 31, 2010 – $39).

The following tables summarize the Company's interest rate swap agreements:

				September 30, 2011
Notional amount	**Related debt instrument**	**Fixed rate %**	**Maturity date**	**Notional equivalent CA$**
CA$10,000	Committed revolving facility	1.09*	August 2014	10,000
CA$10,000	Committed revolving facility	1.57*	August 2016	10,000
US$15,000	Committed revolving facility	1.45*	August 2016	15,723
US$15,000	Committed revolving facility	0.75*	August 2014	15,723
US$15,000	Committed revolving facility	2.57	June 2012	15,723
US$5,000	Committed revolving facility	5.80	July 2015	5,241
US$5,000	Committed revolving facility	5.54	July 2015	5,241
US$1,000	Committed revolving facility	4.69	December 2015	1,048
US$5,600	Bond	2.99	December 2015	5,870

				December 31, 2010
Notional amount	**Related debt instrument**	**Fixed rate %**	**Maturity date**	**Notional equivalent CA$**
CA$2,700	Term facility	5.81	February 2011	2,700
US$10,000	Term facility	1.53*	April 2011	9,946
US$15,000	Bank indebtedness	2.57*	June 2012	14,919
US$5,000	Term loan with a U.S. bank	5.80	July 2015	4,973
US$5,000	Term loan with a U.S. bank	5.54	July 2015	4,973
US$1,000	Mortgage loan	4.69	December 2015	995
US$5,600	Bond	2.99	December 2015	5,570

*Plus applicable spread.

The Company's interest rate swaps are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at September 30, 2011, all cash flow hedges were effective.

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

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at September 30, 2011 from financial institutions. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the interest rate swap agreements based on cash settlement requirements as at September 30, 2011 is a loss of $1,618 (December 31, 2010 – loss of $1,379), of which $261 and $1,357 respectively are recorded in accounts payable and accrued liabilities and long-term liabilities under derivative financial instruments. A 10% decrease in interest rates as at September 30, 2011 would have increased the loss recognized in other comprehensive income (loss) by approximately $162 (December 31, 2010 – $138). For a 10% increase in the interest rates, there would be an equal and opposite impact on the loss.

11 Capital stock

	As at September 30, 2011	**As at September 30, 2010**
Number of shares outstanding – Beginning of period	15,923	12,684
Stock option plan	22	8
Exchange of subscription receipts for common shares	-	3,202
Employee share purchase plans	8	9
Number of shares outstanding – End of period	15,953	15,903

a) Capital stock consists of the following:

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

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

b) Earnings per share

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

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income applicable to common shares	$16,569	$12,440	$42,340	$23,791
Weighted average number of common shares outstanding*	15,950	15,901	15,943	14,840
Effect of dilutive stock options*	60	58	60	58
Weighted average number of diluted common shares outstanding*	16,010	15,959	16,003	14,898
Basic earnings per common share**	$1.04	$0.78	$2.66	$1.60
Diluted earnings per common share**	$1.03	$0.78	$2.65	$1.60

* Number of shares is presented in thousands.

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

12 Subsequent event

On October 11, 2011, the Company announced that it had signed a non-binding letter of intent to acquire Thompson Industries, Inc. (“Thompson”), a provider of treated wood products to the railroad industry.

The letter of intent contemplates a total purchase price of approximately US$41,000. The transaction, if finalized, is expected to close by December 2011 and is subject to the customary closing conditions, including entry into a definitive purchase agreement and satisfactory due diligence. The Company plans to finance the acquisition through existing credit facilities.

Founded in 1981, Thompson produces 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 are expected to reach approximately US$49,000.

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

13 Seasonality

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

14 Segment information

The Company operates within one business segment: the production and sale of pressure treated wood and related services.