



Source: Stella-Jones Inc.

Contacts: **Éric Vachon, CPA, CA**
Senior Vice-President and Chief Financial Officer
Tel.: (514) 940-3903
evachon@stella-jones.com

Martin Goulet, CFA
MaisonBrison Communications
Tel.: (514) 731-0000
martin@maisonbrison.com

STELLA-JONES REPORTS 2015 SECOND QUARTER RESULTS

- Sales of \$428.1 million, up 24.2% from \$344.8 million last year
- Operating income increased 46.9% to \$61.1 million, or 14.3% of sales, up from 12.1% of sales, a year ago
- Net income up 35.1% to \$38.9 million, compared to \$28.8 million last year
- Diluted EPS of \$0.56, up from \$0.42 in the prior year

Montreal, Quebec – August 7, 2015 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its second quarter ended June 30, 2015.

“Stella-Jones produced solid operating results in the second quarter driven by healthy demand in its core markets and a wider reach in the residential lumber category. Margins benefited from further selling price adjustments in response to evolving market conditions in the untreated railway tie market and from greater network efficiency. Finally, our significant operating cash flow was mainly invested in working capital to support expected growth,” said Brian McManus, President and Chief Executive Officer.

Financial highlights (in millions of Canadian dollars, except per share data)	Quarters ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Sales	428.1	344.8	768.8	602.3
Operating income	61.1	41.6	108.8	76.4
Net income for the period	38.9	28.8	69.0	51.3
Per share - basic (\$)	0.56	0.42	1.00	0.75
Per share - diluted (\$)	0.56	0.42	1.00	0.74
Weighted average shares outstanding (basic, in ‘000s)	68,987	68,773	68,970	68,755

SECOND QUARTER RESULTS

Sales reached \$428.1 million, up 24.2% from \$344.8 million a year ago. The wood treating facilities acquired from Boatright Railroad Products, Inc. (“Boatright”) on May 22, 2014 generated additional sales of \$27.3 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$38.1 million when compared with last year. Excluding these factors, sales increased approximately \$17.9 million, or 5.2%.

Railway tie sales amounted to \$194.8 million, up 37.7% from \$141.5 million last year. Excluding sales from Boatright and the foreign currency conversion effect, railway tie sales rose approximately 6.8%, primarily as a result of adjusted selling prices.

Sales of utility poles reached \$136.7 million, an increase of 12.4% compared with \$121.6 million last year. Factoring out the foreign currency conversion effect, sales increased 2.2%, as a steady rise in sales of distribution poles stemming from regular maintenance projects was partially offset by lower sales of

transmission poles due to a decrease in demand for special projects as a result of the weakness in the oil and gas as well as mining industries.

Sales of residential lumber totalled \$60.9 million, up from \$49.4 million last year, reflecting higher sales in the United States due to a healthy economy as well as in Western Canada, mostly as a result of the Company's increasing reach into British Columbia. Industrial product sales were \$25.4 million, compared with \$25.1 million a year ago, mainly due to the additional contribution of the Boatright assets and the foreign currency conversion effect. Finally, non-pole-quality log sales were \$10.4 million, versus \$7.2 million last year, due to the timing of timber harvesting.

Gross profit reached \$84.1 million, or 19.7% of sales, up from \$60.1 million, or 17.4% of sales, last year. The increase in absolute dollars essentially stems from higher business activity, the addition of the Boatright assets and the effect of currency translation. As a percentage of sales, gross profit increased mainly as a result of adjusted pricing for railway ties and greater efficiencies throughout the Company's network. As a result of higher gross profit, operating income increased 46.9% to \$61.1 million, or 14.3% of sales, versus \$41.6 million, or 12.1% of sales, last year.

Net income for the second quarter of 2015 increased 35.1% to \$38.9 million or \$0.56 per share, fully diluted, compared with \$28.8 million or \$0.42 per share, fully diluted, in the second quarter of 2014.

SIX-MONTH RESULTS

For the six-month period ended June 30, 2015, sales amounted to \$768.8 million, versus \$602.3 million for the corresponding period a year earlier. The Boatright facilities contributed additional sales of approximately \$48.4 million, while the conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar had a positive impact of \$67.5 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately \$50.6 million, or 8.4%.

Operating income reached \$108.8 million, or 14.2% of sales, up from \$76.4 million, or 12.7% of sales, a year ago. Net income totalled \$69.0 million, or \$1.00 per share, fully diluted, compared with \$51.3 million, or \$0.74 per share, fully diluted, last year.

FINANCIAL POSITION

As at June 30, 2015, the Company's long-term debt, including the current portion, stood at \$538.1 million compared with \$517.2 million three months earlier. The increase essentially reflects higher working capital requirements and the effect of local currency translation on U.S. dollar denominated long-term debt. As at June 30, 2015 Stella-Jones' total debt to total capitalization ratio was 0.41:1, versus 0.40:1 as at March 31, 2015.

Working capital requirements included the normal seasonal increase in accounts receivable as well as higher inventory in anticipation of higher sales going forward and the gradual rebuilding of inventory due to untreated railway tie availability returning to customary levels.

QUARTERLY DIVIDEND OF \$0.08 PER SHARE

On August 7, 2015, the Board of Directors declared a quarterly dividend of \$0.08 per common share, payable on September 25, 2015 to shareholders of record at the close of business on September 4, 2015.

OUTLOOK

"Railway tie demand is expected to remain healthy for the remainder of 2015. With untreated tie availability returning to more appropriate levels, our strong procurement network should continue to provide consistent supply to support inventory rebuilding. In the utility pole market, regular maintenance demand should continue to grow at a steady pace, but lower resource prices have resulted in decreased demand for special projects. Over the mid-term, utility pole demand should improve, as an increasing number of poles are approaching the end of their service life and will need to be replaced. Stella-Jones remains focused on creating shareholder value by

optimizing network efficiency and capturing accretive opportunities to further expand its reach in the wood treating industry,” concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on August 7, 2015, at 3:00 PM Eastern Time. Interested parties can join the call by dialing 647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-800-585-8367 and entering the passcode 80946196. This tape recording will be available on Friday, August 7, 2015 as of 6:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, August 14, 2015.

NON-IFRS FINANCIAL MEASURES

Operating income and cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company’s financial condition and results of operations as they provide additional measures of its performance.

ABOUT STELLA-JONES

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

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

-30-

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



NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the second quarter ended June 30, 2015 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
August 7, 2015

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

(expressed in thousands of Canadian dollars)

	Note	As at June 30, 2015 \$	As at December 31, 2014 \$
Assets			
Current assets			
Accounts receivable		213,773	127,545
Inventories		620,060	547,215
Prepaid expenses		16,176	20,750
Income taxes receivable		4,825	1,986
		854,834	697,496
Non-current assets			
Property, plant and equipment		312,019	281,607
Intangible assets		110,916	110,325
Goodwill		212,937	195,015
Derivative financial instruments	6	601	1,423
Other assets		1,567	1,630
		1,492,874	1,287,496
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		77,288	69,719
Current portion of long-term debt		56,028	5,754
Current portion of provisions and other long-term liabilities		11,781	6,939
		145,097	82,412
Non-current liabilities			
Long-term debt		482,038	438,803
Deferred income taxes		59,749	54,173
Provisions and other long-term liabilities		10,064	14,027
Employee future benefits		4,585	5,104
Derivative financial instruments	6	1,067	706
		702,600	595,225
Shareholders' equity			
Capital stock	4	214,895	213,858
Contributed surplus		819	954
Retained earnings		486,733	427,834
Accumulated other comprehensive gain		87,827	49,625
		790,274	692,271
		1,492,874	1,287,496

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive gain</u>							Total	Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total		
	\$	\$	\$	\$	\$	\$	\$	\$	
Balance – January 1, 2015	213,858	954	427,834	89,682	(40,607)	550	49,625	692,271	
Comprehensive income (loss)									
Net income for the period	-	-	69,044	-	-	-	-	69,044	
Other comprehensive income (loss)	-	-	892	62,890	(23,808)	(880)	38,202	39,094	
Comprehensive income (loss) for the period	-	-	69,936	62,890	(23,808)	(880)	38,202	108,138	
Dividends on common shares	-	-	(11,037)	-	-	-	-	(11,037)	
Exercise of stock options	561	(165)	-	-	-	-	-	396	
Employee share purchase plans	476	-	-	-	-	-	-	476	
Stock-based compensation	-	30	-	-	-	-	-	30	
	1,037	(135)	(11,037)	-	-	-	-	(10,135)	
Balance – June 30, 2015	214,895	819	486,733	152,572	(64,415)	(330)	87,827	790,274	

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity...continued

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive gain</u>							Total	Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total		
	\$	\$	\$	\$	\$	\$	\$	\$	
Balance – January 1, 2014	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183	
Comprehensive income (loss)									
Net income for the period	-	-	51,339	-	-	-	-	51,339	
Other comprehensive income (loss)	-	-	(750)	(6)	(749)	(575)	(1,330)	(2,080)	
Comprehensive income (loss) for the period	-	-	50,589	(6)	(749)	(575)	(1,330)	49,259	
Dividends on common shares	-	-	(9,628)	-	-	-	-	(9,628)	
Exercise of stock options	869	(248)	-	-	-	-	-	621	
Employee share purchase plans	452	-	-	-	-	-	-	452	
Stock-based compensation	-	55	-	-	-	-	-	55	
	1,321	(193)	(9,628)	-	-	-	-	(8,500)	
Balance – June 30, 2014	212,483	1,160	386,493	29,208	(16,593)	191	12,806	612,942	

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

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

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

	For the		For the		
	three-month periods ended		six-month periods ended		
	June 30,		June 30,		
Note	2015	2014	2015	2014	
	\$	\$	\$	\$	
Sales	428,079	344,796	768,780	602,294	
Expenses					
Cost of sales	343,935	284,729	618,210	491,960	
Selling and administrative	20,999	17,800	40,272	33,244	
Other losses, net	1,989	650	1,493	738	
	366,923	303,179	659,975	525,942	
Operating income	61,156	41,617	108,805	76,352	
Financial expenses	4,062	3,347	8,107	5,916	
Income before income taxes	57,094	38,270	100,698	70,436	
Provision for (recovery of) income taxes					
Current	16,731	11,687	27,040	19,762	
Deferred	1,423	(2,238)	4,614	(665)	
	18,154	9,449	31,654	19,097	
Net income for the period	38,940	28,821	69,044	51,339	
Basic earnings per common share	4	0.56	0.42	1.00	0.75
Diluted earnings per common share	4	0.56	0.42	1.00	0.74

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income

(Unaudited)

For the three-month periods ended March 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	For the		For the	
	three-month periods ended		six-month periods ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Net income for the period	38,940	28,821	69,044	51,339
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	(12,674)	(26,692)	62,890	(6)
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	4,542	11,562	(28,371)	(472)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations and translation of foreign operations	181	305	4,563	(277)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	210	(834)	(1,182)	(777)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(57)	229	302	202
Items that will not subsequently be reclassified to net income				
Change in actuarial losses on post-retirement benefit obligations	1,349	(1,144)	875	(1,144)
Income taxes on change in actuarial losses on post-retirement benefit obligations	(159)	394	17	394
	(6,608)	(16,180)	39,094	(2,080)
Comprehensive income	32,332	12,641	108,138	49,259

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

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the six-month periods ended June 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Note	2015 \$	2014 \$
Cash flows provided by (used in)			
Operating activities			
Net income for the period		69,044	51,339
Adjustments for			
Depreciation of property, plant and equipment		5,878	4,629
Amortization of intangible assets		5,308	4,309
Loss on disposal of assets		559	1,634
Employee future benefits		145	(222)
Stock-based compensation		30	55
Financial expenses		8,107	5,916
Current income taxes expense		27,040	19,762
Deferred income taxes		4,614	(665)
Restricted stock units expense		4,347	2,122
Other		193	(36)
		<u>125,265</u>	<u>88,843</u>
Changes in non-cash working capital components and others			
Accounts receivable		(77,127)	(52,569)
Inventories		(41,270)	(5,428)
Prepaid expenses		5,928	58
Income taxes receivable		4	(176)
Accounts payable and accrued liabilities		2,574	4,264
Asset retirement obligations		(356)	(99)
Provisions and other long-term liabilities		(3,718)	273
		<u>(113,965)</u>	<u>(53,677)</u>
Interest paid		(6,499)	(5,878)
Income taxes paid		(29,568)	(25,118)
		<u>(24,767)</u>	<u>4,170</u>
Financing activities			
Increase in deferred financing costs		(204)	-
Increase in long-term debt		62,180	72,283
Repayment of long-term debt		(4,788)	(1,275)
Non-competes payable		(272)	(642)
Dividend on common shares		(11,037)	(9,628)
Proceeds from issuance of common shares		872	1,073
		<u>46,751</u>	<u>61,811</u>
Investing activities			
Decrease (increase) in other assets		275	(479)
Increase in restricted cash		-	(21,830)
Business acquisition	3	(4,391)	(39,221)
Increase in intangible assets		(131)	(224)
Purchase of property, plant and equipment		(20,058)	(7,781)
Proceeds from disposal of assets		2,321	363
		<u>(21,984)</u>	<u>(69,172)</u>
Net change in cash and cash equivalents during the period		<u>-</u>	<u>(3,191)</u>
Cash and cash equivalents – Beginning of period		<u>-</u>	<u>3,191</u>
Cash and cash equivalents – End of period		<u>-</u>	<u>-</u>

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

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

1 Description of the business

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

2 Significant accounting policies

Basis of presentation

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

These condensed interim consolidated financial statements were approved by the Board of Directors on August 7, 2015.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2014.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

Principles of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company owns 100% of the equity interest of its subsidiaries.

The significant subsidiaries are as follows:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc.	Stella-Jones Corporation	United States
Electric Mills Wood Preserving LLC	McFarland Cascade Holdings, Inc.	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Canadalux S.à.r.l.	Stella-Jones Inc.	Luxembourg
Stella-Jones CDN Finance Inc.	Stella-Jones Inc.	Canada
Stella-Jones U.S. Finance II Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones U.S. II LLC	Stella-Jones U.S. Holding Corporation	United States

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

3 Business acquisition

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

Total cash outlay associated with the acquisition was approximately \$4,391 (US\$3,516), excluding acquisition costs of approximately \$226, recognized in the interim consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management’s best estimates and information known at the time of preparing these interim consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with the respect to intangible assets and goodwill.

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

Assets acquired	\$
Accounts receivable	701
Inventories	1,486
Property, plant and equipment	727
Customer relationships	849
Goodwill	<u>3,069</u>
	6,832
Liabilities assumed	
Accounts payable and accrued liabilities	<u>294</u>
Total net assets acquired and liabilities assumed	<u>6,538</u>
Consideration transferred	
Cash	4,391
Unsecured promissory note - 12 months	1,342
Unsecured promissory note - 24 months	<u>805</u>
Consideration transferred	<u>6,538</u>

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is 3 years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the enhanced procurement network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the McCormick acquisition, goodwill is allocated to plants specialized in the treatment of utility poles.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of \$1,429 (US\$1,144) bears interest at 0.48%, is repayable in a single instalment on April 8, 2016 and was fair valued at \$1,342, using an interest rate of 7.0%. The second unsecured promissory note of \$928 (US\$743) bears interest at 0.48%, is repayable in a single instalment on April 8, 2017 and was fair valued at \$805, using an interest rate of 7.0%.

The newly acquired pole peeling assets have been integrated directly into the company's existing operations and are now used for the company's internal requirements. Accordingly, it is impractical to provide the

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

required pro forma disclosures on post-acquisition sales and income before taxes for these assets as the company does not maintain such detailed financial information.

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

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

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

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

Assets acquired	\$
Inventories	9,718
Property, plant and equipment	22,527
Customer relationships	17,486
Customer backlog	1,463
Goodwill	23,316
Deferred income tax assets	935
	<u>75,445</u>
Liabilities assumed	
Accounts payable and accrued liabilities	160
Site remediation provision	3,029
	<u>3,189</u>
Total net assets acquired and liabilities assumed	<u>72,256</u>
Consideration transferred	
Cash	58,830
Unsecured promissory note	13,426
	<u>72,256</u>
Consideration transferred	<u>72,256</u>

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2015 and 2014

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

year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of \$15,466 (US\$14,169), bearing interest at 1.93% and repayable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at \$13,426 (US\$12,301), using an interest rate of 7.0%.

4 Capital stock

The following table provides the number of common shares outstanding for the periods ending June 30:

	2015	2014
Number of common shares outstanding – Beginning of period*	68,949	68,697
Stock option plan*	54	104
Employee share purchase plans*	12	15
Number of common shares outstanding – End of period*	<u>69,015</u>	<u>68,816</u>

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
June 30, 2015 and 2014

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

b) Earnings per share

The following table provides the reconciliation, for the three-month and six-month periods ended June 30, between basic earnings per common share and diluted earnings per common share:

	For the		For the	
	three-month periods ended		six-month periods ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income applicable to common shares	<u>\$38,940</u>	<u>\$28,821</u>	<u>\$69,044</u>	<u>\$51,339</u>
Weighted average number of common shares outstanding*	68,987	68,773	68,970	68,755
Effect of dilutive stock options*	<u>235</u>	<u>331</u>	<u>233</u>	<u>327</u>
Weighted average number of diluted common shares outstanding*	<u>69,222</u>	<u>69,104</u>	<u>69,203</u>	<u>69,082</u>
Basic earnings per common share **	<u>\$0.56</u>	<u>\$0.42</u>	<u>\$1.00</u>	<u>\$0.75</u>
Diluted earnings per common share **	<u>\$0.56</u>	<u>\$0.42</u>	<u>\$1.00</u>	<u>\$0.74</u>

* Number of shares is presented in thousands.

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

5 Commitments

On June 19, 2015, the Company signed a definitive agreement to purchase the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. The signature of a non-binding letter of intent in respect of the proposed acquisition was reported by the Company on April 29, 2015.

Through its wholly-owned subsidiaries, Ram Forest Products Inc. and Trent Timber Treating Ltd., Ram Forest Group manufactures and sells pressure treated wood products and accessories to the retail building materials industry. Ramfor Lumber is a lumber purchasing entity serving Ram Forest Products and Trent Timber Treating.

The definitive share purchase agreement provides for a purchase price of \$58,000, which includes \$15,000 of working capital and is subject to adjustments. The transaction is expected to close in October 2015 and is subject to customary closing conditions, including regulatory clearance. The proposed timetable for the transaction has been designed to minimize disruption of Ram Forest Group's operations and ensure a seamless transition for its customers, suppliers and employees. The Company plans to finance the transaction through its existing committed revolving credit facility.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2015 and 2014

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

6 Fair value measurement and financial instruments

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

	<u>As at June 30, 2015</u>	<u>As at December 31, 2014</u>
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	\$	\$
Recurring fair value measurements		
Assets		
Derivatives - Interest rate swap	601	1,423
	<u>601</u>	<u>1,423</u>
Liabilities		
Derivatives - Interest rate swap	1,067	706
	<u>1,067</u>	<u>706</u>

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value of \$538,066 (December 31, 2014 – \$444,557) and a fair value of \$537,612 (December 31, 2014 – \$444,575).

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2015 and 2014

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

7 Seasonality

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

8 Segment information

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

9 Subsequent events

On August 7, 2015, the Board of Directors declared a quarterly dividend of \$0.08 per common share payable on September 25, 2015 to shareholders of record at the close of business on September 4, 2015.