Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS SOLID SECOND QUARTER RESULTS

- **Sales of $273.2 million, up 34.0% from $203.9 million last year**
- **Gross profit of $57.8 million, versus $42.3 million in Q2 2012**
- **26.8% increase in net income to $26.4 million, compared with $20.8 million last year**
- **Diluted EPS of $1.53, up from $1.30 a year ago**

MONTREAL, QUEBEC – August 9, 2013 - Stella-Jones Inc. (TSX: SJ) today announced financial results for its second quarter ended June 30, 2013.

"Demand for Stella-Jones' core products remained healthy during the second quarter, as we continue to leverage our enhanced presence in the treated wood products market. Gross profit as a percentage of sales increased from the same period a year ago as a result of our focus on our main markets and on improving operating efficiencies, including on-going progress in the integration of our latest acquisition, McFarland Cascade Holdings, Inc. ("McFarland")," said Brian McManus, President and Chief Executive Officer.

Financial highlights	**Quarters ended June 30,**		**Six months ended June 30,**	
(in thousands of Canadian dollars, except per share data)	**2013**	**2012**	**2013**	**2012**
Sales	**273,161**	203,919	**490,200**	362,714
Operating income	**40,959**	32,580	**70,630**	56,670
Net income for the period	**26,426**	20,835	**45,183**	35,841
Per share - basic ($)	**1.54**	1.30	**2.63**	2.24
Per share - diluted ($)	**1.53**	1.30	**2.62**	2.24
Cash flow from operations [1]	**48,171**	35,963	**82,510**	63,143
Weighted average shares outstanding (basic, in '000s)	**17,170**	15,976	**17,169**	15,968

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

SECOND QUARTER RESULTS

Sales for the quarter ended June 30, 2013 totalled $273.2 million, up 34.0% over last year's sales of $203.9 million. The operating facilities acquired from McFarland on November 30, 2012 contributed sales of approximately $75.0 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $1.8 million on the value of U.S. dollar denominated sales when compared with the previous year's second quarter. Excluding these factors, sales decreased approximately $7.5 million, as a result of more traditional seasonal demand patterns in 2013 versus the prior year, lower sales of industrial products, and reduced railcar availability in Western Canada due to flooding in southern Alberta.

Railway tie sales amounted to $119.8 million, essentially stable compared with sales of $120.1 million last year, reflecting healthy industry demand. Utility pole sales amounted to $95.1 million, up from $51.7 million in the corresponding period in 2012. This increase is mainly attributable to utility pole sales of $46.0 million from the McFarland operations. Sales of residential lumber reached $41.3 million, up from $14.0 million a year earlier as a result of additional residential lumber sales of $26.7 million from the McFarland operations. Finally, industrial product sales totalled $17.0 million, compared with $18.1 million a year earlier, due to a reduction in the tie recycling business and in rail projects requiring industrial products compared to the second quarter of last year, as well as a reduction in sales of certain non-core products.

Gross profit as a percentage of sales increased to 21.2% in the second quarter of 2013, from 20.8% last year, as a result of greater efficiencies across the Company's plant network, including the McFarland facilities, as well as reduced low margin non-core product sales. Operating income as a percentage of sales decreased to 15.0% compared with 16.0% of sales last year. This reflects the higher level of selling and administrative expenses following the McFarland acquisition and a loss on the disposal of surplus assets from previous acquisitions. In monetary terms, operating income was $41.0 million in the second quarter of 2013, up 25.7% from $32.6 million in the prior year.

Net income for the period increased 26.8% to $26.4 million or $1.53 per share, fully diluted, compared with $20.8 million or $1.30 per share, fully diluted, in the second quarter of 2012. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 33.9% to $48.2 million.

SIX-MONTH RESULTS

For the six-month period ended June 30, 2013, sales amounted to $490.2 million, up 35.1% from the same period a year earlier. The McFarland operations contributed sales of approximately $140.0 million while the year-over-year conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $2.3 million. Excluding these factors, sales decreased approximately $14.8 million, reflecting more traditional seasonal demand in 2013 versus prior year.

Operating income was $70.6 million or 14.4% of sales, compared with $56.7 million or 15.6% of sales last year. Net income for the period reached $45.2 million or $2.62 per share, fully diluted, up 26.1% from $35.8 million or $2.24 per share, fully diluted, a year earlier. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 30.7% to $82.5 million.

HEALTHY FINANCIAL POSITION AND INVESTMENT IN INCREMENTAL CAPACITY

As at June 30, 2013, the Company's long-term debt, including the current portion, amounted to $373.7 million, down from $382.6 million three months ago. At that same date, the ratio of total debt to total capitalization was 0.41:1, down from 0.44:1 three months earlier.

During the second quarter of 2013, Stella-Jones invested $5.9 million in purchases of property, plant and equipment, primarily for the addition of various equipment upgrades and incremental capacity. This amount includes $1.8 million to continue the construction of a new treating facility in Cordele, Georgia, where wood treatment operations are expected to begin in August 2013, and an initial amount of $1.4 million for a new treating cylinder at the New Westminster, British Columbia facility.

QUARTERLY DIVIDEND OF $0.20 PER SHARE

On August 8, 2013, the Board of Directors declared a quarterly dividend of $0.20 per common share payable on September 30, 2013 to shareholders of record at the close of business on September 2, 2013.

OUTLOOK

"Demand for our core products should remain healthy for the remainder of 2013, as higher freight volume supports further investment in the North American rail network and demand for utility poles is expected to hold over the short-term. More importantly, we believe that utility pole demand should pick-up over the mid-term, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of our larger utility pole customers supports this belief. Stella-Jones is investing in additional capacity to meet this anticipated demand," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on Friday, August 9, 2013, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 647-427-7450 (Toronto or overseas) or 1-888-231-8191 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-855-859-2056 and entering the passcode 17280571. This tape recording will be available on Friday, August 9, 2013 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, August 16, 2013.

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.

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NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the second quarter ended June 30, 2013 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
August 8, 2013

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
June 30, 2013 and 2012

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

(expressed in thousands of Canadian dollars)

	Note	As at June 30, 2013 $	As at December 31, 2012 $
Assets			
Current assets			
Cash		-	14,000
Accounts receivable		141,936	89,563
Inventories		420,014	413,400
Prepaid expenses		11,017	10,014
Income taxes receivable		-	7,886
		572,967	534,863
Non-current assets			
Property, plant and equipment		201,864	189,028
Intangible assets		92,801	93,105
Goodwill		144,306	135,834
Derivative financial instruments	7	2,645	198
Other assets		1,279	2,835
		1,015,862	955,863
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness		-	14,000
Accounts payable and accrued liabilities		52,680	65,836
Income taxes payable		2,473	-
Current portion of long-term debt	4	896	6,358
Current portion of provisions and other long-term liabilities	5	3,756	3,862
		59,805	90,056
Non-current liabilities			
Long-term debt	4	372,846	343,250
Deferred income taxes		42,978	38,809
Provisions and other long-term liabilities	5	9,337	8,297
Employee future benefits		2,286	4,774
Derivative financial instruments	7	1,173	1,926
		488,425	487,112
Shareholders' equity			
Capital stock	6	210,893	210,636
Contributed surplus		1,279	1,229
Retained earnings		304,513	264,211
Accumulated other comprehensive gain (loss)		10,752	(7,325)
		527,437	468,751
		1,015,862	955,863

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, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive gain (loss)				Total shareholders' equity
				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, 2013	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751
Comprehensive income								
Net income for the period	-	-	45,183	-	-	-	-	45,183
Other comprehensive income (loss)	-	-	1,987	30,681	(14,899)	2,295	18,077	20,064
Comprehensive income for the period	-	-	47,170	30,681	(14,899)	2,295	18,077	65,247
Dividends on common shares	-	-	(6,868)	-	-	-	-	(6,868)
Stock option plan	-	-	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-	-	-
Employee share purchase plans	257	-	-	-	-	-	-	257
Stock-based compensation	-	50	-	-	-	-	-	50
	257	50	(6,868)	-	-	-	-	(6,561)
Balance – June 30, 2013	210,893	1,279	304,513	21,731	(12,122)	1,143	10,752	527,437

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, 2013 and 2012

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive gain (loss)				
	Capital stock	**Contributed surplus**	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized losses on cash flow hedges**	**Total**	**Total shareholders' equity**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2012	131,272	1,342	201,268	(2,239)	1,046	(777)	(1,970)	331,912
Comprehensive income								
Net income for the period	-	-	35,841	-	-	-	-	35,841
Other comprehensive income (loss)	-	-	(387)	592	84	(355)	321	(66)
Comprehensive income for the period	-	-	35,454	592	84	(355)	321	35,775
Dividends on common shares	-	-	(4,792)	-	-	-	-	(4,792)
Stock option plan	719	-	-	-	-	-	-	719
Exercise of stock options	-	(231)	-	-	-	-	-	(231)
Employee share purchase plans	222	-	-	-	-	-	-	222
Stock-based compensation	-	62	-	-	-	-	-	62
	941	(169)	(4,792)	-	-	-	-	(4,020)
Balance – June 30, 2012	132,213	1,173	231,930	(1,647)	1,130	(1,132)	(1,649)	363,667

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)

	Note	For the three-month periods ended June 30, 2013 $	2012 $	For the six-month periods ended June 30, 2013 $	2012 $
Sales		273,161	203,919	490,200	362,714
Expenses (income)					
Cost of sales		215,382	161,574	389,220	286,854
Selling and administrative		14,736	9,053	28,191	18,538
Other losses, net		2,084	712	2,159	652
		232,202	171,339	419,570	306,044
Operating income		40,959	32,580	70,630	56,670
Financial expenses					
Interest on long-term debt		2,652	2,088	5,383	4,128
		2,652	2,088	5,383	4,128
Income before income taxes		38,307	30,492	65,247	52,542
Provision for (recovery of) income taxes					
Current		13,646	10,059	19,643	17,286
Deferred		(1,765)	(402)	421	(585)
		11,881	9,657	20,064	16,701
Net income for the period		26,426	20,835	45,183	35,841
Basic earnings per common share	6	1.54	1.30	2.63	2.24
Diluted earnings per common share	6	1.53	1.30	2.62	2.24

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

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

(expressed in thousands of Canadian dollars)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2013 $	2012 $	2013 $	2012 $
Net income for the period	26,426	20,835	45,183	35,841
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	19,568	6,277	30,681	592
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(9,208)	(2,331)	(14,634)	(124)
Income tax on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(265)	311	(265)	208
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	2,696	(984)	3,200	(528)
Income tax on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(723)	314	(905)	173
Items that will not subsequently be reclassified to net income				
Change in actuarial gains (losses) on post-retirement benefit obligations	2,786	(512)	2,786	(512)
Income tax on change in actuarial gains (losses) on post-retirement benefit obligations	(799)	125	(799)	125
	14,055	3,200	20,064	(66)
Comprehensive income	40,481	24,035	65,247	35,775

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, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Note	2013 $	2012 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		45,183	35,841
Adjustments for			
Depreciation of property, plant and equipment		3,883	2,490
Amortization of intangible assets		4,279	2,508
Interest accretion		318	393
Loss on disposal of property, plant and equipment		2,433	653
Employee future benefits		137	(375)
Stock-based compensation		50	62
Financial expenses		5,383	4,128
Income taxes		19,643	17,286
Deferred income taxes		421	(585)
Restricted stock units obligation		786	718
Other		(6)	24
		82,510	63,143
Changes in non-cash working capital components and others			
Accounts receivable		(47,407)	(27,076)
Inventories		5,401	(21,015)
Prepaid expenses		(524)	(2,267)
Income taxes receivable		(499)	(182)
Accounts payable and accrued liabilities		(10,146)	4,998
Asset retirement obligations		198	400
Provisions and other long-term liabilities		(17)	(254)
		(52,994)	(45,396)
Interest paid		(5,764)	(3,899)
Income tax paid		(8,738)	(18,078)
		15,014	(4,230)
Financing activities			
Increase (decrease) in bank indebtedness		(14,000)	633
Increase in long-term debt		12,030	12,958
Repayment of long-term debt		(5,701)	(1,139)
Non-competes payable		(687)	(628)
Dividend on common shares		(6,868)	(4,792)
Proceeds from issuance of common shares		257	710
		(14,969)	7,742
Investing activities			
Decrease in other assets		383	92
Business acquisition	3	(2,764)	-
Increase in intangible assets		(223)	(242)
Purchase of property, plant and equipment		(11,729)	(3,444)
Proceeds from disposal of property, plant and equipment		288	82
		(14,045)	(3,512)
Net change in cash and cash equivalents during the period		(14,000)	-
Cash and cash equivalents – Beginning of period		14,000	-
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. 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 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") 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 8, 2013.

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, 2012, except as described below in the *Changes in accounting policies* section.

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, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

(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 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 and Canadalux S.à.r.l. The foreign operations that have a different functional currency from that of the Company are SJ Holding, SJ Corp, Stella-Jones U.S. Finance Corporation and Canadalux S.à.r.l.

Following the acquisition of McFarland Cascade Holdings, Inc. ("MCHI") on November 30, 2012, (Note 3), in addition to MCHI, the Company added the following significant subsidiaries which are foreign operations that have a different functional currency from that of the Company: Electric Mills Wood Preserving LLC, Shelby County Forest Products L.L.C., Cascade Pole and Lumber Company, McFarland Cascade Pole & Lumber Company, L. D. McFarland Company, Limited and Forest Products Research Laboratory, LLC. Also as part of the MCHI acquisition, the Company added the following Canadian significant subsidiaries: Selkirk Forest Products Company, MCP Acquisition Holdings Ltd., Kanaka Creek Pole Company Limited and Selkirk Timber Company.

On May 1, 2013, Shelby County Forest Products L.L.C. was merged with Electric Mills Wood Preserving LLC and the surviving corporation was Electric Mills Wood Preserving LLC. On the same date, L. D. McFarland Company, Limited was merged with MCHI and the surviving corporation was MCHI.

Changes in accounting policies

The company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 13, Fair value measurement

IFRS 13, *Fair value measurement,* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

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

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 19, Employee Benefits (amended in 2011)

IAS 19, *Employee Benefits (amended in 2011)*, amends certain accounting requirements for defined benefit plans and termination benefits

IAS 19 (amended in 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 (amended in 2011) also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided.

The Company adopted these amendments as of January 1, 2013. The adoption of these amendments to pension plans didn't result in any adjustment to the opening equity. The review of the classification of the benefits and the termination benefits didn't result either in any adjustment to the consolidated statement of financial position.

3 Business acquistion

a) On November 30, 2012, the Company completed the acquisition of 100% of the shares of MCHI, a provider of treated wood products based in the state of Washington.

MCHI is a supplier of utility poles, as well as crossarms, piling and crane mats. It is also a provider of treated lumber for outdoor home projects, including composite decking, railings and related accessories. It serves its customer base through four wood treating facilities located in Tacoma, Washington; Eugene, Oregon; Electric Mills, Mississippi and Galloway, British Columbia as well as through an extensive distribution network.

Total cash outlay associated with the acquisition was approximately $232,929 (US$234,429), excluding acquisition costs of approximately $2,979 (US$2,877), recognized in the consolidated statement of income under selling and administrative expenses. This amount includes $165,652 (US$166,719) paid to MCHI's shareholders and $67,277 (US$67,711) used to reimburse MCHI's debts with financial institutions.

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

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on management's best estimates and information known at the time of preparing these consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, non-cash working capital, goodwill, consideration payable and deferred income tax. In the first six months of 2013, no significant adjustments were made to the preliminary fair value determination.

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	**$**
Non-cash working capital	153,093
Property, plant and equipment	59,902
Cutting rights	1,159
Customer relationships	27,099
Customer backlog	379
Goodwill	45,234
Deferred income tax assets	1,867
	288,733
Liabilities assumed	
Bank indebtedness	18,500
Accounts payable and accrued liabilities	20,686
Long-term debt	67,277
Site remediation provision	5,910
Employee future benefits	2,765
Deferred income tax liabilities	1,308
Total net assets acquired and liabilities assumed	172,287
Consideration transferred	
Cash	232,929
Payment of long-term debt	(67,277)
Consideration payable	6,635
Consideration transferred for shares	172,287

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 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for tax purposes, and represents the future economic value

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

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. In the case of the MCHI acquisition, goodwill is allocated to plants specialized in the treatment of utility poles.

The fair value of trade receivable acquired, included in non-cash working capital, is $35,779 and the contractual amount is $35,876, of which $97 is expected to be uncollectible.

Consideration payable represents a purchase consideration adjustment related to actual net working capital and certain other assets acquired on closing. As at June 30, 2013, management has not received all information required to finalize the amount payable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition.

Financing for the acquisition was mainly secured through private placements of subscription receipts which successfully closed on November 30, 2012, as well as a draw-down of $152,615 (US$153,598) on the Company's committed revolving credit facility. With respect to the private placements, the Company issued 1,176,500 subscription receipts at a price of $68.00 per subscription receipt for aggregate gross proceeds of $80,002. A syndicate of underwriters took up a private placement of 721,200 subscription receipts and Stella Jones International S.A. purchased 455,300 subscription receipts on a private placement basis. The subscription receipts were exchanged on the basis of one common share of the Company per subscription receipt. Total proceeds net of legal and underwriting fees of the subscription receipts were $77,550. The transaction was recorded at $78,202, net of a deferred income tax adjustment of $652.

4 Long-term debt

On March 31, 2013, the authorized amount under the Company's committed revolving credit facility was increased from $350,000 to $370,000. The Company and SJ Holding, as borrowers, obtained the increase from the syndicate of lenders under the same conditions as the November 21, 2012 agreement.

5 Provisions and other long-term liabilities

On May 6, 2013, as part of a five- year incentive agreement and pursuant to the Stella-Jones Long-Term Incentive Plan, the Company granted 100,000 restricted stock units ("RSUs") to the President and Chief Executive Officer (the "President"). 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. As part of the agreement, in the event that the President voluntarily leaves the employment of the Company prior to the fifth anniversary of the RSUs grant date, any amounts paid to him will be reimbursed to the Company. In the event that the President is required to cease his functions prior to the fifth anniversary of the RSUs grant date due to long-term disability or death, he shall be entitled to a prorated payment.

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

The Company measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expense will be recognized in the statement of income over a five year period. As at June 30, 2013, the provision related to the RSUs under the five year incentive agreement was valued at $200.

6 Capital stock

	2013	**2012**
Number of shares outstanding – Beginning of period*	17,168	15,955
Stock option plan*	-	29
Employee share purchase plans*	3	5
Number of shares outstanding – End of period*	17,171	15,989

* Number of 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

(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 periods ended June 30,		For the six-month periods ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income applicable to common shares	$26,426	$20,835	$45,183	$35,841
Weighted average number of common shares outstanding*	17,170	15,976	17,169	15,968
Effect of dilutive stock options*	93	66	91	59
Weighted average number of diluted common shares outstanding*	17,263	16,042	17,260	16,027
Basic earnings per common share **	$1.54	$1.30	$2.63	$2.24
Diluted earnings per common share **	$1.53	$1.30	$2.62	$2.24

* Number of shares is presented in thousands.

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

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

7 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:

	As at June 30, 2013	As at December 31, 2012
	Significant other observable inputs (Level 2)	**Significant other observable inputs (Level 2)**
	$	**$**
Recurring fair value measurements		
Assets		
Derivatives - Interest rate swap	2,645	198
	2,645	198
Liabilities		
Derivatives - Interest rate swap	1,173	1,926
	1,173	1,926

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at June 30, 2013 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. A description of each level of the hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value on the balance sheet are represented by 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 $373,742 (December 31, 2012 – $349,608) and a fair value of $374,011 (December 31, 2012 – $350,194).

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

8 Seasonality

The Company's operations follow a seasonal pattern, with pole, 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.

9 Segment information

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

10 Subsequent events

On August 8, 2013, the Board of Directors declared a quarterly dividend of $0.20 per common share payable on September 30, 2013 to shareholders of record at the close of business on September 2, 2013.