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Stella-Jones Inc.

Consolidated Financial Statements

December 31, 2007 and 2006

Stella-Jones Inc.
Consolidated Financial Statements
December 31, 2007 and 2006

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Auditors' Report

To the Shareholders of
Stella-Jones Inc.

We have audited the consolidated balance sheets of Stella-Jones Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings, shareholders' equity, comprehensive earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Montréal, Quebec
March 12, 2008

Stella-Jones Inc.
Consolidated Balance Sheets

As at December 31	2007	2006
Assets		
Current		
Accounts receivable (Note 6)	**$ 26,411,115**	$ 32,113,553
Derivative financial instruments (Note 17)	**658,437**	-
Inventories (Note 7)	**142,873,928**	117,441,115
Prepaid expenses	**1,472,155**	2,325,219
Income taxes receivable	**783,677**	-
Future income taxes (Note 13)	**619,139**	356,000
	172,818,451	152,235,887
Capital assets (Note 8)	**70,264,386**	59,925,656
Derivative financial instruments (Note 17)	**273,500**	-
Other assets (Note 9)	**1,142,531**	1,088,343
Future income taxes (Note 13)	**357,477**	425,000
	$ 244,856,345	$ 213,674,886
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 10)	**$ 39,026,390**	$ 42,286,469
Accounts payable and accrued liabilities	**21,855,626**	22,299,399
Income taxes payable	**-**	2,964,247
Future income taxes (Note 13)	**288,898**	-
Current portion of long-term debt (Note 10)	**4,408,949**	3,797,096
Current portion of asset retirement obligations (Note 11)	**750,888**	922,929
	66,330,751	72,270,140
Long-term debt (Note 10)	**43,034,946**	28,096,118
Future income taxes (Note 13)	**5,968,406**	5,960,036
Asset retirement obligations (Note 11)	**467,219**	414,635
Employee future benefits (Note 14)	**1,298,029**	1,112,177
	117,099,351	107,853,106
Shareholders' equity		
Capital stock	**46,023,360**	45,473,435
Contributed surplus	**4,045,122**	2,416,650
Retained earnings	**80,744,909**	58,004,374
Accumulated other comprehensive loss	**(3,056,397)**	(72,679)
	127,756,994	105,821,780
	$ 244,856,345	$ 213,674,886

Commitments and contingencies (Note 16)
Subsequent event (Note 20)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

____________________ Director ____________________ Director

Stella-Jones Inc.
Consolidated Statements of Shareholders' Equity

For the years ended December 31	2007	2006
Share capital	#	#
Shares outstanding – beginning of year	**12,298,015**	10,880,840
Private placement (Note 5(b))	**-**	1,060,000
Stock option plan	**37,785**	161,370
Warrants exercised (Note 12(e))	**-**	190,000
Share purchase plan	**5,288**	5,805
Shares outstanding – end of year	**12,341,088**	12,298,015
Shares outstanding – beginning of year	**$ 45,473,435**	$ 26,174,801
Private placement (Note 5(b))	**-**	18,020,000
Stock option plan	**366,531**	391,627
Warrants exercised (Note 12(e))	**-**	779,000
Share purchase plan	**183,394**	108,007
Shares outstanding – end of year	**46,023,360**	45,473,435
Contributed surplus		
Balance – beginning of year	**2,416,650**	53,499
Elimination of liability associated with stock-based compensation expense (Note 12(d))	**-**	2,262,000
Stock-based compensation	**1,716,416**	123,808
Exercise of stock options	**(87,944)**	(22,657)
Balance – end of year	**4,045,122**	2,416,650
Retained earnings		
Balance – beginning of year	**58,004,374**	38,781,497
Net earnings for the year	**25,699,508**	20,845,956
Dividends on common shares	**(2,958,973)**	(1,623,079)
Balance – end of year	**80,744,909**	58,004,374
Accumulated other comprehensive loss		
Balance – beginning of year (Note 3)	**(72,679)**	(201,646)
Adoption of new accounting standards for financial instruments, net of taxes of $280,148 (Note 3)	**568,785**	-
Adjusted opening balance	**496,106**	(201,646)
Other comprehensive loss	**(3,552,503)**	128,967
Balance – end of year	**(3,056,397)**	(72,679)
Total shareholders' equity	**$ 127,756,994**	$ 105,821,780

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

Stella-Jones Inc.
Consolidated Statements of Earnings

For the years ended December 31	2007	2006
Sales	**$ 269,714,130**	$ 223,853,026
Expenses (income)		
Cost of sales	**203,425,674**	173,489,937
Selling and administrative	**15,858,578**	12,488,487
Foreign exchange loss (gain)	**1,471,914**	(213,619)
Amortization of capital assets	**4,940,013**	3,363,474
Gain on disposal of capital assets	**(42,329)**	(77,932)
	225,653,850	189,050,347
Operating earnings	**44,060,280**	34,802,679
Financial expenses		
Interest on long-term debt	**3,051,221**	1,802,882
Other interest	**2,452,027**	1,810,443
	5,503,248	3,613,325
Earnings before income taxes	**38,557,032**	31,189,354
Provision for income taxes (Note 13)		
Current	**13,006,614**	10,506,398
Future (recovery)	**(149,090)**	(163,000)
	12,857,524	10,343,398
Net earnings for the year	**$ 25,699,508**	$ 20,845,956
Net earnings per common share (Note 12(b))	**$ 2.09**	$ 1.81
Diluted net earnings per common share (Note 12(b))	**$ 2.03**	$ 1.76

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

Stella-Jones Inc.
Consolidated Statements of Comprehensive Earnings

For the years ended December 31	2007	2006
Net earnings for the year	**$ 25,699,508**	$ 20,845,956
Other comprehensive earnings (loss)		
Net change in unrealized losses on translating financial statements of self-sustaining foreign operation	**(3,626,755)**	128,967
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of $8,753)	**74,252**	-
	(3,552,503)	128,967
Comprehensive earnings	**$ 22,147,005**	$ 20,974,923

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

Stella-Jones Inc.
Consolidated Statements of Cash Flows

For the years ended December 31	2007	2006
Cash provided by (used in)		
Operating activities		
Net earnings for the year	**$ 25,699,508**	$ 20,845,956
Adjustments for		
Amortization of capital assets	**4,940,013**	3,363,474
Gain on disposal of capital assets	**(42,329)**	(77,932)
Employee future benefits	**185,852**	133,528
Stock-based compensation	**1,716,416**	2,338,808
Future income taxes	**(149,090)**	(163,000)
Other	**587,944**	398,516
	32,938,314	26,839,350
Changes in non-cash working capital components		
Accounts receivable	**8,365,492**	(3,760,754)
Inventories	**(21,580,704)**	(13,492,844)
Prepaid expenses	**904,078**	(301,436)
Accounts payable and accrued liabilities	**206,781**	572,470
Income taxes payable	**(3,854,857)**	705,671
	16,979,104	10,562,457
Financing activities		
(Decrease) increase in bank indebtedness	**(983,842)**	16,278,771
Increase in long-term debt	**13,332,146**	13,393,582
Repayment of long-term debt	**(3,721,973)**	(6,697,701)
Decrease in asset retirement obligations	**(119,457)**	(835,934)
Proceeds from issuance of common shares	**472,367**	19,275,977
Dividends on common shares	**(2,958,973)**	(1,623,079)
	6,020,268	39,791,616
Investing activities		
Increase in other assets	**(81,518)**	(437,775)
Business acquisitions	**(17,125,602)**	(46,023,314)
Purchase of capital assets	**(6,452,532)**	(4,272,982)
Proceeds from disposal of capital assets	**660,280**	379,998
	(22,999,372)	(50,354,073)
Net change in cash and cash equivalents during the year	**-**	-
Cash and cash equivalents – beginning and end of year	**$ -**	$ -
Supplemental disclosures		
Interest paid	**$ 5,296,491**	$ 3,415,273
Income taxes paid	**$ 16,636,241**	$ 10,533,807

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

1. Description of the Business

Stella-Jones Inc. ("the Company") is a leading North American producer and marketer of industrial treated wood products, specializing in the production of pressure treated railway ties as well as wood poles supplied to electrical utilities and telecommunication companies. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications. The Company is incorporated under the *Canada Business Corporations Act* and its common shares are listed on the Toronto Stock Exchange.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Corporation ("SJ Corp") and since July 1, 2006, the consolidated accounts of Bell Pole Canada Inc. ("Bell Pole"), using the purchase method. The consolidated accounts of Bell Pole 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.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the net carrying amount of asset retirement obligations, estimated useful life of assets, inventory obsolescence, impairment of long lived assets, future income taxes, stock-based compensation, pension and post retirement benefits, legal liabilities, bad debts, allowance for doubtful accounts and environmental provisions. It is reasonably possible that actual results could differ in the near term from those estimates and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Revenue Recognition

Revenue from the sale of products and services are recognized when persuasive evidence of an arrangement exists, when products are shipped to customers or the services are rendered, when the risks and rewards related to the ownership of the product are assumed by the customer, when collection is considered reasonably assured and when the sales price is fixed or determinable.

Logs are harvested from timber licenses operated by the Company as part of a process to procure raw material for processing and treatment of utility poles. Logs not meeting pole-quality standards are regularly harvested and sold to third parties. Proceeds from the sale of non-pole quality logs are included in the cost of poles sold since the production of non-pole quality logs are a by-product of the Company's pole raw material procurement operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with maturities of three months or less.

Inventories

Inventories of raw materials are valued at the lower of average cost and replacement cost. Finished goods are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis using rates based on the estimated useful lives of the assets which are generally as follows:

Buildings	up to 40 years
Production equipment	10 to 20 years
Rolling stock	5 to 10 years
Anti-pollution equipment	10 to 20 years
Office equipment	2 to 5 years

Cutting rights are recorded at cost less accumulated amortization which is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a forty year period, and is applied against the historical cost.

Roads are recorded at cost less accumulated amortization which is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the licensed area served by the road, and is applied against the historical cost.

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

Asset Retirement Obligations

Reforestation obligations:

The *British Columbia Forest Act* and the *Alberta Forest Act* require the industry to assume the costs of reforestation on certain harvest licences. Accordingly, the Company records the fair value of the cost of reforestation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of the estimated future cash flows. Reforestation costs are included in the costs of current production.

Site remediation obligations:

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with accretion costs on existing obligations, in other expenses.

Income Taxes

The Company applies the liability method to account for income taxes. Under this method, future income taxes at the balance sheet date are determined using the differences between the accounting and tax bases of assets and liabilities and the enacted income tax rates to be in effect when these differences are expected to reverse. Future tax assets are recognized when it is more likely than not that the assets will be realized.

Employee Future Benefits

Post retirement benefit programs:

The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method prorated on years of service based on management's best estimate of economic and demographic assumptions.

Defined benefit pension plan:

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefits method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service life of the active employees.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Stock-based Compensation and Other Stock-based Payments

The Company accounts for stock options granted to employees using the fair value method. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model and is charged to operations over the vesting period of the options granted, with a corresponding credit to contributed surplus. Any consideration paid on the exercise of stock options is credited to capital stock together with any related stock-based compensation expense included in contributed surplus.

The obligation related to the stock appreciation rights is accounted for as a liability over the period that the right is acquired, is revalued at each balance sheet date and is presented in the consolidated balance sheet under accounts payable and accrued liabilities.

Foreign Currency Transactions

Except for self-sustaining foreign operations, revenues and expenses denominated in a foreign currency are translated by applying exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in a foreign currency are translated at the rate in effect at the balance sheet date. Any resulting foreign currency translation gains or losses are included in the statement of earnings.

The financial statements of SJ Corp, a self-sustaining foreign operation, are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in the accumulated other comprehensive loss in shareholders' equity.

Earnings Per Share

Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the year.

3. Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standards which were adopted by the Company effective January 1, 2007.

- Handbook Section 1506, "Accounting Changes" introduced new paragraphs prescribing criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with financial statements of other entities.

- Handbook Section 3855, "Financial Instruments – Recognition and Measurement", describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

  Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is dependent upon the classification of the financial instruments as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The held-for-trading classification is applied when an entity is "trading" in an instrument or alternatively the standard permits that any financial instrument be irrevocably designated as held-for-trading. The held-to-maturity classification is applied only if the asset has specified characteristics and the entity has the ability and intent to hold the asset until maturity. The loans and receivables classification is applied for assets that are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. The available-for-sale classification is applied for all non-derivative financial assets that do not belong in the other categories or alternatively the standard permits that any financial assets not classified as held-for-trading may be designated as available-for-sale. Transaction costs related to financial instruments and credit facilities are expensed in the period they are incurred.

  Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in the consolidated statement of earnings. Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are subsequently measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in the statement of Comprehensive Earnings. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

  Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair values of derivative instruments are recognized in the consolidated statement of earnings with the exception of foreign exchange risk management contracts and derivatives designated as effective cash flow hedges, as further described below.

For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees*, the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is the Company's policy to not re-measure the fair value of the financial guarantee unless it qualifies as a derivative.

The Company has implemented the following classification:

Cash and cash equivalents are classified as assets held-for-trading and are measured at fair value.

Accounts receivable and notes receivable are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to original cost unless specified otherwise.

Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to original cost unless specified otherwise.

Derivative financial instruments are carried at fair value in the consolidated balance sheet.

- Handbook Section 1530, "Comprehensive Income", describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustments relating to self-sustaining foreign operations and unrealized gains or losses on available for sale financial instruments.
- Handbook Section 3251, "Equity", replaces Section 3250, "Surplus", and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income".
- Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.
- Handbook Section 3865, "Hedges", describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period.

When the Company uses derivative financial instruments to manage its own exposures, it determines for each derivative financial instrument whether hedge accounting is appropriate. When appropriate, the Company formally documents the hedging relationship detailing, among other things, the type of hedge (either fair value or cash flow), the item being hedged, the risk management objective, the hedging strategy and the method to be used to measure its effectiveness. The derivative financial instrument must be highly effective in accomplishing the objective of offsetting the changes in the hedged item's fair value attributable to the risk being hedged both at inception and over the life of the hedge.

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of US dollars. The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These contracts are treated as cash flow hedges for accounting purposes and are not held for trading or speculative purposes.

Effective derivative financial instruments, held for cash flow hedging purposes, are recognized at fair value and the changes in fair value related to effective portion of the hedge are recognized in other comprehensive income. The changes in fair value related to the ineffective portion of the hedge are immediately recorded in the consolidated statement of earnings. The changes in fair value of forward exchange contracts and interest rate swaps recognized in other comprehensive income are reclassified in the consolidated statement of earnings under sales and interest on long-term debt respectively in the periods during which the cash flows constituting the hedged item affect income.

When the derivative instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, if applicable, hedge accounting is discontinued prospectively. Accumulated other comprehensive income related to a forward exchange contract and interest swaps hedges that ceases to be effective are reclassified in the consolidated statement of earnings under foreign exchange gain or loss and interest on long-term debt respectively in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive income is then immediately reclassified in the consolidated statement of earnings.

The opening balance of accumulated other comprehensive loss as at January 1, 2007 was a loss of $72,679 which relates to cumulative translation adjustments of a self-sustaining foreign operation. The adoption of these new standards translated into the following changes to the opening balance which regards to cash flow hedges: a $568,785 increase in accumulated other comprehensive income, a $848,933 increase in short-term and long-term derivative financial instruments reported under assets and a $280,148 increase in future tax liabilities.

For the twelve month period ended December 31, 2007, the Company recorded the following transactions with regards to cash flow hedges: a net increase of $74,252 in accumulated other comprehensive income, an increase of $83,005 in short-term and long-term derivative financial instruments reported under assets and an increase of $8,753 in future income tax liabilities. During the year, a gain on foreign exchange forward contracts of $2,167,250 was reclassified from other comprehensive income to the consolidated statements of earnings.

4. Impact of Accounting Pronouncements not yet Implemented

The CICA issued the following new accounting standards which will be adopted by the Company effective January 1, 2008:

- Handbook Section 3031, “Inventories” will replace Section 3030 “Inventories”. The new section prescribes measurement of inventories at the lower of cost and net realized value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversals of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory write downs.
- The Handbook Section 3862, “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for the entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” will replace section 3861, “Financial instruments – Disclosure and Presentation”.
- Handbook Section 3863, “Financial Instruments – Presentation” establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, “Financial Instruments – Disclosure and Presentation”.
- Handbook Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

The CICA issued the following accounting standards which will be adopted by Company effective January 1, 2009:

- Handbook Section 3064 “Goodwill and Intangible Assets” which will replace Section 3062 “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Section 1000, “Financial Statement Concepts” was amended according to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are to converge with International Financial Reporting Standards by 2011. The Company continues to monitor and assess the impact of these convergence efforts.

5. Business Acquisition

a) On February 28, 2007, the Company's wholly-owned US subsidiary, SJ Corp, acquired the assets of the wood utility pole business of J.H. Baxter & Co. ("Baxter"). Assets acquired included the Baxter production plant located in Arlington, Washington, its pole peeling facility in Juliaetta, Idaho as well as all inventories and accounts receivable relating to its wood pole business.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as of the acquisition date. The results of operations of Baxter have been included in the consolidated financial statements from the acquisition date.

The following is a summary of the net assets acquired at fair values:

Assets acquired	
Accounts receivable	$ 3,792,494
Inventories	9,849,614
Prepaid expenses	143,523
Capital assets	11,494,230
	25,279,861
Liabilities assumed	
Obligation under capital lease	278,995
	$ 25,000,866
Consideration	
Cash, including transaction costs of $386,528	$ 16,975,602
Receivable from vendor	(168,749)
Long-term subordinated note payable to vendor	8,174,296
Reserve amount for transaction costs, included in accounts payable	19,717
	$ 25,000,866

Financing for the transaction was provided by a subordinated vendor note of US$8.0 million (recognized at a fair value of US$7.0 million) as well as additional debt funding under existing and new bank facilities. The new bank facilities are comprised of an increase of US$5.0 million in the operating line of credit of SJ Corp as well as a new 5-year term loan of US$4.0 million, both arranged with its existing US banker.

b) Effective July 1, 2006, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and operations of Bell Pole Company, a Canadian manufacturer of wood utility poles based in western Canada. Bell Pole Company was also involved in the remanufacturing and treating of dimensional lumber in Alberta. Assets acquired include a treating plant located in Carseland, Alberta, peeling facilities located in the province of British Columbia, as well as all inventories and accounts receivable. Assets acquired also include cutting rights in British Columbia and Alberta. The Company also assumed certain liabilities including accounts payable and accrued liabilities and asset retirement obligations.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as of the acquisition date. The results of operations of Bell Pole have been included in the consolidated financial statements from the acquisition date. During the year ended December 31, 2007 an adjustment of $150,000 was made to increase the transaction costs.

The following is a summary of the net assets acquired at fair values:

Assets acquired	
Accounts receivable	$ 7,264,996
Inventories	26,370,676
Prepaid expenses	394,643
Capital assets	22,815,988
Other assets	642,054
	57,488,357
Liabilities assumed	
Bank indebtedness	4,553,221
Accounts payable and accrued liabilities	3,763,180
Asset retirement obligations and other liabilities	2,607,498
	10,923,899
	$ 46,564,458
Consideration	
Bank debt paid at closing on behalf of Seller	$ 8,126,152
Cash, including transaction costs of $2,518,556	38,047,162
Reserve amount for transaction costs, included in accounts payable	391,144
	$ 46,564,458

Financing for the transaction was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of $18.0 million. Following the closing of the acquisition, the subscription receipts were exchanged into common shares of the Company, on a one-for-one basis. The remainder of the purchase price was financed by a $10.0 million debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.),* as well as additional debt funding under existing and new bank facilities.

6. Accounts Receivable

	2007	2006
Trade	**$ 25,321,212**	$ 30,057,252
Other	**1,089,903**	2,056,301
	$ 26,411,115	$ 32,113,553

7. Inventories

	2007	2006
Raw materials	**$ 112,443,851**	$ 91,946,806
Finished goods	**30,430,077**	25,494,309
	$ 142,873,928	$ 117,441,115

8. Capital Assets

			2007
	Cost	**Accumulated Amortization**	**Net**
Land	**$ 5,191,961**	**$ -**	**$ 5,191,961**
Roads	**1,988,888**	**569,254**	**1,419,634**
Cutting rights	**6,504,744**	**131,553**	**6,373,191**
Buildings	**13,846,952**	**3,345,652**	**10,501,300**
Production equipment	**53,426,662**	**18,646,386**	**34,780,276**
Rolling stock	**2,827,805**	**1,826,207**	**1,001,598**
Anti-pollution equipment	**15,650,586**	**5,171,445**	**10,479,141**
Office equipment	**1,596,745**	**1,079,460**	**517,285**
	$ 101,034,343	**$ 30,769,957**	**$ 70,264,386**

			2006
	Cost	Accumulated Amortization	Net
Land	$ 5,506,487	$ -	$ 5,506,487
Roads	1,988,889	250,911	1,737,978
Cutting rights	6,504,744	48,127	6,456,617
Buildings	12,239,169	2,692,566	9,546,603
Production equipment	40,580,462	16,202,261	24,378,201
Rolling stock	2,143,896	1,796,172	347,724
Anti-pollution equipment	15,650,586	4,404,042	11,246,544
Office equipment	1,584,645	879,143	705,502
	$ 86,198,878	$ 26,273,222	$ 59,925,656

The net book value of assets held under capital lease as at December 31 is as follows:

	2007	2006
Cost	**$ 324,548**	$ 84,783
Accumulated amortization	**42,431**	10,852
Net book value	**$ 282,117**	$ 73,931

9. Other Assets

		2007		2006
Land held for resale	**$**	**-**	$	263,500
Notes receivable		**360,331**		389,128
Accrued benefit asset (Note 14(b))		**782,200**		435,715
	$	**1,142,531**	$	1,088,343

Notes receivable comprise a home relocation mortgage of $220,000 bearing interest at a variable rate per year prescribed by the Canada Revenue Agency and two supplier loans with balances of $99,182 and $41,149.

10. Long-term Debt

		2007		2006
Long-term debt				
Term loans under Canadian credit facility (Note 10(a))	**$**	**4,767,857**	$	11,666,142
Revolving term loan (Note 10(b))		**11,587,500**		-
Term loan under US credit facility (Note 10(c))		**3,885,896**		940,089
Unsecured and non-convertible debenture (Note 10(d))		**10,000,000**		10,000,000
Unsecured and non-convertible debenture (Note 10(e))		**4,333,333**		4,666,667
Promissory note (Note 10(f))		**743,475**		874,050
Promissory note (Note 10(g))		**991,672**		1,311,759
Subordinated note (Note 10(h))		**6,981,288**		-
Mortgage loans (Note 10(i))		**3,929,667**		2,389,525
Obligations under capital leases (Note 10(j))		**223,207**		44,982
Total long-term debt		**47,443,895**		31,893,214
Less: current portion		**4,408,949**		3,797,096
Long-term debt	**$**	**43,034,946**	$	28,096,118

The Company has available three bank credit facilities: two arranged with Canadian banks to fund Canadian operations, and a third arranged with a US bank to fund the operations of the Company's wholly-owned US subsidiary, SJ Corp. The Company must respect certain covenants and ratios relating to the three bank credit facilities.

In addition, Kanaka, in which Bell Pole has a 50% joint venture interest, also has available a facility with a Canadian bank comprised of a $7,000,000 demand operating loan of which $5,227,694 has been drawn as at December 31, 2007. The demand operating loan bears interest at the bank's prime rate, bank's US base rate, LIBOR plus 1.13% or bankers' acceptance plus 1.13% at the option of the Company. One half of the indebtedness, up to a maximum of $5,000,000, has been guaranteed by Bell Pole and the Company. The Company has also provided an Environmental Indemnity Agreement to the bank with respect to the Maple Ridge property, the site of Kanaka's operations, with liability limited to one half of the monies which become due and owing to the bank under such indemnity.

a) The Company has available a credit facility arranged with a Canadian bank comprised of a maximum demand operating loan of $50,000,000 (2006 - $50,000,000) of which $20,128,036 has been drawn as at December 31, 2007. The credit facility also includes a bid and performance bond guarantee facility of up to a maximum of $5,000,000, term loan facilities of $2,300,000, $2,700,000 and $1,900,000 to assist in refinancing short and long-term debt, a $5,027,706 capital lease facility, a demand revolving line of credit in the amount of $5,963,000 for the purchase of forward exchange contracts with an aggregate nominal value of $25,100,000, and an interest rate swap facility for up to the full amount outstanding under the term loans of $6,900,000.

The Canadian demand operating loan of $50,000,000 bears interest at the bank's prime rate, bank's US base rate or LIBOR plus 1.50% at the option of the Company. As collateral, the bank holds movable hypothecs and general security agreements over the universality of the Company's Canadian assets, creating a first charge over all of the Company's Canadian current assets of $129,118,074 and a second ranking charge over all of the Canadian capital assets of $53,327,315, subject to prior loans approved by the Canadian bankers. The bank also holds a first ranking security under Section 427 of the *Bank Act* over the Company's Canadian inventories.

Amounts owing under the $2,300,000 term loan are repayable in 19 equal consecutive principal repayments of $82,143 on each three-month anniversary of the date upon which the initial advance was made (December 28, 2005), and a balloon repayment of $739,286 constituting the 20^{th} and final payment of the residual capital balance of December 28, 2010. The loan bears interest at a fixed rate of 5.81% over the term of the loan.

Amounts owing under the $2,700,000 term loan are repayable in 19 equal consecutive principal repayments of $96,429 on each three-month anniversary of the date upon which the initial advance was made (February 1, 2006), and a balloon repayment of $867,857 constituting the 20^{th} and final payment of the residual capital balance on February 1, 2011. The loan bears interest at a fixed rate of 5.85% over the term of the loan.

Amounts owing under the $1,900,000 term loan are repayable in 19 equal consecutive principal repayments of $100,000 on each three-month anniversary of the date upon which the initial advance was made (December 19, 2005) and shall, in any event, be repaid in full by September 30, 2010. The loan bears interest at a fixed rate of 5.93% over the term of the loan.

b) The Company has a second Canadian facility comprised of a two year revolving term loan of $11,587,500 and an amount not exceeding US$5,000,000 to purchase foreign currency exchange contracts. The Company entered into this credit agreement on February 28, 2007 to refinance previous term loans of $1,900,000 and $5,000,000 and assist in the financing of the February 28, 2007 business acquisition (See Note 5(a)).

The credit facility bears interest at the bank's prime rate plus 0.25%, bankers' acceptance rate plus 1.40% or the Canadian government bond rate plus 2.00% at the option of the Company. As collateral, the bank holds movable hypothecs and general security agreements over all of the Company's Canadian capital assets of $53,327,315 and a second ranking charge over all of the Canadian current assets of $129,118,074. Amounts owing under the revolving term loan are payable at maturity which can be extended each year for one additional year, upon the Company's request and subject to the bank's approval. Starting January 2008, the credit facility will be increased by the equivalent amount of the capital payments of the term facilities provided by the credit facility in Note 10(a) to a maximum of $17,500,000.

c) SJ Corp has available a credit facility arranged with a US bank comprised of a maximum demand operating loan of US$20,000,000 (2006 – US$12,000,000) of which the amount drawn is US$14,387,124 as at December 31, 2007. The credit facility also includes a US$1,100,000 term loan to fund capital assets and a US$4,000,000 term loan to assist in the financing of the February 28, 2007 acquisition (see Note 5(a)). The operating line of credit bears interest at the bank's prime rate minus 1.25% or LIBOR plus 1.00% at the option of SJ Corp (previously US prime rate or LIBOR plus 1.75%).

As collateral for the US operating line of credit and the US term loans, the US bank holds a first security interest in all non-real estate assets of SJ Corp pursuant to the uniform commercial code covering all accounts receivable, inventory, equipment, furniture, documents, chattel paper and general intangibles presently owned and hereafter acquired, wherever located. The total net book value of these assets as at December 31, 2007 is US$63,259,778. There is no recourse to the Canadian parent company in the event of default by SJ Corp. The Canadian parent company has signed an inventory repurchase agreement with the US banker whereby the parent company has agreed to purchase any or all inventory of the US subsidiary, at book value, upon an event of default SJ Corp if requested by the US bank.

The US$1,100,000 term loan was disbursed on September 1, 2005 and is repayable in 59 consecutive monthly instalments of US$18,333 and one final payment of the remaining capital balance of September 1, 2010. The interest rate on the term loan is fixed under a swap agreement at 7.23% over its term. The US$4,000,000 term loan was disbursed on February 28, 2007 bears interest at LIBOR plus 2.00% renewed monthly and is repayable in 60 consecutive monthly instalments of US$66,667.

d) Unsecured and non-convertible debenture bearing interest at 7.72%, repayable beginning July 1, 2011 in five consecutive annual principal repayments of $1,000,000 and a last payment of $5,000,000 on July 1, 2016.

e) Unsecured and non-convertible debenture bearing interest at 7.0%, repayable after December 31, 2006 in five consecutive annual principal repayments of $333,333 and a last payment of $3,000,000 on December 21, 2012.

f) SJ Corp borrowed US$750,000 from the Company's majority shareholder, Stella Jones International S.A., by way of a subordinated promissory note. The note is for a term of six years, bears interest at LIBOR plus 4.5% and is repayable in full on the 6th annual anniversary of the date of disbursement or August 3, 2011. The note is unsecured and subordinated in right of payment to the prior payment in full of the US subsidiary's loans to all of its secured lenders.

g) As part of a previous acquisition, SJ Corp assumed an unsecured note payable. The imputed interest rate of the note is 8.0% and is payable in quarterly instalments of US$52,891 including interest through October 2013.

h) Pursuant to the business acquisition on February 28, 2007 (see Note 5(a)), SJ Corp issued a note payable to J.H. Baxter & Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable, in 5 annual principal repayments of US$500,000 with a final payment of US$5,500,000 on the 6th anniversary date. The note was recorded in the consolidated financial statements at a fair value of $6,981,288 using an interest rate of 8.02%. 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) The mortgage loans bear interest at a weighted average rate of 7.2% as at December 31, 2007 (2006 – 6.0%) and certain specific capital assets with a net book value of $6,880,152 (2006 - $4,556,632) have been pledged as collateral. Mortgage loans include loans denominated in US dollars for an amount of US$2,970,328 (2006 – US$595,145). The loans are repayable in monthly instalments of $136,960 including interest and mature at various dates to June 2012.

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

	Obligation under capital leases			Long-term debt	Total
Years	**Minimum Payments $**	**Interest $**	**Principal $**	**Principal $**	**Principal Repayments $**
2008	91,832	13,707	78,125	4,494,203	4,572,328
2009	64,095	8,903	55,192	3,899,021	3,954,213
2010	93,274	3,384	89,890	4,280,414	4,370,304
2011	-	-	-	5,142,851	5,142,851
2012	-	-	-	5,114,019	5,114,019
Thereafter	-	-	-	25,239,292	25,239,292
	249,201	25,994	223,207	48,169,800	48,393,007
Fair value adjustment	-	-	-	(949,112)	(949,112)
	249,201	25,994	223,207	47,220,688	47,443,895

k) The aggregate fair value of the Company's long-term debt was estimated at $49,500,000 as at December 31, 2007 (2006 - $32,600,000) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11. Asset Retirement Obligations

The Company assumed the asset retirement obligations of Bell Pole at the date of the acquisition. Asset retirement obligations relating to reforestation and site remediation have been estimated using a credit-adjusted risk-free rate of 6.9% (2006 – 6.1%) to approximate the present value of future expenditures.

Reforestation:

Reforestation obligations represent discounted cash flow estimates of future silviculture costs relating to areas logged for which the Company has the responsibility of reforestation.

		2007		2006
Reforestation obligations, opening balance	$	**1,237,564**	$	1,110,294
Changes to reforestation estimates and accretion expense		**711,342**		429,894
Expenditures		**(788,321)**		(302,624)
Reforestation obligations, as at December 31		**1,160,585**		1,237,564
Current portion		**693,366**		822,929
	$	**467,219**	$	414,635

Future non-discounted reforestation expenditures approximate $270,000 to $735,000 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential changes in regulation as well as the impact of weather-related changes on areas reforested. Accordingly, the actual cost of reforestation may differ from current estimates.

The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $488,409 (2006 – $624,981). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation noted above.

Site remediation:

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

	2007	2006
Site remediation obligations, opening balance	**$ 100,000**	$ 1,063,204
Changes to site remediation estimates	**-**	(275,586)
Expenditures	**(42,478)**	(687,618)
Site remediation obligations, as at December 31	**57,522**	100,000
Current portion	**57,522**	100,000
	$ -	$ -

Total asset retirement obligations:

	2007	2006
Reforestation obligations	**$ 1,160,585**	$ 1,237,564
Site remediation obligations	**57,522**	100,000
	1,218,107	1,337,564
Current portion	**750,888**	922,929
	$ 467,219	$ 414,635

12. Capital Stock

a) Capital stock includes the following:

Authorized

An unlimited number of preferred shares issuable in series;
An unlimited number of common shares.

b) Earnings per share

Net earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Diluted net earnings per common share are calculated using the weighted average number of common shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options, warrants and other dilutive securities.

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

	2007	2006
Net earnings applicable to common shares	**$ 25,699,508**	$ 20,845,956
Weighted average number of common shares outstanding	**12,324,385**	11,541,087
Effect of dilutive stock options and warrants	**365,650**	327,220
Weighted average number of diluted common shares outstanding	**12,690,035**	11,868,307
Net earnings per common share	**$ 2.09**	$ 1.81
Diluted net earnings per common share	**$ 2.03**	$ 1.76

c) Stock Option Plan

The Company has a stock option plan for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board or such committee. The stated purpose of the Stock Option Plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by directors, officers and employees of the Company.

Under the Stock Option Plan adopted on June 13, 1994 and amended on May 3, 1995 and on March 15, 2001, the aggregate number of common shares in respect of which options may be granted is 800,000, and no optionee is able to hold options to purchase common shares exceeding 5% of the number of common shares outstanding from time to time. One-fifth of the options granted may be exercised within each year following the grant date. The exercise price of an option shall not be lower than the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the granting of the option and the term of the option may not exceed ten years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, 180 days following the date on which such optionee ceases to be a director of the Company.

Changes in the number of options outstanding under the Stock Option Plan were as follows:

	2007		2006	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding – beginning of year	**183,355**	**$ 13.15**	272,225	$ 4.94
Exercised	**37,785**	**7.37**	161,370	2.29
Granted	**22,500**	**39.58**	72,500	19.79
Forfeited	**6,000**	**13.00**	-	-
Outstanding – end of year	**162,070**	**$ 18.17**	183,355	$ 13.15
Options exercisable – end of year	**76,570**	**$ 13.84**	83,355	$ 8.60

The following options were outstanding under the Stock Option Plan as at December 31, 2007:

	Options outstanding		**Options exercisable**		
Year granted	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Expiration date**
2001	20,070	$ 2.15	20,070	$ 2.15	2011
2005	52,000	13.00	28,000	13.00	2015
2006	67,500	19.78	24,000	19.76	2016
2007	22,500	39.58	4,500	39.58	2017
	162,070		76,570		

d) Stock Option Agreement

On May 6, 2003, with the objective of assisting the Company in recognizing the significant contributions that the Company's President and Chief Executive Officer ("President") has made to the Company, and in order to provide incentives for him to continue to make significant contributions to the Company, 300,000 options were granted to the President under a Stock Option Agreement.

The Stock Option Agreement provides that the options are exercisable at a price of $2.99 in whole or in part, commencing on May 6, 2008, or earlier in the event of a loss or change in control of the Company, the closing of a going private transaction, or the occurrence of termination without cause (each one being a "Triggering Event"). The right to exercise these options terminates on May 6, 2013 or, in the case of a Triggering Event, within thirty days of the event.

During 2006, the President, on his own initiative, unconditionally and irrevocably waived his right under his Stock Option Agreement to settle stock options for cash. As a result, the amount recorded as a long-term liability of $3,480,000 net of the related future income taxes of $1,218,000 was eliminated and a corresponding amount is included above in contributed surplus.

In 2007, the total stock-based compensation expenses relating to the Stock Option Agreement was $1,483,140 (2006 – $2,215,000).

e) Warrants

Warrants outstanding allowed for the subscription to 190,000 common shares at an exercise price of $4.10 per share before July 31, 2008. These warrants were exercised on October 18, 2006.

f) Stock-based Compensation

The Company records expenses for the fair value of the stock options granted under the Stock Option Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to earnings over the vesting period.

In 2007, 22,500 options (2006 – 72,500) were granted, their fair value was $422,730 (2006 – $672,610) and the expense amortized to earnings was $28,182 (2006 – $64,090). The fair value was estimated with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	**4.2%**	4.4%
Dividend yield	**0.6%**	1.0%
Expected lives (years)	**7.8**	7.1
Volatility	**42.6%**	44.7%
Weighted average of fair value of options granted during the year	**$ 18.79**	$ 9.28

In 2007, the total expense relating to Stock-Based Compensation amortized to earnings was $241,962 (2006 **–** $123,808).

g) Employee Share Purchase Plans

The aggregate number of common shares reserved for issuance under the Company's two Employee Share Purchase Plans is 180,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at a price of 90% of the market value. Employees who hold common shares in the Employee Share Purchase Plan for 18 months following the date of acquisition of such shares ("Acquisition Date") receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the Acquisition Date. In 2007, 4,693 shares (2006 – 5,405) were issued to Canadian resident employees at an average price of $34.00 per share (2006 – $18.61).

Under the second plan, Company employees who are US residents are eligible to purchase common shares from the Company at a price equal to the market value. Employees who hold common shares in the Employee Share Purchase Plan for 18 months following the date of acquisition of such shares ("Acquisition Date") receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the Acquisition Date. In 2007, 595 shares (2006 – 400) were issued to US resident employees at an average price of $40.08 per share (2006 – $22.71).

As at December 31, 2007, the total number of shares issued under these plans is 132,878 (2006 – 127,590).

h) On November 12, 2007 and August 31, 2005, the Company granted stock appreciation rights to senior management with a base price being the trading price per Share on the Toronto Stock Exchange at the close of trading on the grant day. Details are as follows:

Grant date	November 12, 2007	August 31, 2005
Number of rights granted	300,000	15,000
Base price	$39.74	$9.53

Stock appreciation rights granted November 12, 2007 will become enforceable on November 12, 2013 and stock appreciation rights granted August 31, 2005 are enforceable at the rate of 20% per year from the date of grant.

The stock appreciation rights may become enforceable earlier in the event of a change in control of the Company, the closing of a going private transaction, or the occurrence of termination without cause (each one being a "Triggering Event").

As at December 31, 2007 the share price used to value the stock appreciation rights is $41.00 and the change in liability is as follows:

	2007	**2006**
Balance – beginning of year	**$ 128,657**	$ -
Liability adjustment	**336,409**	128,657
Balance – end of year	**$ 465,066**	$ 128,657

13. Income Taxes

The earnings before income taxes were computed for the years ending December 31 as follows:

	2007	2006
Canada	**$ 26,399,226**	$ 25,498,419
U.S.A.	**12,157,806**	5,690,935
	$ 38,557,032	$ 31,189,354

The provision for income taxes includes the following current and future amounts:

	2007	2006
Current:		
Canada	**$ 8,679,213**	$ 8,592,213
U.S.A.	**4,327,401**	1,914,185
Total current expense	**13,006,614**	10,506,398
Future (recovery):		
Canada	**(356,632)**	(339,000)
U.S.A	**207,542**	176,000
Total future (recovery)	**(149,090)**	(163,000)
Total	**$ 12,857,524**	$ 10,343,398

The effective income tax rate differs from the basic Canadian Federal and Provincial statutory tax rates due to the following:

		2007		2006
Statutory tax rates		**34.05%**		34.22%
Income tax expense at statutory rates	**$**	**13,127,250**	$	10,672,522
Income tax expense (recovery) resulting from:				
Future tax adjustments due to rate enactments		**(679,320)**		(361,909)
Manufacturing and processing credit		**(110,195)**		(179,500)
Effect of US tax rates		**418,676**		270,888
Other permanent differences		**101,113**		(58,603)
	$	**12,857,524**	$	10,343,398
Effective tax rates		**33.35%**		33.16%

Significant components of the future income tax assets and liabilities are as follows:

		2007		2006
Future income tax assets due to:				
Accrued liabilities	**$**	**619,139**	$	356,000
Employee future benefits		**357,477**		425,000
	$	**976,616**	$	781,000
Future income tax liabilities due to:				
Capital assets	**$**	**(5,968,406)**	$	(5,865,036)
Derivative financial instruments		**(288,898)**		-
Other assets		**-**		(95,000)
	$	**(6,257,304)**	$	(5,960,036)

14. Employee Future Benefits

a) The Company offers to certain retired employees a post retirement program consisting of group health and dental care, life insurance and complementary retirement benefits. This plan is not funded.

The Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as of January 1, 2006 and the next required valuation will be as of January 1, 2009. The following information pertains to the Company's plan as established by independent actuaries.

Information about the Company's defined benefit plan is as follows:

	2007	2006
Accrued benefit obligation:		
Balance – beginning of year	**$ 1,748,890**	$ 1,261,690
Current service cost	**109,799**	86,142
Interest cost on obligation	**92,237**	66,962
Benefit payments	**(27,900)**	(27,899)
Actuarial loss	**50,978**	361,995
Balance – end of year	**1,974,004**	1,748,890
Plan assets:		
Fair value, beginning of year	**-**	-
Contributions - Employer	**27,900**	27,899
Benefits paid	**(27,900)**	(27,899)
Fair value, end of year	**-**	-
Net obligation – end of year	**1,974,004**	1,748,890
Unamortized net actuarial loss	**(661,491)**	(621,002)
Unamortized past service costs	**(14,484)**	(15,711)
Accumulated benefit obligation	**$ 1,298,029**	$ 1,112,177

The significant assumptions used are as follows:

	2007 **%**	2006 %
Accrued benefit obligation and benefit cost as of December 31, 2007		
Discount rate	**5.25**	5.00
Rate of compensation increase	**4.00**	4.00

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007. This rate is assumed to decrease gradually by 0.5% per year, to reach 5%.

An increase or decrease of 1% in this rate would have the following impact:

		Increase of 1%		Decrease of 1%
Impact on accrued benefit obligation	$	443,755	$	341,909
Impact on benefit cost		51,091		38,735

The elements of the Company's defined benefit plan costs recognized in the year are as follows:

		2007		2006
Current year service cost	**$**	**109,799**	$	86,142
Interest cost		**92,237**		66,962
Actuarial loss		**50,978**		361,995
Elements of employee future benefits cost before adjustments to recognize the long-term nature of employee future cost		**253,014**		515,099
Adjustments to recognize the long-term nature of employee future benefits cost:				
Difference between net actuarial gain and actuarial gain for year		**(23,490)**		(354,900)
Amortization of past service costs		**1,227**		1,227
Defined benefit cost recognized	**$**	**230,751**	$	161,426

b) Bell Pole, acquired on July, 1, 2006, contributes to a multi-employer plan for certain hourly employees and to three defined benefit pension plans for salaried and certain non-union hourly wage employees. Pension benefits are based on length of service and final average earnings.

The company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of one of the pension plans for funding purposes was as of December 31, 2004; which is currently being updated as at December 31, 2007. The actuarial valuation date for the two other pension plans is December 31, 2005 which will be updated December 31, 2008.

Information about Bell Pole's defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2007	2006
Accrued benefit obligation:		
Balance, beginning of period	**$ 10,721,500**	$ 10,560,800
Current service cost	**437,300**	205,000
Interest cost on obligation	**530,700**	279,650
Benefit payments	**(653,250)**	(1,171,350)
Actuarial loss	**(350,300)**	847,400
Balance, end of period	**10,685,950**	10,721,500
Plan assets:		
Fair value, beginning of period	**11,190,650**	10,895,050
Actual return on plan assets	**(95,350)**	1,353,500
Contributions - Employer	**491,250**	113,450
Benefits paid	**(653,250)**	(1,171,350)
Fair value, end of period	**10,933,300**	11,190,650
Funded status-plan surplus	**247,350**	469,150
Unamortized net actuarial gain (loss)	**534,850**	(33,435)
Accrued benefit asset, included in other assets	**$ 782,200**	$ 435,715

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of benefit plans that are not fully funded:

	2007	2006
Accrued benefit obligation	**$ (3,610,400)**	$ (3,478,800)
Fair value of plan assets	**3,188,100**	3,189,300
Funded status-plan deficit	**$ (422,300)**	$ (289,500)

Percentage of plan assets consist of the following for the period ending December 31, 2007:

	2007 %	2006 %
Equity securities	**55**	57
Debt securities	**41**	39
Short-term and cash	**4**	4
	100	100

The significant assumptions used are as follows (weighted-average):

	2007 **%**	2006 %
Accrued benefit obligation as of December 31:		
Discount rate	**5.25**	5.00
Rate of compensation increase	**4.00**	4.00
Benefit costs for the year ended December 31:		
Discount rate	**5.00**	5.50
Expected long-term rate of return on plan assets	**7.50**	7.50
Rate of compensation increase	**4.00**	4.00

The elements of Bell Pole's defined benefit plan costs recognized in the year are as follows:

	2007	2006
Current service cost, net of employee contributions	**$ 427,900**	$ 198,100
Interest cost	**530,700**	279,650
Actual return on plan assets	**95,350**	(1,353,500)
Actuarial (gain) loss	**(350,300)**	847,400
Element of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**703,650**	(28,350)
Adjustment to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan asset for year	**(928,550)**	960,350
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss for year	**354,750**	(841,652)
Defined benefit costs recognized	**$ 129,850**	$ 90,348

15. Interest in Joint Venture

The consolidated financial statements include the Company's 50% proportionate share, as indicated below, of the revenues, expenses, assets and liabilities of its Kanaka joint venture:

	2007	2006
Assets		
Current assets		
Accounts receivable	**$ 330,802**	$ 221,392
Other receivable	**144,967**	963,506
Inventories	**1,603,531**	1,306,446
Prepaid expenses	**13,991**	19,455
	2,093,291	2,510,799
Capital assets	**665,917**	531,569
Other assets	**71,500**	89,415
Total assets	**$ 2,830,708**	$ 3,131,783
Liabilities		
Current liabilities		
Bank indebtedness	**$ 2,715,242**	$ 2,778,556
Accounts payable and accrued liabilities	**115,466**	353,227
Total liabilities	**$ 2,830,708**	$ 3,131,783
Earnings		
Sales	**$ 3,659,730**	$ 2,338,331
Cost of sales	**3,659,730**	2,338,331
Earnings	**$ -**	$ -
Cash flows		
Cash flows provided by (used in) operating activities	**$ 231,692**	$ (546,013)
Cash flows (used in) provided by financing activities	**(42,452)**	685,902
Cash flows used in investing activities	**(189,240)**	(139,889)
	$ -	$ -

16. Commitments and Contingencies

a) The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

b) The Company has issued guarantees amounting to $4,588,466 (2006 – $127,396) under various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the financial statements.

c) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

2008	$ 2,364,543
2009	2,101,632
2010	1,725,959
2011	1,186,840
2012	759,097
Thereafter	10,617,395

d) The Company's operations are subject to Canadian Federal and Provincial as well as US Federal and State environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

17. Financial Instruments

Financial Instrument Fair Values in the Consolidated Balance Sheet

The carrying amounts of financial instruments falling under the scope of the CICA Handbook section 3855 are presented in the consolidated balance sheet at fair value or amortized cost according to the Company's accounting policies. Short term financial assets and liabilities, which includes accounts receivable, notes receivable, bank indebtedness and accounts payable approximate fair values due to the immediate or short-term maturities of these financial instruments.

The carrying amounts of foreign exchange forward contracts and interest rate swaps is equal to the fair value, which is based on the amount at which they could be settled based on estimated current market rates. They are presented in the consolidated balance sheet under derivative financial instruments as follows:

	2007
Current Assets	
Foreign exchange forward contracts	$ 658,437
Long-term Assets	
Foreign exchange forward contracts	256,857
Interest rate swaps	16,643
	$ 273,500

Currency Risks

The Company is exposed to currency risks due to its export of goods manufactured in Canada and because of its trade accounts receivables and payables denominated in US dollars. These risks are partially covered by purchases. The Company also uses foreign exchange forward contracts to hedge contracted cash inflows and outflows of US dollars. Sale prices on export contracts are generally established well in advance of shipment dates and, in order to protect margins from currency fluctuations, the Company sells forward the US dollars to be received. Purchase prices for goods sourced from American suppliers are usually established at the order date and are also subject to currency fluctuations in the period from the date ordered to the date received. To manage this risk, the Company purchases forward the US dollars required to pay these suppliers.

The following table reflects the financial assets and liabilities denominated in US dollars:

	2007 US$	2006 US$
Assets		
Accounts receivable	**10,491,927**	10,070,466
Liabilities		
Bank indebtedness	**15,405,175**	10,264,065
Accounts payable and accrued liabilities	**9,172,818**	5,182,344

The following table summarizes the Company's foreign currency commitments as at December 31:

					2007
Foreign currency contracts	**Notional Amount**	**Average Exchange Rate**	**Maturity year**	**Notional Equivalent**	**Fair Value**
	$			**$ CDN**	**$ CDN**
Sell $ US to $ CDN	**4,000,000**	**1.1593**	**Dec. 2008**	**4,637,075**	**658,437**
Sell $ US to $ CDN	**1,800,000**	**1.1497**	**Dec. 2009**	**2,069,500**	**256,857**
	5,800,000	**1.1563**		**6,706,575**	**915,294**

					2006
Foreign currency contracts	Notional Amount	Average Exchange Rate	Maturity year	Notional Equivalent	Fair Value
	$			$ CDN	$ CDN
Sell $ US to $ CDN	2,000,000	1.6113	Dec. 2007	3,222,500	881,660

Interest Rate Risks

As at December 31, 2007, the Company had limited exposure to interest rate risk on long-term debt as only 2% (2006 – 3%) of the Company's long-term debt is at variable 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 hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The following table summarizes the Company's interest rate swap agreements as at December 31:

				2007
	Notional Amount	**Fixed Rate**	**Maturing Date**	**Notional Equivalent**
	$			**$ CDN**
Interest rate swap - CDN	**2,300,000**	**5.81**	**Dec. 2010**	**2,300,000**
Interest rate swap - CDN	**2,700,000**	**5.85**	**Feb. 2011**	**2,700,000**
Interest rate swap - US	**1,100,000**	**7.23**	**Sep. 2010**	**1,090,430**

				2006
	Notional Amount	Fixed Rate	Maturing Date	Notional Equivalent
	$			$ CDN
Interest rate swap - CDN	2,300,000	5.81	Dec. 2010	2,300,000
Interest rate swap - CDN	2,700,000	5.85	Feb. 2011	2,700,000
Interest rate swap - US	1,100,000	7.23	Sep. 2010	1,281,940

The fair value of the interest rate swap agreements based on cash settlement requirements as of December 31, 2007 is a gain of $16,643 (2006 – loss of $32,727).

Credit Risks

The geographic distribution of customers and procedures regarding commercial risk management limit the concentration of credit risks.

Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing primarily with utility and telecommunication companies and other major corporations.

18. Related Party Transactions

The Company had the following transactions with related parties:

		2007		2006
Parent company				
Marketing and technical service fees paid	**$**	**200,000**	$	200,000
Interest on promissory note		**75,714**		86,774
Ultimate shareholders				
Marketing and technical service fees paid		**100,000**		100,000

These transactions occurred in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, the balance sheets include the following amounts with related parties:

		2007		2006
Accounts payable to parent company	**$**	**77,070**	$	86,675
Accounts payable to ultimate shareholders		**25,000**		25,000

19. Segment Information

The Company operates within one dominant business segment, the production and sale of pressure treated wood. Operating plants are located in Nova Scotia, Quebec, Ontario, Alberta, British Columbia, and the states of Wisconsin and Washington (USA). The Company also operates a distribution centre in the province of Newfoundland.

Sales attributed to countries based on location of customer are as follows:

	2007	2006
Geographic sales information:		
Canada	**$ 163,122,298**	$ 152,988,724
U.S.A.	**106,591,832**	70,864,302
	$ 269,714,130	$ 223,853,026

Capital assets attributed to the countries based on location are as follows:

	2007	2006
Canada	**$ 53,327,315**	$ 54,970,181
U.S.A.	**16,937,071**	4,955,475
Total	**$ 70,264,386**	$ 59,925,656

In 2007, the Company had one customer representing 15% of its sales (2006 – 21% of sales).

20. Subsequent Event

On January 7, 2008, the Company announced that it had entered into a letter of intent to acquire The Burke-Parsons-Bowlby Corporation (“BPB”). The acquisition is expected to be structured as a merger between a US-based wholly-owned subsidiary of the Company, and BPB. The letter of intent contemplates a purchase price of US$33 million for the shares of BPB, to be paid through the conversion of each outstanding share of common stock of BPB into a right to receive approximately US$47.78 per share in cash, subject to adjustment in certain circumstances.

The acquisition is subject to customary conditions, including entry into a definitive merger agreement, approval of BPB shareholders and the completion of satisfactory due diligence. It is anticipated that the proposed transaction, if finalized, would close April 1, 2008 with the right of the Company to extend the closing date by two 30-day increments. It is expected that financing for the transaction will be secured through existing and additional debt facilities.

21. Comparative Figures

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.