Source: **Stella-Jones Inc.**

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STELLA-JONES REPORTS SECOND QUARTER RESULTS
First quarter that incorporates the results of Tangent Rail Corporation

- **Sales of $167.3 million compared with $129.1 million last year**
- **Organic revenue growth of approximately 4.0%**
- **Non-recurring expenses of $5.4 million, mainly to optimize production and maximize synergies**
- **Semi-annual dividend increased 11.1% to $0.20 per share**

MONTREAL, QUEBEC – August 12, 2010 - Stella-Jones Inc. (TSX: SJ) today announced financial results for its second quarter and six-month period ended June 30, 2010.

Financial highlights (in thousands of dollars, except per share data) (unaudited)	**Quarters ended June 30,**		**Six months ended June 30,**	
	2010	**2009**	**2010**	**2009**
Sales	**167,317**	129,104	**266,677**	241,058
Gross profit	**28,891**	23,900	**47,054**	46,419
Cash flow from operations [1]	**11,062**	12,602	**19,590**	23,923
Net earnings for the period	**5,610**	11,021	**11,424**	18,708
Per share - basic ($)	**0.35**	0.87	**0.80**	1.49
Per share - diluted ($)	**0.35**	0.87	**0.80**	1.48
Weighted average shares outstanding (basic, in '000s)	**15,896**	12,624	**14,302**	12,595

[1] Before changes in non-cash working capital components.

SECOND-QUARTER RESULTS

Sales were $167.3 million, an increase of $38.2 million, or 29.6% from last year's sales of $129.1 million. The acquisition of Tangent Rail Corporation ("Tangent"), effective April 1, 2010, contributed sales of approximately $42.1 million. Changes in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $9.4 million when compared with the same period a year earlier. Adjusting for year-over-year currency fluctuations, sales increased approximately 4.0% versus last year's second quarter, reflecting higher railway tie sales in both the United States and Canada.

Railway tie sales amounted to $88.4 million, up $30.8 million, or 53.6% from last year, as a result of a $29.3 million contribution from Tangent. Excluding Tangent, and adjusting for a $7.2 million decrease due to a year-over-year currency translation effect, sales rose approximately 15.0%. Sales of utility poles totalled $38.7 million, a decrease of 12.4% from a year ago. This decrease mainly reflects lower sales of transmission poles in the U.S. as well as a $1.9 million decrease in sales from the year-over-year currency translation effect. Industrial product sales rose to $26.6 million, up from $11.9 million a year earlier, driven by the contribution of Tangent's coal tar distillation and used tie pickup and disposal operations as well as solid demand for marine applications in Canada. Finally, sales of consumer lumber decreased 12.5% to $13.5 million.

"The acquisition of Tangent had an immediate positive effect on our top line," said Brian McManus, President and Chief Executive Officer of Stella-Jones. "As evidenced by solid organic growth, the railway tie market is gradually improving. Tangent significantly enhances our presence in this core market and favourably positions Stella-Jones to capture additional opportunities by leveraging the strengths of our newly expanded network. Meanwhile, the utility pole market remains soft with lingering pricing pressures in the U.S."

Gross profit was $28.9 million or 17.3% of sales, compared with $23.9 million or 18.5% of sales last year. The increase in gross profit dollar essentially reflects the contribution of the Tangent operations partially offset by a lower average rate applied to convert gross profit from U.S. dollar denominated sales. The reduction in gross profit as a percentage of sales mainly stems from a highly competitive environment in the rail contractor and transit markets, softer utility pole pricing and slightly lower margins from the Tangent operations.

Second-quarter results include non-recurring expenses of approximately $5.4 million, mainly consisting of asset impairment charges for the Spencer, West Virginia facility and the Ripley, West Virginia U.S. corporate office, severance expenses, as well as a provision for an unfavourable legal judgment. Most of these expenses will help reduce future costs and solidify consolidation synergies.

"Stella-Jones remains constantly focused on network optimization and cost control. Consequently, pursuant to the Tangent acquisition, optimization of production capacity decreased the need for railway tie capacity at our Spencer facility, while the Company's current U.S. corporate office will be consolidated with Tangent's and relocated to Pittsburgh, Pennsylvania," said George Labelle, Senior Vice-President and Chief Financial Officer.

Net earnings for the period stood at $5.6 million or $0.35 per share, fully diluted, compared with $11.0 million or $0.87 per share, fully diluted, last year. Reflecting the non-cash nature of the majority of the non-recurring expenses, cash flow from operating activities before changes in non-cash working capital components remained solid at $11.1 million, versus $12.6 million in the same period a year ago.

Despite the Tangent transaction, Stella-Jones' balance sheet as at June 30, 2010 remains healthy. Long-term debt, including the current portion, was $154.2 million, representing a ratio of total long-term debt to shareholders' equity of 0.57:1, stable compared with three months earlier. In addition, a solid cash flow generation and better working capital resulted in a further $2.3 million decrease in short-term bank indebtedness during the second quarter, to $47.6 million as at June 30, 2010.

SIX-MONTH RESULTS

For the six-month period ended June 30, 2010, sales were $266.7 million, up from $241.1 million in the first six months of 2009. In addition to Tangent's three-month contribution in 2010, sales increased organically by approximately 1.0%, while changes in the value of the Canadian dollar versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $18.2 million when compared with the same period a year earlier. Gross profit reached $47.1 million, or 17.6% of sales, versus $46.4 million, or 19.3% a year earlier. In addition to the aforementioned non-recurring expenses, year-to-date results also included $2.0 million in general and administrative expenses directly related to the Tangent acquisition.

Net earnings for the period stood at $11.4 million, or $0.80 per share, fully diluted, versus $18.7 million, or $1.48 per share, fully diluted, in the corresponding period a year earlier. Cash flow from operating activities before changes in non-cash working capital components reached $19.6 million, compared with $23.9 million last year.

SEMI-ANNUAL DIVIDEND INCREASED TO $0.20 PER SHARE

The Board of Directors declared a semi-annual dividend of $0.20 per share on the outstanding common shares of Stella-Jones, payable on October 8, 2010 to shareholders of record at the close of business on September 3, 2010. This represents an 11.1% increase over the previous semi-annual dividend.

OUTLOOK

"Tangent's successful integration will be a major performance driver in 2010 and beyond, as we gradually reap all the benefits that our newly enlarged network can provide. Proactive measures to optimize operating and administrative efficiency are well underway and should rapidly enable Stella-Jones to achieve all potential synergies and increase its margins. The gradual recovery in the railway tie market is supported by signs of improvement in global economic conditions, which in turn are driving rail freight volumes higher across North America. Stella-Jones should further benefit from this momentum, and we expect current trends to positively reflect on our second half results," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on Thursday, August 12, 2010, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 647-427-7452 (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 1-800-642-1687 and entering the passcode 87260963. This tape recording will be available on Thursday, August 12, 2010 as of 12:00 PM Eastern Time until 11:59 PM Eastern Time on Thursday, August 19, 2010.

NON-GAAP MEASURE

Cash flow from operations is a financial measure not prescribed by Canadian generally accepted accounting principles ("GAAP") and is not likely to be comparable to similar measures presented by other issuers. Management considers it 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 North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated consumer 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's common shares are listed on the Toronto Stock Exchange.

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EXCHANGE LISTINGS
The Toronto Stock Exchange
Stock Symbol: SJ

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NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the second quarter ended June 30, 2010 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle
Senior Vice-President and Chief Financial Officer

Montréal, Québec
August 12, 2010

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) *as at June 30, 2010 and December 31, 2009*	**June 30, 2010 unaudited ($)**	**December 31, 2009 ($)**
ASSETS		
CURRENT ASSETS		
Accounts receivable	89,893	30,160
Derivative financial instruments	997	2,196
Inventories	204,437	212,590
Prepaid expenses	4,150	3,223
Income taxes receivable	1,422	4,726
Future income taxes	3,350	1,683
	304,249	254,578
CAPITAL ASSETS (Notes 3 and 4)	116,525	96,885
INTANGIBLE ASSETS (Note 3)	61,641	7,580
GOODWILL (Note 3)	79,957	5,494
OTHER ASSETS	5,807	4,878
FUTURE INCOME TAXES	2,229	1,380
	570,408	370,795
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	47,630	56,119
Accounts payable and accrued liabilities	41,988	19,152
Customer deposits	2,191	2,344
Derivative financial instruments	124	31
Future income taxes	869	869
Current portion of long-term debt (Note 6)	10,963	4,746
Current portion of asset retirement obligations	1,894	315
Current portion of non-competes payable	978	920
	106,637	84,496
LONG-TERM DEBT (Note 6)	143,230	82,334
FUTURE INCOME TAXES	41,531	16,257
ASSET RETIREMENT OBLIGATIONS	632	932
EMPLOYEE FUTURE BENEFITS	1,840	1,716
DERIVATIVE FINANCIAL INSTRUMENTS	1,806	1,400
NON-COMPETES PAYABLE	3,229	3,682
	298,905	190,817
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	130,030	52,019
CONTRIBUTED SURPLUS	940	777
RETAINED EARNINGS	139,143	130,580
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	1,390	(3,398)
	271,503	179,978
	570,408	370,795

See accompanying Notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of dollars, except where specified otherwise) *(unaudited)*	three months ended June 30, 2010 (#)	three months ended June 30, 2009 (#)	six months ended June 30, 2010 (#)	six months ended June 30, 2009 (#)
SHARE CAPITAL *(in thousands of shares)*				
Number of shares outstanding – beginning of period	12,691	12,570	12,684	12,565
Stock option plan	4	4	8	4
Exchange of subscription receipts for common shares (Note 3)	3,202	---	3,202	---
Stock option agreement	---	100	---	100
Share purchase plan	3	3	6	8
Number of shares outstanding – end of period	15,900	12,677	15,900	12,677
	($)	**($)**	**($)**	**($)**
Shares outstanding – beginning of period	52 162	49,973	52,019	49,910
Stock option plan	44	80	124	80
Exchange of subscription receipts for common shares (Note 3)	77,741	---	77,741	---
Stock option agreement	---	1,692	---	1,692
Share purchase plan	83	108	146	171
Shares outstanding – end of period	130,030	51,853	130,030	51,853
SUBSCRIPTION RECEIPTS				
Balance - beginning of period	77,733	---	---	---
Subscription receipts net of underwriting and legal fees	10	---	76,903	---
Future income taxes related to underwriting and legal fees	(2)	---	838	---
Exchange of subscription receipts for common shares (Note 3)	(77,741)	---	(77,741)	---
Balance – end of period	---	---	---	---
CONTRIBUTED SURPLUS				
Balance - beginning of period	852	1,982	777	1,905
Stock-based compensation	102	77	204	154
Exercise of stock options	(14)	(1,421)	(41)	(1,421)
Balance – end of period	940	638	940	638
RETAINED EARNINGS				
Balance - beginning of period	134,110	110,479	130,580	105,055
Net earnings for the period	5,610	11,021	11,424	18,708
Dividends on common shares	(577)	---	(2,861)	(2,263)
Balance – end of period	139,143	121,500	139,143	121,500
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME				
Balance - beginning of period	(4,870)	5,723	(3,398)	4,242
Other comprehensive (loss) income	6,260	(4,173)	4,788	(2,692)
Balance – end of period	1,390	1,550	1,390	1,550
SHAREHOLDERS' EQUITY	271,503	175,541	271,503	175,541

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of dollars, except per share data) *(unaudited)*	**three months ended June 30, 2010 ($)**	**2009 ($)**	**six months ended June 30, 2010 ($)**	**2009 ($)**
SALES	167,317	129,104	266,677	241,058
EXPENSES				
Cost of sales	138,426	105,204	219,623	194,639
Selling and administrative	11,233	5,304	17,122	11,087
Asset impairment (Note 4)	2,412	---	2,412	---
Foreign exchange loss (gain)	964	(4)	988	10
Loss (gain) on derivative financial instruments	24	(2,356)	39	(1,527)
Amortization of capital and intangible assets	2,877	2,501	4,643	5,112
Loss (gain) on disposal of capital assets	56	(20)	25	(51)
	155,992	110,629	244,852	209,270
OPERATING EARNINGS	11,325	18,475	21,825	31,788
INTEREST ON LONG-TERM DEBT	2,492	1,809	3,976	3,382
OTHER INTEREST	605	503	927	1,068
EARNINGS BEFORE INCOME TAXES	8,228	16,163	16,922	27,338
PROVISION FOR INCOME TAXES	2,618	5,142	5,498	8,630
NET EARNINGS FOR THE PERIOD	5,610	11,021	11,424	18,708
NET EARNINGS PER COMMON SHARE (Note 7)	0.35	0.87	0.80	1.49
DILUTED NET EARNINGS PER COMMON SHARE (Note 7)	0.35	0.87	0.80	1.48

See accompanying Notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of dollars) *(unaudited)*	**three months ended June 30, 2010 ($)**	**2009 ($)**	**six months ended June 30, 2010 ($)**	**2009 ($)**
NET EARNINGS FOR THE PERIOD	5,610	11,021	11,424	18,708
Other comprehensive income (loss) :				
Net change in unrealized gains on translation of financial statements of self-sustaining foreign operation	11,947	(7,523)	9,183	(4,319)
Net change in unrealized losses on translation of long-term debt designated as a hedge of net investment in self-sustaining foreign operation	(5,436)	3,441	(4,091)	1,925
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	(424)	(130)	(501)	(113)
Reclassification to net earnings of gains on cash flow hedges	---	---	---	(319)
Income tax recovery on change in fair value of cash flow hedges and cash flow hedges reclassed to net earnings	173	39	197	134
	6,260	(4,173)	4,788	(2,692)
COMPREHENSIVE INCOME	11,870	6,848	16,212	16,016

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) *(unaudited)*	three months ended June 30, 2010 ($)	three months ended June 30, 2009 ($)	six months ended June 30, 2010 ($)	six months ended June 30, 2009 ($)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	5,610	11,021	11,424	18,708
Adjustments for				
Amortization of capital assets	1,455	2,037	2,790	4,143
Amortization of intangible assets	1,422	464	1,853	969
Amortization of deferred financing costs	141	15	488	32
Change in fair value of debt	158	425	331	463
Loss (gain) on disposal of capital assets	56	(20)	25	(51)
Employee future benefits	51	124	248	249
Stock-based compensation	102	77	204	154
Unrealized loss (gain) on derivative financial instruments	1,185	(2,089)	1,200	(1,239)
Asset impairment (Note 4)	2,412	---	2,412	---
Future income tax	(1,865)	386	(1,439)	386
Other	335	162	54	109
	11,062	12,602	19,590	23,923
CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS				
Accounts receivable	(14,919)	(3,683)	(37,735)	(23,723)
Inventories	27,049	9,806	39,582	(6,808)
Prepaid expenses	387	535	297	999
Income taxes	(755)	(1,405)	3,186	(645)
Accounts payable and accrued liabilities	8,695	(3,090)	15,614	9,727
Customer deposits	6	30	(175)	(1,297)
Asset retirement obligations	(111)	(127)	(97)	(34)
	20,352	2,066	20,672	(21,781)
	31,414	14,668	40,262	2,142
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	(3,376)	(11,489)	(8,685)	5,242
Increase in deferred financing costs	(222)	---	(1,000)	---
Increase in long-term debt	---	---	66,027	---
Repayment of long-term debt (Note 3)	(82,097)	(979)	(83,548)	(2,754)
Proceeds from issuance of common shares	113	459	229	522
Proceeds from issuance of subscription receipts	10	---	76,903	---
Non-competes payable	(305)	(381)	(635)	(768)
Dividend on common shares	(2,861)	(2,263)	(2,861)	(2,263)
	(88,738)	(14,653)	46,430	(21)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES				
Decrease in other assets	20	---	25	32
Business acquisition net of cash acquired (Note 3)	(84,613)	---	(84,613)	---
Purchase of capital assets	(1,056)	(1,009)	(2,241)	(2,627)
Assets held for sale	---	974	---	409
Proceeds from disposal of capital assets	53	20	137	65
Decrease in restricted cash	142,920	---	---	---
	57,324	(15)	(86,692)	(2,121)
NET CHANGE IN CASH AND CASH EQUIVALENTS – DURING THE PERIOD	---	---	---	---
CASH AND CASH EQUIVALENTS – BEGINNING AND END OF THE PERIOD	---	---	---	---
SUPPLEMENTAL DISCLOSURE				
Interest paid	2,112	2,830	4,162	5,675
Income taxes paid	7,292	6,148	6,329	8,889

See accompanying Notes

NOTE 1 – DESCRIPTION OF THE BUSINESS

Stella-Jones Inc. (the “Company”) is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated consumer 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 is incorporated under the *Canada Business Corporations Act* ; its common shares are listed on the Toronto Stock Exchange.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements for the six months ended June 30, 2010 and 2009, are unaudited and include estimates and adjustments that Management of the Company consider necessary for a fair presentation of the financial position, shareholders’ equity, earnings, comprehensive income and cash flows.

The interim consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) on a basis consistent with those followed in the annual consolidated financial statements of the Company for the year ended December 31, 2009, except for new accounting policies that were adopted January 1, 2010, as described below. However, they do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the Company’s latest audited year-end consolidated financial statements and notes which can be found on SEDAR at www.sedar.com.

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

Principles of consolidation

The unaudited 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., Stella-Jones Canada Inc., Stella-Jones U.S. Holding Corporation, Stella-Jones Corporation, Stella-Jones U.S. Finance Corporation, Canadalux S.à r.l. and Tangent Rail Corporation (“Tangent”). The consolidated accounts of Stella-Jones Canada Inc. include the accounts of a 50% interest in Kanaka Creek Pole Company Limited, a joint venture which is accounted for under the proportionate consolidation method of accounting.

Revenue recognition

Revenue from the sale of products and services is 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. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company enters into service agreements where green tie procurement and tie treating services are offered separately. These services consist mainly of procuring, trimming, grading, storage and treating of railway ties for which revenue is recognized when the services are provided, based on contractual terms. When procurement services are rendered, revenue is recognized when the ownership of the ties is passed to the customer. Trimming and grading services can either be recognized at the time of procurement or when treating services are rendered. Storage and treating revenues are recognized at the time of treating or when the railway ties are shipped. Under certain agreements, the customer will supply the green ties and the Company will offer all of the other services. The Company capitalizes costs incurred to provide the service and will reverse them to cost of goods sold at the same time that revenue is recognized.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The Company also offers used tie pickup and disposal services. Revenue is recognized upon reaching certain points in the process of removal of the used ties from the customer's right of way.

The Company also operates timber licenses to harvest logs 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.

Changes in accounting policies

The Canadian Institute of Chartered Accountants issued the following accounting standards which were adopted by the Company effective January 1, 2010:

Handbook Section 1582, "Business Combinations" replaces Section 1581 of the same title. The new Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standard ("IFRS"), IFRS 3 (Revised) standard, "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company has applied this new standard effective January 1, 2010 as early adoption is permitted. As a result of the application of this new accounting standard, the Company charged deferred acquisition expenses in the amount of $328,399 to earnings. Effective January 1, 2010, expenses of a similar nature will be recorded to results in the period they are incurred.

Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are equivalent to the corresponding provisions of the IAS 27 (Revised) standard, "Consolidated and Separate Financial Statements". The Company has applied these new standards effective January 1, 2010 as early adoption is permitted. The adoption of these new standards did not have any impact on the Company's consolidated financial statements.

NOTE 3 – BUSINESS ACQUISITION

On April 1, 2010, the Company completed the acquisition of 100% of the shares of Tangent, a provider of wood crosstie supply chain services to the railroad industry. Tangent serves the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Terre Haute and Winslow, Indiana; Alexandria, Louisiana and McAlisterville, Pennsylvania. The wood preservative, creosote, is produced at its distilleries in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions, consisting of used tie pickup and disposal, are carried out at three facilities in Alabama, Minnesota and North Carolina. This acquisition expands the Company's capabilities within the U.S. railway tie industry and provides the Company with creosote manufacturing operations.

Total cash outlay associated with the acquisition was approximately $172.2 million (US$169.5 million), subject to post closing adjustments, including cash on hand of $6.8 million (US$6.7 million) and excluding acquisition costs of approximately $2.0 million (US$2.0 million). This amount includes $89.9 million (US$88.5 million) paid to Tangent's shareholders, $81.3 million (US$80.1 million) used to reimburse Tangent's debts with financial institutions and $1.0 million (US$0.9 million) to pay accrued interest on these debts.

The acquisition has been accounted for using the acquisition 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 at the acquisition date. The following fair value allocation is preliminary and is based on Management's best estimates and information known at the time of preparing these interim unaudited consolidated financial statements. The purchase price allocation is expected to be completed by December 31, 2010 and consequently, changes could occur mainly with respect to intangible assets, goodwill and future income taxes. The results of operations of Tangent have been included in the Company's unaudited interim consolidated financial statements from the acquisition date.

(tabular information presented in thousands of dollars, unless otherwise noted)

NOTE 3 – BUSINESS ACQUISITION (cont'd.)

The following is a preliminary summary of the net assets acquired at fair value as at the acquisition date. The original transaction was made in US dollars and converted into Canadian dollars as at the acquisition date.

	$
Assets acquired	
Non-cash working capital	49,238
Capital assets	22,323
Customer relationships	20,905
Customer backlog	670
Creosote registration	31,723
Non-deductible goodwill	70,982
Future income tax assets	615
	196,456
Liabilities assumed	
Accounts payable and accrued liabilities	4,529
Long-term debt	81,340
Asset retirement obligation	1,311
Future income tax liabilities	24,663
Total consideration	84,613
Consideration	
Cash	172,198
Payment of accrued interest	(956)
Payment of long-term debt	(81,340)
Consideration payable	1,544
Cash on hand	(6,833)
Purchase consideration for shares	84,613

The Company's preliminary valuation of intangible assets has identified customer relationships, a creosote registration and customer backlog. The assigned useful lives for customer relationships are between 6 to 10 years and 3 months for the customer backlog. The creosote registration is not subject to amortization as the Company considers it to have an indefinite useful life.

Goodwill value is determined as the excess of the total consideration over the estimated fair value of tangible and intangible assets acquired as well as liabilities assumed. Goodwill is not amortized, not deductible for tax purposes and represents the future economic value associated with the increased railroad network access, acquired work force and synergies with the Company's operations.

(tabular information presented in thousands of dollars, unless otherwise noted)

NOTE 3 – BUSINESS ACQUISITION (cont'd.)

The following table presents a roll forward of the intangible assets and goodwill net book value balances from December 31, 2009 to June 30, 2010:

	Customer Relationships $	Non-compete Agreements $	Creosote Registration $	Total Intangible assets $	Goodwill $
Year ended December 31, 2009					
Cost	4,603	5,980	---	10,583	5,494
Accumulated depreciation	(1,259)	(1,744)	---	(3,003)	---
Net book value as at Dec. 31, 2009	3,344	4,236	---	7,580	5,494
Six-month period ended June 30, 2010					
Opening net book balance	3,344	4,236	---	7,580	5,494
Addition of Tangent customer relationships	20,905	---	---	20,905	---
Addition of Tangent customer backlog	670	---	---	670	---
Addition of Tangent creosote registration	---	---	31,723	31,723	---
Addition of Tangent goodwill	---	---	---	---	70,982
Amortization	(1,360)	(493)	---	(1,853)	---
Exchange difference	1,049	43	1,524	2,616	3,481
Net book value as at June 30, 2010	24,608	3,786	33,247	61,641	79,957

Financing for the transaction has been secured through an $80,050,000 private placement of subscription receipts which successfully closed on March 15, 2010, as well as through the issuance to the Solidarity Fund QFL of a $25,395,000 (US$25,000,000) unsecured and subordinated non-convertible debenture, the addition of a $40,632,000 (US$40,000,000) syndicated bank term facility which successfully closed on March 24, 2010, and the increase of existing operating debt facilities. More details on financing facilities can be found in Notes 5 and 6. Underwriting and legal fees related to the private placement of subscription receipts amounted to $3,147,000 generating net proceeds of $76,903,000. The subscription receipts were exchanged as at the close of business, April 1, 2010, for common shares in the share capital of the Company on the basis of one common share per subscription receipt. Holders of subscription receipts did not need to take any action in order to receive the common shares to which they were entitled. As the subscription receipts were sold on a private placement basis, these common shares were subject to regulatory restrictions on resale until July 16, 2010. On April 1, 2010, previously restricted cash in the amount of $142,920,000, consisting of the proceeds of the financing raised for the acquisition of Tangent and which were repayable or refundable in the event the Tangent acquisition did not close, was disbursed.

Tangent's sales and net earnings in the three month period ended June 30, 2010 were $42,130,000 and $2,285,000, respectively. On a pro-forma basis, Management's estimate of the sales and net earnings of the combined Company and Tangent's operations, for the six-month period ended June 30, 2010, would have been approximately $306,991,000 and $14,910,000, respectively, had the Tangent acquisition occurred as of January 1, 2010. To arrive at the pro-forma estimates, Management has considered the financing structure resulting from the acquisition as well as other acquisition adjustments.

NOTE 4 – CAPITAL ASSETS

Pursuant to the Tangent acquisition, the Company has increased its production capacity and has consolidated the production of its railway tie requirements. As a result, the Spencer, West Virginia plant will be producing less annual volumes going forward. This management decision has triggered the requirement to test the Spencer plant's long-lived assets for recoverability which concluded in a $1,733,000 impairment expense recorded in earnings.

The Company has also decided to relocate its U.S. corporate office to Pittsburgh, Pennsylvania and sell its current corporate office located in Ripley, West Virginia. As a result, the land and building associated with the Ripley office have been re-classed as assets held for sale, presented on the balance sheet in other assets and written down, reducing their value by $679,000. The related expense was recorded in earnings.

(tabular information presented in thousands of dollars, unless otherwise noted)

NOTE 5 – BANK INDEBTEDNESS

On March 24, 2010, the Company entered into an agreement to amend and restate, without novation, its existing revolving credit facilities. The separate Canadian and U.S. revolving bank lines have been replaced by a single demand revolving facility to be made available by a syndicate of bank lenders to the Company. The amended facilities consist of Tranche A, a maximum demand operating loan of $50,000,000 made available to the Company (December 31, 2009 - $50,000,000) and Tranche B, a maximum demand operating loan of US$75,000,000 (December 31, 2009 – US$45,000,000) made available to Stella-Jones U.S. Holding Corporation ("SJ Holding"). Borrowings may be obtained by the Company under Tranche A in the form of Canadian prime rate loans, Canadian Bankers' Acceptances ("BA's"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. Borrowings may be obtained by SJ Holding under Tranche B in the form of U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans is 0.75% and with respect to BA's, LIBOR loans and fees for letters of credit, the interest rate margin is 2.0%. As at June 30, 2010, $16,564,000 was available under Tranche A, and US$63,154,000 was available under Tranche B. As of June 30, 2010, US$10,000,000 from Tranche B was designated as a hedge of net investment in a self-sustaining foreign operation.

As collateral for this revolving credit facility, the bank lenders hold a first ranking charge on the inventory, accounts receivable and intellectual property of the Company and SJ Holding and a second ranking security interest on their real and immoveable property in Canada and the United States.

NOTE 6 – LONG-TERM DEBT

As part of the financing of the Tangent acquisition , the Company entered into new long-term debt agreements for which details are as follows:

- US$25,000,000 unsecured and subordinated non-convertible debenture bearing interest at 9.75%, repayable in a single installment on April 1, 2015. This debenture was designated as a hedge of net investment in a self-sustaining foreign operation.

- US$40,000,000 syndicated bank term loan bearing interest at the bank's U.S. base rate plus 2.0%, or LIBOR rate plus 3.0%, at the Company's option. Repayment will be made in 19 consecutive quarterly principal repayments of US$1,425,000 starting July 1, 2010 and a balloon repayment of US$12,925,000 constituting the twentieth and final payment of the residual capital balance on April 1, 2015. This term loan was designated as a hedge of net investment in a self-sustaining foreign operation.

NOTE 7 – EARNINGS PER SHARE

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

	three months ended June 30,		**six months ended June 30,**	
	2010	**2009**	**2010**	**2009**
Net earnings applicable to common shares*	$5,610	$11,021	$11,424	$18,708
Weighted average number of common shares outstanding*	15,896	12,624	14,302	12,595
Effect of dilutive stock options*	58	59	58	82
Weighted average number of diluted common shares outstanding*	15,954	12,683	14,360	12,677
Net earnings per common share	$0.35	$0.87	$0.80	$1.49
Diluted net earnings per common share	$0.35	$0.87	$0.80	$1.48

* *Net earnings are presented in thousands of dollars and share information is presented in thousands.*

(tabular information presented in thousands of dollars, unless otherwise noted)

NOTE 8 – SEASONALITY

The Company's operations follow a seasonal pattern, with pole, tie and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Consumer lumber sales also 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.

NOTE 9 – SEGMENT INFORMATION

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