



**Source:** Stella-Jones Inc.

**Contacts:** **George T. Labelle, CA**  
Senior Vice-President and Chief Financial Officer  
Tel.: (514) 934-8665  
glabelle@stella-jones.com

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

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## STELLA-JONES REPORTS RECORD SECOND QUARTER RESULTS

- Sales of \$180.3 million, up from \$167.3 million last year
- Operating income of \$27.6 million, or 15.3% of sales, versus \$11.3 million in Q2 2010
- Net income of \$17.3 million, compared with \$5.6 million last year

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

<b>Financial highlights</b> (in thousands of Canadian dollars, except per share data)	<b>Quarters ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Sales	180,331	167,317	310,816	266,677
Operating income	27,582	11,278	42,000	21,752
Net income for the period	17,271	5,563	25,771	11,351
Per share - basic (\$)	1.08	0.35	1.62	0.79
Per share - diluted (\$)	1.08	0.35	1.61	0.79
Cash flow from operations <sup>1</sup>	29,506	18,592	47,071	31,415
Weighted average shares outstanding (basic, in ‘000s)	15,947	15,900	15,939	14,302

<sup>1</sup> Before changes in non-cash working capital components and interest and income tax paid.

### SECOND-QUARTER RESULTS

Sales reached \$180.3 million, an increase of \$13.0 million, or 7.8% over last year’s second-quarter sales of \$167.3 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about \$7.3 million when compared with the previous year. Sales, excluding this conversion effect, increased approximately 12.0%, primarily reflecting higher sales of railway ties and utility poles as the Company benefitted from increased market demand on both maintenance and special projects.

Railway tie sales amounted to \$95.5 million, an increase of 8.0% over last year, reflecting increased market demand. Adjusting for a negative foreign exchange effect of \$5.0 million due to a lower average conversion rate on U.S. dollar denominated tie sales, year-over-year comparable railway tie sales increased \$12.1 million. Utility pole sales reached \$52.4 million, up 35.2% from a year ago. This increase was mainly due to solid demand for transmission poles resulting from orders for special projects and to partial recuperation of distribution pole sales postponed by severe weather in the first quarter. A lower year-over-year conversion rate reduced the value of U.S. dollar denominated pole sales by \$1.1 million. Industrial product sales decreased 22.7% to \$20.6 million due to reduced demand for marine applications in Canada and to the timing of special projects in the U.S. that favourably contributed to 2010 second quarter results. Finally, sales of residential lumber declined 12.5% to \$11.9 million, primarily as a result of unfavourable weather compared with last year.

Operating income was \$27.6 million or 15.3% of sales, compared with \$11.3 million or 6.7% of sales last year. The increase as a percentage of sales mainly reflects a different product mix, more heavily weighted towards utility poles, as well as lower raw material costs and greater efficiency from the integration of the Tangent Rail Corporation (“Tangent”) operations, acquired on April 1, 2010. Of note, last year's second-quarter results included non-recurring expenses of approximately \$3.0 million in connection with severance expenses and a provision for an unfavourable legal judgement. During that period, the Company also recorded asset impairment charges of \$2.4 million.

Net income for the period reached \$17.3 million or \$1.08 per share, fully diluted, compared with \$5.6 million or \$0.35 per share, fully diluted, in 2010. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 58.7% to \$29.5 million.

“Solid demand for Stella-Jones' core products, greater market penetration and the contribution from special projects in the utility pole category allowed for a strong financial performance in the second quarter,” said Brian McManus, President and Chief Executive Officer. “The advantages provided by our extensive range of products and services, as well as by our continental network, have grown increasingly attractive to utilities and railroad operators. These customer benefits have enabled us to generate increased revenues, while our network efficiency has further improved operating profitability.”

#### **SIX-MONTHS RESULTS**

For the six-month period ended June 30, 2011, sales reached \$310.8 million, up 16.6% from \$266.7 million a year earlier. Excluding the additional sales contribution of \$37.7 million from the Tangent operations in the first quarter of 2011, and net of a \$10.7 million conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. currency, sales increased approximately 6.0%.

Operating income amounted to \$42.0 million, or 13.5% of sales, versus \$21.8 million, or 8.2% of sales a year earlier. Non-recurring expenses and asset impairment charges totalled approximately \$7.4 million in the first half of 2010. Net income for the period stood at \$25.8 million, or \$1.61 per share, fully diluted, versus \$11.4 million, or \$0.79 per share, fully diluted, last year. Finally, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid grew 49.8% to \$47.1 million.

#### **SOLID FINANCIAL POSITION AND AMENDED CREDIT FACILITY**

As at June 30, 2011, the Company's long-term debt, including the current portion, amounted to \$101.9 million, down from \$118.7 million as at March 31, 2011. The ratio of total long-term debt to shareholders' equity was 0.34:1 as at June 30, 2011, down from 0.42:1 three months earlier. During the quarter, Stella-Jones proceeded with the accelerated repayment of a capital amount of US\$15.0 million on a debenture of US\$25.0 million.

“Strong seasonal demand for our core products increased working capital requirements in the second quarter. As such needs typically decline in the second half of the year, Stella-Jones should generate a robust cash flow and further reduce its debt, while preserving sufficient flexibility to consider strategic growth initiatives,” added George Labelle, Senior Vice-President and Chief Financial Officer.

Subsequent to the end of the second quarter, on July 28, 2011, the Company entered into an agreement to further amend and restate in its entirety, but without novation, its existing revolving credit agreement. The new facility, to be used to repay existing bank indebtedness and for working capital and general corporate purposes, consists of a \$170.0 million committed revolving facility made available for a five-year term.

#### **SEMI-ANNUAL DIVIDEND INCREASED TO \$0.26 PER SHARE**

The Board of Directors declared a semi-annual dividend of \$0.26 per share on the outstanding common shares of Stella-Jones, payable on October 7, 2011 to shareholders of record at the close of business on September 2, 2011. This represents an increase of 8.3% over the previous semi-annual dividend.

## **OUTLOOK**

“Through its reputation for reliability and entrenched continental position as a key supplier of value-added products and services in the wood-treating industry, Stella-Jones is well positioned to benefit from any additional opportunities that may arise. Sound fundamentals in our core railway tie and utility pole markets should enable us to maintain our market momentum and produce solid sales growth in coming quarters. In parallel, we will continue to realize advantages from the ongoing optimization of our expanded network. Finally, our strategic vision remains intact and with a healthy cash flow and strong financial position, we are carefully studying opportunities for additional network growth,” concluded Mr. McManus.

## **CONFERENCE CALL**

Stella-Jones will hold a conference call to discuss these results on Thursday, August 11, 2011, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 416-644-3424 (Toronto or overseas) or 1-877-974-0447 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-877-289-8525 and entering the passcode 4459248#. This tape recording will be available on Thursday, August 11, 2011 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Thursday, August 18, 2011.

## **NON-IFRS FINANCIAL MEASURES**

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

## **ABOUT STELLA-JONES**

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

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

-30-

<b>HEAD OFFICE</b> 3100 de la Côte-Vertu Blvd. Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	<b>EXCHANGE LISTINGS</b> The Toronto Stock Exchange Stock Symbol: SJ  <b>TRANSFER AGENT AND REGISTRAR</b> Computershare Investor Services Inc.	<b>INVESTOR RELATIONS</b> George Labelle Senior Vice-President and Chief Financial Officer Tel.: (514) 934-8665 Fax: (514) 934-5327 glabelle@stella-jones.com
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## **NOTICE**

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

(Signed)

George Labelle  
Senior Vice-President and Chief Financial Officer

Montréal, Québec  
August 11, 2011

# **Stella-Jones Inc.**

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

# Stella-Jones Inc.

## Interim Consolidated Statement of Financial Position (Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at June 30, 2011 \$	As at December 31, 2010 \$
<b>Assets</b>			
<b>Current assets</b>			
Accounts receivable		102,850	56,315
Inventories		213,559	205,335
Prepaid expenses		10,761	4,517
Income taxes receivable		2,190	2,875
		<u>329,360</u>	<u>269,042</u>
<b>Non-current assets</b>			
Property, plant and equipment	5	104,461	104,763
Intangible assets	6	60,480	64,179
Goodwill	6	71,734	73,973
Other assets	7	4,773	5,331
Deferred income taxes		3,094	3,670
		<u>573,902</u>	<u>520,958</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Bank indebtedness		73,812	31,923
Accounts payable and accrued liabilities		48,894	32,470
Current portion of long-term debt		8,264	10,459
Current portion of provisions and other long-term liabilities	8	6,153	4,705
		<u>137,123</u>	<u>79,557</u>
<b>Non-current liabilities</b>			
Long-term debt	9	93,663	115,369
Deferred income taxes		39,222	38,355
Provisions and other long-term liabilities	8	3,138	3,668
Employee future benefits		2,040	2,572
Derivative financial instruments		818	1,335
		<u>276,004</u>	<u>240,856</u>
<b>Shareholders' equity</b>			
Capital stock	10	131,073	130,229
Contributed surplus		1,206	1,376
Retained earnings		177,783	155,636
Accumulated other comprehensive loss		(12,164)	(7,139)
		<u>297,898</u>	<u>280,102</u>
		<u>573,902</u>	<u>520,958</u>

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

# Stella-Jones Inc.

## Interim Consolidated Statement of Change in Shareholders' Equity

(Unaudited)

For the six-month periods ended June 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Accumulated other comprehensive loss						Total \$	Total equity \$
	Capital stock \$	Contributed surplus \$	Retained earnings \$	Foreign currency translation adjustment \$	Translation of long-term debts designated as net investment hedges \$	Unrecognized loss on cash flow hedges \$		
<b>Balance – January 1, 2011</b>	130,229	1,376	155,636	(8,469)	2,243	(913)	(7,139)	280,102
<b>Comprehensive income</b>								
Net income for the period	-	-	25,771	-	-	-	-	25,771
Other comprehensive income	-	-	201	(7,822)	2,636	161	(5,025)	(4,824)
<b>Comprehensive income for the period</b>	-	-	25,972	(7,822)	2,636	161	(5,025)	20,947
<b>Transactions with shareholders</b>								
Dividends on common shares	-	-	(3,825)	-	-	-	-	(3,825)
Stock option plan	655	-	-	-	-	-	-	655
Exercise of stock options	-	(255)	-	-	-	-	-	(255)
Employee share purchase plans	189	-	-	-	-	-	-	189
Stock-based compensation	-	85	-	-	-	-	-	85
	844	(170)	(3,825)	-	-	-	-	(3,151)
<b>Balance – June 30, 2011</b>	131,073	1,206	177,783	(16,291)	4,879	(752)	(12,164)	297,898

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

# Stella-Jones Inc.

## Interim Consolidated Statement of Change in Shareholders' Equity . . . *continued*

(Unaudited)

**For the six-month periods ended June 30, 2011 and 2010**

(expressed in thousands of Canadian dollars)

	Accumulated other comprehensive loss						Total \$	Total equity \$
	Capital stock \$	Contributed surplus \$	Retained earnings \$	Foreign currency translation adjustment \$	Translation of long-term debts designated as net investment hedges \$	Unrecognized loss on cash flow hedges \$		
<b>Balance – January 1, 2010</b>	52,019	1,112	128,015	-	(637)	(986)	(1,623)	179,523
<b>Comprehensive income</b>								
Net income for the period	-	-	11,351	-	-	-	-	11,351
Other comprehensive income	-	-	(378)	9,183	(4,091)	(304)	4,788	4,410
<b>Comprehensive income for the period</b>	-	-	10,973	9,183	(4,091)	(304)	4,788	15,761
<b>Transactions with shareholders</b>								
Dividends on common shares	-	-	(2,861)	-	-	-	-	(2,861)
Exchange of subscription receipts for common shares	77,741	-	-	-	-	-	-	77,741
Stock option plan	124	-	-	-	-	-	-	124
Exercise of stock options	-	(41)	-	-	-	-	-	(41)
Employee share purchase plans	146	-	-	-	-	-	-	146
Stock-based compensation	-	154	-	-	-	-	-	154
	78,011	113	(2,861)	-	-	-	-	75,263
<b>Balance – June 30, 2010</b>	130,030	1,225	136,127	9,183	(4,728)	(1,290)	3,165	270,547

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



# Stella-Jones Inc.

## Interim Consolidated Statement of Income (Unaudited)

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Sales</b>	180,331	167,317	310,816	266,677
<b>Expenses (income)</b>				
Cost of sales	144,297	141,303	253,896	224,266
Selling and administrative	8,222	13,692	15,196	19,607
Other losses (gains), net	230	1,044	(276)	1,052
	152,749	156,039	268,816	244,925
<b>Operating income</b>	27,582	11,278	42,000	21,752
<b>Financial expenses</b>				
Interest on long-term debt	1,317	2,492	3,273	3,976
Other interest	676	605	1,045	927
	1,993	3,097	4,318	4,903
<b>Income before income taxes</b>	25,589	8,181	37,682	16,849
<b>Provision for income taxes</b>				
Current	7,118	4,483	10,143	6,937
Deferred	1,200	(1,865)	1,768	(1,439)
	8,318	2,618	11,911	5,498
<b>Net income for the period</b>	17,271	5,563	25,771	11,351
<b>Basic earnings per common share</b>	1.08	0.35	1.62	0.79
<b>Diluted earnings per common share</b>	1.08	0.35	1.61	0.79

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

# Stella-Jones Inc.

## Interim Consolidated Statement of Comprehensive Income (Unaudited)

(expressed in thousands of Canadian dollars)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Net income for the period</b>	17,271	5,563	25,771	11,351
<b>Other comprehensive income (loss)</b>				
Net change in unrealized gains (losses) on translation of financial statements of foreign operations	(1,371)	11,947	(7,822)	9,183
Change in unrealized gains and losses on translation of long-term debts designated as hedges of net investment in foreign operations (net of income tax of \$(100); nil for the three-month period ended June 30, 2010; \$(410) for the six-month period ended June 30, 2011; nil for the six-month period ended June 30, 2010)	657	(5,436)	2,636	(4,091)
Change in losses on fair value of derivatives designated as cash flow hedges (net of income tax of \$3; \$173 for the three-month period ended June 30, 2010; \$(59) for the six-month period ended June 30, 2011; \$197 for the six-month period ended June 30, 2010)	(4)	(251)	161	(304)
Actuarial gain (loss) on post-retirement benefit obligations (net of income tax of nil; \$63 for the three-month period ended June 30, 2010; \$(67) for the six-month period ended June 30, 2011; \$126 for the six-month period ended June 30, 2010)	-	(189)	201	(378)
	(718)	6,071	(4,824)	4,410
<b>Comprehensive income</b>	16,553	11,634	20,947	15,761

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

# Stella-Jones Inc.

## Interim Consolidated Statement of Cash Flows

(Unaudited)

For the six-month periods ended June 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011 \$	2010 \$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	25,771	11,351
Adjustments for		
Depreciation of property, plant and equipment	2,566	2,328
Amortization of intangible assets	2,370	2,315
Interest accretion	424	819
Loss on disposal of property, plant and equipment	10	25
Employee future benefits	(242)	248
Stock-based compensation	85	154
Loss on derivative financial instruments	-	1,200
Asset impairment (reversal)	(280)	2,412
Financial expenses	4,318	4,903
Income taxes	10,143	6,937
Deferred income taxes	1,768	(1,439)
Restricted stock units obligation	182	108
Other	(44)	54
	<u>47,071</u>	<u>31,415</u>
Changes in non-cash working capital components		
Accounts receivable	(47,453)	(37,735)
Inventories	(11,491)	39,582
Prepaid expenses	(6,369)	297
Income taxes receivable	111	2,578
Accounts payable and accrued liabilities	17,431	14,713
Asset retirement obligations	(504)	(97)
Provisions and other long-term liabilities	1,902	-
	<u>(46,373)</u>	<u>19,338</u>
Interest paid	(5,022)	(4,162)
Income tax paid	(9,678)	(6,329)
	<u>(14,002)</u>	<u>40,262</u>
<b>Financing activities</b>		
Increase (decrease) in bank indebtedness	42,202	(8,685)
Increase in deferred financing costs	(47)	(1,000)
Increase in long-term debt	-	66,027
Repayment of long-term debt	(20,436)	(83,548)
Non-competes payable	(605)	(635)
Dividend on common shares	(3,825)	(2,861)
Proceeds from issuance of common shares	589	229
Proceeds from issuance of subscription receipts	-	76,903
	<u>17,878</u>	<u>46,430</u>
<b>Investing activities</b>		
Decrease (increase) in other assets	(4)	25
Business acquisition	-	(84,613)
Increase in intangible assets	(312)	(535)
Purchase of property, plant and equipment	(3,792)	(1,706)
Assets held for sale	188	-
Proceeds from disposal of property, plant and equipment	44	137
	<u>(3,876)</u>	<u>(86,692)</u>
<b>Net change in cash and cash equivalents during the period</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents – Beginning of period</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents – End of period</b>	<u>-</u>	<u>-</u>

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

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### 1 Description of the business

Stella-Jones Inc. (the “Company”) is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar-based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company has treating and pole peeling facilities across Canada and the United States and sells its products mainly in these two countries. The Company’s headquarters is located in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange (“TSX”) (under the stock symbol SJ).

### 2 Significant accounting policies

#### Basis of presentation and adoption of IFRS

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

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of IFRS*. The accounting policies followed in these interim consolidated financial statements are the same as those applied in the Company’s interim consolidated financial statements for the periods ended March 31, 2011 and 2010. Subject to certain transition elections, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s consolidated statement of financial position as at June 30, 2010 and consolidated statement of income and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2011 and 2010**

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

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

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

### **Principles of consolidation**

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

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

### **3 Impact of accounting pronouncements not yet implemented**

In June 2011, the International Accounting Standards Board ("IASB") amended IAS 19, *Employee Benefits*, and IAS 1, *Presentation of Financial Statements*, which has not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new and amended standards:

#### *IAS 19 – Employee Benefits*

IAS 19 has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

The amended standard removes the option to use the “corridor approach” whereby actuarial gains and losses are deferred, and it also removes the option to recognize actuarial gains and losses immediately through income. Instead, it requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period. Instead, past service costs will be recognized immediately in the period of a plan amendment.

Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. The amendments clarify that benefits requiring future services (e.g. stay bonuses) are not termination benefits in the scope of IAS 19, and this may result in a different pattern of recognition of such costs.

A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### *IAS 1 – Presentation of Financial Statements*

Presentation of items of other comprehensive income (“OCI”):

IAS 1 has been amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

The new requirements are effective for annual periods beginning on or after July 1, 2012.

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2011 and 2010**

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

### **4 Adoption of IFRS**

#### **Impact of transition to IFRS**

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

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

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

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### Reconciliation of consolidated statement of financial position

		As at June 30, 2010		
	Note	CA GAAP \$	Adj. \$	IFRS \$
<b>Assets</b>				
<b>Current assets</b>				
Accounts receivable		89,893	-	89,893
Derivative financial instruments		997	-	997
Inventories		204,437	-	204,437
Prepaid expenses		4,150	-	4,150
Income taxes receivable		1,422	-	1,422
Deferred income taxes	a	3,350	(3,350)	-
		304,249	(3,350)	300,899
<b>Non-current assets</b>				
Property, plant and equipment	b,c	116,525	(9,275)	107,250
Intangible assets	b,c	61,641	9,275	70,916
Goodwill		79,957	-	79,957
Other assets	d	5,807	(197)	5,610
Deferred income taxes	a,i	2,229	3,496	5,725
		570,408	(51)	570,357
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Bank indebtedness		47,630	-	47,630
Accounts payable and accrued liabilities	l	44,303	(2,417)	41,886
Deferred income taxes	a	869	(869)	-
Current portion of long-term debt		10,963	-	10,963
Current portion of provisions	l	2,872	2,417	5,289
		106,637	(869)	105,768
<b>Non-current liabilities</b>				
Long-term debt		143,230	-	143,230
Deferred income taxes	a,j	41,531	1,110	42,641
Provisions	g	3,861	123	3,984
Employee future benefits	e	1,840	541	2,381
Derivative financial instruments		1,806	-	1,806
		298,905	905	299,810
<b>Shareholders' equity</b>				
Capital stock		130,030	-	130,030
Contributed surplus	f	940	285	1,225
Retained earnings	m	139,143	(3,016)	136,127
Accumulated other comprehensive income	h,n	1,390	1,775	3,165
		271,503	(956)	270,547
		570,408	(51)	570,357



# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### Reconciliation of net income

	Note	For the three-month period ended June 30, 2010			For the six-month period ended June 30, 2010		
		CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$
<b>Sales</b>		167,317	-	167,317	266,677	-	266,677
<b>Expenses (income)</b>							
Cost of sales	k	138,426	2,877	141,303	219,623	4,643	224,266
Selling and administrative	f,g	13,645	47	13,692	19,534	73	19,607
Other losses (gains), net		1,044		1,044	1,052	-	1,052
Depreciation of property, plant and equipment and amortization of intangible assets	k	2,877	(2,877)	-	4,643	(4,643)	-
		155,992	47	156,039	244,852	73	244,925
<b>Operating income</b>		11,325	(47)	11,278	21,825	(73)	21,752
<b>Financial expenses</b>							
Interest on long-term debt		2,492	-	2,492	3,976	-	3,976
Other interest		605	-	605	927	-	927
		3,097	-	3,097	4,903	-	4,903
<b>Income before income taxes</b>		8,228	(47)	8,181	16,922	(73)	16,849
<b>Provision for (recovery of) income taxes</b>							
Current		4,483	-	4,483	6,937	-	6,937
Deferred		(1,865)	-	(1,865)	(1,439)	-	(1,439)
		2,618	-	2,618	5,498	-	5,498
<b>Net income for the period</b>		5,610	(47)	5,563	11,424	(73)	11,351
Basic earnings per common share		0.35		0.35	0.80		0.79
Diluted earnings per common share		0.35		0.35	0.80		0.79

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### Reconciliation of comprehensive income

	Note	For the three-month period ended June 30, 2010			For the six-month period ended June 30, 2010		
		CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$
<b>Net income for the period</b>	f,g	5,610	(47)	5,563	11,424	(73)	11,351
<b>Other comprehensive income (loss)</b>							
Net change in unrealized losses on translation of financial statements of foreign operations		11,947	-	11,947	9,183	-	9,183
Change in unrealized gains on translation of long-term debts designated as hedges of net investment in foreign operations		(5,436)	-	(5,436)	(4,091)	-	(4,091)
Change in losses on fair value of derivatives designated as cash flow hedges (net of income tax of \$173; six-month period – \$197)		(251)	-	(251)	(304)	-	(304)
Actuarial loss on post-retirement benefit obligations (net of income tax of \$63; six-month period – \$126)	d,j	-	(189)	(189)	-	(378)	(378)
		6,260	(189)	6,071	4,788	(378)	4,410
<b>Comprehensive income</b>		11,870	(236)	11,634	16,212	(451)	15,761

- a) Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, a current deferred income tax asset of \$3,350 reported under Canadian GAAP as at June 30, 2010 has been reclassified as a non-current deferred income tax asset under IFRS. As at June 30, 2010, a current deferred income tax liability of \$869 has been reclassified as a non-current deferred income tax liability under IFRS.
- b) The Company currently holds cutting rights. Under Canadian GAAP, the Company classified them as property, plant and equipment.
- Under IFRS, cutting rights can be accounted for as operating leases, intangible assets or agricultural assets, depending on the nature of the contracts. The Company has concluded that under IFRS the cutting rights should be classified as intangible assets and treated as such under IAS 38, *Intangible Assets*. Accordingly, as at June 30, 2010, \$6,321 has been reclassified from property, plant and equipment to intangible assets.
- c) The Company currently holds standing timber. Under Canadian GAAP, the Company classified them as property, plant and equipment. The Company has analyzed the nature of the standing timber and concluded that under IFRS those assets are classified as intangible assets and are subject to IAS 38. Accordingly, as at June 30, 2010, \$2,954 has been reclassified from property, plant and equipment to intangible assets.
- d) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2011 and 2010**

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

Under Canadian GAAP, the Company applied the corridor method of accounting for such gains and losses. Under this method, gains and losses are recognized only if they exceed specified thresholds. The impact of the change of method is a decrease of \$197 in the carrying value of the accrued benefit asset as at June 30, 2010 in order to recognize the loss of \$504 for the period in other comprehensive income (\$252 for the three-month period). The decrease of \$197 includes the impact of the recognition of the cumulative actuarial gains and losses through retained earnings at January 1, 2010 for an amount of \$307. No actuarial gains or losses were recognized under Canadian GAAP using the corridor method.

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

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

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

Under Canadian GAAP, the fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. As at June 30, 2010, that change reduced contributed surplus and increased income by \$50 (\$25 for the three-month period). Contributed surplus has also been increased and retained earnings reduced by \$335 as at January 1, 2010.

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

Under IFRS, an entity must measure the liability incurred at fair value by applying an option pricing model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized as the awards vest. Starting January 1, 2010, the Company used the Black-Scholes valuation model to measure the liability related to its RSU. As at June 30, 2010, the long-term liability was increased and income reduced by \$123 (\$72 for the three-month period).

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

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

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

	Note	As at June 30, 2010 \$
<b>Deferred income tax assets</b>		
Employee future benefits –attribution period	e	146
Reclassification from short-term deferred income tax assets	a	<u>3,350</u>
		<u>3,496</u>

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

	Note	As at June 30, 2010 \$
<b>Deferred income tax liabilities</b>		
Employee future benefits – actuarial losses	d,e	241
Reclassification from short-term deferred income tax liabilities	a	<u>869</u>
		<u>1,110</u>

- k) Depreciation and amortization have been reclassified into cost of sales to comply with the presentation under IFRS.
- l) An amount of \$2,417 has been reclassified as at June 30, 2010 from accounts payable and accrued liabilities to current portion of provisions. This reclassification has been based on the nature of the liability.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

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

	Note	As at June 30, 2010 \$
Retained earnings as reported under Canadian GAAP		<u>139,143</u>
IFRS adjustments increase (decrease):		
Employee future benefits – actuarial gains – pension plan	d	307
Employee future benefits – actuarial loss – post-retirement plan	e	(990)
Employee future benefits – attribution period – post-retirement plan	e	449
Employee stock options	f	(285)
Restricted stock units	g	(123)
Employee future benefits – actuarial loss – pension plan	d	(504)
Deferred income tax – actuarial loss – pension plan	j	126
Cumulative translation adjustment	h	(1,775)
Deferred income tax	i,j	<u>(221)</u>
		<u>(3,016)</u>
Retained earnings as reported under IFRS		<u>136,127</u>

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

	Note	As at June 30, 2010 \$
Accumulated other comprehensive loss as reported under Canadian GAAP		1,390
IFRS adjustments increase (decrease):		
Cumulative translation adjustment	h	<u>1,775</u>
Accumulated other comprehensive loss as reported under IFRS		<u>3,165</u>

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### 5 Property, plant and equipment

	Land \$	Roads \$	Buildings \$	Production and anti-pollution equipment \$	Rolling stock \$	Office equipment \$	Total \$
<b>As at January 1, 2010</b>							
Cost	6,498	2,617	22,497	83,167	6,467	1,984	123,230
Accumulated depreciation	-	(853)	(4,712)	(26,863)	(2,178)	(940)	(35,546)
<b>Net book value</b>	<b>6,498</b>	<b>1,764</b>	<b>17,785</b>	<b>56,304</b>	<b>4,289</b>	<b>1,044</b>	<b>87,684</b>
<b>For the year ended December 31, 2010</b>							
Opening net book value	6,498	1,764	17,785	56,304	4,289	1,044	87,684
Acquisition of subsidiary	1,582	-	4,013	13,439	3,612	88	22,734
Additions	-	340	879	3,594	40	681	5,534
Disposals	-	-	-	-	(264)	-	(264)
Depreciation	-	(318)	(654)	(2,489)	(980)	(410)	(4,851)
Transfer to assets held for sale	(314)	-	(1,412)	-	-	-	(1,726)
Impairments	-	-	-	(1,394)	(339)	-	(1,733)
Exchange differences	(152)	-	(565)	(1,653)	(234)	(11)	(2,615)
<b>Closing net book value</b>	<b>7,614</b>	<b>1,786</b>	<b>20,046</b>	<b>67,801</b>	<b>6,124</b>	<b>1,392</b>	<b>104,763</b>
<b>As at December 31, 2010</b>							
Cost	7,614	2,957	25,284	96,691	8,856	2,722	144,124
Accumulated depreciation and impairment	-	(1,171)	(5,238)	(28,890)	(2,732)	(1,330)	(39,361)
<b>Net book value</b>	<b>7,614</b>	<b>1,786</b>	<b>20,046</b>	<b>67,801</b>	<b>6,124</b>	<b>1,392</b>	<b>104,763</b>
<b>For the six-month period ended June 30, 2011</b>							
Opening net book value	7,614	1,786	20,046	67,801	6,124	1,392	104,763
Additions	-	88	670	2,754	-	280	3,792
Disposals	-	-	-	-	(54)	-	(54)
Depreciation	-	(241)	(334)	(1,366)	(476)	(149)	(2,566)
Reversal of impairment	-	-	-	280	-	-	280
Exchange differences	(109)	-	(363)	(1,104)	(175)	(3)	(1,754)
<b>Closing net book value</b>	<b>7,505</b>	<b>1,633</b>	<b>20,019</b>	<b>68,365</b>	<b>5,419</b>	<b>1,520</b>	<b>104,461</b>
<b>As at June 30, 2011</b>							
Cost	7,505	3,100	25,550	95,971	8,515	2,984	143,625
Accumulated depreciation and impairment	-	(1,467)	(5,531)	(27,606)	(3,096)	(1,464)	(39,164)
<b>Net book value</b>	<b>7,505</b>	<b>1,633</b>	<b>20,019</b>	<b>68,365</b>	<b>5,419</b>	<b>1,520</b>	<b>104,461</b>

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2011 and 2010**

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

### **6 Intangible assets and goodwill**

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

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

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

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

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) June 30, 2011 and 2010

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

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

	Intangible assets					Total \$	Goodwill \$
	Customer relationships \$	Non-compet agreements \$	Creosote registration \$	Cutting rights \$	Standing timber \$		
<b>As at January 1, 2010</b>							
Cost	4,603	5,980	-	6,505	4,717	21,805	5,494
Accumulated amortization	(1,259)	(1,744)	-	(355)	(1,666)	(5,024)	-
<b>Net book value</b>	<b>3,344</b>	<b>4,236</b>	<b>-</b>	<b>6,150</b>	<b>3,051</b>	<b>16,781</b>	<b>5,494</b>
<b>For the year ended December 31, 2010</b>							
Opening net book value	3,344	4,236	-	6,150	3,051	16,781	5,494
Additions	-	-	-	287	635	922	-
Addition of Tangent customer relationships	21,575	-	-	-	-	21,575	-
Addition of Tangent creosote registration	-	-	31,723	-	-	31,723	-
Addition of Tangent goodwill	-	-	-	-	-	-	70,239
Amortization	(3,586)	(986)	-	(123)	(807)	(5,502)	-
Exchange differences	(473)	(185)	(662)	-	-	(1,320)	(1,760)
<b>Closing net book value</b>	<b>20,860</b>	<b>3,065</b>	<b>31,061</b>	<b>6,314</b>	<b>2,879</b>	<b>64,179</b>	<b>73,973</b>
<b>As at December 31, 2010</b>							
Cost	25,482	5,659	31,061	6,792	5,352	74,346	73,973
Accumulated amortization	(4,622)	(2,594)	-	(478)	(2,473)	(10,167)	-
<b>Net book value</b>	<b>20,860</b>	<b>3,065</b>	<b>31,061</b>	<b>6,314</b>	<b>2,879</b>	<b>64,179</b>	<b>73,973</b>
<b>For the six-month period ended June 30, 2011</b>							
Opening net book value	20,860	3,065	31,061	6,314	2,879	64,179	73,973
Additions	-	-	-	-	312	312	-
Amortization	(1,554)	(462)	-	(63)	(291)	(2,370)	-
Exchange differences	(614)	(87)	(940)	-	-	(1,641)	(2,239)
<b>Closing net book value</b>	<b>18,692</b>	<b>2,516</b>	<b>30,121</b>	<b>6,251</b>	<b>2,900</b>	<b>60,480</b>	<b>71,734</b>
<b>As at June 30, 2011</b>							
Cost	24,074	5,488	30,121	6,792	5,664	72,139	71,734
Accumulated amortization	(5,382)	(2,972)	-	(541)	(2,764)	(11,659)	-
<b>Net book value</b>	<b>18,692</b>	<b>2,516</b>	<b>30,121</b>	<b>6,251</b>	<b>2,900</b>	<b>60,480</b>	<b>71,734</b>



# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### 7 Other assets

	As at June 30, 2011 \$	As at December 31, 2010 \$
Advances against third party cutting rights	246	246
Notes receivable	293	290
Accrued benefit asset	1,097	1,119
Assets held for sale	3,050	3,318
Other	87	358
	4,773	5,331

### 8 Provisions and other long-term liabilities

	Provisions				Other long-term liabilities			Grand total \$
	Reforestation \$	Site remediation \$	Others \$	Total \$	RSU \$	Non- competes payable \$	Total \$	
<b>Balance as at January 1, 2010</b>	1,159	88	-	1,247	15	4,602	4,617	5,864
Period provisions charged to income:								
Addition	209	1,311	2,375	3,895	408	-	408	4,303
Reduction	(283)	(290)	-	(573)	-	(1,300)	(1,300)	(1,873)
Interest accretion	-	-	-	-	-	389	389	389
Exchange differences	-	-	(104)	(104)	-	(206)	(206)	(310)
<b>Balance as at December 31, 2010</b>	1,085	1,109	2,271	4,465	423	3,485	3,908	8,373
Period provisions charged to income:								
Addition	304	1,321	1,902	3,527	182	-	182	3,709
Reduction	(223)	(1,911)	-	(2,134)	-	(611)	(611)	(2,745)
Interest accretion	-	-	-	-	-	152	152	152
Exchange differences	-	(28)	(69)	(97)	-	(101)	(101)	(198)
<b>Balance as at June 30, 2011</b>	1,166	491	4,104	5,761	605	2,925	3,530	9,291

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### Analysis of provisions and other long-term liabilities

	As at June 30, 2011 \$	As at December 31, 2010 \$
Current		
Provisions	5,177	3,746
Other long-term liabilities	976	959
	<hr/>	<hr/>
Total current	6,153	4,705
	<hr/>	<hr/>
Non-current		
Provisions	584	719
Other long-term liabilities	2,554	2,949
	<hr/>	<hr/>
Total non-current	3,138	3,668
	<hr/>	<hr/>
	9,291	8,373
	<hr/>	<hr/>

### Provisions

#### Reforestation

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

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

#### Site remediation

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

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

During the second quarter of 2011, the provision to complete the Terre Haute facility remediation was increased by \$1,321. As at June 30, 2011, \$1,911 has been charged against the provision. The remediation will be completed by the end of September 2011.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

### Others

Other provisions comprise \$2,829 in legal litigation provisions, \$999 in a provision set up to acquire the land of the Memphis facility, which is presently being leased, and \$276 in other provisions.

### Other long-term liabilities

#### Restricted stock units

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

The number of additional RSU to be issued on the anniversary dates will be calculated in the same manner as the initial grant. The provision as at June 30, 2011 is valued at \$605 (\$423 as at December 31, 2010).

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

#### Non-competes payable

As part of a previous acquisition, the Company entered into non-compete agreements for which an intangible asset was recorded (note 6). The payable portion of the non-compete agreements was fair valued at a rate of 10.17%.

## 9 Long-term debt

On April 1, 2011, the Company entered into an agreement to amend and restate a US\$25,000 unsecured and non-convertible debenture and repaid US\$15,000 of the capital amount. The amended debenture bears interest at 7.27% (previously 7.89%) and is repayable in a single instalment of US\$10,000 on April 1, 2016 (previously, five annual principal repayments of US\$2,500 starting on April 1, 2013 and a final payment of US\$12,500 on April 1, 2018). No advance repayment will be permitted under the amended debenture. The amended debenture was designated as a hedge of net investment in foreign operations.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

On April 1, 2011, the Company entered into an agreement to amend and restate a US\$25,000 unsecured, subordinated and non-convertible debenture. The amended debenture bears interest at 7.27% (previously 9.75%) and is repayable in a single instalment of US\$25,000 on April 1, 2016 (previously, a single instalment of US\$25,000 on April 1, 2015). No advance repayment will be permitted under the amended agreement. The amended debenture was designated as a hedge of net investment in foreign operations.

### 10 Capital stock

	As at June 30, 2011	As at June 30, 2010
Number of shares outstanding – Beginning of period	15,923	12,684
Stock option plan	22	8
Exchange of subscription receipts for common shares	-	3,202
Employee share purchase plans	5	6
	<hr/>	<hr/>
Number of shares outstanding – End of period	15,950	15,900

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2011 and 2010

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

- a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

- b) Earnings per share

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

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2011	2010	2011	2010
<b>Net income applicable to common shares</b>	<b>\$17,271</b>	<b>\$5,563</b>	<b>\$25,771</b>	<b>\$11,351</b>
Weighted average number of common shares outstanding*	15,947	15,900	15,939	14,302
Effect of dilutive stock options*	67	58	60	58
Weighted average number of diluted common shares outstanding*	16,014	15,958	15,999	14,360
<b>Basic earnings per common share**</b>	<b>\$1.08</b>	<b>\$0.35</b>	<b>\$1.62</b>	<b>\$0.79</b>
<b>Diluted earnings per common share**</b>	<b>\$1.08</b>	<b>\$0.35</b>	<b>\$1.61</b>	<b>\$0.79</b>

\* Number of shares is presented in thousands.

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

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2011 and 2010**

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

### **11 Subsequent events**

On July 28, 2011, the Company and SJ Holding, as borrowers, entered into an agreement to further amend and restate in its entirety, but without novation, their existing revolving credit agreement. The existing demand revolving facility made available by a syndicate of bank lenders under the March 24, 2010 amendment was replaced by a committed revolving facility in the amount of \$170,000,000, to be used to repay and refinance existing indebtedness and for working capital and general corporate purposes. The \$170,000,000 committed revolving facility has been made available for a five-year term by a syndicate of lenders to the Company and SJ Holding (previously Tranche A, a maximum demand operating loan of \$50,000,000 made available to the Company and Tranche B, a maximum demand operating loan of US\$75,000,000 made available to SJ Holding). Borrowings may be obtained in the form of prime rate loans, banker's acceptances in Canadian or US dollars, US base rate loans, LIBOR loans in US dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and US base rate loans will range from 0.25% to 1.50% based on a pricing grid (previously 0.75%). The interest rate margin with respect to banker's acceptances, LIBOR loans and fees for letters of credit will range from 1.25% to 2.50% based on a pricing grid (previously 2.0%).

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

### **12 Seasonality**

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

### **13 Segment information**

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

