



**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

---

**STELLA-JONES REPORTS THE ELEVENTH CONSECUTIVE YEAR  
OF GROWTH IN NET INCOME**  
**Record Q4 and annual results**

- Q4 sales of \$147.5 million, up 10.9% from \$133.1 million last year
- 25.5% increase in Q4 net income to \$13.4 million, or \$0.83 per share, fully diluted, up from \$10.7 million, or \$0.67, fully diluted, in Q4 2010
- 61.8% increase in 2011 net income to \$55.7 million, or \$3.48 per share, fully diluted, up from \$34.4 million, or \$2.26 per share, fully diluted in 2010
- Adoption of a new dividend policy and declaration of a quarterly dividend of \$0.15 per share

**MONTREAL, QUEBEC – March 16, 2012** - Stella-Jones Inc. (TSX: SJ) today announced financial results for its fourth quarter and fiscal year ended December 31, 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 Dec. 31,</b>		<b>Years ended Dec. 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Sales	147,520	133,071	640,148	561,046
Operating income	20,399	19,194	87,968	60,690
Net income for the period	13,369	10,650	55,709	34,441
Per share - basic (\$)	0.84	0.67	3.49	2.27
Per share - diluted (\$)	0.83	0.67	3.48	2.26
Cash flow from operations <sup>1</sup>	24,760	23,153	99,627	78,063
Weighted average shares outstanding (basic, in ‘000s)	15,953	15,912	15,946	15,163

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

“2011 marked Stella-Jones’ eleventh year of uninterrupted growth in net income. These results reflect the successful execution of our operating strategy based on continental expansion and industry consolidation. Demand for our core railway tie and utility pole products remained solid throughout the year, as evidenced by double-digit sales growth excluding acquisitions and currency variations. More importantly, our continued focus on optimizing network efficiency and overall operations led to solid improvements in profitability,” said Brian McManus, President and Chief Executive Officer.

#### **FOURTH QUARTER RESULTS**

Sales totalled \$147.5 million, up 10.9% from last year’s fourth-quarter sales of \$133.1 million. This increase is attributable to solid industry demand for the Company’s core products, including strong advanced deliveries of railway ties, as well as a \$1.7 million contribution from the Thompson Industries, Inc. (“Thompson”) operations, acquired on December 7, 2011. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, versus the U.S. dollar, had a marginal negative impact of \$0.4 million on the value of U.S. dollar denominated sales when compared with last year. Excluding these factors, sales increased approximately 10.0%.

Fourth quarter sales of railway ties amounted to \$74.4 million in 2011, up from \$62.4 million in the fourth quarter of 2010. This 19.2% increase, reflects strong industry demand, including advanced deliveries, and a \$1.5 million contribution from the Thompson operations. Utility pole sales rose 3.8% to \$50.6 million, compared with \$48.7 million a year earlier, as a result of higher sales of transmission poles related to special projects. Industrial product sales stood at \$20.6 million, up from \$19.8 million a year ago, in part due to the contribution of the Thompson operations. Residential lumber sales were \$2.0 million, versus \$2.2 million last year.

Operating income amounted to \$20.4 million, or 13.8% of sales, compared with \$19.2 million, or 14.4% of sales, last year. Of note, results for the fourth quarter of 2011 included an asset impairment charge of \$2.2 million related to the non-cash reversal of a customer relationship intangible asset, whereas results for the fourth quarter of 2010 included several items representing net revenues of \$1.8 million, principally due to the sale of certain assets of the Terre Haute, Indiana facility. Excluding these elements, operating income for the fourth quarter of 2011 was \$22.6 million, compared with \$17.4 million a year earlier.

Net income for the period reached \$13.4 million, or \$0.83 per share, fully diluted, up 25.5% from \$10.7 million, or \$0.67 per share, fully diluted, last year. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was \$24.8 million, compared with \$23.2 million a year ago.

#### **YEAR-END RESULTS**

For the year ended December 31, 2011, sales reached \$640.1 million, up 14.1% from \$561.0 million a year earlier. Excluding additional contributions of \$37.7 million from the Tangent Rail Corporation operations in the first quarter of 2011 and of \$1.7 million from the Thompson operations in the last three weeks of the fourth quarter of 2011, and net of a \$21.3 million conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. currency, sales increased approximately 11.0%.

Operating income amounted to \$88.0 million, or 13.7% of sales, versus \$60.7 million, or 10.8% of sales a year earlier. Net income for 2011 totalled \$55.7 million, or \$3.48 per share, fully diluted, versus \$34.4 million, or \$2.26 per share, fully diluted, in 2010, representing a year-over-year increase of 61.8%. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 27.6% to \$99.6 million.

#### **SOLID FINANCIAL POSITION**

As at December 31, 2011, the Company's financial position remained solid with total debt, including short-term bank indebtedness, of \$182.7 million, compared with \$157.8 million at the end of the previous year. The increase is essentially attributable to the acquisition of Thompson three weeks prior to year-end. As at December 31, 2011, the ratio of total debt to total capitalization was 0.35:1, down from 0.36:1 twelve months earlier.

"A strong cash flow generation enabled Stella-Jones to conclude the year with a healthy financial position. This provides the Company with the flexibility to further expand its product and service offering, as well as its continental reach," added George Labelle, Senior Vice-President and Chief Financial Officer.

#### **NEW DIVIDEND POLICY AND QUARTERLY DIVIDEND OF \$0.15 PER SHARE**

On March 15, 2012, the Board of Directors modified the Company's dividend policy to consider the declaration of a dividend on a quarterly rather than on a semi-annual basis. In light of the Company's results, the Board declared a quarterly dividend of \$0.15 per common share payable on April 30, 2012 to shareholders of record at the close of business on April 2, 2012.

#### **OUTLOOK**

"We expect demand for our core products to remain solid in 2012, as North American railroad operators continue to invest in their network, while demand is expected to hold in utility poles. Our short-term priority is to integrate the Thompson operations and benefit from greater market penetration, synergies and additional

operating efficiencies from a larger network. Already well established as one of the largest North American providers of industrial treated wood products, Stella-Jones will continue to assess prospective business opportunities that create additional value for its shareholders,” concluded Mr. McManus.

#### **CONFERENCE CALL**

Stella-Jones will hold a conference call to discuss these results on Friday, March 16, 2012, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 416-644-3426 (Toronto or overseas) or 1-800-731-5319 (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 4511444#. This tape recording will be available on Friday, March 16, 2012 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, March 23, 2012.

#### **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-

**HEAD OFFICE**

3100 de la Côte-Vertu Blvd.  
Suite 300  
Saint-Laurent, Québec  
H4R 2J8  
Tel.: (514) 934-8666  
Fax: (514) 934-5327

**EXCHANGE LISTINGS**

The Toronto Stock Exchange  
Stock Symbol: SJ

**TRANSFER AGENT**

**AND REGISTRAR**  
Computershare Investor Services Inc.

**INVESTOR RELATIONS**

George Labelle  
Senior Vice-President and  
Chief Financial Officer  
Tel.: (514) 934-8665  
Fax: (514) 934-5327  
glabelle@stella-jones.com

## **NOTICE**

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the fourth quarter ended December 31, 2011 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle  
Senior Vice-President and Chief Financial Officer

---

Montréal, Québec  
March 16, 2012

# **Stella-Jones Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

**December 31, 2011 and 2010**

---

# Stella-Jones Inc.

## Interim Consolidated Statements of Financial Position (Unaudited)

As at December 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Note	2011 \$	2010 \$
<b>Assets</b>			
<b>Current assets</b>			
Accounts receivable		76,511	56,315
Derivative financial instruments	12	349	-
Inventories		243,590	205,335
Prepaid expenses		8,348	4,517
Income taxes receivable		1,721	2,875
		<u>330,519</u>	<u>269,042</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	119,441	104,763
Intangible assets	7	71,062	64,179
Goodwill	7	91,720	73,973
Other assets	8	4,314	5,331
		<u>617,056</u>	<u>517,288</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Bank indebtedness	9	2,585	31,923
Accounts payable and accrued liabilities		43,693	32,426
Derivative financial instruments	12	171	44
Current portion of long-term debt	10	1,465	10,459
Current portion of provisions and other long-term liabilities	11	9,418	4,705
		<u>57,332</u>	<u>79,557</u>
<b>Non-current liabilities</b>			
Long-term debt	10	178,629	115,369
Deferred income taxes		43,417	34,685
Provisions and other long-term liabilities	11	2,117	3,668
Employee future benefits		2,271	2,572
Derivative financial instruments	12	1,378	1,335
		<u>285,144</u>	<u>237,186</u>
<b>Shareholders' equity</b>			
Capital stock	13	131,272	130,229
Contributed surplus		1,342	1,376
Retained earnings		201,268	155,636
Accumulated other comprehensive loss		(1,970)	(7,139)
		<u>331,912</u>	<u>280,102</u>
		<u>617,056</u>	<u>517,288</u>

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

# Stella-Jones Inc.

## Interim Consolidated Statements of Change in Shareholders' Equity (Unaudited)

For the twelve-month periods ended December 31, 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 losses 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	-	-	55,709	-	-	-	-	55,709	
Other comprehensive income (loss)	-	-	(2,105)	6,232	(1,197)	134	5,169	3,064	
<b>Comprehensive income for the period</b>	-	-	53,604	6,232	(1,197)	134	5,169	58,773	
<b>Transactions with shareholders</b>									
Dividends on common shares	-	-	(7,972)	-	-	-	-	(7,972)	
Stock option plan	655	-	-	-	-	-	-	655	
Exercise of stock options	-	(255)	-	-	-	-	-	(255)	
Employee share purchase plans	388	-	-	-	-	-	-	388	
Stock-based compensation	-	221	-	-	-	-	-	221	
	1,043	(34)	(7,972)	-	-	-	-	(6,963)	
<b>Balance – December 31, 2011</b>	131,272	1,342	201,268	(2,237)	1,046	(779)	(1,970)	331,912	

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

# Stella-Jones Inc.

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

(Unaudited)

For the twelve-month periods ended December 31, 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 \$	Unreco- gnized losses on cash flow hedges \$	Reclasi- fication to net income of losses 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	-	-	34,441	-	-	-	-	-	34,441
Other comprehensive income (loss)	-	-	(779)	(8,471)	2,880	(85)	160	(5,516)	(6,295)
<b>Comprehensive income for the period</b>	-	-	33,662	(8,471)	2,880	(85)	160	(5,516)	28,146
<b>Transactions with shareholders</b>									
Dividends on common shares	-	-	(6,041)	-	-	-	-	-	(6,041)
Exchange of subscription receipts for common shares	77,748	-	-	-	-	-	-	-	77,748
Stock option plan	159	-	-	-	-	-	-	-	159
Exercise of stock options	-	(41)	-	-	-	-	-	-	(41)
Employee share purchase plans	303	-	-	-	-	-	-	-	303
Stock-based compensation	-	305	-	-	-	-	-	-	305
	78,210	264	(6,041)	-	-	-	-	-	72,433
<b>Balance – December 31, 2010</b>	130,229	1,376	155,636	(8,471)	2,243	(1,071)	160	(7,139)	280,102

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



# Stella-Jones Inc.

## Interim Consolidated Statements of Income (Unaudited)

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

	Note	For the three-month periods ended		For the twelve-month periods ended	
		December 31,		December 31,	
		2011 \$	2010 \$	2011 \$	2010 \$
<b>Sales</b>		147,520	133,071	640,148	561,046
<b>Expenses</b>					
Cost of sales		117,204	108,567	515,286	467,783
Selling and administrative		9,755	5,653	35,835	32,548
Other losses (gains), net		162	(343)	1,059	25
		127,121	113,877	552,180	500,356
<b>Operating income</b>		20,399	19,194	87,968	60,690
<b>Financial expenses</b>					
Interest on long-term debt		1,912	2,439	6,777	8,914
Other interest		-	375	1,262	1,651
		1,912	2,814	8,039	10,565
<b>Income before income taxes</b>		18,487	16,380	79,929	50,125
<b>Provision for (recovery of) income taxes</b>					
Current		5,313	4,618	23,147	16,996
Deferred		(195)	1,112	1,073	(1,312)
		5,118	5,730	24,220	15,684
<b>Net income for the period</b>		13,369	10,650	55,709	34,441
<b>Basic earnings per common share</b>	13	0.84	0.67	3.49	2.27
<b>Diluted earnings per common share</b>	13	0.83	0.67	3.48	2.26

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

# Stella-Jones Inc.

## Interim Consolidated Statements of Comprehensive Income (Unaudited)

(expressed in thousands of Canadian dollars)

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Net income for the period</b>	13,369	10,650	55,709	34,441
<b>Other comprehensive income (loss)</b>				
Net change in gains (losses) on translation of financial statements of foreign operations	(8,444)	(8,785)	6,232	(8,471)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	2,785	3,385	(1,211)	3,228
Income tax on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(283)	(348)	14	(348)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	417	477	178	(108)
Income tax on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(123)	(208)	(44)	23
Change in actuarial losses on post-retirement benefit obligations	(469)	(283)	(2,784)	(1,039)
Income tax on change in actuarial losses on post-retirement benefit obligations	100	71	679	260
Reclassification to net income of losses on cash flow hedges	-	160	-	160
	(6,017)	(5,531)	3,064	(6,295)
<b>Comprehensive income</b>	7,352	5,119	58,773	28,146

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

# Stella-Jones Inc.

## Interim Consolidated Statements of Cash Flows

(Unaudited)

For the twelve-month periods ended December 31, 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	55,709	34,441
Adjustments for		
Depreciation of property, plant and equipment	4,523	4,851
Amortization of intangible assets	4,192	5,502
Interest accretion	1,239	1,405
Loss on disposal of property, plant and equipment	505	36
Employee future benefits	(1,965)	(120)
Stock-based compensation	221	305
Loss on derivative financial instruments	-	2,196
Asset impairment	2,206	2,950
Financial expenses	8,039	10,565
Income taxes	23,147	16,996
Deferred income taxes	1,073	(1,312)
Restricted stock units obligation	747	408
Other	(9)	(160)
	<u>99,627</u>	<u>78,063</u>
Changes in non-cash working capital components		
Accounts receivable	(11,968)	(11,560)
Inventories	(30,204)	31,282
Prepaid expenses	(3,408)	(304)
Income taxes receivable	(79)	177
Accounts payable and accrued liabilities	6,153	5,729
Asset retirement obligations	(270)	(347)
Provisions and other long-term liabilities	3,359	2,271
	<u>(36,417)</u>	<u>27,248</u>
Interest paid	(8,594)	(10,011)
Income tax paid	(21,822)	(13,692)
	<u>32,794</u>	<u>81,608</u>
<b>Financing activities</b>		
Decrease in bank indebtedness	(4,792)	(23,148)
Increase in deferred financing costs	(122)	(1,144)
Increase in long-term debt	98,286	66,027
Repayment of long-term debt	(80,108)	(103,932)
Non-competes payable	(1,218)	(1,311)
Dividend on common shares	(7,972)	(6,041)
Proceeds from issuance of common shares	788	421
Proceeds from issuance of subscription receipts	-	76,903
	<u>4,862</u>	<u>7,775</u>
<b>Investing activities</b>		
Decrease (increase) in other assets	(459)	31
Business acquisition	(29,015)	(83,565)
Increase in intangible assets	(658)	(922)
Purchase of property, plant and equipment	(7,834)	(5,157)
Decrease in assets held for sale	205	-
Proceeds from disposal of property, plant and equipment	105	230
	<u>(37,656)</u>	<u>(89,383)</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)

December 31, 2011 and 2010

---

(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 are 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 International Financial Reporting Standards (“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 IFRS as issued by the International Accounting Standards Board (“IASB”) and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In the present interim consolidated 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 December 31, 2010 and consolidated statement of income and comprehensive income for the three and twelve months ended December 31, 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 prepared under Canadian GAAP.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

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.

The consolidated accounts of the Company include the accounts of a 50% interest in Kanaka Creek Pole Company Limited ("Kanaka"), a joint venture which is accounted for under the proportionate consolidation method of accounting.

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 December 2011, the IASB amended IAS 32, *Financial Instruments: Presentation*, which has not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the amended standard will have on its financial statements.

The following is a brief summary of the amended standard:

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position.

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available immediately and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

**December 31, 2011 and 2010**

---

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

Gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would, therefore, satisfy the IAS 32 criterion in these instances.

The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014.

### **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 December 31, 2010, and the consolidated statement of income and comprehensive income for the three-month and twelve-month periods ended December 31, 2010.

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

The reconciliation from Canadian GAAP to IFRS required by IFRS 1 for the consolidated statement of financial position as at January 1, 2010 is presented in the Company's March 31, 2011 and 2010 interim consolidated financial statements.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### Reconciliation of consolidated statement of financial position

As at December 31, 2010			
Note	CA GAAP \$	Adj. \$	IFRS \$
<b>Assets</b>			
<b>Current assets</b>			
Accounts receivable	56,315	-	56,315
Inventories	205,335	-	205,335
Prepaid expenses	4,517	-	4,517
Income taxes receivable	2,875	-	2,875
Deferred income taxes	3,206	(3,206)	-
	<u>272,248</u>	<u>(3,206)</u>	<u>269,042</u>
<b>Non-current assets</b>			
Property, plant and equipment	113,956	(9,193)	104,763
Intangible assets	54,986	9,193	64,179
Goodwill	73,973	-	73,973
Other assets	6,152	(821)	5,331
Deferred income taxes	318	(318)	-
	<u>521,633</u>	<u>(4,345)</u>	<u>517,288</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Bank indebtedness	31,923	-	31,923
Accounts payable and accrued liabilities	34,697	(2,271)	32,426
Derivative financial instruments	44	-	44
Deferred income taxes	292	(292)	-
Current portion of long-term debt	10,459	-	10,459
Current portion of provisions and other long-term liabilities	2,434	2,271	4,705
	<u>79,849</u>	<u>(292)</u>	<u>79,557</u>
<b>Non-current liabilities</b>			
Long-term debt	115,369	-	115,369
Deferred income taxes	37,956	(3,271)	34,685
Provisions and other long-term liabilities	3,676	(8)	3,668
Employee future benefits	2,063	509	2,572
Derivative financial instruments	1,335	-	1,335
	<u>240,248</u>	<u>(3,062)</u>	<u>237,186</u>
<b>Shareholders' equity</b>			
Capital stock	130,229	-	130,229
Contributed surplus	1,136	240	1,376
Retained earnings	158,934	(3,298)	155,636
Accumulated other comprehensive loss	(8,914)	1,775	(7,139)
	<u>281,385</u>	<u>(1,283)</u>	<u>280,102</u>
	<u>521,633</u>	<u>(4,345)</u>	<u>517,288</u>

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### Reconciliation of consolidated statement of income

	Note	For the three-month period ended December 31, 2010			For the twelve-month period ended December 31, 2010		
		CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$
<b>Sales</b>		133,071	-	133,071	561,046	-	561,046
<b>Expenses</b>							
Cost of sales	I	105,831	2,736	108,567	457,428	10,355	467,783
Selling and administrative	e, g, h, i	5,550	103	5,653	32,594	(46)	32,548
Other losses (gains), net		(343)	-	(343)	25	-	25
Depreciation of property, plant and equipment and amortization of intangible assets	I	2,736	(2,736)	-	10,355	(10,355)	-
		113,774	103	113,877	500,402	(46)	500,356
<b>Operating income</b>		19,297	(103)	19,194	60,644	46	60,690
<b>Financial expenses</b>							
Interest on long-term debt		2,439	-	2,439	8,914	-	8,914
Other interest		375	-	375	1,651	-	1,651
		2,814	-	2,814	10,565	-	10,565
<b>Income before income taxes</b>		16,483	(103)	16,380	50,079	46	50,125
<b>Provision for (recovery of) income taxes</b>							
Current		4,618	-	4,618	16,996	-	16,996
Deferred		1,112	-	1,112	(1,312)	-	(1,312)
		5,730	-	5,730	15,684	-	15,684
<b>Net income for the period</b>		10,753	(103)	10,650	34,395	46	34,441
Basic earnings per common share		0.68		0.67	2.27		2.27
Diluted earnings per common share		0.67		0.67	2.26		2.26



# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### Reconciliation of consolidated statement of comprehensive income

Note	For the three-month period ended December 31, 2010			For the twelve-month period ended December 31, 2010			
	CA GAAP \$	Adj. \$	IFRS \$	CA GAAP \$	Adj. \$	IFRS \$	
<b>Net income for the period</b>	e, g, h, i	10,753	(103)	10,650	34,395	46	34,441
<b>Other comprehensive income (loss)</b>							
Net change in gains (losses) on translation of financial statements of foreign operations		(8,785)	-	(8,785)	(8,471)	-	(8,471)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations		3,385	-	3,385	3,228	-	3,228
Income tax on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations		(348)	-	(348)	(348)	-	(348)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges		477	-	477	(108)	-	(108)
Income tax on change in gains (losses) on fair value of derivatives designated as cash flow hedges		(208)	-	(208)	23	-	23
Change in actuarial losses on post-retirement benefit obligations	d, f	-	(283)	(283)	-	(1,039)	(1,039)
Income tax on change in actuarial losses on post-retirement benefits obligations		-	71	71	-	260	260
Reclassification to net income of losses on cash flow hedges		160	-	160	160	-	160
		(5,319)	(212)	(5,531)	(5,516)	(779)	(6,295)
<b>Comprehensive income</b>		5,434	(315)	5,119	28,879	(733)	28,146

- 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. The deferred income tax balances also have to be presented net, as an asset or a liability. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current and are not presented net. Accordingly, a current deferred income tax asset of \$3,206 and a non-current deferred income tax asset of \$318 reported under Canadian GAAP as at December 31, 2010 has been reclassified as a non-current deferred income tax liability under IFRS. As at December 31, 2010, a current deferred income tax liability of \$292 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 December 31, 2010, \$6,314 has been reclassified from property, plant and equipment to intangible assets.

## Stella-Jones Inc.

### Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

- 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 should be classified as intangible assets and are subject to IAS 38. Accordingly, as at December 31, 2010, \$2,879 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.

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 \$699 in the carrying value of the accrued benefit asset as at December 31, 2010 in order to recognize the loss of \$1,006 for the period in other comprehensive income (\$250 for the three-month period). The decrease of \$699 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) The expense recognized for the pension plans under IFRS differs from the expense recognized under Canadian GAAP. As at December 31, 2010, the impact of that change related to past service costs has resulted in a decrease of the carrying value of the accrued benefit asset of \$122.
- f) 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.

The impact of the change of method is an increase in the net liability for employee future benefits obligation of \$1,023 as at December 31, 2010 in order to recognize the actuarial loss of \$33 in other comprehensive income for the period. No actuarial gains or losses were recognized under Canadian GAAP using the corridor method.

- g) IAS 19, *Employee Benefits*, indicates that employee future 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 December 31, 2010 is a reduction of \$514 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.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

- h) 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 December 31, 2010, that change reduced contributed surplus and increased income by \$95 (\$20 for the three-month period). Contributed surplus has also been increased and retained earnings reduced by \$335 as at January 1, 2010.

- i) The Company has restricted stock units ("RSUs") 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 RSUs. As at December 31, 2010, the non-current liability was decreased and income increased by \$8 (\$66 for the three-month period).

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

	Note	As at December 31, 2010 \$
<b>Deferred income tax liabilities</b>		
Employee future benefits – attribution period	i	(146)
Reclassification from non-current deferred income tax assets	a	(318)
Employee future benefits – actuarial losses	d, g	107
Reclassification from current deferred income tax liabilities	a	292
Reclassification from current deferred income tax assets	a	<u>(3,206)</u>
		<u>(3,271)</u>

- l) Depreciation and amortization have been reclassified into cost of sales to comply with the presentation under IFRS.
- m) An amount of \$2,271 has been reclassified as at December 31, 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)

December 31, 2011 and 2010

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

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

	Note	As at December 31, 2010 \$
Retained earnings as reported under Canadian GAAP		<u>158,934</u>
IFRS adjustments increase (decrease):		
Employee future benefits – actuarial gain – pension plan	d	307
Employee future benefits – actuarial loss – pension plan	d	(1,006)
Employee future benefits – actuarial loss – post-retirement plan	g	(990)
Employee future benefits – actuarial loss – post-retirement plan	f	(33)
Employee future benefits – attribution period – post-retirement plan	g	514
Employee future benefits – year expense – pension plan	e	(122)
Employee stock options	h	(240)
Restricted stock units	i	8
Deferred income tax – actuarial loss – pension plan	k	252
Deferred income tax – actuarial loss – post-retirement plan	k	8
Cumulative translation adjustment	j	(1,775)
Deferred income tax	k	<u>(221)</u>
		<u>(3,298)</u>
Retained earnings as reported under IFRS		<u>155,636</u>

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

	Note	As at December 31, 2010 \$
Accumulated other comprehensive loss as reported under Canadian GAAP		(8,914)
IFRS adjustments increase:		
Cumulative translation adjustment	j	<u>1,775</u>
Accumulated other comprehensive loss as reported under IFRS		<u>(7,139)</u>

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### 5 Business acquisition

On December 7, 2011, the Company completed the acquisition of 100% of the shares of Thompson Industries, Inc. ("Thompson"), a provider of treated wood products to the railroad industry. Thompson produced treated wood products, mainly railway ties and timbers, at a facility located in Russellville, Arkansas. Total cash outlay associated with the acquisition was approximately \$29,015 (US\$28,719), excluding acquisition costs of approximately \$423 (US\$414).

The following fair value determination of the net assets acquired and liabilities assumed is preliminary and is based on management's best estimates and information known at the time of preparing these interim consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes. Immediately following the acquisition, Thompson was merged with SJ Corp and the surviving corporation was SJ Corp. The results of operations of the acquiree have been included in the Company's consolidated financial statements from the acquisition date.

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

	\$
<b>Assets acquired</b>	
Non-cash working capital	11,018
Property, plant and equipment	9,452
Cash surrender value of life insurance	150
Customer relationships	12,225
Customer backlog	273
Non-deductible goodwill	<u>15,975</u>
	<u>49,093</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	2,835
Long-term debt	3,460
Deferred income tax liabilities	<u>7,587</u>
<b>Total net assets acquired and liabilities assumed</b>	<u>35,211</u>
<b>Consideration transferred</b>	
Cash	29,015
Unsecured note payable to vendor	5,322
Consideration payable	<u>874</u>
<b>Consideration transferred for shares</b>	<u>35,211</u>

## **Stella-Jones Inc.**

### **Notes to Interim Consolidated Financial Statements (Unaudited)**

**December 31, 2011 and 2010**

---

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

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives for customer relationships are 25 years and 10 months for the customer backlog. Goodwill is not amortized nor deductible for tax purposes, and represents the future economic value associated with the increased railroad network access, acquired workforce and synergies with the Company's operations. Note 7 provides a roll-forward of the net book value balances of intangible assets and goodwill.

The Company financed the acquisition through existing credit facilities and an unsecured vendor note of \$6,574 (US\$6,507), bearing interest at 2.67% and repayable in equal installments over a 10-year period. The vendor note was fair-valued at \$5,322 (US\$5,268) using an interest rate of 7.0%.

In the period from December 7 to December 31, 2011, the acquiree's sales and loss before income taxes amounted to \$1,690 and \$102, respectively. On a pro forma basis, management's estimate of sales and income before income taxes of the combined operations of the Company and Thompson for the 12-month period ended December 31, 2011 would have been approximately \$687,526 and \$84,260 respectively, had the Thompson acquisition occurred as of January 1, 2011. To arrive at the pro forma estimates, management considered the financing structure resulting from the acquisition as well as other adjustments related to the acquisition.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### 6 Property, plant and equipment

	Land \$	Roads \$	Buildings \$	Production and anti- pollution equipment \$	Rolling stocks \$	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 amount</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>Period ended December 31, 2010</b>							
Opening net book amount	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)
Impairment	-	-	-	(1,394)	(339)	-	(1,733)
Exchange differences	(152)	-	(565)	(1,653)	(234)	(11)	(2,615)
<b>Closing net book amount</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	-	(1,171)	(5,238)	(28,890)	(2,732)	(1,330)	(39,361)
<b>Net book amount</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>Period ended December 31, 2011</b>							
Opening net book amount	7,614	1,786	20,046	67,801	6,124	1,392	104,763
Acquisition of subsidiary	3,031	-	3,446	2,108	765	102	9,452
Additions	-	349	1,289	6,872	5	660	9,175
Disposals	-	-	-	(292)	(300)	(18)	(610)
Depreciation	-	-	(660)	(2,695)	(924)	(244)	(4,523)
Depreciation included in inventory	-	(475)	(20)	(7)	(3)	(35)	(540)
Reversal of impairment	-	-	-	280	-	-	280
Exchange differences	101	-	318	779	97	149	1,444
<b>Closing net book amount</b>	<b>10,746</b>	<b>1,660</b>	<b>24,419</b>	<b>74,846</b>	<b>5,764</b>	<b>2,006</b>	<b>119,441</b>
<b>As at December 31, 2011</b>							
Cost	10,746	3,306	30,379	106,733	9,397	3,474	164,035
Accumulated depreciation	-	(1,646)	(5,960)	(31,887)	(3,633)	(1,468)	(44,594)
<b>Net book amount</b>	<b>10,746</b>	<b>1,660</b>	<b>24,419</b>	<b>74,846</b>	<b>5,764</b>	<b>2,006</b>	<b>119,441</b>

Additions of production and anti-pollution equipment costs include \$58 (2010 – nil) of interest capitalized at an average borrowing rate of 3.23%.

Pursuant to the Tangent acquisition made in 2010, the Company has increased its production capacity and has consolidated the production of its railway tie requirements. As a result, the Spencer plant in West Virginia will be producing lower annual volumes going forward. This decision by management triggered a requirement to test the Spencer plant's long-lived assets for recoverability, which resulted in a \$1,733 impairment expense recorded in the 2010 second quarter income.

A piece of production equipment impaired in 2010 due to its non-utilization is now being used by the Company. Consequently, the impairment charge of \$280 has been reversed in 2011.

# **Stella-Jones Inc.**

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

**(Unaudited)**

**December 31, 2011 and 2010**

---

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

### **7 Intangible assets and goodwill**

The intangible assets, which include customer relationships, non-compete agreements, cutting rights, standing timber and a creosote registration, were initially evaluated at fair value, which subsequently became the cost. The presentation in the interim consolidated statements of financial position is at cost less accumulated amortization and the related amortization expense is included in cost of sales in the interim consolidated statements 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 3 and 10 years. Intangible assets associated with ongoing business relationships are amortized over a period ranging from 10 to 25 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 6 years.

As part of the Tangent acquisition, the Company allocated 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)

December 31, 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 \$
	Cutting rights \$	Standing timber \$	Customer relationships \$	Non- compete agreements \$	Creosote registration \$		
<b>As at January 1, 2010</b>							
Cost	6,505	4,717	4,603	5,980	-	21,805	5,494
Accumulated amortization	(355)	(1,666)	(1,259)	(1,744)	-	(5,024)	-
<b>Net book amount</b>	<b>6,150</b>	<b>3,051</b>	<b>3,344</b>	<b>4,236</b>	<b>-</b>	<b>16,781</b>	<b>5,494</b>
<b>Period ended December 31, 2010</b>							
Opening net book balance	6,150	3,051	3,344	4,236	-	16,781	5,494
Additions	287	635	-	-	-	922	-
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	-	-	-	-	-	-	70,239
Amortization	(123)	(807)	(3,586)	(986)	-	(5,502)	-
Exchange differences	-	-	(473)	(185)	(662)	(1,320)	(1,760)
<b>Closing net book amount</b>	<b>6,314</b>	<b>2,879</b>	<b>20,860</b>	<b>3,065</b>	<b>31,061</b>	<b>64,179</b>	<b>73,973</b>
<b>As at December 31, 2010</b>							
Cost	6,792	5,352	25,482	5,659	31,061	74,346	73,973
Accumulated amortization	(478)	(2,473)	(4,622)	(2,594)	-	(10,167)	-
<b>Net book amount</b>	<b>6,314</b>	<b>2,879</b>	<b>20,860</b>	<b>3,065</b>	<b>31,061</b>	<b>64,179</b>	<b>73,973</b>
<b>Period ended December 31, 2011</b>							
Opening net book balance	6,314	2,879	20,860	3,065	31,061	64,179	73,973
Additions	-	658	-	-	-	658	-
Addition of Thompson – customer relationships	-	-	12,497	-	-	12,497	-
Addition of Thompson – goodwill	-	-	-	-	-	-	15,975
Amortization	-	-	(3,258)	(934)	-	(4,192)	-
Impairment	-	-	(2,486)	-	-	(2,486)	-
Amortization included in inventory	(114)	(673)	-	-	-	(787)	-
Exchange differences	-	-	454	39	700	1,193	1,772
<b>Closing net book amount</b>	<b>6,200</b>	<b>2,864</b>	<b>28,067</b>	<b>2,170</b>	<b>31,761</b>	<b>71,062</b>	<b>91,720</b>
<b>As at December 31, 2011</b>							
Cost	6,792	6,010	37,965	5,787	31,761	88,315	91,720
Accumulated amortization	(592)	(3,146)	(9,898)	(3,617)	-	(17,253)	-
<b>Net book amount</b>	<b>6,200</b>	<b>2,864</b>	<b>28,067</b>	<b>2,170</b>	<b>31,761</b>	<b>71,062</b>	<b>91,720</b>

In December 2011, the Company took an impairment charge of \$2,486 following the non-renewal of a service contract included in customer relationships for which a value was assigned in a previous acquisition.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### 8 Other assets

	2011 \$	2010 \$
Advances and notes receivable	541	536
Accrued benefit asset	-	1,119
Assets held for sale*	3,164	3,318
Other	609	358
	<u>4,314</u>	<u>5,331</u>

\* Assets held for sale mainly represent a building that the Company owns in Ripley, West Virginia, as well as a plant in Stanton, Kentucky.

### 9 Bank indebtedness

	Note	2011 \$	2010 \$
Demand revolving facility	9(a)	-	30,293
Proportionate share of Kanaka's demand operating loan	9(b)	2,585	1,630
		<u>2,585</u>	<u>31,923</u>

- a) On July 28, 2011, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement. The existing demand revolving facility was replaced by a five-year term committed revolving facility and is presented under long-term debt (note 10(a)). Previously, a demand revolving facility was made available to the Company by a syndicate of bank lenders and consisted of Tranche A, a maximum demand operating loan of \$50,000 made available to the Company, and Tranche B, a maximum demand operating loan of US\$75,000 made available to SJ Holding. Borrowings were obtained by the Company under Tranche A in the form of Canadian prime rate loans, Canadian bankers' acceptances ("BAs"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit up to a maximum of \$5,000. Borrowings were 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 was 0.75% and with respect to BAs, LIBOR loans and fees for letters of credit, the interest rate margin was 2.0%. The borrowing base consisted of 75% in value of acceptable receivables and 50% in value of acceptable inventories, up to a maximum of \$80,000.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

December 31, 2011 and 2010

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

- b) The Company includes in its consolidated financial statements its 50% proportionate share of Kanaka, which has a credit facility with a Canadian bank comprising a \$7,000 demand operating loan. This loan bears interest at the bank's prime rate plus 0.50%, the bank's U.S. base rate plus 0.50%, LIBOR plus 2.0% or BA rate plus 2.0%. One half of the indebtedness, up to a maximum of \$5,000, has been guaranteed by Stella-Jones Canada Inc. and the Company.

### 10 Long-term debt

	Note	2011 \$	2010 \$
Committed revolving facility	10(a)	124,989	-
Term facilities	10(b)	-	55,573
Term loan with a U.S. bank	10(c)	-	7,381
Unsecured, subordinated and non-convertible debenture	10(d)	25,425	24,865
Unsecured and non-convertible debenture	10(e)	10,170	24,865
Subordinated note	10(f)	5,899	6,112
Bond – County of Fulton, Kentucky	10(g)	4,363	4,399
Bond – Arkansas Development Finance Authority	10(h)	2,649	-
Unsecured promissory note	10(i)	5,374	-
Subordinated promissory note	10(j)	-	746
Unsecured promissory note	10(k)	394	557
Promissory note	10(l)	226	289
Promissory note	10(m)	266	296
Mortgage loans	10(n)	652	1,717
		<hr/>	<hr/>
		180,407	126,800
Deferred financing costs		(313)	(972)
		<hr/>	<hr/>
		180,094	125,828
Less: Current portion of long-term debt		1,524	10,780
Less: Current portion of deferred financing costs		(59)	(321)
		<hr/>	<hr/>
		178,629	115,369

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

- a) On July 28, 2011, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement. The existing demand revolving facility made available by a syndicate of bank lenders under the March 24, 2010 amendment (note 9(a)) was replaced by a committed revolving facility in the amount of \$170,000, to be used to repay and refinance existing indebtedness and for working capital and general corporate purposes. The \$170,000 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 made available to the Company, and Tranche B, a maximum demand operating loan of US\$75,000 made available to SJ Holding). Borrowings may be obtained in the form of prime rate loans, BAs, 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 will range from 0.25% to 1.50% based on a pricing grid (previously 0.75%). The interest rate margin with respect to BAs, 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 at December 31, 2011, borrowings from Canadian entities denominated in U.S. dollars represented \$82,404 (US\$81,027), of which \$79,529 (US\$78,200) was designated as a hedge of net investment in foreign operations.

During the period, the Company entered into interest rate swap agreements fixing certain rates as described in note 12, Financial instruments.

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.

- b) On March 24, 2010, the Company entered into an agreement with a syndicate of lenders amending and restating, without novation, existing term credit agreements and made available a new five-year term facility. Under this new agreement, four facilities (A, B, C and D) were made available. Credit facility A was a US\$40,000 syndicated bank term loan used for the purpose of acquiring Tangent. The term loan bore interest at the bank's U.S. base rate plus 1.5% or LIBOR plus 3.0%, at the Company's option. Repayment was in 19 consecutive quarterly principal instalments of US\$1,425 starting July 1, 2010, and a balloon repayment of US\$12,925 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 foreign operations.

Credit facility B was a two-year revolving term facility in the aggregate principal amount \$27,500 maturing February 14, 2012, under which borrowings could be made in either Canadian or U.S. dollars. Upon the Company's request to the lender, this credit facility could have been extended for additional one-year terms or converted into a five-year term loan. For loans in Canadian dollars, the credit facility bore interest at the bank's prime rate plus 1.5% or BA rate plus 3.0%, and for loans in U.S. dollars, the credit facility bore interest at the bank's U.S. base rate plus 1.5% or LIBOR plus 3.0%. A US\$10,000 loan under this facility was designated as a hedge of net investment in foreign operations. The Company entered into an interest rate swap fixing the interest rate on this US\$10,000 term loan at a base rate of 1.53%, which matured in April 2011.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

**December 31, 2011 and 2010**

---

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

Credit facility C was a non-revolving term facility in the aggregate principal amount of \$2,143 comprising Tranche 1 in the amount of \$1,157 maturing February 1, 2011 and Tranche 2 in the amount of \$986 maturing December 28, 2010. Tranches 1 and 2 were repaid in their entirety with the proceeds of the committed revolving facilities and without penalties upon maturity.

Credit facility D is a non-revolving term facility in the aggregate principal amount of \$300 which matured and was repaid in its entirety with the proceeds of the committed revolving facilities and without penalties upon maturity on September 30, 2010.

On August 11, 2011, the remaining balances on credit facilities A and B were repaid in their entirety.

- c) SJ Holding and SJ Corp (collectively, "the U.S. subsidiaries") entered into a US\$10,000 term loan agreement with a U.S. bank. The term loan was repayable in 84 consecutive average monthly instalments of US\$119 and maturing July 1, 2015. The loan was subject to two interest rate swaps of US\$5,000 each, fixing the rates at 5.80% and 5.54% over the term of the loan. On August 11, 2011, the U.S. subsidiaries repaid the term loan in its entirety.
- d) 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. The amendment was accounted for as a modification of the terms of the debt and without penalties.
- e) 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. The amendment was accounted for as a modification of the terms of the debt and without penalties.
- f) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter and Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in five annual principal repayments of US\$500, with a final payment of US\$5,500 on the sixth anniversary date. The note was initially recorded at a fair value of \$6,981 using an interest rate of 8.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

## Stella-Jones Inc.

### Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

- g) Bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US\$200 starting July 2008 through July 2011, US\$300 starting August 2011 through July 2019 and US\$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all assets of the Fulton facility, which have a net book value of US\$7,683 as at December 31, 2011. The bond was initially recorded in the consolidated financial statements at a fair value of US\$4,835 using an interest rate of 6.50%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term.

In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries entered into a US\$5,200 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.0% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

- h) As part of the Thompson acquisition, SJ Corp assumed a bond issued in favour of the Arkansas Development Finance Authority, repayable in annual principal repayments ranging from US\$145 to US\$275 up to September 1, 2024. Interest rates on the bond range from 5.62% to 5.81% and are payable semi-annually on March 1 and September 1. The bond is secured by all the machinery and equipment of the Russellville, Arkansas facility.
- i) As part of the Thompson acquisition, SJ Corp issued an unsecured promissory note of \$6,617 bearing interest at 2.67%. The note is repayable in 10 equal instalments up to December 2021. The note was initially recorded at a fair value of \$5,357 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- j) SJ Corp borrowed US\$750 from the Company's parent company, Stella Jones International S.A., by way of a subordinated promissory note. The note was for a term of six years, bearing interest at LIBOR plus 4.5% and was repayable in full on the sixth anniversary of the date of disbursement or August 3, 2011. The note was unsecured and subordinated in right of payment to the prior payment in full of the U.S. subsidiaries' loans to all of its secured lenders. On August 3, 2011, the Company repaid the subordinated promissory note in its entirety to Stella Jones International S.A.
- k) Unsecured promissory note, bearing the imputed interest at 8.0%, payable in quarterly instalments of US\$53, including interest, and matures on October 1, 2013.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

- l) Promissory note payable to the Hickman-Fulton Rural Electric Cooperative Corporation, bearing interest at a fixed rate of 3.0% and repayable in 84 equal monthly instalments of principal and interest of approximately US\$7 starting January 15, 2008. The note is secured by a US\$500 irrevocable letter of credit issued by a regional financial institution at an annual fee of 1.0% and expiring December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US\$462 using an interest rate of 5.55%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- m) Promissory note payable to the Hickman-Fulton Rural Electric Cooperative Corporation, bearing no interest and repayable in 108 equal monthly instalments of US\$4 starting January 1, 2009. The note is secured by a US\$450 irrevocable letter of credit issued by a regional financial institution, at an annual fee of 1.0% and expiring December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US\$354 using an interest rate of 6.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- n) On August 11, 2011, the Company repaid a mortgage loan having a balance of US\$915. The remaining mortgage loan bears interest at a rate of 2.5% as at December 31, 2011 (December 31, 2010 – 3.8%), and certain specific assets with a net book value of \$883 (December 31, 2010 – \$1,891) have been pledged as collateral. The mortgage loan is denominated in U.S. dollars amounting to US\$642 (December 31, 2010 – US\$1,726). The remaining mortgage loan is repayable in monthly instalments of \$9 (December 31, 2010 – \$21), including interest, and matures in December 2016.
- o) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	<b>Principal</b>
	<b>\$</b>
2012	1,955
2013	9,431
2014	1,151
2015	1,091
2016	161,694
Thereafter	<u>7,502</u>
	182,824
Fair value adjustment	<u>(2,417)</u>
	<u>180,407</u>

- p) The aggregate fair value of the Company's long-term debt was estimated at \$179,973 as at December 31, 2011 (2010 – \$127,923) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

### 11 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
Provisions charged to income:								
Addition	209	1,311	2,375	3,895	408	-	408	4,303
Payment	(283)	(290)	-	(573)	-	(1,311)	(1,311)	(1,884)
Interest accretion	-	-	-	-	-	389	389	389
Exchange differences	-	-	(104)	(104)	-	(195)	(195)	(299)
<b>Balance as at December 31, 2010</b>	1,085	1,109	2,271	4,465	423	3,485	3,908	8,373
Provisions charged to income:								
Addition	543	2,485	3,754	6,782	747	-	747	7,529
Payment	(312)	(3,003)	(351)	(3,666)	-	(1,218)	(1,218)	(4,884)
Interest accretion	-	-	(44)	(44)	-	279	279	235
Exchange differences	-	19	227	246	-	36	36	282
<b>Balance as at December 31, 2011</b>	1,316	610	5,857	7,783	1,170	2,582	3,752	11,535

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

	2011 \$	2010 \$
Current		
Provisions	7,169	3,746
Other long-term liabilities	2,249	959
<b>Total current</b>	<b>9,418</b>	<b>4,705</b>
Non-current		
Provisions	614	719
Other long-term liabilities	1,503	2,949
<b>Total non-current</b>	<b>2,117</b>	<b>3,668</b>
	<b>11,535</b>	<b>8,373</b>



# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

December 31, 2011 and 2010

---

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

### 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 4.0% (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.

Future non-discounted reforestation expenditures are estimated at between \$338 and \$731 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential regulatory changes as well as the impact of weather-related changes on reforested areas. Accordingly, the actual cost of reforestation may differ from current estimates.

#### 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 the Terre Haute, Indiana 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 order to restore the site to its original condition, remediation work was required, for which a provision of \$1,311 was recorded in 2010.

#### Others

Other provisions comprise \$4,507 in legal litigation provisions, \$1,057 in a provision set up to acquire the land of the Memphis facility, which is presently being leased, and \$293 in other provisions.

### Other long-term liabilities

#### Restricted stock units

On December 18, 2009, certain key executives of the Company were granted RSUs 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 RSUs 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 RSUs initially granted was a fixed number recommended by the Company's Remuneration Committee. Additional RSUs may be issued annually conditional upon the Company attaining a minimum 12.5% return on capital employed.

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

**December 31, 2011 and 2010**

---

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

As at December 31, 2011, the provision for previously issued RSUs was valued at \$1,170 (\$423 as at December 31, 2010). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant. No RSUs were granted in 2010 and 2011.

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

### **Non-competes payable**

As part of a previous acquisition, the Company entered into non-compete agreements for which an intangible asset was recorded (note 7). The payable portion of the non-compete agreements was fair-valued at a rate of 10.2%.

## **12 Financial instruments**

### **Currency risk**

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar denominated long-term debt held by its Canadian companies. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions to mitigate its currency risk. The Company's basic hedging activity consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges.

On January 1, 2009, the Company ceased hedge accounting on its foreign exchange forward contracts. As these contracts were designated as cash flow hedges, their fair value increment was recorded under accumulated other comprehensive loss and was recognized in income over the designated underlying period of foreign exchange forward contracts from March 2009 to December 2010. For the period ended December 31, 2010, the loss recognized in income was \$160.

## Stella-Jones Inc.

### Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

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

The Company had no foreign exchange forward contracts as at December 31, 2010. In 2011, the Company resumed hedge accounting on foreign exchange forward contracts. The following table summarizes the Company's derivative financial instruments relating to the sale of foreign currencies through foreign exchange forward contracts as at December 31, 2011:

	Foreign exchange forward contract	Notional amount US\$	Average exchange rate	Notional equivalent CA\$	Fair value CA\$
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0387	1,558	32
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0392	1,559	31
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0397	1,559	31
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0400	1,560	31
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0402	1,560	30
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0404	1,561	29
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0406	1,561	29
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0407	1,561	28
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0408	1,561	28
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0409	1,561	27
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0410	1,562	27
Short-term asset	Sell US\$/Buy CA\$	1,500	1.0411	1,562	26
		18,000	1.0403	18,725	349

The contracts mature at various dates up to December 31, 2012, and the fair value was determined by obtaining mark-to-market values as at December 31, 2011. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. A description of each level of the hierarchy is as follows:

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

A 10% strengthening of the U.S. dollar against the Canadian dollar would have resulted in a loss on foreign exchange forward contracts recognized in other comprehensive income of approximately \$1,181 for the period ended December 31, 2011 (2010 – nil). For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

The following table provides information on the impact of a 10% strengthening of the U.S. dollar against the Canadian dollar on net income for the periods ended December 31, 2011 and 2010. For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and comprehensive income (loss):

	2011 \$	2010 \$
Gain (loss) to net income	(298)	112

This analysis considers the impact of foreign exchange variance on financial assets and financial liabilities denominated in U.S. dollars which are on the statement of financial position of the Canadian entities:

	2011 \$	2010 \$
<b>Assets</b>		
Accounts receivable	1,721	2,060
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,825	939
Long-term debt	2,875	-
	<u>4,700</u>	<u>939</u>

The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (see note 10(a)).

### Interest rate risk

As at December 31, 2011, the Company has limited exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 85% (2010 – 65%) of the Company's long-term debt is at fixed rates.

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

December 31, 2011 and 2010

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

The committed revolving credit facility defined in note 10(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10% increase in these rates on the average annual balance of the operating credit facilities, for borrowings that have not been swapped, would have increased interest expense by \$105 for the period ended December 31, 2011 (2010 – \$39).

The following tables summarize the Company's interest rate swap agreements as at December 31:

					2011
Notional amount	Related debt instrument	Fixed rate %	Maturity date	Notional equivalent CA\$	
CA\$10,000	Committed revolving facility	1.09*	August 2014	10,000	
CA\$10,000	Committed revolving facility	1.57*	August 2016	10,000	
US\$25,000	Committed revolving facility	1.16*	December 2016	25,425	
US\$15,000	Committed revolving facility	1.45*	August 2016	15,255	
US\$15,000	Committed revolving facility	0.75*	August 2014	15,255	
US\$15,000	Committed revolving facility	2.57*	June 2012	15,255	
US\$5,000	Committed revolving facility	5.80	July 2015	5,085	
US\$5,000	Committed revolving facility	5.54	July 2015	5,085	
US\$1,000	Committed revolving facility	4.69	December 2015	1,017	
US\$5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	5,695	

					2010
Notional amount	Related debt instrument	Fixed rate %	Maturity date	Notional equivalent CA\$	
CA\$2,700	Term facility	5.81	February 2011	2,700	
US\$10,000	Term facility	1.53*	April 2011	9,946	
US\$15,000	Bank indebtedness	2.57*	June 2012	14,919	
US\$5,000	Term loan with a U.S. bank	5.80	July 2015	4,973	
US\$5,000	Term loan with a U.S. bank	5.54	July 2015	4,973	
US\$1,000	Mortgage loan	4.69	December 2015	995	
US\$5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	5,570	

\* Plus applicable spread.

The Company's interest rate swaps are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2011, all cash flow hedges were effective.

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

December 31, 2011 and 2010

---

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

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2011 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7 and is defined in the currency risk section.

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2011 is a loss of \$1,549 (2010 – loss of \$1,379), of which \$171 and \$1,378 respectively are recorded in current and non-current liabilities under derivative financial instruments. A 10% decrease in interest rates as at December 31, 2011 would have increased the loss recognized in other comprehensive income (loss) by approximately \$155 (2010 – \$138). For a 10% increase in the interest rates, there would be an equal and opposite impact on the loss.

### 13 Capital stock

	2011	2010
Number of shares outstanding – Beginning of period*	15,923	12,684
Stock option plan*	22	25
Exchange of subscription receipts for common shares*	-	3,202
Employee share purchase plans*	10	12
	<hr/>	<hr/>
Number of shares outstanding – End of period*	15,955	15,923

\* Number of shares is presented in thousands.

a) Capital stock consists of the following:

#### Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

# Stella-Jones Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) December 31, 2011 and 2010

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

### b) Earnings per share

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

	For the three-month period ended December 31,		For the twelve-month period ended December 31,	
	2011	2010	2011	2010
<b>Net income applicable to common shares</b>	<b>\$13,369</b>	<b>\$10,650</b>	<b>\$55,709</b>	<b>\$34,441</b>
Weighted average number of common shares outstanding*	15,953	15,912	15,946	15,163
Effect of dilutive stock options*	65	45	61	41
Weighted average number of diluted common shares outstanding*	16,018	15,957	16,007	15,204
<b>Basic earnings per common share**</b>	<b>\$0.84</b>	<b>\$0.67</b>	<b>\$3.49</b>	<b>\$2.27</b>
<b>Diluted earnings per common share**</b>	<b>\$0.83</b>	<b>\$0.67</b>	<b>\$3.48</b>	<b>\$2.26</b>

\* Number of shares is presented in thousands.

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

## 14 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 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.

# **Stella-Jones Inc.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

**December 31, 2011 and 2010**

---

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

### **15 Segment information**

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

### **16 Subsequent event**

On March 15, 2012, the Board of Directors declared a quarterly dividend of \$0.15 per common share payable on April 30, 2012 to shareholders of record at the close of business on April 2, 2012.



