Source: **Stella-Jones Inc.**

Contacts: **Éric Vachon, CPA, CA**
Senior Vice-President and Chief Financial Officer
Tel.: (514) 940-3903
evachon@stella-jones.com

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

STELLA-JONES REPORTS 2012 FOURTH QUARTER AND ANNUAL RESULTS
Twelfth consecutive year of growth in net income

- **2012 sales of $717.5 million, up 12.1% from $640.1 million last year**
- **Operating income of $109.6 million, or 15.3% of sales, in 2012, up from $88.0 million, or 13.7% of sales, in 2011**
- **31.2% increase in 2012 net income to $73.1 million, or $4.53 per share, fully diluted, versus $55.7 million, or $3.48 per share, fully diluted in 2011**

MONTREAL, QUEBEC – March 22, 2013 - Stella-Jones Inc. (TSX: SJ) today announced financial results for its fourth quarter and fiscal year ended December 31, 2012.

"2012 represented another record year for Stella-Jones in terms of sales and net income. It also marked our twelfth consecutive year of growth in net income, driven by constant efforts to further enhance operating efficiency and a methodical execution of our continental expansion strategy. These achievements reflect solid demand for our products, the strength of our business model, rigorous adherence to our core competencies and the dedication of the Stella-Jones team," said Brian McManus, President and Chief Executive Officer.

Financial highlights	**Quarters ended Dec. 31,**		**Years ended Dec. 31,**	
(in thousands of Canadian dollars, except per share data)	**2012**	**2011**	**2012**	**2011**
Sales	**159,345**	147,520	**717,494**	640,148
Operating income	**21,127**	20,399	**109,596**	87,968
Net income for the period	**16,546**	13,369	**73,070**	55,709
Per share - basic ($)	**1.01**	0.84	**4.54**	3.49
Per share - diluted ($)	**1.00**	0.83	**4.53**	3.48
Cash flow from operations [1]	**22,363**	24,760	**120,797**	99,627
Weighted average shares outstanding (basic, in '000s)	**16,387**	15,953	**16,078**	15,946

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

2012 RESULTS

Sales reached $717.5 million, up 12.1% from $640.1 million a year earlier. The operating facilities acquired from McFarland Cascade Holdings, Inc. ("McFarland") on November 30, 2012 contributed sales of $15.9 million over a one-month period, while the Russellville, Arkansas operating facility acquired from Thompson Industries in December 2011 ("Russellville facility") contributed additional sales of $43.9 million in 2012. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $8.6 million when compared with the previous year. Excluding these factors, 2012 sales increased approximately $9.0 million.

Railway tie sales amounted to $404.5 million in 2012, up 19.4% over sales of $338.8 million in 2011. This increase is attributable to solid market demand and additional tie sales of approximately $43.4 million from the Russellville facility. Utility pole sales reached $218.5 million in 2012, up 12.2% from $194.8 million in 2011.

The increase reflects one month sales of $13.6 million from the McFarland operations and higher sales of distribution poles from solid maintenance demand, partially offset by slightly lower sales of transmission poles due to the year-over-year timing differences in orders. Industrial product sales were $59.0 million in 2012, versus $78.9 million in 2011. This decline is mainly due to an anticipated reduction in the tie recycling business, while demand held steady for the Company's other principal products in this category. Residential lumber sales totalled $35.5 million in 2012, up from $27.7 million a year earlier, as a result of stronger demand in Western Canada and sales of $2.3 million from the McFarland operations in the U.S. Northwest.

Operating income amounted to $109.6 million, or 15.3% of sales, versus $88.0 million, or 13.7% of sales a year earlier. The increase in absolute dollars reflects higher business activity and acquisitions, while the increase as a percentage of sales is due to a better absorption of fixed costs from increased volume and greater efficiencies throughout Stella-Jones' network. Results for 2012 include approximately $4.1 million in acquisition costs, of which $3.0 million are related to the McFarland transaction. Last year's results included an asset impairment charge of $2.2 million and acquisition costs of $423,000 related to the purchase of the Russellville facility.

Net income for 2012 totalled $73.1 million, or $4.53 per share, fully diluted, versus $55.7 million, or $3.48 per share, fully diluted, in 2011, representing a year-over-year increase of 31.2%. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid rose 21.2% to $120.8 million.

FOURTH QUARTER RESULTS

Sales totalled $159.3 million, up 8.0% from last year’s fourth-quarter sales of $147.5 million. This increase is attributable to a $15.9 million contribution from the McFarland operations and to an additional contribution of $12.0 million from the Russellville facility. The conversion effect from year-over-year fluctuations in the value of the Canadian dollar, versus the U.S. dollar, reduce the value of U.S. dollar denominated sales by $2.5 million. Excluding these factors, sales decreased approximately $13.6 million due to lower advanced railway tie deliveries in the fourth quarter of 2012, compared with last year, and to a reduction in the tie recycling business.

Fourth quarter sales of railway ties reached $73.7 million in 2012, versus $74.4 million in 2011. This slight decrease reflects lower year-over-year advanced deliveries, partially offset by the additional contribution from the Russellville facility. Utility pole sales rose $18.9 million to $70.2 million due to a $13.6 million contribution from the McFarland operations and higher sales of distribution poles. Industrial product sales were $10.4 million, versus $19.9 million a year ago, as a result of a planned reduction in the tie recycling business. Residential lumber sales reached $5.1 million, up from $2.0 million last year, mainly due to additional sales of $2.3 million from the McFarland operations.

Operating income was $21.1 million, or 13.3% of sales, compared with $20.4 million, or 13.8% of sales, last year. Results for the fourth quarter of 2012 include acquisition costs of $2.4 million related to the McFarland transaction, while results for the fourth quarter of 2011 included an asset impairment charge of $2.2 million and acquisition costs of $423,000 related to the purchase of the Russellville facility. Excluding these elements, operating income for the fourth quarter of 2012 was $23.5 million, or 14.8% of sales, compared with $23.0 million, or 15.6% of sales, a year earlier. The reduction as a percentage of sales mainly stems from lower margins at the McFarland operations.

Net income for the period reached $16.5 million, or $1.00 per share, fully diluted, up from $13.4 million, or $0.83 per share, fully diluted, last year. The Company's effective tax rate for the fourth quarter of 2012 was reduced by tax benefits resulting from the donation to local economic development authorities of land located in Stanton, Kentucky and by the deductibility of acquisition costs related to the McFarland transaction. Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $22.4 million, compared with $24.8 million a year ago.

SOUND FINANCIAL POSITION

As at December 31, 2012, the Company's financial position remained healthy with total debt of $363.6 million, including the increased draw-down of $152.6 million on the committed revolving credit facility to partially finance the acquisition of McFarland. At that same date, the ratio of total debt to total capitalization was 0.44:1, versus 0.35:1 twelve months earlier.

Reflecting the acquisition of McFarland, working capital stood at $444.8 million as at December 31, 2012, up from $273.2 million a year earlier. Excluding McFarland, accounts receivable declined as a result of lower business activity in the fourth quarter of 2012, compared with the same period in 2011, while inventories increased following a planned increase of air-dried wood, both to improve future treating cycles and meet anticipated sales growth.

QUARTERLY DIVIDEND OF $0.20 PER SHARE

On March 21, 2013, the Board of Directors declared a quarterly dividend of $0.20 per common share payable on April 30, 2013 to shareholders of record at the close of business on April 2, 2013.

OUTLOOK

"We continue to expect healthy demand for our core products in 2013. North American railroad operators continue to upgrade and expand their infrastructure to maintain optimal efficiency, while demand is expected to hold in the utility pole market. In the short-term, our main priority is to integrate the McFarland operations and benefit from greater market penetration, synergies and additional operating efficiencies from a larger network. We will also focus on cash flow generation in order to reduce debt, invest in initiatives that further enhance our network and maintain an optimal dividend policy to the benefit of our shareholders," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on Friday, March 22, 2013, at 10:00 AM Eastern Time. Interested parties can join the call by dialling 647-427-7450 (Toronto or overseas) or 1-888-231-8191 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-855-859-2056 and entering the passcode 90531951. This tape recording will be available on Friday, March 22, 2013 as of 1:00 PM Eastern Time until 11:59 PM Eastern Time on Friday, March 29, 2013.

NON-IFRS FINANCIAL MEASURES

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

ABOUT STELLA-JONES

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

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.

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
Éric Vachon
Senior Vice-President and
Chief Financial Officer
Tel.: (514) 940-3903
Fax: (514) 934-5327
evachon@stella-jones.com

NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the fourth quarter ended December 31, 2012 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
March 22, 2013

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2012 and 2011

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

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2012 $	As at December 31, 2011 $
Assets			
Current assets			
Cash	6	14,000	-
Accounts receivable		89,563	76,511
Derivative financial instruments		-	349
Inventories		413,400	243,590
Prepaid expenses		10,014	8,348
Income taxes receivable		7,886	1,721
		534,863	330,519
Non-current assets			
Property, plant and equipment	4	189,028	119,441
Intangible assets	5	93,105	71,062
Goodwill	5	135,834	91,720
Derivative financial instruments		198	-
Other assets		2,835	4,314
		955,863	617,056
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness	6	14,000	2,585
Accounts payable and accrued liabilities		65,836	43,693
Derivative financial instruments		-	171
Current portion of long-term debt	7	6,358	1,465
Current portion of provisions and other long-term liabilities		3,862	9,418
		90,056	57,332
Non-current liabilities			
Long-term debt	7	343,250	178,629
Deferred income taxes		38,809	43,417
Provisions and other long-term liabilities		8,297	2,117
Employee future benefits		4,774	2,271
Derivative financial instruments		1,926	1,378
		487,112	285,144
Shareholders' equity			
Capital stock	8	210,636	131,272
Contributed surplus		1,229	1,342
Retained earnings		264,211	201,268
Accumulated other comprehensive loss		(7,325)	(1,970)
		468,751	331,912
		955,863	617,056

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, 2012 and 2011

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive loss				
	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	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2012	131,272	1,342	201,268	(2,239)	1,046	(777)	(1,970)	331,912
Comprehensive income								
Net income for the period	-	-	73,070	-	-	-	-	73,070
Other comprehensive income (loss)	-	-	(30)	(6,711)	1,731	(375)	(5,355)	(5,385)
Comprehensive income for the period	-	-	73,040	(6,711)	1,731	(375)	(5,355)	67,685
Dividends on common shares	-	-	(10,097)	-	-	-	-	(10,097)
Stock option plan	719	-	-	-	-	-	-	719
Exercise of stock options	-	(231)	-	-	-	-	-	(231)
Issuance of common shares (Note 3)	78,202	-	-	-	-	-	-	78,202
Employee share purchase plans	443	-	-	-	-	-	-	443
Stock-based compensation	-	118	-	-	-	-	-	118
	79,364	(113)	(10,097)	-	-	-	-	69,154
Balance – December 31, 2012	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751

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, 2012 and 2011

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive loss				
	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	Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2011	130,229	1,376	155,636	(8,471)	2,243	(911)	(7,139)	280,102
Comprehensive income								
Net income for the period	-	-	55,709	-	-	-	-	55,709
Other comprehensive income (loss)	-	-	(2,105)	6,232	(1,197)	134	5,169	3,064
Comprehensive income for the period	-	-	53,604	6,232	(1,197)	134	5,169	58,773
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)
Balance – December 31, 2011	131,272	1,342	201,268	(2,239)	1,046	(777)	(1,970)	331,912

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 December 31, 2012 $	2011 $	For the twelve-month periods ended December 31, 2012 $	2011 $
Sales		159,345	147,520	717,494	640,148
Expenses (income)					
Cost of sales		126,185	117,204	565,668	515,286
Selling and administrative		12,649	9,755	42,543	35,835
Other losses (gains), net		(616)	162	(313)	1,059
		138,218	127,121	607,898	552,180
Operating income		21,127	20,399	109,596	87,968
Financial expenses					
Interest on long-term debt		2,384	1,912	8,319	6,777
Other interest		-	-	-	1,262
		2,384	1,912	8,319	8,039
Income before income taxes		18,743	18,487	101,277	79,929
Provision for (recovery of) income taxes					
Current		3,123	5,313	30,486	23,147
Deferred		(926)	(195)	(2,279)	1,073
		2,197	5,118	28,207	24,220
Net income for the period		16,546	13,369	73,070	55,709
Basic earnings per common share	8	1.01	0.84	4.54	3.49
Diluted earnings per common share	8	1.00	0.83	4.53	3.48

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,	
	2012 **$**	**2011** **$**	**2012** **$**	**2011** **$**
Net income for the period	16,546	13,369	73,070	55,709
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
Net change in gains (losses) on translation of financial statements of foreign operations	3,858	(8,444)	(6,711)	6,232
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(2,118)	2,785	1,708	(1,211)
Income tax on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	340	(283)	23	14
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	98	417	(528)	178
Income tax on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(44)	(123)	153	(44)
Items that will not subsequently be reclassified to net income				
Change in actuarial gains (losses) on post-retirement benefit obligations	983	(469)	(53)	(2,784)
Income tax on change in actuarial gains (losses) on post-retirement benefit obligations	(233)	100	23	679
	2,884	(6,017)	(5,385)	3,064
Comprehensive income	19,430	7,352	67,685	58,773

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, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Note	2012	2011
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the period		73,070	55,709
Adjustments for			
Depreciation of property, plant and equipment		5,312	4,523
Amortization of intangible assets		5,393	4,192
Interest accretion		739	1,239
Asset revaluation following Kanaka's step acquisition		(1,623)	-
Loss on disposal of property, plant and equipment		2,597	505
Employee future benefits		(330)	(1,965)
Stock-based compensation		118	221
Asset impairment		-	2,206
Financial expenses		8,319	8,039
Income taxes		30,486	23,147
Deferred income taxes		(2,279)	1,073
Restricted stock units obligation		(729)	747
Other		(276)	(9)
		120,797	99,627
Changes in non-cash working capital components and others			
Accounts receivable		32,220	(11,968)
Inventories		(60,076)	(30,204)
Prepaid expenses		(205)	(3,408)
Income taxes receivable		(284)	(79)
Accounts payable and accrued liabilities		(15,196)	6,153
Asset retirement obligations		(496)	(270)
Provisions and other long-term liabilities		(4,541)	3,359
		(48,578)	(36,417)
Interest paid		(7,202)	(8,594)
Income tax paid		(36,501)	(21,822)
		28,516	32,794
Financing activities			
Decrease in bank indebtedness		(7,085)	(4,792)
Increase in deferred financing costs		(849)	(122)
Increase in long-term debt		174,550	98,286
Repayment of long-term debt		(70,163)	(80,108)
Non-competes payable		(1,296)	(1,218)
Dividend on common shares		(10,097)	(7,972)
Proceeds from issuance of common shares		78,481	788
		163,541	4,862
Investing activities			
Decrease (increase) in other assets		334	(459)
Business acquisition	3	(167,284)	(29,015)
Increase in intangible assets		(471)	(658)
Purchase of property, plant and equipment		(14,790)	(7,834)
Decrease in assets held for sale		4,154	310
		(178,057)	(37,656)
Net change in cash and cash equivalents during the period		14,000	-
Cash and cash equivalents – Beginning of period		-	-
Cash and cash equivalents – End of period		14,000	-

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

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

1 Description of the business

Stella-Jones Inc. (the “Company”) is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar-based products and provides the railroad industry with used tie pickup and disposal services. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company’s headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange (“TSX”) under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2011.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

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

Principles of consolidation

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

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

As a result of the MCHI acquisition, the Company’s interest in Kanaka has increased to 100%. Up to November 30, 2012, the consolidated statements of the Company included the accounts of a 50% interest in Kanaka, considered a joint venture which was accounted for under the proportionate consolidation method of accounting.

3 Business acquistion

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

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

Total cash outlay associated with the acquisition was approximately $230,165 (US$231,647), excluding acquisition costs of approximately $2,979 (US$2,877), recognized in the consolidated statement of income under Selling and administrative expenses. This amount includes $162,888 (US$163,936) paid to MCHI’s shareholders and $67,277 (US$67,711) used to reimburse MCHI’s debts with financial institutions.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on management’s best estimates and information known at the time of preparing these consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill, consideration payable and deferred income tax.

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

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

Assets acquired	**$**
Non-cash working capital	153,374
Property, plant and equipment	59,636
Cutting rights	1,159
Customer relationships	27,427
Customer backlog	379
Goodwill	44,504
Deferred income tax assets	1,867
	288,346
Liabilities assumed	
Bank indebtedness	18,500
Accounts payable and accrued liabilities	22,550
Long-term debt	67,277
Site remediation provision	5,910
Employee future benefits	2,765
Deferred income tax liabilities	1,308
Total net assets acquired and liabilities assumed	170,036
Consideration transferred	
Cash	230,165
Payment of long-term debt	(67,277)
Consideration payable	7,148
Consideration transferred for shares	170,036

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units ("CGU's"). In the case of the MCHI acquisition, goodwill is allocated to plants specialized in the treatment of utility poles. Note 5 provides a roll-forward of the net book value balances of intangible assets and goodwill.

The fair value of trade receivable, included in non-cash working capital, is $35,527 and the contractual amount is $35,876, of which $349 is expected to be uncollectible.

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

Consideration payable represents a purchase consideration adjustment related to actual net working capital and certain other assets acquired on closing. As at December 31, 2012, management has not received all information required to finalize the amount payable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition.

Financing for the acquisition was secured through private placements of subscription receipts which successfully closed on November 30, 2012, as well as a draw-down of $152,615 (US$153,598) on the Company's committed revolving credit facility. With respect to the private placements, the Company issued 1,176,500 subscription receipts at a price of $68.00 per subscription receipt for aggregate gross proceeds of $80,002. A syndicate of underwriters took up a private placement of 721,200 subscription receipts and Stella Jones International S.A. purchased 455,300 subscription receipts on a private placement basis. The subscription receipts were exchanged on the basis of one common share of the Company per subscription receipt. Total proceeds net of legal and underwriting fees of the subscription receipts were $77,550. The transaction was recorded at $78,202, net of a deferred income tax adjustment of $652. On November 21, 2012, the company amended and restated its committed revolving credit facility to increase its borrowing limit to $350,000 (Note 7).

In the month of December 2012, the acquiree's sales and loss before income taxes amounted to $15,937 and $77, respectively. On a pro forma basis, management's estimate of sales and income before income taxes of the combined operations of the Company and MCHI for the 12-month period ended December 31, 2012 would have been approximately $986,621 and $111,593 respectively, had the MCHI acquisition occurred as of January 1, 2012. To arrive at the pro forma estimates, management considered the financing structure resulting from the acquisition as well as adjustment of fair value and harmonization of accounting policies and assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2012.

b) On July 3, 2012, the Company acquired certain assets of PLS Pole Yard, Inc. ("PLS"), a provider of untreated wood poles operating a wood pole peeling yard located in Rochester, Washington. Total cash outlay associated with the acquisition was $4,396 (US$4,342), excluding acquisition costs of $396 (US$394), recognized in the consolidated statement of income under Selling and administrative expenses, and was financed through existing credit facilities.

The following fair value determination of the assets acquired and liabilities assumed is based on management's best estimates. No significant adjustments were made to the preliminary fair value determination.

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

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

Assets acquired	**$**
Inventories	1,971
Property, plant and equipment	713
Customer relationships	800
Goodwill	1,285
	4,769
Liabilities assumed	
Non-compete agreement	191
Fiber supply agreement	182
Total net assets acquired and liabilities assumed	4,396
Consideration transferred	
Cash	4,396
Consideration transferred for shares	4,396

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for customer relationships is 18 years and 6 months. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for tax purposes, and represents the future economic value associated with raw material sourcing, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGU's. In the case of the PLS acquisition, goodwill is allocated to plants specialized in the treatment of utility poles.

The newly acquired pole peeling assets have been integrated directly into the Company's existing operations and are now used for the Company's internal requirements. Accordingly, it is impractical to provide the pro forma disclosures on post-acquisition sales and income before taxes for these assets as the Company does not maintain such detailed financial information.

c) 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 assets acquired and liabilities assumed is based on management's best estimates. No significant adjustments were made to the preliminary fair value determination. 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.

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

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

Assets acquired	**$**
Non-cash working capital	11,051
Property, plant and equipment	9,452
Cash surrender value of life insurance	150
Customer relationships	12,154
Customer backlog	344
Non-deductible goodwill	16,261
	49,412
Liabilities assumed	
Accounts payable and accrued liabilities	2,835
Long-term debt	3,460
Site remediation provision	455
Deferred income tax liabilities	7,451
Total net assets acquired and liabilities assumed	35,211
Consideration transferred	
Cash	29,015
Unsecured note payable to vendor	5,322
Consideration payable	874
Consideration transferred for shares	35,211

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. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year growth, discount rate and operating income before depreciation and amortization margin. 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. For impairment test purposes, goodwill is allocated to CGU's. In the case of the Thompson acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

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 fair value of the vendor note was determined to be $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,

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

management considered the financing structure resulting from the acquisition as well as adjustment of fair value and harmonization of accounting policies and assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2011.

4 Property, plant and equipment

The following table presents a roll forward of property, plant and equipment:

	Land	Roads	Buildings	Production and anti-pollution equipment	Rolling stock	Office equipment	Total
	$	$	$	$	$	$	$
As at January 1, 2011							
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)
Net book amount	7,614	1,786	20,046	67,801	6,124	1,392	104,763
Period ended December 31, 2011							
Opening net book amount	7,614	1,786	20,046	67,801	6,124	1,392	104,763
Business acquisition	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
Closing net book amount	10,746	1,660	24,419	74,846	5,764	2,006	119,441
As at December 31, 2011							
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)
Net book amount	10,746	1,660	24,419	74,846	5,764	2,006	119,441
Period ended December 31, 2012							
Opening net book amount	10,746	1,660	24,419	74,846	5,764	2,006	119,441
Business acquisition	11,039	-	15,578	25,719	6,554	1,459	60,349
Additions	207	300	902	14,600	325	915	17,249
Disposals	-	-	(97)	(1,560)	(213)	-	(1,870)
Depreciation	-	-	(810)	(3,024)	(1,163)	(315)	(5,312)
Depreciation included in inventory	-	(483)	(23)	(100)	(57)	(2)	(665)
Transfer to assets held for sale	-	-	-	(131)	(604)	-	(735)
Kanaka's step acquisition (Note 3)	1,623	-	42	242	186	-	2,093
Exchange differences	(137)	-	(340)	(916)	(126)	(3)	(1,522)
Closing net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028
As at December 31, 2012							
Cost	23,478	3,606	46,421	144,082	14,766	5,828	238,181
Accumulated depreciation	-	(2,129)	(6,750)	(34,406)	(4,100)	(1,768)	(49,153)
Net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028

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

5 Intangible assets and goodwill

The following table presents a roll forward of intangible assets and goodwill:

	Intangible assets						
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
As at January 1, 2011							
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)	-
Net book amount	6,314	2,879	20,860	3,065	31,061	64,179	73,973
Period ended December 31, 2011							
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
Closing net book amount	6,200	2,864	28,067	2,170	31,761	71,062	91,720
As at December 31, 2011							
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)	-
Net book amount	6,200	2,864	28,067	2,170	31,761	71,062	91,720
Period ended December 31, 2012							
Opening net book balance	6,200	2,864	28,067	2,170	31,761	71,062	91,720
Additions	-	471	-	889	-	1,360	-
Addition of PLS	-	-	800	-	-	800	1,285
Addition of MCHI	1,159	-	27,806	-	-	28,965	44,504
Adjustment of Thompson – goodwill	-	-	-	-	-	-	286
Transfer to assets held for sale	-	-	(1,674)	-	-	(1,674)	-
Amortization	-	-	(4,434)	(959)	-	(5,393)	-
Amortization included in inventory	(189)	(509)	-	-	-	(698)	-
Exchange differences	-	-	(586)	(41)	(690)	(1,317)	(1,961)
Closing net book amount	7,170	2,826	49,979	2,059	31,071	93,105	135,834
As at December 31, 2012							
Cost	7,951	6,481	64,074	6,551	31,071	116,128	135,834
Accumulated amortization	(781)	(3,655)	(14,095)	(4,492)	-	(23,023)	-
Net book amount	7,170	2,826	49,979	2,059	31,071	93,105	135,834

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

6 Bank indebtedness

	Note	2012 $	2011 $
Proportionate share of Kanaka's demand operating loan	6(a)	-	2,585
Banker's acceptances	6(b)	14,000	-
		14,000	2,585

a) As a result of the MCHI acquisition, the Company controls 100% of the Kanaka operations. On November 30, 2012, the Kanaka credit facility was terminated and the demand operating loan was repaid in its entirety using funds from the Company's committed revolving credit facility (Note 7).

b) As part of the MCHI acquisition (Note 3), the Company assumed and reimbursed debts with financial institutions. Upon reimbursement, all MCHI credit facilities were terminated. Certain cash amounts paid to financial institutions were held as collateral against banker's acceptance loans maturing in January and February 2013. As at December 31, 2012, $14,000 in banker's acceptances were still outstanding with an equivalent amount presented under cash.

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

7 Long-term debt

	Note	2012 $	2011 $
Committed revolving credit facility	6(a)	298,056	124,989
Unsecured, subordinated and non-convertible debenture	6(b)	24,873	25,425
Unsecured and non-convertible debenture	6(c)	9,949	10,170
Subordinated note	6(d)	5,424	5,899
Bond – County of Fulton, Kentucky	6(e)	4,034	4,363
Bond – Arkansas Development Finance Authority	6(f)	2,447	2,649
Unsecured promissory note	6(g)	4,877	5,374
Unsecured promissory note	6(h)	200	394
Promissory notes and mortgage loans	6(i)	-	1,144
		349,860	180,407
Deferred financing costs		(252)	(313)
		349,608	180,094
Less: Current portion of long-term debt		6,417	1,524
Less: Current portion of deferred financing costs		(59)	(59)
Total current portion of long-term debt		6,358	1,465
		343,250	178,629

a) On November 21, 2012, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement dated July 28, 2011. This third restated and amended agreement makes available a committed revolving credit facility in the amount of $350,000 (previously $170,000), to be used to repay and refinance existing indebtedness, for working capital and general corporate purposes and to finance a portion of the MCHI acquisition. The $350,000 committed revolving credit facility has been made available for a five-year term by a syndicate of lenders to the Company and SJ Holding. Borrowings may be obtained in the form of Canadian prime rate loans, acceptances, 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 0.00% to 1.00% based on a pricing grid (previously 0.25% to 1.50%). The interest rate margin with respect to acceptances, LIBOR loans and fees for letters of credit will range from 1.00% to 2.00% (previously 1.25% to 2.50%) based on a pricing grid. As at December 31, 2012, borrowings from Canadian entities denominated in U.S. dollars represented $232,455 (US$233,646), of which $221,067 (US$222,200) was designated as a hedge of net investment in foreign operations.

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

During the year, the Company entered into interest rate swap agreements fixing certain rates.

As collateral for the committed revolving credit 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 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.

c) 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.

d) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter & Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in 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.

e) 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 property, plant and equipment of the Fulton facility, which have a net book value of US$8,013 as at December 31, 2012. 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.

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

f) 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.

g) 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.

h) Unsecured promissory note at 8.0%, payable in quarterly instalments of US$53, including interest, and matures on October 1, 2013.

i) During 2012, the Company reimbursed two promissory notes payable to the Hickman-Fulton Rural Electric Cooperative Corporation as well as its last remaining mortgage loan.

8 Capital stock

	2012	**2011**
Number of shares outstanding – Beginning of period*	15,955	15,923
Stock option plan*	29	22
Share issuance* (Note 3)	1,176	-
Employee share purchase plans*	8	10
Number of shares outstanding – End of period*	17,168	15,955

* Number of shares is presented in thousands.

a) Capital stock consists of the following:

Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

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

b) Earnings per share

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

	For the three-month periods ended December 31,		For the twelve-month periods ended December 31,	
	2012	**2011**	**2012**	**2011**
Net income applicable to common shares	$16,546	$13,369	$73,070	$55,709
Weighted average number of common shares outstanding*	16,387	15,953	16,078	15,946
Effect of dilutive stock options*	80	65	67	61
Weighted average number of diluted common shares outstanding*	16,467	16,018	16,145	16,007
Basic earnings per common share **	$1.01	$0.84	$4.54	$3.49
Diluted earnings per common share **	$1.00	$0.83	$4.53	$3.48

* Number of shares is presented in thousands.

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

9 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.

10 Segment information

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

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

11 Subsequent events

On March 21, 2013, the Board of Directors approved a quarterly dividend of $0.20 per common share payable on April 30, 2013 to shareholders of record at the close of business on April 2, 2013.