CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been examined by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of four independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

Brian McManus
President and
Chief Executive Officer

Éric Vachon, CPA, CA
Senior Vice-President and
Chief Financial Officer

Saint-Laurent, Quebec
March 13, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 13, 2014

[1] CPA auditor, CA, public accountancy permit No. A119714

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2013 and 2012
(expressed in thousands of Canadian dollars)

	Note	2013	2012
		$	$
Assets			
Current assets			
Cash	4, 10	**3,191**	14,000
Accounts receivable	5	**107,987**	89,563
Inventories	6	**458,616**	413,400
Prepaid expenses		**12,102**	10,014
Income taxes receivable		**–**	7,886
		581,896	534,863
Non-current assets			
Property, plant and equipment	7	**234,234**	189,028
Intangible assets	8	**93,988**	93,105
Goodwill	8	**156,208**	135,834
Derivative financial instruments	19	**2,119**	198
Other assets	9	**3,478**	2,835
		1,071,923	955,863
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness	10	**–**	14,000
Accounts payable and accrued liabilities	11	**58,054**	65,836
Income taxes payable		**1,007**	–
Current portion of long-term debt	12	**2,732**	6,358
Current portion of provisions and other long-term liabilities	13	**3,060**	3,862
		64,853	90,056
Non-current liabilities			
Long-term debt	12	**370,159**	343,250
Deferred income taxes	16	**46,200**	38,809
Provisions and other long-term liabilities	13	**13,671**	8,297
Employee future benefits	17	**3,724**	4,774
Derivative financial instruments	19	**1,133**	1,926
		499,740	487,112
Shareholders' equity			
Capital stock	14	**211,162**	210,636
Contributed surplus		**1,353**	1,229
Retained earnings		**345,532**	264,211
Accumulated other comprehensive gain (loss)		**14,136**	(7,325)
		572,183	468,751
		1,071,923	955,863

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

Approved by the Board of Directors,

Tom A. Bruce Jones, C.B.E.

Director

George J. Bunze, CPA, CMA

Director

(expressed in thousands of Canadian dollars)

				Accumulated other comprehensive gain (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 (loss)								
Net income for the year	–	–	73,070	–	–	–	–	73,070
Other comprehensive income (loss)	–	–	(30)	(6,711)	1,731	(375)	(5,355)	(5,385)
Comprehensive income (loss) for the year	–	–	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 4)	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
Balance – January 1, 2013	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751
Comprehensive income (loss)								
Net income for the year	–	–	92,536	–	–	–	–	92,536
Other comprehensive income (loss)	–	–	2,522	38,164	(18,621)	1,918	21,461	23,983
Comprehensive income (loss) for the year	–	–	95,058	38,164	(18,621)	1,918	21,461	116,519
Dividends on common shares	–	–	(13,737)	–	–	–	–	(13,737)
Employee share purchase plans	526	–	–	–	–	–	–	526
Stock-based compensation	–	124	–	–	–	–	–	124
	526	124	(13,737)	–	–	–	–	(13,087)
Balance – December 31, 2013	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183

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

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2013 and 2012
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2013	2012
		$	$
Sales		**970,149**	717,494
Expenses			
Cost of sales		**772,818**	565,668
Selling and administrative		**57,166**	42,543
Other losses (gains), net		**1,466**	(313)
	15	**831,450**	607,898
Operating income		**138,699**	109,596
Financial expenses		**10,892**	8,319
Income before income taxes		**127,807**	101,277
Provision for (recovery of) income taxes			
Current	16	**32,545**	30,486
Deferred	16	**2,726**	(2,279)
		35,271	28,207
Net income for the year		**92,536**	73,070
Basic earnings per common share	14	**1.35**	1.14
Diluted earnings per common share	14	**1.34**	1.13

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

(expressed in thousands of Canadian dollars)

	2013	2012
	$	$
Net income for the year	**92,536**	73,070
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	**38,164**	(6,711)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(18,113)**	1,708
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(508)**	23
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	**2,715**	(528)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	**(797)**	153
Items that will not subsequently be reclassified to net income		
Change in actuarial gains (losses) on post-retirement benefit obligations	**3,543**	(53)
Income taxes on change in actuarial gains (losses) on post-retirement benefit obligations	**(1,021)**	23
	23,983	(5,385)
Comprehensive income for the year	**116,519**	67,685

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

(expressed in thousands of Canadian dollars)

	Note	2013	2012
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		**92,536**	73,070
Adjustments for			
Depreciation of property, plant and equipment		**7,760**	5,312
Amortization of intangible assets		**8,562**	5,393
Interest accretion		**492**	739
Asset revaluation following Kanaka's step acquisition		**–**	(1,623)
Loss on disposal of property, plant and equipment		**2,173**	2,597
Employee future benefits		**320**	(330)
Stock-based compensation		**124**	118
Financial expenses		**10,892**	8,319
Income taxes		**32,545**	30,486
Deferred income taxes		**2,726**	(2,279)
Restricted stock units obligation		**2,593**	(729)
Other		**(92)**	(276)
		160,631	120,797
Changes in non-cash working capital components and others			
Accounts receivable		**(4,663)**	32,220
Inventories		**(8,438)**	(60,076)
Prepaid expenses		**(1,481)**	(205)
Income taxes receivable		**(348)**	(284)
Accounts payable and accrued liabilities		**(10,376)**	(15,196)
Asset retirement obligations		**1,099**	(496)
Provisions and other long-term liabilities		**(50)**	(4,541)
		(24,257)	(48,578)
Interest paid		**(9,075)**	(7,202)
Income taxes paid		**(23,081)**	(36,501)
		104,218	28,516
Financing activities			
Decrease in bank indebtedness		**(14,000)**	(7,085)
Increase in deferred financing costs		**(364)**	(849)
Increase in long-term debt		**4,814**	174,550
Repayment of long-term debt		**(9,328)**	(70,163)
Non-competes payable		**(1,694)**	(1,296)
Dividend on common shares		**(13,737)**	(10,097)
Proceeds from issuance of common shares		**526**	78,481
		(33,783)	163,541
Investing activities			
Decrease in other assets		**529**	334
Business acquisition	4	**(57,538)**	(167,284)
Increase in intangible assets		**(466)**	(471)
Purchase of property, plant and equipment		**(26,157)**	(14,790)
Proceeds on disposal of assets		**2,388**	4,154
		(81,244)	(178,057)
Net change in cash and cash equivalents during the year		**(10,809)**	14,000
Cash and cash equivalents – Beginning of year		**14,000**	–
Cash and cash equivalents – End of year		**3,191**	14,000

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

1 DESCRIPTION OF THE BUSINESS

Stella-Jones Inc. (the "Company") is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones Inc. also provides residential lumber and customized services to retailers and wholesalers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. 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 prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I.

These consolidated financial statements were approved by the Board of Directors on March 13, 2014.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, except for the newly adopted standards.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company owns 100% of the equity interests of its subsidiaries. The significant subsidiaries are as follows:

Subsidiary	Parent	Country of incorporation
Guelph Utility Pole Company Ltd.	Stella-Jones Inc.	Canada
I.P.B. - W.P.I. International Inc.	Stella-Jones Inc.	Canada
4552822 Canada Inc.	Stella-Jones Inc.	Canada
4552831 Canada Inc.	Stella-Jones Inc.	Canada
Stella-Jones Canada Inc.	Stella-Jones Inc.	Canada
Selkirk Forest Products Company	Stella-Jones Canada Inc.	Canada
MCP Acquisition Holdings Ltd.	Selkirk Forest Products Company	Canada
Kanaka Creek Pole Company Limited ("Kanaka")	Stella-Jones Canada Inc.	Canada
Selkirk Timber Company	Stella-Jones Canada Inc.	Canada
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones U.S. Finance Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones Corporation ("SJ Corp")	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. ("McFarland")	Stella-Jones Corporation	United States
Electric Mills Wood Preserving LLC	McFarland Cascade Holdings, Inc.	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Canadalux S.à.r.l.	4552822 Canada Inc.	Luxembourg

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Subsidiaries (continued)

As part of the November 30, 2012 McFarland acquisition, SJ Corp acquired Shelby County Forest Products LLC, as well as its wholly owned subsidiary Electric Mills Wood Preserving LLC. SJ Corp also acquired L. D. McFarland Company and Forest Products Research Laboratory LLC, which were wholly owned subsidiaries of McFarland. On May 1, 2013, Shelby County Forest Products LLC and Electric Mills Wood Preserving LLC merged and the surviving corporation was Electric Mills Wood Preserving LLC. On the same date, L. D. McFarland Company and McFarland also merged and the surviving corporation was McFarland. On December 23, 2013, Forest Products Research Laboratory LLC was dissolved.

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenue and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses (gains), net, except for qualifying cash flow hedges which are recognized in other comprehensive income and deferred in accumulated other comprehensive income (loss) in shareholders' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

b) Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of available-for-sale (equity) investments and foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment, which are recognized in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated into the functional currency at historical exchange rates.

c) Foreign operations

The financial statements of entities that have a functional currency different from that of the Company are translated using the rate in effect at the statement of financial position date for assets and liabilities, and the average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income (loss) in shareholders' equity.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of net investment in foreign operations are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income. When the hedged part of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition

Revenue from the sale of products and services is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, the entity does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the sale can be measured reliably. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company enters into service agreements where untreated railway tie procurement and tie treating services only ("TSO") are offered separately. Procurement services consist mainly of procuring, trimming and grading untreated railway ties. Procurement service revenues are recognized after this step if the ownership of the untreated railway tie is transferred to the customer or when the TSO is rendered, depending on the contractual agreement. TSO revenues are recognized at the time of treating or when the railway ties are shipped. Under certain agreements, the customer will supply the untreated railway tie and the Company will offer all of the other services. The Company capitalizes costs incurred to provide the service and reverses them to cost of sales when the revenue is recognized.

The Company also operates timber licences to harvest logs as part of a process to procure raw material for the processing and treatment of utility poles. Logs not meeting pole-quality standards are regularly harvested and sold to third parties. Proceeds from the sale of non-pole-quality logs are included in the cost of poles sold since the production of non-pole-quality logs is a by-product of the Company's pole raw material procurement operations. Sales of non-pole-quality logs totalled $41,141 for the year ended December 31, 2013 (2012 – $14,938).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.

Inventories

Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling price less cost necessary to make the sales.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Anti-pollution equipment	10 to 60 years
Rolling stock	3 to 15 years
Office equipment	2 to 10 years

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis:

	Method	Useful life
Customer relationships	Straight-line	5 to 10 years
Customer relationships	Declining balance	10% to 15%
Non-compete agreements	Straight-line	3 to 6 years
Creosote registration	–	Indefinite

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Standing timber costs are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. In Canada, the Company has perpetual cutting rights where planning and site preparation costs for specific geographical areas are capitalized until the harvest process can begin. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested in the specific area.

Cutting rights are recorded at cost less accumulated amortization, which is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a 40-year period, and are applied against the historical cost.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill

In the context of an acquisition, goodwill represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Impairment

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration, except goodwill.

Non-financial assets

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill

The carrying value of goodwill is tested annually for impairment. Goodwill is allocated to CGUs for the purpose of impairment testing based on the level at which Management monitors it, which is not higher than that of an operating segment. The allocation is made to those CGUs that are expected to benefit from the synergies of the combination.

Leases

The Company leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sales transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost of disposal if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use.

Provisions

Provisions for reforestation, site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next 12 months.

Reforestation obligations

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

Site remediation obligations

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

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly to shareholders' equity.

Current tax

The current income tax charge is based on the results for the period as adjusted for items that are not taxable or not deductible. Tax adjustments from prior years are also recorded in current tax. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. During the year, the tax provision calculation is based on an estimate of the annual tax rate.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Employee future benefits

Other post-retirement benefit programs

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

The Company provides other post-retirement healthcare benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. 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.

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee future benefits (continued)

Defined benefit pension plan (continued)

Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Stock-based compensation and other stock-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Company or cash payments.

Equity-settled plan

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

Cash-settled plan

The Company has restricted stock units (“RSUs”). The Company measures the liability incurred and the compensation expenses at fair value by applying the Black-Scholes valuation model. The compensation expenses are recognized in the consolidated statements of income over the vesting periods. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statements of income.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and financial liabilities at fair value through profit or loss: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Interest rate swaps and foreign exchange forward contracts are derivative financial instruments considered by the Company and, if required, are designated as cash flow hedges (see (e) below).

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income as part of other gains and losses in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as non-current.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

b) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless they mature within 12 months, or Management expects to dispose of them within 12 months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statement of income and are included in other gains and losses.

c) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if any.

d) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank indebtedness and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

e) Derivative financial instruments: The Company uses derivatives in the form of interest rate swaps to manage risks related to its variable rate debt and foreign exchange forward contracts to limit its exposure to the fluctuations of the U.S. dollar. All derivatives classified as held-for-trading are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instrument, with gains and losses on remeasurement recorded in income. All derivatives qualifying for hedge accounting are included in the consolidated statement of financial position and are classified as current or non-current based on the contractual terms specific to the instruments, with gains and losses on remeasurement included in other comprehensive income.

Hedging transactions

As part of its hedging strategy, the Company considers foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars. The Company also considers interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These contracts are treated as cash flow hedges for accounting purposes and are not fair-valued through profit and loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedging transactions (continued)

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

When the derivative financial instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, hedge accounting, if applicable, is discontinued prospectively. Accumulated other comprehensive income (loss) related to a foreign exchange forward contract and interest swap hedges that cease to be effective are reclassified in the consolidated statement of income under foreign exchange gain or loss and financial expenses respectively in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive income (loss) is then reclassified in the consolidated statement of income at the original maturity date of the hedged item.

The Company designated a portion of its U.S. dollar-denominated long-term debt as a hedge of its net investment in foreign operations. For such debt designated as a hedge of the net investment in foreign operations, exchange gains and losses are recognized in accumulated other comprehensive income (loss).

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

IFRS 13 - Fair Value Measurement

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 19 - Employee Benefits (amended in 2011)

IAS 19 amends certain accounting requirements for defined benefit plans and termination benefits.

IAS 19 requires the net defined benefit liability (asset) to be recognized on the consolidated statement of financial position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided.

The Company adopted these amendments as of January 1, 2013. The adoption of these amendments to pension plans did not result in any significant adjustment to the opening equity. The review of the classification of the benefits and the termination benefits did not result either in any adjustment to the consolidated statement of financial position.

IAS 36 - Impairment of Assets

The Company early adopted amendments to IAS 36. The amendments clarified that the recoverable amount is disclosed only when an asset or CGU is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology and for CGUs with goodwill that are impaired, including the disclosure of the fair value. The adoption had no significant impact on the Company's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of accounting pronouncements not yet implemented

IFRS 9 - Financial Instruments

IFRS 9 was issued in November 2009. It addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit and loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent they do not clearly represent a return on investment, are recognized through profit and loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive gain (loss) indefinitely. In November 2013, the IASB issued amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

IAS 32 - Financial Instruments: Presentation

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

The current offsetting model in IAS 32 requires an equity 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.

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. The Company has assessed that the adoption of this standard will not have a significant impact on its consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill, determination of the fair value of the assets acquired and liabilities assumed and impairment of long-lived assets. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

Estimated impairment of goodwill and intangible assets with indefinite useful lives

The Company performs annual impairment tests on goodwill and intangible assets with indefinite useful lives. The recoverable amounts of the CGUs have been determined based on fair value less cost to sell calculations. These calculations require the use of estimates. See Note 8 for further details.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Estimated impairment of long-lived assets

Property, plant and equipment and intangible assets with finite useful lives (referred to as "long-lived assets") are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable through future operations. This is accomplished by determining whether the carrying amount exceeds its recoverable amount at the assessment date. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (being the present value of the expected future cash flows of the relevant asset). Estimates of future cash flows are based on judgment and could change. There is measurement uncertainty since adverse changes in one or a combination of the Company's key assumptions or change in use of such operations could require a significant change in the carrying amount of the assets tested for impairment.

4 BUSINESS ACQUISITION

a) On November 15, 2013, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the businesses of Arizona Pacific Wood Preserving, Inc., Nevada Wood Preserving, Inc. and Pacific Wood Preserving of Oregon, Inc. (commonly referred to as The Pacific Wood Preserving Companies®["PWP"]) conducted at their wood treating plants in Oregon, Nevada and Arizona and their wood concentration yard in Texas. These businesses consist of the manufacture of treated wood utility poles and railway ties, along with a variety of lumber- related products and were acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $48,849 (US$46,759), excluding acquisition costs of approximately $1,245 (US$1,207), recognized in the consolidated statement of income under selling and administrative expenses.

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 and consideration receivable.

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	25,751
Property, plant and equipment	19,591
Customer relationships	4,241
Customer backlog	125
Goodwill	10,409
	60,117
Liabilities assumed	
Accounts payable and accrued liabilities	939
Site remediation provision	1,300
Total net assets acquired and liabilities assumed	57,878
Consideration transferred	
Cash	48,849
Unsecured promissory note	6,545
Consideration payable for the purchase of certain assets of the Nevada plant	3,134
Consideration receivable	(650)
Consideration transferred	57,878

4 BUSINESS ACQUISITION (CONTINUED)

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 U.S. 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 CGU's, which are defined as plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties. In the case of the PWP acquisition, goodwill values of $9,746 and $663 are allocated to plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties, respectively. Note 8 provides a roll-forward of the net book value balances of intangible assets and goodwill.

The fair value of trade receivables, included in non-cash working capital, is $8,737.

Consideration receivable represents a purchase consideration adjustment related to actual net working capital. As at December 31, 2013, Management has not yet received all information required to finalize the amount receivable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition date. With regards to the consideration payable for the purchase of certain assets of the Nevada plant, an equivalent amount of $3,191 (US$3,000) was deposited in escrow and was recorded under cash in the consolidated statement of financial position as at December 31, 2013. On February 5, 2014, the consideration payable was settled.

The Company has financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of $7,281 (US$6,969), bearing interest at 0.27% and repayable in 12 equal instalments over a 3-year period. The unsecured promissory note was fair-valued at $6,545 (US$6,265) using an interest rate of 7.0%.

In the period from November 15 to December 31, 2013, PWP's sales and loss before income taxes amounted to $4,121 and $1,702, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and PWP for the year ended December 31, 2013 would have been approximately $1,024,336 and $127,449 respectively, had the PWP acquisition occurred as of January 1, 2013. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition, as well as adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2013.

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

McFarland 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 (Scooba), Mississippi; and Galloway, British Columbia, as well as through an extensive distribution network.

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

4 BUSINESS ACQUISITION (CONTINUED)

Total cash outlay associated with the acquisition was $238,854 (US$240,393), excluding acquisition costs of $2,979 (US$2,877), recognized in the consolidated statement of income under selling and administrative expenses. This amount includes $171,577 (US$172,683) paid to McFarland's shareholders and $67,277 (US$67,710) used to reimburse McFarland's debts with financial institutions.

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.

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	153,093
Property, plant and equipment	59,902
Cutting rights	1,159
Customer relationships	27,099
Customer backlog	379
Goodwill	44,952
Deferred income tax assets	1,752
	288,336
Liabilities assumed	
Bank indebtedness	18,500
Accounts payable and accrued liabilities	20,999
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	171,577
Consideration transferred	
Cash	238,854
Payment of long-term debt	(67,277)
Consideration transferred for shares	171,577

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 U.S. 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 CGU's. In the case of the McFarland acquisition, goodwill is allocated to plants specialized in the treatment of utility poles. Note 8 provides a roll-forward of the net book value balances of intangible assets and goodwill.

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

4 BUSINESS ACQUISITION (CONTINUED)

The fair value of trade receivables, included in non-cash working capital, is $35,779 and the contractual amount is $35,876, of which $97 is expected to be uncollectible.

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 4,706,000 subscription receipts at a price of $17.00 per subscription receipt for aggregate gross proceeds of $80,002. A syndicate of underwriters took up a private placement of 2,884,800 subscription receipts and Stella Jones International S.A. purchased 1,821,200 subscription receipts on a private placement basis (Note 21). 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.

In the month of December 2012, McFarland'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 McFarland for the 12-month period ended December 31, 2012 would have been approximately $986,621 and $111,593, respectively, had the McFarland 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 adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2012.

5 ACCOUNTS RECEIVABLE

	2013	2012
	$	$
Trade receivables	**102,606**	82,252
Less: Provision for doubtful accounts	**(201)**	(1,080)
Trade receivables – net	**102,405**	81,172
Other receivables	**5,582**	8,391
	107,987	89,563

As at December 31, 2013, trade receivables of $34,985 (2012 – $31,655) were past due but not impaired.

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

5 ACCOUNTS RECEIVABLE (CONTINUED)

The aging of gross trade receivables at each reporting date was as follows:

	2013	2012
	$	$
Current	**67,420**	49,517
Past due 1-30 days	**24,405**	24,195
Past due 31-60 days	**8,422**	5,457
Past due more than 60 days	**2,359**	3,083
	102,606	82,252

As at December 31, 2013, trade receivables of $201 (2012 - $1,080) were impaired and provided for. Details of the provision for doubtful accounts are as follows:

	2013	2012
	$	$
Balance – Beginning of year	**1,080**	414
Provision (reversal)	**(909)**	740
Bad debt write-off	**(13)**	(60)
Foreign exchange adjustments	**43**	(14)
Balance – End of year	**201**	1,080

The variation of the provision for doubtful accounts has been included in selling and administrative expenses in the consolidated statement of income.

6 INVENTORIES

	2013	2012
	$	$
Raw materials	**288,881**	312,686
Finished goods	**169,735**	100,714
	458,616	413,400

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Roads	Buildings	Production and anti-pollution equipment	Rolling stock	Office equipment	Total
	$	$	$	$	$	$	$
As at January 1, 2012							
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
Year 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 4)	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
Year ended December 31, 2013							
Opening net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028
Business acquisition	2,168	–	5,558	10,499	1,316	50	19,591
Additions	106	203	4,513	22,739	–	881	28,442
Disposals	–	–	(250)	(1,159)	(2,485)	–	(3,894)
Depreciation	–	–	(1,225)	(3,844)	(2,119)	(572)	(7,760)
Depreciation included in inventory	–	(454)	(170)	(318)	(804)	(42)	(1,788)
Transfer to/from assets held for sale	987	–	176	(34)	(256)	–	873
Exchange differences	1,019	–	2,305	5,514	506	398	9,742
Closing net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
As at December 31, 2013							
Cost	27,758	3,809	58,816	181,781	11,516	7,181	290,861
Accumulated depreciation	–	(2,583)	(8,238)	(38,708)	(4,692)	(2,406)	(56,627)
Net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234

As a result of the November 30, 2012 McFarland acquisition, the Company has remeasured its previously held interest in 50% of Kanaka and a gain of $1,623 has been recorded in the consolidated statement of income in other losses (gains), net and $470 has been included in inventory.

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

8 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 consolidated statements of financial position is at cost less accumulated amortization and the related amortization expense is included in cost of sales in the 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 ranging from 8.9% to 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 range between 3 and 6 years.

As part of a past 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.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to sell ("FVLCTS") calculations. FVLCTS calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 9.0%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTS have considered the current economic environment.

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, estimates of production costs and future capital expenditure. An addition of 1.0% to the discount rate or a 1.0% decrease in cash flows would not give rise to an impairment.

The carrying value of goodwill is allocated to the following CGUs

CGUs	2013	2012
	$	$
Plants specialized in the treatment of utility poles	**59,309**	45,825
Plants specialized in the treatment of railway ties	**96,899**	90,009
	156,208	135,834

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

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Impairment tests for intangible assets with indefinite useful life

The creosote registration is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes. The recoverable amount of a CGU is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on the latest forecasts for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 10.0%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, estimates of production costs and future capital expenditure. An addition of 1.0% to the discount rate or a 1.0% decrease in cash flows would not give rise to an impairment.

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

	Intangible assets						
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
As at January 1, 2012							
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
Year 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 McFarland	1,159	–	27,806	–	–	28,965	44,504
Adjustment of Thompson	–	–	–	–	–	–	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)

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Intangible assets						
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
Year ended December 31, 2013							
Opening net book balance	7,170	2,826	49,979	2,059	31,071	93,105	135,834
Additions	–	466	–	–	–	466	–
Adjustment of McFarland	–	–	(328)	–	–	(328)	–
Adjustment of McFarland	–	–	–	–	–	–	450
Addition of PWP	–	–	4,366	470	–	4,836	10,409
Amortization	–	–	(7,247)	(1,315)	–	(8,562)	–
Amortization included in inventory	(233)	(800)	–	–	–	(1,033)	–
Exchange differences	–	–	3,254	105	2,145	5,504	9,515
Closing net book amount	6,937	2,492	50,024	1,319	33,216	93,988	156,208
As at December 31, 2013							
Cost	7,951	6,947	72,503	7,483	33,216	128,100	156,208
Accumulated amortization	(1,014)	(4,455)	(22,479)	(6,164)	–	(34,112)	–
Net book amount	6,937	2,492	50,024	1,319	33,216	93,988	156,208

9 OTHER ASSETS

	Note	2013	2012
		$	$
Advances and notes receivable		**247**	501
Assets held for sale		**–**	498
Long-term bank fees		**1,118**	1,010
Accrued benefit asset	17	**1,979**	–
Other		**134**	826
		3,478	2,835

10 BANK INDEBTEDNESS

	2013	2012
	$	$
Bankers' acceptances	**–**	14,000
	–	14,000

As part of the McFarland acquisition (Note 4), the Company assumed and reimbursed debts with financial institutions. Upon reimbursement, all McFarland credit facilities were terminated. Certain cash amounts paid to financial institutions were held as collateral against bankers' acceptance loans that matured in January and February 2013. As at December 31, 2012, $14,000 in bankers' acceptances were still outstanding with an equivalent amount presented under cash.

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

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2013	2012
		$	$
Trade payables		**20,497**	24,813
Amounts due to related parties	21	**106**	294
Accrued expenses		**27,726**	24,169
Other payables		**9,725**	16,560
		58,054	65,836

12 LONG-TERM DEBT

	Note	2013	2012
		$	$
Committed revolving credit facility	12(a)	**320,360**	298,056
Unsecured, subordinated and non-convertible debenture	12(b)	**26,590**	24,873
Unsecured and non-convertible debenture	12(c)	**10,636**	9,949
Unsecured promissory note	12(d)	**6,664**	–
Unsecured promissory note	12(e)	**4,778**	4,877
Bond – County of Fulton, Kentucky	12(f)	**4,060**	4,034
Bond – Arkansas Development Finance Authority	12(g)	**–**	2,447
Subordinated note	12(h)	**–**	5,424
Unsecured promissory note	12(i)	**–**	200
		373,088	349,860
Deferred financing costs		**(197)**	(252)
		372,891	349,608
Less: Current portion of long-term debt		**2,791**	6,417
Less: Current portion of deferred financing costs		**(59)**	(59)
Total current portion of long-term debt		**2,732**	6,358
		370,159	343,250

a) On March 31 and December 13, 2013, the Company and SJ Holding, as borrowers, entered into agreements to amend the third amended and restated credit agreement dated November 21, 2012. The amended agreement makes available a committed revolving credit facility in the amount of $400,000 (previously $350,000), to be used for working capital and general corporate purposes. The $400,000 committed revolving credit facility was also extended by a year making the facility available for a five-year term by a syndicate of lenders to the Company and SJ Holding, maturing December 13, 2018. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), 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 0.0% to 1.0% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.0% to 2.0% based on a pricing grid. As at December 31, 2013, borrowings by Canadian entities denominated in U.S. dollars represented $274,622 (US$258,200), of which $268,240 (US$252,200) was designated as a hedge of net investment in foreign operations.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. The Company did not enter into any new agreements in 2013. Details of the outstanding interest rate swaps as at December 31, 2013 are provided in Note 19, Financial instruments.

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.

12 LONG-TERM DEBT (CONTINUED)

b) Unsecured, subordinated and non-convertible debenture bearing interest at 7.27%, and is repayable in a single instalment of US$25,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.

c) Unsecured and non-convertible debenture bearing interest at 7.27%, and is repayable in a single instalment of US$10,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.

d) As part of the PWP acquisition, SJ Corp and McFarland issued an unsecured promissory note of $7,413 bearing interest at 0.27%. The note is repayable in 12 equal quarterly instalments up to November 2016. The note was initially recorded at a fair value of $6,664 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.

e) Pursuant to a business acquisition on December 7, 2011, SJ Corp issued an unsecured promissory note of $6,617 bearing interest at 2.67%. The note is repayable in 10 equal annual 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.

f) 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$7,445 as at December 31, 2013. The bond was initially recorded in the consolidated financial statements at a fair value of US$4,835 using an interest rate of 6.5%. 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 have made available a US$4,653 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.

g) Pursuant to a business 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 ranged from 5.62% to 5.81% and were payable semi-annually on March 1 and September 1. In August 2013, the Company fully reimbursed the bond.

h) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter & Co. The note was subordinated to existing lenders and bore interest at 5.0%. The note was 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 was being accreted on an effective yield basis over its term. The note matured on February 28, 2013 and was fully repaid.

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

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

12 LONG-TERM DEBT (CONTINUED)

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

	Principal
	$
2014	3,429
2015	3,453
2016	40,704
2017	1,018
2018	321,397
Thereafter	5,569
	375,570
Fair value adjustment	(2,482)
	373,088

k) The aggregate fair value of the Company's long-term debt was estimated at $373,231 as at December 31, 2013 (2012 – $350,194) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

13 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions				Other long-term liabilities			
	Reforestation	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Grand total
	$	$	$	$	$	$	$	$
Balance as at January 1, 2012	1,316	610	5,857	7,783	1,170	2,582	3,752	11,535
Addition	417	1,328	1,059	2,804	1,995	889	2,884	5,688
Addition related to acquisition	–	6,365	–	6,365	–	373	373	6,738
Provision reversal	–	–	(1,655)	(1,655)	–	–	–	(1,655)
Payment	(541)	(1,700)	(3,945)	(6,186)	(2,724)	(1,296)	(4,020)	(10,206)
Interest accretion	–	–	–	–	–	208	208	208
Exchange differences	–	(9)	(88)	(97)	–	(52)	(52)	(149)
Balance as at December 31, 2012	1,192	6,594	1,228	9,014	441	2,704	3,145	12,159
Addition	823	1,376	110	2,309	2,593	–	2,593	4,902
Addition related to acquisition	–	1,300	–	1,300	–	470	470	1,770
Provision reversal	–	(105)	(4)	(109)	–	–	–	(109)
Payment	(367)	(628)	(156)	(1,151)	–	(1,694)	(1,694)	(2,845)
Interest accretion	–	–	–	–	–	126	126	126
Exchange differences	–	499	83	582	–	146	146	728
Balance as at December 31, 2013	1,648	9,036	1,261	11,945	3,034	1,752	4,786	16,731

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

13 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Analysis of provisions and other long-term liabilities

	2013	2012
	$	$
Current		
Provisions	**2,181**	2,262
Other long-term liabilities	**879**	1,600
Total current	**3,060**	3,862
Non-current		
Provisions	**9,765**	6,752
Other long-term liabilities	**3,906**	1,545
Total non-current	**13,671**	8,297
	16,731	12,159

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 2.7% (2012 – 4.0%) 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 $531 and $672 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 current and former treating sites for a period ranging from 1 to 21 years.

As part of the PWP acquisition, the Company recorded $1,300 of provisions for site remediation. The remaining balance of $7,736 is related to ongoing compliance efforts.

Others

Other provisions comprise $214 in legal litigation provisions and $1,047 in a provision set up to acquire the land of the Memphis facility, which is presently being leased.

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 and Chief Executive Officer ("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.

13 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Other long-term liabilities (continued)

Restricted stock units (continued)

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.

The RSUs granted on December 18, 2009 reached their third year anniversary on December 18, 2012 and were fully paid.

On March 19, 2012 and on March 25, 2013, the Company granted RSUs to certain key executives as part of the long-term incentive plan.

On May 6, 2013, as part of a five-year incentive agreement and pursuant to its long-term incentive plan, the Company granted 400,000 RSUs to the President, with a vesting date of May 6, 2016. As part of the agreement, in the event that the President voluntarily leaves the employment of the Company prior to the fifth anniversary of the RSUs grant date, any amounts paid to him will be reimbursed to the Company. In the event that the President is required to cease his functions prior to the fifth anniversary of the RSUs grant date due to long-term disability or death, he shall be entitled to a prorated payment. The compensation expense related to the five-year agreement will be recognized in the consolidated statement of income over a five-year period.

As at December 31, 2013, the provision for RSUs was valued at $3,034 ($441 as at December 31, 2012). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant.

Non-competes payable

The Company entered into non-compete agreements as part of the PWP and previous acquisitions.

14 CAPITAL STOCK

	Note	2013	2012
		$	$
Number of shares outstanding – Beginning of year*		**68,674**	63,821
Stock option plan*		**–**	115
Share issuance*	4	**–**	4,706
Employee share purchase plans*		**23**	32
Number of shares outstanding – End of year*		**68,697**	68,674

* Number of shares is presented in thousands.

On October 1, 2013, the Board of Directors approved a share split of the Company's outstanding common shares on a 4-for-1 basis. The share split took the form of a share dividend whereby shareholders received three additional common shares for each common share held. The record date for the share dividend was October 21, 2013 and the share dividend payment date was October 25, 2013. The Company's common shares commenced trading on a split basis on October 28, 2013. All references to common shares issued and outstanding, stock options outstanding, as well as per data share have been adjusted to reflect the share split.

a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

14 CAPITAL STOCK (CONTINUED)

b) Earnings per share

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

	2013	2012
Net income applicable to common shares	**$ 92,536**	$ 73,070
Weighted average number of common shares outstanding*	**68,681**	64,312
Effect of dilutive stock options*	**372**	268
Weighted average number of diluted common shares outstanding*	**69,053**	64,580
Basic earnings per common share **	**$ 1.35**	$ 1.14
Diluted earnings per common share **	**$ 1.34**	$ 1.13

* Number of shares is presented in thousands.

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

c) Stock option plan

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

Under the Plan adopted on June 13, 1994 and amended on May 3, 1995, March 15, 2001, May 3, 2007, December 10, 2010 and October 21, 2013, the aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

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

	2013		2012	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		$		$
Outstanding – Beginning of year	**520**	**6.19**	635	5.84
Exercised	**–**	**–**	(115)	4.25
Granted	**30**	**22.13**	–	–
Outstanding – End of year	**550**	**7.06**	520	6.19
Options exercisable – End of year	**440**	**6.43**	399	6.21

* Number of options is presented in thousands.

** Exercise price is presented in dollars per option.

14 CAPITAL STOCK (CONTINUED)

c) Stock option plan (continued)

The following options were outstanding under the Plan as at December 31, 2013:

	Options outstanding		Options exercisable		
Date granted	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		$		$	
December 2005	44	3.25	44	3.25	December 2015
July 2006	138	4.88	138	4.88	July 2016
August 2006	12	5.14	12	5.14	August 2016
August 2007	90	9.90	90	9.90	August 2017
December 2009	190	6.01	110	6.01	December 2016
December 2009	16	6.01	16	6.01	August 2014
May 2010	30	7.07	24	7.07	May 2020
May 2013	30	22.13	6	22.13	May 2023
	550		440		

* Number of options is presented in thousands.

** Exercise price is presented in dollars per option.

d) Stock-based compensation

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

On May 7, 2013, 30,000 options were granted at a fair value of $151 and the expense amortized to earnings amounted to $46. No options were granted during 2012. The fair value was estimated with the following weighted average assumptions:

	2013
Risk-free interest rate	1.28%
Dividend yield	1.00%
Expected life	10 years
Volatility	21.30%
Weighted average of fair value of options granted during the year	$ 5.05

In 2013, the total expense relating to stock-based compensation amortized to earnings was $124 (2012 – $118).

e) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 1,000,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.0% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2013, 12,746 common shares (2012 – 19,244) were issued to Canadian resident employees at an average price of $20.30 per share (2012 – $11.89).

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

14 CAPITAL STOCK (CONTINUED)

e) Employee share purchase plans (continued)

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2013, 10,920 common shares (2012 – 12,444) were issued to U.S. resident employees at an average price of $22.96 per share (2012 – $13.19).

As at December 31, 2013, the total number of common shares issued under these plans is 776,646 (2012 – 752,980).

15 EXPENSES BY NATURE

	2013	2012
	$	$
Raw materials and consumables	**628,973**	461,925
Employee benefit expenses	**73,379**	57,065
Depreciation and amortization	**16,322**	10,705
Other expenses incurred in manufacturing process	**25,679**	20,609
Freight	**62,122**	36,669
Other expenses	**24,975**	20,925
	831,450	607,898

	2013	2012
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**69,363**	54,273
Share options granted to directors and employees	**124**	118
Pension costs	**1,721**	913
Group registered retirement savings plans	**2,171**	1,761
	73,379	57,065

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

	2013	2012
	$	$
Other losses (gains), net		
Asset revaluation following Kanaka's step acquisition	**–**	(1,623)
Losses on disposal of long-term assets	**2,173**	2,201
Foreign exchange gain	**(707)**	(891)
	1,466	(313)

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

16 INCOME TAXES

	2013	2012
	$	$
Current tax		
Current tax on income for the year	**33,562**	30,620
Adjustments in respect of prior years	**(1,017)**	(134)
Total current tax	**32,545**	30,486
Deferred tax		
Origination and reversal of temporary differences	**1,790**	(1,879)
Impact of change in tax rate	**33**	(285)
Adjustment in respect of prior years	**903**	(115)
Total deferred tax	**2,726**	(2,279)
Income tax expense	**35,271**	28,207

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities as follows:

	2013	2012
	$	$
Income before income tax	**127,807**	101,277
Tax calculated at domestic tax rates of 26.89% (2012 – 26.59%) applicable to income in the respective countries	**34,367**	26,930
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**8,456**	6,511
Income not subject to tax	**(4,993)**	(2,611)
Expenses not deductible for tax purposes	**(190)**	(10)
Remeasurement of deferred tax – change in tax rate	**33**	(285)
Adjustment in respect of prior years	**(114)**	(249)
Exchange revaluation of deferred tax	**(86)**	(2)
Manufacturing and processing tax credit	**(2,202)**	(2,077)
Income tax expense	**35,271**	28,207

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2013	2012
	$	$
Deferred tax assets		
To be recovered after more than 12 months	**2,153**	13,088
To be recovered within 12 months	**8,838**	8,338
Deferred tax liabilities		
To be reversed after more than 12 months	**(57,191)**	(60,235)
To be reversed within 12 months	**–**	–
Deferred tax liability, net	**(46,200)**	(38,809)

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

16 INCOME TAXES (CONTINUED)

The gross movement on the deferred income tax account is as follows:

	2013	2012
	$	$
As at January 1	**(38,809)**	(43,417)
Statement of income charge (credit)	**(2,726)**	2,279
Tax charge (credit) relating to components of other comprehensive income	**(2,327)**	199
Tax charge directly to equity	**–**	652
Tax charge (credit) relating to acquisition	**(115)**	695
Exchange differences	**(2,223)**	783
As at December 31	**(46,200)**	(38,809)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Financing fees	Reserves	Derivative financial instruments	Deferred pension benefits	Capital loss unrealized on foreign exchange on debts	Intangible assets	Net operating loss	Total
	$	$	$	$	$	$	$	$
Deferred tax assets								
As at January 1, 2012	731	5,433	422	596	–	–	–	7,182
Charged (credited) to statement of income	(431)	(693)	–	(117)	(23)	(1,022)	62	(2,224)
Charged to other comprehensive income	–	–	153	23	23	–	–	199
Charged to equity	652	–	–	–	–	–	–	652
Charged to goodwill	–	3,700	–	1,060	–	10,869	60	15,689
Exchange differences	(3)	(102)	2	8	–	23	–	(72)
As at December 31, 2012	949	8,338	577	1,570	–	9,870	122	21,426
Charged (credited) to statement of income	(362)	1,358	–	134	(72)	82	(30)	1,110
Charged (credited) to other comprehensive income	–	–	(424)	(550)	72	–	–	(902)
Credited to goodwill	–	(1,223)	–	–	–	(9,865)	–	(11,088)
Exchange differences	6	365	2	72	–	–	–	445
As at December 31, 2013	593	8,838	155	1,226	–	87	92	10,991

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

16 INCOME TAXES (CONTINUED)

	Property, plant and equipment	Deferred pension benefits	Intangible assets	Deferred financial instruments	Investment tax credit	Capital gain unrealized on foreign exchange gain on debts	Total
	$	$	$	$	$	$	$
Deferred tax liabilities							
As at January 1, 2012	(27,584)	–	(22,908)	–	(107)	–	(50,599)
Charged to statement of income	726	–	3,776	–	1	–	4,503
Charged (credited) to goodwill	(15,016)	–	22	–	–	–	(14,994)
Exchange differences	393	–	462	–	–	–	855
As at December 31, 2012	(41,481)	–	(18,648)	–	(106)	–	(60,235)
Charged (credited) to statement of income	(5,281)	(30)	1,477	–	(2)	–	(3,836)
Credited to other comprehensive income	–	(471)	–	(373)	–	(581)	(1,425)
Charged (credited) to goodwill	11,867	–	(894)	–	–	–	10,973
Exchange differences	(1,368)	–	(1,300)	–	–	–	(2,668)
As at December 31, 2013	(36,263)	(501)	(19,365)	(373)	(108)	(581)	(57,191)

In 2012, the Company did not recognize deferred income tax assets of $378 in respect of capital losses amounting to $2,848 that can be carried forward indefinitely against future taxable capital gain.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled $133,321 as at December 31, 2013 (2012 – $86,133).

17 EMPLOYEE FUTURE BENEFITS

The Company recognizes costs for several types of employee future benefits. Other post-employment benefits are offered to certain retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. Stella-Jones Canada Inc. contributes to a multi-employer plan for certain hourly employees and to four defined benefit pension plans for salaried and certain non-union hourly wage employees.

Following the McFarland acquisition, the Company now contributes to two U.S. defined benefit pension plans.

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

All other active employees are entitled to a group registered retirement savings plan to which the Company matches 1.5 times employee contributions to a maximum of 4% of salary. The recognized costs for employee future benefits were as follows:

	2013	2012
	$	$
Post-retirement benefits	**154**	154
Defined benefit pension plans	**1,178**	430
Contributions to multi-employer plan	**389**	329
Contributions to group registered retirement savings plans	**2,171**	1,761

The net amount recognized on the consolidated statement of financial position is detailled as follows:

	2013	2012
	$	$
Assets		
Accrued benefit asset, included in other assets	**1,979**	–
	1,979	–
Liabilities		
Accrued benefit liability included in employee future benefits	**(1,972)**	(1,722)
Accrued benefit obligation, included in employee future benefits	**(1,752)**	(3,052)
	(3,724)	(4,774)

a) The post-retirement benefits program is not funded and, since June 1, 2011, this program is closed to new participants. For this program, the Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as at July 1, 2012, and the next required valuation will be as at July 1, 2015.

The following information as established by independent actuaries pertains to the Company's post-retirement benefits program:

	2013	2012
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**1,722**	1,630
Current service cost	**83**	81
Interest cost	**71**	73
Benefits payments	**(45)**	(50)
Actuarial gain	**(79)**	(12)
Balance – End of year	**1,752**	1,722
Plan assets		
Employer's contributions	**45**	50
Benefits paid	**(45)**	(50)
Fair value – End of year	**–**	–
Accrued benefit obligation	**1,752**	1,722

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The significant assumptions used are as follows:

	2013	2012
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**4.7**	4.0
Rate of compensation increase	**2.0**	2.0
Benefit costs for the year ended December 31		
Discount rate	**4.0**	4.3
Rate of compensation increase	**2.0**	2.0

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed to start in 2009. This rate is assumed to decrease gradually by 0.5% per year, to reach 5.0%. Therefore, the rate used to calculate the cost per capita of health care cost increases in 2013 was 7.5%. An increase or decrease of 1.0% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	$
Impact on accrued benefit obligation	67	(58)
Impact on benefit costs	3	(2)

The items of the Company's post-retirement benefits program costs recognized during the year are as follows:

	2013	2012
	$	$
Current service cost	**83**	81
Interest cost	**71**	73
Past service cost	**–**	–
Post-retirement benefits program costs recognized	**154**	154

Consolidated statement of comprehensive income	2013	2012
	$	$
Year ended December 31		
Actuarial gains	**79**	12
Total recognized in other comprehensive income before income tax	**79**	12

Accumulated actuarial losses recognized in other comprehensive income (loss)	2013	2012
	$	$
Balance of actuarial losses as at January 1	**(166)**	(178)
Net actuarial gains recognized in the year (net of tax)	**59**	12
Balance of actuarial losses as at December 31	**(107)**	(166)

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

b) The Stella-Jones Canada Inc. defined benefit pension plans base the benefits on the length of service and final average earnings. The McFarland defined benefit pension plans base the benefits on the length of service and flat dollar amounts payable monthly. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

Actuarial valuations are updated every three years, and the latest valuations performed for the six existing pension plans are as follows:

	Date of last actuarial valuation
Plan 1	December 31, 2010
Plan 2	December 31, 2010
Plan 3	December 31, 2010
Plan 4	December 31, 2011
Plan 5	December 31, 2012
Plan 6	December 31, 2012

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

	2013	2012
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**19,673**	12,755
Addition of subsidiaries	**–**	6,001
Current service cost	**878**	560
Interest cost	**770**	605
Benefits payments	**(680)**	(611)
Actuarial loss (gain)		
Plan experience	**781**	(178)
Changes in demographic assumptions	**403**	–
Changes in financial assumptions	**(3,116)**	541
Exchange difference	**413**	–
Balance – End of year	**19,122**	19,673
Plan assets		
Fair value – Beginning of year	**16,621**	12,114
Addition of subsidiaries	**–**	3,266
Interest income on plan assets	**451**	720
Return on plan asset excluding interest income	**1,531**	241
Employer's contributions	**983**	876
Employee's contributions	**19**	15
Benefits paid	**(680)**	(611)
Exchange difference	**205**	–
Fair value – End of year	**19,130**	16,621
Accrued benefit asset (liability)	**8**	(3,052)

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2013	2012
	$	$
Accrued benefit obligation	**8,675**	17,308
Fair value of plan assets	**6,031**	13,963
Funded status – Plan deficit	**(2,644)**	(3,345)

The percentage of plan assets consists of the following for the year ended December 31:

	2013	2012
	%	%
Equity securities	**48.0**	46.0
Debt securities	**49.0**	52.0
Short-term investments and cash	**3.0**	2.0
	100.0	100.0

The significant weighted average assumptions used are as follows:

	2013	2012
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**4.9**	3.9
Inflation assumption	**2.0**	2.0
Rate of compensation increase	**3.0**	3.0
Benefit costs for the year ended December 31		
Discount rate	**3.9**	4.5
Inflation assumption	**2.0**	2.3
Rate of compensation increase	**3.0**	4.0

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

	2013	2012
	$	$
Current service cost, net of employee's contributions	**859**	545
Interest cost	**770**	605
Interest income on plan assets	**(451)**	(720)
Past service cost	**–**	–
Defined benefit plan expense	**1,178**	430

Expected contributions to the defined benefit pension plans for the year ending December 31, 2014 are $1,078.

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

17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Consolidated statement of comprehensive income	2013	2012
	$	$
Year ended December 31		
Actuarial gains (losses)	**3,464**	(65)
Total recognized in other comprehensive income before income tax	**3,464**	(65)

Accumulated actuarial losses recognized in other comprehensive income (loss)	2013	2012
	$	$
Balance of actuarial losses as at January 1	**(2,748)**	(2,706)
Net actuarial gains (losses) recognized in the year (net of tax)	**2,463**	(42)
Balance of actuarial losses as at December 31	**(285)**	(2,748)

18 COMMITMENTS AND CONTINGENCIES

a) The Company is involved from time to time in various claims and legal proceedings arising in the ordinary course of business. No provision in relation to those claims has been recognized in these consolidated financial statements, as legal advice indicates that it is not probable that a significant liability will arise.

b) The Company has issued guarantees amounting to $33,636 (2012 – $44,061) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

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

	$
2014	11,953
2015	9,616
2016	7,487
2017	5,499
2018	3,775
Thereafter	15,019
	53,349

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

e) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $785 (2012 – $730). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation.

19 FINANCIAL INSTRUMENTS

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the long-term receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements. The fair value of interest rate swap agreements has been recorded using mark-to-market information.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals primarily with railroad companies, public service companies and utility and telecommunication companies as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management for each selling location. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 5 provides details on the receivable aging as well as on the provision for doubtful accounts for the years ended December 31, 2013 and 2012. In 2013, the Company had one customer representing 10.0% of its sales (2012 – 14.0%). As at December 31, 2013, the accounts receivable balance from this customer amounted to $1,464 (2012 – $1,278).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The Company ensures that it has sufficient credit facilities to support working capital, meet expected operational expenses and service financial obligations. Inventories are a significant component of working capital because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is made.

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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 12(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2013, an amount of $320,360 was drawn against the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

						2013
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Accounts payable and accrued liabilities	58,054	58,054	58,054	–	–	–
Long-term debt obligations	372,891	407,309	11,326	57,838	332,423	5,722
Interest rate swaps	1,133	4,221	1,490	2,234	497	–
Non-competes payable	1,752	1,862	917	785	160	–
	433,830	471,446	71,787	60,857	333,080	5,722

						2012
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	$	$	$	$	$
Bank indebtedness	14,000	14,000	14,000	–	–	–
Accounts payable and accrued liabilities	65,836	65,836	65,836	–	–	–
Long-term debt obligations	349,608	388,324	15,188	18,457	346,440	8,239
Interest rate swaps	1,926	5,010	1,355	2,427	1,228	–
Non-competes payable	2,704	2,953	1,740	915	298	–
	434,074	476,123	98,119	21,799	347,966	8,239

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

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. As at December 31, 2013, the Company had no foreign exchange forward contracts outstanding.

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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

The following table provides information on the impact of a 10.0% strengthening of the U.S. dollar against the Canadian dollar on net income for the years ended December 31, 2013 and 2012. For a 10.0% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and comprehensive income:

	2013	2012
	$	$
Loss to net income	**(900)**	(1,631)

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

	2013	2012
	$	$
Assets		
Accounts receivable	**1,492**	168
Liabilities		
Accounts payable and accrued liabilities	**3,584**	2,148
Long-term debt	**6,907**	14,373
	10,491	16,521

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 (Note 12).

Interest rate risk

As at December 31, 2013, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 66.0% (2012 – 67.0%) 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.

The committed revolving credit facility defined in Note 12(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 10.0% increase in these rates on the average annual balance of operating credit facility, for borrowings that have not been swapped, would have increased interest expense by $180 for the year ended December 31, 2013 (2012 – $85).

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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

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

				2013
Notional amount	Related debt instrument	Fixed rate	Maturity date	Notional equivalent
		%		CA$
CA$10,000	Committed revolving credit facility	1.09*	August 2014	10,000
CA$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US$25,000	Committed revolving credit facility	0.71*	December 2017	26,590
US$25,000	Committed revolving credit facility	0.69*	December 2017	26,590
US$25,000	Committed revolving credit facility	0.71*	December 2017	26,590
US$25,000	Committed revolving credit facility	0.70*	December 2017	26,590
US$25,000	Committed revolving credit facility	1.16*	December 2016	26,590
US$15,000	Committed revolving credit facility	1.45*	August 2016	15,954
US$15,000	Committed revolving credit facility	0.75*	August 2014	15,954
US$ 5,000	Committed revolving credit facility	5.80	July 2015	5,318
US$ 5,000	Committed revolving credit facility	5.54	July 2015	5,318
US$ 1,000	Committed revolving credit facility	4.69	December 2015	1,064
US$ 5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	5,956

				2012
Notional amount	Related debt instrument	Fixed rate	Maturity date	Notional equivalent
		%		CA$
CA$10,000	Committed revolving credit facility	1.09*	August 2014	10,000
CA$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US$25,000	Committed revolving credit facility	0.71*	December 2017	24,873
US$25,000	Committed revolving credit facility	0.69*	December 2017	24,873
US$25,000	Committed revolving credit facility	0.71*	December 2017	24,873
US$25,000	Committed revolving credit facility	0.70*	December 2017	24,873
US$25,000	Committed revolving credit facility	1.16*	December 2016	24,873
US$15,000	Committed revolving credit facility	1.45*	August 2016	14,294
US$15,000	Committed revolving credit facility	0.75*	August 2014	14,294
US$ 5,000	Committed revolving credit facility	5.80	July 2015	4,975
US$ 5,000	Committed revolving credit facility	5.54	July 2015	4,975
US$ 1,000	Committed revolving credit facility	4.69	December 2015	995
US$ 5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	5,571

* 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, 2013, all cash flow hedges were effective.

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

19 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2013 from different third parties. 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).

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2013 is a net asset of $986 (2012 – net loss of $1,728), of which an asset of $2,119 is recorded in non-current assets and a liability of $1,133 is recorded in non-current liabilities in the consolidated statement of financial position. A 10.0% decrease in interest rates as at December 31, 2013 would have reduced the net gain recognized in other comprehensive income by approximately $99 (2012 – $173). For a 10.0% increase in the interest rates, there would be an equal and opposite impact on the net gain.

20 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or acquire or sell assets to improve its financial performance and flexibility.

The Company's capital is composed of total debt, which includes bank indebtedness, and shareholders' equity, which includes capital stock.

	2013	2012
	$	$
Total debt	**372,891**	363,608
Shareholders' equity	**572,183**	468,751
Total capital	**945,074**	832,359
Total debt to total capitalization ratio	**0.39:1**	0.44:1

The Company's primary uses of capital are to finance non-cash working capital and capital expenditures for capacity expansion as well as acquisitions. The Company currently funds these requirements out of its internally generated cash flows and committed revolving credit facility. However, future corporate acquisitions may require new sources of financing.

The primary measure used by the Company to monitor its financial leverage is the total debt to total capitalization ratio, which it aims to maintain within a range of 0.20:1 to 0.75:1. The total debt to total capitalization ratio is defined as total debt divided by total capital.

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

21 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2013	2012
	$	$
Stella Jones International S.A.*		
Marketing and technical service fees paid	**200**	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	**100**	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	**388**	458

* Stella Jones International S.A. holds, directly or indirectly, approximately 38.7% of the outstanding common shares of the Company.

** Stella International S.A. and James Jones & Sons Limited hold 51.0% and 49.0% of all voting shares of Stella Jones International S.A., respectively.

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

On November 30, 2012, in connection with the McFarland acquisition, the Company completed a private placement of subscription receipts with Stella Jones International S.A. The gross amount paid was $30,960.

As at December 31, the consolidated statement of financial position includes the following amounts with related parties:

	2013	2012
	$	$
Accounts payable to Stella International S.A. and James Jones & Sons Limited	**25**	25
Accounts payable to Stella Jones International S.A.	**50**	50
Accounts payable to a firm in which a director of the Company is a partner	**31**	219
	106	294

b) Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management. The compensation paid or payable to key management for employee services is as follows:

	2013	2012
	$	$
Salaries, compensation and benefits	**3,863**	4,417
Share-based payments	**46**	81
	3,909	4,498

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

22 SEGMENT INFORMATION

The Company operates within one business segment which is the production and sale of pressure-treated wood and related services. Operating plants are located in the Canadian provinces of Nova Scotia, Quebec, Ontario, Alberta and British Columbia, and in the U.S. states of Pennsylvania, Virginia, West Virginia, Kentucky, Wisconsin, Alabama, Indiana, Louisiana, Tennessee, Arkansas, Oregon, Mississippi, Washington, Nevada, Arizona, Texas and Georgia. The Company also operates a large distribution network across North America.

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

	2013	2012
	$	$
Canada	**209,180**	228,356
U.S.	**760,969**	489,138
	970,149	717,494

Sales by product as at December 31 are as follows:

	2013	2012
	$	$
Railway ties	**393,968**	404,461
Utility poles	**405,808**	218,491
Industrial products	**58,079**	59,035
Residential lumber	**112,294**	35,507
	970,149	717,494

Property, plant and equipment attributed to the countries based on location are as follows:

	2013	2012
	$	$
Canada	**64,484**	59,380
U.S.	**169,750**	129,648
	234,234	189,028

Intangible assets with a net book value of $84,559 (2012 – $83,109) are attributed to the Company's U.S. operations.

Goodwill with a value of $155,004 (2012 – $135,834) is allocated to the U.S., the location where the CGUs hold the majority of their business activities.

23 SUBSEQUENT EVENT

On March 13, 2014, the Board of Directors approved a quarterly dividend of $0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.