



Source: Stella-Jones Inc.

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STELLA-JONES REPORTS SOLID FIRST QUARTER RESULTS
Annual meeting of shareholders later this morning

- Sales of \$257.5 million, up 15.7% from \$222.6 million last year
- 17.1% growth in operating income to \$34.7 million, versus \$29.7 million in 2013
- Net income up 20.1% to \$22.5 million, compared to \$18.8 million last year
- Diluted EPS of \$0.33 versus \$0.27 a year ago

Montreal, Quebec – May 1, 2014 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its first quarter ended March 31, 2014.

“We are pleased with Stella-Jones’ solid operating results in the first quarter of 2014. Demand for our core products remained healthy despite unfavourable weather conditions across North America. Moreover, operating income as a percentage of sales rose further, as greater efficiencies achieved throughout our network more than offset higher costs stemming from a tighter procurement market for untreated railway ties and utility poles,” said Brian McManus, President and Chief Executive Officer.

Financial highlights (in thousands of Canadian dollars, except per share data)	Quarters ended March 31,	
	2014	2013
Sales	257,498	222,580
Operating income	34,735	29,671
Net income for the period	22,518	18,757
Per share - basic (\$)	0.33	0.27
Per share - diluted (\$)	0.33	0.27
Weighted average shares outstanding (basic, in ‘000s)	68,737	68,675

Effective January 1, 2014, the Company’s sales of non-pole-quality logs are reported as revenue in the consolidated statement of income in a new product category and are no longer credited to cost of sales. Comparative figures have been restated to comply with the current year’s presentation.

FIRST QUARTER RESULTS

Sales reached \$257.5 million, up 15.7% from \$222.6 million in the same period last year. The operating assets acquired from The Pacific Wood Preserving Companies® (“PWP”) on November 15, 2013 contributed sales of \$13.2 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$16.2 million when compared with the previous year. Excluding these factors, sales increased approximately \$5.5 million, or 2.5%.

Railway tie sales amounted to \$108.6 million, up 12.6% from \$96.5 million a year earlier. Excluding sales from the PWP assets and the conversion effect, railway tie sales rose approximately \$1.9 million, or 1.9%, reflecting solid market demand, partially offset by unfavourable weather conditions that limited railcar availability. Sales

of utility poles reached \$107.5 million, up from \$90.8 million last year. Excluding sales from the PWP assets and the conversion effect, utility pole sales increased \$3.1 million, or 3.5%, as a result of higher customer orders for both distribution and transmission poles. Sales in the residential lumber category totalled \$17.3 million, versus \$17.9 million a year ago, mainly reflecting less favourable weather in Canada. Industrial product sales reached \$15.8 million, compared with \$11.9 million last year due to the contribution of the PWP assets. Finally, non-pole-quality log sales amounted to \$8.3 million, up from \$5.5 million a year ago, as a result of the timing of timber harvesting.

Operating income rose 17.1% to \$34.7 million, or 13.5% of sales, versus \$29.7 million, or 13.3% of sales, last year. While the increase in monetary terms partially reflects the contribution of the PWP assets, the increase as a percentage of sales stems from greater efficiencies throughout the Company's plant network, partially offset by higher year-over-year costs for untreated railway ties and utility poles. Of note, margins from non-pole-quality log sales are nominal as they are sold close to cost of sales. Net income for the first quarter of 2014 increased 20.1% to \$22.5 million or \$0.33 per share, fully diluted, compared with \$18.8 million or \$0.27 per share, fully diluted, in the first quarter of 2013.

FINANCIAL POSITION

As at March 31, 2014, the Company's long-term debt, including the current portion, stood at \$407.0 million compared with \$372.9 million three months earlier. The increase essentially reflects higher working capital requirements, as per normal seasonal demand patterns, and the effect of local currency translation on U.S. dollar denominated long-term debt. As a result of this higher debt, Stella-Jones' total debt to total capitalization ratio was 0.40:1 as at March 31, 2014, versus 0.39:1 three months earlier.

QUARTERLY DIVIDEND OF \$0.07 PER SHARE

On April 30, 2014, the Board of Directors declared a quarterly dividend of \$0.07 per common share payable on June 27, 2014 to shareholders of record at the close of business on June 2, 2014.

OUTLOOK

"As we look ahead to the remainder of 2014, we expect demand for our core products to remain healthy, driven by a stronger economy and sound fundamentals in our main sectors of activity. However, the procurement market for untreated railway ties and utility poles remains tight and our margins may be slightly impacted in the short term. Still, we believe that our current inventory position and the strength of our procurement network should allow Stella-Jones to meet demand at an optimal cost. We remain focused on integrating the PWP assets and pursuing the proposed acquisition of two wood treating facilities from Boatright Railroad Products, Inc. expected to close, if the transaction is finalized, in the latter part of the second quarter," concluded Mr. McManus.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on May 1, 2014, at 1:30 PM Eastern Time. Interested parties can join the call by dialing 647-427-7450 (Toronto or overseas) or 1-888-231-8191 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-855-859-2056 and entering the passcode 29419192. This tape recording will be available on Thursday, May 1, 2014 as of 5:30 PM Eastern Time until 11:59 PM Eastern Time on Thursday, May 8, 2014.

NON-IFRS FINANCIAL MEASURE

Operating income is a financial measure not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Management considers this non-IFRS measure to be useful information to assist knowledgeable investors regarding the Company's financial condition and results of operations as it provides an additional measure of its performance.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX: SJ) is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities

and telecommunication companies with utility poles. Stella-Jones also provides residential lumber to retailers and wholesalers for outdoor applications, as well as industrial products for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.

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

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EXCHANGE LISTINGS

The Toronto Stock Exchange
Stock Symbol: SJ

TRANSFER AGENT

AND REGISTRAR

Computershare Investor Services Inc.

INVESTOR RELATIONS

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NOTICE

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the first quarter ended March 31, 2014 have not been reviewed by the Company's external auditors.

(Signed)

Éric Vachon
Senior Vice-President and Chief Financial Officer

Montréal, Québec
April 30, 2014

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2014 and 2013

Stella-Jones Inc.

Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at March 31, 2014 \$	As at December 31, 2013 \$
Assets			
Current assets			
Cash	3	-	3,191
Accounts receivable		136,794	107,987
Inventories		487,673	458,616
Prepaid expenses		12,736	12,102
		<u>637,203</u>	<u>581,896</u>
Non-current assets			
Property, plant and equipment		240,097	234,234
Intangible assets		95,284	93,988
Goodwill		162,314	156,208
Derivative financial instruments	5	2,112	2,119
Other assets		3,621	3,478
		<u>1,140,631</u>	<u>1,071,923</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		54,917	58,054
Income taxes payable		1,703	1,007
Current portion of long-term debt		2,382	2,732
Current portion of provisions and other long-term liabilities		4,981	3,060
		<u>63,983</u>	<u>64,853</u>
Non-current liabilities			
Long-term debt		404,607	370,159
Deferred income taxes		49,801	46,200
Provisions and other long-term liabilities		12,701	13,671
Employee future benefits		3,964	3,724
Derivative financial instruments	5	1,076	1,133
		<u>536,132</u>	<u>499,740</u>
Shareholders' equity			
Capital stock	4	211,764	211,162
Contributed surplus		1,262	1,353
Retained earnings		363,237	345,532
Accumulated other comprehensive gain		28,236	14,136
		<u>604,499</u>	<u>572,183</u>
		<u>1,140,631</u>	<u>1,071,923</u>

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive gain</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debt designated as net investment hedges	Unrealized gains on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2014	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183
Comprehensive income (loss)								
Net income for the period	-	-	22,518	-	-	-	-	22,518
Other comprehensive income (loss)	-	-	-	26,686	(12,616)	30	14,100	14,100
Comprehensive income (loss) for the period	-	-	22,518	26,686	(12,616)	30	14,100	36,618
Dividends on common shares	-	-	(4,813)	-	-	-	-	(4,813)
Exercise of stock options	401	(117)	-	-	-	-	-	284
Employee share purchase plans	201	-	-	-	-	-	-	201
Stock-based compensation	-	26	-	-	-	-	-	26
	602	(91)	(4,813)	-	-	-	-	(4,302)
Balance – March 31, 2014	211,764	1,262	363,237	55,900	(28,460)	796	28,236	604,499

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

Stella-Jones Inc.

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

(Unaudited)

For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	<u>Accumulated other comprehensive gain</u>							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debt designated as net investment hedges	Unrealized gains (losses) on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
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 period	-	-	18,757	-	-	-	-	18,757
Other comprehensive income (loss)	-	-	-	11,113	(5,426)	322	6,009	6,009
Comprehensive income (loss) for the period	-	-	18,757	11,113	(5,426)	322	6,009	24,766
Dividends on common shares	-	-	(3,433)	-	-	-	-	(3,433)
Employee share purchase plans	113	-	-	-	-	-	-	113
Stock-based compensation	-	20	-	-	-	-	-	20
	113	20	(3,433)	-	-	-	-	(3,300)
Balance – March 31, 2013	210,749	1,249	279,535	2,163	(2,649)	(830)	(1,316)	490,217

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

Stella-Jones Inc.

Interim Consolidated Statements of Income

(Unaudited)

For the three-month periods ended March 31, 2014 and 2013

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

	Note	2014 \$	2013 \$
Sales		<u>257,498</u>	<u>222,580</u>
Expenses (income)			
Cost of sales		207,231	179,379
Selling and administrative		15,444	13,455
Other losses, net		<u>88</u>	<u>75</u>
		<u>222,763</u>	<u>192,909</u>
Operating income		<u>34,735</u>	<u>29,671</u>
Financial expenses		<u>2,569</u>	<u>2,731</u>
Income before income taxes		<u>32,166</u>	<u>26,940</u>
Provision for income taxes			
Current		8,075	5,997
Deferred		<u>1,573</u>	<u>2,186</u>
		<u>9,648</u>	<u>8,183</u>
Net income for the period		<u>22,518</u>	<u>18,757</u>
Basic earnings per common share	4	<u>0.33</u>	<u>0.27</u>
Diluted earnings per common share	4	<u>0.33</u>	<u>0.27</u>

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income

(Unaudited)

For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	2014	2013
	\$	\$
Net income for the period	<u>22,518</u>	<u>18,757</u>
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	26,686	11,113
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(12,034)	(5,426)
Income taxes on change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(582)	-
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	57	504
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	<u>(27)</u>	<u>(182)</u>
	<u>14,100</u>	<u>6,009</u>
Comprehensive income	<u>36,618</u>	<u>24,766</u>

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

Stella-Jones Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	Note	2014 \$	2013 \$
Cash flows provided by (used in)			
Operating activities			
Net income for the period		22,518	18,757
Adjustments for			
Depreciation of property, plant and equipment		2,336	1,921
Amortization of intangible assets		1,991	2,283
Interest accretion		199	173
Loss on disposal of property, plant and equipment		75	-
Employee future benefits		13	15
Stock-based compensation		26	20
Financial expenses		2,370	2,731
Income taxes		8,075	5,997
Deferred income taxes		1,573	2,186
Restricted stock units obligation		972	233
Other		185	23
		<u>40,333</u>	<u>34,339</u>
Changes in non-cash working capital components and others			
Accounts receivable		(25,325)	(37,509)
Inventories		(18,357)	(6,752)
Prepaid expenses		315	3,809
Income taxes receivable		4	(35)
Accounts payable and accrued liabilities		(4,356)	(8,466)
Asset retirement obligations		(64)	182
Provisions and other long-term liabilities		54	-
		<u>(47,729)</u>	<u>(48,771)</u>
Interest paid		(3,092)	(3,055)
Income taxes paid		(7,790)	(2,710)
		<u>(18,278)</u>	<u>(20,197)</u>
Financing activities			
Decrease in bank indebtedness		-	(14,000)
Increase in long-term debt		21,360	31,885
Repayment of long-term debt		(637)	(5,638)
Non-competes payable		(493)	(343)
Proceeds from issuance of common shares		485	113
		<u>20,715</u>	<u>12,017</u>
Investing activities			
Decrease in other assets		-	85
Business acquisition	3	(3,134)	-
Increase in intangible assets		(107)	(91)
Purchase of property, plant and equipment		(2,662)	(5,814)
Proceeds from disposal of property, plant and equipment		275	-
		<u>(5,628)</u>	<u>(5,820)</u>
Net change in cash and cash equivalents during the period		<u>(3,191)</u>	<u>(14,000)</u>
Cash and cash equivalents – Beginning of period		<u>3,191</u>	<u>14,000</u>
Cash and cash equivalents – End of period		<u>-</u>	<u>-</u>

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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and 2013

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

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's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on April 30, 2014.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2013, except as described below in the *Changes in accounting policies* section.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and 2013

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

Principles of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company owns 100% of the equity interest of its subsidiaries.

The significant subsidiaries are as follows:

Subsidiary	Parent	Country of incorporation
Guelph Utility Pole Company Ltd.	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
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

On January 1, 2014, Stella-Jones Canada Inc., Selkirk Forest Products Company, MCP Acquisition Holdings Ltd., Kanaka Creek Pole Company Limited and Selkirk Timber Company merged and the surviving corporation was Stella-Jones Canada Inc. On the same date, Stella-Jones Inc. and I.P.B. – W.P.I. International Inc. merged and the surviving corporation was Stella-Jones Inc.

Changes in accounting policies

The Company has increasingly been ensuring its own pole sourcing and, as a result, non-pole-quality log sales have become more significant to the consolidated operations. Accordingly, the Company believes it is more representative to treat the sale of non-pole-quality logs as a joint product of its pole harvesting efforts and no longer as a by-product. Therefore, effective January 1, 2014, sales of non-pole-quality logs will be presented in revenues in the consolidated statement of income and are no longer credited to cost of sales. The comparative figures have been restated to comply with the current year's presentation. The amount of non-pole-quality logs recognized as revenue for the three-month period ended March 31, 2014 was \$8,299 (\$5,541 for the three-month period ended March 31, 2013).

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
March 31, 2014 and 2013

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

The Company has also adopted the following revised standard, along with any consequential amendments, effective January 1, 2014. This change was made in accordance with the applicable transitional provisions.

IAS 32 - Financial Instruments: Presentation

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

The current offsetting model in IAS 32 requires an 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.

The adoption of this revised standard had no significant impact on the Company's consolidated financial statements.

3 Business acquisition

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 \$51,983 (US\$49,759), 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 condensed interim 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. In the first quarter of 2014, no significant adjustments were made to the preliminary fair value determination.

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
March 31, 2014 and 2013

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

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

Assets acquired	\$
Non-cash working capital	25,751
Property, plant and equipment	19,591
Customer relationships	4,241
Customer backlog	125
Goodwill	<u>10,409</u>
	60,117
 Liabilities assumed	
Accounts payable and accrued liabilities	939
Site remediation provision	<u>1,300</u>
 Total net assets acquired and liabilities assumed	 <u><u>57,878</u></u>
 Consideration transferred	
Cash	51,983
Unsecured promissory note	6,545
Consideration receivable	<u>(650)</u>
 Consideration transferred	 <u><u>57,878</u></u>

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 cash generating units, 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.

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

Stella-Jones Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and 2013

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

Consideration receivable represents a purchase consideration adjustment related to actual net working capital. As at March 31, 2014, 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. As at December 31, 2013, the Company had a consideration payable for the purchase of certain assets of the Nevada plant and 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. On February 5, 2014, the consideration payable was settled.

Stella-Jones 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%.

4 Capital stock

The following table provides the number of common share outstanding for the periods ending March 31:

	2014	2013
Number of common shares outstanding – Beginning of period*	68,697	68,672
Stock option plan*	53	-
Employee share purchase plans*	8	8
Number of common shares outstanding – End of period*	<u>68,758</u>	<u>68,680</u>

* Number of common shares is presented in thousands.

a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

Stella-Jones Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
March 31, 2014 and 2013

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

b) Earnings per share

The following table provides the reconciliation, as at March 31, between basic earnings per common share and diluted earnings per common share:

	2014	2013
Net income applicable to common shares	<u>\$22,518</u>	<u>\$18,757</u>
Weighted average number of common shares outstanding*	68,737	68,675
Effect of dilutive stock options*	<u>360</u>	<u>351</u>
Weighted average number of diluted common shares outstanding*	<u>69,097</u>	<u>69,026</u>
Basic earnings per common share **	<u>\$0.33</u>	<u>\$0.27</u>
Diluted earnings per common share **	<u>\$0.33</u>	<u>\$0.27</u>

* Number of shares is presented in thousands.

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

5 Fair value measurement and financial instruments

The following table provides information about assets and liabilities measured at fair value in the statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

	<u>As at March 31, 2014</u>	<u>As at December 31, 2013</u>
	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 2)
	\$	\$
Recurring fair value measurements		
Assets		
Derivatives - Interest rate swap	<u>2,112</u>	<u>2,119</u>
	<u>2,112</u>	<u>2,119</u>
Liabilities		
Derivatives - Interest rate swap	<u>1,076</u>	<u>1,133</u>
	<u>1,076</u>	<u>1,133</u>

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

The fair value of these financial instruments has been classified as Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*, as it is based mainly on observable market data, namely government bond yields and interest rates. 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).

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt had a carrying value of \$406,989 (December 31, 2013 – \$372,891) and a fair value of \$407,142 (December 31, 2013 – \$373,231).

6 Seasonality

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

7 Segment information

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

8 Subsequent events

On April 30, 2014, the Board of Directors declared a quarterly dividend of \$0.07 per common share payable on June 27, 2014 to shareholders of record at the close of business on June 2, 2014.