CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

Saint-Laurent, Québec
March 12, 2015

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, 2014 and 2013 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, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Québec
March 12, 2015

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

As at December 31, 2014 and 2013
(expressed in thousands of Canadian dollars)

	Note	2014	2013
		$	$
ASSETS			
Current assets			
Cash	4	**–**	3,191
Accounts receivable	5	**127,545**	107,987
Inventories	6	**547,215**	458,616
Prepaid expenses		**20,750**	12,102
Income taxes receivable		**1,986**	–
		697,496	581,896
Non-current assets			
Property, plant and equipment	7	**281,607**	234,234
Intangible assets	8	**110,325**	93,988
Goodwill	8	**195,015**	156,208
Derivative financial instruments	18	**1,423**	2,119
Other assets	9	**1,630**	3,478
		1,287,496	1,071,923
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	**69,719**	58,054
Income taxes payable		**–**	1,007
Current portion of long-term debt	11	**5,754**	2,732
Current portion of provisions and other long-term liabilities	12	**6,939**	3,060
		82,412	64,853
Non-current liabilities			
Long-term debt	11	**438,803**	370,159
Deferred income taxes	15	**54,173**	46,200
Provisions and other long-term liabilities	12	**14,027**	13,671
Employee future benefits	16	**5,104**	3,724
Derivative financial instruments	18	**706**	1,133
		595,225	499,740
Shareholders' equity			
Capital stock	13	**213,858**	211,162
Contributed surplus		**954**	1,353
Retained earnings		**427,834**	345,532
Accumulated other comprehensive gain (loss)		**49,625**	14,136
		692,271	572,183
		1,287,496	1,071,923

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, 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
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 year	–	–	103,847	–	–	–	–	103,847
Other comprehensive income (loss)	–	–	(2,278)	60,468	(24,763)	(216)	35,489	33,211
Comprehensive income (loss) for the year	–	–	101,569	60,468	(24,763)	(216)	35,489	137,058
Dividends on common shares	–	–	(19,267)	–	–	–	–	(19,267)
Exercise of stock options	1,758	(504)	–	–	–	–	–	1,254
Employee share purchase plans	938	–	–	–	–	–	–	938
Stock-based compensation	–	105	–	–	–	–	–	105
	2,696	(399)	(19,267)	–	–	–	–	(16,970)
Balance – December 31, 2014	**213,858**	**954**	**427,834**	**89,682**	**(40,607)**	**550**	**49,625**	**692,271**

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

For the years ended December 31, 2014 and 2013
(expressed in thousands of Canadian dollars, except earnings per common share)

	Note	2014	2013
		$	$
Sales		**1,249,493**	1,011,290
Expenses			
Cost of sales		**1,025,317**	813,959
Selling and administrative		**69,114**	57,166
Other losses (gains), net		**(643)**	1,466
	14	**1,093,788**	872,591
Operating income		**155,705**	138,699
Financial expenses		**13,007**	10,892
Income before income taxes		**142,698**	127,807
Provision for income taxes			
Current	15	**33,937**	32,545
Deferred	15	**4,914**	2,726
		38,851	35,271
Net income for the year		**103,847**	92,536
Basic earnings per common share	13	**1.51**	1.35
Diluted earnings per common share	13	**1.50**	1.34

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

(expressed in thousands of Canadian dollars)

	2014	2013
	$	$
Net income for the year	**103,847**	92,536
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	**65,792**	38,164
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(28,440)**	(18,113)
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations and translation of foreign operations	**(1,647)**	(508)
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	**(270)**	2,715
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	**54**	(797)
Items that will not subsequently be reclassified to net income		
Change in actuarial gains (losses) on post-retirement benefit obligations	**(3,342)**	3,543
Income taxes on change in actuarial gains (losses) on post-retirement benefit obligations	**1,064**	(1,021)
	33,211	23,983
Comprehensive income for the year	**137,058**	116,519

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

For the years ended December 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 year		**103,847**	92,536
Adjustments for			
Depreciation of property, plant and equipment		**9,691**	7,760
Amortization of intangible assets		**10,885**	8,562
Interest accretion		**1,267**	492
Loss (gain) on disposal of assets		**(221)**	2,173
Employee future benefits		**(155)**	320
Stock-based compensation		**105**	124
Financial expenses		**11,740**	10,892
Income taxes		**33,937**	32,545
Deferred income taxes		**4,914**	2,726
Restricted stock units expense		**5,015**	2,593
Other		**441**	(92)
		181,466	160,631
Changes in non-cash working capital components and others			
Accounts receivable		**(5,828)**	(4,663)
Inventories		**(48,163)**	(8,438)
Prepaid expenses		**(7,306)**	(1,481)
Income taxes receivable		**362**	(348)
Accounts payable and accrued liabilities		**12,755**	(10,376)
Asset retirement obligations		**(4,525)**	1,099
Provisions and other long-term liabilities		**168**	(50)
		(52,537)	(24,257)
Interest paid		**(14,928)**	(9,075)
Income taxes paid		**(37,071)**	(23,081)
		76,930	104,218
Financing activities			
Decrease in bank indebtedness		**–**	(14,000)
Increase in deferred financing costs		**(160)**	(364)
Increase in long-term debt		**26,776**	4,814
Repayment of long-term debt		**(3,543)**	(9,328)
Non-competes payable		**(947)**	(1,694)
Dividend on common shares		**(19,267)**	(13,737)
Proceeds from issuance of common shares		**2,192**	526
		5,051	(33,783)
Investing activities			
Decrease in other assets		**11**	529
Business acquisition	4	**(61,051)**	(57,538)
Increase in intangible assets		**(412)**	(466)
Purchase of property, plant and equipment		**(24,214)**	(26,157)
Proceeds on disposal of assets		**494**	2,388
		(85,172)	(81,244)
Net change in cash and cash equivalents during the year		**(3,191)**	(10,809)
Cash and cash equivalents – Beginning of year		**3,191**	14,000
Cash and cash equivalents – End of year		**–**	3,191

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 12, 2015.

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
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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Subsidiaries (continued)

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 day, Stella-Jones Inc. and I.P.B. – W.P.I. International Inc. merged and the surviving corporation was Stella-Jones Inc.

On January 1, 2015, Stella-Jones Inc., Guelph Utility Pole Company Ltd. and Stella-Jones Canada Inc. merged and the surviving Corporation was Stella-Jones Inc.

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 presentation 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

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 translation 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 when 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.

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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 used by the log harvesting activities 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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 other losses (gains), net 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred tax (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 considered by the Company as derivative financial instruments 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 from its Canadian-based operations. 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.

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 related to a foreign exchange forward contract or interest swap hedges that cease to be effective is 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 is then reclassified in the consolidated statement of income.

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).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Non-pole-quality log sales

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 are presented under 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 twelve-month period ended December 31, 2014 was $31,591 ($41,141 for the twelve-month period ended December 31, 2013).

The Company has also adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were 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 entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

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

IFRIC 21 - Levies

In May 2013, the IASB issued IFRIC 21, *Levies*, which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on the accounting of levies imposed by governments. IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company adopted this new standard as at January 1, 2014 and this change had no significant impact on the Company's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of accounting pronouncements not yet implemented

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other revenue related interpretations. The standard will be effective on January 1, 2017 for the Company with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 - Financial Instruments

In July 2014, the IASB amended IFRS 9, *Financial Instruments*, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard 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 dispose calculations. These calculations require the use of estimates. See Note 8 for further details.

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 dispose 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.

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

4 BUSINESS ACQUISITION

a) On May 22, 2014, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the wood treating facilities of Boatright Railroad Products, Inc. ("Boatright") located in Montevallo and Clanton, Alabama. These facilities manufacture, sell and distribute creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers to the railroad industry and were acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $58,830 (US$53,898), excluding acquisition costs of approximately $753 (US$690), 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 deferred income taxes.

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	$
Inventories	9,718
Property, plant and equipment	22,527
Customer relationships	17,486
Customer backlog	1,463
Goodwill	23,316
Deferred income tax assets	935
	75,445
Liabilities assumed	
Accounts payable and accrued liabilities	160
Site remediation provision	3,029
Total net assets acquired and liabilities assumed	**72,256**
Consideration transferred	
Cash	58,830
Unsecured promissory note	13,426
Consideration transferred	**72,256**

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 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include 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 CGUs, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties. 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)

As of the acquisition date, the Company had a consideration payable of $21,830 (US$20,000), that was recorded under accounts payable and accrued liabilities in the consolidated statement of financial position. This consideration payable was the counterpart of a cash amount held in escrow pending the formal title transfer of the Montevallo plant assets, which was planned to occur concurrently with the issue, to the Company, of certain governmental permits relating to the facility. The balance held in escrow was recorded under restricted cash in the consolidated statement of financial position. In December 2014, the consideration payable was settled.

The Company financed the acquisition through a combination of its existing committed revolving credit facility, which was increased from $400,000 to $450,000 as at May 12, 2014, and an unsecured promissory note of $15,466 (US$14,169), bearing interest at 1.93% and repayable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at $13,426 (US$12,301), using an interest rate of 7.0%.

In the period from May 22 to December 31, 2014, Montevallo and Clanton plant sales and loss before income taxes amounted to $33,589 and $211, respectively. Pro forma information for the period ended December 31, 2014, had the Boatright acquisition occurred as of January 1, 2014, cannot be estimated as Management does not have all the required discrete financial information for the first four months of the year.

b) 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 $51,071 (US$48,886), 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 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	25,663
Property, plant and equipment	19,591
Customer relationships	4,712
Customer backlog	146
Goodwill	10,374
Deferred income tax assets	89
	60,575
Liabilities assumed	
Accounts payable and accrued liabilities	1,249
Site remediation provision	1,710
Total net assets acquired and liabilities assumed	**57,616**

Consideration transferred	
Cash	51,071
Unsecured promissory note	6,545
Consideration transferred	**57,616**

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

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, include 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 CGUs, 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 $9,483 and $891 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.

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) deposited in escrow that was recorded under cash in the consolidated statement of financial position. On February 5, 2014, the consideration payable was settled.

The Company 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 $1,065,477 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.

5 ACCOUNTS RECEIVABLE

	2014	**2013**
	$	$
Trade receivables	**117,634**	102,606
Less: Provision for doubtful accounts	**–**	(201)
Trade receivables – net	**117,634**	102,405
Other receivables	**9,911**	5,582
	127,545	107,987

As at December 31, 2014, trade receivables of $39,509 (2013 – $34,985) 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:

	2014	2013
	$	$
Current	**78,125**	67,420
Past due 1-30 days	**25,107**	24,405
Past due 31-60 days	**8,670**	8,422
Past due more than 60 days	**5,732**	2,359
	117,634	102,606

As at December 31, 2014, no trade receivables were impaired and provided for (2013 - $201). Details of the provision for doubtful accounts are as follows:

	2014	2013
	$	$
Balance – Beginning of year	**201**	1,080
Provision (reversal)	**(208)**	(909)
Bad debt write-off	**–**	(13)
Foreign exchange adjustments	**7**	43
Balance – End of year	**–**	201

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

6 INVENTORIES

	2014	2013
	$	$
Raw materials	**367,736**	288,881
Finished goods	**179,479**	169,735
	547,215	458,616

(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, 2013							
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
Year ended December 31, 2014							
Opening net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
Business acquisition	846	-	6,249	13,670	1,632	130	22,527
Additions	15	475	1,969	20,608	641	1,219	24,927
Disposals	(404)	–	(1,285)	(3,544)	(692)	(13)	(5,938)
Depreciation	–	–	(1,816)	(5,351)	(1,790)	(734)	(9,691)
Depreciation included in inventory	–	(343)	(156)	(333)	(422)	(44)	(1,298)
Exchange differences	1,637	–	4,109	10,406	518	176	16,846
Closing net book amount	29,852	1,358	59,648	178,529	6,711	5,509	281,607
As at December 31, 2014							
Cost	29,852	4,284	70,131	223,930	13,485	8,306	349,988
Accumulated depreciation	–	(2,926)	(10,483)	(45,401)	(6,774)	(2,797)	(68,381)
Net book amount	**29,852**	**1,358**	**59,648**	**178,529**	**6,711**	**5,509**	**281,607**

(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%. 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 dispose (“FVLCTD”) calculations. FVLCTD 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.

The carrying value of goodwill is allocated to the following CGUs

CGUs	2014	2013
	$	$
Plants specialized in the treatment of utility poles	**64,289**	59,309
Plants specialized in the treatment of railway ties	**130,726**	96,899
	195,015	156,208

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).

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

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

	Intangible assets						
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
As at January 1, 2013							
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
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)	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
Year ended December 31, 2014							
Opening net book balance	6,937	2,492	50,024	1,319	33,216	93,988	156,208
Additions	–	412	–	–	–	412	–
Addition of Boatright	–	–	18,948	–	–	18,948	23,316
Adjustment of PWP	–	–	491	–	–	491	(35)
Amortization	–	–	(10,129)	(756)	–	(10,885)	–
Amortization included in inventory	(230)	(737)	–	–	–	(967)	–
Exchange differences	–	–	5,244	80	3,014	8,338	15,526
Closing net book amount	6,707	2,167	64,578	643	36,230	110,325	195,015
As at December 31, 2014							
Cost	7,951	7,359	99,766	8,162	36,230	159,468	195,015
Accumulated amortization	(1,244)	(5,192)	(35,188)	(7,519)	–	(49,143)	–
Net book amount	**6,707**	**2,167**	**64,578**	**643**	**36,230**	**110,325**	**195,015**

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

9 OTHER ASSETS

	Note	2014	2013
		$	$
Advances and notes receivable		**197**	247
Assets held for sale		**280**	–
Long-term bank fees		**1,030**	1,118
Accrued benefit asset	16	**–**	1,979
Other		**123**	134
		1,630	3,478

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2014	2013
		$	$
Trade payables		**28,041**	20,497
Amounts due to related parties	20	**127**	106
Accrued expenses		**35,175**	27,726
Other payables		**6,376**	9,725
		69,719	58,054

11 LONG-TERM DEBT

	Note	2014	2013
		$	$
Committed revolving credit facility	11(a)	**375,460**	320,360
Unsecured, subordinated and non-convertible debenture	11(b)	**29,003**	26,590
Unsecured and non-convertible debenture	11(c)	**11,601**	10,636
Unsecured promissory note	11(d)	**5,039**	6,664
Unsecured promissory note	11(e)	**4,704**	4,778
Unsecured promissory note	11(f)	**14,668**	-
Bond – County of Fulton, Kentucky	11(g)	**4,148**	4,060
		444,623	373,088
Deferred financing costs		**(66)**	(197)
		444,557	372,891
Less: Current portion of long-term debt		**5,807**	2,791
Less: Current portion of deferred financing costs		**(53)**	(59)
Total current portion of long-term debt		**5,754**	2,732
		438,803	370,159

11 LONG-TERM DEBT (CONTINUED)

a) On May 12, 2014, 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 increases the committed revolving credit facility from $400,000 to $450,000 in order to partially finance the Boatright acquisition as well as provide funding for working capital. The $450,000 committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders for a five-year term, 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, 2014, borrowings by Canadian entities denominated in U.S. dollars represented $291,417 (US$251,200), which was entirely 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. Details of the outstanding interest rate swaps as at December 31, 2014 are provided in Note 18, 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 the Fulton plant assets as outlined in the agreement.

   In order to maintain the committed revolving credit facility in place, the Company needs to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of the total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of no more than 3.50:1 and the fixed charge coverage ratio equal to or greater than 1.25:1. As at December 31, 2014, the Company was in full compliance with these covenants, requirements and ratios. Additionally, the Company's banking arrangements prohibit the Company from paying dividends aggregating in any one year in excess of 50.0% of the Company's consolidated net income for the preceding year if the total debt to EBITDA ratio is greater than 2.5:1. In the case where the total debt to EBITDA ratio is lower than 2.5:1, there are no restrictions to the payment of dividends, so long as the Company is otherwise in compliance with the terms of its credit agreement.

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) As part of the Boatright acquisition, SJ Corp issued an unsecured promissory note of $15,466 bearing interest at 1.93%. The note is repayable in 5 equal annual instalments up to May 2019. The note was initially recorded at a fair value of $13,426 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.

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

11 LONG-TERM DEBT (CONTINUED)

g) Bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US$200 starting July 2008 through July 2011, US$300 starting August 2011 through July 2019 and US$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all property, plant and equipment of the Fulton facility, which have a net book value of US$7,153 as at December 31, 2014. 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$4,349 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.75% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

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

	Principal
	$
2015	6,930
2016	47,621
2017	4,396
2018	379,941
2019	4,566
Thereafter	4,922
	448,376
Fair value adjustment	(3,753)
	444,623

i) The aggregate fair value of the Company's long-term debt was estimated at $444,575 as at December 31, 2014 (2013 – $373,231) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

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

12 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions				Other long-term liabilities			
	Reforestation	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Total
	$	$	$	$	$	$	$	$
Balance as at January 1, 2013	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
Addition	290	846	251	1,387	5,015	-	5,015	6,402
Addition related to acquisition	-	3,439	-	3,439	-	-	-	3,439
Provision reversal	-	(3,909)	(33)	(3,942)	-	-	-	(3,942)
Payment	(443)	(1,309)	(50)	(1,802)	-	(947)	(947)	(2,749)
Interest accretion	-	-	-	-	-	39	39	39
Exchange differences	-	813	124	937	-	109	109	1,046
Balance as at December 31, 2014	**1,495**	**8,916**	**1,553**	**11,964**	**8,049**	**953**	**9,002**	**20,966**

Analysis of provisions and other long-term liabilities:

	2014	**2013**
	$	$
Current		
Provisions	**3,234**	2,181
Other long-term liabilities	**3,705**	879
Total current	**6,939**	3,060
Non-current		
Provisions	**8,733**	9,765
Other long-term liabilities	**5,294**	3,906
Total non-current	**14,027**	13,671
	20,966	16,731

12 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Provisions

Reforestation

Stella-Jones Canada Inc. has asset retirement obligations relating to reforestation 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 2.75% (2013 – 2.70%) 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 $497 and $582 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 17 years. Those discounted cash flows have been estimated using pre-tax rates that reflect current market assessment of the time value of money and the risk specific to the obligation, ranging from 2.28% to 2.6%.

As part of the Boatright acquisition, the Company recorded $3,029 of provisions for site remediation. The remaining balance of $5,887 is related to ongoing compliance efforts.

Other long-term liabilities

Restricted stock units

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

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.

On March 19, 2012, March 25, 2013 and March 17, 2014 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 the Stella-Jones Inc. Long-Term Incentive Plan, the Company granted 400,000 RSUs to the President and Chief Executive Officer (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, 2014, the provision for RSUs was valued at $8,049 ($3,034 as at December 31, 2013). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant.

13 CAPITAL STOCK

	2014	2013
Number of shares outstanding – Beginning of year*	**68,697**	68,674
Stock option plan*	**222**	–
Employee share purchase plans*	**30**	23
Number of shares outstanding – End of year*	**68,949**	68,697

* Number of shares is presented in thousands.

a) Capital stock consists of the following:
Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

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

	2014	2013
Net income applicable to common shares	**$ 103,847**	$ 92,536
Weighted average number of common shares outstanding*	**68,802**	68,681
Effect of dilutive stock options*	**225**	372
Weighted average number of diluted common shares outstanding*	**69,027**	69,053
Basic earnings per common share**	**$ 1.51**	$ 1.35
Diluted earnings per common share**	**$ 1.50**	$ 1.34

* Number of shares is presented in thousands.
** Basic and diluted earnings per common share are presented in dollars 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 5.0% 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.

13 CAPITAL STOCK (CONTINUED)

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

	2014		2013	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		$		$
Outstanding – Beginning of year	**550**	**7.06**	520	6.19
Exercised	**(221)**	**5.66**	–	–
Granted	**–**	**–**	30	22.13
Outstanding – End of year	**329**	**8.00**	550	7.06
Options exercisable – End of year	**311**	**7.18**	440	6.43

The following options were outstanding under the Plan as at December 31, 2014:

	Options outstanding		Options exercisable		
Date granted	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		$		$	
December 2005	17	3.25	17	3.25	December 2015
July 2006	108	4.88	108	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	72	6.01	72	6.01	December 2016
May 2013	30	22.13	12	22.13	May 2023
	329		**311**		

* 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. No options were granted during 2014.

In 2014, the total expense relating to stock-based compensation amortized to earnings was $105 (2013 – $124).

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

13 CAPITAL STOCK (CONTINUED)

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 2014, 14,883 common shares (2013 – 12,746) were issued to Canadian resident employees at an average price of $26.55 per share (2013 – $20.30).

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 2014, 15,121 common shares (2013 – 10,920) were issued to U.S. resident employees at an average price of $29.36 per share (2013 – $22.96).

As at December 31, 2014, the total number of common shares issued under these plans is 806,650 (2013 – 776,646).

14 EXPENSES BY NATURE

	2014	2013
	$	$
Raw materials and consumables	**854,385**	670,114
Employee benefit expenses	**87,422**	73,379
Depreciation and amortization	**20,576**	16,322
Other expenses incurred in manufacturing process	**34,305**	25,679
Freight	**67,731**	62,122
Other expenses	**29,369**	24,975
	1,093,788	872,591

	2014	2013
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**77,435**	66,770
Share options granted to directors and employees	**105**	124
RSUs	**5,015**	2,593
Pension costs	**1,520**	1,721
Group registered retirement savings plans	**3,347**	2,171
	87,422	73,379

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

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

14 EXPENSES BY NATURE (CONTINUED)

	Note	2014	2013
		$	$
Other losses (gains), net			
Gain on the sale of a timber license	14(a)	**(5,715)**	–
Losses on disposal of long-term assets	14(b)	**5,494**	2,173
Foreign exchange gain		**(1,348)**	(707)
Others		**926**	–
		(643)	1,466

(a) On December 23, 2014, the Company sold a timber license for proceeds of $5,715 and recognized a gain of the same amount.

(b) The losses on disposal of long-term assets include $2,400 of asset impairment charges related to the closure of the Warrior, Alabama facility.

15 INCOME TAXES

	2014	2013
	$	$
Current tax		
Current tax on income for the year	**34,490**	33,562
Adjustments in respect of prior years	**(553)**	(1,017)
Total current tax	**33,937**	32,545
Deferred tax		
Origination and reversal of temporary differences	**4,575**	1,790
Impact of change in tax rate	**(506)**	33
Adjustment in respect of prior years	**845**	903
Total deferred tax	**4,914**	2,726
Income tax expense	**38,851**	35,271

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

15 INCOME TAXES (CONTINUED)

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:

	2014	2013
	$	$
Income before income tax	**142,698**	127,807
Tax calculated at domestic tax rates of 26.98% (2013 – 26.89%) applicable to income in the respective countries	**38,500**	34,367
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**6,817**	8,456
Income not subject to tax	**(6,223)**	(4,993)
Expenses not deductible for tax purposes	**1,740**	(190)
Remeasurement of deferred tax – change in tax rate	**(506)**	33
Adjustment in respect of prior years	**292**	(114)
Exchange revaluation of deferred tax	**(51)**	(86)
Manufacturing and processing tax credit	**(1,718)**	(2,202)
Income tax expense	**38,851**	35,271

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

	2014	2013
	$	$
Deferred tax assets		
To be recovered after more than 12 months	**4,129**	2,153
To be recovered within 12 months	**9,330**	8,838
Deferred tax liabilities		
To be reversed after more than 12 months	**(67,632)**	(57,191)
To be reversed within 12 months	**–**	–
Deferred tax liability, net	**(54,173)**	(46,200)

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

	2014	2013
	$	$
As at January 1	**(46,200)**	(38,809)
Statement of income credit	**(4,914)**	(2,726)
Tax credit relating to components of other comprehensive income	**(594)**	(2,327)
Tax charge (credit) relating to acquisition	**1,024**	(115)
Foreign exchange	**(3,489)**	(2,223)
As at December 31	**(54,173)**	(46,200)

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

15 INCOME TAXES (CONTINUED)

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	Unrealized foreign exchange on debts and translation of foreign operations	Intangible assets	Cumulative losses	Total
	$	$	$	$	$	$	$	$
Deferred tax assets								
As at January 1, 2013	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)
Business acquisition	–	(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
Charged (credited) to statement of income	(407)	495	–	(589)	–	(8)	(12)	(521)
Charged (credited) to other comprehensive income	–	–	(98)	1,063	–	–	676	1,641
Business acquisition	–	545	–	–	–	–	–	545
Exchange differences	3	720	14	66	–	–	–	803
As at December 31, 2014	**189**	**10,598**	**71**	**1,766**	**–**	**79**	**756**	**13,459**

	Property, plant and equipment	Deferred pension benefits	Intangible assets	Derivative financial instruments	Investment tax credit	Unrealized foreign exchange on debts and translation of foreign operations	Total
	$	$	$	$	$	$	$
Deferred tax liabilities							
As at January 1, 2013	(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)
Business acquisition	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)
Charged (credited) to statement of income	(6,254)	501	1,252	–	108	–	(4,393)
Charged (credited) to other comprehensive income	–	–	–	139	–	(2,374)	(2,235)
Business acquisition	(63)	–	542	–	–	–	479
Exchange differences	(2,705)	–	(1,587)	–	–	–	(4,292)
As at December 31, 2014	**(45,285)**	**–**	**(19,158)**	**(234)**	**–**	**(2,955)**	**(67,632)**

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

15 INCOME TAXES (CONTINUED)

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 $171,308 as at December 31, 2014 (2013 – $133,321).

16 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 three defined benefit pension plans for salaried and certain non-union hourly wage employees.

The Company also contributes to two U.S. defined benefit pension plans.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches 1.5 times the employee contribution. The Company's contribution cannot exceed 6.0% of the employee's annual base salary. The recognized costs for employee future benefits were as follows:

	2014	2013
	$	$
Post-retirement benefits	**163**	154
Defined benefit pension plans	**967**	1,178
Contributions to multi-employer plan	**390**	389
Contributions to group registered retirement savings plans	**3,347**	2,171

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

	2014	2013
	$	$
Assets		
Accrued benefit asset, included in other assets	**–**	1,979
	–	1,979
Liabilities		
Accrued benefit liability included in employee future benefits	**(2,806)**	(1,972)
Accrued benefit obligation, included in employee future benefits	**(2,298)**	(1,752)
	(5,104)	(3,724)

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.

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2014	2013
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**1,752**	1,722
Current service cost	**78**	83
Interest cost	**85**	71
Benefits payments	**(52)**	(45)
Actuarial loss (gain)	**435**	(79)
Balance – End of year	**2,298**	1,752
Plan assets		
Employer's contributions	**52**	45
Benefits paid	**(52)**	(45)
Fair value – End of year	**–**	–
Accrued benefit obligation	**2,298**	1,752

The significant assumptions used are as follows:

	2014	2013
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.9**	4.7
Rate of compensation increase	**2.0**	2.0
Benefit costs for the year ended December 31		
Discount rate	**4.7**	4.0
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 starting 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 2014 was 7.0%. 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	84	(72)
Impact on benefit costs	3	(3)

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2014	2013
	$	$
Current service cost	**78**	83
Interest cost	**85**	71
Post-retirement benefits program costs recognized	**163**	154

Consolidated statement of comprehensive income	2014	2013
	$	$
Year ended December 31		
Actuarial (losses) gains	**(435)**	79
Total recognized in other comprehensive income before income tax	**(435)**	79

Accumulated actuarial (losses) gains recognized in other comprehensive income (loss)	2014	2013
	$	$
Balance of actuarial losses as at January 1	**(107)**	(166)
Net actuarial (losses) gains recognized in the year (net of tax)	**(322)**	59
Balance of actuarial losses as at December 31	**(429)**	(107)

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 five existing pension plans are as follows:

	Date of last actuarial valuation
Plan 1	December 31, 2011
Plan 2	December 31, 2011
Plan 3	December 31, 2013
Plan 4	December 31, 2012
Plan 5	December 31, 2012

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2014	2013
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**19,122**	19,673
Current service cost	**784**	878
Interest cost	**941**	770
Benefits payments	**(766)**	(680)
Actuarial loss (gain)		
Plan experience	**(311)**	781
Changes in demographic assumptions	**(37)**	403
Changes in financial assumptions	**3,872**	(3,116)
Exchange difference	**500**	413
Balance – End of year	**24,105**	19,122
Plan assets		
Fair value – Beginning of year	**19,130**	16,621
Interest income on plan assets	**734**	451
Return on plan asset excluding interest income	**616**	1,531
Employer's contributions	**1,249**	983
Employee's contributions	**24**	19
Benefits paid	**(766)**	(680)
Exchange difference	**312**	205
Fair value – End of year	**21,299**	19,130
Accrued benefit asset (liability)	**(2,806)**	8

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:

	2014	2013
	$	$
Accrued benefit obligation	**10,845**	8,675
Fair value of plan assets	**6,918**	6,031
Funded status – Plan deficit	**(3,927)**	(2,644)

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2014	2013
	%	%
Equity securities	**45.0**	48.0
Debt securities	**53.0**	49.0
Short-term investments and cash	**2.0**	3.0
	100.0	100.0

The significant weighted average assumptions used are as follows:

	2014	2013
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.9**	4.9
Inflation assumption	**2.3**	2.0
Rate of compensation increase	**3.3**	3.0
Benefit costs for the year ended December 31		
Discount rate	**4.9**	3.9
Inflation assumption	**2.0**	2.0
Rate of compensation increase	**3.0**	3.0

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

	2014	2013
	$	$
Current service cost, net of employee's contributions	**760**	859
Interest cost	**941**	770
Interest income on plan assets	**(734)**	(451)
Defined benefit plan expense	**967**	1,178

Expected contributions to the defined benefit pension plans for the year ending December 31, 2015 are $808.

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

Consolidated statement of comprehensive income	2014	2013
	$	$
Year ended December 31		
Actuarial (losses) gains	**(2,908)**	3,464
Total recognized in other comprehensive income before income tax	**(2,908)**	3,464

Accumulated actuarial (losses) gains recognized in other comprehensive income (loss)	2014	2013
	$	$
Balance of actuarial losses as at January 1	**(285)**	(2,748)
Net actuarial (losses) gains recognized in the year (net of tax)	**(1,956)**	2,463
Balance of actuarial losses as at December 31	**(2,241)**	(285)

17 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 $29,353 (2013 – $33,636) 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:

	$
2015	16,072
2016	13,481
2017	10,555
2018	7,522
2019	5,005
Thereafter	14,649
	67,284

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 $590 (2013 – $785). 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.

18 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, 2014 and 2013. In 2014, the Company had one customer representing 9.8% of its sales (2013 – 10.0%). As at December 31, 2014, the accounts receivable balance from this customer amounted to $6,622 (2013 – $1,464).

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)

18 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 11(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2014, an amount of $375,460 was drawn against the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

2014

	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	69,719	69,719	69,719	–	–	–
Long-term debt obligations	444,557	484,507	19,128	69,169	391,179	5,031
Interest rate swaps	706	4,773	2,199	2,574	–	–
Non-competes payable	953	1,030	551	479	–	–
	515,935	560,029	91,597	72,222	391,179	5,031

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

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.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

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, 2014, the Company had no foreign exchange forward contracts outstanding.

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, 2014 and 2013. 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:

	2014	2013
	$	$
Loss to net income	**(200)**	(900)

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:

	2014	2013
	$	$
Assets		
Accounts receivable	**1,427**	1,492
Liabilities		
Accounts payable and accrued liabilities	**1,104**	3,584
Long-term debt	**2,325**	6,907
	3,429	10,491

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 11).

Interest rate risk

As at December 31, 2014, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 76.1% (2013 – 66.0%) 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.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The committed revolving credit facility defined in Note 11(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 facilities, for borrowings that have not been swapped, would have increased interest expense by $120 for the year ended December 31, 2014 (2013 – $180).

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

				2014
Notional amount	**Related debt instrument**	**Fixed rate**	**Maturity date**	**Notional equivalent**
		%		**CA$**
CA$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US$75,000	Committed revolving credit facility	0.97*	June 2017	87,007
US$25,000	Committed revolving credit facility	0.71*	December 2017	29,002
US$25,000	Committed revolving credit facility	0.69*	December 2017	29,002
US$25,000	Committed revolving credit facility	0.71*	December 2017	29,002
US$25,000	Committed revolving credit facility	0.70*	December 2017	29,002
US$25,000	Committed revolving credit facility	1.16*	December 2016	29,002
US$15,000	Committed revolving credit facility	1.45*	August 2016	17,401
US$5,000	Committed revolving credit facility	5.80	July 2015	5,800
US$5,000	Committed revolving credit facility	5.54	July 2015	5,800
US$1,000	Committed revolving credit facility	4.69	December 2015	1,160
US$5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	6,497

				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

* Plus applicable spread of 1.0% to 2.0% based on a pricing grid.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

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, 2014, all cash flow hedges were effective.

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2014 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, 2014 is a net asset of $717 (2013 – net asset of $986), of which an asset of $1,423 (2013 – $2,119) is recorded in non-current assets and a liability of $706 (2013 - $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, 2014 would have reduced the net gain recognized in other comprehensive income by approximately $72 (2013 – $99). For a 10.0% increase in the interest rates, there would be an equal and opposite impact on the net gain.

19 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.

	2014	**2013**
	$	$
Total debt	**444,557**	372,891
Shareholders' equity	**692,271**	572,183
Total capital	**1,136,828**	945,074
Total debt to total capitalization ratio	**0.39:1**	0.39:1

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)

20 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2014	2013
	$	$
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	**320**	388

* Stella Jones International S.A. holds, directly or indirectly, approximately 38.5% 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 fair value.

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

	2014	2013
	$	$
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	**52**	31
	127	106

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:

	2014	2013
	$	$
Salaries, compensation and benefits	**4,522**	3,863
Share-based compensation	**3,761**	1,707
	8,283	5,570

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

21 SEGMENT INFORMATION

The Company operates within one business segment which is the production and sale of pressure-treated wood and related services. Its twenty-seven wood treating plants, ten pole peeling facilities and a coal tar distillery are located in five Canadian provinces and sixteen American states. The Company also operates a large distribution network across North America.

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

	2014	2013
	$	$
Canada	**229,913**	223,242
U.S.	**1,019,580**	788,048
	1,249,493	1,011,290

Sales by product as at December 31 are as follows:

	2014	2013
	$	$
Railway ties	**530,008**	393,968
Utility poles	**470,509**	405,808
Residential lumber	**128,009**	112,294
Industrial products	**89,376**	58,079
Non-pole-quality logs	**31,591**	41,141
	1,249,493	1,011,290

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

	2014	2013
	$	$
Canada	**65,629**	64,484
U.S.	**215,978**	169,750
	281,607	234,234

Intangible assets with a net book value of $101,451 (2013 – $84,559) are attributed to the Company's U.S. operations.

Goodwill with a value of $193,811 (2013 – $155,004) is allocated to the U.S., the location where the CGUs hold the majority of their business activities.

22 SUBSEQUENT EVENTS

a) On March 3, 2015, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement dated November 21, 2012. This fourth restated and amended agreement makes available a committed revolving credit facility in the amount of US$450,000 (previously $450,000) with conditions similar to the third restated and amended agreement. The maturity date of December 13, 2018 remains unchanged.

b) On March 12, 2015, the Board of Directors approved a quarterly dividend of $0.08 per common share payable on April 30, 2015 to shareholders of record at the close of business on April 2, 2015.