Stella-Jones

2008 ANNUAL REPORT

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Stella-Jones 2008

- **Record Revenues and Profits Generated**
- **Continental Reach Extended**
- **Business Plan Advanced**

Stella-Jones manufactures pressure treated wood railway ties and utility poles, as well as industrial and consumer treated wood products. The Company's network of plants includes fifteen treating facilities located strategically across North America. In 2008, Stella-Jones reported record revenues and profits and completed the largest acquisition in its history. In an increasingly uncertain economic environment, the Company has focused on cost control and the maximization of synergies in its continental network.

RAILWAY TIES

Stella-Jones is one of the largest producers of treated wood railway ties in North America

UTILITY POLES

In 2008, Stella-Jones supplied more than a quarter million treated wood utility poles to many of the largest utilities on the continent

INTEGRAL TO INFRASTRUCTURE

The products of Stella-Jones are fundamental to the infrastructure of the railway, electrical transmission and telecommunications industries, and play an important role in alternative energy development

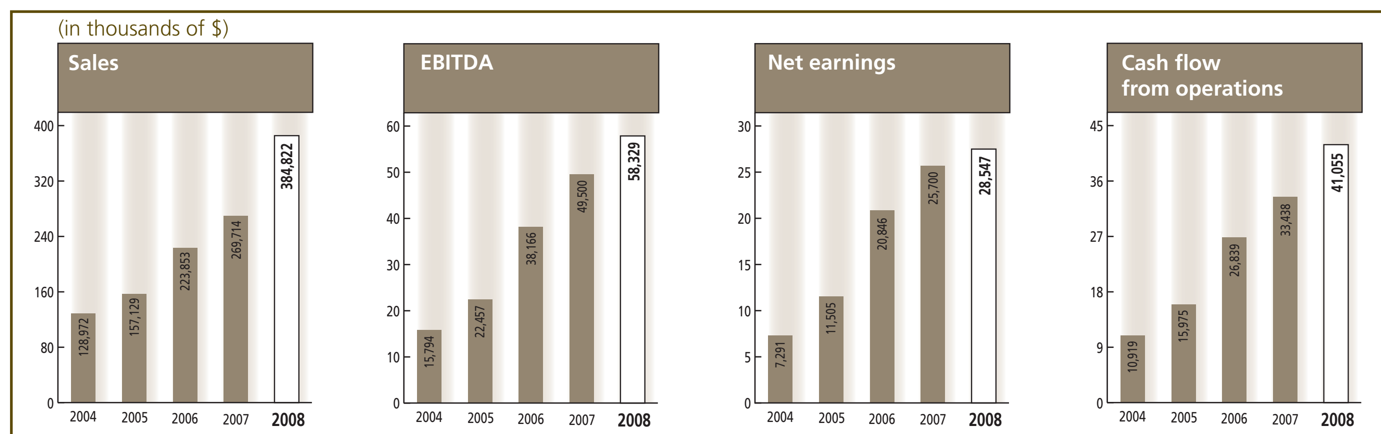
5-year Review

For the years ended December 31 (thousands of dollars, except per share data and ratios)	**2008** **$**	2007 $	2006 $	2005 $	2004 $
Operating results					
Sales	**384,822**	269,714	223,853	157,129	128,972
EBITDA[1]	**58,329**	49,500	38,166	22,457	15,794
Net earnings	**28,547**	25,700	20,846	11,505	7,291
Cash flow from operations [1,2]	**41,055**	33,438	26,839	15,975	10,919
Financial position					
Working capital	**156,898**	103,241	79,966	55,485	36,582
Total assets	**407,546**	244,856	213,675	137,891	98,200
Long-term debt [3]	**105,759**	47,444	31,893	26,466	16,184
Shareholders' equity	**161,112**	127,757	105,822	64,808	49,285
Per share data					
Net earnings per common share	**2.29**	2.09	1.81	1.10	0.72
Diluted net earnings per common share	**2.25**	2.03	1.76	1.08	0.70
Cash flow from operations [1,2]	**3.29**	2.71	2.33	1.53	1.08
Book value	**12.82**	10.35	8.60	5.96	4.82
Dividend per share	**0.34**	0.24	0.14	0.10	0.08
Average number of shares outstanding (000's)	**12,483**	12,324	11,541	10,451	10,082
Shares outstanding at year end (000's)	**12,565**	12,341	12,298	10,881	10,235
Average number of diluted shares outstanding (000's)	**12,695**	12,690	11,868	10,681	10,355
Financial ratios					
Return on average equity	**19.8 %**	22.0 %	24.4 %	20.2 %	15.9 %
Long-term debt to equity [3]	**0.66:1**	0.37:1	0.30:1	0.41:1	0.33:1
Working capital	**2.31**	2.56	2.11	2.23	2.19

1 Earnings before interest, taxes, depreciation and amortization ("EBITDA") and cash flow from operations per share are financial measures not prescribed by Canadian generally accepted accounting principles ("GAAP") and are not likely to be comparable to similar measures presented by other issuers. Management considers them to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company. EBITDA is derived from the Company's consolidated financial statements without adjustment for unusual or non-recurring items.

2 Before changes in non-cash working capital components.

3 Including current portion.



Railway Ties and Utility Poles

Stella-Jones Inc.
Continental Supplier
of Railway Ties and Utility Poles

Producing Fundamental Components of the North American Infrastructure

The Strategy of Stella-Jones

A well-defined business model has sustained the growth of Stella-Jones over many years. The model involves steady commitment to our core business. It extends to expansion and acquisition exclusively within our traditional target markets. In 2008, the Company continued to execute upon this proven strategy, and again registered record sales and profits.

The Expertise of Stella-Jones

Our fifteen treating plants located strategically in five Provinces and six States represent state-of-the-art facilities for the treatment and transformation of wood into essential products for the energy, telecommunications and transportation infrastructure of North America. Our products principally include railway ties and utility poles. We also treat and produce lumber for industrial and consumer applications.

The Markets of Stella-Jones

Many North American energy utilities and railway operators alike have increasingly made Stella-Jones their key source of poles and ties, as demonstrated by the Company's sales growth every year for nearly a decade. Few competitors can match the range of product we offer in utility poles, or the economy of scale we have achieved in the manufacture of railway ties – or the assured supply of both these vital products that our substantial inventories and continental network of plants have made possible for our customers.

HIGHLIGHTS OF 2008

Highlights of 2008

Uninterrupted Growth

- Record sales of our principal products: railway ties and utility poles
- Growth in the sales of our ancillary products: industrial and consumer lumber
- Highest revenues in Company history
- Record net earnings
- Eighth consecutive year of growth
- Annual dividend payment increased by more than 40%

Acquisition of The Burke-Parsons-Bowlby Corporation

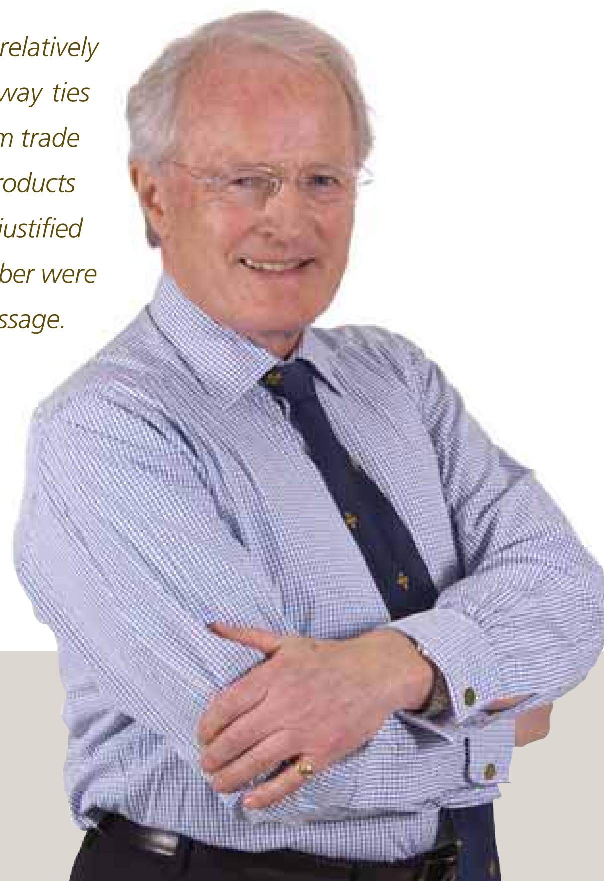
- Increased our continental network with the addition of five wood treating plants in Pennsylvania, Virginia, West Virginia, and Kentucky
- Strategic advance toward consolidating the North American railway tie market in which Stella-Jones is now firmly established as the second largest player
- Immediately accretive to earnings

Solid Financial Position

- Strong cash flow sustained
- Substantial working capital on hand
- Plant upgrades funded by internal resources
- Debt levels easily within bank covenant restrictions

Chairman's Message

In describing and promoting Stella-Jones Inc., we have always stressed the relatively mild cyclical nature of the primary categories of our business, namely railway ties and utility poles. We have never claimed that these sectors are immune from trade cycles; just that they experience less violent swings than other wood based products of a commodity-type nature. Never have our assertions been so dramatically justified than in the last twelve months. Pulp and paper, panel products and sawn lumber were almost universally in the doldrums in 2008 and remain so as I write this message. In marked contrast, Stella-Jones performed rather well in 2008, with net profit of $28.5 million or $2.25 per share, fully diluted, compared to $25.7 million or $2.03 per share, fully diluted, in 2007.



Sales increased to $384.8 million from $269.7 million in 2007 with the major part of this increase stemming from a full year of operations at our Arlington, Washington plant (compared to ten months in 2007), and from nine months ownership of The Burke-Parsons-Bowlby Corporation ("BPB"). However, there was also satisfactory organic sales growth from the remainder of our business. Margins inevitably came under pressure during the second half of the year with rising raw material, energy and transportation costs, but we took urgent measures to counteract these and now that oil and energy costs have fallen back from historical highs, we are seeing margins returning closer to normal levels.

In my opening remarks at our shareholders' meeting in May 2008, I commented on our rapid integration of BPB and its five operating plants into the Stella-Jones group and expressed the view that this business would be a fine addition to the group. So it has proved to be. I congratulate Brian McManus, Doug Fox, promoted to Senior Vice-President Engineering and Operations in the USA, and all their colleagues directly involved in achieving another seamless and successful acquisition. A number of personnel and management changes have been made and Buddy Downey has been promoted to Vice-President, U.S. Operations, reporting to Doug Fox. Eric Vachon has been appointed Vice-President, Finance of U.S. Operations and will combine this responsibility with his role as Director, Treasury and Financial Reporting of Stella-Jones Inc.

I believe that one of the strengths of Stella-Jones has been the quality of its Board of Directors and the knowledge and experience of its independent directors amongst whom Arthur Earle has been a shining example since the inception of the Company in 1992. Arthur was our first Chairman and only stood down from that position when the Company went public in 1994. He has proved to be an outstanding non-executive director held in high esteem by management and fellow directors alike. Arthur has decided not to stand for re-election to the Board in May. On behalf of the Company and all shareholders, I thank him for his great contribution.

We are fortunate to have been able to recruit the services of Barrie Shineton as a new independent director in succession to Arthur. Barrie has spent all his working life in the forest products industry in North America and Europe and is currently President of Norbord Inc. His wide knowledge and experience will maintain the balance and strength of our Board.

Arthur Earle was also Chairman of our Environmental Committee. Your Board has decided to appoint me to that position with effect from May 6, 2009 in order to capture my knowledge of this industry and emphasize both within and outside the Company, the importance the Board of Directors places on environmental matters.

Our business has had an encouraging start to 2009. Our balance sheet is strong; both short- and long-term financing is in place; inventories are in good shape; costs are being well contained; our management is strong and motivated and our order books are well filled. We hope we will be able to benefit from the counter-recessionary measures being taken by the U.S. and Canadian governments to boost spending on sadly neglected infrastructure areas such as railways, roads, bridges and communication systems, and we have been positioning ourselves to make a major contribution to such projects. No one and no company, however, in the current climate can afford any degree of complacency about the short- or even medium-term outlook.

We were able in 2008 to make dividend payments totalling 34 cents per share compared to 24 cents in the previous year.

In March 2009, the Board announced a semi-annual dividend of $0.18 per share.

I wish on behalf of the Board to thank all employees for their contribution in a testing year, and also our customers and shareholders for their continued support.

Tom A. Bruce Jones, CBE
Chairman

President's Message

The financial performance of Stella-Jones in 2008 represented the eighth consecutive year of expansion for the Company. Our results were marked by growth in both the top and bottom lines. Demand held firm for all of our products, even while uncertainty characterized the North American economy.

We sold a record number of railway ties and utility poles in 2008. This achievement highlighted the position of Stella-Jones as one of the largest producers of treated wood railway ties and utility poles in North America.

The gross revenues of Stella-Jones in 2008 grew to $384.8 million, an increase of nearly 43% over the previous year. Net earnings rose to $28.5 million, an improvement of more than 11% over 2007.

BPB Acquisition: Our strong growth in railway tie sales was principally driven by the contribution of The Burke-Parsons-Bowlby Corporation ("BPB"), which we acquired in April, 2008. The acquisition, our largest ever, increased our continental network by adding five wood treating plants in the states of Pennsylvania, Virginia, West Virginia, and Kentucky.

Acquiring this well established American company served to broaden our market reach and emphasize our industry leadership, particularly along the eastern seaboard. Moreover, it significantly furthered our long-term objective to consolidate railway tie production in North America.

Ongoing Integration of BPB: Following the acquisition of BPB, multiple synergies with our existing plant network were put into motion. At the time of writing, the process of integration is continuing as foreseen, on schedule, with additional operational efficiencies still to be leveraged.

The contribution by BPB of more than $90 million in sales over a nine-month period, helped bring our total sales of railway ties in 2008 to $181.1 million. Through most of the year, however, Stella-Jones incurred higher raw material and energy costs, particularly for our U.S. railway tie operations. This offset our efforts to further increase BPB's margins. Nonetheless, we remain on course to bring BPB's margins closer to those of our other similar operations.

In railway tie sales, in addition to growth through acquisition, Stella-Jones also registered significant organic growth. With regard to utility poles, the Company's sales growth was entirely organic.

Firm Demand for Utility Poles: Our second principal product category, utility poles, registered sales growth of 6.4% to reach $137.8 million in 2008. The increased demand for both distribution and transmission poles stemmed in good part from an accelerated rate of electrical utility installations in the latter half of the year.

Strong Balance Sheet: The financial factors that define a strong company are precisely the factors that distinguish the balance sheet of Stella-Jones. Our resources include a solid working capital more than adequate to meet our operational needs. Our ratio of long-term debt to equity, including the current portion, remained strong, and at year-end was 0.66:1. The long-term debt of Stella-Jones does not impose onerous repayment obligations. This allows us to progressively reduce our operating line and further improve our already strong working capital position.

Outlook for 2009: The consensus is clear that the North American economy will decline in the year ahead. Although the downturn has made us extremely cautious, we remain confident that the vital role played by Stella-Jones in the basic infrastructure of the continent will help us maintain our market momentum.

Our position as a supplier of utility poles and railway ties could prove particularly advantageous if, as expected, both the American and Canadian governments invest heavily in energy infrastructure projects. Such projects would drive replacement and maintenance demand from our many clients in the railway and electrical transmission and distribution industries.

The year ahead will be focused on cash generation and debt reduction, although Stella-Jones is not over-leveraged by any means. In 2009, as indicated above, we expect an improved contribution from the BPB operations as we continue their assimilation. This will directly contribute to the bottom line of Stella-Jones.

As the economy improves, we expect to be in an excellent position to take advantage of opportunities that could appear on the acquisition front. Stella-Jones is in a position similar to that of many healthy companies today; our appetite for acquisitions is not affected by our own financial circumstances, but rather tempered by general credit conditions.

Opportunity in the year ahead will not relate exclusively to potential acquisitions. It also promises to arrive in the form of new clients and expansion of supply to existing clients. For example, two of our largest customers in the railway industry recently made acquisitions of their own. We are confident that these events will result in track upgrades, and thus additional contracts to supply the ties.

As we go forward in challenging economic times, the strength of Stella-Jones remains our ability to adapt swiftly to changing situations. That strength derives from a tireless drive to pursue efficiencies throughout our organization. Meanwhile, our long-term strategic vision, focused on continental expansion and consolidation, remains wholly intact.

The greatest measure of credit and gratitude for the continuing success of Stella-Jones must go to our employees. I want to take this opportunity as well to thank the members of our Board for their counsel, confidence and support.

Brian McManus
President and Chief Executive Officer

Stella-Jones' Operating Locations

With our strategically located facilities, we have the treating capacity, sources of supply and purchasing power to respond to increased demands in all of our product categories.

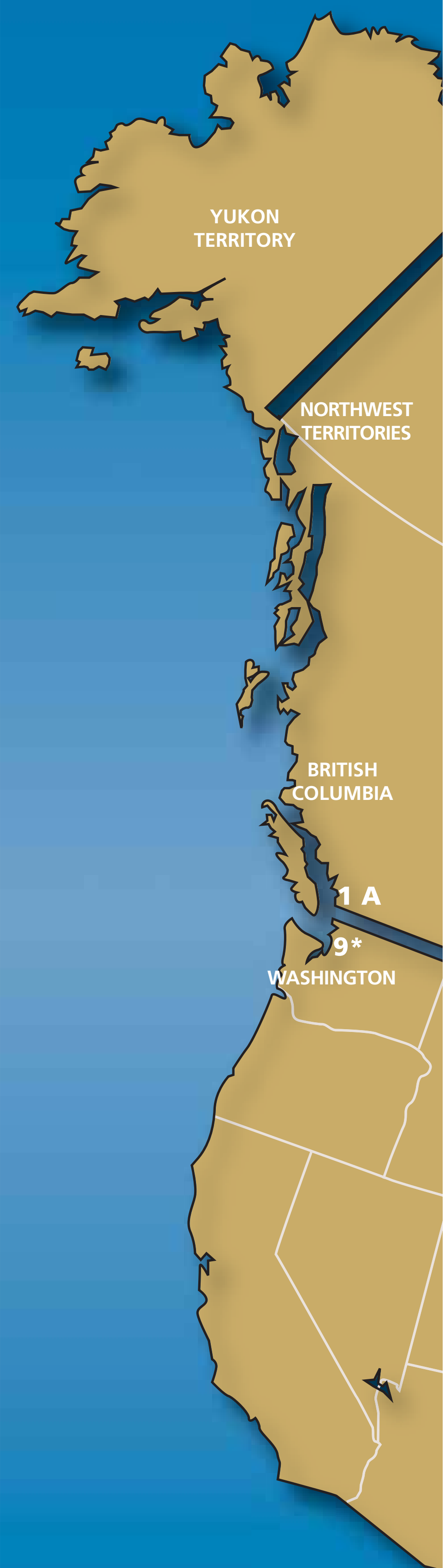
TREATING FACILITIES

1. New Westminster, B.C.
2. Prince George, B.C.*
3. Carseland, Alberta*
4. Guelph , Ontario
5. Gatineau, Québec*
6. Delson, Québec
7. Sorel-Tracy, Québec
8. Truro, Nova Scotia
9. Arlington, Washington*
10. Bangor, Wisconsin
11. Fulton, Kentucky
12. Stanton, Kentucky
13. Reedy, West Virginia
14. Goshen, Virginia
15. DuBois, Pennsylvania

* Facility with pole peeling capacity

POLE PEELING FACILITIES

A. Maple Ridge, B.C.
B. Revelstoke, B.C.
C. Juliaetta, Idaho



NUNAVUT
2*
SASKATCHEWAN
B
ALBERTA
3*
MANITOBA
C
IDAHO
ONTARIO
QUEBEC
NEWFOUNDLAND
AND LABRADOR
P.E.I
NEW
BRUNSWICK
8
NOVA SCOTIA
5*
6
7
WISCONSIN
10
4
PENNSYLVANIA
15
WEST
VIRGINIA
13
KENTUCKY
12
VIRGINIA
14
11

Factors of Leadership

Stella-Jones is a recognized leader in wood treatment and specialized manufacture. As one of the largest producers in our industry, we supply many of the principal users of railway ties and utility poles in North America. A number of factors explain the Company's authoritative role and steady ascendancy.

Multi-Plant Network: Stella-Jones enters bidding competitions with the advantage of a substantial, state-of-the-art, widely distributed production capacity. We draw on the resources of fifteen treating facilities located in six States and five Provinces, which allow us to meet sudden orders that exceed a plant's capacity. This assured continuity of supply is often vital to our customers in the railway and electrical transmission industries, and thus renders Stella-Jones a preferred supplier.

Sourcing Strength: Our wood sourcing ability is as powerful as any railway tie or utility pole manufacturer in North America. We have broad harvesting rights of our own, bolstered by the reliability of long-proven private forestry suppliers. We also purchase ties from hundreds of regional sawmills located in Canada and the United States. Together, these provide a secure base of raw material supply.

Breadth of Product: For our railway customers, we provide crossties in a wide variety of softwoods and hardwoods. Since our acquisition of The Burke-Parsons-Bowlby Corporation, we also provide railways with bridge decks, bridge panels, pre-plated ties, flange material for road crossings, tie plugs and have significantly increased our sales of bridges timbers. In contrast to many of our competitors in the utility pole manufacturing business, we can supply product in a wide variety of species including cedar, fir and pine, as well as the full gamut of preservatives and sizes, from 35-foot poles to 120-foot poles, and poles of any size in between, to meet the exact specifications of our clients. We have thus earned a reputation as a dependable one-stop shop in our industry.

Purchasing Power: Stella-Jones' supply costs have lessened as our size has grown. With the critical mass we have achieved, for instance, we can purchase entire mill runs of the raw materials we require. This allows us to offer strongly competitive prices, which in turn attracts new customers and, of equal significance, deepens our bond with existing customers.

Technological and Managerial Efficiency: Over the years, Stella-Jones has acquired a reputation for unlocking potential in the facilities we manage. To increase capacity and performance, we constantly pursue plant specialization to enhance network efficiency. Our culture is based on the understanding that best-of-breed technology and relentless application of best management practices determine the leaders in our industry.

Multiple Keys to Growth

Underlying the largely stable demand for the products of Stella-Jones are economic drivers related to enduring infrastructure needs, the gathering thrust of alternative energy development, and the long-term expansion of international trade.

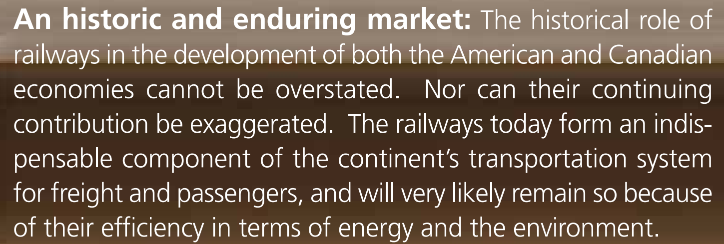
Railway Expansion and Upgrades: The railways of North America represent a key component of the continent's infrastructure for the transportation of freight and passengers. Railway ties now represent the largest product component at Stella-Jones, and we are proud to have become one of the largest producers of treated wood railway ties in North America.

Electrical Transmission: The transmission of electricity in North America is supported almost everywhere by the use of utility poles. The pressure treated wood pole – the second principal specialty product of Stella-Jones – remains the preferred choice for energy delivery support. In the years ahead, we expect to continue to benefit from investments to be made by our many clients in the electrical utility industry which rely upon poles from Stella-Jones to support their physical infrastructures.

Modern Energy Technology: The operations and products of Stella-Jones may appear relatively low-tech. Nonetheless, our infrastructure contributions are essential to the success of high-tech ventures in alternative energy development. For instance, wind farms (and eventually solar farms), typically located far from urban areas, will require utility poles to carry the electricity they generate. Ethanol plants depend upon railways (which in turn rely upon our treated wood crossties) to both receive their raw material and transport their fuels to market. Thus, as our economy turns to renewable energy while reducing its dependence on oil, Stella-Jones will go on supporting the means of delivery.

Government Stimulus Projects: Our core utility pole and railway tie product categories, though not recession-proof, are integral to capital infrastructure projects that governments often initiate during times of economic slowdown.

Railway Ties



An historic and enduring market: The historical role of railways in the development of both the American and Canadian economies cannot be overstated. Nor can their continuing contribution be exaggerated. The railways today form an indispensable component of the continent's transportation system for freight and passengers, and will very likely remain so because of their efficiency in terms of energy and the environment.

Steady demand: Railway ties are integral to the construction of rail beds. They are essential for all railway expansions and upgrades. For maintenance purposes, ties must be replaced on a regular basis. Stella-Jones supplies pressure treated wood crossties to many of the largest railway operators in North America.

Largest product category: In 2008, the treated wood crosstie was the largest selling product at Stella-Jones. Our increased revenues from this category resulted from both organic growth and the business we gained through our acquisition of The Burke-Parsons-Bowlby Corporation ("BPB") and its five wood treating plants in Pennsylvania, Virginia, West Virginia, and Kentucky.

Leading in Canada, growing in the U.S.: For many years Stella-Jones has been the largest supplier of railway ties to Canadian railways. We are now also a principal supplier to American railways. Through the BPB acquisition, we have become the second largest North American provider of railway ties with an estimated market share of 25%.

A renewable resource: Treated wood is expected to remain the material of choice for railway ties for a long time to come. That is because wood, unlike concrete, steel or plastic, is a renewable resource and represents both a cost-effective and environmentally practicable choice.

Railway Ties

Sales in 2008: $181.1 million

Percentage of sales: 47.0%

Stella-Jones supplies pressure treated wood crossties to many of the largest railways in North America.

Utility Poles

A component of progress: No matter where you travel, you are likely to encounter vast numbers of pressure treated wood utility poles. In North America, they line our streets and highways and dot our rural landscapes. They appear nearly everywhere due to their essential supporting role in the advance of essential infrastructure. These poles bear the lines that conduct our electrical energy and the lines that transmit our wired telephony.

A specialty of Stella-Jones: The pressure treated wood utility pole represents one of the two principal product categories of Stella-Jones. In 2008, we sold a total of more than 250,000 such poles to many of the largest utilities on the continent.

Sole pan-Canadian producer: Stella-Jones is the only manufacturer of utility poles that operates nationally in Canada, and it is one of the largest producers of poles in North America.

Production capacity and expertise second-to-none: Stella-Jones has secured access to the highest quality timber in all required species. We have mastered and now offer the full range of preservative treatments and we have customized our production to deliver the exact length, class, framing, and preservative treatment that our customers require.

Here are the reasons why purchasers of utility poles choose Stella-Jones:

- Our long history of specialization in utility poles made of wood, the most cost-effective and versatile material for the product;
- Our state-of-the-art expertise in wood preservation;
- Our capacity to supply high-volume users;
- Our track record for satisfying demand during extraordinary peak periods, made possible by our continental network of plants;
- Our ability to manufacture pressure treated poles to meet the full spectrum of specifications in species, size and preservative.

Utility Poles

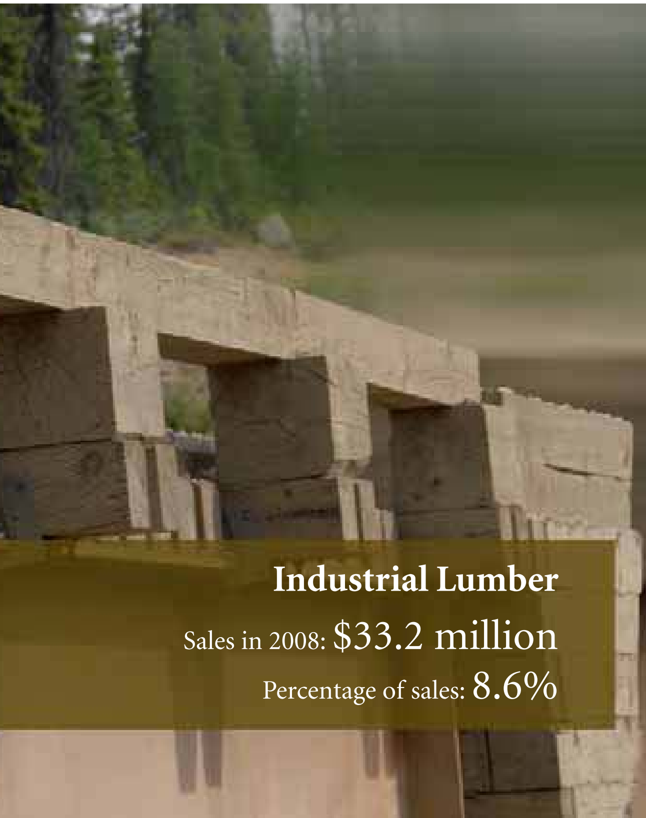
Sales in 2008: $137.8 million

Percentage of sales: 35.9%

In 2008, Stella-Jones sold more than 250,000 pressure treated wood poles to many of the largest utilities on the continent.

ANCILLARY PRODUCTS

Industrial Lumber



Industrial Lumber

Sales in 2008: $33.2 million

Percentage of sales: 8.6%

Pressure treatment of wood is essential for its function in regard to outdoor industrial, maritime, and civic projects. Furthermore, as such projects must cope with widely differing environmental conditions, they call for a range of species and preservatives. Accordingly, the expertise of Stella-Jones is brought to bear in the production of marine and foundation pilings, highway guardrail posts, and bridge and construction timbers.

Sales of industrial lumber in 2008 more than doubled over the previous year, driven by the addition of the BPB operations. Through BPB, our foothold in this category was further strengthened in the latter stages of the year by the addition of new products, such as panelized railway crossings and customized log homes. Our customers for industrial lumber increasingly value the security of supply we offer, backed by our track record as a state-of-the-art specialist in the pressure treatment of wood.

The treated wood of Stella-Jones is also used in a variety of industrial and civic installations.

ANCILLARY PRODUCTS

Consumer Lumber

Consumer Lumber

Sales in 2008: $32.8 million

Percentage of sales: 8.5%

The demand from homeowners for preserved wood to build fences, decks and the like has, in the past few years, become a steady contributor to the revenues of Stella-Jones.

Sales in our consumer lumber division grew 11% in 2008, sustained by the fact that our entire production of consumer lumber is sold in Canada, where the housing market remained, for most of 2008, relatively unaffected by the U.S. mortgage credit crisis.

The home renovation market represents a natural retail outlet for the treated wood products of Stella-Jones.

The following Management's Discussion and Analysis ("MD&A") dated March 12, 2009 provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2008 compared with the fiscal year ended December 31, 2007. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007 and the notes thereto. The audited consolidated financial statements and MD&A have been reviewed by the Company's Audit Committee and, upon its recommendation, have been approved by the Board of Directors.

The MD&A contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency rates and other factors referenced herein and in the Company's continuous disclosure filings.

The Company's audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and results are reported in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information, including the Company's annual information form, quarterly and annual reports, and supplementary information is available on SEDAR at www.sedar.com. Press releases and other information are also available in the Investor/Media Centre section of the Company's Web site at www.stella-jones.com.

Our business

Stella-Jones is a leading North American producer and marketer of industrial pressure treated wood products and also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications.

The Company specializes in four major product categories: railway ties for rail transportation companies; treated wood utility poles for utility and telecommunication companies; industrial lumber products for construction and maritime applications, and treated consumer lumber products for the residential market.

As of March 12, 2009, the Company owns and operates fifteen wood treating plants, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These twenty facilities are located in six Canadian provinces and seven American states. The Company's workforce currently numbers approximately 725 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treatment industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, and a long-standing stable source of wood supply. Stella-Jones also operates dedicated production facilities which result in higher productivity and better efficiency, helping to preserve a competitive manufacturing cost structure.

Our mission

Stella-Jones' objective is to be the performance leader in the wood preserving industry and a model corporate citizen, exercising environmental responsibility and integrity.

Stella-Jones will achieve these goals by focusing on customer satisfaction, core products, key markets, innovative work practices and the optimal use of its resources.

Stella-Jones is committed to providing a safe, respectful and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

Major achievements of 2008

Stella-Jones’ operational highlight of 2008 was the acquisition, on April 1, of The Burke-Parsons-Bowlby Corporation (“BPB”) through a merger between BPB and a wholly-owned U.S. subsidiary of the Company. BPB produces pressure treated wood products, primarily for the railway industry. This acquisition included five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky. The acquisition was accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management’s estimate of their fair value as of the acquisition date. See “Business acquisition” below.

Financial results for the year ended December 31, 2008, marked the eighth consecutive year of uninterrupted growth. Revenues grew by 42.7%, primarily as a result of acquisitions completed in 2008 and 2007. Gross profit further increased on an absolute dollar basis, while it decreased as a percentage of sales, reflecting the higher proportion of railway tie sales in the Company’s product mix and the lower margins generated in the integration and transition phase of BPB’s operations. As a result, net earnings grew 11.1% to reach $28.5 million. Despite mounting economic uncertainty in North America, demand held firm for the Company’s two main product categories, railway ties and utility poles.

Stella-Jones’ solid performance once again produced strong cash flow generation in 2008, with cash flow from operations (before changes in non-cash working capital components) reaching $41.1 million compared with $33.4 million in 2007. This growth was achieved while maintaining a sound balance sheet, with a total long-term debt to equity ratio of 0.66:1 and a ratio of average total debt to operating earnings before amortization of capital and intangible assets of 2.35:1.

Key performance indicators

For the years ended December 31	**2008**	2007	2006
(thousands of dollars, except per share data and ratios)	**$**	$	$
Sales	**384,822**	269,714	223,853
Gross profit	**78,398**	66,788	50,363
Net earnings	**28,547**	25,700	20,846
Net earnings per common share	**2.29**	2.09	1.81
Diluted net earnings per common share	**2.25**	2.03	1.76
Total assets	**407,546**	244,856	213,675
Total long-term debt*	**105,759**	47,444	31,893
Total long-term debt* to equity ratio	**0.66:1**	0.37:1	0.30:1
Dividend per share	**0.34**	0.24	0.14

*Including current portion

Foreign exchange

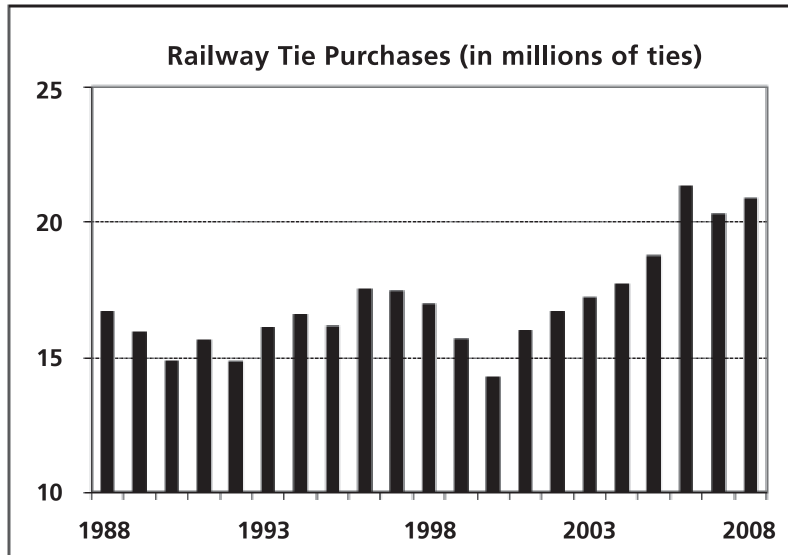
The table below shows exchange rates applicable to the periods ended December 31, 2008 and 2007. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of self-sustaining foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	**2008**		2007	
	Average	**Closing**	Average	Closing
First Quarter	**0.9909**	**1.0265**	1.1697	1.1546
Second Quarter	**1.0110**	**1.0197**	1.0958	1.0654
Third Quarter	**1.0425**	**1.0642**	1.0631	0.9948
Fourth Quarter	**1.1686**	**1.2180**	0.9798	0.9913
Fiscal Year	**1.0515**	**1.2180**	1.0812	0.9913

Industry overview

Railway ties

As reported by the Railway Tie Association, railway tie purchases grew nearly 3.0% to 20.9 million ties in 2008, surpassing the 20 million mark for the third consecutive year, and further extending a growth trend that emerged at the beginning of the decade.



Volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. As a result, freight tends to shift from road to rail in periods of soaring fuel costs. The resulting surge in rail transportation volume, combined with an aging infrastructure, yielded increased demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

Source: Railway Tie Association

According to the Association of American Railroads, combined 2008 volume for 12 reporting U.S. and Canadian railroads declined only marginally, namely 3.0% for carloads and 3.3% for intermodal trailers and containers, a situation attributable to a weaker economy.

Operating results

Sales

Sales for the year ended December 31, 2008 reached $384.8 million, an increase of $115.1 million, or 42.7%, over last year's sales of $269.7 million. All of the Company's product categories posted gains and its two largest categories – railway ties and utility poles - accounted for the majority of the increase. The BPB operations contributed sales of approximately $91.0 million over a nine-month period. A full-year contribution, in 2008, from the Arlington, Washington facility, compared with ten months in the preceding year, also favourably impacted sales growth. Organically, sales grew approximately 8.0%, reflecting demand that held firm for the Company's core products throughout most of 2008. To a lesser degree, organic growth was supplemented by the negative effect on 2007 results of a three-month forest industry strike in southern British Columbia that forced the closure of the Company's New Westminster treating facility and its pole peeling joint venture in Maple Ridge. When compared with the previous year, fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, reduced the value of U.S. dollar denominated sales by about $6.0 million.

Sales by product group

Railway ties

Railway tie sales for the year amounted to $181.1 million, a 92.3% increase over sales of $94.2 million achieved in 2007. These results reflect the contribution from the BPB operations as well as solid industry demand in North America. Although a slowing economy has reduced volume in the rail transport sector, railway operators have maintained their investments in the modernization of existing infrastructure and network extension through installation of double-tracking and new siding construction. Railway tie sales accounted for 47.0% of the Company's total sales in fiscal 2008.

Utility poles

Utility pole sales amounted to $137.8 million in 2008, an increase of $8.2 million or 6.4% over sales of $129.6 million in 2007. The increase is due to improved sales of distribution poles, stable demand for transmission poles and a full-year contribution from the Arlington, Washington facility, compared with only 10 months in 2007. Year-over-year revenue growth in 2008 also reflects the three-month labour conflict in British Columbia in 2007. Utility pole sales accounted for 35.9% of the Company's total sales in 2008.

Industrial lumber

Industrial lumber sales more than doubled in 2008, reaching $33.2 million, compared with $16.4 million in 2007. This increase is related to the BPB acquisition, which added both new products aimed at the rail transportation industry, such as panelized railway crossings, as well as additional bridge timber sales. This product category also includes BPB's custom log home construction business. The category represented 8.6% of overall sales in 2008.

Consumer lumber

Sales in the consumer lumber category totalled $32.8 million in 2008, up 10.7% from $29.6 million in 2007. The increase is attributable to a steady renovation market in Canada which remained, for most of 2008, relatively unaffected by the U.S. mortgage credit crisis, and to the opening of several new locations by the Company's main customer in this category. Consumer lumber accounted for 8.5% of Stella-Jones' total sales in 2008.

Sales by destination

In 2008, sales in Canada grew 10.4% over 2007 levels, reaching $180.1 million, or 46.8% of the Company's total sales, whereas sales in the United States amounted to $204.8 million, or 53.2% of sales, a 92.1% increase over 2007. Sales of products exported to the United States from the Canadian-based facilities totalled $25.5 million in 2008, compared with $32.7 million in 2007.

The strong increase in sales in the U.S. market came mainly as a result of the contribution of the BPB operations, acquired in April 2008, the full-year contribution from the Arlington, Washington facility, acquired in February 2007, and increased sales from the Bangor, Wisconsin facility following its capacity expansion in May 2007.

Management believes that the U.S. market presents additional growth opportunities, as the wood treatment industry remains highly fragmented. The acquisition of BPB further strengthened the Company's position in the North American railway tie market, making it the second largest player, with an estimated market share of 25.0%.

Gross profit

Gross profit reached $78.4 million or 20.4% of sales in 2008, up from $66.8 million or 24.8% of sales in 2007. The improvement in gross profit dollars essentially stems from the contribution of the BPB operations. However, gross profit as a percentage of sales declined mainly because of lower margins generated by the BPB operations. A different product mix and higher wood, energy and transportation costs also negatively affected gross profit as a percentage of sales, partially offset by plant specialization and economies of scale from increased overall volume in the Company's core markets.

Expenses

Selling and administrative expenses for 2008 were $20.4 million, an increase of $4.5 million, or 28.4%, over 2007's selling and administrative expenses of $15.9 million, mainly attributable to the BPB acquisition. As a percentage of sales, selling and administrative expenses represented 5.3% of sales in 2008, compared with 5.9% in the prior year. This reduction as a percentage of sales reflects overhead cost containment, synergies from increased volumes for the year and reduced compensation expenses.

The Company realized a foreign exchange gain of $0.3 million for the year ended December 31, 2008, versus a foreign exchange loss of $1.5 million last year. The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its sales and purchases in U.S. dollars by its Canadian-based operations. Stella-Jones U.S. Holding Corporation, the Company's wholly-owned U.S. subsidiary, is a self-sustaining foreign operation and unrealized foreign exchange gains and losses on translating its financial statements are deferred in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Its basic hedging activity consists of entering into forward exchange contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider forward exchange contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges. On December 31, 2008, the Company had on hand foreign exchange contracts for the future sale of US$27.4 million at an average exchange rate of Cdn$1.2235/US$1.00. The unrealized net foreign exchange gain on these contracts totalled $318,000 as at December 31, 2008.

Amortization of capital and intangible assets totalled $8.4 million in 2008, an increase of nearly $3.0 million over 2007. This increase is mainly attributable to the BPB acquisition.

Financial expenses for 2008 amounted to $8.7 million, an increase of $3.2 million over financial expenses of $5.5 million incurred in 2007. The rise in financial expenses is due to increases in long- and short-term borrowings resulting from the BPB acquisition and working capital requirements, respectively, somewhat offset by lower interest rates, on average, in 2008.

Earnings before income taxes and income tax expense

Stella-Jones generated earnings before income taxes of $41.2 million, or 10.7% of sales, in 2008. This represents an increase of $2.6 million over earnings before income taxes of $38.6 million, or 14.3% of sales, in the prior year.

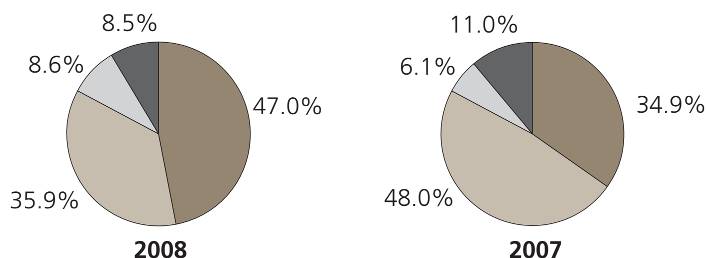
Stella-Jones' income tax expense totalled $12.7 million in 2008, representing an effective tax rate of 30.8%. In 2007, the income tax expense stood at $12.9 million, equivalent to an effective tax rate of 33.3%. The lower effective tax rate is a consequence of the higher proportion of revenue generated in the United States that is subject to the domestic manufacturing tax deduction for qualifying manufacturing income and deductions for Canadian income tax related to dividends received from a related party. Other non-income based corporate taxes represent a relatively small component of the Company's total tax burden.

Net earnings

Net earnings for the year totalled $28.5 million, or $2.25 per share, fully diluted, compared with $25.7 million, or $2.03 per share, fully diluted, in 2007. This represents a year-over-year increase in net earnings of $2.8 million, or 11.1%.

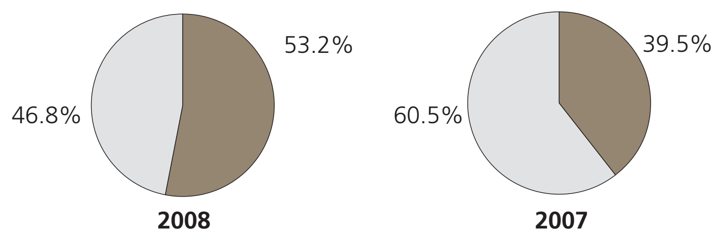
Sales by product
(% of revenues)

- Railway Ties 47.0% (2007 – 34.9%)
- Utility Poles 35.9% (2007 – 48.0%)
- Industrial Lumber 8.6% (2007 – 6.1%)
- Consumer Lumber 8.5% (2007 – 11.0%)



Sales by geographic region
(% of revenues)

- United States 53.2% (2007 – 39.5%)
- Canada 46.8% (2007 – 60.5%)



Business acquisition

On April 1, 2008, the Company completed the acquisition of The Burke-Parsons-Bowlby Corporation ("BPB") through a merger between BPB and a wholly-owned U.S. subsidiary of the Company. BPB produces pressure treated wood products, primarily for the railway industry. This acquisition included five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky. BPB had sales of approximately US$107.0 million for the twelve-month period ended March 31, 2008.

Total consideration for this acquisition was approximately $44.0 million (US$43.0 million), including estimated acquisition costs of approximately $1.1 million (US$1.1 million), and cash on hand of $0.1 million (US$0.1 million). This amount includes $33.7 million (US$33.0 million) paid to BPB stockholders through the conversion of each outstanding share of common stock of BPB into the right to receive US$47.78 per share in cash, $3.5 million (US$3.4 million) representing an additional payment equal to BPB's audited net income for its fiscal year ending March 31, 2008, less any distributions to shareholders during that period and other post-closing adjustments, as well as an additional discounted amount of $5.8 million (US$5.7 million) payable in equal quarterly installments over a six-year period with respect to non-compete agreements entered into with certain former BPB executives.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management's estimate of their fair value as of the acquisition date. The detail of the assets acquired and the liabilities assumed can be found in Note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2008. The results of operations of BPB have been included in the consolidated financial statements from the acquisition date.

The transaction was financed through additional borrowings of approximately $40.9 million (US$40.0 million), including the issuance of a $25.5 million (US$25.0 million) unsecured and non-convertible debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, a $10.2 million (US$10.0 million) revolving term loan from a Canadian bank and a draw-down on an existing operating margin of $5.1 million (US$5.0 million).

Quarterly results

In keeping with the Company's history, sales followed a seasonal pattern, with railway tie, utility pole and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Consumer lumber treatment sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales levels.

The Company posted sales increases in each quarter of 2008, compared with the corresponding periods in 2007, with BPB contributing in the last three quarters. Operating earnings also increased in all periods with the exception of the first quarter, where an unfavourable product mix reduced operating margins. Although the 2008 average annual exchange rate between the Canadian dollar, Stella-Jones' reporting currency, and the U.S. dollar was relatively similar to that of 2007, the first three quarters of 2008 were marked by a year-over-year reduction in the conversion rate applicable to the Company's revenue stream generated in U.S. dollars. Conversely, the fourth quarter witnessed a rapid decline in the value of the Canadian currency, which positively affected the value of U.S. dollar denominated sales on conversion.

The table below sets forth selected financial information for the Company's last eight quarters ending with the most recently completed financial year:

2008 **For the quarters ended**	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(thousands of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	**66,182**	**123,081**	**111,828**	**83,731**	**384,822**
Operating earnings before amortization of capital and intangible assets [1]	**10,997**	**19,394**	**14,148**	**13,790**	**58,329**
Operating earnings [1]	**9,616**	**17,599**	**12,127**	**10,622**	**49,964**
Net earnings	**5,323**	**10,047**	**6,850**	**6,327**	**28,547**
Net earnings per common share	**0.43**	**0.81**	**0.55**	**0.50**	**2.29**
Diluted net earnings per common share	**0.42**	**0.80**	**0.54**	**0.50**	**2.25**

2007 For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	61,949	84,510	74,815	48,439	269,714
Operating earnings before amortization of capital and intangible assets [1]	12,301	14,725	13,254	9,219	49,500
Operating earnings [1]	11,235	13,424	11,864	7,537	44,060
Net earnings	6,097	8,078	7,085	4,440	25,700
Net earnings per common share	0.50	0.66	0.57	0.36	2.09
Diluted net earnings per common share	0.48	0.64	0.56	0.35	2.03

1 Operating earnings before amortization of capital and intangible assets and operating earnings are financial measures not prescribed by Canadian generally accepted accounting principles ("GAAP") and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in our industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating earnings before amortization of capital and intangible assets and operating earnings are readily reconcilable to net earnings presented in our Canadian GAAP financial statements, as there are no adjustments for unusual or non-recurring items.

Note: due to rounding, the sum of results for the quarters may differ slightly from the total shown for the full year.

Fourth quarter results

Sales for the fourth quarter of 2008 reached $83.7 million, up 72.9% from $48.4 million reported for the same period in 2007. This increase is mainly attributable to the BPB operations, which generated revenues of approximately $28.0 million, demand that held firm in the Company's core markets and a weaker Canadian currency, Stella-Jones' reporting currency, that increased the value of U.S. dollar denominated sales by approximately $2.4 million. Last year's fourth quarter results were lowered due to the continuation of the labour conflict in southern British Columbia, which only ended in late October, 2007.

Fourth quarter sales of railway ties amounted to $34.6 million, up from $11.5 million a year earlier. This increase reflects the BPB acquisition, favourable currency translation on U.S. dollar denominated sales as well as last year's temporary shortage of railcars at year end. Utility pole sales reached $35.5 million, representing an increase of 18.1% over sales of $30.0 million in the fourth quarter of 2007, a period affected by the final three weeks of the strike in British Columbia. Industrial lumber sales amounted to $10.4 million, compared with $4.0 million a year earlier, essentially reflecting the BPB acquisition, while consumer lumber sales grew 11.2% to $3.3 million.

Gross profit in the fourth quarter of 2008 totalled $18.7 million, or 22.3% of sales, compared with $12.7 million, or 26.3% of sales, in the corresponding period in 2007. The increase in gross profit dollars principally reflects the contribution of the BPB operations, whose lower margins have caused the reduction in gross profit as a percentage of sales. The Company has begun the process with its customers of requesting annual selling price adjustments, as permitted by the terms and conditions in many of its fixed price multi-year railway tie contracts, to reflect wood cost increases incurred during the year.

Net earnings for the period totalled $6.3 million, or $0.50 per share, fully diluted, compared with $4.4 million, or $0.35 per share, fully diluted, in the fourth quarter of 2007.

Balance sheet

The Company's working capital at December 31, 2008 was $156.9 million, an increase of $53.7 million over last year's working capital balance of $103.2 million at the same date. Reflecting the BPB acquisition and greater overall business activity, the value of current assets was $107.5 million higher than a year ago. Receivables increased $15.1 million, to $41.5 million, reflecting the effect of local currency appreciation on U.S. dollar denominated receivables and higher sales near the end of the year. Inventories stood at $223.2 million, a value $84.4 million higher than a year earlier, as a result of inventory acquired in the BPB acquisition, the impact of local currency appreciation on U.S. based inventory, wood cost increases in the latter half of the year, and projected requirements for future sales volume increases.

Excluding BPB, the value of accounts receivable amounted to $29.6 million, while inventories totalled $171.5 million.

Because of the long periods required to air season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. However, solid relationships and long-term contracts with certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flow from operations and available operating lines of credit are adequate to meet its working capital requirements for the foreseeable future.

Capital assets stood at $108.8 million as at December 31, 2008, compared with $73.3 million as at December 31, 2007. This $35.5 million increase was primarily related to the BPB acquisition and, to a lesser extent, to capital expenditures in excess of amortization levels in 2008.

Following the BPB acquisition, intangible assets totalling $10.8 million, comprised of customer relationships and the discounted value of the non-compete agreements, and goodwill of $6.4 million, were included in the Company's balance sheet as at December 31, 2008.

Bank indebtedness at the end of 2008 totalled $81.6 million, an increase of $42.6 million over bank indebtedness of $39.0 million at the end of 2007. This increase mirrors higher working capital requirements. Bank indebtedness represents the amounts borrowed under the Company's Canadian and U.S. operating lines. These consist of a $50.0 million demand operating loan with a Canadian bank (unchanged from last year), as well as a US$45.0 million operating line of credit with the U.S. bankers of Stella-Jones' U.S. subsidiaries (up from US$20.0 million last year). Total availability under the Company's Canadian and U.S. operating lines of credit was $10.9 million and US$7.1 million, respectively, as at December 31, 2008.

The Company believes that these operating lines of credit, combined with its funds from operations in the next quarters, will be adequate to meet its cash requirements for the foreseeable future. However, future acquisitions may require new sources of financing.

As at December 31, 2008, the Company's long-term debt, including the current portion, amounted to $105.8 million, up from $47.4 million as at December 31, 2007. This increase is due to the credit facilities arranged to finance the BPB acquisition and unfavourable currency movements near the end of 2008 that increased the Canadian dollar equivalent of U.S. dollar denominated long-term debt.

Shareholders' equity was $161.1 million as at December 31, 2008, a $33.3 million increase from December 31, 2007 levels. The Company's strong earnings generation accounted for most of this gain, offset by a greater dividend payout than the previous year. Book value stood at $12.82 per common share as at December 31, 2008, up from $10.35 per share twelve months earlier.

Liquidity and capital resources

The following table sets forth summarized cash flow components for the periods indicated:

Summary of cash flows	**Fiscal Year Ended**	
(thousands of dollars)	**December 31, 2008**	December 31, 2007
	$	$
Operating activities	**(3,296)**	17,394
Financing activities	**52,335**	6,139
Investing activities	**(49,039)**	(23,533)
Cash and cash equivalents	**—**	—

The Company's activities, acquisitions and capital expenditures are primarily financed by cash flows from operating activities, the use of cash and operating lines of credit, and the issuance of common shares. The Company's operating lines of credit are demand operational facilities that are renewable annually and are subject to review by the Company's bankers at intervals no greater than one year. In December 2008, the banker for the U.S. operating line amended its credit facilities and approved an increase to the Company's demand operating line to US$45.0 million from US$40.0 million. Subsequent to year-end, the Company's Canadian bankers amended the interest rate structure with no change to the available amount of the operating facility and approved an increase to the credit availability for the purchase of foreign exchange contracts. The Company anticipates no difficulties in its ability to renew these demand operating facilities.

Cash flow from operating activities before changes in non-cash working capital components was $41.1 million for the year ended December 31, 2008, compared with $33.4 million for the prior year. This 22.8% increase reflects net earnings growth and adjustments for higher non-cash expenses such as amortization of capital and intangible assets and future income taxes.

Changes in non-cash working capital components required liquidity of $44.4 million versus $16.0 million a year ago. This increase essentially mirrors required increases in inventory levels and a decrease in accounts payable. As a result, operating activities reduced liquidity by $3.3 million for the twelve months ended December 31, 2008, as opposed to providing liquidity of $17.4 million a year earlier.

The Company's net financing activities generated a cash flow of $52.3 million for the year ended December 31, 2008. This amount mainly consists of net increases in long-term debt ($35.9 million), essentially associated with the BPB acquisition, short-term bank indebtedness ($20.6 million) and proceeds from issuance of common shares under the stock option and employee share purchase plans ($1.0 million), less the payment of annual dividends ($4.2 million). For the year ended December 31, 2007, cash flows from financing activities generated liquidity of $6.1 million.

Investing activities required $49.0 million in cash during 2008, primarily for the BPB acquisition ($38.2 million – See "Business acquisition" above) and for the purchase of capital assets ($10.4 million). Purchases of capital assets were mainly for the addition of various equipment upgrades and expansion. For the year ended December 31, 2007, cash flows from investing activities reduced liquidity by $23.5 million.

The Company's contractual obligations for future payments are outlined in the table below:

Payments due by period

(thousands of dollars)

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	$	$	$	$	$
Bank indebtedness	81,560	—	—	—	81,560
Accounts payable and accrued liabilities	28,694	—	—	—	28,694
Long-term debt obligations	5,199	12,822	21,156	67,826	107,003
Interest on long-term debt obligations	6,150	11,534	9,721	9,937	37,342
Capital lease obligations	189	344	383	1,105	2,201
Interest on capital lease obligations	78	133	110	91	412
Forward foreign exchange contracts					
Outflow	5,319	3,234	—	—	8,553
Inflow	(5,603)	(3,410)	—	—	(9,013)
Non-compete agreements	1,523	3,046	3,046	381	7,996
Total	123,109	27,703	34,416	79,340	264,568

Share and stock option information

As at December 31, 2008, the capital stock issued and outstanding consisted of 12,564,925 common shares (12,341,088 as at December 31, 2007). As at March 12, 2009, the capital stock issued and outstanding consisted of 12,564,925 common shares.

As at December 31, 2008, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 147,785 (December 31, 2007 – 162,070) of which 93,285 (December 31, 2007 – 76,570) were exercisable. As at March 12, 2009, the number of outstanding options was 147,785 of which 93,285 were exercisable.

Effective May 6, 2003, the Company granted to its President and Chief Executive Officer, under a stock option agreement, 300,000 options to acquire an equivalent number of common shares at an exercise price of $2.99 per share. These options became exercisable on May 6, 2008 and 100,000 remained outstanding as at March 12, 2009.

Dividends

On March 11, 2009, the Board of Directors declared a semi-annual dividend of $0.18 per common share. On August 13, 2008, the Board of Directors declared a semi-annual dividend of $0.18 per common share.

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based upon and subject to the Company's earnings and financial requirements, covenants in its loan documentation and other conditions prevailing at the time. There can be no assurance as to the amount or timing of such dividends in the future.

Commitments and contingencies

The Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $14,788,448 (2007 – $4,588,466) 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 and, as such, no provisions have been recorded in the financial statements.

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.

Current economic conditions

In light of the rapid deterioration in the economy and financial markets, the Company is carefully monitoring its strategy and risk management. Although financial results remain positive, the economic climate is prompting Management to take a more cautious approach in executing its business strategy.

Operations

Tighter credit market conditions have resulted in the deferral or cancellation of certain projects, especially in alternative energy, for which some of the Company's products could be required. Such projects include ethanol plants and wind farms, both of which have significant capital requirements. In recent years, the Company has supplied railway ties to link up ethanol plants with the continental rail network and utility poles to connect wind farms with the electricity transmission grid. As at March 12, 2009, Stella-Jones has not been materially affected by such deferrals or cancellations.

Though not recession proof, the Company's core utility pole and railway tie product categories are integral to capital infrastructure projects that governments often initiate during times of economic slowdown. Therefore, the Company's position as a supplier of utility poles and railway ties could prove particularly advantageous given the American and Canadian governments' stated intention to invest heavily in infrastructure projects. Moreover, various U.S. tax credit initiatives, whether enacted into law or proposed, could prove a significant stimulus for infrastructure projects.

Liquidity

As at December 31, 2008, the Company is in full compliance with its debt covenants and contractual obligations. In addition, it has total availability under its Canadian and U.S. operating lines of credit of $10.9 million and US$7.1 million, respectively, as at December 31, 2008.

Management considers that substantially all receivables are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default. Nevertheless, Management is providing additional focus on accounts receivable collection and credit extensions.

Inventories increased during 2008 as a result of higher wood costs and projected requirements for future sales volume increases, as well as to ensure efficient treatment operations given that air-dried wood reduces treatment cycles. Management will continue to monitor the levels of inventory with the demand for its products.

Risks and uncertainties

Environmental laws and regulations

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites.

The enforcement of these laws by regulatory agencies will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures required for compliance. Failure to comply with environmental statutes, regulations or orders could result in civil or criminal enforcement actions. The Company makes financial expenditures in order to comply with regulations governing environmental issues adopted by federal, provincial, state and local regulatory agencies.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites could subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. Management believes that its commitment to the environmental integrity of the Company's plants and operations, supported by significant investments toward that end, will allow the Company to continue to meet the applicable regulatory requirements.

Availability and cost of raw materials

Management considers that the Company may be affected by the industry-wide concerns of long-term availability of competitively priced wood and potential fluctuations in wood prices. Nevertheless, the Company's overall competitiveness in this industry is strengthened by its access to a high quality timber supply provided by its long-term cutting licenses and its long-standing relationships with private woodland owners and other suppliers. In addition, there are a limited number of suppliers for certain of the preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. The Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply.

Currency risk

The Company is exposed to currency risks due to its export of goods manufactured in Canada. These risks are partially covered by purchases of goods and services denominated in U.S. dollars. The Company also uses foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars.

Interest rate fluctuations

As at December 31, 2008, the Company had limited exposure to interest rate risk on long-term debt as only 7.3% (2007 – 2.0%) of the Company's long-term debt is at variable rates. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term 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 hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Credit risk

The geographic distribution of customers and procedures regarding commercial risk management limit the concentration of credit risks. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing primarily with utility and telecommunication companies and other major corporations.

Off-balance sheet arrangements and financial instruments

For details pertaining to off-balance sheet arrangements and financial instruments, refer to Note 19 to the Company's audited consolidated financial statements for the year ended December 31, 2008.

Critical accounting policies and estimates

The Company's significant accounting policies are described in Note 2 to the December 31, 2008 audited consolidated financial statements.

The Company prepares its consolidated financial statements in conformity with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. 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 earnings in the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of long-lived assets, future income taxes, stock-based compensation, pension and post retirement benefits, legal liabilities, bad debts, allowance for doubtful accounts and environmental provisions.

Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standards which were adopted by the Company effective January 1, 2008:

Handbook Section 3031, "Inventories", replaces Section 3030, "Inventories". The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory write downs.

Handbook Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for the entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This Section and Section 3863, below, will replace Section 3861, "Financial Instruments – Disclosure and Presentation".

Handbook Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861.

Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

Handbook Section 1400, "General Standards of Financial Statement Presentation", establishes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this Section did not have an impact on the Company's consolidated financial statements.

Additional disclosures required as a result of the adoption of these standards are included in Notes 7, 19 and 20 to the Company's audited consolidated financial statements for the year ended December 31, 2008.

Impact of accounting pronouncements not yet implemented

The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2009:

Handbook Section 3064, "Goodwill and Intangible Assets", will replace Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Section 1000, "Financial Statements Concepts" was amended accordingly to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2011:

Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new accounting standard on the consolidated financial statements.

Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new accounting standards on the consolidated financial statements.

International financial reporting standards

In February 2008, the Canadian Accounting Standards Board (CASB) confirmed that Canadian publicly listed companies will be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011.

In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after January 1, 2011, although this transition date will require the restatement of comparative figures reported for the year ended December 31, 2010.

Management has established an IFRS implementation team to develop an IFRS changeover plan. This process is presently in the diagnostic stage, which includes a review of the differences between current Canadian GAAP (as applied by the Company) and IFRS, and the analysis of possible options regarding adoption. In 2008, a preliminary diagnostic analysis was prepared by external consultants. Once this stage is complete, Management will be able to determine the exact consequences of the change. A comprehensive assessment will then be done to precisely establish the changes to be made to accounting principles and computer systems, training requirements, internal control mechanisms for financial reporting and the repercussions on the Company's business activities. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Disclosure controls

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2008, and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) for the year ended December 31, 2008. The evaluation was based on the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively.

The Company did not make any material changes to the design of internal controls over financial reporting during the twelve months ended December 31, 2008 that have had a material effect on the Company's internal controls over financial reporting.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

Related party transactions

In 2008, the Company paid a total of $300,000 (2007 - $300,000) to its parent company and ultimate shareholders with respect to marketing and technical services fees and incurred interest expense of $64,000 (2007 - $76,000) with respect to loans to the same parties, as detailed in Note 21 to the December 31, 2008 audited consolidated financial statements.

These transactions were with the majority shareholder, Stella Jones International S.A. (marketing services and interest on promissory note) and the ultimate shareholders, Stella S.p.A. and James Jones & Sons Ltd. (technical services and interest on loans). The majority shareholder and ultimate shareholders have extensive international experience in the forest products and wood treating industries and Management considers the amounts paid with respect to the various transactions to be reasonable and competitive.

Outlook

While the global economic situation calls for a more cautious outlook, the key role played by Stella-Jones' products in basic transportation and utility infrastructure should enable the Company to maintain market share and grow its business. The full-year contribution and the successful integration of the BPB operations will also be major performance drivers in 2009. Organically, Stella-Jones will strive to capture more of its existing clients' business in the railway tie and utility pole markets across North America, while also diligently seeking new market opportunities, as it realizes the full potential of recent acquisitions.

The Company's products are integral to capital infrastructure projects that governments often initiate during times of economic slowdown. Such actions would drive demand, as they would potentially involve, in both maintenance and new installation endeavours, many of the Company's clients in the railway and electrical transmission and distribution industries.

Although the year ahead will be focused on cash generation and debt reduction, strategic acquisitions will remain an integral part of the Company's growth plan given the fragmented state of the wood treatment industry. Management will continue to seek targets in its core railway tie and utility pole markets that meet its stringent investment requirements, provide synergistic opportunities, and, most of all, add value for Stella-Jones' shareholders.

As we go forward in challenging economic times, the strength of Stella-Jones remains its ability to adapt swiftly to changing situations. That strength derives from a constant drive to pursue efficiencies throughout the organization. More importantly, the Company's long-term strategic vision, focused on continental expansion and consolidation, remains intact.

March 12, 2009

Consolidated Financial Statements

December 31, 2008 and 2007

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 Canadian generally accepted accounting principles. 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 exercises its responsibilities through the Audit Committee which is comprised of four independent directors. The Audit Committee meets from time to time with management and the Company's independent auditors to review the financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

Brian McManus
President and Chief Executive Officer

George T. Labelle, CA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Quebec
March 12, 2009

Auditors' Report

To the Shareholders of Stella-Jones Inc.

We have audited the consolidated balance sheet of Stella-Jones Inc. as at December 31, 2008 and the consolidated statements of shareholders' equity, earnings, comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended were audited and reported on by other auditors who expressed an opinion without reservation on these consolidated financial statements in their report dated March 12, 2008

Montréal, Quebec
March 12, 2009

[1] Chartered accountant auditor permit No. 9986

Consolidated Balance Sheets

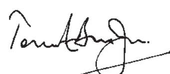
As at December 31, 2008 and 2007

(expressed in thousands of dollars)	**2008** **$**	2007 $
Assets		
Current assets		
Accounts receivable (Note 6)	**41,501**	26,411
Derivative financial instruments (Note 19)	**381**	658
Inventories (Note 7)	**223,199**	138,834
Prepaid expenses	**5,910**	2,266
Income taxes receivable	**3,778**	784
Future income taxes (Note 15)	**2,338**	619
	277,107	169,572
Capital assets (Note 8)	**108,763**	73,309
Derivative financial instruments (Note 19)	**347**	274
Intangible assets (Note 9)	**10,773**	—
Goodwill (Note 5(a))	**6,367**	—
Other assets (Note 10)	**3,343**	1,344
Future income taxes (Note 15)	**846**	357
	407,546	244,856
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (Note 11)	**81,560**	39,026
Accounts payable and accrued liabilities	**28,694**	21,856
Customer deposits	**2,971**	—
Derivative financial instruments (Note 19)	**266**	—
Future income taxes (Note 15)	**118**	289
Current portion of long-term debt (Note 12)	**4,914**	4,409
Current portion of asset retirement obligations (Note 13)	**717**	751
Current portion of non-compete payable (Note 5(a))	**969**	—
	120,209	66,331
Long-term debt (Note 12)	**100,845**	43,035
Future income taxes (Note 15)	**16,625**	5,968
Asset retirement obligations (Note 13)	**577**	467
Employee future benefits (Note 16)	**1,541**	1,298
Derivative financial instruments (Note 19)	**1,303**	—
Non-compete payable (Note 5(a))	**5,334**	—
	246,434	117,099
Shareholders' equity		
Capital stock (Note 14)	**49,910**	46,023
Contributed surplus	**1,905**	4,045
Retained earnings	**105,055**	80,745
Accumulated other comprehensive income (loss)	**4,242**	(3,056)
	161,112	127,757
	407,546	244,856

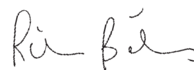
Commitments and contingencies (Note 18).

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

Approved by the Board of Directors



Tom A. Bruce Jones, CBE
Director



Richard Bélanger, FCA
Director

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2008 and 2007

(expressed in thousands of dollars, except number of shares in thousands)	**2008** **#**	2007 #
Capital stock		
Number of shares outstanding – Beginning of year	**12,341**	12,298
Stock option plan	**14**	38
Stock option agreement	**200**	—
Share purchase plan	**10**	5
Number of shares outstanding – End of year	**12,565**	12,341
	$	$
Shares outstanding – Beginning of year	**46,023**	45,473
Stock option plan	**286**	367
Stock option agreement	**3,384**	—
Share purchase plan	**217**	183
Shares outstanding – End of year	**49,910**	46,023
Contributed surplus		
Balance – Beginning of year	**4,045**	2,417
Stock-based compensation	**741**	1,716
Exercise of stock options	**(2,881)**	(88)
Balance – End of year	**1,905**	4,045
Retained earnings		
Balance – Beginning of year	**80,745**	58,004
Net earnings for the year	**28,547**	25,700
Dividends on common shares	**(4,237)**	(2,959)
Balance – End of year	**105,055**	80,745
Accumulated other comprehensive income (loss)		
Balance – Beginning of year	**(3,056)**	(73)
Adoption of new accounting standards for financial instruments, net of taxes of $280	**—**	569
Other comprehensive income (loss)	**7,298**	(3,552)
Balance – End of year	**4,242**	(3,056)
Shareholders' equity	**161,112**	127,757

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

Consolidated Statements of Earnings

For the years ended December 31, 2008 and 2007

(expressed in thousands of dollars, except earnings per common share)	**2008** **$**	2007 $
Sales	**384,822**	269,714
Expenses (income)		
Cost of sales (Note 7)	**306,424**	202,926
Selling and administrative	**20,365**	15,858
Foreign exchange loss (gain)	**(277)**	1,472
Amortization of capital assets and intangible assets	**8,365**	5,440
Gain on disposal of capital assets	**(19)**	(42)
	334,858	225,654
Operating earnings	**49,964**	44,060
Financial expenses		
Interest on long-term debt	**6,262**	3,051
Other interest	**2,472**	2,452
	8,734	5,503
Earnings before income taxes	**41,230**	38,557
Provision for (recovery of) income taxes (Note 15)		
Current	**10,971**	13,006
Future	**1,712**	(149)
	12,683	12,857
Net earnings for the year	**28,547**	25,700
Net earnings per common share (Note 14(b))	**2.29**	2.09
Diluted net earnings per common share (Note 14(b))	**2.25**	2.03

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2008 and 2007

(expressed in thousands of dollars)	**2008** **$**	2007 $
Net earnings for the year	**28,547**	25,700
Other comprehensive income (loss)		
Net change in unrealized gains (losses) on translation of financial statements of self-sustaining foreign operation	**15,003**	(3,627)
Net change in unrealized losses on translation of long-term debt designated as a hedge of net investment in self-sustaining foreign operation	**(6,482)**	—
Change in fair value of derivatives designated as cash flow hedges	**(1,142)**	2,251
Income tax recovery (expense) on change in fair value of derivatives designated as cash flow hedges	**354**	(698)
Gain on cash flow hedges reclassed to sales	**(630)**	(2,168)
Income tax recovery on gain on cash flow hedges reclassed to sales	**195**	690
	7,298	(3,552)
Comprehensive income	**35,845**	22,148

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(expressed in thousands of dollars)	**2008** **$**	2007 $
Cash flows from		
Operating activities		
Net earnings for the year	**28,547**	25,700
Adjustments for		
Amortization of capital assets	**7,052**	5,440
Amortization of intangible assets	**1,313**	—
Amortization of deferred financing charges	**57**	—
Change in fair value of debt	**773**	—
Gain on disposal of capital assets	**(19)**	(42)
Employee future benefits	**243**	186
Stock-based compensation	**741**	1,716
Unrealized foreign exchange loss on long-term debt	**388**	—
Future income taxes	**1,712**	(149)
Other	**248**	587
	41,055	33,438
Changes in non-cash working capital components		
Accounts receivable	**4,135**	8,366
Inventories	**(36,996)**	(21,749)
Prepaid expenses	**(3,809)**	1,106
Accounts payable and accrued liabilities	**(7,757)**	207
Customer deposits	**2,473**	—
Income taxes receivable	**(2,473)**	(3,855)
Asset retirement obligations	**76**	(119)
	(44,351)	(16,044)
	(3,296)	17,394
Financing activities		
Increase (decrease) in bank indebtedness	**20,560**	(984)
Increase in long-term debt	**46,794**	13,332
Repayment of long-term debt	**(10,838)**	(3,722)
Proceeds from issuance of common shares	**1,006**	472
Non-compete payable	**(950)**	—
Dividends on common shares	**(4,237)**	(2,959)
	52,335	6,139
Investing activities		
Increase in other assets	**(337)**	(284)
Business acquisitions, net of cash	**(38,220)**	(17,126)
Purchase of capital assets	**(10,392)**	(6,783)
Assets held for sale	**(272)**	—
Proceeds from disposal of capital assets	**182**	660
	(49,039)	(23,533)
Net change in cash and cash equivalents during the year	**—**	—
Cash and cash equivalents – Beginning and end of year	**—**	—
Supplemental disclosures		
Interest paid	**6,998**	5,296
Income taxes paid	**13,759**	16,636

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

1. Description of the Business

Stella-Jones Inc. (the "Company") is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company is incorporated under the *Canada Business Corporations Act*; its common shares are listed on the Toronto Stock Exchange.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned Canadian subsidiaries, Guelph Utility Pole Company Limited, I.P.B.-W.P.I. International Inc., Stella-Jones Canada Inc. (formerly Bell Pole Canada Inc.) and its wholly owned US subsidiaries, Stella-Jones U.S. Holding Corporation, Stella-Jones Corporation ("SJ Corp"), The Burke-Parsons-Bowlby Corporation ("BPB"), and Stella-Jones U.S. Finance Corporation. The consolidated accounts of Stella-Jones Canada Inc. include a 50% interest in the accounts of Kanaka Creek Pole Company Limited ("Kanaka"), a joint venture which is accounted for under the proportionate consolidation method.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of long-lived assets, future income taxes, stock-based compensation, pension and post-retirement benefits, legal liabilities, bad debts, allowance for doubtful accounts and environmental provisions. 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 earnings in the period in which they become known.

Revenue Recognition

Revenue from the sale of products and services is recognized when persuasive evidence of an arrangement exists, when products are shipped to customers or the services are rendered, when the risks and rewards related to the ownership of the product are assumed by the customer, when collection is considered reasonably assured and when the sales price is fixed or determinable.

Logs are harvested from timber licences operated by the Company as part of a process to procure raw material for processing and treatment of utility poles. Logs not meeting pole-quality standards are regularly harvested and sold to third parties. Proceeds from the sale of non-pole-quality logs are included in the cost of poles sold since the production of non-pole-quality logs are a by-product of the Company's pole raw material procurement operations. Sales of non-pole-quality logs totalled $13,023,124 for the year ended December 31, 2008 (2007 – $13,373,926).

Cash and Cash Equivalents

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

Inventories

Inventories of raw materials are valued at the lower of average cost and net realizable value. Finished goods are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses.

2. Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis using rates based on the estimated useful lives of the assets, which are generally as follows:

Buildings	20 to 40 years
Production equipment	5 to 40 years
Rolling stock	3 to 10 years
Anti-pollution equipment	10 to 20 years
Office equipment	2 to 10 years

Roads 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 in the licensed area served by the road, and are applied against the historical cost.

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.

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.

Intangible Assets

Intangible assets with finite useful lives are recorded at cost and are amortized on a straight-line basis over their useful lives. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis:

Customer relationships	3 to 10 years
Non-compete agreements	6 years

Business Combinations and Goodwill

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount being allocated to goodwill. Goodwill is not amortized and will be subject to an annual impairment test, or more frequently if events or changes in circumstances indicate that it might be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based on discounted estimated cash flows, exceeds the net carrying amount of that reporting unit as at the assessment date. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the sum of the discounted estimated cash flows, a second test must be performed whereby the fair value of the reporting unit's goodwill must be estimated to determine if it is less than its net carrying amount. Fair value of goodwill is estimated in the same way as goodwill was determined at the date of the acquisition, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit.

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

2. Significant Accounting Policies (Continued)

Asset Retirement Obligations

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 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 accretion costs on existing obligations, in other expenses.

Income Taxes

The Company applies the liability method to account for income taxes. Under this method, future income taxes at the balance sheet date are determined using the differences between the accounting and tax bases of assets and liabilities and the substantively enacted income tax rates to be in effect when these differences are expected to reverse. Future tax assets are recognized when it is more likely than not that the assets will be realized.

Employee Future Benefits

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.

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 benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service life of the active employees.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Stock-based Compensation and other Stock-based Payments

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 the 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. 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.

The obligation related to the stock appreciation rights is accounted for as a liability over the period that the right is acquired, is revalued at each balance sheet date and is presented in the consolidated balance sheet under Accounts payable and accrued liabilities.

Foreign Currency Transactions

Except for self-sustaining foreign operations, revenues and expenses denominated in a foreign currency are translated by applying exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in a foreign currency are translated at the rate in effect at the balance sheet date. Any resulting foreign currency translation gains or losses are included in the consolidated statement of earnings.

2. Significant Accounting Policies (Continued)

The financial statements of Stella-Jones U.S. Holding Corporation, a self-sustaining foreign operation, are translated using the rate in effect at the balance sheet 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.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is dependent on the classification of the financial instruments as held for trading, held to maturity, available for sale, loans and receivables, or other financial liabilities. The held-for-trading classification is applied when an entity is "trading" in an instrument. Alternatively, the standard permits that any financial instrument be irrevocably designated as held for trading. The held-to-maturity classification is applied only if the asset has specified characteristics and the entity has the ability and intent to hold the asset until maturity. The loans and receivables classification is applied for assets that are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. The available-for-sale classification is applied for all non-derivative financial assets that do not belong in the other categories. Alternatively, the standard permits that any financial asset not classified as held for trading may be designated as available for sale. Significant transaction costs related to long-term credit facilities are capitalized and amortized over the life of the instrument. Other transaction costs related to short-term credit facilities are expensed in the period they are incurred.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in the consolidated statement of earnings. Financial assets classified as held to maturity, loans and receivables, or other financial liabilities are subsequently measured at amortized cost using the effective interest rate method of amortization. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in the consolidated statement of comprehensive income. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost.

Derivative financial instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair values of derivative financial instruments are recognized in the consolidated statement of earnings with the exception of foreign exchange risk management contracts and derivatives designated as effective cash flow hedges, as further described below.

For any guarantee issued that meets the definition of a guarantee pursuant to Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 14, "Disclosure of Guarantees", the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is the Company's policy to not remeasure the fair value of the financial guarantee unless it qualifies as a derivative.

The Company has implemented the following classifications:

Cash and cash equivalents are classified as assets held for trading and are measured at fair value.

Accounts receivable and notes receivable are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to original cost unless otherwise specified.

Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to original cost unless otherwise specified.

Hedging Transactions

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of US dollars. The Company also enters into 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 held for trading or speculative purposes.

2. Significant Accounting Policies (Continued)

Effective derivative financial instruments held for cash flow hedging purposes are recognized at fair value, and the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. The changes in fair value related to the ineffective portion of the hedge are immediately recorded in the consolidated statement of earnings. 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 earnings under sales and interest on long-term debt respectively in the periods during which the cash flows constituting the hedged item affect earnings.

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

Effective September 26, 2008, the Company designated a portion of its US dollar-denominated long-term debt as a hedge of its net investment in a self-sustaining foreign operation. For such debt designated as a hedge of the net investment in a self-sustaining foreign operation, exchange gains and losses are recognized in “Accumulated other comprehensive income (loss)”.

Earnings per Share

Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock 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 year.

3. Changes in Accounting Policies

The CICA issued the following new accounting standards which were adopted by the Company effective January 1, 2008:

- Handbook Section 3031, “Inventories”, replaces Section 3030, “Inventories”. The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last in, first out method, and requires reversal of previous writedowns when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory writedowns. The additional disclosures required as a result of the adoption of this standard are included in Note 7.

- Handbook Section 3862, “Financial Instruments – Disclosures”, describes the required disclosures for the assessment of the significance of financial instruments for the entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This Section and Section 3863, below, replace Section 3861, “Financial Instruments – Disclosure and Presentation”. The additional disclosures required as a result of the adoption of this standard are included in Note 19.

- Handbook Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861. The additional disclosures required as a result of the adoption of this standard are included in Note 19.

- Handbook Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. The additional disclosures required as a result of the adoption of this standard are included in Note 20.

- Handbook Section 1400, “General Standards of Financial Statement Presentation”, establishes requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this Section did not have an impact on the Company’s consolidated financial statements.

4. Impact of Accounting Pronouncements not yet Implemented

The CICA issued the following new accounting standard which will be adopted by the Company effective January 1, 2009:

- Handbook Section 3064, "Goodwill and Intangible Assets", will replace Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Section 1000, "Financial Statement Concepts", was amended according to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2011:

- Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new accounting standard on its consolidated financial statements.

- Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

Additionally, in February 2008, Canada's Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

5. Business Acquisitions

a) On April 1, 2008, the Company completed the acquisition of BPB through a merger of BPB with a wholly owned US subsidiary of the Company. BPB produces pressure treated wood products, primarily for the railroad industry. This acquisition included five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky.

Total consideration for the acquisition was approximately $44.0 million (US$43.0 million), including estimated acquisition costs of approximately $1.1 million (US$1.1 million), and cash on hand of $0.1 million (US$0.1 million). This amount includes $33.7 million (US$33.0 million) paid to BPB shareholders through the conversion of each outstanding share of common stock of BPB into the right to receive US$47.78 per share in cash, $3.5 million (US$3.4 million) representing an additional payment equal to BPB's audited net income for its fiscal year ended March 31, 2008, less any distributions to shareholders during that period and other post-closing adjustments, as well as an additional discounted amount of $5.8 million (US$5.7 million) guaranteed by a letter of credit to be paid in equal quarterly instalments over a six-year period with respect to non-compete agreements entered into with certain former BPB executives.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of BPB have been included in the Company's consolidated financial statements from the acquisition date.

5. Business Acquisitions (Continued)

The following is a final summary of the net assets acquired at fair values as at the acquisition date:

	$
Assets acquired	
Non-cash working capital	41,600
Capital assets	24,432
Cash surrender value of life insurance	325
Customer relationships	4,475
Non-compete agreements	5,814
Non-deductible goodwill	5,340
Future income tax assets	1,283
	83,269
Liabilities assumed	
Notes payable to banks	14,007
Accounts payable and accrued liabilities	6,858
Long-term debt	9,206
Interest-bearing employee deposits	2,134
Future income tax liabilities	7,030
	39,235
Total consideration	44,034
Consideration	
Cash, financed by debt	33,716
Purchase price adjustment paid in cash	3,478
Non-compete agreements payable	5,814
Cash on hand	(97)
Acquisition costs	1,123
Total consideration	44,034

The BPB acquisition was financed through additional borrowings of approximately $40.9 million (US$40.0 million), including the issuance of a $25.5 million (US$25.0 million) unsecured and non-convertible debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, a $10.2 million (US$10.0 million) revolving term loan from a Canadian bank and a drawdown on an existing operating margin of $5.1 million (US$5.0 million). Details of the financing are available in Notes 11 and 12.

b) On February 28, 2007, the Company's wholly owned US subsidiary, SJ Corp, acquired the assets of the wood utility pole business of J.H. Baxter & Co. ("Baxter"). Assets acquired included the Baxter production plant located in Arlington, Washington, its pole peeling facility in Juliaetta, Idaho, as well as all inventories and accounts receivable relating to its wood pole business.

The acquisition was accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liability assumed based on management's estimate of their fair value as at the acquisition date. Baxter's results of operations have been included in the Company's consolidated financial statements from the acquisition date.

5. Business Acquisitions (Continued)

The following is a final summary of the net assets acquired at fair values:

	$
Assets acquired	
Accounts receivable	3,792
Inventories	9,850
Prepaid expenses	144
Capital assets	11,494
	25,280
Liability assumed	
Obligation under capital lease	279
Total consideration	25,001
Consideration	
Cash, including transaction costs of $386,528	16,976
Receivable from vendor	(169)
Long-term subordinated note payable to vendor	8,174
Reserve amount for transaction costs, included in accounts payable	20
Total consideration	25,001

Financing for the transaction was provided by a subordinated vendor note of US$8.0 million (recognized at a fair value of US$7.0 million) as well as additional debt funding under existing and new banking facilities. The new banking facilities comprise an increase of US$5.0 million in the operating line of credit of SJ Corp as well as a new five-year term loan of US$4.0 million, both arranged with its existing US banker.

6. Accounts Receivable

	2008 **$**	2007 $
Trade	**40,069**	25,321
Other	**1,432**	1,090
	41,501	26,411

7. Inventories

	2008 **$**	2007 $
Raw materials	**177,440**	107,691
Finished goods	**45,759**	31,143
	223,199	138,834

The inventory cost included in cost of sales as at December 31, 2008 is $268,997,581 (2007 – $180,890,691).

8. Capital Assets

			2008
	Cost **$**	**Accumulated Amortization** **$**	**Net** **$**
Land	**8,648**	**—**	**8,648**
Roads	**2,188**	**760**	**1,428**
Cutting rights	**6,505**	**271**	**6,234**
Standing timber	**4,140**	**1,198**	**2,942**
Buildings	**24,645**	**4,281**	**20,364**
Production equipment	**74,653**	**22,376**	**52,277**
Rolling stock	**8,569**	**2,693**	**5,876**
Anti-pollution equipment	**15,817**	**5,941**	**9,876**
Office equipment	**2,357**	**1,239**	**1,118**
	147,522	**38,759**	**108,763**

			2007
	Cost $	Accumulated Amortization $	Net $
Land	5,192	—	5,192
Roads	1,989	569	1,420
Cutting rights	6,505	132	6,373
Standing timber	3,545	500	3,045
Buildings	13,847	3,346	10,501
Production equipment	53,426	18,646	34,780
Rolling stock	2,828	1,826	1,002
Anti-pollution equipment	15,650	5,171	10,479
Office equipment	1,597	1,080	517
	104,579	31,270	73,309

The net book value of assets held under capital leases as at December 31 is as follows:

	2008 **$**	2007 $
Cost	**1,551**	324
Accumulated amortization	**55**	42
Net book value	**1,496**	282

9. Intangible Assets

The Company has recognized intangible assets as part of the purchase price allocation of the BPB acquisition. The acquisition cost of intangible assets, which consist of customer relationships and non-compete agreements, is initially evaluated at fair value, which subsequently becomes the cost. The presentation in the consolidated balance sheet is at cost less accumulated amortization and the related amortization expense is included in amortization in the consolidated statement of earnings.

9. Intangible Assets (Continued)

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 are between three to five years. Intangible assets associated with ongoing business relationships are amortized over ten years.

Certain former BPB executives entered into non-compete agreements with the Company. The acquisition cost was established based on the discounted value of future payments using a discount rate of 10.2%. For cash flow purposes, this has been treated as a non-cash transaction. The intangible asset associated with the non-compete agreements is amortized on a straight-line basis over the terms of the agreements, which are six years.

The amortization expenses for customer relationships and the non-compete agreements were $550,668 and $762,732 respectively as at December 31, 2008. The net book value of these assets was as follows:

	Cost $	Accumulated Amortization $	Net $
Customer relationships	**5,335**	**626**	**4,709**
Non-compete agreements	**6,930**	**866**	**6,064**
	12,265	**1,492**	**10,773**

10. Other Assets

	2008 $	2007 $
Advances against third party cutting rights	**322**	202
Notes receivable	**277**	360
Accrued benefit asset (note 16(b))	**1,086**	782
Assets held for sale	**1,633**	—
Other	**25**	—
	3,343	1,344

Included in assets held for sale is an office building and underlying land that were acquired from BPB. They were recorded at a fair value of $606,663. These assets are considered redundant as a new office is being constructed on newly acquired land. The Company has also decided to sell a building and its underlying land located at Christina Lake, British Columbia. The net book value of these assets is $671,629.

11. Bank Indebtedness

	2008 **$**	2007 $
Demand operating loan arranged with a Canadian bank (Notes 11(a) and 20)	**32,302**	21,494
Demand operating loan arranged with a US bank (Notes 11(b) and 20)	**46,166**	14,817
Proportionate share of Kanaka demand operating loan (Note 11(c))	**3,092**	2,715
	81,560	39,026

a) The Company has available a credit facility arranged with a Canadian bank, renewable annually, comprising a maximum demand operating loan of $50,000,000 (2007 – $50,000,000), of which $10,899,718 was available as at December 31, 2008. The credit facility also includes a term loan facility of $6,900,000, a bid and performance bond guarantee facility of up to a maximum of $5,000,000, a $5,027,706 capital lease facility, a demand revolving line of credit in the amount of $5,963,000 for the purchase of foreign exchange forward contracts with an aggregate nominal value of $25,100,000 and an interest rate swap facility for up to the full amount outstanding under the term loans. On January 5, 2009, the demand revolving line of credit for the purchase of foreign exchange forward contracts was increased to $12,024,000, with the aggregate nominal value of the foreign exchange forward contracts increasing to $34,000,000.

The interest rate on the operating loan was at the bank's prime rate for Canadian dollar advances, increasing to the bank's prime rate plus 0.25% on January 1, 2009 and thereafter, at bankers' acceptance ("BA") rates plus a stamping fee of 1.05% per annum for Canadian BA advances, increasing to a stamping fee of 1.50% as at January 1, 2009 and thereafter. For US dollar advances, the interest rate was the bank's US base rate, which will become the bank's US base rate plus 0.25% on January 1, 2009 or LIBOR plus 1.50%. As collateral, the bank holds moveable hypothecs and general security agreements over the universality of the Company's Canadian assets, creating a first charge over all of its Canadian current assets of $142,506,329 as at December 31, 2008 and a second ranking charge over all of the Canadian capital assets of $53,089,202 as at December 31, 2008, subject to prior loans approved by the Canadian bankers. The bank also holds a first ranking security under Section 427 of the Bank Act over the Company's Canadian inventories.

b) Stella-Jones US Holding Corporation, Stella-Jones Corporation and The Burke-Parsons-Bowlby Corporation (collectively, "the US subsidiaries") have available a credit facility arranged with a US bank, renewable annually, comprised of a maximum demand operating loan of US$45,000,000 (2007 – US$20,000,000), of which US$7,097,434 was available as at December 31, 2008. On April 1, 2008, the demand operating loan was increased to US$40,000,000, and subsequently on December 9, 2008, it was increased to US$45,000,000 to ensure that the Company had sufficient credit facilities to support the additional working capital arising from the BPB acquisition. The operating line of credit bears interest at the bank's prime rate minus 0.50% or LIBOR plus 1.50%.

As collateral for the US demand operating loan, the US bank holds a first security interest on all non-real estate assets of the US subsidiaries (except for certain equipment) having a net book value of US$120,045,756 as at December 31, 2008. The bank also has a second security interest on certain equipment of the US subsidiaries having a net book value of US$35,047,024 as at December 31, 2008. There is no recourse to the Canadian parent company in the event of default by the US subsidiaries. The Canadian parent company has signed an inventory repurchase agreement with the US bank whereby the parent company has agreed to purchase any or all inventory of the US subsidiaries, at book value, upon an event of default by the US subsidiaries, if requested by the US bank.

c) The Company includes in its consolidated financial statements its 50% proportionate share of Kanaka, which has a credit facility with a Canadian bank comprising a $7,000,000 demand operating loan. The demand operating loan bears interest at the bank's prime rate plus 0.25%, the bank's US base rate plus 0.25%, LIBOR plus 1.1375% or bankers' acceptances plus 1.1375%. One half of the indebtedness, up to a maximum of $5.0 million has been guaranteed by Stella-Jones Canada Inc. and the Company. The Company has also provided an Environmental Indemnity Agreement to the bank with respect to the Maple Ridge property, the site of Kanaka's operations, with liability limited to one half of the monies which become due and owing to the bank under such indemnity.

12. Long-term Debt (Note 20)

	2008	2007
	$	$
Term loans with a Canadian bank (Note 12(a))	**3,654**	4,768
Revolving term loan with a Canadian bank (Note 12(b))	**23,768**	11,588
Term loan with a US bank (Note 12(c))	**11,572**	3,886
Unsecured and non-convertible debenture (Note 12(d))	**10,000**	10,000
Unsecured and non-convertible debenture (Note 12(e))	**4,000**	4,333
Unsecured and non-convertible debenture (Note 12(f))	**30,450**	—
Promissory note (Note 12(g))	**913**	743
Promissory note (Note12(h))	**1,053**	992
Subordinated note (Note 12(i))	**8,323**	6,981
Bond (Note 12(j))	**5,728**	—
Promissory note (Note 12(k))	**508**	—
Promissory note (Note 12(l))	**447**	—
Mortgage loans (Note 12(m))	**4,317**	3,930
Obligations under capital leases (Note 12(n))	**1,609**	223
	106,342	47,444
Deferred financing charges	**(583)**	—
	105,759	47,444
Less: Current portion of long-term debt	**4,982**	4,409
Less: Current portion of deferred financing charges	**(68)**	—
	100,845	43,035

a) The Company has available three term loans of $2,3000,000, $2,7000,000 and $1,900,000 arranged with a Canadian bank.

Amounts owing under the $2,3000,000 term loan are repayable in 19 equal consecutive principal repayments of $82,143 on each three-month anniversary of the date on which the initial advance was made (December 28, 2005), and a balloon repayment of $739,283 constituting the twentieth and final payment of the residual capital balance on December 28, 2010. Subsequent to an interest rate swap agreement, the loan bears interest at a fixed rate of 5.81% over its term.

Amounts owing under the $2,700,000 term loan are repayable in 19 equal consecutive principal repayments of $96,429 on each three-month anniversary of the date on which the initial advance was made (February 1, 2006), and a balloon repayment of $867,849 constituting the twentieth and final payment of the residual capital balance on February 1, 2011. Subsequent to an interest rate swap agreement, the loan bears interest at a fixed rate of 5.85% over its term.

Amounts owing under the $1,900,000 term loan are repayable in 19 equal consecutive principal repayments of $100,000 on each three-month anniversary of the date on which the initial advance was made (December 19, 2005) and shall, in any event, be repaid in full by September 30, 2010. The loan bears interest at a fixed rate of 5.93% over its term.

b) As part of the financing for the BPB acquisition, the Company entered into a new two-year revolving term loan with a Canadian bank comprising a Canadian dollar loan of $11,587,500 and a new US dollar loan of US$10,000,000 as well as an amount not exceeding US$5,000,000 to purchase foreign exchange forward contracts. The new revolving term loan facility matures February 16, 2010. The US$10,000,000 term loan was designated as a hedge of net investment in a self-sustaining foreign operation. As at December 31, 2007, the Company had a two-year revolving term loan comprising a Canadian dollar loan of $11,587,500 and an amount not exceeding US$5,000,000 to purchase foreign exchange forward contracts. This revolving term loan facility was to have matured February 28, 2009.

12. Long-term Debt (Note 20) (Continued)

For loans in Canadian dollars, the credit facility bears interest at the bank's prime rate plus 0.25% or bankers' acceptance rate plus 1.40% and for loans in US dollars, the credit facility bears interest at the bank's US base rate plus 0.25% or LIBOR plus 1.40%. Previously the revolving term loan did not offer financing conditions for US dollar loans. As collateral, the bank holds moveable hypothecs and general security agreements creating a first charge over all of the Company's Canadian capital assets of $53,089,202 as at December 31, 2008 and a second ranking charge over all of the Canadian current assets of $142,506,329 as at December 31, 2008. Amounts owing under the revolving term loan are payable at maturity which can be extended each year for one additional year, upon the Company's request and subject to the bank's approval. Starting January 2008, the credit facility will be increased by the equivalent amount of the capital payments of the term facilities provided by the credit facility in Note 12(a) to a maximum of $27,500,000 as at January 2011.

c) As part of the financing of the BPB acquisition, the US subsidiaries entered into a US$10,000,000 term loan agreement with a US bank. A portion of the proceeds of the loan were used to repay existing term loans to SJ Corp of US$1,100,000 and US$4,000,000 with the balance applied against outstanding bank indebtedness of the US subsidiaries. The new term loan is repayable in 84 consecutive monthly instalments of US$119,048. The loan is subject to two interest rate swaps of US$5,000,000 each, fixing the rates at 5.80% and 5.54% over the term of the loan.

   As collateral, the bank has a first priority security interest on certain equipment of the US subsidiaries having a net book value of US$35,047,024 as at December 31, 2008. The bank also has a second priority security interest on the accounts receivable and inventories of the US subsidiaries having a book value of US$98,293,058 as at December 31, 2008.

d) Unsecured and non-convertible debenture bearing interest at 7.72%, repayable in five consecutive annual principal repayments of $1,000,000 beginning July 1, 2011 and a final payment of $5,000,000 on July 1, 2016.

e) Unsecured and non-convertible debenture bearing interest at 7.0%, repayable after December 31, 2006 in five consecutive annual principal repayments of $333,333 and a final payment of $3,000,000 on December 21, 2012.

f) Unsecured and non-convertible debenture bearing interest at 7.89%, repayable in five consecutive annual principal repayments of US$2,500,000 starting on April 1, 2013 and a final payment of US$12,500,000 on April 1, 2018. This loan was arranged as part of the financing of the BPB acquisition. This debenture was designated as a hedge of net investment in a self-sustaining foreign operation.

g) SJ Corp borrowed US$750,000 from the Company's majority shareholder, Stella Jones International S.A., by way of a subordinated promissory note. The note is for a term of six years, bears interest at LIBOR plus 4.5% and is repayable in full on the sixth annual anniversary of the date of disbursement or August 3, 2011. The note is unsecured and subordinated in right of payment to the prior payment in full of the US subsidiaries' loans to all of its secured lenders.

h) As part of a previous acquisition, SJ Corp assumed an unsecured promissory note payable. The imputed interest rate of the note is 8.0%. The note is payable in quarterly instalments of US$52,891 including interest and matures on October 1, 2013.

i) Pursuant to the business acquisition of February 28, 2007, SJ Corp issued a note payable to Baxter. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in five annual principal repayments of US$500,000 with a final payment of US$5,500,000 on the sixth anniversary date. The note was initially recorded at a fair value of $6,981,288 using an interest rate of 8.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

j) Pursuant to the BPB acquisition, the US subsidiaries assumed a bond issue in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US$200,000 starting on July 2008 through July 2011, US$300,000 starting July 2012 through July 2019 and US$400,000 starting July 2020 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. The rate as at December 31, 2008 was 1.60% (March 31, 2008 – 2.38%). The bond is secured by substantially all assets of BPB's Fulton facility, which have a net book value of US$7,431,022 as at December 31, 2008. The bond was initially recorded in the consolidated financial statements at a fair value of US$4,835,379 using an interest rate of 6.50%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term.

12. Long-term Debt (Note 20) (Continued)

In order to provide security for the timely payment of the principal and interest due on the bond, the US subsidiaries entered into a US$5,866,740 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.0% of the outstanding loan balance. The letter of credit expires on August 15, 2009.

k) Pursuant to the BPB acquisition, the US subsidiaries assumed a promissory note payable to Hickman-Fulton Rural Electric Cooperative Corporation, bearing interest at a fixed rate of 3.0% and repayable in 84 equal monthly instalments of principal and interest of approximately US$6,604 starting January 15, 2008. The note is secured by a US$500,000 irrevocable letter of credit issued by a regional financial institution and expires December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US$462,344 using an interest rate of 5.55%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

l) Pursuant to the BPB acquisition, the US subsidiaries assumed a promissory note payable to Hickman-Fulton Rural Electric Cooperative Corporation, bearing no interest and repayable in 108 equal monthly instalments of US$4,167 starting January 1, 2009. The note is secured by a US$450,000 irrevocable letter of credit issued by a regional financial institution and expires December 17, 2017. The note was initially recorded in the consolidated financial statements at a fair value of US$354,217 using an interest rate of 6.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

m) The mortgage loans bear interest at a weighted average rate of 6.3% as at December 31, 2008 (2007 – 7.2%) and certain specific capital assets with a net book value of $5,638,867 (2007 – $6,880,152) have been pledged as collateral. The mortgage loans include loans denominated in US dollars amounting to US$3,407,858 (2007 – US$2,970,328). The loans are repayable in monthly instalments of $95,705 including interest and mature at various dates to January 2018.

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

	Capital leases				
Years	Minimum payments $	Interest $	Principal $	Principal $	Principal repayments $
2009	189	78	111	5,199	5,310
2010	233	70	163	5,764	5,927
2011	111	63	48	7,058	7,106
2012	111	61	50	7,649	7,699
2013	272	49	223	13,507	13,730
Thereafter	1,105	91	1,014	67,826	68,840
	2,021	412	1,609	107,003	108,612
Fair value adjustment	—	—	—	(2,270)	(2,270)
	2,021	412	1,609	104,733	106,342

o) The aggregate fair value of the Company's long-term debt was estimated at $109,660,000 as at December 31, 2008 (2007 – $49,500,000) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

13. Asset Retirement Obligations

Stella-Jones Canada Inc. has asset retirement obligations relating to reforestation and site remediation that have been estimated using a credit-adjusted risk-free rate of 4.5% (2007 – 6.9%) to approximate the present value of future expenditures.

Reforestation

Reforestation obligations represent discounted cash flow estimates of future silviculture costs relating to areas logged that are the Company's responsibility to reforest.

	2008 $	2007 $
Reforestation obligations – Beginning of year	**1,160**	1,237
Changes to reforestation estimates and accretion expense	**708**	711
Expenditures	**(622)**	(788)
Reforestation obligations – End of year	**1,246**	1,160
Less: Current portion	**669**	693
	577	467

Future non-discounted reforestation expenditures are estimated at between $320,000 and $700,000 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.

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 $507,082 (2007 – $488,409). 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 noted above.

Site Remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of former treating sites.

	2008 $	2007 $
Site remediation obligations – Beginning of year	**58**	100
Changes to site remediation estimates	**—**	—
Expenditures	**(10)**	(42)
Site remediation obligations – End of year	**48**	58
Less: Current portion	**48**	58
	—	—

13. Asset Retirement Obligations (Continued)

Total asset retirement obligations

	2008	2007
	$	$
Reforestation obligations	**1,246**	1,160
Site remediation obligations	**48**	58
	1,294	1,218
Less: Current portion	**717**	751
	577	467

14. Capital Stock

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
Net earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Diluted net earnings per common share are calculated using the weighted average number of common shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options, warrants and other dilutive securities.

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

	2008	2007
Net earnings applicable to common shares	**$ 28,547**	$ 25,700
Weighted average number of common shares outstanding*	**12,483**	12,324
Effect of dilutive stock options*	**212**	366
Weighted average number of diluted common shares outstanding*	**12,695**	12,690
Net earnings per common share	**$ 2.29**	$ 2.09
Diluted net earnings per common share	**$ 2.25**	$ 2.03

* Number of shares are presented in thousands.

14. Capital Stock (Continued)

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 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 and May 3, 2007, the aggregate number of common shares in respect of which options may be granted is 1,200,000 and no optionee is able to hold options to purchase common shares exceeding 5% of the number of common shares outstanding from time to time. One-fifth of the options granted may be exercised within each year following the grant date. The exercise price of an option shall not be lower than the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the granting of the option, and the term of the option may not exceed ten years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

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

		2008		2007
		$		$
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding –				
Beginning of year	**162,070**	**18.17**	183,355	13.15
Exercised	**(14,285)**	**13.38**	(37,785)	7.37
Granted	**—**	**—**	22,500	39.58
Forfeited	**—**	**—**	(6,000)	13.00
Outstanding –				
End of year	**147,785**	**18.63**	162,070	18.17
Options exercisable –				
End of year	**93,285**	**15.97**	76,570	13.84

The following options were outstanding under the Plan as at December 31, 2008:

	Options outstanding		**Options exercisable**		
Year granted	**Number of options**	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**	**Expiration date**
2001	**18,285**	**2.15**	**18,285**	**2.15**	**2011**
2005	**43,000**	**13.00**	**31,000**	**13.00**	**2015**
2006	**64,000**	**19.78**	**35,000**	**19.76**	**2016**
2007	**22,500**	**39.58**	**9,000**	**39.58**	**2017**
	147,785		**93,285**		

14. Capital Stock (Continued)

d) Stock option agreement

On May 6, 2003, with the objective of assisting the Company in recognizing the significant contributions that its President and Chief Executive Officer ("President") has made to the Company, and in order to provide incentives for him to continue to make significant contributions to the Company, 300,000 options were granted to the President under a stock option agreement ("Agreement").

The Agreement provides that the options are exercisable at a price of $2.99 in whole or in part commencing on May 6, 2008, or earlier in the event of a triggering event, that is, a loss or change in control of the Company, the closing of a going private transaction, or the occurrence of termination without cause. The right to exercise these options terminates on May 6, 2013 or, in the case of a triggering event, within 30 days of the event.

In 2006, the President, on his own initiative, unconditionally and irrevocably waived his right under his Agreement to settle stock options for cash. As a result, the amount recorded as a long-term liability of $3,480,000 net of the related future income taxes of $1,218,000 was eliminated and a corresponding amount was included in contributed surplus.

On May 6, 2008, the options under the Agreement became fully vested and shortly thereafter, 200,000 options were exercised. The total stock-based compensation expenses relating to the Agreement amounted to $433,936 (2007 – $1,483,140).

e) Stock-based compensation

The Company records expenses for 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 earnings over the vesting period.

No new options were granted during 2008. In 2007, 22,500 options were granted, their fair value was $422,730, and the expense amortized to earnings was $28,182. The fair value was estimated with the following weighted average assumptions:

	2008	2007
Risk-free interest rate	—	4.2%
Dividend yield	—	0.6%
Expected lives	—	7.8 years
Volatility	—	42.6%
Weighted average of fair value of options granted during the year	—	$18.79

In 2008, the total expense relating to stock-based compensation amortized to earnings was $307,264 (2007 – $241,962).

f) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 180,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at a price of 90% of the market value. 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% of the amount of their contributions made on the date of acquisition. In 2008, 7,517 shares (2007 – 4,693) were issued to Canadian resident employees at an average price of $22.30 per share (2007 – $34.00).

Under the second plan, Company employees who are US residents are eligible to purchase common shares from the Company at a price equal to the market value. 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% of the amount of their contributions made on the date of acquisition. In 2008, 2,035 shares (2007 – 595) were issued to US resident employees at an average price of $24.20 per share (2007 – $40.08).

As at December 31, 2008, the total number of shares issued under these plans is 142,430 (2007 – 132,878).

14. Capital Stock (Continued)

g) On November 12, 2007 and August 31, 2005, the Company granted stock appreciation rights to senior management with the base price being the trading price per share on the Toronto Stock Exchange at the close of trading on the grant date. Details are as follows:

Grant date	November 12, 2007	August 31, 2005
Number of rights granted	300,000	15,000
Base price	$39.74	$9.53

Stock appreciation rights granted November 12, 2007 will become enforceable on November 12, 2013. Stock appreciation rights granted August 31, 2005 were repriced on December 22, 2008 from the initial base price of $9.53 to $15.60. On the reprice date, 12,000 stock appreciation rights immediately vested and the remaining 3,000 will vest within the year following this date.

The stock appreciation rights may become enforceable earlier in the event of a triggering event.

As at December 31, 2008, the share price used to value the stock appreciation rights is $16.40 and the change in liability is as follows:

	2008	2007
	$	$
Balance – Beginning of year	**465**	129
Liability adjustment	**(455)**	336
Balance – End of year	**10**	465

15. Income Taxes

The earnings before income taxes computed for the years ended December 31 were as follows:

	2008	2007
	$	$
Canada	**27,917**	26,399
US	**13,313**	12,158
	41,230	38,557

15. Income Taxes (Continued)

The provision for (recovery of) income taxes includes the following current and future amounts:

	2008	2007
	$	$
Current		
Canada	**7,412**	8,679
US	**3,559**	4,327
Total current expense	**10,971**	13,006
Future		
Canada	**909**	(357)
US	**803**	208
Total future expense (recovery)	**1,712**	(149)
	12,683	12,857

The effective income tax rate differs from the basic Canadian federal and provincial statutory tax rate due to the following:

	2008	2007
Statutory tax rate	**31.62%**	34.05%
	$	$
Income tax expense at statutory rate	**13,037**	13,127
Income tax expense (recovery) resulting from		
Future tax adjustments due to rate enactments	**(162)**	(679)
Manufacturing and processing credit	**(242)**	(110)
Effect of different tax rates	**695**	419
Dividends deductible from a related party	**(545)**	—
Stock-based compensation	**234**	579
Non-deductible portion of foreign exchange loss	**70**	—
Unrecorded tax benefit on foreign exchange loss	**61**	—
Other	**(465)**	(479)
	12,683	12,857
Effective tax rate	**30.76%**	33.35%

15. Income Taxes (Continued)

Significant components of the future income tax assets and liabilities are as follows:

	2008	2007
	$	$
Future income tax assets due to		
Accrued liabilities	**2,255**	742
Employee future benefits	**414**	175
Derivative financial instruments and other	**515**	59
	3,184	976
Future income tax liabilities due to		
Capital assets	**(16,260)**	(5,968)
Derivative financial instruments	**(226)**	(289)
Other assets	**(257)**	—
	(16,743)	(6,257)

16. Employee Future Benefits

The Company recognizes cost for several types of employee future benefits. Post-retirement 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. All other active employees are entitled to a group registered retirement savings plan to which the Company matches 1.5 times employee contributions to a maximum of 4%. The recognized cost for employee future benefits was as follows:

	2008	2007
	$	$
Post-retirement benefits	**256**	231
Defined benefit pension plans	**136**	130
Contributions to multi-employer plan	**322**	244
Contributions to group retirement savings plans	**1,145**	647

a) The post-retirement benefits program is not funded. 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 January 1, 2006, and the next required valuation will be as at January 1, 2009. The following information pertains to the Company's defined benefit plan as established by independent actuaries:

	2008	2007
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**1,974**	1,749
Current service cost	**118**	110
Interest cost on obligation	**109**	92
Benefit payments	**(30)**	(28)
Actuarial (gain) loss	**(519)**	51
Balance – End of year	**1,652**	1,974
Plan assets		
Fair value – Beginning of year	**—**	—
Employer contributions	**30**	28
Benefits paid	**(30)**	(28)
Fair value – end of year	**—**	—
Net obligation – End of year	**1,652**	1,974
Unamortized net actuarial loss	**(98)**	(662)
Unamortized past service costs	**(13)**	(14)
Accrued benefit obligation	**1,541**	1,298

16. Employee Future Benefits (Continued)

The significant assumptions used are as follows:

	2008	2007
	%	%
Accrued benefit obligation and benefit cost as at December 31		
Discount rate	**6.75**	5.25
Rate of compensation increase	**4.00**	4.00

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. This rate is assumed to decrease gradually by 0.5% per year, to reach 5%. An increase or decrease of 1% in this rate would have the following impact:

	Increase of 1%	**Decrease of 1%**
Impact on accrued benefit obligation	**342**	268
Impact on benefit cost	**58**	44

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

	2008	2007
	$	$
Current service cost	**118**	110
Interest cost	**109**	92
Actuarial (gain) loss	**(519)**	51
Elements of employee future benefit cost before adjustments to recognize the long-term nature of employee future benefit cost	**(292)**	253
Adjustments to recognize the long-term nature of employee future benefit cost		
Difference between net actuarial loss (gain) and actuarial loss (gain)	**547**	(23)
Amortization of past service costs	**1**	1
Defined benefit costs recognized	**256**	231

b) The Stella-Jones Canada Inc. defined benefit pension plans base the benefits on the length of service and final average earnings. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of one of the pension plans for funding purposes was as at December 31, 2007, which will be updated December 31, 2010. The actuarial valuation date for the two other pension plans is December 31, 2008, which will be updated December 31, 2011.

16. Employee Future Benefits (Continued)

Information about Stella-Jones Canada Inc.'s defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2008	2007
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**10,686**	10,721
Current service cost	**406**	437
Interest cost on obligation	**558**	531
Benefit payments	**(505)**	(653)
Actuarial gain	**(3,813)**	(350)
Balance – End of year	**7,332**	10,686
Plan assets		
Fair value – Beginning of year	**10,933**	11,191
Actual return on plan assets	**(1,803)**	(95)
Employer contributions	**455**	491
Benefits paid	**(506)**	(654)
Fair value – End of year	**9,079**	10,933
Funded status – Plan surplus	**1,747**	247
Unamortized net actuarial gain (loss)	**661**	(535)
Accrued benefit asset, included in other assets (Note 10)	**1,086**	782

Unamortized actuarial gains and losses that exceed the greater of 10% of the market value of assets and the accrued benefit obligation are amortized over the estimated average remaining service lifetime of active plan members.

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:

	2008	2007
	$	$
Accrued benefit obligation	**(1,577)**	(3,610)
Fair value of plan assets	**1,415**	3,188
Funded status – Plan deficit	**(162)**	(422)

Percentage of plan assets consist of the following for the year ended December 31:

	2008	2007
	%	%
Equity securities	**55**	55
Debt securities	**40**	41
Short-term investments and cash	**5**	4
	100	100

16. Employee Future Benefits (Continued)

The significant weighted average assumptions used are as follows:

	2008	2007
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**7.50**	5.25
Rate of compensation increase	**4.00**	4.00
Benefit costs for the year ended December 31		
Discount rate	**5.25**	5.00
Expected long-term rate of return on plan assets	**7.50**	7.50
Rate of compensation increase	**4.00**	4.00

The elements of Stella-Jones Canada Inc.'s defined benefit plan costs recognized in the year are as follows:

	2008	2007
	$	$
Current service cost, net of employee contributions	**392**	428
Interest cost	**558**	531
Actual return on plan assets	**1,803**	95
Actuarial gain	**(3,813)**	(350)
Elements of employee future benefit cost before adjustments to recognize the long-term nature of employee future benefit cost	**(1,060)**	704
Adjustments to recognize the long-term nature of employee future benefit cost		
Difference between expected return and actual return on plan asset for the year	**(2,621)**	(929)
Difference between net actuarial loss (gain) and actual actuarial loss (gain)	**3,817**	355
Defined benefit costs recognized	**136**	130

17. Interest in Joint Venture

The consolidated financial statements include the Company's 50% proportionate share, as indicated below, of the revenues, expenses, assets and liabilities of its Kanaka joint venture:

	2008	2007
	$	$
Assets		
Current assets		
Accounts receivable	**121**	331
Other receivable	**200**	145
Inventories	**1,942**	1,603
Prepaid expenses	**20**	14
	2,283	2,093
Capital assets	**842**	666
Other assets	**67**	72
Total assets	**3,192**	2,831
Liabilities		
Current liabilities		
Bank indebtedness	**3,092**	2,715
Accounts payable and accrued liabilities	**100**	116
Total liabilities	**3,192**	2,831
Earnings		
Sales	**5,011**	3,660
Cost of sales	**5,011**	3,660
Net earnings	**—**	—
Cash flows provided by (used in)		
Operating activities	**(101)**	232
Financing activities	**355**	(43)
Investing activities	**(254)**	(189)
	—	—

18. Commitments and Contingencies

a) The Company is involved from time to time in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

b) The Company has issued guarantees, other than those disclosed elsewhere in these financial statements, amounting to $14,788,448 (2007 – $4,588,466) 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.

18. Commitments and Contingencies (Continued)

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

	$
2009	2,822
2010	2,443
2011	1,755
2012	983
2013	823
Thereafter	11,720

d) The Company's operations are subject to Canadian federal and provincial as well as US 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.

19. Financial Instruments

Financial Instruments, Carrying Values and Fair Values

The Company has determined that the fair value of its short-term financial assets and financial liabilities approximates their respective carrying amounts as at the balance sheet date 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 respective carrying amounts. The fair value of foreign exchange forward contracts and swap agreements has been recorded using mark-to-market information as supplied by a financial institution.

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, and 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 for the following reasons:

- Geographically, there is no concentration of credit risk.
- The Company deals primarily with utility and telecommunication companies, and other major corporations.

The following table summarizes the age of trade receivables as at December 31:

	2008	2007
	$	$
Past due less than 30 days	**23,374**	13,106
Past due 31 to 60 days	**10,204**	8,663
Past due 61 to 90 days	**4,457**	2,665
Past due more than 90 days	**2,278**	1,116
Total accounts receivable	**40,313**	25,550
Allowance for doubtful accounts	**(244)**	(229)
	40,069	25,321

19. Financial Instruments (Continued)

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. As at December 31, 2008, details of the allowance for doubtful accounts are as follows:

	2008	2007
	$	$
Balance – Beginning of year	**229**	33
Provision	**458**	229
Bad debt writeoff	**(480)**	(27)
Foreign exchange adjustments	**37**	(6)
Balance – End of year	**244**	229

In 2008, the Company had one customer representing 19% of its sales (2007 – 15%). As at December 31, 2008, the accounts receivable balance from this customer was $6,103,420 (2007 – $3,637,533).

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. Details regarding the Company's operating lines of credit can be found in Note 11.

19. Financial Instruments (Continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. Bank indebtedness consists of demand operating facilities that are subject to periodic review by the Company's bankers at intervals of no greater than one year. In December 2008, the Company's banker for the US operating line amended its credit facilities and approved an increase to its demand operating line to US$45,000,000, from US$40,000,000. Subsequent to year-end, the Company's Canadian bankers amended the interest rate structure, with no change in the amount available of the operating facility and approved an increase to the credit availability for the purchase of foreign exchange forward contracts. The following table details the maturities of the financial liabilities as at December 31, 2008:

	Less than 1 year	1 to 3 Years	4 to 5 Years	More than 5 years	Total
	$	$	$	$	$
Bank indebtedness	81,560	—	—	—	81,560
Accounts payable and accrued liabilities	28,694	—	—	—	28,694
Long-term debt obligations	5,199	12,822	21,156	67,826	107,003
Interest on long-term debt obligations	6,150	11,534	9,721	9,937	37,342
Capital lease obligations	189	344	383	1,105	2,021
Interest on capital lease obligations	78	133	110	91	412
Foreign exchange forward contracts					
Outflow	5,319	3,234	—	—	8,553
Inflow	(5,603)	(3,410)	—	—	(9,013)
Non-compete agreements	1,523	3,046	3,046	381	7,996
	123,109	27,703	34,416	79,340	264,568

Market Risk

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

Currency Risk

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

19. Financial Instruments (Continued)

The following table summarizes the Company's derivative financial instruments relating to the sale of foreign currencies through forward foreign exchange contracts as at December 31:

					2008
	Foreign exchange forward contracts	**Notional amount US$**	**Average exchange rate**	**Notional equivalent CA$**	**Fair value CA$**
Short-term asset	**Sell US$/Buy CA$**	**10,000**	**1.2538**	**12,538**	**381**
Long-term asset	**Sell US$/Buy CA$**	**10,000**	**1.2433**	**12,433**	**347**
Short-term liability	**Sell US$/Buy CA$**	**4,600**	**1.1563**	**5,319**	**(266)**
Long-term liability	**Sell US$/Buy CA$**	**2,800**	**1.1550**	**3,234**	**(144)**
		27,400	**1.2235**	**33,524**	**318**

					2007
	Foreign exchange forward contracts	Notional amount US$	Average exchange rate	Notional equivalent CA$	Fair value CA$
Short-term liability	Sell US$/Buy CA$	4,000	1.1593	4,637	658
Long-term liability	Sell US$/Buy CA$	1,800	1.1497	2,070	257
		5,800	1.1563	6,707	915

The contracts mature at various dates up to December 31, 2010.

A 10% strengthening of the US dollar against the Canadian dollar would have decreased the net gain on foreign exchange forward contracts recognized in other comprehensive income by approximately $31,878 as at December 31, 2008. For a 10% weakening of the US dollar against the Canadian dollar, there would be an equal and opposite impact on the gain.

The following table provides information on the impact of a 10% strengthening of the US dollar against the Canadian dollar on net earnings and comprehensive income for the year ended December 31, 2008. For a 10% weakening of the US dollar against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

	$
Gain to net earnings	**560**
Comprehensive income	**528**

19. Financial Instruments (Continued)

This analysis considers the foreign exchange variance impact on assets and liabilities denominated in US dollars which are on the balance sheet of the Canadian entities:

	2008 $
Assets	
Accounts receivables	**2,037**
Foreign exchange forward contracts	**728**
	2,765
Liabilities	
Accounts payable and accrued liabilities	**2,884**
Foreign exchange forward contracts	**410**
	3,294

The foreign exchange impact for the US dollar-denominated long-term debt, in the Canadian entities, has been excluded from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge against the investment in the self-sustaining US subsidiary.

Interest Rate Risks

As at December 31, 2008, the Company has limited exposure to interest rate risk on long-term debt as after giving effect to its interest rate swaps, 92.7% 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-term 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.

Bank indebtedness comprises demand operating loans as defined in Note 11. The financing of these loans is tied to the Canadian bank's prime rate, the US bank's base rate or LIBOR. The impact of a 10% increase in these rates on the average annual balance of the bank indebtedness would have increased the interest expense by $247,166 for the year ended December 31, 2008.

The following table summarizes the Company's interest rate swap agreements as at December 31:

			2008
Notional amount	**Fixed rate %**	**Maturing date**	**Notional equivalent CA$**
CA$2,300	**5.81**	**December 2010**	**2,300**
CA$2,700	**5.85**	**February 2011**	**2,700**
US$5,000	**5.80**	**July 2015**	**6,090**
US$5,000	**5.54**	**July 2015**	**6,090**
US$1,000	**4.69**	**December 2015**	**1,218**

			2007
Notional amount	Fixed rate %	Maturing date	Notional equivalent CA$
CA$2,300	5.81	December 2010	2,300
CA$2,700	5.85	February 2011	2,700
US$1,100	7.23	September 2010	1,090

19. Financial Instruments (Continued)

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2008 is a loss of $1,159,153 (2007 – gain of $16,643), which is recorded in long-term liabilities under derivative financial instruments. A 10% decrease in interest rates as at December 31, 2008 would have increased the loss recognized in other comprehensive income by approximately $115,915. For a 10% increase in the interest rates, there would be an equal and opposite impact on the loss.

20. Capital Disclosure

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 the 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 long-term debt and shareholders' equity which includes capital stock.

	2008	2007
	$	$
Long-term debt, including current portion	**105,759**	47,444
Shareholders' equity	**161,112**	127,757
Total capital	**266,871**	175,201
Long-term debt to equity ratio	**0.66:1**	0.37:1

The Company's primary uses of capital are to finance increases in 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 operating lines of credit. However, future corporate acquisitions may require new sources of financing.

The primary measure used by the Company to monitor its financial leverage is the long-term debt to equity ratio, which it aims to maintain within a range of 0.30:1 to 0.75:1. The long-term debt to equity ratio is defined as long-term debt including the current portion divided by shareholders' equity. As at December 31, 2008, the long-term debt to equity ratio was 0.66:1 (2007 – 0.37:1).

The Company is subject to certain covenants on its bank indebtedness and on certain long-term debt. The covenants include a working capital ratio, debt to tangible net worth ratio, a minimum fixed charge coverage ratio and a minimum requirement for earnings before interest, taxes and amortization. The Company monitors the ratios on a monthly basis. The ratios are also reviewed by the Company's Audit Committee and Board of Directors on a quarterly basis. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

21. Related Party Transactions

The Company had the following transactions with related parties:

	2008	2007
	$	$
Parent company		
Marketing and technical service fees paid	**200**	200
Interest on promissory note	**64**	76
Ultimate shareholders		
Marketing and technical service fees paid	**100**	100

21. Related Party Transactions (Continued)

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

As at December 31, 2008, the consolidated balance sheet includes the following amounts with related parties:

	2008	2007
	$	$
Accounts payable to parent company	**79**	77
Accounts payable to ultimate shareholders	**25**	25

22. Segment Information

The Company operates within one dominant business segment: the production and sale of pressure treated wood. Operating plants are located in the Canadian provinces of Nova Scotia, Quebec, Ontario, Alberta and British Columbia, and in the US states of Pennsylvania, Virginia, West Virginia, Kentucky, Wisconsin and Washington. The Company also operates a distribution centre in the province of Newfoundland and Labrador.

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

	2008	2007
	$	$
Canada	**180,052**	163,122
US	**204,770**	106,592
	384,822	269,714

Capital assets attributed to the countries based on location are as follows:

	2008	2007
	$	$
Canada	**55,124**	53,327
US	**53,639**	16,937
	108,763	70,264

Intangible assets having a net book value of $10,773,515 and goodwill having a value of $6,367,481 are attributed to the Company's US operations.

23. Comparative Figures

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.

Directors & Officers

BOARD OF DIRECTORS

Richard Bélanger, FCA (1)
President,
Toryvel Group Inc.
(Holding company)
Québec, Québec
Director since March 1997

Tom A. Bruce Jones, CBE
Chairman of the Board,
Stella-Jones Inc.
Chairman of the Board,
James Jones & Sons Limited
(Forest products company)
Larbert, Scotland
Director since July 1993

George J. Bunze, CMA (1) (2)
Vice-Chairman and
Director, Kruger Inc.
(Manufacturer of paper, tissue, wood products, energy (hydro/wind) and wine and spirit products)
Montréal, Québec
Director since May 2001

Gianni Chiarva (2)
Vice-Chairman of the Board,
Stella-Jones Inc.
President, Stella S.p.A.
(Manufacturer of utility poles)
Chairman of the Board,
Sirti S.p.A. (Designs, maintains and installs telecommunications, transmission and electrical systems)
Milan, Italy
Director since July 1993

Arthur P. Earle, C.M., B.Eng., F.E.I.C. (1) (3)
Corporate Director,
Beaconsfield, Québec
Director since October 1992

Brian McManus
President and
Chief Executive Officer,
Stella-Jones Inc.
Saint-Laurent, Québec
Director since June 2001

Nycol Pageau-Goyette (1) (2) (3) (4)
President,
Pageau Goyette et associés limitée
(Management services firm)
Chairperson, Sorinco Inc.
(Pharmaceutical and cosmetic product recycling plant)
President,
Montrésor Corporation
(Holding company)
Montréal, Québec
Director since July 1993

Daniel Picotte (3)
Partner,
Fasken Martineau
DuMoulin LLP (Law firm)
Montréal, Québec
Director since July 1993

Mary Webster (3)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Audit Committee
(2) Member of the Remuneration Committee
(3) Member of the Environmental Committee
(4) Lead Director

A full report of Stella-Jones' corporate governance practices is set out in the Proxy Circular for the May 6, 2009 Annual and Special Meeting of Shareholders.

OFFICERS

Tom A. Bruce Jones, CBE
Chairman of the Board

Gianni Chiarva
Vice-Chairman of the Board

Brian McManus
President and
Chief Executive Officer

George T. Labelle, CA
Senior Vice-President
and Chief Financial Officer

Marla Eichenbaum
Vice-President,
General Counsel and Secretary

Gordon Murray
Vice-President,
Environment and Technology and
General Manager,
Atlantic Region

Martin Poirier
Vice-President and General Manager,
Central Region

Rémi Godin, CGA
Vice-President and Corporate Comptroller

SUBSIDIARIES

Rick Thompson
Vice-President and General Manager,
Guelph Utility Pole Company Ltd.

Ian Jones
Vice-President and General Manager,
Stella-Jones Canada Inc.

Douglas J. Fox
Senior Vice-President, Engineering and Operations,
Stella-Jones Corporation

Glen Ritchie
Vice-President, Fibre,
Stella-Jones Canada Inc.

W.G. Downey, Jr.
Vice-President,
U.S. Operations

Eric Vachon
Vice-President, Finance,
U.S. Operations

Corporate Information

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
May 6, 2009
10:00 a.m.
Fairmont The Queen Elizabeth
Salon Marquette
900 Rene-Levesque Blvd. West
Montreal, Qc

STOCK INFORMATION
Shares listed:
Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
Majority shareholder:
Stella Jones International S.A. (60.4%)
52-week high/low
(Jan. 1 – Dec. 31, 2008): $40.94/$14.30
Share price at March 11, 2009: $15.29
Common shares outstanding as at
December 31, 2008: 12.57 million

DIVIDEND POLICY
The Board of Directors considers a dividend on a semi-annual basis, conditional upon the Company's financial performance and cash requirements.
On March 11, 2009, the Board of Directors declared a semi-annual dividend of $0.18 per common share.

TRANSFER AGENT AND REGISTRAR
Computershare Investor Services Inc.

AUDITORS
PricewaterhouseCoopers LLP

LEGAL COUNSEL
Fasken Martineau DuMoulin LLP
Foley & Lardner LLP

Operating Locations

Head Office
3100 de la Côte-Vertu Blvd.
Suite 300
Saint-Laurent, Québec
H4R 2J8
Tel.: (514) 934-8666
Fax: (514) 934-5327
E-mail: montreal@stella-jones.com

British Columbia
Plant and Sales Office
25 Braid Street
New Westminster
British Columbia
V3L 3P2
Tel.: (604) 521-4385
Fax: (604) 526-8597
E-mail: n.west@stella-jones.com

Plant and Sales Office
7177 Pacific Street
Prince George
British Columbia
V2N 5S4
Tel.: (250) 561-1161
Fax: (250) 561-0903
E-mail: p.george@stella-jones.com

Fibre & Woodlands Dept.
Stella-Jones Canada Inc.
4661 60th Street SE
Salmon Arm,
British Columbia
V1E 1X2
Tel: (250) 832-1180
Fax: (250) 832-7933
E-mail: bell@stella-jones.com

Pole Peeling Yard
Stella-Jones Canada Inc.
West Trans Canada Hwy.
P.O Box 2178
Revelstoke, British Columbia
V0E 2S0
Tel.: (250) 837-5061
Fax: (250) 837-6533

Pole Peeling Yard
23562 River Rd.S.
S.11, M.2, C.5
Maple Ridge,
British Columbia
V2W 1B7
Tel.: (604) 463-8195
Fax: (604) 463-4612

Alberta
Plant
Stella-Jones Canada Inc.
39 miles SE of Calgary,
Hwy. 24
P.O. Box 99
Carseland, Alberta
T0J 0M0
Tel.: (403) 934-4600
Fax: (403) 934-5880
E-mail: bell@stella-jones.com

Ontario
Plant and Sales Office
Guelph Utility Pole Company Ltd.
7818 Wellington Road 22
P.O. Box 154, R.R.#5
Guelph, Ontario
N1H 6J2
Tel.: (519) 822-3901
Fax: (519) 822-5411
E-mail:
info@guelphpole.com

Distribution Yard
555 Station Street
Belleville, Ontario
K8N 5A2
Tel.: (613) 966-2637
Fax: (613) 966-4521
E-mail:
info@guelphpole.com

Québec
Plant and Sales Office
41 Rodier Street
Delson, Québec
J5B 2H8
Tel.: (450) 632-2011
Tel.: 1 (800) 387-5027
Fax: (450) 632-3211
E-mail: delson@stella-jones.com

Plant and Sales Office
426, chemin de Montréal Est
Gatineau, Québec
J8M 1V6
Tel.: (819) 986-8998
Fax: (819) 986-9875
E-mail: mlauzon@stella-jones.com

Plant
2210 chemin St-Roch
Sorel-Tracy, Québec
J3R 3L2
Tel.: (450) 742-5977
Fax: (450) 742-8832
E-mail: jgaudreau@stella-jones.com

Newfoundland
Distribution Centre
and Sales Office
I.P.B. – W.P.I. International Inc.
dba Newfoundland Hardwoods
2 Hardwoods Road
Clarenville, Newfoundland
A5A 1H2
Tel.: (709) 466-7941
Fax: (709) 466-2170
E-mail: rtilley@stella-jones.com

Nova Scotia
Plant and Sales Office
278 Park Street
Truro, Nova Scotia
B2N 5C1
Tel.: (902) 893-9456
Fax: (902) 893-3874
E-mail: truro@stella-jones.com

United States
Plant and Sales Office
Stella-Jones Corporation
W1038 County Road U.
Suite 101
Bangor, Wisconsin, 54614,
U.S.A.
Tel.: (608) 486-2700
Fax: (608) 486-4538
E-mail: sjcorp@stella-jones.com

Plant and Sales Office
Stella-Jones Corporation
6520 - 188th St. NE.,
P.O. Box 305
Arlington, Washington,
98223, U.S.A.
Tel.: (360) 435-2146
Fax: (360) 435-3035
E-mail: sjcorp@stella-jones.com

Pole Peeling Yard
Stella-Jones Corporation
1076 Main
P.O. Box 500
Juliaetta, Idaho,
83535, USA
Tel.: (208) 276-7016
Fax: (208) 276-7017
E-mail: sjcorp@stella-jones.com

Head Office
The Burke-Parsons-Bowlby Corporation
167 Seneca Drive
Ripley, WV
25271
U.S.A.
Tel.: (304) 372-2211
E-mail: sjcorp@stella-jones.com

Plant
The Burke-Parsons-Bowlby Corporation
3424 Parkersburg Road
Reedy, WV
25270
U.S.A.
Tel.: (304) 927-1250
E-mail: sjcorp@stella-jones.com

Plant
The Burke-Parsons-Bowlby Corporation
9223 Maury River Road
Goshen, VA
24439
U.S.A.
Tel.: (540) 997-9251
E-mail: sjcorp@stella-jones.com

Plant
The Burke-Parsons-Bowlby Corporation
392 Larkeytown Road
DuBois, PA
15801
U.S.A.
Tel.: (814) 371-7331
E-mail: sjcorp@stella-jones.com

Plant
The Burke-Parsons-Bowlby Corporation
164 N. Main Street
Stanton, KY
40380
U.S.A.
Tel.: (606) 663-2837
E-mail: sjcorp@stella-jones.com

Plant
The Burke-Parsons-Bowlby Corporation
3855 Highway 51
Fulton, KY
42041
U.S.A.
Tel.: (270) 472-5557
E-mail: sjcorp@stella-jones.com

WWW.STELLA-JONES.COM

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