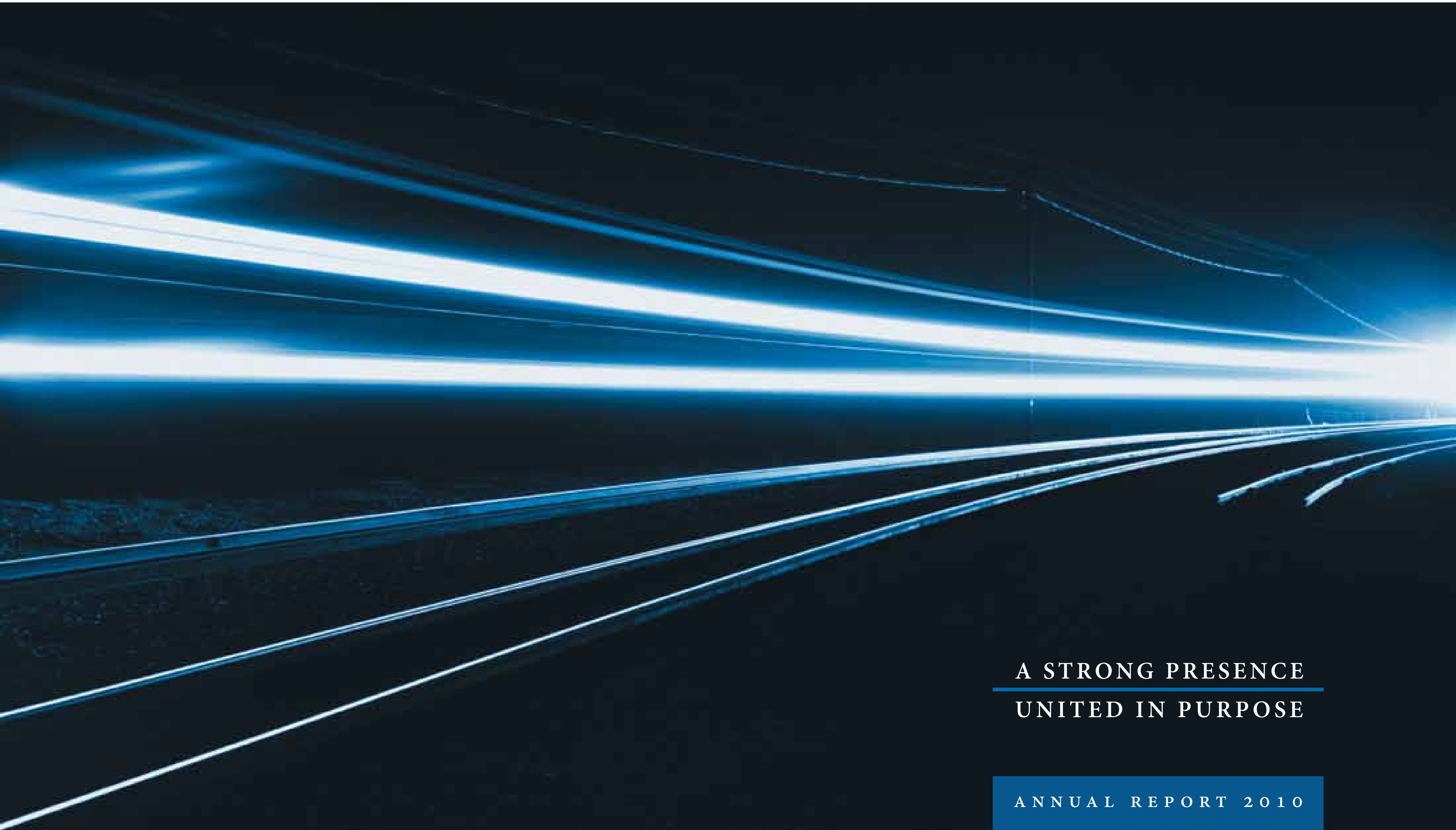
Stella-Jones Inc.



A STRONG PRESENCE

UNITED IN PURPOSE

ANNUAL REPORT 2010

1 5-Year Review
2 2010 Highlights
3 Stella-Jones' Core Strengths
4 Chairman's Report
6 President's Message
8 Acquisition of Tangent Rail Corporation
9 The Stella-Jones Network
10 Railway Ties
11 Utility Poles
12 Industrial Products and Residential Lumber
13 Management's Discussion & Analysis
32 Consolidated Financial Statements
67 Directors and Officers
68 Operating Locations
70 Corporate Information

A Strong Presence

Stella-Jones is a leading North American manufacturer of pressure treated wood products. The Company's core product categories, railway ties and utility poles, provide basic elements of the economy's physical infrastructure. Stella-Jones' network of eighteen wood treating facilities are spread across nine U.S. states and five Canadian provinces. With a long history and a reputation anchored by the security of supply that it offers, the Company serves many of North America's largest railroads, telecom providers, and electrical transmission utilities. Stella-Jones also provides a range of ancillary services to its railway customers, and produces treated wood for the industrial and residential marketplaces.

United in Purpose

Focused on leadership in its established categories, the professionals of Stella-Jones regularly improve upon and share best practices among the Company's many locations. This cross-fertilization of ideas – this 'network effect' – represents an important aspect of the culture of continuous improvement at Stella-Jones. The objective is to create economies of scale, improve margins, and achieve greater market penetration. Over the years, this combination of singular dedication and expertise has steadily built shareholder value.

5-Year Review

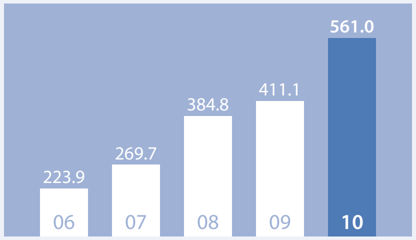
For the years ended December 31 (thousands of dollars, except per share data and ratios)	**2010** $	2009 $	2008 $	2007 $	2006 $
Operating Results					
Sales	**561,046**	411,119	384,822	269,714	223,853
EBITDA [1]	**70,999**	59,023	58,329	49,500	38,166
Net earnings	**34,395**	30,069	28,547	25,700	20,846
Cash flow from operating activities [1,2]	**50,092**	40,936	41,055	33,438	26,839
Financial Position					
Working capital	**192,399**	170,082	156,898	103,241	79,966
Total assets	**521,633**	370,795	407,546	244,856	213,675
Long-term debt [3]	**125,828**	87,080	105,759	47,444	31,893
Shareholders' equity	**281,385**	179,978	161,112	127,757	105,822
Per Share Data					
Basic net earnings per common share	**2.27**	2.38	2.29	2.09	1.81
Diluted net earnings per common share	**2.26**	2.37	2.25	2.03	1.76
Cash flow from operating activities [1,2]	**3.30**	3.24	3.29	2.71	2.33
Book value	**17.67**	14.19	12.82	10.35	8.60
Dividend per share	**0.38**	0.36	0.34	0.24	0.14
Average number of shares outstanding (000's)	**15,163**	12,638	12,483	12,324	11,541
Shares outstanding at year end (000's)	**15,923**	12,684	12,565	12,341	12,298
Average number of diluted shares outstanding (000's)	**15,204**	12,704	12,695	12,690	11,868
Financial Ratios					
Return on average equity	**14.9%**	17.6%	19.8%	22.0%	24.4%
Long-term debt to equity [3]	**0.45 :1**	0.48 :1	0.66 :1	0.37 :1	0.30 :1
Working capital	**3.41**	3.01	2.31	2.56	2.11

1 Earnings before interest, taxes, depreciation and amortization ("EBITDA") and cash flow from operating activities 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.

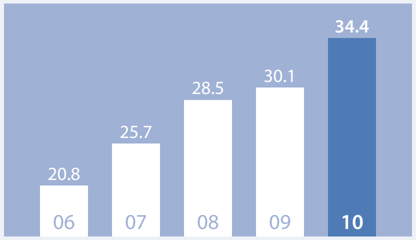
3 Including current portion.

SALES
(in millions of $)



EBITDA [1]
(in millions of $)

NET EARNINGS
(in millions of $)



CASH FLOW FROM OPERATING ACTIVITIES [1,2]
(in millions of $)

2010 Highlights

Geographic Expansion and Revenue Growth

In 2010, Stella-Jones adhered rigorously to its well defined and proven business model. The Company maintained its core competence – the pressure treatment of wood – as its primary focus, and pursued growth through the extension and enhancement of its network. Stella-Jones thereby:

- Achieved the highest revenues and profit in its history;
- Completed the largest acquisition in its history;
- Sustained a strong cash flow and maintained a solid financial position; and
- Set the stage for significant new growth in shareholder value.

Acquisition of Tangent Rail Corporation

To expand its geographic footprint, improve its established product line, and generally enhance the Company's ability to supply its customers, Stella-Jones acquired Tangent Rail Corporation in 2010, and thereby:

- Extended its continental network with the addition of strategically located wood treating plants in Alabama, Indiana, Louisiana, and Pennsylvania;
- Took a significant further step toward consolidating the North American railway tie market;
- Secured its supply base for the wood preservative creosote, an indispensable constituent in the railway tie treating process; and
- Added to its core offering, a range of value-added complementary services to railway customers, including used tie pickup and disposal, and tie pre-plating.

The factors driving growth at Stella-Jones relate to the Company's historic and exclusive commitment to the manufacture of pressure treated wood products. The Company's financial performance has continually proved that there is no better path for Stella-Jones than to adhere firmly to its core competencies and to employ that expertise on a wider and wider scale.

Stella-Jones' Core Strengths

Stable Business Model

Stella-Jones owes its increase in sales and profit to both organic growth and new geographic markets that it has entered through the acquisition process. This double-barreled approach has been a principal characteristic of the Company's business model – a model to which Management remains rigorously committed and which has sustained the progressive development of shareholder value for many years.

Established Steady Markets

As a longstanding and uniquely experienced manufacturer of railway ties and utility poles, Stella-Jones is an entrenched supplier of choice for North American companies involved in rail transportation and electricity transmission.

Key Infrastructure Supplier

The Company's railway ties and utility poles are fundamental to the built industrial environment, and as such, constitute essential elements of the continent's economic infrastructure.

Security of Raw Material Supply

Over the years, to meet its wood sourcing needs, Stella-Jones has acquired extensive cutting rights and has nurtured long-term relationships with numerous private wood suppliers. Also, through the acquisition of Tangent's coal tar distillation assets, the Company has secured its supply base for the wood preservative creosote, which is essential to the railway tie treating process.

Network Strength

Stella-Jones operates eighteen wood treating facilities, ten of which are located in the United States. These strategically located assets provide the productive capacity, purchasing power and means of delivery to respond ever more profitably to traditional markets and to the increased business expected once the economy fully recovers.

Relative Immunity to Volatility

Insofar as the consumption of energy and the carriage of freight represent indispensable economic activities, a steady demand exists for the products of Stella-Jones, no matter the prevailing economic conditions.

Tom A. Bruce Jones, CBE
Chairman

Chairman's Report

Whilst Stella-Jones Inc. has grown successfully and steadily during the past ten years, the year 2010 marked a significant step-change in our long-term strategy for the business with the acquisition of Tangent Rail Corporation completed on April 1.

Tangent itself, like Stella-Jones, had been active in consolidating the fragmented railway tie industry in the United States and its multiple tie treatment plants were ideally located geographically to complement the existing Stella-Jones sites. This has given us major benefits in terms of securing raw material supplies and of enhancing the service we can give to our customers. In addition, Tangent operated three complementary business streams new to our group, namely, the distillation of coal tar and the distribution of products from that process, recovery and chipping of old ties taken out of service by the railroads, and the operation of a private railroad network servicing one of the world's largest copper mines in Utah.

During the year, Tangent's management and operations were quickly merged into those of our US operating subsidiary, Stella-Jones Corporation, and our US corporate office was relocated to Pittsburgh, Pennsylvania. The success and speed of this merger was achieved through the well-developed skills of our management team and of those who joined us from Tangent. I congratulate them all on their outstanding efforts.

In the year to December 31, 2009, Tangent had sales of close to US$178 million and EBITDA of US$28 million. The acquisition price was approximately US$165 million. Stella-Jones Inc.'s financial results for 2010 therefore incorporate nine months' positive contribution from Tangent, partially offset by non-recurring expenses associated with the acquisition and integration process.

Stella-Jones' total sales in 2010 were $561.0 million and net earnings reached $34.4 million, compared to $411.1 million and $30.1 million, respectively, in 2009. Direct year-on-year comparisons are difficult because of currency conversion distortions and substantial exceptional items, but we saw encouraging organic growth in our core railway tie and utility pole businesses, both in Canada and the United States.

These results are, I believe, highly creditable given the prevailing economic climate in Canada and more especially in the United States, and the outlook for 2011, which we enter with a strong order book for ties and poles, looks extremely promising. We have also strengthened our position in the railway tie market, buoyed by our successful development of a single stage borate treatment process to protect ties from termite attack in addition to normal decay.

In line with all publicly quoted Canadian corporations, Stella-Jones will be adopting the new International Financial Reporting Standards, and additionally, will take advantage of the 30-day extension period allowed for publication of the first quarter 2011 financial results. Our planned announcement of these results will therefore be made on Thursday, June 2, immediately prior to the annual meeting of our shareholders.

On behalf of the Board, I wish to express gratitude to our customers and shareholders for their continuing support and thanks to all our employees for making 2010 another highly successful year for Stella-Jones Inc.

Tom A. Bruce Jones, CBE
Chairman

Tangent itself, like Stella-Jones, had been active in consolidating the fragmented railway tie industry in the United States and its multiple tie treatment plants were ideally located geographically to complement the existing Stella-Jones sites. This has given us major benefits in terms of securing raw material supplies and of enhancing the service we can give to our customers.

President's Message

Brian McManus
President and Chief Executive Officer

Stella-Jones experienced another record year of revenues and net earnings in 2010. Recessionary pressures eased in our core markets and we completed the largest acquisition in the Company's history. Sales rose to $561.0 million, while net earnings totalled $34.4 million, representing an increase of 14.4% over year-earlier levels.

Acquisition of Tangent Rail Corporation

Over the past decade, Stella-Jones has made numerous acquisitions as part of our continental expansion. All the acquired companies shared our core competencies and their customer bases were complementary. We have always benefited significantly from the cost and efficiency enhancements that resulted from these acquisitions. With our most recent acquisition, we have done more than expand and further empower our network. We have captured new revenue sources as well.

The acquisition of Tangent Rail Corporation, completed on April 1, 2010, immediately brought new competitive advantages to Stella-Jones. First, the ability to manufacture creosote, a preservative essential to the railway tie treating process, has strengthened our position throughout North America. It has increased our security of raw material supply, making us a more attractive option for Class 1 railroads.

The Tangent acquisition has also brought Stella-Jones the ability to offer railway operators the supplementary services of used tie pickup and disposal, as well as value-added pre-plating. These services also relate directly to increased tie sales, as they make us a full-service provider for customers. Our competitive position has unquestionably improved, as Stella-Jones can confidently bid on larger and broader projects.

Railway Ties

Pressure treated railway ties again formed Stella-Jones' largest product category. Sales totalled $283.2 million, a 53.0%, increase over the previous year. Excluding the Tangent contribution, and adjusting for unfavourable year-over-year currency variations, railway tie sales rose approximately 17.0%, showing solid organic growth.

In the latter half of the year, we saw a growing confidence among railroad operators, as the number of carloads and intermodal containers hauled on North American railroads increased.

Utility Poles

The second major product category of Stella-Jones also delivered a successful year. Our performance in the utility pole market was strong despite the continuing effect of pricing pressures on margins in certain regions. Sales amounted to $166.7 million in 2010, an increase of 11.4% compared to 2009. This improvement partially reflected higher activity in the resource sector which created demand for new electrical transmission infrastructure.

As the year drew to a close, the general market for utility poles showed signs of accelerating recovery. In fact, we turned our attention to ensuring sufficient raw material supply to meet the expected demand in 2011.

Industrial Products and Residential Lumber

Sales in the industrial products category rose to $81.4 million in 2010, from $44.8 million the previous year. The coal tar distillation and used tie pickup and disposal operations of Tangent were the principal contributors to the increase. These services demonstrated that they will represent an ongoing source of supplementary income for Stella-Jones.

In the residential lumber category, sales of $29.8 million represented a decrease of 5.6% in comparison to last year. Unfavourable weather in Canada, our sole market for residential lumber, and the expiry of the Canadian home renovation tax credit were the principal factors behind lower sales in this category.

Growth in 2011

Given the role of Stella-Jones as a key supplier to basic infrastructure, the pace of our growth is related to general economic conditions. As such, we regard 2011 with optimism. With improved performance in the North American economy, we see a momentum building in our core markets. The customers of Stella-Jones are steadily emerging from the recession. A revived confidence has taken hold, especially in the railroad industry, where freight volumes are firmly recovering. Investments are again being made in track upgrades and new track.

Stella-Jones is now widely recognized as one of the largest producers of railway ties on the continent. This has positioned the Company to pursue a larger share of the business of existing customers, and has strengthened our approach to new customers.

In the utility pole category, we expect to benefit from ongoing expansion in the natural resources sector. As well, our business flow is expected to gather speed as both regular maintenance projects and new investments go forward in the telecommunications and electrical transmission industries.

Leveraging the Tangent acquisition remains a priority in 2011 as we fully take advantage of synergies in our expanded network. The efficiencies we continue to implement should further contribute to margin improvement and shareholder value.

While remaining committed to our traditional business, we will also continue to pursue our strategic vision in a methodical fashion. A solid financial position and growing cash flow are key attributes of our readiness to study acquisition opportunities in core markets, as Stella-Jones seeks to further its continental expansion and industry consolidation.

I want to thank the employees of Stella-Jones for their strong adherence to our entrepreneurial culture. Their talents, professionalism and dedication to best practices have contributed enormously to the success of Stella-Jones. I would also like to thank our shareholders and our Board of Directors for their continuous support, as well as our customers, whose confidence has proven fundamental to the Company's ongoing growth.

Brian McManus
President and Chief Executive Officer

Over the past decade, Stella-Jones has methodically pursued a course of North American expansion as part of its ongoing program to consolidate the continental wood treating industry. The acquisition of Tangent Rail Corporation in 2010 constituted the logical next step in that program.

Acquisition of Tangent Rail Corporation

Calculated Advance

The geographic expansion and market penetration of Stella-Jones has proceeded on a highly strategic basis, responding to optimal opportunity. Stella-Jones has acquired companies only where they have been contiguous to its existing network, and only where synergies were clear and benefits immediate. Acquired assets in every instance broadened our network, deepened our production and marketing capabilities, and produced a multiplier effect upon sales. In short, each acquisition rendered our overall competitive position progressively more advantageous. The 2010 acquisition of Tangent Rail Corporation met all these criteria – and more.

Complementary Products and Services

With the Tangent acquisition, Stella-Jones has added to its customer base and further expanded its reach into the U.S. railway tie market. With this largest purchase in its history, the Company has also obtained supplementary products and value-added supply chain services that will assist in winning additional new customers in the railroad industry. These include:

- ✓ Coal tar distillation operations, securing Stella-Jones' supply base for the wood preservative creosote, an essential component of the railway tie treating process.
- ✓ Industrial coal tar products derivative of creosote manufacture, such as roof pitch and road tar, creating a niche revenue stream for Stella-Jones.
- ✓ Crosstie pre-plating, recycling and disposal services for railway customers.

Besides allowing for further network effect cost savings, the acquisition of the Tangent operations and capabilities have thus made Stella-Jones a full-service alternative in the marketplace. The Company has become an even more attractive supplier to Class 1 railroads in North America.

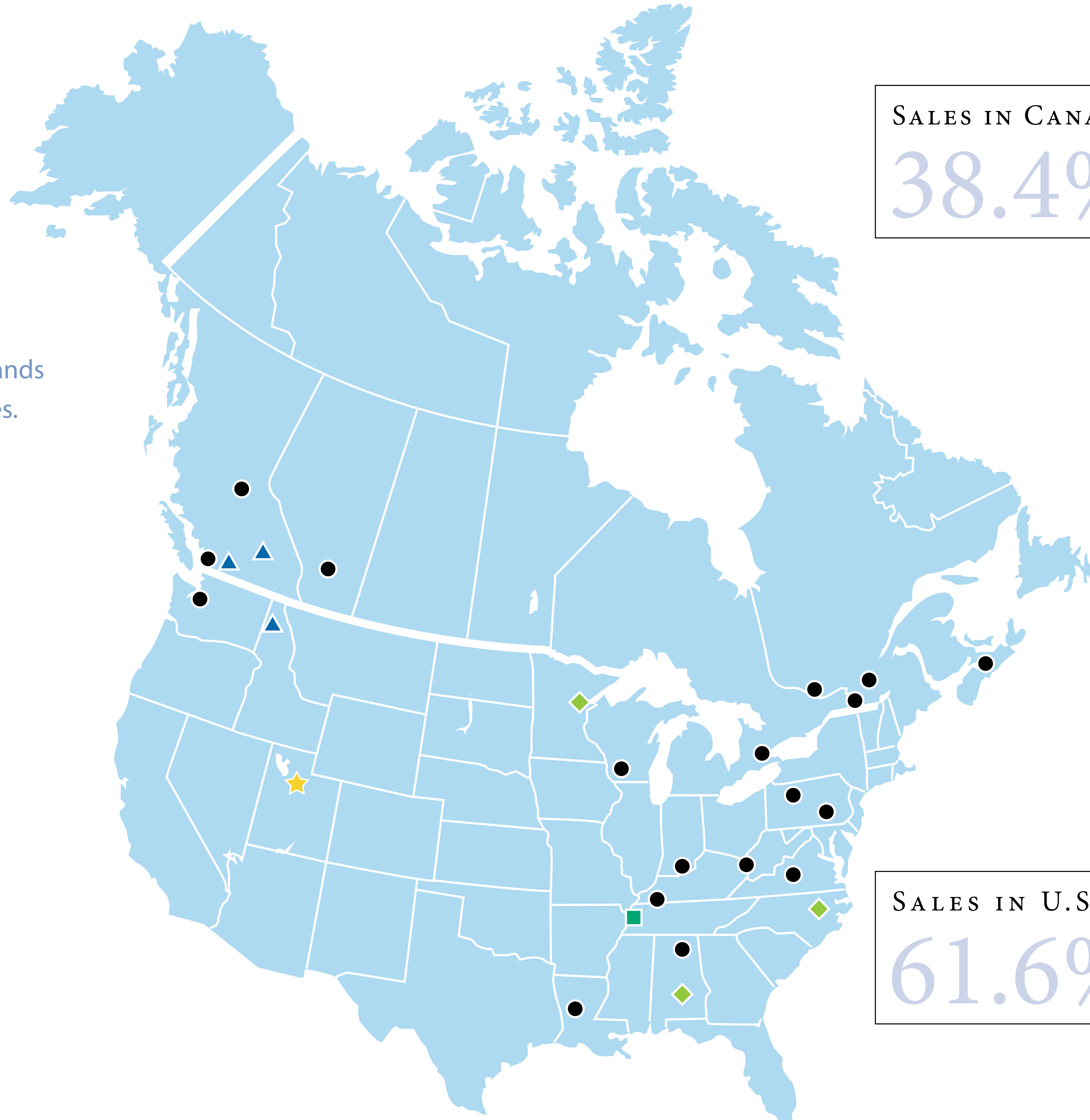
Long-Term Synergies

The speed and level of integration so far achieved with the assets of Tangent have surpassed expectations, and the Company continues to identify and unlock the synergies afforded by this latest addition to the Stella-Jones network. The benefits to shareholder value will increasingly manifest over time.

The Stella-Jones Network

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

- TREATING FACILITIES
- POLE PEELING FACILITIES
- COAL TAR DISTILLERY
- TIE PICKUP AND DISPOSAL FACILITIES
- RAIL SERVICES OPERATIONS



SALES IN CANADA

38.4%

SALES IN U.S.A.

61.6%

2010 RAILWAY TIE SALES

$283.2 M

2010 TOTAL SALES

50.5%

Railway Ties

Stella-Jones is one of the principal manufacturers of railway ties in North America.

Basic Component of an Essential Industry

The largest product category of Stella-Jones constitutes a fundamental component of railway infrastructure. As such, the pressure treated wooden crossties manufactured by the Company play a key role in North America's rail transportation network. In an era of increasing environmental awareness, the recognized ecological efficiency of rail has made it an option of both choice and cost-effectiveness for both passenger and freight transport. The basic railway crosstie will therefore remain a vital product for a long time to come.

Consistent Demand

Over 300,000 kilometers of railway track exist in North America, incorporating more than 600 million crossties. These ties have a finite life and must periodically be replaced. Moreover, in light of the current economic recovery, investments in new track are on the drawing boards of numerous rail operators. The railway ties manufactured by Stella-Jones therefore enjoy a steady, reliable demand.

Environmentally Responsible

Wood is a renewable resource and practical in a 'green' sense. Plastic, steel or concrete ties have historically not proven competitive in a North American context. The flexibility of the wooden tie and its use as bio-mass at the end of its working life have made it the enduring choice of railroad operators.

2010 Utility Pole Sales

$166.7 M

2010 Total Sales

29.7%

Utility Poles

Stella-Jones is one of North America's largest manufacturers of wood utility poles.

Historic Specialty

Utility poles represent the second core product category of Stella-Jones. In 2010, the Company sold utility poles to many of the largest electrical and telecommunications companies in the U.S., and to nearly every energy utility in Canada. They chose Stella-Jones by virtue of the Company's long history of specialization and strenuously maintained expertise.

Network Strength

With its continental organization of pressure treating plants, and the dependability of its widespread sources of supply, Stella-Jones manufactures wood transmission and distribution poles to satisfy the full spectrum of demand in size, species and preservative. Few competitors can match its substantial inventories and ability to deliver swiftly at peak periods and under extreme emergency conditions following natural disasters.

This explains why the Company has become a trusted partner to its clients, and increasingly seen as a reliable 'one-stop shop' for high-volume users of utility poles.

Unrivalled Product

Wood remains the most economical and optimal material for the range of tasks assigned to utility poles. Experience has demonstrated that poles made of alternative materials cannot compete with the versatility and value of wood. The attractiveness of wood begins with its cost effective production and transport. Wood also allows for flexible drilling, easy access for maintenance, and proven durability. With rights to the highest quality timber in all required species, Stella-Jones will remain at the forefront of providers in this key infrastructure category.

Stella-Jones generates supplementary revenues with specialty niche products and services which complement or derive from the Company's processes, highlighting its core competence in the pressure treatment of wood.

Industrial Products

Coal Tar Derivatives and Crosstie Services

In 2010, as part of its acquisition of Tangent Rail Corporation, Stella-Jones gained a coal tar distillation capacity to produce creosote for its wood treating operations. As an offshoot of the process, the Company now markets products such as road tar and roof pitch for the construction and industrial marketplaces. In addition, Stella-Jones now offers crosstie pre-plating and used tie recycling services for its customers in the railroad industry.

Construction and Maritime Lumber

For many years, Stella-Jones has provided pressure treated wood suited for outdoor exposure in the construction and maritime sectors. Products include bridge timbers, highway guiderail posts, foundation pilings, and marine pilings. As one of North America's most experienced wood treating companies, Stella-Jones prepares these products to face widely differing environmental conditions.

2010 Industrial Products Sales

$81.4 M

2010 Total Sales

14.5%

Residential Lumber

The expertise of Stella-Jones also satisfies a demand in the Canadian residential marketplace for preserved wood to build decks, fences, and other outdoor home renovation projects. The standard of quality championed by the Company is particularly welcomed in the retail lumber sector. Given its production expertise and capacity, this complementary activity has proven successful for Stella-Jones.

2010 Residential Lumber Sales

$29.8 M

2010 Total Sales

5.3%

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A") and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 10, 2011. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2010 compared with the fiscal year ended December 31, 2009. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the notes thereto.

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 Inc. (TSX: SJ) is a North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges.

The Company operates eighteen wood treating plants, a coal tar distillery, three facilities providing railway tie pickup and disposal services, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These twenty-seven facilities are located in six Canadian provinces and fourteen American states. The Company's workforce currently numbers approximately 940 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating 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, a long-standing stable source of wood supply, and a registration to produce and sell the wood preservative, creosote.

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.

NON-GAAP MEASURES

Operating earnings before amortization of capital and intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating earnings, and cash flow from operations 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 it to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company.

MAJOR ACHIEVEMENTS OF 2010

The most important achievement during the year was the acquisition, on April 1, 2010, of 100% of the shares of Tangent Rail Corporation ("Tangent"), a provider of wood crosstie supply chain services to the railroad industry. Tangent served the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Terre Haute and Winslow, Indiana; Alexandria, Louisiana and McAlisterville, Pennsylvania. The wood preservative, creosote, was produced at its distilleries in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions, consisting of used tie pickup and disposal, were carried out at three facilities in Alabama, Minnesota and North Carolina. This acquisition expanded the Company's capabilities within the U.S. railway tie industry and provided the Company with creosote manufacturing operations.

The year ended December 31, 2010 marked the Company's tenth consecutive year of uninterrupted growth in revenues and net earnings. Revenues grew $149.9 million, or 36.5%, primarily as a result of the acquisition of Tangent, which contributed revenues of approximately $120.5 million over a nine-month period. Organically, sales increased approximately 13.0%, mainly reflecting greater demand in the Company's core product categories, while year-over-year fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $23.8 million. Despite non-recurring items of approximately $5.7 million, net earnings grew 14.4% to reach $34.4 million.

Stella-Jones' solid performance once again generated strong cash flows in 2010, with cash flow from operations, before changes in non-cash working capital components, of $50.1 million, compared with $40.9 million in 2009. Although the Tangent acquisition was partially financed with debt, the Company maintained a sound balance sheet. As at December 31, 2010, the total long-term debt to equity ratio stood at 0.45:1, while the ratio of total debt to trailing 12-month EBITDA was 2.22:1.

KEY PERFORMANCE INDICATORS

For the years ended December 31	**2010**	2009	2008
(thousands of dollars, except per share data and ratios)	**$**	$	$
Sales	**561,046**	411,119	384,822
Gross profit	**103,618**	76,669	78,398
Net earnings	**34,395**	30,069	28,547
Basic net earnings per common share	**2.27**	2.38	2.29
Diluted net earnings per common share	**2.26**	2.37	2.25
Total assets	**521,633**	370,795	407,546
Total long-term debt*	**125,828**	87,080	105,759
Total long-term debt* to equity ratio	**0.45:1**	0.48:1	0.66:1
Total debt** to trailing 12-month EBITDA	**2.22**	2.43	3.21
Dividend per share	**0.38**	0.36	0.34

* Including current portion

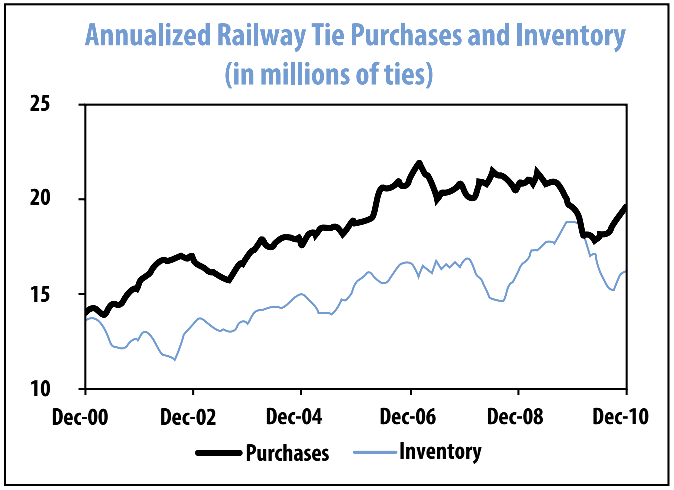
** Including short-term bank indebtedness

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended December 31, 2010 and 2009. 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$/US$		**2010**		2009
	Average	**Closing**	Average	Closing
First Quarter	**1.0576**	**1.0158**	1.2389	1.2613
Second Quarter	**1.0250**	**1.0646**	1.1820	1.1630
Third Quarter	**1.0531**	**1.0290**	1.1118	1.0707
Fourth Quarter	**1.0253**	**0.9946**	1.0694	1.0510
Fiscal Year	**1.0403**	**0.9946**	1.1505	1.0510

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties

As reported by the Railway Tie Association, railway tie purchases increased 0.7% to 19.7 million ties in 2010, while industry inventory decreased by 2.5 million ties to 16.2 million ties as at December 31, 2010. This inventory reduction resulted in lower purchases in the early stages of 2010, but the gradual recovery of the North American economy led to higher purchase activity in the latter half of the year. As at December 31, 2010, the inventory-to-sales ratio stood at 0.84:1, a level in keeping with the average value of the previous decade.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. 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.

Driven by the ongoing economic recovery, the number of carloads hauled on North American railroads increased by 9.4% in 2010, while the volume of intermodal trailers and containers was up 14.7% from 2009 levels, according to data released by the Association of American Railroads.

OPERATING RESULTS

Sales

Sales for the year ended December 31, 2010 totalled $561.0 million, an increase of $149.9 million, or 36.5%, over last year's sales of $411.1 million. The acquisition of Tangent contributed sales of approximately $120.5 million over a nine-month period. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, decreased the value of U.S. dollar denominated sales by about $23.8 million when compared with the previous year. Organically, sales increased approximately 13.0%, reflecting higher railway tie sales in the United States and Canada as well as greater utility pole sales in Canada.

Sales by product category

Railway ties

Railway tie sales for 2010 amounted to $283.2 million, an increase of $98.1 million, or 53.0% over sales of $185.1 million in 2009. These results reflect a nine-month contribution from the Tangent operations, which added tie sales of approximately $83.0 million, as well as increased market penetration. Excluding Tangent's sales and adjusting for a negative foreign exchange effect of $16.5 million due to a lower average conversion rate on U.S. dollar denominated tie sales, year-over-year comparable railway tie sales increased $31.7 million. While industry demand and pricing remained weak in the first quarter of 2010, the steady recovery in the North American economy resulted in improved market conditions as the year progressed. Railway tie sales accounted for 50.5% of the Company's total sales in 2010.

Utility poles

Utility pole sales amounted to $166.7 million in 2010, an increase of 11.4% over sales of $149.7 million in 2009. The progression is mainly due to higher sales of distribution poles in both Canada and the United States stemming from solid maintenance demand and greater market penetration. Meanwhile, sales of transmission poles rose in Canada, but were lower in the United States. The transmission pole market is more affected by the timing of orders, mostly for special projects. The negative conversion effect on U.S. dollar denominated sales reduced utility pole sales by approximately $4.8 million. Utility pole sales accounted for 29.7% of the Company's total sales in 2010.

Industrial products

Industrial product sales rose 81.7% in 2010, reaching $81.4 million, compared with $44.8 million in 2009. This $36.6 million increase is essentially attributable to Tangent's operations related to coal tar distillation and lifecycle solutions, including used tie pickup and disposal services. Excluding Tangent, sales declined marginally due to a negative conversion effect of approximately $2.5 million on U.S. dollar denominated sales. Industrial products represented 14.5% of overall sales in 2010.

Residential lumber

Sales in the residential lumber category totalled $29.8 million in 2010, down 5.6% from $31.5 million in 2009. The decrease reflects reduced renovation spending in Canada as a result of unfavourable weather during the peak summer period and the expiry of the home renovation tax credit program at the beginning of 2010. The Company does not sell residential lumber into the U.S. market. Residential lumber accounted for 5.3% of Stella-Jones' total sales in 2010.

Sales by destination

In 2010, sales in Canada grew 14.5% over 2009 levels, reaching $215.3 million, or 38.4% of Stella-Jones' total sales. The year-over-year sales increase of $27.3 million is entirely attributable to the Company's core railway tie and utility pole product categories.

Sales in the United States amounted to $345.7 million, or 61.6% of sales, representing an increase of $122.6 million, or 54.9%, over 2009. The increase reflects the Tangent acquisition and solid organic growth in the railway tie product category, partially offset by a lower conversion rate on U.S. dollar denominated sales. Sales of products exported to the United States from the Canadian-based facilities totalled $10.7 million in 2010, compared with $13.1 million in 2009, as the Company continues to optimize its asset base through plant specialization.

Gross profit

Gross profit reached $103.6 million or 18.5% of sales in 2010, up from $76.7 million or 18.6% of sales in 2009. The increase in gross profit dollars essentially reflects the contribution of the Tangent operations, partially offset by a lower average rate applied to convert gross profit from U.S. dollar denominated sales. The marginal reduction in gross profit as a percentage of sales mainly stems from a different product mix, more heavily weighted towards railway ties.

Cost of sales in 2009 also included $511,600 (US$468,600) for plant modifications and workforce reduction costs in connection with the termination of treating operations at the Stanton, Kentucky facility and the downsizing of the Spencer, West Virginia facility. Excluding these non-recurring items, gross profit for 2009 was $77.2 million, or 18.8% of sales.

Expenses

Selling and administrative expenses for 2010 were $29.6 million, compared with 2009 expenses of $20.4 million. This increase is attributable to expenses from the Tangent operations as well as to approximately $5.3 million in non-recurring expenses consisting of acquisition costs directly related to the purchase of Tangent, severance expenses, as well as a provision for an unfavourable legal judgement. Conversely, non-recurring net revenues of $2.6 million related to the sale of certain assets of the Terre Haute, Indiana facility were recorded in the fourth quarter. As a percentage of sales, selling and administrative expenses were 5.3% of sales in 2010, compared to 5.0% in the prior year.

During the year ended December 31, 2010, the Company recorded asset impairment charges of $3.0 million for the Spencer, West Virginia facility and the Ripley, West Virginia U.S. corporate office. These charges were mostly recorded in earnings during the second quarter. In the year ended December 31, 2009, asset impairment charges of $833,000 were recorded for the Stanton, Kentucky facility and the former Ripley, West Virginia U.S. corporate office.

Stella-Jones realized a foreign exchange loss of $44,000 for the year ended December 31, 2010, versus a foreign exchange gain of $1.4 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 for economic purposes consists of entering into forward foreign 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 foreign exchange contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

The non-cash loss on forward foreign exchange contracts resulting from the change in their mark-to-market values as at December 31, 2010, compared to September 30, 2010, totalled $64,000, whereas the non-cash gain from the change compared to December 31, 2009, was $19,000. As at December 31, 2010, the Company had no forward foreign exchange contracts outstanding.

Amortization of capital and intangible assets totalled $10.4 million in 2010, an increase of $1.6 million over 2009. This increase reflects the amortization of Tangent's capital and intangible assets, partially offset by a change in accounting estimates, applied prospectively from October 1, 2009, that increased the useful life of certain capital assets in order to better reflect the period over which they are consumed.

Financial expenses for 2010 amounted to $10.6 million, up from $8.5 million in 2009. The $2.1 million increase in financial expenses is due to higher borrowings to partially finance the acquisition of Tangent, partly offset by lower Canadian dollar interest charges on the conversion of U.S. dollar denominated debt.

Earnings before income taxes and income tax expense

Stella-Jones generated earnings before income taxes of $50.1 million, or 8.9% of sales, in 2010. This represents an increase of $8.3 million, or 19.8%, over earnings before income taxes of $41.8 million, or 10.2% of sales, in the prior year. Excluding non-recurring expenses and revenues as well as asset impairment charges, earnings before income taxes for 2010 were approximately $55.8 million, or 9.9% of sales, a percentage comparable with the level achieved a year earlier.

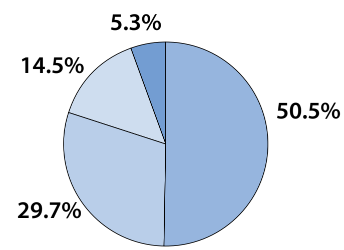
Stella-Jones' income tax expense totalled $15.7 million in 2010, representing an effective tax rate of 31.3%. In 2009, the income tax expense stood at $11.7 million, equivalent to an effective tax rate of 28.1%. The higher effective tax rate for 2010 is essentially related to a higher proportion of revenue generated in the United States that is subject to a higher statutory tax rate as well as to non-deductible items related to the Tangent acquisition.

Net earnings

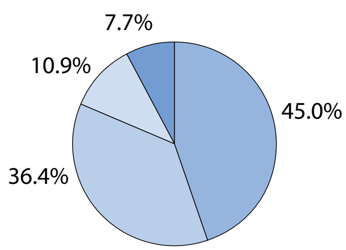
Net earnings for the year totalled $34.4 million, or $2.26 per share, fully diluted, compared with $30.1 million, or $2.37 per share, fully diluted, in 2009. This represents a year-over-year increase in net earnings of $4.3 million, or 14.4%. The exchange of subscription receipts for common shares on April 1, 2010 to partially finance the Tangent acquisition increased the 2010 weighted average number of shares outstanding used for the calculation of fully diluted earnings per share by approximately 19.7% over 2009.

Sales by product (% of revenues)

- Railway Ties 50.5% (2009 – 45.0%)
- Utility Poles 29.7% (2009 – 36.4%)
- Industrial Products 14.5% (2009 – 10.9%)
- Residential Lumber 5.3% (2009 – 7.7%)



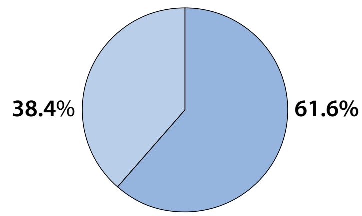
2010



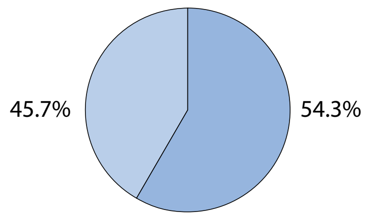
2009

Sales by geographic region (% of revenues)

- United States 61.6% (2009 – 54.3%)
- Canada 38.4% (2009 – 45.7%)



2010



2009

BUSINESS ACQUISITION

On April 1, 2010, the Company completed the acquisition of 100% of the shares of Tangent, a provider of wood crosstie supply chain services to the railroad industry. Tangent served the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Terre Haute and Winslow, Indiana; Alexandria, Louisiana and McAlisterville, Pennsylvania. The wood preservative, creosote, was produced at its distilleries in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions, consisting of used tie pickup and disposal, were carried out at three facilities in Alabama, Minnesota and North Carolina. This acquisition expanded the Company's capabilities within the U.S. railway tie industry and provided the Company with creosote manufacturing operations.

Total cash outlay associated with the acquisition was approximately $172.7 million (US$170.0 million), including cash on hand of $6.8 million (US$6.7 million) and excluding acquisition costs of approximately $2.0 million (US$2.0 million). This amount includes $90.4 million (US$89.0 million) paid to Tangent's shareholders, $81.3 million (US$80.1 million) used to reimburse Tangent's debts with financial institutions and $1.0 million (US$0.9 million) to pay accrued interest on these debts.

The acquisition has been accounted for using the acquisition 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. During the fourth quarter, the Company adjusted the value of certain assets as well as goodwill, future income tax liabilities and accrued liabilities. The results of operations of Tangent have been included in the Company's consolidated financial statements from the acquisition date.

The following is a summary of the net assets acquired at fair value as at the acquisition date. The original transaction was made in US dollars and converted into Canadian dollars as at the acquisition date.

	$
(tabular information presented in thousands of dollars)	
Assets acquired	
Non-cash working capital	48,603
Capital assets	22,734
Customer relationships	20,905
Customer backlog	670
Creosote registration	31,723
Non-deductible goodwill	70,239
Future income tax assets	615
	195,489
Liabilities assumed	
Accounts payable and accrued liabilities	5,290
Long-term debt	81,340
Site remediation obligation	1,311
Future income tax liabilities	23,983
Total consideration	83,565
Consideration	
Cash	172,694
Payment of accrued interest	(956)
Payment of long-term debt	(81,340)
Cash on hand	(6,833)
Purchase consideration for shares	83,565

The Company's valuation of intangible assets has identified customer relationships, a creosote registration and customer backlog. The assigned useful lives for customer relationships are between 6 to 10 years and 3 months for the customer backlog. The creosote registration is not subject to amortization as the Company considers it to have an infinite useful life.

Goodwill value is determined as the excess of the total consideration over the estimated fair value of tangible and intangible assets acquired as well as liabilities assumed. Goodwill is not amortized, not deductible for tax purposes and represents the future economic value associated with the increased railroad network access, acquired workforce and synergies with the Company's operations.

The following table presents a roll forward of the intangible assets and goodwill net book value balances from December 31, 2009 to December 31, 2010:

(tabular information presented in thousands of dollars)	Intangible assets				
	Customer Relationships $	Non-compete Agreements $	Creosote Registration $	Total Intangible assets $	Goodwill $
Year ended December 31, 2009					
Cost	4,603	5,980	—	10,583	5,494
Accumulated amortization	(1,259)	(1,744)	—	(3,003)	—
Net book amount as at December 31, 2009	3,344	4,236	—	7,580	5,494
Year ended December 31, 2010					
Opening net book balance	**3,344**	**4,236**	—	**7,580**	**5,494**
Addition of Tangent customer relationships	**20,905**	—	—	**20,905**	—
Addition of Tangent customer backlog	**670**	—	—	**670**	—
Addition of Tangent creosote registration	—	—	**31,723**	**31,723**	—
Addition of Tangent goodwill	—	—	—	—	**70,239**
Amortization	**(3,586)**	**(986)**	—	**(4,572)**	—
Exchange differences	**(473)**	**(185)**	**(662)**	**(1,320)**	**(1,760)**
Net book amount as at December 31, 2010	**20,860**	**3,065**	**31,061**	**54,986**	**73,973**

Financing for the transaction was secured through an $80,050,000 private placement of subscription receipts which successfully closed on March 15, 2010, as well as through the issuance to the Solidarity Fund QFL of a $25,395,000 (US$25,000,000) unsecured, subordinated and non-convertible debenture, the addition of a $40,632,000 (US$40,000,000) syndicated bank term facility which successfully closed on March 24, 2010, and the increase of existing operating debt facilities. Underwriting and legal fees related to the private placement of subscription receipts amounted to $3,147,000, generating net proceeds of $76,903,000. The subscription receipts were exchanged as at the close of business, April 1, 2010, for common shares in the share capital of the Company on the basis of one common share per subscription receipt. Holders of subscription receipts did not need to take any action in order to receive the common shares to which they were entitled. As the subscription receipts were sold on a private placement basis, these common shares were subject to regulatory restrictions on resale until July 16, 2010.

Tangent's sales and net earnings before income taxes in the nine-month period ended December 31, 2010 were $120,456,000 and $8,923,000, respectively. On a pro forma basis, Management's estimate of the sales and net earnings before income taxes of the combined Company and Tangent's operations, for the twelve-month period ended December 31, 2010, would have been approximately $601,360,000 and $54,924,000, respectively, had the Tangent acquisition occurred as of January 1, 2010. To arrive at the pro forma estimates, Management has considered the financing structure resulting from the acquisition as well as other acquisition adjustments.

QUARTERLY RESULTS

The Company's sales follow 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. Residential 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.

After posting lower sales in the first quarter of 2010, compared with the corresponding period in 2009, the acquisition of Tangent, combined with a healthier North American economy, resulted in solid year-over-year revenue growth in the final nine months of 2010. These gains were achieved in spite of the stronger year-over-year value of the Canadian dollar, Stella-Jones' reporting currency, against the U.S. dollar, which reduced the conversion rate applicable to the Company's revenue stream generated in U.S. dollars. Year-over-year variations in operating earnings essentially reflected the same factors, as well as synergies and efficiencies stemming from the integration of the Tangent operations.

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

2010					
For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(thousands of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	**99,360**	**167,317**	**161,298**	**133,071**	**561,046**
Operating earnings before amortization of capital and intangible assets [1]	**12,266**	**14,202**	**22,498**	**22,033**	**70,999**
Operating earnings [1]	**10,500**	**11,325**	**19,522**	**19,297**	**60,644**
Net earnings	**5,814**	**5,610**	**12,218**	**10,753**	**34,395**
Net earnings per common share					
Basic	**0.46**	**0.35**	**0.77**	**0.68**	**2.27**
Diluted	**0.46**	**0.35**	**0.77**	**0.67**	**2.26**

2009					
For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	111,954	129,104	104,671	65,390	411,119
Operating earnings before amortization of capital and intangible assets [1]	15,924	20,976	15,272	6,851	59,023
Operating earnings [1]	13,313	18,475	13,376	5,104	50,268
Net earnings	7,687	11,021	8,320	3,041	30,069
Net earnings per common share					
Basic	0.61	0.87	0.66	0.24	2.38
Diluted	0.61	0.87	0.65	0.24	2.37

[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 2010 reached $133.1 million, up from $65.4 million reported for the same period in 2009. This $67.7 million increase is attributable to a $37.1 million contribution from the Tangent operations, solid demand for the Company's core products and strong advanced deliveries of railway ties. Of note, sales in the fourth quarter of 2009 were negatively affected by soft demand in most product categories and little advanced shipments of railway ties. The stronger year-over-year value of the Canadian dollar, Stella-Jones' reporting currency, decreased the value of U.S. dollar denominated sales by approximately $2.1 million.

Fourth quarter sales of railway ties amounted to $62.4 million, up from $22.1 million a year earlier. This increase reflects a $26.6 million contribution from the Tangent operations and stronger industry demand. The fourth quarter of 2009 also witnessed a significant reduction in advanced deliveries to Class 1 railway operators for their regular maintenance programs of the following year, as purchases were deferred to keep tie inventory levels down. Utility pole sales reached $48.7 million, compared with $31.1 million in the fourth quarter of 2009. This increase is mostly attributable to higher sales of distribution and transmission poles in Canada. Industrial product sales amounted to $19.8 million, up from $10.1 million a year earlier, due essentially to a $10.6 million contribution from the Tangent operations. Finally, residential lumber sales rose 5.6% to $2.2 million, up from $2.1 million last year.

Gross profit in the fourth quarter of 2010 totalled $27.2 million, or 20.5% of sales, compared with $10.6 million, or 16.2% of sales, in the corresponding period in 2009. The increase in gross profit dollars essentially reflects the contribution of the Tangent operations and strong organic growth, partially offset by a lower average rate applied to convert gross profit from U.S. dollar denominated sales. The increase in gross profit as a percentage of sales principally reflects the improved plant efficiencies from higher volumes, lower costs for certain raw materials, and higher selling prices.

Net earnings for the period totalled $10.8 million, or $0.67 per share, fully diluted, compared with $3.0 million, or $0.24 per share, fully diluted, in the fourth quarter of 2009.

BALANCE SHEET

The Company's working capital at December 31, 2010 was $192.4 million, an increase of $22.3 million over a working capital balance of $170.1 million at December 31, 2009. Current assets amounted to $272.2 million at the end of 2010 compared with $254.6 million twelve months earlier. Most of this increase is attributable to accounts receivable related to Tangent's operations and the reduction in bank indebtedness.

The value of accounts receivable was $56.3 million as at December 31, 2010 compared with $30.2 million at the same date in 2009. This increase essentially reflects the addition of Tangent's accounts receivable as well as stronger year-over-year demand for the Company's core products in the fourth quarter, partially offset by a lower conversion rate applicable to U.S. dollar denominated receivables. Excluding Tangent, accounts receivable would have been $40.6 million as at December 31, 2010.

Inventories stood at $205.3 million, down from $212.6 million a year earlier. This decrease is due to strong demand for the Company's products and the impact of local currency depreciation on U.S. based inventory which more than offset the addition of Tangent's inventory. Excluding the latter, inventories would have been $172.1 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 $114.0 million as at December 31, 2010, compared with $96.9 million as at December 31, 2009. This $17.1 million increase is essentially related to the addition of Tangent's capital assets, partially offset by local currency depreciation on U.S. based capital assets. Excluding Tangent, the value of capital assets would have been $91.6 million.

Owing to the Tangent acquisition, the value of intangible assets and goodwill reached $55.0 million and $74.0 million, respectively, as at December 31, 2010. Intangible assets include customer relationships, the discounted value of the non-compete agreements and Tangent's creosote registration. As at December 31, 2009, intangible assets and goodwill were $7.6 million and $5.5 million, respectively.

Bank indebtedness at the end of 2010 totalled $31.9 million, down from $56.1 million at the end of 2009. This $24.2 million reduction mainly results from a solid cash flow generation and improved working capital. As at December 31, 2010, the credit facilities supporting bank indebtedness include a $50.0 million demand operating loan ($50.0 million as at December 31, 2009), as well as a US$75.0 million demand operating loan (US$45.0 million as at December 31, 2009), both made available by a syndicate of bank lenders. Combined availability under the Company's Canadian and U.S. demand operating loans was $84.1 million as at December 31, 2010.

The Company believes that these demand operating loans, 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, if any, may require new sources of financing.

As at December 31, 2010, the Company's long-term debt, including the current portion, amounted to $125.8 million, up from $87.1 million as at December 31, 2009. This increase is essentially due to the issuance to the Solidarity Fund QFL of a US$25.0 million (Cdn$25.4 million) unsecured, subordinated and non-convertible debenture and the addition of a US$40.0 million (Cdn$40.6 million) term facility to partially finance the acquisition of Tangent. These factors were partially offset by scheduled principal repayments of $9.3 million, an accelerated repayment of a $10.0 million unsecured and non-convertible debenture owing to the Solidarity Fund QFL, an accelerated payment of US$3.0 million on the new US$40.0 million term loan, an accelerated payment of $1.5 million on a revolving term loan with a Canadian bank and accelerated payments of US$1.1 million on capital leases, as well as favourable currency movements that decreased the conversion rate of U.S. dollar denominated long-term debt into Canadian currency. All of the unscheduled payments were made in the fourth quarter.

Shareholders' equity was $281.4 million as at December 31, 2010 compared with $180.0 million as at December 31, 2009. This increase of $101.4 million is mostly attributable to net proceeds of $76.9 million from the issuance of subscription receipts to partially finance the acquisition of Tangent and strong earnings generation of $34.4 million, partially offset by dividend payments on common shares totalling $6.0 million. The subscription receipts were exchanged, without additional payment, into common shares of the Company on a one-for-one basis upon completion of the acquisition on April 1, 2010. Book value stood at $17.67 per common share as at December 31, 2010, up from $14.19 per share as at December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (thousands of dollars)	**Fiscal Year Ended**	
	December 31, 2010	December 31, 2009
	$	$
Operating activities	**81,608**	40,481
Financing activities	**7,775**	(36,220)
Investing activities	**(89,383)**	(4,261)
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 raised from operating lines of credit and long-term debt, 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. 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 $50.1 million for the year ended December 31, 2010, compared with $40.9 million for the prior year. This increase mostly reflects higher net earnings for the period as well as a positive variation in non-cash expenses resulting from asset impairment charges and the reversal of a gain on derivative financial instruments recognized in 2009.

Changes in non-cash working capital components provided liquidity of $31.5 million compared with a liquidity reduction of $0.5 million a year ago. The improvement essentially results from a $31.3 million decrease in inventories. In addition, an $11.6 million increase in accounts receivable was partially offset by a $9.8 million increase in accounts payable and accrued liabilities; both factors reflect higher business activity. As a result, operating activities provided liquidity of $81.6 million for the year ended December 31, 2010, versus $40.5 million a year earlier.

Financing activities for the year ended December 31, 2010 provided funds of $7.8 million, as opposed to requiring liquidity of $36.2 million for the corresponding period a year earlier. Main factors explaining this cash generation include proceeds from the $76.9 million issuance of subscription receipts to partially finance the Tangent acquisition, which were to a large extent offset by a net decrease in long-term debt totalling $37.9 million, which includes the repayment of the Tangent debt on the date of acquisition, and a decrease in short-term bank indebtedness of $23.1 million.

Investing activities required $89.4 million in cash during 2010, of which $83.6 million is attributable to the Tangent acquisition. Purchases of capital assets totalled $6.1 million, mainly for the addition of various equipment upgrades and expansion. For the year ended December 31, 2009, cash flows from investing activities reduced liquidity by $4.3 million.

The following table details the maturities of the financial obligations as at December 31, 2010:

(in thousands of dollars)	Carrying Amount $	Contractual Cash flow $	Less than 1 year $	1 – 3 years $	4 – 5 years $	After 5 years $
Bank indebtedness[1]	31,923	32,736	32,736	—	—	—
Accounts payable and accrued liabilities	33,266	33,266	33,266	—	—	—
Long-term debt obligations[1]	125,828	160,148	17,903	36,741	59,689	45,815
Interest rate swaps						
Outflow	—	2,635	1,136	1,042	457	—
Inflow	—	(1,443)	(433)	(595)	(415)	—
Other contractual obligations	—	23,705	5,785	6,893	2,128	8,899
Non-compete agreements	4,041	4,041	1,243	2,486	312	—
Total	195,058	255,088	91,636	46,567	62,171	54,714

[1] Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2010, the capital stock issued and outstanding consisted of 15,922,668 common shares (12,684,325 as at December 31, 2009). The following table presents the outstanding capital stock activity for the year ended December 31, 2010:

Year Ended December 31, 2010	Number of shares (in '000s)
Balance – Beginning of period	12,684
Stock option plan	25
Exchange of subscription receipts for common shares	3,202
Employee share purchase plans	12
Balance – End of period	15,923

As at March 10, 2011, the capital stock issued and outstanding consisted of 15,931,668 common shares. As at December 31, 2010, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 181,000 (December 31, 2009 – 197,785) of which 128,300 (December 31, 2009 – 126,185) were exercisable. As at March 10, 2011, the number of outstanding options was 172,000, of which 119,300 were exercisable.

DIVIDENDS

On March 10, 2011, the Board of Directors declared a semi-annual dividend of $0.24 per common share payable on May 13, 2011 to shareholders of record at the close of business on April 1, 2011. On August 11, 2010, the Board of Directors declared a semi-annual dividend of $0.20 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 $30,722,896 (2009 – $14,583,548) 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

Operations

The Company's core railway tie and utility pole product categories are integral to the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained, which provides Stella-Jones with relatively steady demand for its core products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

Based on current market conditions, Management continues to expect business activity to further improve in the upcoming quarters. Increased freight volume on North American railroads should lead to greater investments in the continental rail network, including ties, as operators constantly seek optimal line efficiency. Demand is expected to steadily progress in utility poles, as regular maintenance projects provide a stable business flow for distribution poles, while the vigour of the transmission pole market is more correlated to the timing of orders, mostly for special projects.

Liquidity

As at December 31, 2010, the Company is in full compliance with its debt covenants and contractual obligations. In addition, it has a combined availability under the Company's Canadian and U.S. demand operating loans of $84.1 million as at December 31, 2010.

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. As at December 31, 2010, 58.3% of accounts receivable were current (58.8% as at December 31, 2009) and only 5.8% were past due more than 60 days (2.3% as at December 31, 2009).

Despite acquiring Tangent, inventories decreased during 2010 largely due to strong demand for the Company's products. To ensure efficient treatment operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

Environmental laws and regulations

The Company is subject to a variety of environmental laws and regulations, including those relating to emission to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites ("Environmental Laws"). These Environmental Laws require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

The enforcement of these Environmental 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 could result in civil or criminal enforcement actions which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility. To mitigate this risk, the Company dedicates ongoing financial expenditures and carries out localized training and internal inspections of its facilities in order to ensure compliance with applicable plant specific permits and Environmental Laws. The potential financial impact of all environmental protection and compliance expenditures on the Company during the year 2011 is not expected to be material.

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 may 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. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected. 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.

Environmental Litigation

While the Company has been party to environmental litigation in the past, which have included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

Reputational Risk

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of Environmental Laws could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction of the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

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. The April 2010 acquisition of Tangent, along with its registration for the production of the wood preservative, creosote, has further mitigated this risk.

Currency risk

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

Interest rate fluctuations

As at December 31, 2010, the Company had limited exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 35.0% (2009 – 14.0%) 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 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.

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, 2010.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 2 to the December 31, 2010 audited consolidated financial statements.

The Company prepares its consolidated financial statements in conformity with Canadian GAAP which 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 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 and business combinations.

CHANGES IN ACCOUNTING POLICIES

The CICA issued the following new accounting standards which were adopted by the Company effective January 1, 2010:

Section 1582, "Business Combinations", replaces Section 1581 of the same title. The new Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting 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. The Company applied this new standard effective January 1, 2010, as early adoption is permitted. As a result of the application of this new accounting standard, previously capitalized transaction costs of approximately $328,000 were expensed in the current period. Effective January 1, 2010, expenses of a similar nature are recorded to results in the period in which they occurred.

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 International Accounting Standard ("IAS") 27 (Revised), "Consolidated and Separate Financial Statements". The Company applied these new standards effective January 1, 2010, as early adoption is permitted. Their adoption had no significant impact on the Company's consolidated financial statements.

UPCOMING CHANGES TO ACCOUNTING POLICIES

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting, for the periods beginning on January 1, 2011, when it will start to apply, as its primary basis of accounting, IFRS as published by the International Accounting Standards Board ("IASB") and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in the consolidated financial statements as they will normally never be applied by the Company.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly listed companies will be required to use IFRS in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

Management has established an IFRS implementation team to develop an IFRS changeover plan. In 2008, a preliminary diagnostic analysis (phase I) was prepared by external consultants who identified the key areas where changes in accounting policy may have some impact on the Company's consolidated financial statements.

The Company is presently in the phase II stage of its changeover plan, which includes a definition of roles and responsibilities, a review of the differences between current Canadian GAAP (as applied by the Company) and IFRS, and the analysis of possible options regarding adoption. Phase II is practically completed and the consequences of most of the changes have been determined. Management is presently in the process of finalizing the Company's opening balance sheet as of January 1, 2010 to precisely establish and document 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 preparation of the transition to IFRS note, including the reconciliation between Canadian GAAP and IFRS, is also in process. That note will be included in the Company's March 31, 2011 interim unaudited consolidated financial statements.

In the period leading up to the changeover, the Company continues to monitor standards to be issued by the IASB, because the IASB work plan expects the completion of several projects in calendar year 2011.

Set out below are the key areas where changes in accounting policies may impact the Company's consolidated financial statements. It is intended to highlight those areas the Company believes to be most significant. However, the analysis of changes is still in process and not all decisions have been finalized since alternative accounting policies are available.

Property, plant and equipment

IAS 16 – Property, plant and equipment permits assets to be measured based on either a cost model or a revaluation model. Under a revaluation model, an item of property, plant and equipment is carried at a revalued amount, being the fair value at the date of the revaluation.

The property, plant and equipment ("capital assets") review and analysis has been completed. The Company plans to continue to use the cost model under IFRS. No significant adjustment is expected from the adoption of this standard.

Leases

The company undertook a detailed review of material lease arrangements in order to determine the appropriate lease classification under IFRS.

After reviewing lease contracts subject to IAS 17, the Company concluded that finance and operational leases are properly classified.

Cutting rights and standing timber

Cutting rights contracts have been analyzed to determine if they should be considered under IAS 17, Leases or under IAS 38, Intangible Assets. This analysis has been completed and Management concluded that cutting rights should be recorded under intangible assets.

As at December 31, 2009, cutting rights were accounted for as part of capital assets. Under IFRS, the Company will have to reclassify these assets from capital assets to intangible assets on the balance sheet. This reclassification will be for a net book value of $6.1 million. Standing timber, will, under IAS 38, also have to be reclassified under intangible assets. This reclassification will be for a net book value of $3.1 million.

Joint ventures

Under Canadian GAAP, the 50% interest that the Company has in Kanaka Creek Pole Company Limited ("Kanaka") is accounted for under the proportionate consolidation method. Essentially, 50% of the balance sheet and profit and loss statement of Kanaka are added to the Company's consolidated financial statements. An exposure draft (ED 9) proposes to remove the option to use the proportionate consolidation method for jointly controlled entities. However, the new standard is not published yet and since there might be changes between ED 9 and the final standard, the Company has decided to wait before making any adjustment to its accounting policy regarding joint ventures.

The documentation for joint venture accounting is in place and no additional disclosures will be required, based on the current standards.

Financial instruments

Effective January 1, 2008, the Company adopted CICA handbook Section 3862 – Financial Instruments - Disclosure and handbook Section 3863 - Financial Instruments - Presentation. These new sections were introduced to better harmonize Canadian GAAP to IFRS by incorporating many of the concepts found in IAS 32 - Financial Instruments Presentation and IAS 39 - Financial Instruments Recognition and Measurement. Under IAS 39, the Company must prepare a retrospective and prospective quantitative effectiveness test. This analysis has been prepared by an external consultant and reviewed by Management. Management has determined that hedging relationships qualifying for hedge accounting under Canadian GAAP also qualify under IFRS.

Employee future benefits

In August 2009, Stella-Jones mandated Morneau Sobeco, Human Resource Consultants, to perform an analysis of adopting IAS 19 – Pensions and Other Employee Benefits. Based on the conclusion of their report, the Company has made a decision concerning the various approaches for addressing actuarial gains and losses under IAS 19. The Company has decided to reflect actuarial gains and losses in the statement of other comprehensive income. As a result, a total unamortized actuarial gain related to Stella-Jones' pension plans of $307,000 as of January 1, 2010 will be reflected on the balance sheet upon transition.

Stella-Jones also mandated Towers Watson to perform the same analysis regarding the post-retirement benefits. As a result, there will be two adjustments to the opening balance sheet as of January 1, 2010: an unamortized actuarial loss of $1.1 million and a gain of $549,000 related to the attribution period.

Share-based payments

The Company has a stock option plan, employee share purchase plans and restricted stock units ("RSUs") that will be subject to IFRS 2 – Share-Based Payments. Under this standard, the expense related to these arrangements must be recognized based on a financial model such as Black-Scholes. The stock option plan is currently calculated based on the Black-Scholes model. IFRS also requires the use of the graded vesting method for grants with vesting periods greater than one year. Currently, Stella-Jones accounts for the costs under the straight-line method for Canadian GAAP. As a result of that change of method, there will be an adjustment to the opening balance sheet of $347,000 in retained earnings.

For the employee share purchase plans, there will be no impact upon transition.

Under IFRS, Stella-Jones will have to use a Black-Scholes valuation model to measure the liability related to its RSUs (instead of the intrinsic value under Canadian GAAP). That change of method will have no impact on the opening balance sheet. Afterwards, the liability will be re-measured every quarter.

Borrowing costs

IAS 23 requires the Company to capitalize borrowing costs on certain qualifying assets. Stella-Jones is evaluating the impact focusing on assets that will take more than six months to build. At that time, upon IFRS conversion, the Company is not expecting IAS 23 to have a material impact on its financial statements.

Asset retirement obligations

Under the British Columbia Forest Act and the Alberta Forests Act, the Company is obligated to assume the costs related to reforestation on certain harvest licenses and to incur remediation costs for certain sites.

The Company modified the Asset retirement obligation calculations in 2008 and current disclosure adequately meets IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. There are proposed changes to IAS 37 that may require the Company to perform other assessments.

Business combinations and goodwill

Effective July 1, 2009, IFRS 3 becomes the reference document to guide corporations through business combinations.

Under IFRS 1, the Company has the option to retroactively apply IFRS 3 to all business combinations or may chose to apply the standard prospectively only to those acquisitions that occur after the date of transition. The Company has decided to apply the standard prospectively. In addition, the Company has elected to early adopt a new standard under Canadian GAAP from January 1, 2010 which would align the accounting for business combinations under Canadian GAAP to IFRS.

Impairment

IAS 36 – Impairment of Assets uses a one-step approach for testing and measuring asset impairment. Asset carrying values are being compared to the higher of the value in use and fair value less disposal costs. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists.

As of December 2009, a goodwill impairment test model has been prepared and no impairment adjustment was required. The IFRS documentation has also been completed.

First time adoption of IFRS

In addition, as a first time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". IFRS 1 provides a number of selected optional exemptions that the Company has evaluated. The most significant election is the recognition through opening retained earnings of the cumulative translation adjustments on self-sustaining foreign operations. As of January 1, 2010, the cumulative translation adjustment on self-sustaining foreign operations will be deemed to be nil. The amount of $1.8 million will be reclassed from accumulated other comprehensive income to retained earnings.

Impact on information systems

The Company has assessed the information requirements of IFRS reporting. During the fourth quarter of 2009, the diagnostic analysis regarding current information systems was completed. Changes have been made to ensure that dual reporting of both Canadian GAAP and IFRS was possible in 2010 and new reports have been created to meet IFRS disclosure requirements.

Impact on internal controls over financial reporting and disclosure

The Canadian Securities Administrators' National Instrument 52-109 sets out rules that public companies are required to follow concerning internal controls over financial reporting and disclosure controls and procedures. In compliance with these rules, Management's approach was to identify, review and potentially modify, as considered necessary, certain key controls that may be impacted by changes due to IFRS conversion. Affected key controls were evaluated and have been tested using a risk based approach to ensure they were properly designed and were operating effectively in order to ensure that no material errors would be generated from the changeover to IFRS.

Impact on business activities

The effects of IFRS conversion on the Company's debt covenants are being reviewed. It is not expected that the conversion to IFRS will significantly impact these covenants.

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, 2010, 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 GAAP.

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, 2010. 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, 2010 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 occur in disclosures or the execution of internal controls and procedures 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 2010, the Company paid a total of $300,000 (2009 - $300,000) to its parent company and ultimate shareholders with respect to marketing and technical services fees and incurred interest expense of $32,000 (2009 - $52,000) with respect to loans from the same parties, as detailed in Note 21 to the December 31, 2010 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

As global economic conditions continue to improve, Management expects demand for the Company's core products to further accelerate in the upcoming year. However, the strong deliveries in the latter part of the fourth quarter are expected to slightly soften first quarter results.

In the railway tie market, increased freight volume on North American railroads should lead to greater investments in the continental rail network, as operators constantly seek optimal line efficiency. Meanwhile, demand is expected to steadily progress in utility poles, as regular maintenance projects provide a stable business flow for distribution poles, while the strength of the transmission pole market is more correlated to the timing of orders, mostly for special projects.

The successful integration of the Tangent operations will continue to be a major performance driver in 2011. This transaction solidified Stella-Jones' position as the second largest North American provider of railway ties and the Company is poised to realize the full potential of its expanded network. 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 diligently seeking new market opportunities. The Company will also remain focused on improving operating efficiencies throughout the organization.

The Company will continue to focus on cash generation and to maintain a prudent use of leverage, as a solid balance sheet will favourably position Stella-Jones to continue its acquisition strategy. The Company's long-term strategic vision, focused on continental expansion and consolidation, remains intact. Stella-Jones 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 shareholders.

March 10, 2011

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 10, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of shareholders' equity, earnings, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 10, 2011

[1] Chartered accountant auditor permit No. 19983

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Consolidated Balance Sheets

As at December 31, 2010 and 2009

(expressed in thousands of dollars)	2010 $	2009 $
Assets		
Current assets		
Accounts receivable (notes 6, 11 and 12)	**56,315**	30,160
Derivative financial instruments (note 19)	**—**	2,196
Inventories (notes 7, 11 and 12)	**205,335**	212,590
Prepaid expenses	**4,517**	3,223
Income taxes receivable	**2,875**	4,726
Future income taxes (note 15)	**3,206**	1,683
	272,248	254,578
Capital assets (notes 8, 11, 12)	**113,956**	96,885
Intangible assets (note 9)	**54,986**	7,580
Goodwill (note 9)	**73,973**	5,494
Other assets (note 10)	**6,152**	4,878
Future income taxes (note 15)	**318**	1,380
	521,633	370,795

	2010 $	2009 $
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 11)	**31,923**	56,119
Accounts payable and accrued liabilities	**33,266**	19,137
Customer deposits	**1,431**	2,344
Derivative financial instruments (note 19)	**44**	31
Future income taxes (note 15)	**292**	869
Current portion of long-term debt (note 12)	**10,459**	4,746
Current portion of other long-term liabilities (note 13)	**2,434**	1,235
	79,849	84,481
Long-term debt (note 12)	**115,369**	82,334
Future income taxes (note 15)	**37,956**	16,257
Employee future benefits (note 16)	**2,063**	1,716
Derivative financial instruments (note 19)	**1,335**	1,400
Other long-term liabilities (note 13)	**3,676**	4,629
	240,248	190,817
Shareholders' equity		
Capital stock (note 14)	**130,229**	52,019
Contributed surplus	**1,136**	777
Retained earnings	**158,934**	130,580
Accumulated other comprehensive loss	**(8,914)**	(3,398)
	281,385	179,978
	521,633	370,795

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, 2010 and 2009

(expressed in thousands of dollars, except number of shares in thousands)	2010 #	2009 #
Capital stock		
Number of shares outstanding – Beginning of year	**12,684**	12,565
Stock option plan	**25**	4
Exchange of subscription receipts for common shares (note 5)	**3,202**	—
Stock option agreement	**—**	100
Share purchase plan	**12**	15
Number of shares outstanding – End of year	**15,923**	12,684
	$	$
Shares outstanding – Beginning of year	**52,019**	49,910
Stock option plan	**159**	80
Exchange of subscription receipts for common shares (note 5)	**77,748**	—
Stock option agreement	**—**	1,692
Share purchase plan	**303**	337
Shares outstanding – End of year	**130,229**	52,019
Subscription receipts		
Balance – Beginning of year	**—**	—
Subscription receipts, net of underwriting and legal fees (note 5)	**76,903**	—
Future income taxes related to underwriting and legal fees	**845**	—
Exchange of subscription receipts for common shares (note 5)	**(77,748)**	—
Balance – End of year	**—**	—

	2010 $	2009 $
Contributed surplus		
Balance – Beginning of year	**777**	1,905
Stock-based compensation	**400**	292
Exercise of stock options	**(41)**	(1,420)
Balance – End of year	**1,136**	777
Retained earnings		
Balance – Beginning of year	**130,580**	105,055
Net earnings for the year	**34,395**	30,069
Dividends on common shares	**(6,041)**	(4,544)
Balance – End of year	**158,934**	130,580
Accumulated other comprehensive income (loss)		
Balance – Beginning of year	**(3,398)**	4,242
Other comprehensive loss	**(5,516)**	(7,640)
Balance – End of year	**(8,914)**	(3,398)
Shareholders' equity	**281,385**	179,978

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

Consolidated Statements of Earnings

For the years ended December 31, 2010 and 2009

(expressed in thousands of dollars, except earnings per common share)	2010 $	2009 $
Sales	**561,046**	411,119
Expenses (income)		
Cost of sales (note 7)	**457,428**	334,450
Selling and administrative	**29,644**	20,444
Foreign exchange loss (gain)	**44**	(1,435)
Gain on derivative financial instruments (note 19)	**(19)**	(2,196)
Amortization of capital assets and intangible assets	**10,355**	8,755
Impairment of assets	**2,950**	833
	500,402	360,851
Operating earnings	**60,644**	50,268
Financial expenses		
Interest on long-term debt	**8,914**	6,451
Other interest	**1,651**	2,025
	10,565	8,476
Earnings before income taxes	**50,079**	41,792
Provision for (recovery of) income taxes (note 15)		
Current	**16,996**	9,843
Future	**(1,312)**	1,880
	15,684	11,723
Net earnings for the year	**34,395**	30,069
Basic net earnings per common share (note 14(b))	**2.27**	2.38
Diluted net earnings per common share (note 14(b))	**2.26**	2.37

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2010 and 2009

(expressed in thousands of dollars)	2010 $	2009 $
Net earnings for the year	**34,395**	30,069
Other comprehensive income (loss)		
Net change in unrealized losses on translation of financial statements of self-sustaining foreign operations	**(8,471)**	(13,078)
Net change in unrealized gains on translation of long-term debts designated as hedges of net investment in self-sustaining foreign operations (note 12)	**3,228**	5,845
Income tax expense on change in unrealized gains on translation of long-term debts designated as hedges of net investment in self-sustaining foreign operations	**(348)**	—
Change in losses on fair value of derivatives designated as cash flow hedges	**(108)**	(272)
Reclassification to net earnings of losses (gains) on cash flow hedges	**160**	(319)
Income tax recovery on change in fair value of cash flow hedges and cash flow hedges reclassified to net earnings	**23**	184
Other comprehensive loss	**(5,516)**	(7,640)
Comprehensive income	**28,879**	22,429

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(expressed in thousands of dollars)	2010 $	2009 $
Cash flows from		
Operating activities		
Net earnings for the year	**34,395**	30,069
Adjustments for		
Amortization of capital assets	**5,782**	6,872
Amortization of intangible assets	**4,573**	1,883
Amortization of deferred financing costs	**758**	68
Change in fair value of debt	**647**	850
Loss on disposal of capital assets	**36**	151
Employee future benefits	**(177)**	(156)
Stock-based compensation	**400**	292
Loss (gain) on derivative financial instruments	**2,196**	(2,196)
Impairment of assets	**2,950**	833
Future income taxes	**(1,312)**	1,880
Other	**(156)**	390
	50,092	40,936
Changes in non-cash working capital components		
Accounts receivable	**(11,560)**	9,652
Inventories	**31,282**	(1,819)
Prepaid expenses	**(304)**	2,335
Income taxes	**3,481**	(1,558)
Accounts payable and accrued liabilities	**9,793**	(8,777)
Customer deposits	**(829)**	(241)
Asset retirement obligations	**(347)**	(47)
	31,516	(455)
	81,608	40,481

	2010 $	2009 $
Financing activities		
Decrease in bank indebtedness	**(23,148)**	(21,775)
Increase in long-term debt	**66,027**	—
Repayment of long-term debt	**(103,932)**	(9,041)
Increase in deferred financing costs	**(1,144)**	—
Non-competes payable	**(1,311)**	(1,549)
Proceeds from issuance of common shares	**421**	689
Proceeds from issuance of subscription receipts	**76,903**	—
Dividends on common shares	**(6,041)**	(4,544)
	7,775	(36,220)
Investing activities		
Decrease in other assets	**31**	57
Business acquisition, net of cash (note 5)	**(83,565)**	—
Purchase of capital assets	**(6,079)**	(4,811)
Assets held for sale	**—**	360
Proceeds from disposal of capital assets	**230**	133
	(89,383)	(4,261)
Net change in cash and cash equivalents during the year	**—**	—
Cash and cash equivalents – Beginning and end of year	**—**	—
Supplemental disclosures		
Interest paid	**10,011**	9,244
Income taxes paid	**13,692**	9,977

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 pressure treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar-based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company is incorporated under the *Canada Business Corporations Act* and its common shares are listed on the Toronto Stock Exchange ("TSX").

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The significant subsidiaries are as follows: Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., 4552831 Canada Inc., Stella-Jones Canada Inc., Stella-Jones U.S. Holding Corporation ("SJ Holding"), Stella-Jones Corporation ("SJ Corp"), Stella-Jones U.S. Finance Corporation, Canadalux S.à.r.l. and Tangent Rail Corporation ("Tangent"). SJ Holding, SJ Corp, Stella-Jones U.S. Finance Corporation, Canadalux S.à.r.l. and Tangent are considered self-sustaining foreign operations for accounting purposes. The consolidated accounts of Stella-Jones Canada Inc. include the accounts of a 50% interest in Kanaka Creek Pole Company Limited ("Kanaka"), a joint venture which is accounted for under the proportionate consolidation method of accounting under the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3055. Following the close of business on December 31, 2010, Tangent was merged with SJ Corp. The surviving corporation was Tangent, which changed its name to Stella-Jones Corporation concurrently with the merger.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") 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 and business combinations. 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, products are shipped to customers or the services are rendered, the risks and rewards related to the ownership of the product are assumed by the customer, collection is considered reasonably assured and the sales price is fixed or determinable. Revenue is net of trade or volume discounts, returns and allowances and claims for damaged goods.

The Company enters into service agreements where green tie procurement and tie treating services are offered separately. These services consist mainly of procuring, trimming, grading and treating railway ties for which revenue is recognized when the services are provided, based on contractual terms. Revenues for green tie procurement, trimming and grading services can be recognized either at the time of the green tie sale or when treating services are rendered. Storage and treating revenues are recognized at the time of treating or when the railway ties are shipped. Under certain agreements, the customer will supply the green ties and the Company will offer all of the other services. The Company capitalizes costs incurred to provide the service and reverses them to cost of goods sold when revenue is recognized.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Company offers used tie pickup and disposal services. Revenue is recognized upon reaching certain points in the process of removal of the used ties from the customer's right of way.

The Company also operates timber licences to harvest logs 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 $9,433,418 for the year ended December 31, 2010 (2009 – $7,784,512).

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. As at December 31, 2010 and 2009, the Company had no cash and cash equivalents.

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. Net realizable value is the estimated selling price less cost necessary to make the sales.

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. In 2009, management reviewed and increased the useful life of certain capital assets in order to better reflect their use in time. These changes were applied prospectively from October 1, 2009.

	Previous useful lives	Revised useful lives
Buildings	20 to 40 years	20 to 60 years
Production equipment	5 to 40 years	5 to 60 years
Rolling stock	3 to 10 years	3 to 15 years
Anti-pollution equipment	10 to 20 years	10 to 60 years
Office equipment	2 to 10 years	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. Intangible assets with infinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Customer relationships	3 to 10 years
Non-compete agreements	6 years
Creosote registration	Infinite useful life

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired. The Company conducted its annual impairment test for 2010 and concluded that no adjustments were required.

Business combinations and goodwill

The Company accounts for its business combinations using the acquisition method. Under this method, the Company allocates the fair value 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; it is 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.

The Company conducted its annual goodwill impairment test for 2010 and 2009 and concluded that no adjustments were required.

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 disposal. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

Asset retirement obligations

Reforestation obligations

The *Forest Act* (British Columbia) and the *Forests Act* (Alberta) require that the forestry industry 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 the accretion expense on existing obligations, in selling and administrative 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 years of 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, which ranges from 9 to 19 years.

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 earnings 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 restricted stock units is accounted for as a liability over the period that the right is acquired, is revalued at each balance sheet date and is included in accounts payable and accrued liabilities.

Foreign currency transactions

Revenues and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. 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.

All self-sustaining foreign operations 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 on translation are recorded in accumulated other comprehensive loss in shareholders' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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 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 (note 18). 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 the 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 the original cost unless otherwise specified.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedging transactions

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of U.S. 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 when designated and are not held for trading or speculative purposes.

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 (loss). 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 (loss) are reclassified in the consolidated statement of earnings under sales and interest on long-term debt respectively in the periods in 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, hedge accounting, if applicable, is discontinued prospectively. Accumulated other comprehensive income (loss) related to a foreign exchange forward contract and interest swap hedges that cease to be effective are reclassified in the consolidated statement of earnings under foreign exchange gain or loss and interest on long-term debt respectively in the periods in 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 other comprehensive income (loss) is then reclassified in the consolidated statement of earnings.

The Company designated a portion of its U.S. 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 had been exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise had been 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, 2010:

- Section 1582, “Business Combinations”, replaces Section 1581 of the same title. The new Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting 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. The Company applied this new standard effective January 1, 2010, as early adoption is permitted. As a result of the application of this new accounting standard, previously capitalized transaction costs of approximately $328,000 were expensed in the current period. Effective January 1, 2010, expenses of a similar nature are recorded to results in the period in which they occurred.

3 CHANGES IN ACCOUNTING POLICIES (continued)

- 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. These standards are equivalent to the corresponding provisions of International Accounting Standard 27 (Revised), "Consolidated and Separate Financial Statements". The Company applied these new standards effective January 1, 2010, as early adoption is permitted. Their adoption had no significant impact on the Company's consolidated financial statements.

4 UPCOMING CHANGES TO ACCOUNTING POLICIES

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting for the periods beginning on January 1, 2011, when it will start to apply as its primary basis of accounting International Financial Reporting Standards as published by the International Accounting Standards Board and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will normally never be applied by the Company.

5 BUSINESS ACQUISITION

On April 1, 2010, the Company completed the acquisition of 100% of the shares of Tangent, a provider of wood crosstie supply chain services to the railroad industry. Tangent served the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Terre Haute and Winslow, Indiana; Alexandria, Louisiana; and McAlisterville, Pennsylvania. The wood preservative, creosote, was produced at its distilleries in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions consisting of used tie pickup and disposal were carried out at three facilities, in Alabama, Minnesota and North Carolina. This acquisition expands the Company's capabilities in the U.S. railway tie industry and provides it with creosote manufacturing operations.

Total cash outlay associated with the acquisition was approximately $172.7 million (US$170.0 million), including cash on hand of $6.8 million (US$6.7 million) and excluding acquisition costs of approximately $2.0 million (US$2.0 million). This amount includes $90.4 million (US$89.0 million) paid to Tangent's shareholders, $81.3 million (US$80.1 million) used to reimburse Tangent's debts with financial institutions and $1.0 million (US$0.9 million) to pay accrued interest on these debts.

The acquisition has been accounted for using the acquisition method; 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 Tangent have been included in the Company's consolidated financial statements from the acquisition date.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

5 BUSINESS ACQUISITION (continued

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

	$
Assets acquired	
Non-cash working capital	48,603
Capital assets	22,734
Customer relationships	20,905
Customer backlog	670
Creosote registration	31,723
Non-deductible goodwill	70,239
Future income tax assets	615
	195,489
Liabilities assumed	
Accounts payable and accrued liabilities	5,290
Long-term debt	81,340
Site remediation obligation	1,311
Future income tax liabilities	23,983
Total consideration	83,565
Consideration	
Cash	172,694
Payment of accrued interest	(956)
Payment of long-term debt	(81,340)
Cash on hand	(6,833)
Purchase consideration for shares	83,565

The Company's valuation of intangible assets has identified customer relationships, a creosote registration and customer backlog. The assigned useful lives for customer relationships are between six and ten years, and three months for the customer backlog. The creosote registration is not subject to amortization as the Company considers it to have an indefinite useful life. Goodwill value is determined as the excess of the total consideration over the estimated fair value of tangible and intangible assets acquired as well as liabilities assumed. Goodwill is not amortized, not deductible for tax purposes and represents the future economic value associated with the increased railroad network access, acquired workforce and synergies with the Company's operations. Note 9 provides a roll-forward of the intangible assets and goodwill net book value balances from January 1, 2009 to December 31, 2010.

Financing for the transaction has been secured through an $80,050,000 private placement of subscription receipts which successfully closed on March 15, 2010, as well as through the issuance to the Solidarity Fund QFL of a $25,395,000 (US$25,000,000) unsecured, subordinated and non-convertible debenture, the addition of a $40,632,000 (US$40,000,000) syndicated bank term facility which successfully closed on March 24, 2010, and the increase of existing operating debt facilities. More details on financing facilities can be found in notes 11 and 12. Underwriting and legal fees related to the private placement of subscription receipts amounted to $3,147,000, generating net proceeds of $76,903,000. The subscription receipts were exchanged as at the close of business, April 1, 2010, for common shares in the share capital of the Company on the basis of one common share per subscription receipt. Holders of subscription receipts were not required to take any action in order to receive the common shares to which they were entitled. As the subscription receipts were sold on a private placement basis, these common shares were subject to regulatory restrictions on resale until July 16, 2010.

During the nine-month period ended December 31, 2010, Tangent's sales and earnings before taxes amounted to $120,456,000 and $8,923,000, respectively. On a pro forma basis, management's estimate of sales and earnings before taxes of the combined operations of the Company and Tangent for the twelve-month period ended December 31, 2010 would have been approximately $601,360,000 and $54,924,000, respectively, had the Tangent acquisition occurred as of January 1, 2010. To arrive at the pro forma estimates, management considered the financing structure resulting from the acquisition as well as other adjustments related to the acquisition.

6 ACCOUNTS RECEIVABLE

	2010	2009
	$	$
Trade	**53,633**	28,530
Other	**2,682**	1,630
	56,315	30,160

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

7 INVENTORIES

	2010	2009
	$	$
Raw materials	**149,102**	160,351
Finished goods	**56,233**	52,239
	205,335	212,590

The inventory cost included in cost of sales as at December 31, 2010 is $404,941,000 (2009 – $295,907,000).

8 CAPITAL ASSETS

	Land	Roads	Cutting rights	Standing timber	Buildings	Production and anti-pollution equipment	Rolling stock	Office equipment	Total capital assets
	$	$	$	$	$	$	$	$	$
As at January 1, 2009									
Cost	8,648	2,188	6,505	4,140	24,645	90,470	8,569	2,357	147,522
Accumulated amortization	—	(760)	(271)	(1,198)	(4,281)	(28,317)	(2,693)	(1,239)	(38,759)
Net book amount	8,648	1,428	6,234	2,942	20,364	62,153	5,876	1,118	108,763
Year ended December 31, 2009									
Opening net book amount	8,648	1,428	6,234	2,942	20,364	62,153	5,876	1,118	108,763
Additions	—	430	—	577	582	2,984	32	306	4,911
Disposals	—	—	—	—	(18)	(176)	(90)	—	(284)
Amortization	—	(94)	(84)	(468)	(883)	(4,198)	(902)	(243)	(6,872)
Transfer to assets held for sale	(1,513)	—	—	—	(489)	(390)	—	(9)	(2,401)
Exchange differences	(637)	—	—	—	(1,771)	(4,069)	(627)	(128)	(7,232)
Closing net book amount	6,498	1,764	6,150	3,051	17,785	56,304	4,289	1,044	96,885
As at December 31, 2009									
Cost	6,498	2,617	6,505	4,717	22,497	83,167	6,467	1,984	134,452
Accumulated amortization	—	(853)	(355)	(1,666)	(4,712)	(26,863)	(2,178)	(940)	(37,567)
Net book amount	6,498	1,764	6,150	3,051	17,785	56,304	4,289	1,044	96,885

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

8 CAPITAL ASSETS (continued)

	Land $	Roads $	Cutting rights $	Standing timber $	Buildings $	Production and anti-pollution equipment $	Rolling stock $	Office equipment $	Total capital assets $
Year ended December 31, 2010									
Opening net book amount	6,498	1,764	6,150	3,051	17,785	56,304	4,289	1,044	96,885
Acquisition of subsidiary	1,582	—	—	—	4,013	13,439	3,612	88	22,734
Additions	—	340	287	635	879	3,594	40	681	6,456
Disposals	—	—	—	—	—	—	(264)	—	(264)
Amortization	—	(318)	(123)	(807)	(654)	(2,489)	(980)	(410)	(5,781)
Transfer to assets held for sale	(314)	—	—	—	(1,412)	—	—	—	(1,726)
Impairments	—	—	—	—	—	(1,394)	(339)	—	(1,733)
Exchange differences	(152)	—	—	—	(565)	(1,653)	(234)	(11)	(2,615)
Closing net book amount	7,614	1,786	6,314	2,879	20,046	67,801	6,124	1,392	113,956
As at December 31, 2010									
Cost	7,614	2,957	6,792	5,352	25,284	96,691	8,856	2,722	156,268
Accumulated amortization	—	(1,171)	(478)	(2,473)	(5,238)	(28,890)	(2,732)	(1,330)	(42,312)
Net book amount	7,614	1,786	6,314	2,879	20,046	67,801	6,124	1,392	113,956

Pursuant to the Tangent acquisition, the Company has increased its production capacity and has consolidated the production of its railway tie requirements. As a result, the Spencer plant in West Virgina will be producing lower annual volumes going forward. This decision by management triggered a requirement to test the Spencer plant's long lived assets for recoverability, which concluded in a $1,733,000 impairment expense recorded in the second-quarter earnings. The Company also had impairment expenses with regard to assets held for sale (note 10).

The Company has also decided to relocate its U.S. corporate office to Pittsburgh, Pennsylvania, and sell its current corporate office located in Ripley, West Virginia. As a result, the land and building associated with the Ripley office having a carrying value of $1,726,000 have been reclassified as assets held for sale and presented on the balance sheet in other assets.

As at December 31, 2010, the Company holds no capital assets under capital leases (2009 – cost of $504,000, less accumulated amortization of $102,000).

9 INTANGIBLE ASSETS AND GOODWILL

The Company has recognized intangible assets as part of the Tangent acquisition as well as part of a previous acquisition. The acquisition cost of intangible assets, which include customer relationships, non-compete agreements and a creosote registration, was initially evaluated at fair value, which subsequently became 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.

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 and ten years. Intangible assets associated with ongoing business relationships are amortized over ten years.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

9 INTANGIBLE ASSETS AND GOODWILL (continued)

The acquisition cost of the non-compete agreements 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.

As part of the Tangent acquisition, the Company recognized value to a creosote registration. This intangible asset has an infinite useful life and is therefore not amortized. The creosote registration was initially evaluated at fair value, which subsequently became the cost.

	Intangible assets				
	Customer relationships $	Non compete agreements $	Creosote registration $	Total $	Goodwill $
As at January 1, 2009					
Cost	5,335	6,930	—	12,265	6,367
Accumulated amortization	(626)	(866)	—	(1,492)	—
Net book amount	4,709	6,064	—	10,773	6,367
Year ended December 31, 2009					
Opening net book balance	4,709	6,064	—	10,773	6,367
Amortization	(790)	(1,093)	—	(1,883)	—
Exchange differences	(575)	(735)	—	(1,310)	(873)
Closing net book amount	3,344	4,236	—	7,580	5,494
As at December 31, 2009					
Cost	4,603	5,980	—	10,583	5,494
Accumulated amortization	(1,259)	(1,744)	—	(3,003)	—
Net book amount	3,344	4,236	—	7,580	5,494
Year ended December 31, 2010					
Opening net book balance	**3,344**	**4,236**	**—**	**7,580**	**5,494**
Addition of Tangent customer relationships	**20,905**	**—**	**—**	**20,905**	**—**
Addition of Tangent customer backlog	**670**	**—**	**—**	**670**	**—**
Addition of Tangent creosote registration	**—**	**—**	**31,723**	**31,723**	**—**
Addition of Tangent goodwill	**—**	**—**	**—**	**—**	**70,239**
Amortization	**(3,586)**	**(986)**	**—**	**(4,572)**	**—**
Exchange differences	**(473)**	**(185)**	**(662)**	**(1,320)**	**(1,760)**
Closing net book amount	**20,860**	**3,065**	**31,061**	**54,986**	**73,973**
As at December 31, 2010					
Cost	**25,482**	**5,659**	**31,061**	**62,202**	**73,973**
Accumulated amortization	**(4,622)**	**(2,594)**	**—**	**(7,216)**	**—**
Net book amount	**20,860**	**3,065**	**31,061**	**54,986**	**73,973**

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

10 OTHER ASSETS

	2010	2009
	$	$
Advances against third party cutting rights	**246**	300
Notes receivable	**290**	267
Accrued benefit asset (note 16(b))	**1,940**	1,416
Assets held for sale*	**3,318**	2,895
Other	**358**	—
	6,152	4,878

* Assets held for sale mainly represent a building that the Company owns in Ripley, West Virginia, as well as a plant in Stanton, Kentucky. During the year, management reduced the value of these assets to better reflect market value. The adjustments resulted in an impairment of $1,217,000.

11 BANK INDEBTEDNESS

	2010	2009
	$	$
Demand revolving facility (note 11(a))	**30,293**	—
Demand operating loan with a Canadian bank (notes 11(b) and 19)	**—**	28,786
Demand operating loan with a U.S. bank (notes 11(c) and 19)	**—**	24,969
Proportionate share of Kanaka demand operating loan (note 11(d))	**1,630**	2,364
	31,923	56,119

a) On March 24, 2010, the Company entered into an agreement to amend and restate, without novation, its existing revolving credit facilities. The separate Canadian and U.S. revolving bank lines of credit (note 11(b) and (c)) have been replaced by a single demand revolving facility to be made available to the Company by a syndicate of bank lenders. The amended facilities consist of Tranche A, a maximum demand operating loan of $50,000,000 made available to the Company (December 31, 2009 – $50,000,000), and Tranche B, a maximum demand operating loan of US$75,000,000 (December 31, 2009 – US$45,000,000) made available to SJ Holding. Borrowings may be obtained by the Company under Tranche A in the form of Canadian prime rate loans, Canadian bankers' acceptances ("BAs"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit up to a maximum of $5,000,000 of the facility. Borrowings may be obtained by SJ Holding under Tranche B in the form of U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans is 0.75% and with respect to BAs, LIBOR loans and fees for letters of credit, the interest rate margin is 2.0%. The borrowing base consisting of 75% in value of acceptable receivables and 50% in value of acceptable inventories with a maximum of $80,000,000 was $114,462,000, of which $30,293,000 was used under Tranche A and Tranche B as at December 31, 2010.

The Company entered into a LIBOR interest rate swap fixing the interest rate at 2.57% with a termination date of June 10, 2012. This interest rate swap applied on the first US$15,000,000 of bank indebtedness under this credit facility and it is renewed every 30 days.

In November 2010, the Company terminated an interest rate swap having a notional amount of CA$15,000,000. As a result, the Company recognized a $168,000 expense to the consolidated statement of earnings.

As collateral for this demand revolving credit facility, the bank lenders hold a first ranking charge on the inventories and accounts receivable of the Company and a second ranking security interest on certain capital assets of the Company. The demand revolving facility is subject to financial and non-financial covenants which the Company was in compliance with as at December 31, 2010.

b) Previously, the Company had a credit facility with a Canadian bank which was amended and restated as part of the new credit agreement entered into on March 24, 2010 as detailed in note 11(a).

c) Previously, SJ Holding and SJ Corp (collectively, "the U.S. subsidiaries") had a credit facility with a U.S. bank which was amended and restated as part of the new credit agreement entered into on March 24, 2010 as detailed in note 11(a).

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

11 BANK INDEBTEDNESS (continued)

d) 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 0.75%, the bank's U.S. base rate plus 0.75%, LIBOR plus 2.25% or BA rate plus 2.25%. One half of the indebtedness, up to a maximum of $5,000,000, has been guaranteed by Stella-Jones Canada Inc. and the Company.

12 LONG-TERM DEBT (NOTE 20)

	2010	2009
	$	$
Term facilities (note 12(a))	**55,573**	—
Revolving term loan with a Canadian bank (note 12(b))	**—**	22,098
Term loans with a Canadian bank (note 12(c))	**—**	2,539
Term loan with a U.S. bank (note 12(d))	**7,381**	8,693
Unsecured and non-convertible debenture (note 12(e))	**—**	10,000
Unsecured, subordinated and non-convertible debenture (note 12(f))	**24,865**	—
Unsecured and non-convertible debenture (note 12(g))	**24,865**	26,275
Promissory note (note 12(h))	**746**	788
Promissory note (note 12(i))	**557**	755
Subordinated note (note 12(j))	**6,112**	6,822
Bond (note 12(k))	**4,399**	4,788
Promissory note (note 12(l))	**289**	373
Promissory note (note 12(m))	**296**	356
Mortgage loans (note 12(n))	**1,717**	3,805
Obligations under capital leases (note 12(o))	**—**	275
	126,800	87,567
Deferred financing costs	**(972)**	(487)
	125,828	87,080
Less: Current portion of long-term debt	**10,780**	4,811
Less: Current portion of deferred financing costs	**(321)**	(65)
	115,369	82,334

a) On March 24, 2010, the Company entered into an agreement with a syndicate of lenders amending and restating, without novation, existing term credit agreements and made available a new five-year term facility. Under this new agreement, four facilities were made available. Credit facility A is a US$40,000,000 syndicated bank term loan used for the purpose of acquiring Tangent. The term loan bears interest at the bank's U.S. base rate plus 1.5%, or LIBOR plus 3.0%, at the Company's option. Repayment is in 19 consecutive quarterly principal instalments of US$1,425,000 starting July 1, 2010, and a balloon repayment of US$12,925,000 constituting the twentieth and final payment of the residual capital balance on April 1, 2015. In December 2010, the Company made a voluntary US$3,000,000 repayment on the term loan principal. The repayment schedule was modified to reduce the balloon repayment to US$9,925,000. This term loan was designated as a hedge of net investment in a self-sustaining foreign operation.

Credit facility B is an amendment and restatement, without novation, of the term loan defined in note 12(b) in its entirety. Credit facility B is a two-year revolving term facility in the aggregate principal amount of $27,500,000 with an outstanding balance of $25,892,864 maturing February 14, 2012, under which borrowings can be made in either Canadian or U.S. dollars. Upon the Company's request to the lender, this credit facility can be extended for additional one-year periods or converted into a five-year term loan. For loans in Canadian dollars, the credit facility bears interest at the bank's prime rate plus 1.50% or BA rate plus 3.00%, and for loans in U.S. dollars, the credit facility bears interest at the bank's U.S. base rate plus 1.50% or LIBOR plus 3.00%. A US$10,000,000 loan under this facility was designated as a hedge of net investment in a self-sustaining foreign operation. The Company entered into an interest rate swap fixing the interest rate on this US$10,000,000 term loan at a base rate of 1.53%.

12 LONG-TERM DEBT (NOTE 20) (continued)

Credit facility C is an amendment and restatement, without novation, of the term loan defined in note 12(c) in its entirety. Credit facility C is a non-revolving term facility in the aggregate principal amount of $2,142,857 comprising Tranche 1 in the amount of $1,157,143 maturing February 1, 2011 and Tranche 2 in the amount of $985,714 maturing December 28, 2010. As at December 31, 2010, the balance of Tranche 2 was $739,283 and is presented under current portion of long-term debt. The interest rates on Tranche 1 and Tranche 2 are fixed over their terms at 5.85% and 5.81% respectively.

Credit facility D is an amendment and restatement, without novation, of the term loan defined in note 12(c) in its entirety. Credit facility D is a non-revolving term facility in the aggregate principal amount of $300,000 which matured and was paid on September 30, 2010. The interest rate on this loan was fixed over its term at 5.93%.

As collateral for all four credit facilities (A, B, C, D), the bank lenders hold a first ranking charge on the land and building of the Company having a net book value of $26,443,000, a first ranking charge on the equipment of the Canadian subsidiaries having a net book value of $32,072,000, a second ranking security on the inventories and accounts receivable of the Company having a book value of $258,289,000 and a second ranking security on equipment of the U.S. subsidiaries having a net book value of $37,900,000. The credit agreement is subject to affirmative covenants, negative covenants and financial ratios which the Company was in compliance with as at December 31, 2010.

b) The Company had a two-year revolving term loan which was amended and restated on March 24, 2010 (see note 12(a)).

c) The Company had available three term loans of $2,300,000, $2,700,000 and $1,900,000 with a Canadian bank which were amended and restated on March 24, 2010 (see note 12(a)).

d) The Company's U.S. subsidiaries entered into a US$10,000,000 term loan agreement with a U.S. bank. The term loan is repayable in 84 consecutive average monthly instalments of US$119,048 and matures July 1, 2015. 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. The revolving term loan is subject to covenants with which the Company was in compliance as at December 31, 2010.

   As collateral, the bank has a first priority security interest on land, a building and improvements thereon and on the equipment of the U.S. subsidiaries, bearing an aggregate net book value of US$37,900,000 as at December 31, 2010. The bank also has a second priority security interest on the accounts receivable and inventories of the U.S. subsidiaries having a book value of US$124,693,000 as at December 31, 2010.

e) 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. The Company repaid the debenture in its entirety on October 4, 2010.

f) Unsecured, subordinated and non-convertible debenture bearing interest at 9.75%, repayable in a single instalment on April 1, 2015. Starting on April 1, 2013, the Company may repay the debenture in full or in part in advance with a 1% penalty. This debenture was designated as a hedge of net investment in a self sustaining foreign operation.

g) 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, 2011 and a final payment of US$12,500,000 on April 1, 2018. Starting on April 1, 2011, the Company may repay the debenture in full or in part without penalty. This debenture was designated as a hedge of net investment in a self-sustaining foreign operation.

12 LONG-TERM DEBT (NOTE 20) (continued)

h) 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 U.S. subsidiaries' loans to all of its secured lenders.

i) 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.

j) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter and Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in five annual principal repayments of US$500,000 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.

k) As part of a previous acquisition, the U.S. subsidiaries assumed a bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US$200,000 starting July 2008 through July 2011, US$300,000 starting August 2011 through July 2019 and US$400,000 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all assets of the Fulton facility, which have a net book value of US$7,893,000 as at December 31, 2010. 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.

In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries entered into a US$5,600,000 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.0% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

l) As part of a previous acquisition, the U.S. 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, at an annual fee of 1.0% and expiring 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.

m) As part of a previous acquisition, the U.S. 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, at an annual fee of 1.0% and expiring 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.

n) The mortgage loans bear interest at a weighted average rate of 3.8% as at December 31, 2010 (2009 – 5.7%), and certain specific assets with a net book value of $1,891,000 (2009 – $5,949,783) have been pledged as collateral. The mortgage loans include loans denominated in U.S. dollars amounting to US$1,726,000 (2009 – US$3,620,000). One of the mortgage loans is subject to an interest rate swap of US$1,000,000 fixing the rate at 4.69% over the term of its life. In December 2010, the Company reimbursed certain U.S. dollar-denominated mortgage loans having a total value of US$1,056,892. The remaining mortgage loans are repayable in monthly instalments of $21,164 (2009 – $89,311) including interest and mature at various dates to January 2018.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

12 LONG-TERM DEBT (NOTE 20) (continued)

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

Years	Principal $
2011	11,016
2012	8,345
2013	15,909
2014	10,334
2015	40,853
Thereafter	41,726
	128,183
Fair value adjustment	(1,383)
	126,800

p) The aggregate fair value of the Company's long-term debt was estimated at $127,923,000 as at December 31, 2010 (2009 – $85,715,000) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

13 OTHER LONG-TERM LIABILITIES

	2010 **$**	2009 $
Reforestation obligations (note 13(a))	**1,085**	1,159
Site remediation (note 13(b))	**1,109**	88
Non-competes payable (note 13(c))	**3,485**	4,602
Restricted stock units (note 13(d))	**431**	15
Other long-term liabilities	**6,110**	5,864
Less: Current portion	**2,434**	1,235
	3,676	4,629

a) Reforestation

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 6.6% (2009 – 6.6%) to approximate the present value of future expenditures. Reforestation obligations represent discounted cash flow estimates of future silviculture costs relating to areas logged that are the Company's responsibility to reforest.

	2010 **$**	2009 $
Reforestation obligations – Beginning of year	**1,159**	1,246
Changes to reforestation estimates and accretion expense	**209**	394
Expenditures	**(283)**	(481)
Reforestation obligations – End of year	**1,085**	1,159
Less: Current portion	**366**	315
	719	844

Future non-discounted reforestation expenditures are estimated at between $390,000 and $422,000 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.

b) Site remediation

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

As part of the Tangent business acquisition, the Company acquired a land lease on which certain operations are located. Under the lease, the Company is required to return the land to its original state. During the year, the Company decided to close the Terre Haute facility in Indiana. In order to restore the site to its original condition, remediation work is required and a provision of $1,311,000 was recorded.

13 OTHER LONG-TERM LIABILITIES (continued)

b) Site remediation (continued)

	2010	2009
	$	$
Site remediation obligations – Beginning of year	**88**	48
Site remediation obligation related to business acquisition (note 5)	**1,311**	52
Expenditures	**(290)**	(12)
Site remediation obligations – End of year	**1,109**	88
Less: Current portion	**1,109**	—
	—	88

c) As part of a previous acquisition, the Company entered into non-compete agreements for which an intangible asset was recorded (note 9). The payable portion of the non-compete agreements was fair valued at a rate of 10.17%, detailed as follows:

	2010			2009
	Payable	**Fair value adjustment**	**Net value**	Net value
	$	**$**	**$**	$
Short-term	**1,243**	**(284)**	**959**	920
Long-term	**2,798**	**(272)**	**2,526**	3,682
	4,041	**(556)**	**3,485**	4,602

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

The number of additional RSUs to be issued on the anniversary dates will be calculated in the same manner as the initial grant. No RSUs were granted in 2010, and the provision as at December 31, 2010 is valued at $430,566.

The RSUs are a full-value phantom share payable in cash on the third anniversary of their issue, provided the executive is still in the employ of the Company. The amount to be paid is determined by multiplying the number of RSUs by the six-month average trading price of the Company's common shares on the TSX immediately preceding the anniversary.

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

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

	2010	2009
Net earnings applicable to common shares	**$34,395**	$30,069
Weighted average number of common shares outstanding*	**15,163**	12,638
Effect of dilutive stock options	**41**	66
Weighted average number of diluted common shares outstanding*	**15,204**	12,704
Basic net earnings per common share**	**$2.27**	$2.38
Diluted net earnings per common share**	**$2.26**	$2.37

* Number of shares is presented in thousands.

** Basic and diluted earnings per share are presented as dollars per share.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

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

Under the Plan adopted on June 13, 1994 and amended on May 3, 1995, March 15, 2001, May 3, 2007 and December 10, 2010, the aggregate number of common shares in respect of which options may be granted is 1,200,000, and no optionee may hold options to purchase common shares exceeding 5% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 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:

	2010		2009	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Outstanding – Beginning of year	**197,785**	**20.29**	147,785	18.63
Exercised	**(24,285)**	**4.83**	(4,000)	13.00
Granted	**7,500**	**28.29**	57,000	24.05
Forfeited	**—**	**—**	(3,000)	19.50
Outstanding – End of year	**181,000**	**22.70**	197,785	20.29
Options exercisable – End of year	**128,300**	**21.40**	126,185	17.49

The following options were outstanding under the Plan as at December 31, 2010:

	Options outstanding		**Options exercisable**		
Year granted	**Number of options**	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**	**Expiration date**
2005	**33,000**	**13.00**	**33,000**	**13.00**	**2015**
2006	**61,000**	**19.78**	**61,000**	**19.78**	**2016**
2007	**22,500**	**39.58**	**18,000**	**39.58**	**2017**
2009	**57,000**	**24.05**	**14,800**	**24.05**	**2016**
2010	**7,500**	**28.29**	**1,500**	**28.29**	**2020**
	181,000		**128,300**		

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

14 CAPITAL STOCK (continued)

c) Stock option plan (continued)

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.

On May 7, 2010, 7,500 options were granted at a fair value of $83,360 and the expense amortized to earnings amounted to $11,128. On December 18, 2009, 57,000 options were granted at a fair value of $530,720 and the expense amortized to earnings amounted to $4,423. The fair value was estimated with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	**2.80%**	2.57%
Dividend yield	**1.60%**	1.25%
Expected lives	**10 years**	7 years
Volatility	**38.00%**	40.21%
Weighted average of fair value of options granted during the year	**$11.13**	$9.31

In 2010, the total expense relating to stock-based compensation amortized to earnings was $400,565 (2009 – $292,413).

d) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's two employee share purchase plans is 200,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2010, 8,513 common shares (2009 – 10,952) were issued to Canadian resident employees at an average price of $23.45 per share (2009 – $18.37).

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2010, 3,545 common shares (2009 – 4,448) were issued to U.S. resident employees at an average price of $25.81 per share (2009 – $20.00).

As at December 31, 2010, the total number of common shares issued under these plans is 169,888 (2009 – 157,830).

15 INCOME TAXES

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

	2010	2009
	$	$
Canada	**35,689**	33,122
U.S.	**14,390**	8,670
	50,079	41,792

The provision for income taxes includes the following current and future amounts:

	2010	2009
	$	$
Current		
Canada	**8,705**	8,128
U.S.	**8,291**	1,715
Total current expense	**16,996**	9,843
Future		
Canada	**86**	1,400
U.S.	**(1,398)**	480
Total future expense (recovery)	**(1,312)**	1,880
	15,684	11,723

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

15 INCOME TAXES (continued)

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

	2010	2009
Statutory tax rate	**30.05%**	31.07%
	$	$
Income tax expense at statutory rate	**15,049**	12,985
Income tax expense (recovery) resulting from		
Future tax adjustments due to rate enactments	**88**	(293)
Manufacturing and processing credit	**(737)**	(181)
Effect of different tax rates	**684**	401
Dividend income from subsidiaries	**(1,704)**	(690)
Stock-based compensation	**235**	95
Acquisition costs	**683**	—
Tax adjustment true-up	**1,201**	—
Other	**185**	(594)
	15,684	11,723
Effective income tax rate	**31.32%**	28.05%

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

	2010	2009
	$	$
Future income tax assets due to		
Accrued liabilities	**1,815**	1,458
Employee future benefits	**554**	878
Derivative financial instruments and other	**1,155**	727
	3,524	3,063
Future income tax liabilities due to		
Capital assets	**(37,525)**	(15,922)
Derivative financial instruments	**(257)**	(869)
Other assets	**(466)**	(335)
	(38,248)	(17,126)

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 four 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:

	2010	2009
	$	$
Post-retirement benefits	**389**	207
Defined benefit pension plans	**128**	102
Contributions to multi-employer plan	**294**	294
Contributions to group registered retirement savings plans	**1,385**	1,157

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

16 EMPLOYEE FUTURE BENEFITS (continued)

a) The post-retirement benefits program is not funded. For its defined benefit pension plan, 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 for funding purposes was as at January 1, 2009, and the next required valuation will be as at January 1, 2012. The following information as established by independent actuaries pertains to the Company's defined benefit plan:

	2010	2009
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**2,706**	1,652
Current service cost	**164**	90
Interest cost on obligation	**172**	116
Benefit payments	**(42)**	(32)
Actuarial loss	**155**	880
Balance – End of year	**3,155**	2,706
Plan assets		
Fair value – Beginning of year	**—**	—
Employer's contributions	**42**	32
Benefits paid	**(42)**	(32)
Fair value – End of year	**—**	—
Net obligation – End of year	**3,155**	2,706
Unamortized net actuarial loss	**(1,081)**	(978)
Unamortized past service costs	**(11)**	(12)
Accrued benefit obligation	**2,063**	1,716

The significant assumptions used are as follows:

	2010	2009
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**5.40**	5.85
Rate of compensation increase	**2.00**	2.00
Benefit costs for the year ended December 31		
Discount rate	**5.85**	6.75
Rate of compensation increase	**2.00**	4.00

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2009. This rate is assumed to decrease gradually by 0.5% per year, to reach 5%. Therefore, the rate used to calculate the cost per capita of health care cost increases in 2010 was 9.0%. 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	716	(554)
Impact on benefit costs	84	(64)

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

	2010	2009
	$	$
Current service cost	**164**	90
Interest cost	**172**	116
Actuarial loss	**155**	880
Elements of employee future benefit cost before adjustments to recognize long-term nature of employee future benefit cost	**491**	1,086
Adjustments to recognize long-term nature of employee future benefit cost		
Difference between net actuarial loss and actuarial loss	**(103)**	(880)
Amortization of past service costs	**1**	1
Defined benefit costs recognized	**389**	207

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.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

16 EMPLOYEE FUTURE BENEFITS (continued)

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

	Date of last actuarial valuation
Plan 1	December 31, 2007
Plan 2	December 31, 2007
Plan 3	December 31, 2008
Plan 4	December 31, 2009

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

	2010	2009
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**8,480**	7,332
Current service cost	**309**	249
Interest cost on obligation	**550**	537
Benefit payments	**(370)**	(606)
Actuarial loss	**1,354**	968
Balance – End of year	**10,323**	8,480
Plan assets		
Fair value – Beginning of year	**10,167**	9,079
Actual return on plan assets	**930**	1,251
Employer's contributions	**664**	443
Benefits paid	**(370)**	(606)
Fair value – End of year	**11,391**	10,167
Funded status – Plan surplus	**1,068**	1,687
Unamortized net actuarial loss (gain)	**872**	(271)
Accrued benefit asset, included in other assets (note 10)	**1,940**	1,416

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:

	2010	2009
	$	$
Accrued benefit obligation	**3,924**	1,802
Fair value of plan assets	**3,537**	1,578
Funded status – Plan deficit	**(387)**	(224)

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

	2010	2009
	%	%
Equity securities	**57**	58
Debt securities	**37**	39
Short-term investments and cash	**6**	3
	100	100

The significant weighted average assumptions used are as follows:

	2010	2009
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**5.50**	6.50
Expected long-term rate of return on plan assets	**7.00**	7.50
Rate of compensation increase	**3.50**	3.50
Benefit costs for the year ended December 31		
Discount rate	**6.50**	7.50
Expected long-term rate of return on plan assets	**7.00**	7.50
Rate of compensation increase	**3.50**	4.00

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

16 EMPLOYEE FUTURE BENEFITS (continued)

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

	2010	2009
	$	$
Current service cost, net of employees' contributions	**298**	238
Interest cost	**550**	537
Actual return on plan assets	**(930)**	(1,251)
Actuarial loss	**1,354**	968
Elements of employee future benefit cost before adjustments to recognize long-term nature of employee future benefit cost	**1,272**	492
Adjustments to recognize long-term nature of employee future benefit cost		
Difference between expected return and actual return on plan assets for the year	**208**	576
Difference between net actuarial loss and actuarial loss	**(1,352)**	(966)
Defined benefit costs recognized	**128**	102

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:

	2010	2009
	$	$
Assets		
Current assets		
Accounts receivable	**214**	285
Other receivable	**187**	238
Inventories	**464**	1,010
Prepaid expenses	**9**	9
	874	1,542
Capital assets	**741**	816
Other assets	**77**	73
Total assets	**1,692**	2,431
Liabilities		
Current liabilities		
Bank indebtedness (note 11(d))	**1,630**	2,364
Accounts payable and accrued liabilities	**62**	67
Total liabilities	**1,692**	2,431
Earnings		
Sales	**2,671**	6,139
Cost of sales	**2,671**	6,139
Net earnings	**—**	—
Cash flows provided by (used in)		
Operating activities	**753**	793
Financing activities	**(734)**	(728)
Investing activities	**(19)**	(65)
	—	—

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

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 in note 12, amounting to $30,722,896 (2009 – $14,583,548) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

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

	$
2011	5,785
2012	4,041
2013	2,852
2014	1,612
2015	516
Thereafter	8,899

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

e) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $727,459 (2009 – $692,430). 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.

f) 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.

19 FINANCIAL INSTRUMENTS

Financial instruments, carrying values and fair values

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

Credit risk

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

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

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

	2010 $	2009 $
Current	**31,244**	17,073
Past due 1 to 30 days	**14,910**	8,903
Past due 31 to 60 days	**4,671**	2,392
Past due more than 60 days	**3,087**	658
Total accounts receivable	**53,912**	29,026
Allowance for doubtful accounts	**(279)**	(496)
	53,633	28,530

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, details of the allowance for doubtful accounts are as follows:

	2010 $	2009 $
Balance – Beginning of year	**496**	244
Provision (recovery)	**(180)**	396
Bad debt writeoff	**(13)**	(88)
Foreign exchange adjustments	**(24)**	(56)
Balance – End of year	**279**	496

In 2010, the Company had one customer representing 16% of its sales (2009 – 20%). As at December 31, 2010, the accounts receivable balance from this customer was $2,025,439 (2009 – $1,720,898).

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.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. 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. The following table details the maturities of the financial liabilities as at December 31, 2010:

	Carrying amount $	Contractual cash flows $	Less than 1 year $	Between 1 and 3 years $	Between 3 and 5 years $	More than 5 years $
Bank indebtedness*	31,923	32,736	32,736	—	—	—
Accounts payable and accrued liabilities	33,266	33,266	33,266	—	—	—
Long-term debt obligations*	125,828	160,148	17,903	36,741	59,689	45,815
Interest rate swaps						
Outflow	—	2,635	1,136	1,042	457	—
Inflow	—	(1,443)	(433)	(595)	(415)	—
Non-competes payable	4,041	4,041	1,243	2,486	312	—
	195,058	231,383	85,851	39,674	60,043	45,815

* Including capital and interest

Market risk

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

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar-denominated long-term debt held by its Canadian companies. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Prior to January 1, 2009, the Company engaged in hedging activity to mitigate its currency risk. Its basic hedging activity consisted of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considered foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

On January 1, 2009, the Company ceased hedge accounting on its foreign exchange forward contracts. As these contracts were designated as cash flow hedges, their fair value increment was recorded under accumulated other comprehensive income (loss) and was recognized in earnings over the designated underlying period of foreign exchange forward contracts from March 2009 to December 2010.

The Company had no foreign exchange forward contracts as at December 31, 2010. 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, 2009:

	Foreign exchange forward contract	Notional amount US$	Average exchange rate	Notional equivalent CA$	Fair value CA$
Short-term asset	Sell US$/Buy CA$	12,800	1.2240	15,667	2,196

The contracts matured at various dates up to December 31, 2010, and the fair value was determined by obtaining mark-to-market values as at December 31, 2009. This type of measurement falls under Level 2 in the fair value hierarchy as per CICA Handbook Section 3862, "Financial Instruments – Disclosures". A description of each level of the hierarchy is as follows:

- Level 1: Inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

A 10% strengthening of the U.S. dollar against the Canadian dollar would not have a significant impact on the net gain on foreign exchange forward contracts recognized in earnings for the year ended December 31, 2010 (2009 – decrease of $219,621). For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on gain.

The following table provides information on the impact of a 10% strengthening of the U.S. dollar against the Canadian dollar on net earnings for the years ended December 31, 2010 and 2009. For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income (loss):

	2010	2009
	$	$
Gain to net earnings and comprehensive income	**(112)**	(281)

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

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

	2010	2009
	$	$
Assets		
Accounts receivable	**2,060**	1,430
Foreign exchange forward contracts	**—**	2,196
	2,060	3,626
Liabilities		
Accounts payable and accrued liabilities	**939**	811

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

Interest rate risk

As at December 31, 2010, the Company has limited exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 65% (2009 – 86%) 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 U.S. 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 interest expense by $39,310 for the year ended December 31, 2010 (2009 – $161,321).

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

			2010
Notional amount	**Fixed rate**	**Maturity date**	**Notional equivalent**
	%		**CA$**
CA$2,700	**5.81**	**February 2011**	**2,700**
US$10,000	**1.53**	**April 2011**	**9,946**
US$15,000	**2.57**	**June 2012**	**14,919**
US$5,000	**5.80**	**July 2015**	**4,973**
US$5,000	**5.54**	**July 2015**	**4,973**
US$1,000	**4.69**	**December 2015**	**995**
US$5,600	**2.99**	**December 2015**	**5,570**

			2009
Notional amount	Fixed rate	Maturity date	Notional equivalent
	%		CA$
CA$2,300	5.85	December 2010	2,300
CA$2,700	5.81	February 2011	2,700
US$10,000	1.53	April 2011	10,510
US$15,000	2.57	June 2012	15,765
CA$15,000	2.19	June 2012	15,000
US$5,000	5.80	July 2015	5,255
US$5,000	5.54	July 2015	5,255
US$1,000	4.69	December 2015	1,051
US$5,600	2.99	December 2015	5,886

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

19 FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2010 from a financial institution. This type of measurement falls under Level 2 in the fair value hierarchy as per CICA Handbook Section 3862 and is defined in the currency risk section.

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2010 is a loss of $1,379,048 (2009 – loss of $1,430,952), of which $43,914 and $1,335,134 respectively are recorded in current and long-term liabilities under derivative financial instruments. A 10% decrease in interest rates as at December 31, 2010 would have increased the loss recognized in other comprehensive income (loss) by approximately $137,905 (2009 – $143,095). For a 10% increase in the interest rates, there would be an equal and opposite impact on the loss.

20 CAPITAL DISCLOSURES

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

The Company's capital is composed of long-term debt and shareholders' equity which includes capital stock.

	2010	2009
	$	$
Long-term debt, including current portion	**125,828**	87,080
Shareholders' equity	**281,385**	179,978
Total capital	**407,213**	267,058
Long-term debt to equity ratio	**0.45:1**	0.48:1

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 bank indebtedness. 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.

The Company is subject to certain covenants on its bank indebtedness and on certain long-term debt. The covenants include funded debt to earnings before interest, taxes and amortization, funded debt to capitalization and fixed charge coverage. The Company monitors the ratios on a quarterly 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:

	2010	2009
	$	$
Parent company		
Marketing and technical service fees paid	**200**	200
Interest on promissory note	**32**	52
Ultimate shareholders		
Marketing and technical service fees paid	**100**	100

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.

December 31, 2010 and 2009 (tabular amounts expressed in thousands of dollars, except as otherwise indicated)

21 RELATED PARTY TRANSACTIONS (continued)

As at December 31, 2010, the consolidated balance sheet includes the following amounts with related parties:

	2010	2009
	$	$
Accounts payable to parent company	**12**	68
Accounts payable to ultimate shareholders	**—**	25

22 SEGMENT INFORMATION

The Company operates within one business segment: the production and sale of pressure treated wood and related services. Operating plants are located in the Canadian provinces of Nova Scotia, Quebec, Ontario, Alberta and British Columbia, and the states of Pennsylvania, Virginia, West Virginia, Kentucky, Wisconsin, Alabama, Indiana, Louisiana, Tennessee, Minnesota, North Carolina and Washington in the U.S. 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:

	2010	2009
	$	$
Canada	**215,327**	187,993
U.S	**345,719**	223,126
	561,046	411,119

Sales by product as at December 31 are as follows:

	2010	2009
	$	$
Railway ties	**283,192**	185,112
Utility poles	**166,681**	149,664
Industrial products	**81,401**	44,801
Residential lumber	**29,772**	31,542
	561,046	411,119

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

	2010	2009
	$	$
Canada	**54,941**	54,079
U.S.	**59,015**	42,806
	113,956	96,885

Intangible assets having a net book value of $54,986,000 (2009 – $7,580,000) and goodwill having a value of $73,973,000 (2009 – $5,494,000) are attributed to the Company's U.S. 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 and 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 (3)
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 spirits products)
Montréal, Québec
Director since May 2001

Gianni Chiarva (2)
Vice-Chairman of the Board,
Stella-Jones Inc.
President, Stella International S.A.
(Holding company)
Milan, Italy
Director since July 1993

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.
(Waste management company)
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

John Barrie Shineton (1)
President and CEO,
Norbord Inc.
(Producer of oriented strand board)
Toronto, Ontario
Director since May 2009

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 June 2, 2011 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 – SENIOR MANAGEMENT

George Caric
Vice-President, Marketing
Stella-Jones Corporation

W.G. Downey, Jr.
Vice-President, Manufacturing
Stella-Jones Corporation

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

Kris Hedding
Vice-President, Sales
Stella-Jones Corporation

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

James Kenner
Vice-President and
General Counsel, U.S. Operations
Stella-Jones Corporation

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

Michael Sylvester
Vice-President, Operations
Stella-Jones Corporation

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

Eric Vachon, CA
Vice-President, Finance,
U.S. Operations
Stella-Jones Corporation

Operating Locations – Canada

CORPORATE HEAD OFFICE

3100 de la Côte-Vertu Blvd.
Suite 300
Saint-Laurent, Québec
H4R 2J8
T: (514) 934-8666
F: (514) 934-5327
montreal@stella-jones.com

BRITISH COLUMBIA

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

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

Fibre & Woodlands Dept.
Stella-Jones Canada Inc.
4661 60th Street SE
Salmon Arm
British Columbia
V1E 1X2
T: (250) 832-1180
F: (250) 832-7933
salmonarm@stella-jones.com

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

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

ALBERTA

Plant
Stella-Jones Canada Inc.
39 miles SE of Calgary
Hwy. 24
P.O. Box 99
Carseland, Alberta
T0J 0M0
T: (403) 934-4600
F: (403) 934-5880
carseland@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
T: (519) 822-3901
F: (519) 822-5411
info@guelphpole.com

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

QUÉBEC

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

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

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

NOVA SCOTIA

Plant and Sales Office
278 Park Street
Truro, Nova Scotia
B2N 5C1
T: (902) 893-9456
F: (902) 893-3874
truro@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
T: (709) 466-7941
F: (709) 466-2170
rtilley@stella-jones.com

Operating Locations – United States

CORPORATE OFFICE

Stella-Jones Corporation
Two Gateway Center,
Suite 1000
603 Stanwix Street
Pittsburgh, PA
15222 U.S.A.
T: (412) 325-0202
F: (412) 325-0208
sjcorp@stella-jones.com

LEGAL AND COMPLIANCE

Stella-Jones Corporation
15700 College Blvd.,
Suite 300
Lenexa, KS
66219 U.S.A.
T: (913) 948-9478
F: (913) 538-2226
sjcorp@stella-jones.com

WASHINGTON

Plant and Sales Office
Stella-Jones Corporation
6520 - 188th NE.
P.O. Box 305
Arlington, WA
98223 U.S.A.
T: (360) 435-2146
F: (360) 435-3035
sjcorp@stella-jones.com

IDAHO

Pole Peeling Yard
Stella-Jones Corporation
1076 Main
P.O. Box 500
Juliaetta, ID
83535 U.S.A.
T: (208) 276-7016
F: (208) 276-7017
sjcorp@stella-jones.com

UTAH

Rail Services Facility
Stella-Jones Corporation
2500 South, 9180 West
Magna, UT
84044 U.S.A.
T: (801) 569-7984
F: (801) 569-6646
sjcorp@stella-jones.com

MINNESOTA

Recycling Facility
Stella-Jones Corporation
5020 Lesure Street
Duluth, MN
55807 U.S.A.
T: (218) 624-9356
F: (218) 624-4387
sjcorp@stella-jones.com

WISCONSIN

Plant
Stella-Jones Corporation
W1038 County Road U.
Suite 101
Bangor, WI
54614 U.S.A.
T: (608) 486-2700
F: (608) 486-4538
sjcorp@stella-jones.com

LOUISIANA

Plant
Stella-Jones Corporation
3600 Koppers Road
Alexandria, LA
71302 U.S.A.
T: (318) 442-5733
F: (318) 473-4378
sjcorp@stella-jones.com

TENNESSEE

Coal Tar Distillation Facility
Stella-Jones Corporation
1471 Channel Avenue
Memphis, TN
38113 U.S.A.
T: (901) 942-4872
F: (901) 942-3128
sjcorp@stella-jones.com

KENTUCKY

Plant
Stella-Jones Corporation
3855 Highway 51
Fulton, KY
42041 U.S.A.
T: (270) 472-5557
F: (270) 472-5559
sjcorp@stella-jones.com

Plant
Stella-Jones Corporation
1641 Highway 160
Warrior, AL
35180 U.S.A.
T: (205) 590-0102
F: (205) 590-0105
sjcorp@stella-jones.com

INDIANA

Plant
Stella-Jones Corporation
3818 S. County Road 50 E.
Winslow, IN
47598 U.S.A.
T: (812) 789-5331
F: (812) 789-5335
sjcorp@stella-jones.com

ALABAMA

Recycling Facility
Stella-Jones Corporation
1658 Ohio Ferro Road
Mt. Meigs, AL
36057 U.S.A.
T: (334) 271-1500
F: (334) 271-1515
sjcorp@stella-jones.com

WEST VIRGINIA

Plant
Stella-Jones Corporation
3424 Parkersburg Road
Reedy, WV
25270 U.S.A.
T: (304) 927-1250
F: (304) 927-0259
sjcorp@stella-jones.com

VIRGINIA

Plant
Stella-Jones Corporation
9223 Maury River Road
Goshen, VA
24439 U.S.A.
T: (540) 997-9251
F: (540) 997-0047
sjcorp@stella-jones.com

PENNSYLVANIA

Plant
Stella-Jones Corporation
5865 State Route 235
McAlisterville, PA
17049 U.S.A.
T: (717) 463-2131
F: (717) 463-3998
sjcorp@stella-jones.com

Plant
Stella-Jones Corporation
392 Larkeytown Road
Dubois, PA
15801 U.S.A.
T: (814) 371-7331
F: (814) 375-0946
sjcorp@stella-jones.com

Corporate Information

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

June 2, 2011
10:00 a.m.
Hotel Omni Mont-Royal
Salon Pierre de Coubertin
1050 Sherbrooke Street West
Montreal, Qc

STOCK INFORMATION

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
Majority shareholder:
Stella Jones International S.A. (51.4%)
52-week high/low (Jan. 1 – Dec. 31, 2010): $33.50/$24.60
Share price at March 10, 2011: $35.99
Common shares outstanding as at December 31, 2010: 15.92 million

DIVIDEND POLICY

The Board of Directors considers a dividend on a semi-annual basis, subject to the Company's financial covenants and conditional upon its financial performance and cash requirements.

On March 10, 2011, the Board of Directors declared a semi-annual dividend of $0.24 per common share.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP
Foley & Lardner LLP

MIX
Paper from responsible sources
FSC® C008126
FSC www.fsc.org

A MaisonBrison Communications production

stella-jones.com