WELL POSITIONED

2014 ANNUAL REPORT

OVER THE LAST FIFTEEN YEARS, THE STORY OF STELLA-JONES HAS BEEN CHARACTERIZED BY STEADY EXPANSION AND CAREFUL NETWORK INTEGRATION. THE COMPANY'S PROGRESS HAS BEEN MARKED EQUALLY BY A RELENTLESS EMPHASIS ON PRODUCTIVITY IMPROVEMENT, GREATER PENETRATION OF CORE MARKETS AND ENHANCEMENT OF SHAREHOLDER VALUE.

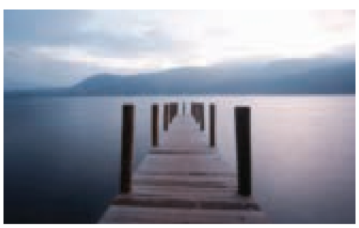
STELLA-JONES TODAY CONSISTS OF A CONTINENTAL PRODUCTION AND DISTRIBUTION NETWORK THAT AFFORDS BROAD MARKET COVERAGE AND A LEADING ROLE IN THE WOOD TREATING INDUSTRY. WITH UNRIVALLED SUPPLY SOURCES, A QUALITY PRODUCT OFFERING AND A REPUTATION STEEPED IN TRUST AND RELIABILITY, STELLA-JONES IS WELL POSITIONED TO CONTINUE ITS GROWTH TRAJECTORY.

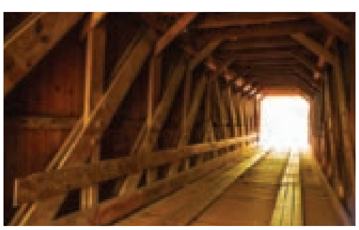
WELL POSITIONED FOR GROWTH

WELL POSITIONED GEOGRAPHICALLY

1. New Westminster, BC
2. Prince George, BC
3. Galloway, BC
4. Carseland, AB
5. Guelph, ON
6. Gatineau, QC
7. Delson, QC
8. Sorel-Tracy, QC
9. Truro, NS
10. Arlington, WA
11. Tacoma, WA
12. Sheridan, OR
13. Eugene, OR
14. Silver Springs, NV
15. Eloy, AZ
16. Russellville, AR
17. Alexandria, LA
18. Bangor, WI
19. Memphis, TN
20. Electric Mills, MS
21. Fulton, KY
22. Winslow, IN
23. Montevallo, AL
24. Clanton, AL
25. Cordele, GA
26. Goshen, VA
27. Dubois, PA
28. McAllisterville, PA

2014 HIGHLIGHTS





STELLA-JONES GENERATED RECORD SALES AND PROFIT FOR THE FOURTEENTH CONSECUTIVE YEAR, WHILE SUSTAINING ITS STRATEGY OF CONTINENTAL EXPANSION AND CONTINUING TO MAXIMIZE ITS NETWORK EFFICIENCIES. REVENUES REACHED $1.25 BILLION, WHILE NET INCOME AMOUNTED TO $103.8 MILLION.

In an increasingly confident North American economy, with investments being made in physical infrastructure, demand was healthy for Stella-Jones' core products, namely, railway ties and utility poles. The Company also manufactured the highest volume of residential lumber in its history – an offering for the consumer market that leverages its wood treating expertise.

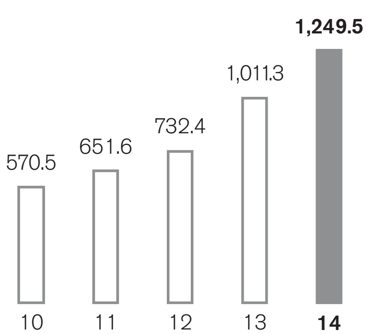
With the May 2014 acquisition of Boatright Railroad Products in Alabama, the Company's network of plants and distribution facilities once again expanded its footprint to better serve its core markets. In addition, productivity was enhanced throughout the organization, as Stella-Jones shared best practices while optimizing capacity and logistics across its expanded network.

A solid cash flow generation allowed Stella-Jones to maintain a healthy financial position. Annual dividends paid to shareholders totalled $0.28 per share in 2014, representing the tenth consecutive year of dividend increase.

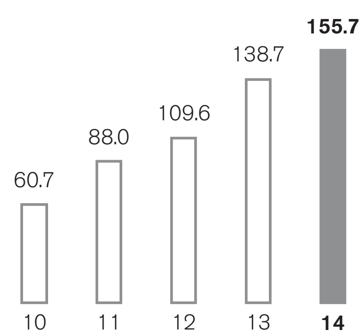
WELL POSITIONED FINANCIALLY

FOR THE YEARS ENDED DECEMBER 31 (millions of dollars, except per share data and ratios)	**2014** **$**	2013 $	2012 $	2011 $	2010 $
OPERATING RESULTS					
Sales	**1,249.5**	1,011.3	732.4	651.6	570.5
Operating income [1]	**155.7**	138.7	109.6	88.0	60.7
Net income	**103.8**	92.5	73.1	55.7	34.4
FINANCIAL POSITION					
Working capital	**615.1**	517.0	444.8	273.2	189.5
Total assets	**1,287.5**	1,071.9	955.9	617.1	517.3
Total debt [2]	**444.6**	372.9	363.6	182.7	157.8
Shareholders' equity	**692.3**	572.2	468.8	331.9	280.1
PER SHARE DATA					
Basic earnings per common share	**1.51**	1.35	1.14	0.87	0.57
Diluted earnings per common share	**1.50**	1.34	1.13	0.87	0.57
Book value	**10.04**	8.33	6.83	5.20	4.40
Dividend per share	**0.28**	0.20	0.16	0.13	0.10
Average number of shares outstanding (000's)	**68,802**	68,681	64,313	63,782	60,652
Average number of diluted shares outstanding (000's)	**69,027**	69,053	64,597	64,027	60,816
Shares outstanding at year end (000's)	**68,949**	68,697	68,674	63,821	63,691
FINANCIAL RATIOS					
Operating margin	**12.5%**	13.7%	15.0%	13.5%	10.6%
Return on average equity	**16.4%**	17.8%	18.3%	18.2%	15.0%
Total debt [2] to total capitalization	**0.39:1**	0.39:1	0.44:1	0.35:1	0.36:1
Total debt [2] to trailing 12-month EBITDA [1]	**2.52**	2.41	3.02	1.89	2.22
Working capital	**8.46**	8.97	5.94	5.77	3.38

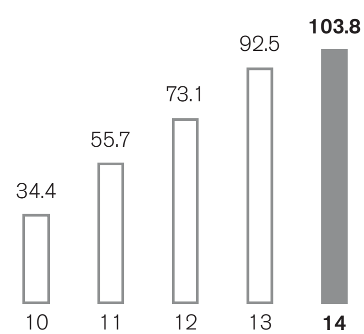
SALES
(in millions of $)



OPERATING INCOME [1]
(in millions of $)

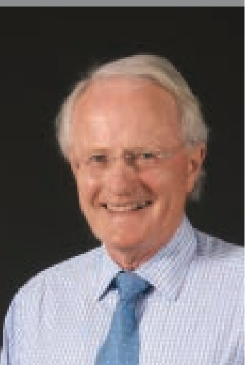


NET INCOME
(in millions of $)



1 Operating income before depreciation of property, plant and equipment and amortization of intangible assets ("EBITDA") and operating income are financial measures not prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board and Chartered Professional Accountant Canada Handbook Part 1 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 the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS financial statements, as there are no adjustments for unusual or non-recurring items.

2 Including short-term bank indebtedness.



CHAIRMAN'S REPORT

MOVING ON FROM OUR THEME "STRONGER TOGETHER" IN 2013, THE THEME OF OUR 2014 ANNUAL REPORT IS "WELL POSITIONED". STELLA-JONES IS INDEED WELL POSITIONED, BOTH OPERATIONALLY AND GEOGRAPHICALLY, TO SERVICE ITS MARKETS AND CUSTOMERS AND TO TAKE FULL ADVANTAGE OF THE IMPROVING ECONOMIC CONDITIONS IN NORTH AMERICA. IN ADDITION TO OUR TWENTY-SEVEN TREATING PLANTS, WE HAVE TEN PEELING YARDS, ONE COAL TAR DISTILLATION PLANT AND A WIDE DISTRIBUTION INFRASTRUCTURE, ALL OF WHICH GIVES STELLA-JONES A STRATEGIC PRESENCE THROUGHOUT THE CONTINENT.

Our successful growth by acquisition continued in 2014 with the purchase of Boatright Railroad Products and its two large railway tie manufacturing plants in Alabama. They lie also in an area with very good raw material supply which is especially advantageous at a time when we and our competitors have been facing a challenge to source sufficient quantities of untreated ties. Throughout 2014, our untreated tie inventories were at historically low levels across the continent, leading to longer treatment cycles and therefore additional costs. We expect tie inventories to return to normal levels during the first half of 2015.

As can be seen from the financial statements, Stella-Jones has exceeded the $1.0 billion mark in 2013 as a result of a change in accounting policy with regards to revenue recognition for non-pole quality logs, and has comfortably exceeded that mark, at $1.25 billion, in 2014. Net profit was $103.8 million compared with $92.5 million the previous year. The 2014 figures include seven months of contribution from the two Boatright plants. In excess of 80.0% of Stella-Jones sales are now in the United States and America's strengthening economy gives us much confidence that 2015 will be a very robust year for the Company. Our carefully planned growth strategy over recent years leaves Stella-Jones truly well positioned.

One of our independent directors, Barrie Shineton, has chosen not to seek re-election to the Board at our annual meeting of shareholders. Barrie's deep knowledge of the wood products industry and experience both in Canada and the United States has enabled him to make a significant contribution to the working and success of the Company and I thank him for his commitment.

On behalf of the Board, I thank our customers and shareholders for their continued support, and I congratulate all our employees on their contribution to another fine result.

Tom A. Bruce Jones, CBE
Chairman

PRESIDENT'S MESSAGE

IN 2014, STELLA-JONES AGAIN STRENGTHENED ITS ABILITY TO SERVE ITS CORE MARKETS BY WAY OF ENHANCED NETWORK EFFICIENCIES AND A STRATEGIC ACQUISITION. THE RESULT WAS ANOTHER RECORD YEAR IN TERMS OF SALES AND NET INCOME, REPRESENTING OUR FOURTEENTH CONSECUTIVE YEAR OF GROWTH.

Higher sales came from both organic growth and the broadened markets that Stella-Jones has entered through the acquisition process. This dual approach has been, and remains, a principal characteristic of our business model – a model which has progressively positioned the Company for growth and the enhancement of shareholder value.

Strong Financial Performance

Sales in 2014 amounted to $1.25 billion, a 23.6% increase over the previous year. The additional contribution from the operations of The Pacific Wood Preserving Companies®, which we acquired in November 2013, was $43.3 million. The contribution from our acquisition of Boatright Railroad Products in May 2014 was $33.4 million. In addition, year-over-year variations in the value of the Canadian dollar, our reporting currency, versus the U.S. dollar, increased our U.S.-dollar denominated sales by approximately $59.2 million when compared with the previous year. If we exclude the contributions from acquisitions, and the exchange rate effect, our 2014 sales increased by 10.1%.

Net income for the year came to $103.8 million, or $1.50 per share, fully diluted, compared with $92.5 million, or $1.34 per share the previous year.

This strong performance resulted from healthy demand for our core products, combined with our steadily expanding presence in the marketplace. Moreover, we focused relentlessly on improving the efficiencies of our growing network. This steady progress partially mitigated the strong impact of the tighter market for untreated railway ties which continued for most of the year.

PRESIDENT'S MESSAGE

At the same time, our solid cash flow generation allowed Stella-Jones to maintain a strong balance sheet. We concluded 2014 with a stable total debt to total capitalization ratio from a year ago in spite of financing the Boatright acquisition with our existing credit facility.

Network Expansion

In 2014, Stella-Jones enlarged its network footprint with the acquisition of the assets of Boatright Railroad Products. This initiative brought us two strategically located wood treating plants in the state of Alabama. Boatright is a producer of creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers for railroad operators. This acquisition further strengthened our reach as a leading provider of rail-related treated wood products across North America.

Railway Ties

In the steadily strengthening North American economy, rail remains a key – and growing – element of the continent's transportation infrastructure. The number of both inter-modal containers and carloads on North American railroads further increased during the year, augmenting the necessity to keep track networks in optimal working condition. Confident rail operators are also looking beyond regular track maintenance to fresh investments in track upgrades and new track. For these reasons, demand for Stella-Jones' railway ties stayed very healthy in 2014.

The railway tie category resumed its position as Stella-Jones' largest selling product. Sales amounted to $530.0 million, an increase of 34.5% over the previous year. The contribution from acquisitions totalled $36.4 million, and we also benefited from the lower exchange rate of the Canadian dollar. If we exclude those two factors, railway tie sales increased by $71.2 million, or 18.1%, driven by both increased volume and higher average selling prices as the increased untreated tie costs started to be passed through. This strong performance also provides evidence of the confidence railway operators have in our ability to meet their requirements in a timely and cost-efficient manner.

Utility Poles

Demand for utility poles remained strong in 2014 as operators of electrical and communications infrastructures pursued ongoing replacement programs and initiated new projects. Once again, performing as a leading continental supplier, Stella-Jones' sales of utility poles rose 15.9% from the previous year, amounting to

$470.5 million. Excluding the contribution of acquired operations and the exchange rate factor, utility pole sales rose by $17.0 million, or 4.0%.

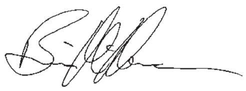
Residential Lumber, Industrial Products, and Non-Pole-Quality Logs

With the expansion of Stella-Jones' network has come an enlargement of its offering and a significant revenue increase from ancillary products. Sales of residential lumber reached $128.0 million in 2014, up 14.0% from the previous year. The increase was driven by solid demand in Western Canada and the United States, whose strong economies favour the undertaking of projects requiring our treated wood products. In the industrial products category, sales totalled $89.4 million, as acquisitions and solid demand for rail-related products contributed to a robust 53.9% year-over-year sales increase. As of this year, we have segregated sales of non-pole-quality logs due to their relative importance following the acquisition of McFarland Cascade Holdings in late 2012. These sales came to $31.6 million, but margins are nominal as it is more appropriate for us to rapidly dispose of these logs at prices close to the cost of sales.

Positioned for Growth

The network expansion that Stella-Jones has pursued over the last fourteen years has made the Company a leading supplier of its core products to clients throughout North America. Going forward, our penetration of the market for treated wood in our categories is expected to grow as the quality and reliability of our operations become even more recognized. At the same time, the relentless fine-tuning of our production and distribution logistics should further optimize our operating margins. In sum, and particularly in light of the accelerating revival of the North American economy, our outlook for the creation of additional shareholder value is positive.

The progress of our Company is directly related to the skill and dedication of the people who come to work every day in our plants and offices. I take this opportunity to thank all of them for their indispensable contribution.



Brian McManus
President and Chief Executive Officer

RAILWAY TIES

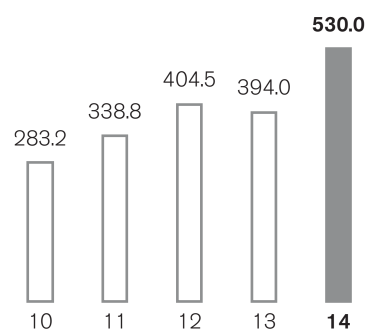
RAIL OPERATORS IN NORTH AMERICA PURCHASE MORE THAN TWENTY MILLION PRESSURE-TREATED WOODEN RAILWAY TIES EVERY YEAR. STELLA-JONES, THROUGH ITS CONTINENTAL NETWORK OF WOOD TREATING PLANTS, ACTS AS ONE OF THE FOREMOST SUPPLIERS OF THIS FUNDAMENTAL COMPONENT OF VITAL INFRASTRUCTURE.

In 2014, railway ties once again represented Stella-Jones' largest product category. The capacity and reliability of the Company's tie-production and distribution continued to prove second-to-none – and thus Stella-Jones performed as the key provider of ties to many of the continent's rail operators.

North America is home to hundreds of thousands of kilometres of railway tracks, which are held together by several hundred million crossties. These ties have a finite life and must be replaced at regular intervals. The demand is therefore consistent for the railway ties produced by Stella-Jones. Moreover, the demand for ties going forward promises to remain strong as the priority for environmental protection has made the rail transport industry – lauded for its many 'green' attributes – a preferred policy choice for both passenger and freight traffic.

Meanwhile, the continuous expansion of the Stella-Jones production network, through both acquisition and construction, has helped the Company penetrate new markets and strengthen its relationship with existing clients. If, as expected, rail infrastructure investments accelerate in the increasingly confident North American economy, the demand for Stella-Jones' railway ties should continue to grow.

RAILWAY TIE SALES
(in millions of $)



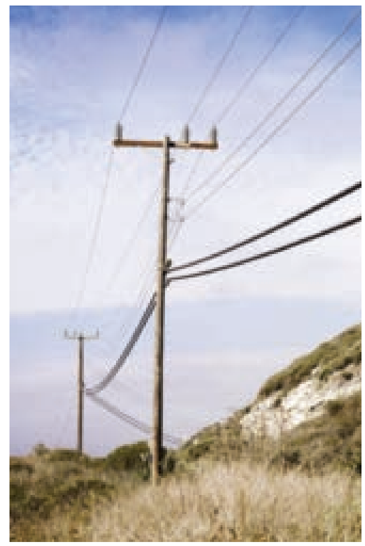
UTILITY POLES

THE KEY BENEFIT OF THE STELLA-JONES BUSINESS MODEL IS THAT IT ALLOWS THE COMPANY TO PLAY AN IMPORTANT ROLE IN THE BASIC PHYSICAL INFRASTRUCTURE OF THE NORTH AMERICAN ECONOMY. THIS IS ESPECIALLY TRUE WITH RESPECT TO PRESSURE-TREATED WOOD UTILITY POLES, WHICH CONSTITUTE AN ESTABLISHED COMPONENT OF THE CONTINENT'S ELECTRICAL TRANSMISSION AND DISTRIBUTION GRIDS, AS WELL AS OF TELECOMMUNICATIONS NETWORKS.

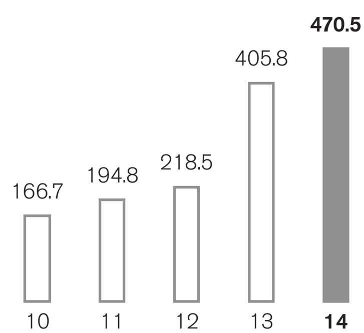
Historically, in reference to wood utility poles, the expertise, productivity and dependability of Stella-Jones are unrivalled in the industry. By virtue of long-established relationships with forestry producers, as well as its own cutting rights, Stella-Jones can supply poles made from the finest timber, in any required species, and in any needed size between 25-feet and 140-feet.

Stella-Jones' offering, combined with its network of manufacturing facilities strategically located to maximize delivery logistics, amounts to a formidable competitive edge. The Company has proved time and again that it can rapidly meet massive orders for replacement poles after natural disasters. This reliability, on top of its reputation for quality, has helped make Stella-Jones a single-source supplier for utility poles in many areas of the continent.

Expectations are firm that Stella-Jones will remain a leading provider in this vital infrastructure category.



UTILITY POLE SALES
(in millions of $)



RESIDENTIAL LUMBER

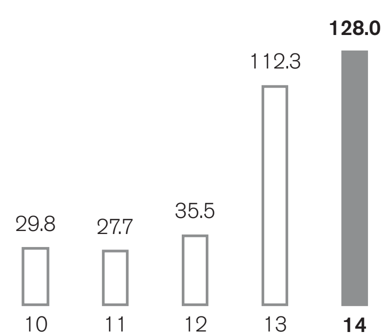
THE RESIDENTIAL LUMBER CATEGORY HAS RECENTLY BECOME A SUBSTANTIAL CONTRIBUTOR TO STELLA-JONES' REVENUES. OVER THE PAST SEVERAL YEARS, THROUGH BOTH ACQUISITION AND ORGANIC GROWTH, THE COMPANY'S SALES FROM THE CATEGORY HAVE ALMOST QUADRUPLED.

Through home improvement outlets, Stella-Jones is a prominent supplier of residential lumber in most markets across Canada and its products are also sold in the northwestern United States. Products in the category include specially treated wood for outdoor applications such as patio decks, yard fences, and other renovation projects.

Stella-Jones' expertise in the pressure treatment of wood lends itself ideally to participation in the residential lumber field. With its reputation for quality and the ever-expanding reach of its production network, the Company is well positioned to achieve consistent growth in this category.

RESIDENTIAL LUMBER SALES

(in millions of $)



INDUSTRIAL PRODUCTS

THE INDUSTRIAL MARKET HAS LONG BEEN A SOURCE OF IMPORTANT REVENUES FOR STELLA-JONES. AMONG THE PRODUCTS SUPPLIED ARE SPECIALLY PRESERVED RAILWAY BRIDGE AND CONSTRUCTION TIMBERS, MARINE AND FOUNDATION PILINGS, AS WELL AS HIGHWAY GUARDRAIL POSTS. THE COMPANY'S TREATMENT OF THE WOOD FOR THESE APPLICATIONS ALLOWS FOR EXPOSURE TO DEMANDING ENVIRONMENTAL CONDITIONS.

Different outdoor needs in the marine and construction sectors call for selected pressure treatments and/or diverse types of wood. Due to Stella-Jones' core competence with the full gamut of preservatives, as well as its access to required species, the Company is a leader in the industrial lumber market.

Stella-Jones also operates a coal tar distillation facility to produce creosote, a preservative used in wood treating. Road tar and roof pitch are derived from the distillation process, thereby generating additional revenues for the Company.

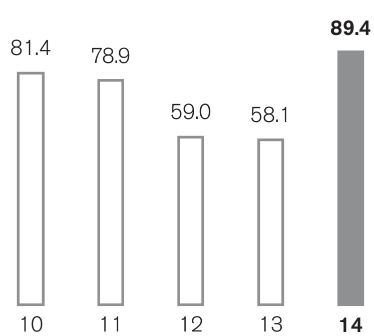
NON-POLE-QUALITY LOGS

IN 2014, STELLA-JONES BEGAN REPORTING SALES OF NON-POLE-QUALITY LOGS IN ITS CONSOLIDATED STATEMENT OF INCOME. PREVIOUSLY, THE REVENUES HAD BEEN CREDITED TO COST OF SALES. THE CHANGE WAS PROMPTED BY THE FACT THAT STELLA-JONES HAS INCREASINGLY BEEN ENSURING ITS OWN POLE SOURCING. IT BECAME MORE REPRESENTATIVE TO TREAT THESE LOG SALES AS A JOINT PRODUCT OF OUR POLE HARVESTING EFFORTS, RATHER THAN AS A BY-PRODUCT.

Harvested by the Company's own operations, these logs, due to their size, composition or condition, are not suitable for use as utility poles. Accordingly, they are sold to sawmills and other users of wood.

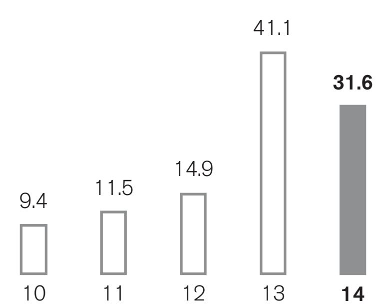
INDUSTRIAL PRODUCT SALES

(in millions of $)

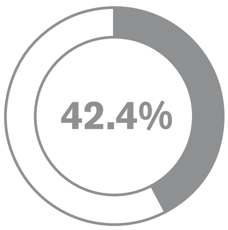


NON-POLE-QUALITY LOG SALES

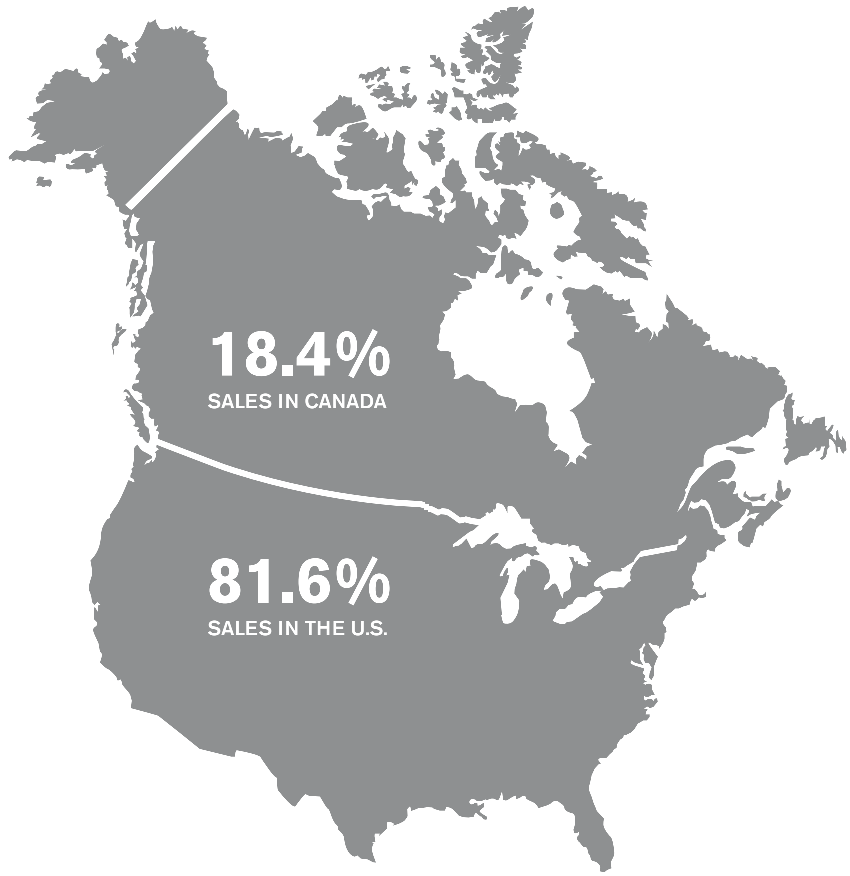
(in millions of $)

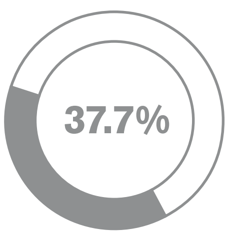


2014
REVIEW OF OPERATIONS

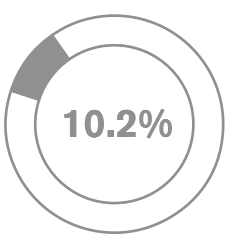


$530.0 M
RAILWAY TIE SALES

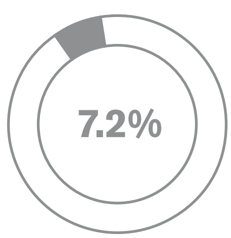




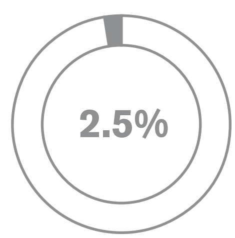
$470.5 M
UTILITY POLE SALES



$128.0 M
RESIDENTIAL LUMBER SALES



$89.4 M
INDUSTRIAL PRODUCT SALES



$31.6 M
NON-POLE QUALITY LOG SALES

Stella-JoneS Inc.®

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2014 AND 2013

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc., and shall include its independent operating subsidiaries.

This MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 12, 2015. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2014 compared with the fiscal year ended December 31, 2013. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013 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. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountant ("CPA") Canada Handbook Part I. 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. is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones also provides residential lumber and customized services to retailers and wholesalers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal-tar based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at December 31, 2014, the Company operates twenty-seven wood treating plants, ten pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and sixteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2014, Stella-Jones' workforce numbered approximately 1,535 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-IFRS FINANCIAL MEASURES

Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and operating results as they provide additional measures of its performance.

Reconciliation of EBITDA and operating income to net income	**Three-month periods ended**		**Fiscal years ended**	
	Dec. 31, 2014	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**23.0**	19.7	**103.8**	92.5
Plus:				
Provision for income taxes	**7.1**	6.9	**38.9**	35.3
Financial expenses	**3.8**	2.9	**13.0**	10.9
Operating income	**33.9**	29.5	**155.7**	138.7
Depreciation and amortization	**5.8**	4.2	**20.6**	16.3
EBITDA	**39.7**	33.7	**176.3**	155.0

MAJOR ACHIEVEMENTS OF 2014

Stella-Jones recorded a solid performance in the year ended December 31, 2014. The Company proceeded with further network expansion through a strategic acquisition. On the operating front, it achieved record sales and net income, while concluding the year in a healthy financial position. Going forward, Stella-Jones remains committed to executing its operating strategy based on continental expansion in its core railway tie and utility pole markets, as well as capturing select opportunities in other markets for its treated wood products.

Network expansion

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

The total consideration transferred for the acquisition was approximately $72.3 million (US$66.2 million), excluding acquisition costs of approximately $753,000 (US$690,000), recognized in the consolidated statement of income under selling and administrative expenses.

Operating results

Sales for the year ended December 31, 2014 reached $1,249.5 million, up 23.6% from last year's sales of $1,011.3 million. The assets acquired from The Pacific Wood Preserving Companies® ("PWP") on November 15, 2013 contributed additional sales of $43.3 million over a ten-and-a-half-month period, while the wood treating facilities acquired from Boatright on May 22, 2014 generated sales of $33.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $59.2 million when compared with the previous year. Excluding these factors, sales increased approximately $102.3 million, or 10.1%.

Stella-Jones' annual operating income reached $155.7 million, or 12.5% of sales, in 2014. This represents a 12.3% increase over $138.7 million, or 13.7% of sales, in the prior year. As a result, net income for the year grew 12.2% to $103.8 million, or $1.50 per share, fully diluted, compared with $92.5 million, or $1.34 per share, fully diluted, a year ago. The Company generated a solid 16.4% return on average equity in 2014.

Stella-Jones produced strong cash flows in 2014 with cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid, amounting to $181.5 million, up 13.0% from $160.6 million in 2013. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the tenth consecutive year. Although the Boatright acquisition was mostly financed through the Company's existing committed revolving credit facility, Stella-Jones' total debt to total capitalization ratio of 0.39:1 as at December 31, 2014 remained stable from twelve months earlier.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	2014	2013	2012
(in millions of dollars, except per share data)	**$**	$	$
Sales	**1,249.5**	1,011.3	732.4
Operating income	**155.7**	138.7	109.6
Net income	**103.8**	92.5	73.1
Basic earnings per common share	**1.51**	1.35	1.14
Diluted earnings per common share	**1.50**	1.34	1.13

Financial Position	2014	2013	2012
(in millions of dollars)	**$**	$	$
Current assets	**697.5**	581.9	534.9
Total assets	**1,287.5**	1,071.9	955.9
Long-term debt*	**444.6**	372.9	349.6
Total liabilities	**595.2**	499.7	487.1
Shareholders' equity	**692.3**	572.2	468.8

* Including current portion

KEY PERFORMANCE INDICATORS (years ended December 31)

	2014	2013	2012
Operating margin	**12.5%**	13.7%	15.0%
Return on average equity	**16.4%**	17.8%	18.3%
Working capital ratio	**8.46**	8.97	5.94
Total debt to total capitalization	**0.39:1**	0.39:1	0.44:1
Total debt to trailing 12-month EBITDA	**2.52**	2.41	3.02
Dividend per share	**$0.28**	$0.20	$0.16

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2014 and 2013. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

		2014		2013
Cdn$/US$	Average	Closing	Average	Closing
First Quarter	**1.0949**	**1.1055**	1.0079	1.0160
Second Quarter	**1.0952**	**1.0670**	1.0201	1.0518
Third Quarter	**1.0816**	**1.1200**	1.0440	1.0303
Fourth Quarter	**1.1304**	**1.1601**	1.0450	1.0636
Fiscal Year	**1.1005**	**1.1601**	1.0292	1.0636

INDUSTRY OVERVIEW

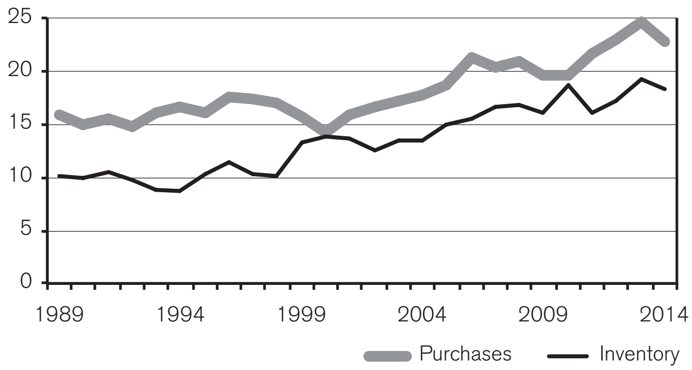
Railway ties

As reported by the Railway Tie Association, railway tie purchases for 2014 stood at 22.9 million ties. Although slightly down from 24.7 million ties in the previous year, railway tie purchases remain high by historical standards. This solid demand, combined with lower availability of untreated railway ties, resulted in a tighter inventory-to-sales ratio of 0.70:1, as at December 31, 2014, down from 0.74:1 twelve months earlier, and below the previous ten-year average ratio of 0.79:1.

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 increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

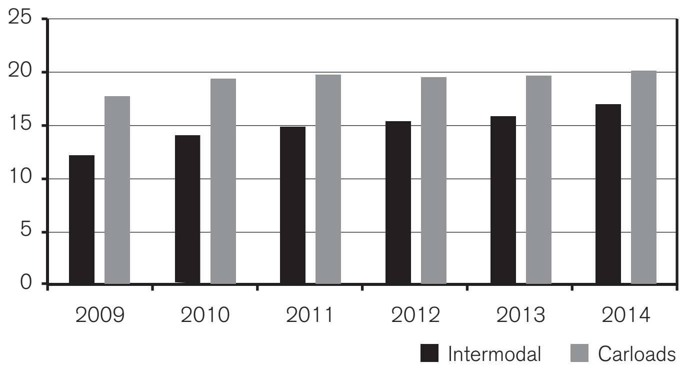
Driven by an improving economy, total traffic on North American railroads increased by 4.4% in 2014, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 5.4% from 2013 levels, the volume of carloads increased by 3.6% in 2014 due to higher shipments of petroleum products and grain, compared with the previous year.

ANNUALIZED RAILWAY TIE PURCHASES AND INVENTORY
(in millions of ties)



Source: Railway Tie Association

FREIGHT HAULED ON NORTH AMERICAN RAILROADS
(in millions of units)



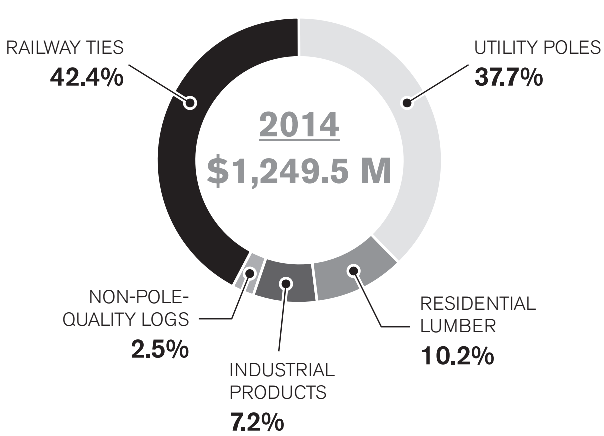
Source: Association of American Railroads

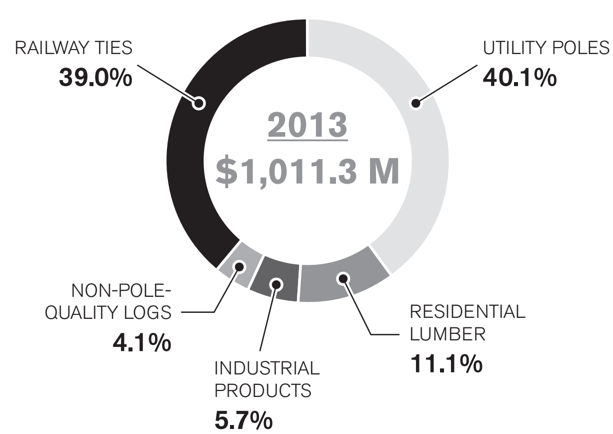
OPERATING RESULTS

Sales

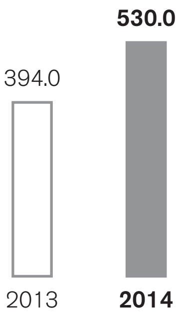
Sales for the year ended December 31, 2014 reached $1,249.5 million, up 23.6% over last year's sales of $1,011.3 million. The assets acquired from PWP on November 15, 2013 contributed additional sales of $43.3 million over a ten-and-a-half-month period, while the wood treating facilities acquired from Boatright on May 22, 2014 generated sales of $33.4 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $59.2 million when compared with the previous year. Excluding these factors, sales increased approximately $102.3 million, or 10.1%.

SALES BY PRODUCT CATEGORY
(% of sales)

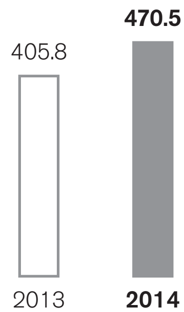




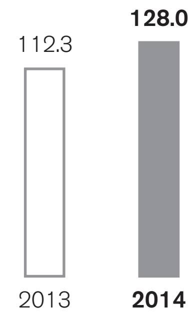
❶ RAILWAY TIE SALES
(in millions of $)



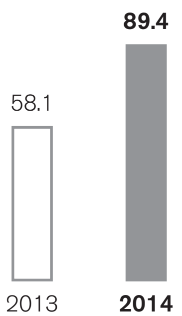
❷ UTILITY POLE SALES
(in millions of $)



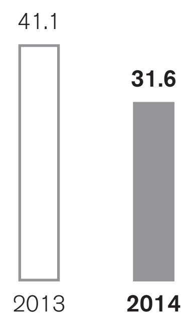
❸ RESIDENTIAL LUMBER SALES
(in millions of $)



❹ INDUSTRIAL PRODUCT SALES
(in millions of $)



❺ NON-POLE-QUALITY LOG SALES
(in millions of $)



1. Railway ties

Railway tie sales for 2014 amounted to $530.0 million, up $136.0 million, or 34.5%, from $394.0 million in 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales rose approximately $71.2 million, or 18.1%. Further adjusting for a negative timing effect of approximately $30.9 million on last year's railway tie sales resulting from the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, year-over-year sales increased $40.3 million, or 10.2%. This increase reflects solid market demand from tie replacement programs and increased pricing. A "treating services only" program is characterized by the customer owning the wood raw material and Stella-Jones providing the transformation service of the raw material into a finished product. In a "black-tie" program, the customer is not involved in the process and purchases a finished product from Stella-Jones. Railway tie sales accounted for 42.4% of the Company's total sales in 2014.

2. Utility poles

Utility pole sales reached $470.5 million in 2014, representing an increase of $64.7 million, or 15.9%, from sales of $405.8 million in 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, sales rose approximately $17.0 million, or 4.0%. This increase reflects sustained demand from replacement programs for distribution poles and from special projects for transmission poles. Utility pole sales accounted for 37.7% of the Company's total sales in 2014.

3. Residential lumber

Sales in the residential lumber category totalled $128.0 million in 2014, up from $112.3 million in 2013. This $15.7 million, or 14.0%, increase essentially reflects solid demand in Western Canada and in the United States due to the general improvement in the North American economy. Residential lumber accounted for 10.2% of Stella-Jones' sales in 2014.

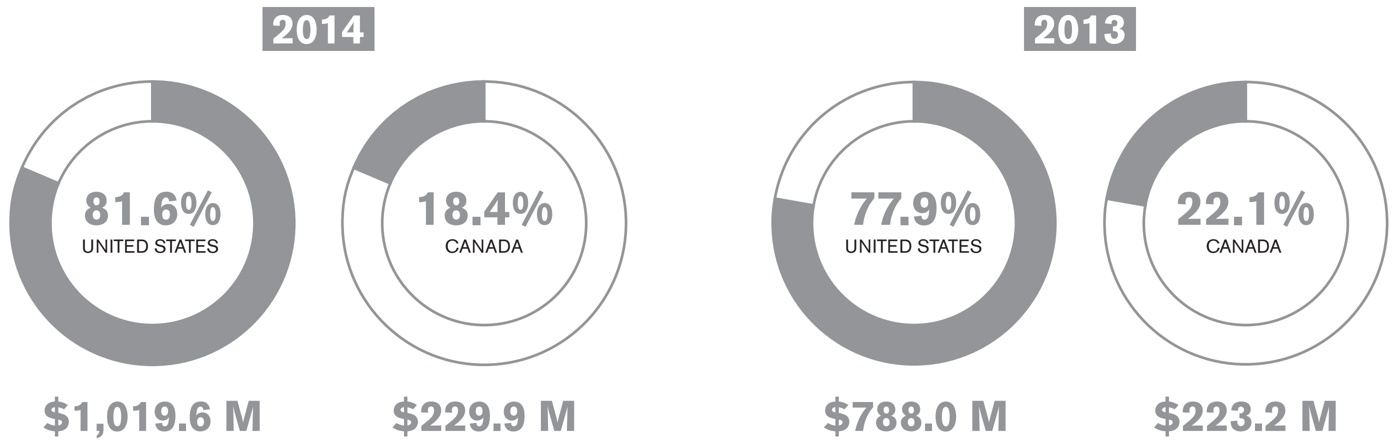
4. Industrial products

Industrial product sales were $89.4 million in 2014, compared with $58.1 million in 2013. This increase is mainly attributable to the contribution of the PWP and Boatright assets, as well as increased sales of rail-related industrial products. Industrial products represented 7.2% of sales in 2014.

5. Non-pole-quality logs

Non-pole-quality log sales amounted to $31.6 million in 2014, down from $41.1 million in 2013. This variation is attributable to the timing of timber harvesting. Non-pole-quality logs represented 2.5% of sales in 2014.

SALES BY GEOGRAPHIC REGION
(% of sales)



Sales in the United States amounted to $1,019.6 million, or 81.6% of sales in 2014, representing an increase of $231.6 million, or 29.4%, over 2013. The year-over-year rise mainly stems from an additional contribution totalling $76.7 million from the PWP and Boatright assets, the $59.2 million increase resulting from a higher conversion rate on U.S. dollar denominated sales, and from higher industry demand for the Company's treated wood products.

Sales in Canada increased by $6.7 million, or 3.0%, in 2014 to reach $229.9 million, representing 18.4% of Stella-Jones' total sales. The variation is attributable to higher residential lumber sales in Western Canada as well as higher railway tie sales resulting from higher pricing. These factors were partially offset by lower sales of utility poles, mainly due to the year-over-year timing difference in orders.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $1,025.3 million, or 82.1% of sales, in 2014. This compares with $814.0 million, or 80.5% of sales, in 2013. The increase in absolute dollars essentially reflects higher business activity, the addition of the PWP and Boatright assets, and a higher average rate applied to convert U.S. dollar denominated costs. As a percentage of sales, the increase is mainly attributable to higher year-over-year costs for untreated railway ties. This factor was partially offset by greater efficiencies throughout the Company's plant network.

While the year-over-year gross profit for the second, third and fourth quarters of 2014 have been negatively impacted by the increase of untreated railway tie costs, the Company has been able to adjust its selling prices, as permitted in most of the multi-year contracts, which has resulted in a sequential improvement in gross profit as a percentage of sales over these quarters.

Depreciation and amortization charges totalled $20.6 million for the year ended December 31, 2014, versus $16.3 million a year earlier. The increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of PWP and Boatright.

As a result, gross profit reached $224.2 million or 17.9% of sales in 2014, up from $197.3 million or 19.5% of sales in 2013.

Selling and administrative

Selling and administrative expenses for 2014 were $69.1 million, or 5.5% of sales, compared with expenses of $57.2 million, or 5.7% of sales, in 2013. The variation in monetary terms is mainly attributable to a $2.4 million increase in stock-based compensation following the appreciation of the Company's share price on the TSX, an increase in profit sharing of $1.9 million, certain severance provisions of $1.5 million and the effect of currency translation. Finally, this year's selling and administrative expenses also included approximately $753,000 in acquisition costs directly related to the Boatright transaction, while last year's expenses included approximately $1.2 million in acquisition costs directly related to the PWP transaction.

Other losses (gains), net

Stella-Jones' other net gains of $643,000 for the year ended December 31, 2014 included a $5.7 million gain on the sale of a timber license and $3.9 million of environmental provision reversals, as well as a $1.3 million gain on foreign currency conversion. These elements were partially offset by losses on disposal of long-term assets of $5.5 million, including $2.4 million related to the Warrior, Alabama facility, and by $2.2 million of plant closure costs. In 2013, other net losses of $1.5 million included a $2.8 million loss on the disposal of assets, partially offset by a gain of $660,000 on the sale of certain tie recycling assets and by a foreign exchange gain of $707,000.

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 and to U.S. dollar denominated long-term debt held by its Canadian companies. Stella-Jones U.S. Holding Corporation ("SJ Holding"), the Company's wholly-owned U.S. subsidiary, is a foreign operation that has a different functional currency from that of the Company and 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 foreign exchange forward contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

Financial expenses

Financial expenses reached $13.0 million in 2014, up from $10.9 million in 2013. This increase in financial expenses is due to higher-year-over-year average borrowings as a result of the acquisitions of PWP and Boatright, which includes $1.3 million of interest accretion on debt fair values compared to $492,000 in 2013.

Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of $142.7 million, or 11.4% of sales, in 2014. This represents an increase of 11.7%, over income before income taxes of $127.8 million, or 12.6% of sales, in 2013.

Stella-Jones' provision for income taxes totalled $38.9 million in 2014, representing an effective tax rate of 27.2%. In 2013, the income tax expenses stood at $35.3 million, equivalent to an effective tax rate of 27.6%. The slightly lower effective tax rate for 2014 is mainly attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

Net income

Net income for the year ended December 31, 2014 reached $103.8 million, or $1.50 per share, fully diluted, compared with $92.5 million, or $1.34 per share, fully diluted, in 2013. This represents a year-over-year increase in net income of 12.2%.

BUSINESS ACQUISITION

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

Total cash outlay associated with the acquisition was approximately $58.8 million (US$53.9 million), excluding acquisition costs of approximately $753,000 (US$690,000), recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

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

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

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

The Company financed the acquisition through a combination of its existing committed revolving credit facility, which was increased from $400.0 million to $450.0 million as at May 12, 2014 and an unsecured promissory note of $15.5 million (US$14.2 million), bearing interest at 1.93% and repayable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at $13.4 million (US$12.3 million), using an interest rate of 7.0%.

SUBSEQUENT EVENT

On March 3, 2015, the Company and SJ Holding, as borrowers, entered into an agreement to amend and restate in its entirety their existing revolving credit agreement dated November 21, 2012. This fourth restated and amended agreement makes available a committed revolving credit facility in the amount of US$450.0 million (previously $450.0 million) with conditions similar to the third restated and amended agreement. The maturity date of December 13, 2018 remains unchanged.

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 products for their summer maintenance projects. Residential lumber 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.

In 2014, the Company achieved year-over-year revenue and net income growth in all quarters, driven by solid demand for its core products and by the contribution of the PWP and Boatright assets. The table below sets forth selected financial information for the Company's last eight quarters, ending with the most recently completed financial year:

					2014
For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(in millions of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	**257.5**	**344.8**	**357.3**	**289.9**	**1,249.5**
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	**39.1**	**46.2**	**51.3**	**39.7**	**176.3**
Operating income [1]	**34.7**	**41.6**	**45.5**	**33.9**	**155.7**
Net income for the period	**22.5**	**28.8**	**29.5**	**23.0**	**103.8**
Earnings per common share					
Basic	**0.33**	**0.42**	**0.43**	**0.33**	**1.51**
Diluted	**0.33**	**0.42**	**0.43**	**0.33**	**1.50**

					2013
For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(in millions of dollars, except per share data)	$	$	$	$	$
Sales	222.6	280.9	285.3	222.5	1,011.3
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	33.9	44.9	42.5	33.7	155.0
Operating income [1]	29.7	41.0	38.6	29.5	138.7
Net income for the period	18.8	26.4	27.7	19.7	92.5
Earnings per common share					
Basic	0.27	0.38	0.40	0.29	1.35
Diluted	0.27	0.38	0.40	0.29	1.34

1 Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS 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 the industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in the IFRS consolidated 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 2014 amounted to $289.9 million, up 30.3% from $222.5 million for the same period in 2013. This increase is attributable to sales of $17.7 million from the Boatright assets and from a contribution of $7.0 million from the PWP assets over an additional 45-day period. The conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $16.1 million when compared with last year. Excluding these factors, sales increased approximately $26.6 million, or 12.0%.

Sales of railway ties reached $131.1 million, versus $78.3 million last year. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. currency, railway tie sales rose $27.1 million, or 34.7%. Further adjusting for a negative timing effect of approximately $13.4 million on last year's railway tie sales resulting from the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, year-over-year sales increased $13.7 million, or 17.5%, as a result of solid market demand and price increases. Utility pole sales rose $6.7 million, or 6.2%, to $113.8 million. Excluding sales from acquisitions and the conversion effect from currency fluctuations, sales declined by approximately $4.1 million due to the year-over-year timing difference for certain orders. Residential lumber sales reached $17.9 million, up from $13.8 million last year, reflecting solid demand in most of the Company's markets. Industrial product sales amounted to $18.7 million, up from $12.7 million a year ago, as a result of acquisitions and higher sales of rail-related products. Finally, non-pole-quality log sales stood at $8.4 million, down from $10.6 million last year due to the timing of timber harvesting.

Gross profit amounted to $51.4 million, or 17.7% of sales, in the fourth quarter of 2014, versus $43.2 million, or 19.4% of sales, in the fourth quarter of 2013. The increase in absolute dollars reflects higher business activity, the contribution of Boatright for the full period and of PWP over an additional 45-day period, as well as a higher average rate applied to convert U.S. dollar denominated costs. The decline as a percentage of sales is mainly attributable to a less favourable year-over-year product mix, more heavily weighted towards railway ties in 2014. These factors were partially offset by greater efficiencies throughout the Company's plant network.

While the year-over-year gross profit remains negatively impacted by the increase of untreated railway tie costs, the Company has continued to adjust its selling prices, as permitted in most of the multi-year contracts, resulting in better gross profit in the fourth quarter as a percentage of sales when compared with the previous quarter.

Reflecting factors that affected gross profit, operating income was $33.9 million, or 11.7% of sales, in the fourth quarter of 2014, versus $29.5 million, or 13.3% of sales, in the fourth quarter of 2013. Net income for the period reached $23.0 million, or $0.33 per share, fully diluted, compared with $19.7 million, or $0.29 per share, fully diluted, last year. This represents a year-over-year increase in net income of 16.6%.

STATEMENT OF FINANCIAL POSITION

Assets

As at December 31, 2014, total assets reached $1,287.5 million, up from $1,071.9 million as at December 31, 2013. This increase is mainly attributable to the Boatright acquisition and to the effect of local currency translation on U.S.-based assets.

Current assets amounted to $697.5 million as at December 31, 2014 compared with $581.9 million at December 31, 2013. This variation is mostly attributable to increases in inventories and accounts receivable related to the Boatright acquisition and to the effect of local currency translation on U.S.-based current assets.

The value of accounts receivable was $127.5 million as at December 31, 2014 compared with $108.0 million as at December 31, 2013. This increase mainly reflects the addition of Boatright's accounts receivable, higher business activity in the fourth quarter of 2014 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

The value of inventories reached $547.2 million as at December 31, 2014, up from $458.6 million as at December 31, 2013. This variation is mainly due to the addition of Boatright's inventories and the effect of local currency translation on U.S.-based inventories.

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 flows from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $281.6 million as at December 31, 2014, compared with $234.2 million as at December 31, 2013. This increase is essentially related to the Boatright acquisition ($22.5 million), to purchases of property, plant and equipment for the year ($24.9 million) and to the effect of local currency translation on U.S.-based property, plant and equipment. These factors were partially offset by the depreciation charge ($9.7 million) and asset disposals ($5.9 million).

The value of intangible assets reached $110.3 million as at December 31, 2014. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights and standing timber. As at December 31, 2013, intangible assets were $94.0 million. The year-over-year increase is mainly explained by the acquisition of Boatright ($18.9 million) and the effect of local currency translation on U.S. dollar denominated intangible assets, partially offset by an amortization charge of $10.9 million for 2014.

As at December 31, 2014, the value of goodwill stood at $195.0 million, up from $156.2 million a year earlier. This increase in goodwill reflects the Boatright acquisition ($23.3 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2014, Stella-Jones' total liabilities stood at $595.2 million, up from $499.7 million as at December 31, 2013. This variation reflects increases in current liabilities and in long-term debt, as explained below, as well as the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $82.4 million as at December 31, 2014, up from $64.9 million a year earlier. This variation is essentially due to an $11.7 million increase in accounts payable and accrued liabilities due to higher business activity and the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities. Also, current portions of provisions and other long-term liabilities, and of long-term debt, were up by $3.9 million and $3.0 million, respectively.

The Company's long-term debt, including the current portion, stood at $444.6 million as at December 31, 2014, versus $372.9 million as at December 31, 2013. The increase essentially reflects higher borrowings following the acquisition of Boatright, increased working capital requirements due to higher business activity and the effect of local currency translation on U.S. dollar denominated long-term debt. As at December 31, 2014, an amount of $64.3 million was available against the Company's committed revolving credit facility of $450.0 million.

Shareholders' equity

Shareholders' equity was $692.3 million as at December 31, 2014, compared with $572.2 million as at December 31, 2013. This increase is mainly attributable to net income of $103.8 million for the year and to a $35.5 million favourable variation in the value of accumulated other comprehensive gain. These factors were partially offset by dividends on common shares totalling $19.3 million. Book value stood at $10.04 per common share as at December 31, 2014, up from $8.33 per share as at December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (years ended December 31)

	2014	2013
(in millions of dollars)	**$**	$
Operating activities	**76.9**	104.2
Financing activities	**5.1**	(33.8)
Investing activities	**(85.2)**	(81.2)
Net change in cash and cash equivalents	**(3.2)**	(10.8)
Cash and cash equivalents – beginning	**3.2**	14.0
Cash and cash equivalents – end	**–**	3.2

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, long-term debt, and the issuance of common shares. The Company's committed revolving credit facility is made available for a five-year term and is thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $181.5 million for the year ended December 31, 2014, up 13.0% from $160.6 million in 2013. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $52.5 million in 2014. Main elements of this variation include increases of $5.8 million and $48.2 million in accounts receivable and inventories, respectively. In 2013, changes in non-cash working capital components had reduced liquidity by $24.3 million, mainly due to an $8.4 million increase in inventories and a $10.4 million decrease in accounts payable and accrued liabilities.

Interest and income taxes paid further reduced liquidity by $14.9 million and $37.1 million, respectively, in 2014, versus $9.1 million and $23.1 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings, while the increase in income taxes paid reflects a higher balance of income taxes receivable as at December 31, 2014 and the payment of an income taxes payable balance as at December 31, 2013.

As a result, cash flows provided by operating activities were $76.9 million in 2014, versus $104.2 million in 2013.

Financing activities for the year ended December 31, 2014 provided liquidity of $5.1 million. The main factors explaining this cash generation were a net increase in long-term debt of $23.2 million, mainly to finance the Boatright transaction, partially offset by the payment of dividends on common shares totalling $19.3 million. For the year ended December 31, 2013, financing activities had required liquidity of $33.8 million, mainly due to a $14.0 million decrease in bank indebtedness and the payment of dividends on common shares totalling $13.7 million.

Investing activities required $85.2 million in cash during 2014. Business acquisitions resulted in a cash outlay of $61.1 million, while purchases of property, plant and equipment required an investment of $24.2 million. In 2013, cash flows from investing activities had decreased liquidity by $81.2 million due to business acquisitions ($57.5 million) and purchases of property, plant and equipment ($26.2 million).

FINANCIAL OBLIGATIONS

The following table details the maturities of the financial obligations as at December 31, 2014:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in millions of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	69.7	69.7	69.7	–	–	–
Long-term debt obligations	444.6	484.5	19.1	69.2	391.2	5.0
Interest rate swaps	0.7	4.8	2.2	2.6	–	–
Minimum payments under operating lease obligations	–	67.2	16.1	24.0	12.5	14.6
Non-compete agreements	1.0	1.0	0.5	0.5	–	–
Total	516.0	627.2	107.6	96.3	403.7	19.6

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2014, the capital stock issued and outstanding consisted of 68,949,064 common shares (68,697,366 as at December 31, 2013). The following table presents the outstanding capital stock activity for the year ended December 31, 2014:

Year Ended Dec. 31, 2014	Number of shares (in '000s)
Balance – Beginning of year	68,697
Stock option plan	222
Employee share purchase plans	30
Balance – End of year	68,949

As at March 12, 2015, the capital stock issued and outstanding consisted of 68,949,064 common shares.

As at December 31, 2014, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 328,706 (December 31, 2013 – 550,400) of which 310,706 (December 31, 2013 – 440,400) were exercisable. As at March 12, 2015, the number of outstanding options was 328,706 of which 310,706 were exercisable.

DIVIDENDS

In 2014, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.
- $0.07 per common share payable on June 27, 2014 to shareholders of record at the close of business on June 2, 2014.
- $0.07 per common share payable on September 26, 2014 to shareholders of record at the close of business on September 2, 2014.
- $0.07 per common share payable on December 18, 2014 to shareholders of record at the close of business on December 2, 2014.

Subsequent to the end of the year, on March 12, 2015, the Board declared a quarterly dividend of $0.08 per common share payable on April 30, 2015 to shareholders of record at the close of business on April 2, 2015.

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 covenants in its loan documentation as well as its financial performance and cash requirements. 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 $29.3 million (2013 – $33.6 million) 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 consolidated 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 expects solid demand for its core products in 2015. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, Management believes that industry demand should pick up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand and is planning further capacity additions in 2015.

Liquidity

As at December 31, 2014, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2014, an amount of $64.3 million was available against the Company's committed revolving credit facility of $450.0 million.

Accounts receivable increased in 2014 due to the addition of Boatright's business, higher business activity in the fourth quarter of 2014 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable 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.

Inventories rose in 2014 mainly due to the addition of Boatright's inventories and the effect of local currency translation on U.S.-based inventories. To ensure efficient treating 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

Economic Conditions

The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2014, the Company's top ten customers accounted for approximately 42.1% of its sales. During this same period, the Company's two largest customers accounted for approximately 9.8% and 5.5%, respectively, of its total sales.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there are a limited number of suppliers for certain 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. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

Environmental Risk

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

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. 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.

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.

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.

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 and regulations could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

Risks Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage

The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk

The Company is exposed to currency risks due to its export of goods manufactured in Canada.

The Company strives to mitigate such risks 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. The use of such currency hedges involves special risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuations

As at December 31, 2014, approximately 23.9% of the Company's long-term debt was at variable rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its 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. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have a material adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railways, as well as with utility and telecommunication companies, and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence by Stella Jones International S.A.

As at December 31, 2014, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.5% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not, in all cases, be aligned with interests of the other shareholders.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2014 and 2013 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and CPA Canada Handbook Part I.

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

CHANGES IN ACCOUNTING POLICIES

Non-pole-quality log sales

The Company has increasingly been ensuring its own pole sourcing and, as a result, non-pole-quality log sales have become more significant to the consolidated operations. Accordingly, the Company believes it is more representative to treat the sale of non-pole-quality logs as a joint product of its pole harvesting efforts and no longer as a by-product. Therefore, effective January 1, 2014, sales of non-pole-quality logs are presented under revenues in the consolidated statement of income and are no longer credited to cost of sales. The comparative figures have been restated to comply with the current year's presentation. The amount of non-pole-quality logs recognized as revenue for the twelve-month period ended December 31, 2014 was $31.6 million ($41.1 million for the twelve-month period ended December 31, 2013).

The Company has also adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 - Financial Instruments: Presentation

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

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

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

IFRIC 21 - Levies

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

Impact of accounting pronouncements not yet implemented

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 9 - Financial Instruments

In July 2014, the IASB amended IFRS 9, *Financial Instruments*, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

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 ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

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 design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2014, and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) ("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 ICFR were appropriately designed and operating effectively, as at December 31, 2014.

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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from October 1, 2014 to December 31, 2014 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

As the North American economy continues to strengthen, Management expects solid demand for the Company's core products in 2015. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, Management believes that industry demand should pick-up more significantly in upcoming years, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

Stella-Jones anticipates that lower oil prices will have a slightly favourable effect on its overall business, as a reduction in the cost of certain raw materials should more than offset potential delays on certain projects requiring its core products.

Meanwhile, conditions in the untreated railway tie market stabilized in late 2014 and product availability has returned to more appropriate levels. Therefore, consistent supply in the coming months will be an important factor in rebuilding inventory. The Company believes the strength of its procurement network and its current inventory position should allow Stella-Jones to meet demand at the most optimal cost.

As one of the largest North American providers of industrial treated wood products, Stella-Jones will leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, while diligently seeking market opportunities. The Company will also remain focused on improving operating efficiencies throughout the organization.

In the short-term, the Company will continue to focus on cash generation and on maintaining a prudent use of leverage. The solid cash flows provided by operating activities will be used to reduce debt, invest in working capital as well as in property, plant and equipment and in maintaining an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact. A solid financial position will allow Stella-Jones to continue to seek opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

March 12, 2015

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

Management's Statement of Responsibility for Financial Information

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

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

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

Brian McManus
President and Chief Executive Officer

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

Saint-Laurent, Québec
March 12, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Québec
March 12, 2015

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

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

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

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

Approved by the Board of Directors,

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

George J. Bunze, CPA, CMA
Director

(expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive gain (loss): Foreign currency translation adjustment	Accumulated other comprehensive gain (loss): Translation of long-term debts designated as net investment hedges	Accumulated other comprehensive gain (loss): Unrecognized losses on cash flow hedges	Accumulated other comprehensive gain (loss): Total	Total shareholders' equity
	$	$	$	$	$	$	$	$
Balance – January 1, 2013	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751
Comprehensive income (loss)								
Net income for the year	–	–	92,536	–	–	–	–	92,536
Other comprehensive income (loss)	–	–	2,522	38,164	(18,621)	1,918	21,461	23,983
Comprehensive income (loss) for the year	–	–	95,058	38,164	(18,621)	1,918	21,461	116,519
Dividends on common shares	–	–	(13,737)	–	–	–	–	(13,737)
Employee share purchase plans	526	–	–	–	–	–	–	526
Stock-based compensation	–	124	–	–	–	–	–	124
	526	124	(13,737)	–	–	–	–	(13,087)
Balance – December 31, 2013	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183
Balance – January 1, 2014	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183
Comprehensive income (loss)								
Net income for the year	–	–	103,847	–	–	–	–	103,847
Other comprehensive income (loss)	–	–	(2,278)	60,468	(24,763)	(216)	35,489	33,211
Comprehensive income (loss) for the year	–	–	101,569	60,468	(24,763)	(216)	35,489	137,058
Dividends on common shares	–	–	(19,267)	–	–	–	–	(19,267)
Exercise of stock options	1,758	(504)	–	–	–	–	–	1,254
Employee share purchase plans	938	–	–	–	–	–	–	938
Stock-based compensation	–	105	–	–	–	–	–	105
	2,696	(399)	(19,267)	–	–	–	–	(16,970)
Balance – December 31, 2014	**213,858**	**954**	**427,834**	**89,682**	**(40,607)**	**550**	**49,625**	**692,271**

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

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

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

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

For the years ended December 31, 2014 and 2013
(expressed in thousands of Canadian dollars)

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

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

For the years ended December 31, 2014 and 2013
(expressed in thousands of Canadian dollars)

	Note	2014	2013
		$	$
Cash flows provided by (used in)			
Operating activities			
Net income for the year		**103,847**	92,536
Adjustments for			
Depreciation of property, plant and equipment		**9,691**	7,760
Amortization of intangible assets		**10,885**	8,562
Interest accretion		**1,267**	492
Loss (gain) on disposal of assets		**(221)**	2,173
Employee future benefits		**(155)**	320
Stock-based compensation		**105**	124
Financial expenses		**11,740**	10,892
Income taxes		**33,937**	32,545
Deferred income taxes		**4,914**	2,726
Restricted stock units expense		**5,015**	2,593
Other		**441**	(92)
		181,466	160,631
Changes in non-cash working capital components and others			
Accounts receivable		**(5,828)**	(4,663)
Inventories		**(48,163)**	(8,438)
Prepaid expenses		**(7,306)**	(1,481)
Income taxes receivable		**362**	(348)
Accounts payable and accrued liabilities		**12,755**	(10,376)
Asset retirement obligations		**(4,525)**	1,099
Provisions and other long-term liabilities		**168**	(50)
		(52,537)	(24,257)
Interest paid		**(14,928)**	(9,075)
Income taxes paid		**(37,071)**	(23,081)
		76,930	104,218
Financing activities			
Decrease in bank indebtedness		**–**	(14,000)
Increase in deferred financing costs		**(160)**	(364)
Increase in long-term debt		**26,776**	4,814
Repayment of long-term debt		**(3,543)**	(9,328)
Non-competes payable		**(947)**	(1,694)
Dividend on common shares		**(19,267)**	(13,737)
Proceeds from issuance of common shares		**2,192**	526
		5,051	(33,783)
Investing activities			
Decrease in other assets		**11**	529
Business acquisition	4	**(61,051)**	(57,538)
Increase in intangible assets		**(412)**	(466)
Purchase of property, plant and equipment		**(24,214)**	(26,157)
Proceeds on disposal of assets		**494**	2,388
		(85,172)	(81,244)
Net change in cash and cash equivalents during the year		**(3,191)**	(10,809)
Cash and cash equivalents – Beginning of year		**3,191**	14,000
Cash and cash equivalents – End of year		**–**	3,191

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

1 DESCRIPTION OF THE BUSINESS

Stella-Jones Inc. (the "Company") is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones Inc. also provides residential lumber and customized services to retailers and wholesalers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal-tar based products. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company's headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol SJ.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I.

These consolidated financial statements were approved by the Board of Directors on March 12, 2015.

Basis of measurement

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

Principles of consolidation

Subsidiaries

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

Subsidiary	Parent	Country of incorporation
Guelph Utility Pole Company Ltd.	Stella-Jones Inc.	Canada
4552822 Canada Inc.	Stella-Jones Inc.	Canada
4552831 Canada Inc.	Stella-Jones Inc.	Canada
Stella-Jones Canada Inc.	Stella-Jones Inc.	Canada
Stella-Jones U.S. Holding Corporation ("SJ Holding")	Stella-Jones Inc.	United States
Stella-Jones U.S. Finance Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones Corporation ("SJ Corp")	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. ("McFarland")	Stella-Jones Corporation	United States
Electric Mills Wood Preserving LLC	McFarland Cascade Holdings, Inc.	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Canadalux S.à.r.l.	4552822 Canada Inc.	Luxembourg

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Subsidiaries (continued)

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

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

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

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

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

Foreign currency translation

a) Functional and presentation currency

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

b) Foreign currency transactions

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

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

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

Revenue recognition

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

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

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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

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

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

Financial expenses

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

Intangible assets

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

Impairment

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

Non-financial assets

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

Leases

The Company leases certain property, plant and equipment.

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

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

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

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

Non-current assets held for sale

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

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

Reforestation obligations

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

Site remediation obligations

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

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

Income taxes

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

Current tax

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

Deferred tax

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred tax (continued)

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

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

Employee future benefits

Other post-retirement benefit programs

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

The Company provides other post-retirement healthcare benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Defined benefit pension plan

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

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

Stock-based compensation and other stock-based payments

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

Equity-settled plan

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

Cash-settled plan

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

Hedging transactions

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per share

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

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

Segment reporting

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

Changes in accounting policies

Non-pole-quality log sales

The Company has increasingly been ensuring its own pole sourcing and, as a result, non-pole-quality log sales have become more significant to the consolidated operations. Accordingly, the Company believes it is more representative to treat the sale of non-pole-quality logs as a joint product of its pole harvesting efforts and no longer as a by-product. Therefore, effective January 1, 2014, sales of non-pole-quality logs are presented under revenues in the consolidated statement of income and are no longer credited to cost of sales. The comparative figures have been restated to comply with the current year's presentation. The amount of non-pole-quality logs recognized as revenue for the twelve-month period ended December 31, 2014 was $31,591 ($41,141 for the twelve-month period ended December 31, 2013).

The Company has also adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 - Financial Instruments: Presentation

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

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

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

IFRIC 21 - Levies

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of accounting pronouncements not yet implemented

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 9 - Financial Instruments

In July 2014, the IASB amended IFRS 9, *Financial Instruments*, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimated impairment of goodwill and intangible assets with indefinite useful lives

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

Estimated impairment of long-lived assets

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

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

4 BUSINESS ACQUISITION

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

Total cash outlay associated with the acquisition was approximately $58,830 (US$53,898), excluding acquisition costs of approximately $753 (US$690), recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management’s best estimates and information known at the time of preparing these consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and deferred income taxes.

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

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

The Company’s valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company’s operations. For impairment test purposes, goodwill is allocated to CGUs, which are defined as either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties. Note 8 provides a roll-forward of the net book value balances of intangible assets and goodwill.

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

4 BUSINESS ACQUISITION (CONTINUED)

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

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

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

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

Total cash outlay associated with the acquisition was $51,071 (US$48,886), excluding acquisition costs of approximately $1,245 (US$1,207), recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is based on Management's best estimates. No significant adjustments were made to the preliminary fair value determination.

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

Assets acquired	**$**
Non-cash working capital	25,663
Property, plant and equipment	19,591
Customer relationships	4,712
Customer backlog	146
Goodwill	10,374
Deferred income tax assets	89
	60,575
Liabilities assumed	
Accounts payable and accrued liabilities	1,249
Site remediation provision	1,710
Total net assets acquired and liabilities assumed	**57,616**
Consideration transferred	
Cash	51,071
Unsecured promissory note	6,545
Consideration transferred	**57,616**

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

4 BUSINESS ACQUISITION (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGUs, which are defined as plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties. In the case of the PWP acquisition, goodwill values of $9,483 and $891 are allocated to plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties, respectively. Note 8 provides a roll-forward of the net book value balances of intangible assets and goodwill.

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

As at December 31, 2013, the Company had a consideration payable for the purchase of certain assets of the Nevada plant and an equivalent amount of $3,191 (US$3,000) deposited in escrow that was recorded under cash in the consolidated statement of financial position. On February 5, 2014, the consideration payable was settled.

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

In the period from November 15 to December 31, 2013, PWP's sales and loss before income taxes amounted to $4,121 and $1,702, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and PWP for the year ended December 31, 2013 would have been approximately $1,065,477 and $127,449 respectively, had the PWP acquisition occurred as of January 1, 2013. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition, as well as adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2013.

5 ACCOUNTS RECEIVABLE

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

As at December 31, 2014, trade receivables of $39,509 (2013 – $34,985) were past due but not impaired.

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

5 ACCOUNTS RECEIVABLE (CONTINUED)

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

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

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

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

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

6 INVENTORIES

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

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Roads	Buildings	Production and anti-pollution equipment	Rolling stock	Office equipment	Total
	$	$	$	$	$	$	$
As at January 1, 2013							
Cost	23,478	3,606	46,421	144,082	14,766	5,828	238,181
Accumulated depreciation	–	(2,129)	(6,750)	(34,406)	(4,100)	(1,768)	(49,153)
Net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028
Year ended December 31, 2013							
Opening net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028
Business acquisition	2,168	–	5,558	10,499	1,316	50	19,591
Additions	106	203	4,513	22,739	–	881	28,442
Disposals	–	–	(250)	(1,159)	(2,485)	–	(3,894)
Depreciation	–	–	(1,225)	(3,844)	(2,119)	(572)	(7,760)
Depreciation included in inventory	–	(454)	(170)	(318)	(804)	(42)	(1,788)
Transfer to/from assets held for sale	987	–	176	(34)	(256)	–	873
Exchange differences	1,019	–	2,305	5,514	506	398	9,742
Closing net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
As at December 31, 2013							
Cost	27,758	3,809	58,816	181,781	11,516	7,181	290,861
Accumulated depreciation	–	(2,583)	(8,238)	(38,708)	(4,692)	(2,406)	(56,627)
Net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
Year ended December 31, 2014							
Opening net book amount	27,758	1,226	50,578	143,073	6,824	4,775	234,234
Business acquisition	846	-	6,249	13,670	1,632	130	22,527
Additions	15	475	1,969	20,608	641	1,219	24,927
Disposals	(404)	–	(1,285)	(3,544)	(692)	(13)	(5,938)
Depreciation	–	–	(1,816)	(5,351)	(1,790)	(734)	(9,691)
Depreciation included in inventory	–	(343)	(156)	(333)	(422)	(44)	(1,298)
Exchange differences	1,637	–	4,109	10,406	518	176	16,846
Closing net book amount	29,852	1,358	59,648	178,529	6,711	5,509	281,607
As at December 31, 2014							
Cost	29,852	4,284	70,131	223,930	13,485	8,306	349,988
Accumulated depreciation	–	(2,926)	(10,483)	(45,401)	(6,774)	(2,797)	(68,381)
Net book amount	**29,852**	**1,358**	**59,648**	**178,529**	**6,711**	**5,509**	**281,607**

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

8 INTANGIBLE ASSETS AND GOODWILL

The intangible assets, which include customer relationships, non-compete agreements, cutting rights, standing timber and a creosote registration, were initially evaluated at fair value, which subsequently became the cost. The presentation in the consolidated statements of financial position is at cost less accumulated amortization and the related amortization expense is included in cost of sales in the consolidated statements of income.

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships. Intangible assets associated with long-term customer agreements are amortized over the terms of the agreements, which range between 3 and 10 years. Intangible assets associated with ongoing business relationships are amortized over a period ranging from 10 to 25 years.

The acquisition cost of the non-compete agreements was established based on the discounted value of future payments using a discount rate ranging from 8.9% to 10.2%. The intangible asset associated with the non-compete agreements is amortized on a straight-line basis over the terms of the agreements, which range between 3 and 6 years.

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

Impairment tests for goodwill

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

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

The carrying value of goodwill is allocated to the following CGUs

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

Impairment tests for intangible assets with indefinite useful life

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

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

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

	Intangible assets						
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration	Total	Goodwill
	$	$	$	$	$	$	$
As at January 1, 2013							
Cost	7,951	6,481	64,074	6,551	31,071	116,128	135,834
Accumulated amortization	(781)	(3,655)	(14,095)	(4,492)	–	(23,023)	–
Net book amount	7,170	2,826	49,979	2,059	31,071	93,105	135,834
Year ended December 31, 2013							
Opening net book balance	7,170	2,826	49,979	2,059	31,071	93,105	135,834
Additions	–	466	–	–	–	466	–
Adjustment of McFarland	–	–	(328)	–	–	(328)	450
Addition of PWP	–	–	4,366	470	–	4,836	10,409
Amortization	–	–	(7,247)	(1,315)	–	(8,562)	–
Amortization included in inventory	(233)	(800)	–	–	–	(1,033)	–
Exchange differences	–	–	3,254	105	2,145	5,504	9,515
Closing net book amount	6,937	2,492	50,024	1,319	33,216	93,988	156,208
As at December 31, 2013							
Cost	7,951	6,947	72,503	7,483	33,216	128,100	156,208
Accumulated amortization	(1,014)	(4,455)	(22,479)	(6,164)	-	(34,112)	-
Net book amount	6,937	2,492	50,024	1,319	33,216	93,988	156,208
Year ended December 31, 2014							
Opening net book balance	6,937	2,492	50,024	1,319	33,216	93,988	156,208
Additions	–	412	–	–	–	412	–
Addition of Boatright	–	–	18,948	–	–	18,948	23,316
Adjustment of PWP	–	–	491	–	–	491	(35)
Amortization	–	–	(10,129)	(756)	–	(10,885)	–
Amortization included in inventory	(230)	(737)	–	–	–	(967)	–
Exchange differences	–	–	5,244	80	3,014	8,338	15,526
Closing net book amount	6,707	2,167	64,578	643	36,230	110,325	195,015
As at December 31, 2014							
Cost	7,951	7,359	99,766	8,162	36,230	159,468	195,015
Accumulated amortization	(1,244)	(5,192)	(35,188)	(7,519)	–	(49,143)	–
Net book amount	**6,707**	**2,167**	**64,578**	**643**	**36,230**	**110,325**	**195,015**

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

9 OTHER ASSETS

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

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

11 LONG-TERM DEBT

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

11 LONG-TERM DEBT (CONTINUED)

a) On May 12, 2014, the Company and SJ Holding, as borrowers, entered into agreements to amend the third amended and restated credit agreement dated November 21, 2012. The amended agreement increases the committed revolving credit facility from $400,000 to $450,000 in order to partially finance the Boatright acquisition as well as provide funding for working capital. The $450,000 committed revolving credit facility is made available to the Company and SJ Holding by a syndicate of lenders for a five-year term, maturing December 13, 2018. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.0% to 1.0% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.0% to 2.0% based on a pricing grid. As at December 31, 2014, borrowings by Canadian entities denominated in U.S. dollars represented $291,417 (US$251,200), which was entirely designated as a hedge of net investment in foreign operations.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swaps as at December 31, 2014 are provided in Note 18, Financial instruments.

As collateral for the committed revolving credit facility, the bank lenders hold a first ranking charge over all of the assets tangible and intangible, present and future, of the Company, SJ Holding and their material subsidiaries, with the exception of the Fulton plant assets as outlined in the agreement.

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

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

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

d) As part of the PWP acquisition, SJ Corp and McFarland issued an unsecured promissory note of $7,413 bearing interest at 0.27%. The note is repayable in 12 equal quarterly instalments up to November 2016. The note was initially recorded at a fair value of $6,664 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

e) Pursuant to a business acquisition on December 7, 2011, SJ Corp issued an unsecured promissory note of $6,617 bearing interest at 2.67%. The note is repayable in 10 equal annual instalments up to December 2021. The note was initially recorded at a fair value of $5,357 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

f) As part of the Boatright acquisition, SJ Corp issued an unsecured promissory note of $15,466 bearing interest at 1.93%. The note is repayable in 5 equal annual instalments up to May 2019. The note was initially recorded at a fair value of $13,426 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

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

11 LONG-TERM DEBT (CONTINUED)

g) Bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US$200 starting July 2008 through July 2011, US$300 starting August 2011 through July 2019 and US$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all property, plant and equipment of the Fulton facility, which have a net book value of US$7,153 as at December 31, 2014. The bond was initially recorded in the consolidated financial statements at a fair value of US$4,835 using an interest rate of 6.5%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term.

In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries have made available a US$4,349 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.75% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

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

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

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

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

12 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions				Other long-term liabilities			
	Reforestation	Site remediation	Others	Total	RSUs	Non-competes payable	Total	Total
	$	$	$	$	$	$	$	$
Balance as at January 1, 2013	1,192	6,594	1,228	9,014	441	2,704	3,145	12,159
Addition	823	1,376	110	2,309	2,593	-	2,593	4,902
Addition related to acquisition	-	1,300	-	1,300	-	470	470	1,770
Provision reversal	-	(105)	(4)	(109)	-	-	-	(109)
Payment	(367)	(628)	(156)	(1,151)	-	(1,694)	(1,694)	(2,845)
Interest accretion	-	-	-	-	-	126	126	126
Exchange differences	-	499	83	582	-	146	146	728
Balance as at December 31, 2013	1,648	9,036	1,261	11,945	3,034	1,752	4,786	16,731
Addition	290	846	251	1,387	5,015	-	5,015	6,402
Addition related to acquisition	-	3,439	-	3,439	-	-	-	3,439
Provision reversal	-	(3,909)	(33)	(3,942)	-	-	-	(3,942)
Payment	(443)	(1,309)	(50)	(1,802)	-	(947)	(947)	(2,749)
Interest accretion	-	-	-	-	-	39	39	39
Exchange differences	-	813	124	937	-	109	109	1,046
Balance as at December 31, 2014	**1,495**	**8,916**	**1,553**	**11,964**	**8,049**	**953**	**9,002**	**20,966**

Analysis of provisions and other long-term liabilities:

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

12 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Provisions

Reforestation

Stella-Jones Canada Inc. has asset retirement obligations relating to reforestation that have been estimated using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation of 2.75% (2013 – 2.70%) to approximate the present value of future expenditures.

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

Future non-discounted reforestation expenditures are estimated at between $497 and $582 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential regulatory changes as well as the impact of weather-related changes on reforested areas. Accordingly, the actual cost of reforestation may differ from current estimates.

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from 1 to 17 years. Those discounted cash flows have been estimated using pre-tax rates that reflect current market assessment of the time value of money and the risk specific to the obligation, ranging from 2.28% to 2.6%.

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

Other long-term liabilities

Restricted stock units

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

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

On March 19, 2012, March 25, 2013 and March 17, 2014 the Company granted RSUs to certain key executives as part of the long-term incentive plan.

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

As at December 31, 2014, the provision for RSUs was valued at $8,049 ($3,034 as at December 31, 2013). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant.

13 CAPITAL STOCK

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

* Number of shares is presented in thousands.

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

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

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

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

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

Under the Plan adopted on June 13, 1994 and amended on May 3, 1995, March 15, 2001, May 3, 2007, December 10, 2010 and October 21, 2013, the aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5.0% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

13 CAPITAL STOCK (CONTINUED)

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

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

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

	Options outstanding		Options exercisable		
Date granted	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		$		$	
December 2005	17	3.25	17	3.25	December 2015
July 2006	108	4.88	108	4.88	July 2016
August 2006	12	5.14	12	5.14	August 2016
August 2007	90	9.90	90	9.90	August 2017
December 2009	72	6.01	72	6.01	December 2016
May 2013	30	22.13	12	22.13	May 2023
	329		**311**		

* Number of options is presented in thousands.
** Exercise price is presented in dollars per option.

d) Stock-based compensation

The Company records expenses related to the fair value of the stock options granted under the Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to income over the vesting period. No options were granted during 2014.

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

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

13 CAPITAL STOCK (CONTINUED)

e) Employee share purchase plans

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

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.0% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2014, 14,883 common shares (2013 – 12,746) were issued to Canadian resident employees at an average price of $26.55 per share (2013 – $20.30).

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2014, 15,121 common shares (2013 – 10,920) were issued to U.S. resident employees at an average price of $29.36 per share (2013 – $22.96).

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

14 EXPENSES BY NATURE

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

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

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

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

14 EXPENSES BY NATURE (CONTINUED)

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

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

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

15 INCOME TAXES

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

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

15 INCOME TAXES (CONTINUED)

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

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

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

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

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

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

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

15 INCOME TAXES (CONTINUED)

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

	Financing fees	Reserves	Derivative financial instruments	Deferred pension benefits	Unrealized foreign exchange on debts and translation of foreign operations	Intangible assets	Cumulative losses	Total
	$	$	$	$	$	$	$	$
Deferred tax assets								
As at January 1, 2013	949	8,338	577	1,570	–	9,870	122	21,426
Charged (credited) to statement of income	(362)	1,358	–	134	(72)	82	(30)	1,110
Charged (credited) to other comprehensive income	–	–	(424)	(550)	72	–	–	(902)
Business acquisition	–	(1,223)	–	–	–	(9,865)	–	(11,088)
Exchange differences	6	365	2	72	–	–	–	445
As at December 31, 2013	593	8,838	155	1,226	–	87	92	10,991
Charged (credited) to statement of income	(407)	495	–	(589)	–	(8)	(12)	(521)
Charged (credited) to other comprehensive income	–	–	(98)	1,063	–	–	676	1,641
Business acquisition	–	545	–	–	–	–	–	545
Exchange differences	3	720	14	66	–	–	–	803
As at December 31, 2014	**189**	**10,598**	**71**	**1,766**	**–**	**79**	**756**	**13,459**

	Property, plant and equipment	Deferred pension benefits	Intangible assets	Derivative financial instruments	Investment tax credit	Unrealized foreign exchange on debts and translation of foreign operations	Total
	$	$	$	$	$	$	$
Deferred tax liabilities							
As at January 1, 2013	(41,481)	–	(18,648)	–	(106)	–	(60,235)
Charged (credited) to statement of income	(5,281)	(30)	1,477	–	(2)	–	(3,836)
Credited to other comprehensive income	–	(471)	–	(373)	–	(581)	(1,425)
Business acquisition	11,867	–	(894)	–	–	–	10,973
Exchange differences	(1,368)	–	(1,300)	–	–	–	(2,668)
As at December 31, 2013	(36,263)	(501)	(19,365)	(373)	(108)	(581)	(57,191)
Charged (credited) to statement of income	(6,254)	501	1,252	–	108	–	(4,393)
Charged (credited) to other comprehensive income	–	–	–	139	–	(2,374)	(2,235)
Business acquisition	(63)	–	542	–	–	–	479
Exchange differences	(2,705)	–	(1,587)	–	–	–	(4,292)
As at December 31, 2014	**(45,285)**	**–**	**(19,158)**	**(234)**	**–**	**(2,955)**	**(67,632)**

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

15 INCOME TAXES (CONTINUED)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled $171,308 as at December 31, 2014 (2013 – $133,321).

16 EMPLOYEE FUTURE BENEFITS

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

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

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

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

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

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

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

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

The significant assumptions used are as follows:

	2014	2013
	%	%
Accrued benefit obligation as at December 31		
Discount rate	**3.9**	4.7
Rate of compensation increase	**2.0**	2.0
Benefit costs for the year ended December 31		
Discount rate	**4.7**	4.0
Rate of compensation increase	**2.0**	2.0

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed starting in 2009. This rate is assumed to decrease gradually by 0.5% per year, to reach 5.0%. Therefore, the rate used to calculate the cost per capita of health care cost increases in 2014 was 7.0%. An increase or decrease of 1.0% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	**$**
Impact on accrued benefit obligation	84	(72)
Impact on benefit costs	3	(3)

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

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

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

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

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

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

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

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

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

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

The significant weighted average assumptions used are as follows:

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

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

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

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

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

17 COMMITMENTS AND CONTINGENCIES

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

b) The Company has issued guarantees amounting to $29,353 (2013 – $33,636) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

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

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

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

e) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be $590 (2013 – $785). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation.

18 FINANCIAL INSTRUMENTS

Financial instruments, carrying values and fair values

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

Credit risk

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

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

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

Note 5 provides details on the receivable aging as well as on the provision for doubtful accounts for the years ended December 31, 2014 and 2013. In 2014, the Company had one customer representing 9.8% of its sales (2013 – 10.0%). As at December 31, 2014, the accounts receivable balance from this customer amounted to $6,622 (2013 – $1,464).

Liquidity risk

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

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

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 11(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2014, an amount of $375,460 was drawn against the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

2014

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	69,719	69,719	69,719	–	–	–
Long-term debt obligations	444,557	484,507	19,128	69,169	391,179	5,031
Interest rate swaps	706	4,773	2,199	2,574	–	–
Non-competes payable	953	1,030	551	479	–	–
	515,935	560,029	91,597	72,222	391,179	5,031

2013

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

Market risk

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

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar-denominated long-term debt held by its Canadian companies. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions to mitigate its currency risk. The Company's basic hedging activity consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges. As at December 31, 2014, the Company had no foreign exchange forward contracts outstanding.

The following table provides information on the impact of a 10.0% strengthening of the U.S. dollar against the Canadian dollar on net income for the years ended December 31, 2014 and 2013. For a 10.0% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and comprehensive income:

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

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

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

The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 11).

Interest rate risk

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

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short- and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The committed revolving credit facility defined in Note 11(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.0% increase in these rates on the average annual balance of operating credit facilities, for borrowings that have not been swapped, would have increased interest expense by $120 for the year ended December 31, 2014 (2013 – $180).

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

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

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

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

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The Company's interest rate swaps are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2014, all cash flow hedges were effective.

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2014 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. A description of each level of the hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2014 is a net asset of $717 (2013 – net asset of $986), of which an asset of $1,423 (2013 – $2,119) is recorded in non-current assets and a liability of $706 (2013 - $1,133) is recorded in non-current liabilities in the consolidated statement of financial position. A 10.0% decrease in interest rates as at December 31, 2014 would have reduced the net gain recognized in other comprehensive income by approximately $72 (2013 – $99). For a 10.0% increase in the interest rates, there would be an equal and opposite impact on the net gain.

19 CAPITAL DISCLOSURES

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

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

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

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

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

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

20 RELATED PARTY TRANSACTIONS

a) Transactions

The Company had the following transactions with related parties:

	2014	2013
	$	$
Stella Jones International S.A.*		
Marketing and technical service fees paid	**200**	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	**100**	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	**320**	388

* Stella Jones International S.A. holds, directly or indirectly, approximately 38.5% of the outstanding common shares of the Company.
** Stella International S.A. and James Jones & Sons Limited hold 51.0% and 49.0% of all voting shares of Stella Jones International S.A., respectively.

These transactions occurred in the normal course of operations and have been measured at fair value.

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

	2014	2013
	$	$
Accounts payable to Stella International S.A. and James Jones & Sons Limited	**25**	25
Accounts payable to Stella Jones International S.A.	**50**	50
Accounts payable to a firm in which a director of the Company is a partner	**52**	31
	127	106

b) Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management.

The compensation paid or payable to key management for employee services is as follows:

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

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

21 SEGMENT INFORMATION

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

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

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

Sales by product as at December 31 are as follows:

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

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

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

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

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

22 SUBSEQUENT EVENTS

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

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

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Tom A. Bruce Jones, CBE (1)
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, CPA, CMA (2) (3)
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 (3)
Vice-Chairman of the Board,
Stella-Jones Inc.
Chairman,
Stella Jones International S.A.
Milan, Italy
Director since July 1993

Brian McManus
President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, 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)
Montréal, Québec
Director since July 1993

Simon Pelletier (2)
Senior Vice-President,
Global Sales and Marketing
Metso, Services Business Area
(manufacturer of mineral processing and construction equipment)
Senneville, Québec
Director since May 2012

Daniel Picotte (1)
Partner, Fasken Martineau
DuMoulin LLP (Law firm)
Montréal, Québec
Director since July 1993

John Barrie Shineton (2)
Vice-Chairman of the Board,
Norbord Inc.
(Producer of oriented strand board)
Toronto, Ontario
Director since May 2009

Mary Webster (1)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Environmental, Health and Safety Committee
(2) Member of the Audit Committee
(3) Member of the Remuneration Committee
(4) Lead Director

A full report of Stella-Jones' corporate governance practices is set out in the Proxy Circular for the April 29, 2015 Annual 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

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

Marla Eichenbaum
Vice-President,
General Counsel and
Secretary

Ian Jones
Senior Vice-President

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

Rémi Godin, CPA, CGA
Vice-President and
Chief Accounting Officer

SUBSIDIAIRIES–SENIOR MANAGEMENT

Shane Campbell
Vice-President, Operations
McFarland Cascade
Holdings, Inc.

George Caric
Vice-President, Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President, Poles
and Residential Sales
McFarland Cascade
Holdings, Inc.

W.G. Downey, Jr.
Senior Manager,
U.S. Procurement
Stella-Jones Corporation

Ian Jones
Senior Vice-President
McFarland Cascade
Holdings, Inc.

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

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

Michael Sylvester
Senior Vice-President,
Stella-Jones Corporation

Rick Thompson
Vice-President and
General Manager,
Guelph Utility Pole facility

Jon Younce
Vice-President, U.S. Fibre
and Pole Production
McFarland Cascade Holdings, Inc.

Ron Zeegers
Vice-President,
Operations, Western Canada
Stella-Jones Inc.

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F: (902) 893-3874
truro@stella-jones.com

ONTARIO

Plant and Sales Office
Guelph Utility Pole
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

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 East
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

OPERATING LOCATIONS – UNITED STATES

CORPORATE OFFICE

Stella-Jones Corporation
Two Gateway Center,
Suite 1000
603 Stanwix Street
Pittsburgh, PA
15222 U.S.A.
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sjcorp@stella-jones.com

LEGAL AND COMPLIANCE

Stella-Jones Corporation
15700 College Blvd.,
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ALABAMA

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100 McKinney Drive
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35045 U.S.A.
T: (205) 280-3950
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Stella-Jones Corporation
1051 Highway 25 South
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ARKANSAS

Plant
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4260 South
Arkansas Ave.
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T: (479) 968-5085
F: (479) 968-4636
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GEORGIA

Plant
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Cordele, GA
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T: (229) 273-8012
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INDIANA

Plant
Stella-Jones Corporation
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KENTUCKY

Plant
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3855 Highway 51 North
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LOUISIANA

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3600 Koppers Road
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MISSISSIPPI

Plant
McFarland Cascade
13539 Highway 45
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info@mcfarland
cascade.com

NEVADA

Plant
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Silver Springs, NV
89429 U.S.A.
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F: (775) 577-9045
info@mcfarland
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OREGON

Plant and Office
McFarland Cascade
90049 Highway 99N.
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97402 U.S.A.
T: (541) 689-1278
F: (541) 689-6027
info@mcfarland
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Plant
McFarland Cascade
22125 SW
Rock Creek Road
Sheridan, OR
97378 U.S.A.
T: (503) 843-2122
F: (503) 843-7058
info@mcfarland
cascade.com

PENNSYLVANIA

Plant
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5865 Route 235
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17049 U.S.A.
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F: (717) 463-3998
sjcorp@stella-jones.com

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

TENNESSEE

Coal Tar Distillation Facility
Stella-Jones Corporation
1471 Channel Avenue
Memphis, TN
38106 U.S.A.
T: (901) 942-3326
F: (901) 942-3128
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VIRGINIA

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

WASHINGTON

Plant and Sales Office
McFarland Cascade
6520 - 188th NE.
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98223 U.S.A.
T: (360) 435-2146
F: (360) 435-3035
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cascade.com

Plant and Corporate Office
McFarland Cascade
1640 East Marc St.
Tacoma, WA
98421 U.S.A.
T: (253) 572-3033
F: (253) 382-3000
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WISCONSIN

Plant
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Bangor, WI
54614 U.S.A.
T: (608) 486-2700
F: (608) 486-4538
sjcorp@stella-jones.com

CORPORATE INFORMATION

Annual Meeting of Shareholders
April 29, 2015
10:00 a.m.
Hotel Omni Mont-Royal
Salon Pierre de Coubertin
1050 Sherbrooke Street West
Montréal, Québec

Stock Information
Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2014): $36.84 / $25.02
Share price at March 12, 2015: $39.38
Common shares outstanding as at December 31, 2014: 68.9 million

Dividend Policy
The Board of Directors considers a dividend on a quarterly basis, subject to the company's financial covenants and conditional upon its financial performance and cash requirements.

On March 12, 2015, the Board of Directors declared a quarterly dividend of $0.08 per common share.

Transfer Agent and Registrar
Computershare Investor Services Inc.

Auditors
PricewaterhouseCoopers LLP

Legal Counsel
Fasken Martineau Dumoulin LLP
Foley & Lardner LLP

WWW.STELLA-JONES.COM