

On Track



Stella-Jones

2007 Annual Report

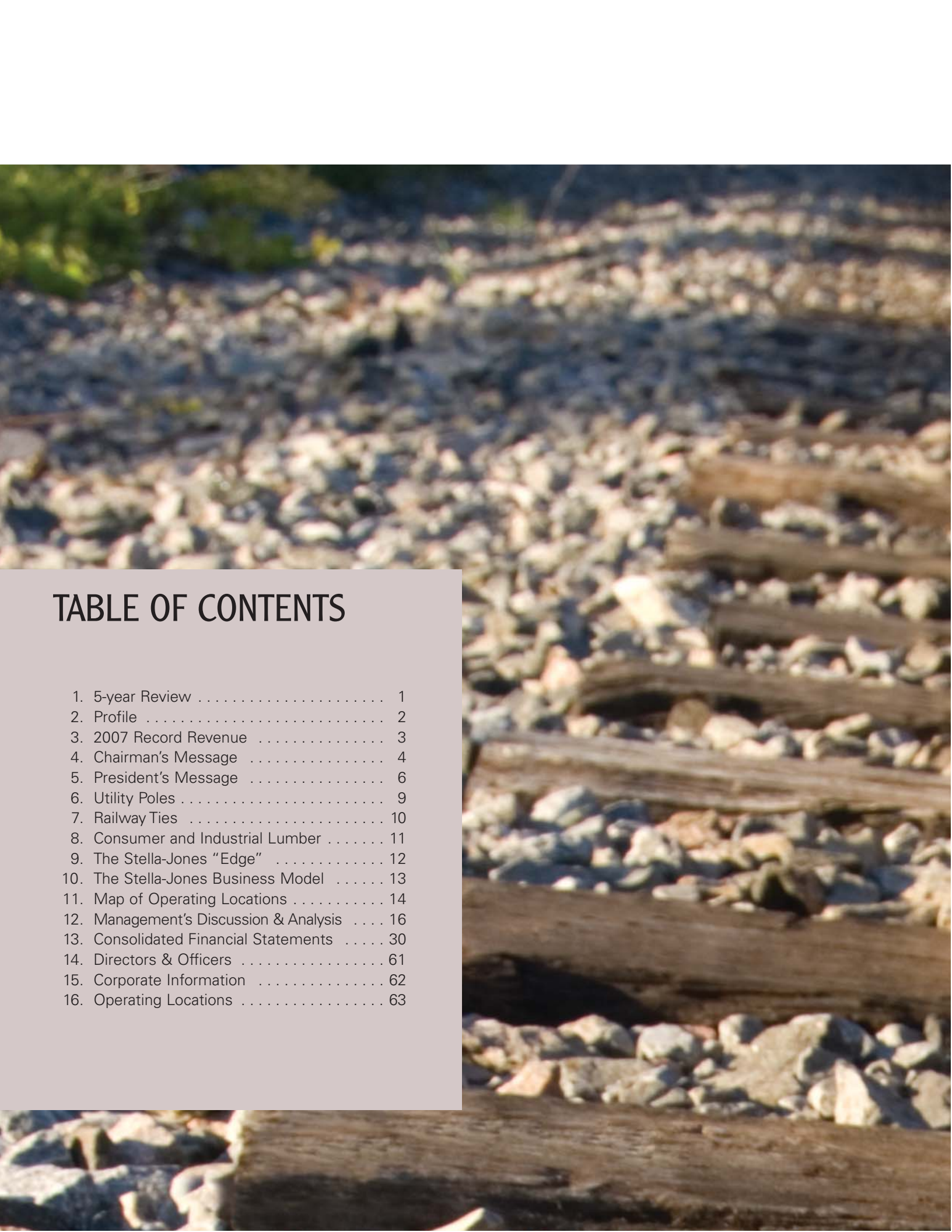
A background photograph of a rocky shoreline with driftwood. The foreground shows a large, dark, weathered log lying horizontally across the frame. Below and around it are numerous smooth, light-colored stones and pebbles of various sizes. In the upper left, some green foliage is visible. The background is a blurred expanse of more rocks and logs, suggesting a wide beach or riverbank.

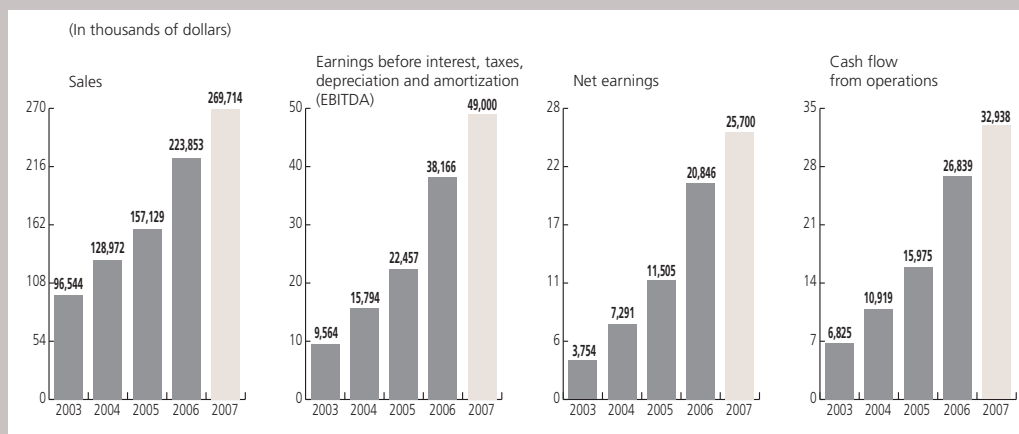
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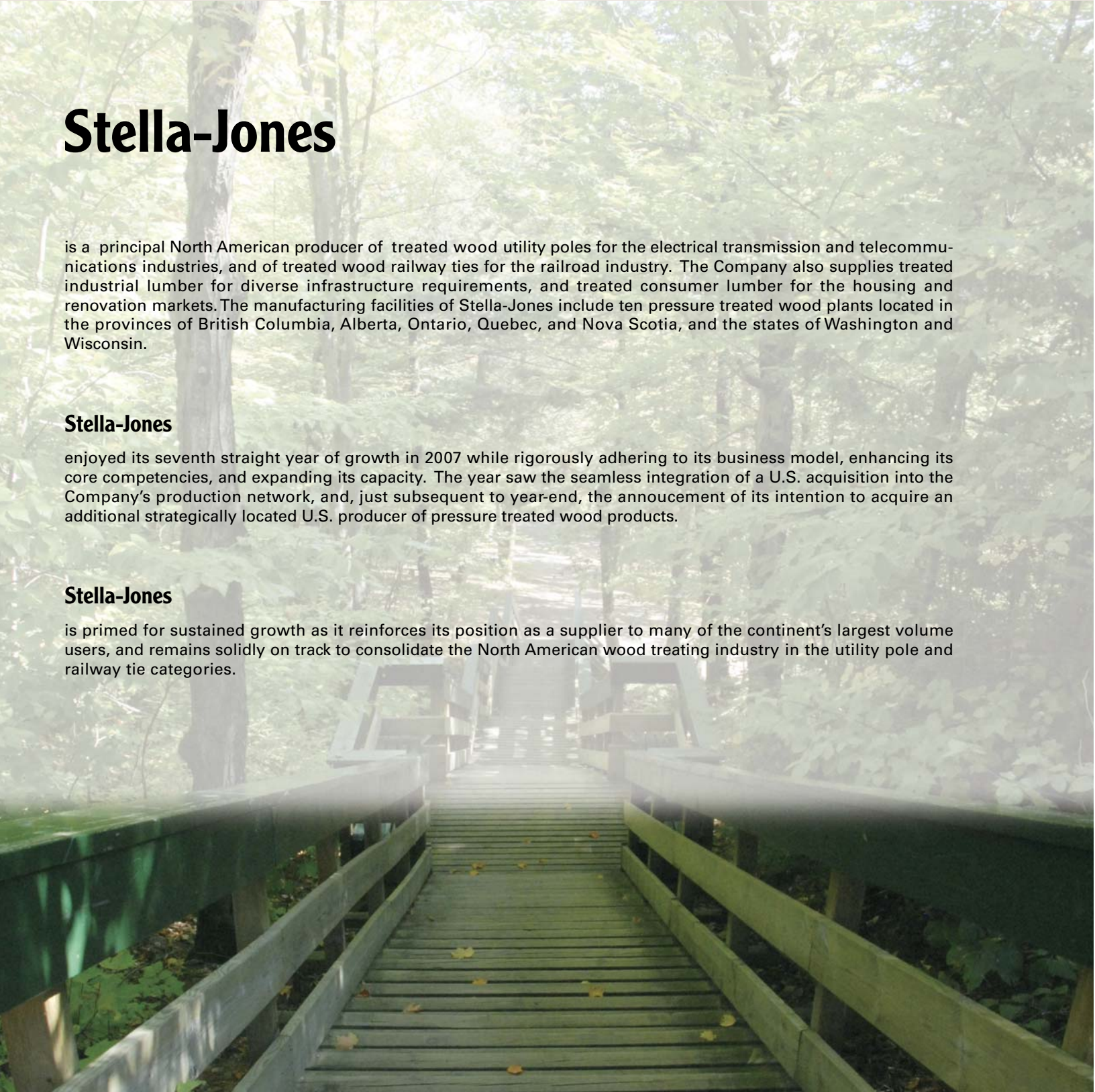
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5-year Review

	For the years ended December 31				
	2007	2006	2005	2004	2003
(thousands of dollars, except per share data and ratios)	\$	\$	\$	\$	\$
Operating results					
Sales ¹	269,714	223,853	157,129	128,972	96,544
EBITDA ²	49,000	38,166	22,457	15,794	9,564
Net earnings	25,700	20,846	11,505	7,291	3,754
Cash flow from operations ³	32,938	26,839	15,975	10,919	6,825
Financial position					
Working capital	106,488	79,966	55,485	36,582	25,874
Total assets	244,856	213,675	137,891	98,200	93,351
Long-term debt ⁴	47,444	31,893	26,466	16,184	12,783
Shareholders' equity	127,757	105,822	64,808	49,285	42,286
Per share data					
Net earnings per common share	2.09	1.81	1.10	0.72	0.40
Diluted net earnings per common share	2.03	1.76	1.08	0.70	0.39
Cash flow from operations ^{2,3}	2.67	2.33	1.53	1.08	0.72
Book value	10.35	8.60	5.96	4.82	4.22
Dividend per share	0.24	0.14	0.10	0.08	0.08
Average number of shares outstanding (000's)	12,324	11,541	10,451	10,082	9,456
Shares outstanding at year end (000's)	12,341	12,298	10,881	10,235	10,013
Average number of diluted shares outstanding (000's)	12,690	11,868	10,681	10,355	9,628
Financial ratios					
Return on average equity	22.0%	24.4%	20.2%	15.9%	9.7%
Long-term debt to equity ⁴	0.37:1	0.30:1	0.41:1	0.33:1	0.30:1
Working capital	2.61	2.11	2.23	2.19	1.72

- 1 Since 2004, freight costs are no longer included as a reduction from sales; accordingly, sales for 2003 have been restated to reflect this change.
- 2 Earnings before interest, taxes, depreciation and amortization ("EBITDA") and cash flow from operations per share are financial measures not prescribed by Canadian generally accepted accounting principles ("GAAP") and are not likely to be comparable to similar measures presented by other issuers. Management considers them to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company. EBITDA is derived from the Company's consolidated financial statements without adjustment for unusual or non-recurring items.
- 3 Before changes in non-cash working capital components.
- 4 Including current portion.





Stella-Jones

is a principal North American producer of treated wood utility poles for the electrical transmission and telecommunications industries, and of treated wood railway ties for the railroad industry. The Company also supplies treated industrial lumber for diverse infrastructure requirements, and treated consumer lumber for the housing and renovation markets. The manufacturing facilities of Stella-Jones include ten pressure treated wood plants located in the provinces of British Columbia, Alberta, Ontario, Quebec, and Nova Scotia, and the states of Washington and Wisconsin.

Stella-Jones

enjoyed its seventh straight year of growth in 2007 while rigorously adhering to its business model, enhancing its core competencies, and expanding its capacity. The year saw the seamless integration of a U.S. acquisition into the Company's production network, and, just subsequent to year-end, the announcement of its intention to acquire an additional strategically located U.S. producer of pressure treated wood products.

Stella-Jones

is primed for sustained growth as it reinforces its position as a supplier to many of the continent's largest volume users, and remains solidly on track to consolidate the North American wood treating industry in the utility pole and railway tie categories.



In 2007: Record Revenue... Record Profit

Outstanding performance: In 2007, Stella-Jones reported its largest ever sales revenues, and posted the highest profit in its history.

Strong core markets: In 2007, demand held pace for new and upgraded infrastructure for the transportation, energy and communications industries of North America. That demand contributed directly to the success of Stella-Jones, one of the largest suppliers on the continent of two fundamental components of transmission and transportation infrastructure: pressure treated wood utility poles and railway ties.

Peerless supply and service: In 2007, Stella-Jones operated ten wood treating facilities in North America, located strategically to ensure optimal service and rapid delivery. During instances of natural disasters, the ability of Stella-Jones to meet critical needs from multiple locations proves key to its customers' security of supply.

Added production, extended reach: In 2007, the Company's production capacity increased with the expansion of its plant in Wisconsin, while its network of production facilities expanded to Idaho and Washington State with the acquisition of the wood utility pole business of J.H. Baxter & Co. – achievements corresponding to the Company's objective of increasing shareholder value through both top and bottom line growth.

Potential further growth through acquisition: Subsequent to year-end, continuing its methodical consolidation of the industry, Stella-Jones announced its intention to acquire The Burke-Parsons-Bowlby Corporation, a producer since 1955 of treated wood products primarily for the railroad industry, with five production facilities located in Pennsylvania, Virginia, West Virginia, and Kentucky.



CHAIRMAN'S MESSAGE

Followers of the fortunes of North American and international forest products companies will once again be surprised at the continued growth and profitability of Stella-Jones. 2007 marked the seventh consecutive year of growth in net earnings and clearly demonstrates the success of our focused business model and the strategy of concentration on our niche markets, tied closely as they are to the vital transport and energy networks of Canada and the USA.

Net earnings in 2007 increased by 23.3% to \$25.7 million. Organic growth in our continuing business played a part in this increase, but the major elements of it came from the first full year's impact of our acquisition of Bell Pole and ten months of contribution from the Arlington, Washington pole plant acquired from J.H. Baxter & Co. ("Baxter"). Our management is to be congratulated on the manner and speed of the integration of these two businesses into the Stella-Jones group, and, in addition to the financial contributions they have made, they have also in an immeasurable way added to the efficiency and flexibility of our cross-border western region operations.

We increased our tie treating capacity in 2007 with the addition of a third cylinder at our Bangor, Wisconsin facility, a timely move given the strength of tie demand both in Canada and the USA. It is our opinion that this demand will continue for several years to come as more and more freight is moved to rail to reduce the carbon footprint of industry with the consequent need to upgrade and expand the network infrastructure. It is this same reasoning which caused us to initiate discussions with The Burke-Parsons-Bowlby Corporation ("BPB") leading to the announcement on January 7, 2008 that Stella-Jones had entered into a letter of intent to acquire BPB subject to satisfactory due diligence. If, as we hope, this acquisition is concluded, it will very well enhance our position as the second largest supplier of ties in North America with a strong presence across the continent.

Two of our senior managers took on expanded responsibilities during the year. Ian Jones is now in charge of all operations in Western Canada. Doug Fox assumed responsibility for the Arlington, Washington and Juliaetta, Idaho operations acquired from Baxter, and he will continue to head up Stella-Jones Corporation's business in the USA as it expands.

The very encouraging results for 2007 allowed the Board to increase the annual dividend payment from a total of 14 cents per share in 2006 to 24 cents last year. In March 2008 the Board announced a further increase in its semi-annual dividend to 16 cents per share reflecting its confidence in the outlook for the current year.

Mary Webster was elected to the Board at the shareholders' meeting in May 2007. With her knowledge of the wood treating industry and in particular her expertise in environmental law, Mary immediately made an important contribution to the Board and to the Environmental Committee of which she is a member.

Our lead independent director, Nycol Pageau-Goyette, was appointed to the Audit Committee also in May 2007.

On behalf of the Board, I wish to congratulate Brian McManus and all our employees on another successful year, and to thank our shareholders, customers and suppliers for their continued support.

A handwritten signature in black ink, appearing to read 'Tom A. Bruce Jones', with a stylized flourish at the end.

Tom A. Bruce Jones, CBE
Chairman of the Board



PRESIDENT'S MESSAGE

In 2007, Stella-Jones posted another record year in sales and profitability. Although we faced challenges in a rapidly evolving economy, we enjoyed strong demand in all of our product categories. With margins generally holding firm, and robust growth in our bottom line, it was the seventh year of uninterrupted expansion for our Company.

Our revenues in 2007 grew to \$269.7 million, an increase of 20.5% from the year previous. Net earnings rose as well to \$25.7 million, an improvement of 23.3% over 2006.

As the figures signify, in our core markets of treated wood utility poles and railway ties, Stella-Jones maintained its market leadership in Canada. At the same time, we made further inroads into the larger U.S. market and thus strengthened our competitive position in North America.

The Canadian dollar experienced considerable strengthening in 2007, which affected all manufacturing companies in Canada. We were ready for the challenge as most of our U.S. dollar sales are supplied by our U.S. facilities. For those U.S. dollar sales that originate from our Canadian plants, our purchase of certain raw materials from the U.S. creates a natural hedge. This approach helps to ensure that we maintain consistent

operating margins in each currency. Nonetheless, in comparison to prior years' results, the strengthening of our reporting currency – the Canadian dollar – negatively impacts the conversion of our U.S. dollar sales and profits.

Strong Core Markets: The two principal product categories of Stella-Jones, utility poles and railway ties, accounted for the lion's share of our improved performance in 2007. In addition to the full year contribution from acquisitions, sales of utility poles responded to persistent strong demand from electric utilities for new and upgraded distribution infrastructure. The rail transport sector, reporting increased traffic levels, continued to invest in replacement, double-tracking and new siding construction – major sources of demand for our railway ties.

The decision to expand our plant in Wisconsin allowed us to respond to these strong market fundamentals in the railway sector. Our new treating cylinder entered production in May, and increased the facility's capacity by over 50%.

The Canadian housing market remained strong, and along with the full year contribution of Bell Pole, contributed to the growth in our consumer lumber sales in 2007. Our sales of industrial lumber were down, with strength in Eastern Canada offset by the impact of a forestry strike in British Columbia.

Baxter Acquisition: Last year in this space I reported on the acquisition of J.H. Baxter & Co., which closed on February 28, 2007. Assets acquired included the Baxter treating plant in Washington State, and its pole peeling facility in Idaho. We thus established our second treating facility in the United States, and our tenth in North America.

The acquisition broadened our customer base in the U.S., and provided us with greater access to the American utility pole market. On the procurement side, this move into Idaho and Washington State brought us access to new sources of raw material.

Since the closing, a number of rationalizations and our “network effect” – derived from sharing best operating practices – have increased margins and efficiencies at the plant. In a big picture sense, the acquisition has substantively enhanced our position as a North American producer. Most significantly, it has delivered on our long-term undertaking to steadily grow Stella-Jones as we proceed in our highly disciplined fashion to consolidate the fragmented U.S. industry.

Potential Imminent Acquisition: As this report goes to print, Stella-Jones is nearing the close of what will be our largest ever acquisition. We have signed a definitive merger agreement with The Burke-Parsons-Bowlby Corporation (“BPB”) in the United States. For half a century, BPB has produced treated wood products primarily for the railway industry. Its facilities include five treating plants located in the states of Pennsylvania, Virginia, West Virginia, and Kentucky. BPB’s sales for the fiscal year ended March 31, 2007 were US\$85 million.

This potential acquisition is consistent with our strategy to consolidate the railway tie market. It is also part of the larger pattern of North American consolidation that Stella-Jones has successfully pursued over the past five years, averaging one acquisition per calendar year. We believe that no better time could exist for acquiring a company such as BPB, in light of the ongoing investments being made by the railroad industry. Once this acquisition closes, we expect it to extend our reach and enhance our industry leadership along the entire eastern seaboard.

Forestry Industry Strike: In the summer and fall of 2007, our operations in British Columbia were affected by a strike in the forestry industry. Neither the cause nor issues of the strike related to our Company. We were not a direct party to the matter in any way, as our employees had no grievance against Stella-Jones. However, as regional members of the union involved, they were obliged to join the action. As a result, our New Westminster treating facility, as well as our pole peeling joint venture in Maple Ridge, were shut down for three months.

Throughout this period, we continued to fill all contract orders. Our quality of service never varied. The episode clearly portrayed the ability of Stella-Jones to work through a supply challenge, and proved the depth and strength of our plant network. While we were forced to suspend production at two of our locations, we called upon various others to meet the immediate need.

Of course we did not come out entirely unaffected. Our margins for utility poles and industrial lumber were somewhat narrowed, since transferring production to other treatment facilities entailed higher costs. Our profitability was reduced by transportation expenditures, lack of access to inventory in B.C., and some foregone spot business. Nevertheless, we demonstrated that our geographic spread and deep production capacity can prove to be indispensable elements of optimal service.

The Economy in 2008: A note of caution is called for in the present economic environment. While we remain bullish in all of the product categories of Stella-Jones, we recognize that in the year ahead, the American marketplace, which purchased approximately 40% of our production in 2007, may experience continued uncertainty.

The products of Stella-Jones form part of the fundamental physical infrastructure of the North American continent. A general slowdown in the U.S. could of course affect our volume. However, we believe that demand in our primary markets for our two main product groups, utility poles and railway ties, is likely to remain strong. Moreover, we believe that the movement to long-term energy independence in the U.S., with its accent on "greener" energy sources such as wind farms and ethanol plants, constitutes a winning strategy for society – and a steady source of demand for our principal products. Expanded railroads and transmission lines typically accompany such new-era developments, and thus generate a requirement for railway ties and utility poles.

In our consumer lumber division, Stella-Jones has remained relatively immune to the housing crisis in the U.S., as our entire production is sold in Canada. The renovation and housing markets in Canada continue to be quite strong, so we are seeing sustained demand in that sector.

The potential for a further weakened American dollar is a concern, but again our business model protects us to a considerable degree. The decisions we have made to acquire manufacturing facilities in the U.S. allow us to remain competitive in the American market, notwithstanding the value of the U.S. dollar in reference to the Canadian dollar.

While the climate of uncertainty has created price pressures in some markets, our vast geographical spread and participation in two major markets have so far largely neutralized the impact. We expect to see some additional pressure on our margins, which is why we have intensified our focus on costs, best practices, and further improvement of efficiencies.

At the same time we shall be on watch, as always, for additional potential growth synergies in the railway tie and utility pole markets. Events in the U.S. economy may well offer interesting new acquisition opportunities for Stella-Jones.

The strong performance of our Company over the past year, and over the past many years, has been buoyed, in great part, by our Company's Board of Directors, and I wish to thank them here for their constant counsel. Gratitude is owed in no less measure to our shareholders, whose support has enabled Stella-Jones to achieve a leading rank in our industry. It's my privilege here as well to acknowledge the skill and contribution of our employees. Year after year, their daily commitment to our objectives keeps Stella-Jones renewed, superbly competitive – and rigorously on track to continued success.



Brian McManus
President and Chief Executive Officer

PRODUCTS

Utility poles form an integral part of the landscape, whether urban or rural. They carry the lines that transmit electricity and telecommunications. Most of these poles, in fact the vast majority of them, are wooden. That's because wood is the optimal material for the various tasks of a utility pole. Wood offers the best characteristics for flexible drill work, and wood is more accessible for maintenance. Wood is also the most cost effective material in the utility pole industry, as it is less expensive to produce and less expensive to transport. In terms of durability, if wooden poles are maintained properly, they can provide up to sixty years of serviceability.

Stella-Jones brings a long history of specialization and state-of-the-art expertise to the manufacture and marketing of wood utility poles.

The poles adjacent to city streets, the poles along the highways that connect the cities and towns of North America, the poles carrying energy transmitted from distant dams and wind farms – almost all of them are manufactured in pressure-treating plants that specialize in preserving wood from pests and decay.

Stella-Jones, the premiere manufacturer of treated wood utility poles in Canada, operates a continental network of ten pressure treating plants.

A variety of different species of tree are harvested for the purpose of utility pole manufacture, including Red Pine, Jack Pine, Lodgepole Pine, Douglas Fir, and Western Red Cedar. Different clients demand different species for their varying properties of hardness, durability, and resistance to insects.

Stella-Jones has access to all major species required by high volume users in North America, and manufactures poles to their specifications of size and preservative.

Having met the requirements and challenging demands of its customers in the electrical transmission and telecommunications industries on a regular basis, Stella-Jones has become a trusted partner to them, and in many cases, a dependable single source of supply.

**2007 Utility Pole sales: \$129.8 M
48.1% of total sales**

**Utility
Poles
Ubiquitous
and
indispensable**





The railroad transportation system for freight and passengers has played a central role in the North American economy for over a century and a half. Railway efficiencies in regard to fuel consumption and the environment make it likely that the industry will remain a paramount transport option for a very long time to come.

Approximately 173,000 miles of operating railway track exist on the continent. Upwards of a billion wooden cross-ties help form the railbed, constituting an essential component of a crucial industry. Between fourteen and twenty million pressure treated wooden ties have been purchased annually by the North American railroad industry over the last two decades. In 2007, continuing strength in the railroad industry created a demand for approximately twenty million units.

Stella-Jones last year provided well over 50% of all railway ties purchased in Canada, and approximately 8% of the ties purchased in the United States.

A majority of the demand results from the need for replacement of cross-ties that have reached the end of their operating life – a turnover that makes for steady, reliable demand.

Stella-Jones' railway tie product category in 2007 registered a sales increase of 3.6% over 2006.

Again, as in the case of utility poles, the favoured material for railway ties remains wood – the environmentally sound choice. Wood is a renewable resource, requires considerably less energy to produce than concrete, steel or plastic alternatives, and makes an excellent source of biomass fuel when its working life is done.

**2007 Railway Tie sales: \$94.4 M
35.0% of total sales**

**Railway
Ties**
**Essential
component,
consistent
demand**

PRODUCTS

Consumer Lumber

The retail marketplace welcomes the standards of quality that Stella-Jones brings to treated wood

Relatively recently in its history, Stella-Jones entered the treated wood consumer lumber sector through an alliance with a major lumber wholesaler. The initiative proved immediately and progressively successful, as the demand for pressure treated wood in the home renovation market is significant. Decks and fences, among other outdoor amenities and fittings, represent a complementary opportunity for the production expertise and capacity of Stella-Jones.

Sales in the sector accounted for 11.0% of Stella-Jones' revenues in 2007.

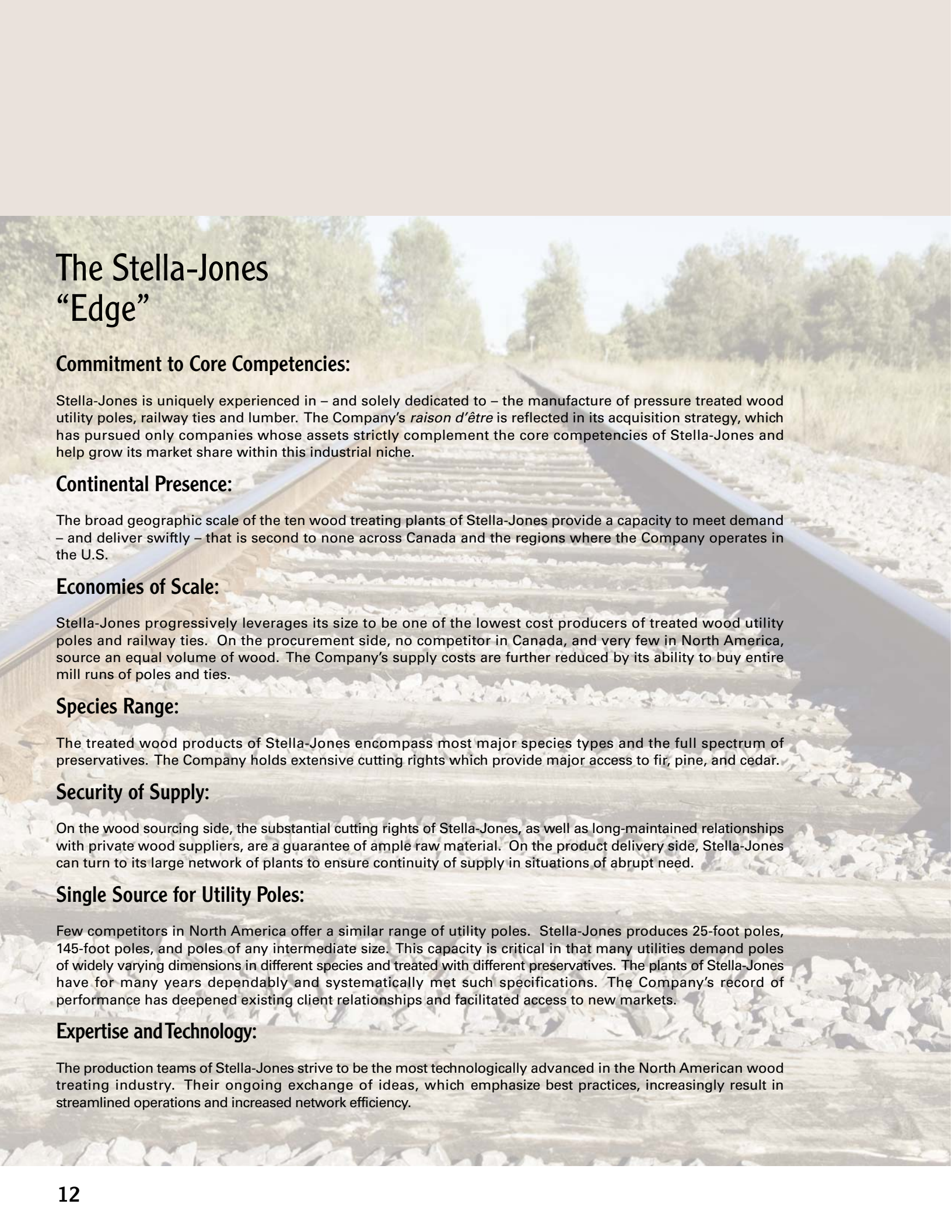


Industrial Lumber

Customers in the construction and maritime sectors turn to Stella-Jones for treated wood products

Wood has always been an important element of many outdoor industrial installations, and remains so as a result of the unique properties it brings. Wood is used, for example, as a material of choice for marine pilings, foundation pilings, construction timbers, highway guide rail posts and bridge timbers. In all such instances, the wood must first be pressure treated to withstand environmental exposure. As one of North America's most experienced wood treating companies, Stella-Jones has generated large sales revenues in this category. Users of industrial lumber, much like the users of utility poles and railway ties, come to Stella-Jones for its species range, selection of preservatives, and network of strategically located plants that ensure supply and delivery. Industrial lumber accounted for 5.9% of sales in 2007.





The Stella-Jones “Edge”

Commitment to Core Competencies:

Stella-Jones is uniquely experienced in – and solely dedicated to – the manufacture of pressure treated wood utility poles, railway ties and lumber. The Company’s *raison d’être* is reflected in its acquisition strategy, which has pursued only companies whose assets strictly complement the core competencies of Stella-Jones and help grow its market share within this industrial niche.

Continental Presence:

The broad geographic scale of the ten wood treating plants of Stella-Jones provide a capacity to meet demand – and deliver swiftly – that is second to none across Canada and the regions where the Company operates in the U.S.

Economies of Scale:

Stella-Jones progressively leverages its size to be one of the lowest cost producers of treated wood utility poles and railway ties. On the procurement side, no competitor in Canada, and very few in North America, source an equal volume of wood. The Company’s supply costs are further reduced by its ability to buy entire mill runs of poles and ties.

Species Range:

The treated wood products of Stella-Jones encompass most major species types and the full spectrum of preservatives. The Company holds extensive cutting rights which provide major access to fir, pine, and cedar.

Security of Supply:

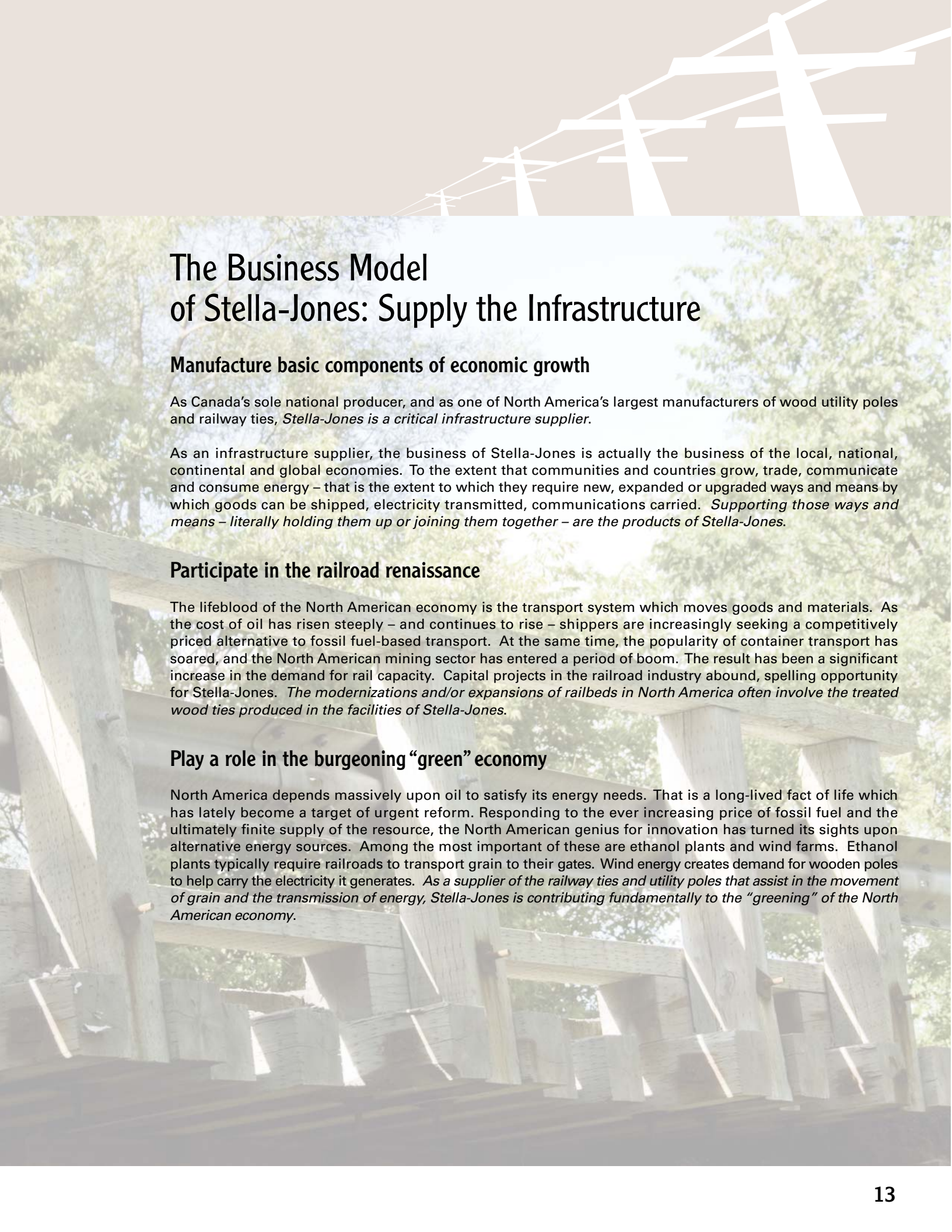
On the wood sourcing side, the substantial cutting rights of Stella-Jones, as well as long-maintained relationships with private wood suppliers, are a guarantee of ample raw material. On the product delivery side, Stella-Jones can turn to its large network of plants to ensure continuity of supply in situations of abrupt need.

Single Source for Utility Poles:

Few competitors in North America offer a similar range of utility poles. Stella-Jones produces 25-foot poles, 145-foot poles, and poles of any intermediate size. This capacity is critical in that many utilities demand poles of widely varying dimensions in different species and treated with different preservatives. The plants of Stella-Jones have for many years dependably and systematically met such specifications. The Company’s record of performance has deepened existing client relationships and facilitated access to new markets.

Expertise and Technology:

The production teams of Stella-Jones strive to be the most technologically advanced in the North American wood treating industry. Their ongoing exchange of ideas, which emphasize best practices, increasingly result in streamlined operations and increased network efficiency.



The Business Model of Stella-Jones: Supply the Infrastructure

Manufacture basic components of economic growth

As Canada's sole national producer, and as one of North America's largest manufacturers of wood utility poles and railway ties, *Stella-Jones is a critical infrastructure supplier.*

As an infrastructure supplier, the business of Stella-Jones is actually the business of the local, national, continental and global economies. To the extent that communities and countries grow, trade, communicate and consume energy – that is the extent to which they require new, expanded or upgraded ways and means by which goods can be shipped, electricity transmitted, communications carried. *Supporting those ways and means – literally holding them up or joining them together – are the products of Stella-Jones.*

Participate in the railroad renaissance

The lifeblood of the North American economy is the transport system which moves goods and materials. As the cost of oil has risen steeply – and continues to rise – shippers are increasingly seeking a competitively priced alternative to fossil fuel-based transport. At the same time, the popularity of container transport has soared, and the North American mining sector has entered a period of boom. The result has been a significant increase in the demand for rail capacity. Capital projects in the railroad industry abound, spelling opportunity for Stella-Jones. *The modernizations and/or expansions of railbeds in North America often involve the treated wood ties produced in the facilities of Stella-Jones.*

Play a role in the burgeoning “green” economy

North America depends massively upon oil to satisfy its energy needs. That is a long-lived fact of life which has lately become a target of urgent reform. Responding to the ever increasing price of fossil fuel and the ultimately finite supply of the resource, the North American genius for innovation has turned its sights upon alternative energy sources. Among the most important of these are ethanol plants and wind farms. Ethanol plants typically require railroads to transport grain to their gates. Wind energy creates demand for wooden poles to help carry the electricity it generates. *As a supplier of the railway ties and utility poles that assist in the movement of grain and the transmission of energy, Stella-Jones is contributing fundamentally to the “greening” of the North American economy.*

Stella-Jones' Operating Locations

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



1. New Westminster (BC), Plant and Sales Office
2. Maple Ridge (BC), Pole Peeling Yard
3. Prince George (BC), Plant and Sales Office
4. Salmon Arm (BC), Fibre & Woodlands Dept.
5. Revelstoke (BC), Pole Peeling Yard
6. Arlington (WA), Plant and Sales Office
7. Juliaetta (ID), Pole Peeling Yard
8. Carseland (AB), Plant
9. Bangor (WI), Plant and Sales Office
10. Guelph (ON), Plant and Sales Office
11. Belleville (ON), Distribution Yard
12. Gatineau (QC), Plant and Sales Office
13. Delson (QC), Plant and Sales Office
14. Saint-Laurent (QC), Head Office
15. Sorel-Tracy (QC), Plant
16. Truro (NS), Plant and Sales Office
17. Clareville (NL), Distribution Centre and Sales Office



Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") dated March 12, 2008 provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2007 compared with the fiscal year ended December 31, 2006. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2007 and 2006 and the notes thereto. The audited consolidated financial statements and MD&A have been reviewed by the Company's Audit Committee and, upon its recommendation, have been approved by the Board of Directors.

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

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

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

Our business

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

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

As of March 12, 2008, the Company owns and operates ten wood treating plants, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These fifteen facilities are located in the Canadian provinces of British Columbia, Alberta, Ontario, Quebec, Nova Scotia and Newfoundland as well as in the states of Washington, Idaho and Wisconsin, U.S.A. The Company's workforce currently numbers approximately 450 employees.

Our mission

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

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

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

Major achievements of 2007

Stella-Jones' financial results for the year ended December 31, 2007, marked the seventh consecutive year of uninterrupted growth. Revenues progressed by 20.5%, reflecting acquisitions completed in 2007 and 2006, while gross profit further increased, both on an absolute and on a percentage of sales basis, reflecting sustained operational improvements. As a result, net earnings grew by 23.3% to reach \$25.7 million. The Company's two main product categories, utility poles and railway ties, both posted solid sales growth, driven by acquisitions and robust demand.

On February 28th, 2007, the Company acquired, through its wholly-owned U.S. subsidiary, Stella-Jones Corporation, the wood utility pole business of J.H. Baxter & Co. ("Baxter"). Assets acquired included a production plant located in Arlington, Washington, a pole peeling facility in Juliaetta, Idaho, as well as inventories and accounts receivables related to Baxter's wood pole business. The acquisition was accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management's estimate of their fair value as of the acquisition date. See "Business acquisition" below.

Stella-Jones' solid performance once again yielded a strong cash flow generation in 2007, with cash flow from operations (before changes in non-cash working capital components) reaching \$32.9 million compared with \$26.8 million in 2006. This growth was achieved while maintaining a solid balance sheet, with a total long-term debt to equity ratio of 0.37:1 and an average debt to operating earnings before amortization of capital assets ratio of 1.64:1.

Going forward, Management remains optimistic about market conditions and believes that the Company is well positioned to enjoy positive momentum in 2008 driven by the proposed acquisition of The Burke-Parsons-Bowlby Corporation ("BPB"), scheduled to be completed on April 1, 2008. Stella-Jones is also committed to grow organically by concentrating on its key markets and capturing more of its existing clients' business in the railway tie and utility pole markets across North America.

Key Performance Indicators

For the years ended December 31	2007	2006	2005
(thousands of dollars, except per share data and ratios)	\$	\$	\$
Sales	269,714	223,853	157,129
Gross profit	66,288	50,363	32,028
Net earnings	25,700	20,846	11,505
Net earnings per common share	2.09	1.81	1.10
Diluted net earnings per common share	2.03	1.76	1.08
Total assets	244,856	213,675	137,891
Total long-term debt*	47,444	31,893	26,466
Total long-term debt* to equity ratio	0.37:1	0.30:1	0.41:1
Dividend per share	0.24	0.14	0.10

*Including current portion

Foreign exchange

The table below shows the year-end and average exchange rates for the periods ended December 31, 2007 and 2006:

Canada/US exchange rate		2007	2006
Year-end rate to translate assets and liabilities	Cdn\$/US\$	0.9913	1.1654
Average rate to translate sales and expenses	Cdn\$/US\$	1.0812	1.1302

Operating results

Sales

Sales for the year ended December 31, 2007 reached \$269.7 million, an increase of \$45.9 million, or 20.5%, over last year's sales of \$223.9 million. The Baxter acquisition and the full-year contribution from the Bell Pole Company ("Bell Pole") assets, acquired on July 1, 2006, accounted for essentially all of this gain. Organic growth was limited by the impact of a three-month forest industry strike in southern British Columbia that forced the closure of the Company's New Westminster treating facility and its pole peeling joint venture in Maple Ridge. The appreciation of the Canadian dollar, Stella-Jones' reporting currency, reduced the value of U.S. dollar denominated sales by nearly \$5.0 million. All of the Company's product categories, with the exception of industrial lumber, posted gains and its two main categories - utility poles and railway ties - accounted for most of the increase.

Sales by product group

Utility poles

Utility pole sales reached \$129.8 million in 2007, an increase of \$34.2 million or 35.7% over the 2006 sales of \$95.6 million. The increase is, for the most part, due to the contribution of the Arlington, Washington facility, acquired from Baxter in February 2007, which contributed sales of \$24.5 million over ten months, as well as to a full-year contribution from the Bell Pole facility in Carseland, Alberta. Organic growth was impacted by the labour conflict in British Columbia and unfavourable currency movements on utility pole sales to the United States. These factors offset solid demand for transmission poles. Utility pole sales accounted for 48.1% of the Company's total sales in 2007.

Railway ties

Railway tie sales for the year amounted to \$94.4 million, a 3.6% increase over sales of \$91.1 million achieved in 2006. These results reflect the solid performance of the rail transport sector, which continues to report near-record traffic levels and is investing considerable resources in the modernization of existing infrastructure. Demand for railway ties has been strong over the last few years, driven by maintenance requirements, installation of double-tracking and new siding construction. Railway tie sales accounted for 35.0% of the Company's total sales in fiscal 2007.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the railway tie market. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, and a long-standing stable source of wood supply. Stella-Jones also operates dedicated production facilities which result in higher productivity and better efficiency, helping to preserve a competitive manufacturing cost structure. These attributes are allowing the Company to post solid growth not only with the Class 1 (major) railroads, but also with short-line customers and to operators of dedicated lines in the mining sector.

In response to continued strength in railway tie demand, the Company expanded its Bangor, Wisconsin facility during the year with an additional treating cylinder at a cost of \$2.6 million. This cylinder, which entered production in May 2007, increased the capacity of the plant by over 50 percent.

Consumer lumber

Sales in the consumer lumber category totalled \$29.6 million in 2007, up 74.2% from \$17.0 million in 2006. The increase is attributable to a full-year's contribution from the Carseland, Alberta operations, and also reflects a robust renovation market in Canada. It should be noted that while the Company's other treating facilities provide treating services for customer-owned lumber, the Carseland, Alberta plant purchases the consumer lumber that it processes. This yields a higher sales figure that is not directly comparable to those of the Company's other plants on a per unit basis. Consumer lumber accounted for 11.0% of Stella-Jones' total sales in 2007.

Industrial lumber

Industrial lumber sales declined by 20.8% in 2007, to \$15.9 million, from \$20.1 million reported in 2006. Solid demand for the Company's products in Eastern Canada was not sufficient to offset weaker results on the West Coast due to the strike in British Columbia. The category represented 5.9% of overall sales in 2007.

Sales by destination

In 2007, sales in Canada grew 6.6% over 2006 levels, reaching \$163.1 million, or 60.5% of the Company's total sales, whereas sales in the United States amounted to \$106.6 million, or 39.5% of sales, a 50.4% increase over 2006. Sales of products exported to the United States from the Canadian-based facilities totalled \$32.7 million in 2007, similar to what was recorded in 2006.

The strong increase in sales in the U.S. market came as a result of the contribution of the Arlington, Washington facility, acquired in February 2007, and increased sales from the Bangor, Wisconsin facility following its capacity expansion.

Management believes that the U.S. market presents additional growth opportunities, as the wood treatment industry remains highly fragmented. The potential acquisition of BPB would further strengthen the Company's position in the U.S. railway tie market, making it the second largest player, with an estimated market share of 25% (see "Subsequent event" below). Organically, the Company's access to douglas fir and cedar - preferred species for a number of utilities - through its West Coast operations is a competitive advantage when bidding on transmission projects.

Gross profit

Gross profit reached \$66.3 million or 24.6% of sales in 2007, up from \$50.4 million or 22.5% of sales in 2006. The improvement in gross profit essentially stems from increased throughput owed to the integration and optimization of the Company's expanded production capacity. Overhead cost containment, plant specialization and economies of scale from increased overall volume in the Company's core markets also yielded greater efficiencies.

Expenses

Selling and administrative expenses for 2007 were \$15.9 million, an increase of \$3.4 million or 27.0% compared with a year earlier. This increase is the result of additional activities related to acquisitions and higher pay-outs from the Company's profit sharing plan. Of note, last year's selling and administrative expenses included a one-time gain of approximately \$550,000 from the lease of certain cutting rights in the Company's British Columbia forestry operations. As a result, selling and administrative expenses represented 5.9% of sales in 2007, up marginally from 5.6% in the prior year.

The Company realized a foreign exchange loss of \$1.5 million for the year, versus a foreign exchange gain of \$200,000 last year. The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its sales and purchases in U.S. dollars by its Canadian-based operations. Stella-Jones Corporation, the Company's wholly-owned U.S. subsidiary, is a self-sustaining foreign operation and unrealized foreign exchange gains and losses on translating its financial statements are recorded in accumulated other comprehensive loss in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Its basic hedging activity consists of entering into forward exchange contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider forward exchange contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges. On December 31, 2007, the Company had on hand foreign exchange contracts for the future sale of U.S. dollars totalling \$5.8 million at rates averaging Cdn\$1.1563/US\$1.00 maturing up to December 2009. The unrealized net foreign exchange gain on these contracts totalled approximately \$915,294 as at December 31, 2007.

Amortization of capital assets totalled \$4.9 million in 2007, an increase of nearly \$1.6 million over 2006. This increase is mainly attributable to the Baxter acquisition, early in 2007, as well as to the addition of a treatment cylinder at the Bangor, Wisconsin facility in May 2007. Amortization of the Bell Pole capital assets for the full-year in 2007, versus only six months in 2006, also explains the greater expense.

Financial expenses for 2007 amounted to \$5.5 million, an increase of \$1.9 million over financial expenses of \$3.6 million incurred in 2006. The rise in financial expenses is owed to increases in short and long-term borrowings resulting from the Baxter acquisition in February 2007 and the Bell Pole acquisition in July 2006, increases in the Company's working capital requirements, as well as higher interest rates, on average, in 2007.

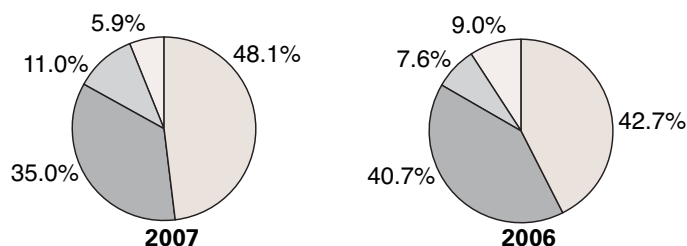
Stella-Jones' income tax expense increased by just over \$2.5 million in 2007 to reach \$12.9 million, compared with \$10.3 million in 2006. The increase mirrors a 23.6% improvement in earnings before income taxes. The effective tax rate for 2007 was 33.3%, virtually unchanged from an effective tax rate of 33.2% in the prior year. Other non-income based corporate taxes represent a relatively small component of the Company's total tax burden.

Net earnings

Net earnings for the year totalled \$25.7 million, or \$2.03 per share, fully diluted, compared with \$20.8 million, or \$1.76 per share, fully diluted, in 2006. This represents a year-over-year increase in net earnings of \$4.9 million, or 23.3%.

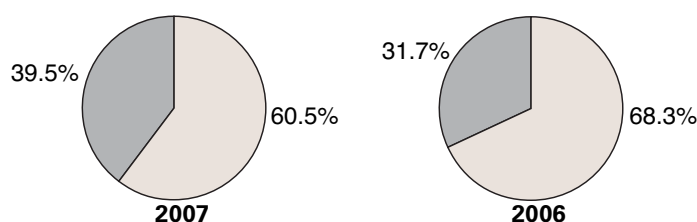
Sales by product (% of revenues)

- Utility Poles
- Railway Ties
- Consumer Lumber
- Industrial Lumber



Sales by geographic region (% of revenues)

- Canada
- United States



Business acquisition

On February 28th, 2007, the Company acquired, through its wholly-owned U.S. subsidiary, Stella-Jones Corporation, the wood utility pole business of Baxter. Assets acquired included a production plant located in Arlington, Washington, a pole peeling facility in Juliaetta, Idaho, as well as inventories and accounts receivable related to the wood pole business.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liability assumed based on Management's estimate of their fair value as of the acquisition date. The detail of the assets acquired and the liabilities assumed can be found in Note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2007. The results of operations of the acquired assets have been included in the consolidated financial statements from the acquisition date.

Financing for the transaction was provided by a subordinated vendor note of US\$8.0 million (recognized at a fair value of US\$7.0 million) as well as additional debt funding under existing and new bank facilities. The new bank facilities are comprised of an increase of US\$5.0 million in the operating line of credit of Stella-Jones Corporation as well as a new 5-year term loan of US\$4.0 million, both arranged with its existing U.S. banker.

Subsequent event

On January 7, 2008, the Company announced that it had entered into a letter of intent to acquire The Burke-Parsons-Bowlby Corporation ("BPB"). The acquisition is expected to be structured as a merger between a U.S.-based wholly-owned subsidiary of the Company, and BPB. The letter of intent contemplates a purchase price of US\$33.0 million for the shares of BPB, to be paid through the conversion of each outstanding share of common stock of BPB into a right to receive approximately US\$47.78 per share in cash, subject to adjustment in certain circumstances.

The acquisition is subject to customary conditions, including entry into a definitive merger agreement, approval of BPB shareholders and the completion of satisfactory due diligence. The definitive merger agreement was entered into by the Company and BPB on March 11, 2008. It is anticipated that the proposed transaction, if finalized, would close by April 1, 2008, with the right of Stella-Jones to extend the closing date by two 30-day increments. It is expected that financing for the transaction will be secured through existing and additional debt facilities.

BPB began operations in 1955 and is a producer of treated wood products, primarily for the railroad industry. It owns and operates five treatment plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky. For the fiscal year ended March 31, 2007, BPB had sales of US\$85 million. BPB shares are listed on the NASDAQ OTC Bulletin Board.

Quarterly results

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

The Company posted sales gains and increases in net earnings in each of the first three quarters of 2007, compared with the corresponding periods in 2006. However, sales and earnings growth in the fourth quarter were, for the most part, negatively impacted by the vigour of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, as it reduced the conversion rate applicable to the portion of the Company's revenue stream generated in U.S. dollars.

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

2007

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	61,949	84,510	74,815	48,440	269,714
Operating earnings before amortization of capital assets ¹	12,301	14,725	13,254	8,720	49,000
Operating earnings ¹	11,235	13,424	11,864	7,537	44,060
Net earnings	6,097	8,078	7,085	4,440	25,700
Net earnings per common share	0.50	0.66	0.57	0.36	2.09
Diluted net earnings per common share	0.48	0.64	0.56	0.35	2.03

2006

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	44,872	61,396	68,073	49,512	223,853
Operating earnings before amortization of capital assets ¹	6,915	9,824	12,203	9,224	38,166
Operating earnings ¹	6,132	9,021	11,331	8,319	34,803
Net earnings	3,518	5,415	6,789	5,124	20,846
Net earnings per common share	0.32	0.50	0.57	0.42	1.81
Diluted net earnings per common share	0.32	0.48	0.55	0.41	1.76

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

Fourth quarter results

Sales for the fourth quarter of 2007 reached \$48.4 million, down 2.2% from \$49.5 million reported for the same period in 2006. This decline is essentially owed to a \$3.2 million negative impact of the strong Canadian currency on U.S. dollar denominated sales and to the last three weeks of the labour conflict in southern British Columbia.

Fourth quarter sales of utility poles reached \$30.5 million, representing a 7.8% year-over-year increase in sales, as a \$5.4 million contribution from the Baxter assets was offset by the impact of a strong Canadian currency and the strike in British Columbia. Railway tie sales stood at \$11.3 million, 19.5% lower than a year ago owing to unfavourable currency fluctuations and a temporary shortage of railcars at year-end. Industrial lumber sales declined by 9.9% to \$3.7 million, while consumer lumber sales were essentially stable at \$2.9 million.

Gross profit further improved in the final quarter of 2007, reaching \$12.2 million, or 25.2% of sales, up from \$11.4 million, or 23.0% of sales, in the corresponding period in 2006. This increase of 7.5% results primarily from overhead cost containment, plant specialization, and economies of scale from increased throughput.

Because of an \$800,000 increase in selling and administrative expenses, mainly due to higher stock-based compensation and a loss on foreign exchange \$500,000 above that of last year, net earnings for the period totalled \$4.4 million, or \$0.35 per share, fully diluted, compared with \$5.1 million, or \$0.41 per share, fully diluted, in the fourth quarter of 2006.

Liquidity and capital resources

The Company's working capital at December 31, 2007 was \$106.5 million, an increase of \$26.5 million over last year's working capital balance of \$80.0 million at the same date. The \$20.6 million increase in current assets is primarily related to \$13.8 million in current assets acquired as part of the Baxter acquisition. The value of receivables at the end of 2007 was \$5.7 million lower than a year earlier, as a result of the depreciation of the U.S. dollar on the conversion of U.S. receivables and of lower sales near the end of the year. Meanwhile, the \$25.4 million increase in inventories over last year reflects the inventory acquired from Baxter, opportunistic purchases of raw material at favourable terms as well as projected requirements for future sales volume increases.

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

Capital assets stood at \$70.3 million as at December 31, 2007, compared with \$59.9 million as at December 31, 2006. This \$10.3 million increase was primarily related to the Baxter acquisition in the first quarter and, to a lesser extent, to capital expenditures that were slightly in excess of amortization levels in 2007, reflecting the addition of the new treatment cylinder at the Bangor, Wisconsin facility.

Bank indebtedness at year-end totalled \$39.0 million, a decrease of \$3.3 million over bank indebtedness of \$42.3 million at the end of the previous year. This decrease essentially reflects the Company's strong cash flow generation and lower working capital requirements in the latter stages of the year. Bank facilities consist of a \$50.0 million demand operating loan with Canadian banks (unchanged from last year), as well as a US\$20.0 million operating line of credit with the U.S. bankers of Stella-Jones Corporation (up from US\$12.0 million last year). Total availability under the Company's Canadian and U.S. operating lines of credit was \$22.7 million and US\$4.4 million, respectively, as at December 31, 2007.

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

For the year ended December 31, 2007, the Company's long-term debt amounted to \$43.0 million, an increase of \$14.9 million primarily related to the credit facilities arranged to finance the Baxter acquisition.

Shareholders' equity was \$127.8 million as at December 31, 2007, a \$21.9 million increase from December 31, 2006 levels. The Company's strong earnings generation accounted for most of this gain, offset by a greater dividend payout than last year.

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

Summary of cash flows (thousands of dollars)	Fiscal Year Ended	
	December 31, 2007	December 31, 2006
Operating activities	\$16,979	\$10,562
Financing activities	\$6,020	\$39,792
Investing activities	(\$22,999)	(\$50,354)

The Company's activities, acquisitions and capital expenditures are primarily financed by cash flows from operating activities, operating lines of credit, long-term debt and the issuance of common shares.

Cash flow from operating activities before changes in non-cash working capital components was \$32.9 million for the year ended December 31, 2007, compared with \$26.8 million for the prior year. After taking into account the changes in non-cash working capital components, operating activities resulted in a cash generation totalling \$17.0 million for the twelve months ended December 31, 2007, versus a cash generation of \$10.6 million a year earlier.

The Company's net financing activities generated cash of \$6.0 million for the year ended December 31, 2007. Such activities consist of increases in long-term bank and other borrowings as well as share issues under the employee share purchase plans, less repayments of long-term debt and the payment of annual dividends.

Investing activities that required \$23.0 million in cash were primarily for the Baxter acquisition (\$17.1 million – see "Business acquisition" above) and for the purchase of capital assets (\$6.5 million). Capital acquisitions were mainly for the addition of a treatment cylinder at the Bangor, Wisconsin facility at a cost of \$2.6 million and for various equipment upgrades and expansion.

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

Contractual obligations

(thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long-term debt obligations	48,170	4,494	8,180	10,257	25,239
Capital lease obligations	223	78	145	—	—
Operating leases	18,756	2,365	3,828	1,946	10,617
Commitments for capital expenditures	—	—	—	—	—
Total contractual obligations	67,149	6,937	12,153	12,203	35,856

Share and stock option information

As at December 31, 2007, the capital stock issued and outstanding consisted of 12,341,088 common shares (12,298,015 as at December 31, 2006). As at March 12, 2008, the capital stock issued and outstanding consisted of 12,350,088 common shares.

As at December 31, 2007, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 162,070 (December 31, 2006 – 183,355) of which 76,570 (December 31, 2006 – 83,355) were exercisable.

Effective May 6, 2003, the Company granted to its President and Chief Executive Officer, under a Stock Option Agreement, 300,000 options to acquire an equivalent number of common shares at an exercise price of \$2.99 per share. These options become exercisable on May 6, 2008, or earlier, upon the occurrence of certain triggering events. The Stock Option Agreement also provided the President and Chief Executive Officer with the option of receiving cash in lieu of shares. In the fourth quarter of fiscal 2006, the President and Chief Executive Officer, on his own initiative, unconditionally and irrevocably waived his right to settle these options for cash.

Dividends

On March 14, 2007, the Board of Directors declared a semi-annual dividend of \$0.10 per common share. On August 14, 2007, the Board of Directors declared a semi-annual dividend of \$0.14 per common share. On March 12, 2008, the Board of Directors declared a semi-annual dividend of \$0.16 per common share.

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

Commitments and contingencies

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

The Company has issued guarantees amounting to \$4,588,466 (2006 – \$127,396) under various bid and performance bonds. The Company's Management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the financial statements.

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

Risks and uncertainties

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

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

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

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites.

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

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

As at December 31, 2007, the Company had limited exposure to interest rate risk on long-term debt as only 2% (2006 – 3%) of the Company's long-term debt is at variable rates. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

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

Off-balance sheet arrangements and financial instruments

For details pertaining to off-balance sheet arrangements and financial instruments, refer to Notes 16 and 17 to the Company's audited consolidated financial statements for the year ended December 31, 2007.

Critical accounting policies and estimates

The Company's significant accounting policies are described in Note 2 to the December 31, 2007 audited consolidated financial statements.

The Company prepares its consolidated financial statements in conformity with Canadian generally accepted accounting principles which require Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and such differences could be material. Estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

The Company's inventory valuation involves an important degree of complexity and estimates are required with respect to the provision for slow moving stock. A change in the estimation of the adequacy of this provision, or important declines in the value of inventory, could therefore have a material impact on the financial statements.

The Company's operations are subject to federal, provincial and state environmental laws and regulations, governing among other matters, emissions, waste management and wastewater effluent discharges. The Company takes measures, and provides in its accounts, the estimated costs to comply with such laws and regulations. However, the estimated costs and measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standards which were adopted by the Company effective January 1, 2007:

Handbook Section 1506, "Accounting Changes", introduced new paragraphs prescribing criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with financial statements of other entities.

Handbook Section 3855, "Financial Instruments – Recognition and Measurement," describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

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

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

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

For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees*, the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is the Company's policy to not re-measure the fair value of the financial guarantee unless it qualifies as a derivative.

The Company has implemented the following classifications:

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

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

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

Derivative financial instruments are carried at fair value in the consolidated balance sheet.

Handbook Section 1530, "Comprehensive Income," describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustments relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments.

Handbook Section 3251, "Equity," replaces Section 3250, "Surplus," and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income."

Handbook Section 3861, "Financial Instruments – Disclosure and Presentation," establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

Handbook Section 3865, "Hedges," describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period.

When the Company uses derivative financial instruments to manage its own exposures, it determines for each derivative financial instrument whether hedge accounting is appropriate. When appropriate, the Company formally documents the hedging relationship detailing, among other things, the type of hedge (either fair value or cash flow), the item being hedged, the risk management objective, the hedging strategy and the method to be used to measure its effectiveness. The derivative financial instrument must be highly effective in accomplishing the objective of offsetting the changes in the hedged item's fair value attributable to the risk being hedged both at inception and over the life of the hedge.

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of U.S. dollars. The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These contracts are treated as cash flow hedges for accounting purposes and are not held-for-trading or speculative purposes.

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

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

The opening balance of accumulated other comprehensive loss as at January 1, 2007 was a loss of \$72,679 which relates to cumulative translation adjustments of a self-sustaining foreign operation. The adoption of these new standards translated into the following changes to the opening balance with regards to cash flow hedges: a \$568,785 increase in accumulated other comprehensive income, an \$848,933 increase in short-term and long-term derivative financial instruments reported under assets and a \$280,148 increase in future tax liabilities.

For the twelve-month period ended December 31, 2007, the Company recorded the following transactions with regards to cash flow hedges: a net increase of \$74,252 in accumulated other comprehensive income, an increase of \$83,005 in short-term and long-term derivative financial instruments reported under assets and an increase of \$8,753 in future income tax liabilities. During the year, a gain on foreign exchange forward contracts of \$2,167,250 was reclassified from other comprehensive income to the consolidated statement of earnings.

Impact of accounting pronouncements not yet implemented

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

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

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

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

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

The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

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

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

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are to converge with International Financial Reporting Standards by 2011. The Company continues to monitor and assess the impact of these convergence efforts.

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 are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109-Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2007, and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal controls over financial reporting

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

Management evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2007. This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed.

The Company did not make any material changes to the design of internal controls over financial reporting during the twelve months ended December 31, 2007 that have had a material effect on the Company's internal controls over financial reporting. The Company has experienced rapid expansion through many acquisitions in recent years and has recently added resources to its accounting and administrative departments to support the growth and strengthen proper control and procedures over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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

Related party transactions

In 2007, the Company paid a total of \$300,000 (2006 - \$300,000) to its parent company and ultimate shareholders with respect to marketing and technical services fees and incurred interest expense of \$75,714 (2006 - \$86,774) with respect to loans to the same parties, as detailed in Note 18 to the December 31, 2007 audited consolidated financial statements.

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

Outlook

Stella-Jones' core markets are still experiencing strong fundamentals and Management remains optimistic about future organic and external growth. Integration of the potential BPB acquisition will be a key success factor in upcoming periods. The Company will continue to seek organic growth by focusing on its key markets and by capturing more of its existing clients' business by leveraging the opportunities offered through economies of scale. Management also remains committed to expanding its customer base in Canada and the U.S., as it realizes the full potential of recent acquisitions.

The market for utility poles in the United States has slightly softened, which is causing competitive pressures. Nevertheless, fundamental factors remain strong with solid demand from emerging energy sources, such as wind farms, and an aging infrastructure creating pent-up demand for pole replacement. A full-year contribution and further operational efficiencies stemming from the integration of the Baxter acquisition should nevertheless favour upward momentum. Geographical diversification and a complete product offering are key attributes that give Stella-Jones the ability to promptly respond to market opportunities.

The North American railway tie market, in which Stella-Jones would become the second largest player should the BPB proposed acquisition be finalized as intended, is expected to stay strong, driven by Class 1 railroad capital expenditures and short-line railroad expansion projects. The optimization of the BPB assets to be acquired, along with expanded capacity at the Bangor, Wisconsin facility with the addition of a new treating cylinder should enable the Company to better service its growing customer base in the United States.

Finally, Management also believes that room for growth exists in consumer and industrial lumber, as the Company increasingly establishes itself as a preferred supplier by means of its ability to service most requirements, thanks to its extensive product ranges.

Given the fragmented state of the wood treatment industry, strategic acquisitions will remain an integral part of the Company's growth plan. Management will continue to seek targets in its core railway tie and utility pole markets that meet its stringent investment requirements, provide synergistic opportunities, and, most of all, add value to Stella-Jones' shareholders.

March 12, 2008

Consolidated Financial Statements

December 31, 2007 and 2006

Management's Statement of Responsibility for Financial Information

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

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

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



Brian McManus
President and Chief Executive Officer



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

Saint-Laurent, Quebec
March 12, 2008

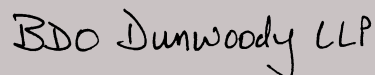
Auditors' Report

To the Shareholders of Stella-Jones Inc.

We have audited the consolidated balance sheets of Stella-Jones Inc. as at December 31, 2007 and 2006 and the consolidated statements of shareholders' equity, earnings, comprehensive earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Montréal, Quebec
March 12, 2008

Consolidated Balance Sheets

As at December 31

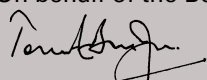
	2007	2006
Assets		
Current		
Accounts receivable (Note 6)	\$ 26,411,115	\$ 32,113,553
Derivative financial instruments (Note 17)	658,437	—
Inventories (Note 7)	142,873,928	117,441,115
Prepaid expenses	1,472,155	2,325,219
Income taxes receivable	783,677	—
Future income taxes (Note 13)	619,139	356,000
	172,818,451	152,235,887
Capital assets (Note 8)	70,264,386	59,925,656
Derivative financial instruments (Note 17)	273,500	—
Other assets (Note 9)	1,142,531	1,088,343
Future income taxes (Note 13)	357,477	425,000
	\$ 244,856,345	\$ 213,674,886
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 10)	\$ 39,026,390	\$ 42,286,469
Accounts payable and accrued liabilities	21,855,626	22,299,399
Income taxes payable	—	2,964,247
Future income taxes (Note 13)	288,898	—
Current portion of long-term debt (Note 10)	4,408,949	3,797,096
Current portion of asset retirement obligations (Note 11)	750,888	922,929
	66,330,751	72,270,140
Long-term debt (Note 10)	43,034,946	28,096,118
Future income taxes (Note 13)	5,968,406	5,960,036
Asset retirement obligations (Note 11)	467,219	414,635
Employee future benefits (Note 14)	1,298,029	1,112,177
	117,099,351	107,853,106
Shareholders' equity		
Capital stock	46,023,360	45,473,435
Contributed surplus	4,045,122	2,416,650
Retained earnings	80,744,909	58,004,374
Accumulated other comprehensive loss	(3,056,397)	(72,679)
	127,756,994	105,821,780
	\$ 244,856,345	\$ 213,674,886

Commitments and contingencies (Note 16)

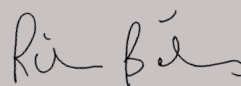
Subsequent event (Note 20)

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

On behalf of the Board



Tom A. Bruce Jones, CBE
Director



Richard Bélanger, FCA
Director

Consolidated Statements of Shareholders' Equity

For the years ended December 31

	2007	2006
	#	#
Share capital		
Shares outstanding – beginning of year	12,298,015	10,880,840
Private placement (Note 5(b))	—	1,060,000
Stock option plan	37,785	161,370
Warrants exercised (Note 12(e))	—	190,000
Share purchase plan	5,288	5,805
Shares outstanding – end of year	12,341,088	12,298,015
Shares outstanding – beginning of year	\$ 45,473,435	\$ 26,174,801
Private placement (Note 5(b))	—	18,020,000
Stock option plan	366,531	391,627
Warrants exercised (Note 12(e))	—	779,000
Share purchase plan	183,394	108,007
Shares outstanding – end of year	46,023,360	45,473,435
Contributed surplus		
Balance – beginning of year	2,416,650	53,499
Elimination of liability associated with stock-based compensation expense (Note 12(d))	—	2,262,000
Stock-based compensation	1,716,416	123,808
Exercise of stock options	(87,944)	(22,657)
Balance – end of year	4,045,122	2,416,650
Retained earnings		
Balance – beginning of year	58,004,374	38,781,497
Net earnings for the year	25,699,508	20,845,956
Dividends on common shares	(2,958,973)	(1,623,079)
Balance – end of year	80,744,909	58,004,374
Accumulated other comprehensive loss		
Balance – beginning of year (Note 3)	(72,679)	(201,646)
Adoption of new accounting standards for financial instruments, net of taxes of \$280,148 (Note 3)	568,785	—
Adjusted opening balance	496,106	(201,646)
Other comprehensive loss	(3,552,503)	128,967
Balance – end of year	(3,056,397)	(72,679)
Shareholders' equity	\$ 127,756,994	\$ 105,821,780

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

Consolidated Statements of Earnings

For the years ended December 31

	2007	2006
Sales	\$ 269,714,130	\$ 223,853,026
Expenses (income)		
Cost of sales	203,425,674	173,489,937
Selling and administrative	15,858,578	12,488,487
Foreign exchange loss (gain)	1,471,914	(213,619)
Amortization of capital assets	4,940,013	3,363,474
Gain on disposal of capital assets	(42,329)	(77,932)
	225,653,850	189,050,347
Operating earnings	44,060,280	34,802,679
Financial expenses		
Interest on long-term debt	3,051,221	1,802,882
Other interest	2,452,027	1,810,443
	5,503,248	3,613,325
Earnings before income taxes	38,557,032	31,189,354
Provision for income taxes (Note 13)		
Current	13,006,614	10,506,398
Future (recovery)	(149,090)	(163,000)
	12,857,524	10,343,398
Net earnings for the year	\$ 25,699,508	\$ 20,845,956
Net earnings per common share (Note 12(b))	\$ 2.09	\$ 1.81
Diluted net earnings per common share (Note 12(b))	\$ 2.03	\$ 1.76

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

Consolidated Statements of Comprehensive Earnings

For the years ended December 31

	2007	2006
Net earnings for the year	\$ 25,699,508	\$ 20,845,956
Other comprehensive earnings (loss)		
Net change in unrealized losses on translating financial statements of self-sustaining foreign operation	(3,626,755)	128,967
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of \$8,753)	74,252	—
	(3,552,503)	128,967
Comprehensive earnings	\$ 22,147,005	\$ 20,974,923

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

Consolidated Statements of Cash Flows

For the years ended December 31

	2007	2006
Cash provided by (used in)		
Operating activities		
Net earnings for the year	\$ 25,699,508	\$ 20,845,956
Adjustments for		
Amortization of capital assets	4,940,013	3,363,474
Gain on disposal of capital assets	(42,329)	(77,932)
Employee future benefits	185,852	133,528
Stock-based compensation	1,716,416	2,338,808
Future income taxes	(149,090)	(163,000)
Other	587,944	398,516
	32,938,314	26,839,350
Changes in non-cash working capital components		
Accounts receivable	8,365,492	(3,760,754)
Inventories	(21,580,704)	(13,492,844)
Prepaid expenses	904,078	(301,436)
Accounts payable and accrued liabilities	206,781	572,470
Income taxes payable	(3,854,857)	705,671
	16,979,104	10,562,457
Financing activities		
(Decrease) increase in bank indebtedness	(983,842)	16,278,771
Increase in long-term debt	13,332,146	13,393,582
Repayment of long-term debt	(3,721,973)	(6,697,701)
Decrease in asset retirement obligations	(119,457)	(835,934)
Proceeds from issuance of common shares	472,367	19,275,977
Dividends on common shares	(2,958,973)	(1,623,079)
	6,020,268	39,791,616
Investing activities		
Increase in other assets	(81,518)	(437,775)
Business acquisitions	(17,125,602)	(46,023,314)
Purchase of capital assets	(6,452,532)	(4,272,982)
Proceeds from disposal of capital assets	660,280	379,998
	(22,999,372)	(50,354,073)
Net change in cash and cash equivalents during the year	—	—
Cash and cash equivalents – beginning and end of year	\$ —	\$ —
Supplemental disclosures		
Interest paid	\$ 5,296,491	\$ 3,415,273
Income taxes paid	\$ 16,636,241	\$ 10,533,807

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

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Description of the Business

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

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Corporation ("SJ Corp") and since July 1, 2006, the consolidated accounts of Bell Pole Canada Inc. ("Bell Pole"), using the purchase method. The consolidated accounts of Bell Pole include the accounts of a 50% interest in Kanaka Creek Pole Company Limited ("Kanaka"), a joint venture which is accounted for under the proportionate consolidation method of accounting.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the net carrying amount of asset retirement obligations, estimated useful life of assets, inventory obsolescence, impairment of long-lived assets, future income taxes, stock-based compensation, pension and post retirement benefits, legal liabilities, bad debts, allowance for doubtful accounts and environmental provisions. It is reasonably possible that actual results could differ in the near term from those estimates and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Revenue Recognition

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

Logs are harvested from timber licenses operated by the Company as part of a process to procure raw material for processing and treatment of utility poles. Logs not meeting pole-quality standards are regularly harvested and sold to third parties. Proceeds from the sale of non-pole quality logs are included in the cost of poles sold since the production of non-pole quality logs are a by-product of the Company's pole raw material procurement operations.

Cash and Cash Equivalents

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

Inventories

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

2. Significant Accounting Policies (Continued)

Capital Assets

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

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

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 forty year period, and is applied against the historical cost.

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

Impairment of Long-lived Assets

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

Asset Retirement Obligations

Reforestation obligations:

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

Site remediation obligations:

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with accretion costs on existing obligations, in other expenses.

Income Taxes

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

Employee Future Benefits

Post retirement benefit programs:

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

2. Significant Accounting Policies (Continued)

Defined benefit pension plan:

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

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

Stock-based Compensation and Other Stock-based Payments

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

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

Foreign Currency Transactions

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

The financial statements of SJ Corp, a self-sustaining foreign operation, are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in the accumulated other comprehensive loss in shareholders' equity.

Earnings Per Share

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

3. Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standards which were adopted by the Company effective January 1, 2007:

- Handbook Section 1506, "Accounting Changes", introduced new paragraphs prescribing criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with financial statements of other entities.

3. Changes in Accounting Policies (Continued)

- Handbook Section 3855, "Financial Instruments – Recognition and Measurement," describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

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

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

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

For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees*, the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is the Company's policy to not re-measure the fair value of the financial guarantee unless it qualifies as a derivative.

The Company has implemented the following classifications:

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

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

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

Derivative financial instruments are carried at fair value in the consolidated balance sheet.

- Handbook Section 1530, "Comprehensive Income," describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustments relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments.

3. Changes in Accounting Policies (Continued)

- Handbook Section 3251, "Equity," replaces Section 3250, "Surplus," and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income."
- Handbook Section 3861, "Financial Instruments – Disclosure and Presentation," establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.
- Handbook Section 3865, "Hedges," describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period.

When the Company uses derivative financial instruments to manage its own exposures, it determines for each derivative financial instrument whether hedge accounting is appropriate. When appropriate, the Company formally documents the hedging relationship detailing, among other things, the type of hedge (either fair value or cash flow), the item being hedged, the risk management objective, the hedging strategy and the method to be used to measure its effectiveness. The derivative financial instrument must be highly effective in accomplishing the objective of offsetting the changes in the hedged item's fair value attributable to the risk being hedged both at inception and over the life of the hedge.

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of U.S. dollars. The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These contracts are treated as cash flow hedges for accounting purposes and are not held-for-trading or speculative purposes.

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

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

The opening balance of accumulated other comprehensive loss as at January 1, 2007 was a loss of \$72,679 which relates to cumulative translation adjustments of a self-sustaining foreign operation. The adoption of these new standards translated into the following changes to the opening balance with regards to cash flow hedges: a \$568,785 increase in accumulated other comprehensive earnings, an \$848,933 increase in short-term and long-term derivative financial instruments reported under assets and a \$280,148 increase in future tax liabilities.

For the twelve month period ended December 31, 2007, the Company recorded the following transactions with regards to cash flow hedges: a net increase of \$74,252 in accumulated other comprehensive loss, an increase of \$83,005 in short-term and long-term derivative financial instruments reported under assets and an increase of \$8,753 in future income tax liabilities. During the year, a gain on foreign exchange forward contracts of \$2,167,250 was reclassified from other comprehensive income to the consolidated statement of earnings.

4. Impact of Accounting Pronouncements not yet Implemented

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

- Handbook Section 3031, "Inventories", will replace Section 3030 "Inventories". The new section prescribes measurement of inventories at the lower of cost and net realized value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversals of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory write-downs.
- Handbook Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for the entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This Section and Section 3863, "Financial Instruments – Presentation" will replace Section 3861, "Financial Instruments – Disclosure and Presentation".
- Handbook Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, "Financial Instruments – Disclosure and Presentation".
- Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

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

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

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are to converge with International Financial Reporting Standards by 2011. The Company continues to monitor and assess the impact of these convergence efforts.

5. Business Acquisition

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

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

5. Business Acquisition (Continued)

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

Assets acquired

Accounts receivable	\$ 3,792,494
Inventories	9,849,614
Prepaid expenses	143,523
Capital assets	11,494,230
	25,279,861

Liability assumed

Obligation under capital lease	278,995
	\$ 25,000,866

Consideration

Cash, including transaction costs of \$386,528	\$ 16,975,602
Receivable from vendor	(168,749)
Long-term subordinated note payable to vendor	8,174,296
Reserve amount for transaction costs, included in accounts payable	19,717
	\$ 25,000,866

Financing for the transaction was provided by a subordinated vendor note of US\$8.0 million (recognized at a fair value of US\$7.0 million) as well as additional debt funding under existing and new bank facilities. The new bank facilities are comprised of an increase of US\$5.0 million in the operating line of credit of SJ Corp as well as a new 5-year term loan of US\$4.0 million, both arranged with its existing U.S. banker.

- b) Effective July 1, 2006, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and operations of Bell Pole Company, a Canadian manufacturer of wood utility poles based in western Canada. Bell Pole Company was also involved in the remanufacturing and treating of dimensional lumber in Alberta. Assets acquired include a treating plant located in Carseland, Alberta, peeling facilities located in the province of British Columbia, as well as all inventories and accounts receivable. Assets acquired also include cutting rights in British Columbia and Alberta. The Company also assumed certain liabilities including accounts payable and accrued liabilities and asset retirement obligations.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as of the acquisition date. The results of operations of Bell Pole have been included in the consolidated financial statements from the acquisition date. During the year ended December 31, 2007, an adjustment of \$150,000 was made to increase the transaction costs.

5. Business Acquisition (Continued)

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

Assets acquired

Accounts receivable	\$	7,264,996
Inventories		26,370,676
Prepaid expenses		394,643
Capital assets		22,815,988
Other assets		642,054

57,488,357

Liabilities assumed

Bank indebtedness		4,553,221
Accounts payable and accrued liabilities		3,763,180
Asset retirement obligations and other liabilities		2,607,498

10,923,899

\$ 46,564,458

Consideration

Bank debt paid at closing on behalf of Seller	\$	8,126,152
Cash, including transaction costs of \$2,518,556		38,047,162
Reserve amount for transaction costs, included in accounts payable		391,144

\$ 46,564,458

Financing for the transaction was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of \$18.0 million. Following the closing of the acquisition, the subscription receipts were exchanged into common shares of the Company, on a one-for-one basis. The remainder of the purchase price was financed by a \$10.0 million debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, as well as additional debt funding under existing and new bank facilities.

6. Accounts Receivable

	2007	2006
Trade	\$ 25,321,212	\$ 30,057,252
Other	1,089,903	2,056,301
	\$ 26,411,115	\$ 32,113,553

7. Inventories

	2007	2006
Raw materials	\$ 111,982,780	\$ 91,946,806
Finished goods	30,891,148	25,494,309
	\$ 142,873,928	\$ 117,441,115

8. Capital Assets

	2007		
	Cost	Accumulated Amortization	Net
Land	\$ 5,191,960	\$ —	\$ 5,191,960
Roads	1,988,889	569,254	1,419,635
Cutting rights	6,504,744	131,553	6,373,191
Buildings	13,846,952	3,345,652	10,501,300
Production equipment	53,426,662	18,646,386	34,780,276
Rolling stock	2,827,805	1,826,207	1,001,598
Anti-pollution equipment	15,650,586	5,171,445	10,479,141
Office equipment	1,596,745	1,079,460	517,285
	\$ 101,034,343	\$ 30,769,957	\$ 70,264,386

	2006		
	Cost	Accumulated Amortization	Net
Land	\$ 5,506,487	\$ —	\$ 5,506,487
Roads	1,988,889	250,911	1,737,978
Cutting rights	6,504,744	48,127	6,456,617
Buildings	12,239,169	2,692,566	9,546,603
Production equipment	40,580,462	16,202,261	24,378,201
Rolling stock	2,143,896	1,796,172	347,724
Anti-pollution equipment	15,650,586	4,404,042	11,246,544
Office equipment	1,584,645	879,143	705,502
	\$ 86,198,878	\$ 26,273,222	\$ 59,925,656

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

	2007	2006
Cost	\$ 324,548	\$ 84,783
Accumulated amortization	42,431	10,852
Net book value	\$ 282,117	\$ 73,931

9. Other Assets

	2007	2006
Land held for resale	\$ —	\$ 263,500
Notes receivable	360,331	389,128
Accrued benefit asset (Note 14(b))	782,200	435,715
	\$ 1,142,531	\$ 1,088,343

Notes receivable comprise a home relocation mortgage of \$220,000 bearing interest at a variable rate per year prescribed by the Canada Revenue Agency and two supplier loans with balances of \$99,182 and \$41,149.

10. Bank Indebtedness and Long-term Debt

	2007	2006
Long-term debt		
Term loans under Canadian credit facility (Note 10(a))	\$ 4,767,857	\$ 11,666,142
Revolving term loan (Note 10(b))	11,587,500	—
Term loans under U.S. credit facility (Note 10(c))	3,885,896	940,089
Unsecured and non-convertible debenture (Note 10(d))	10,000,000	10,000,000
Unsecured and non-convertible debenture (Note 10(e))	4,333,333	4,666,667
Promissory note (Note 10(f))	743,475	874,050
Promissory note (Note 10(g))	991,672	1,311,759
Subordinated note (Note 10(h))	6,981,288	—
Mortgage loans (Note 10(i))	3,929,667	2,389,525
Obligations under capital leases (Note 10(j))	223,207	44,982
Total long-term debt	47,443,895	31,893,214
Less: current portion	4,408,949	3,797,096
Long-term debt	\$ 43,034,946	\$ 28,096,118

The Company has available three bank credit facilities: two arranged with Canadian banks to fund Canadian operations, and a third arranged with a U.S. bank to fund the operations of the Company's wholly-owned U.S. subsidiary, SJ Corp. The Company must respect certain covenants and ratios relating to the three bank credit facilities.

In addition, Kanaka, in which Bell Pole has a 50% joint venture interest, also has available a facility with a Canadian bank comprised of a \$7,000,000 demand operating loan of which \$5,227,694 has been drawn as at December 31, 2007. The demand operating loan bears interest at the bank's prime rate, bank's U.S. base rate, LIBOR plus 1.13% or bankers' acceptance plus 1.13% at the option of the Company. One half of the indebtedness, up to a maximum of \$5,000,000, has been guaranteed by Bell Pole and the Company. The Company has also provided an Environmental Indemnity Agreement to the bank with respect to the Maple Ridge property, the site of Kanaka's operations, with liability limited to one half of the monies which become due and owing to the bank under such indemnity.

- a) The Company has available a credit facility arranged with a Canadian bank comprised of a maximum demand operating loan of \$50,000,000 (2006 - \$50,000,000) of which \$20,128,036 has been drawn as at December 31, 2007. The credit facility also includes a bid and performance bond guarantee facility of up to a maximum of \$5,000,000, term loan facilities of \$2,300,000, \$2,700,000 and \$1,900,000 to assist in refinancing short and long-term debt, a \$5,027,706 capital lease facility, a demand revolving line of credit in the amount of \$5,963,000 for the purchase of forward exchange contracts with an aggregate nominal value of \$25,100,000, and an interest rate swap facility for up to the full amount outstanding under the term loans of \$6,900,000.

The Canadian demand operating loan of \$50,000,000 bears interest at the bank's prime rate, bank's U.S. base rate or LIBOR plus 1.50% at the option of the Company. As collateral, the bank holds movable hypothecs and general security agreements over the universality of the Company's Canadian assets, creating a first charge over all of the Company's Canadian current assets of \$129,118,074 and a second ranking charge over all of the Canadian capital assets of \$53,327,315, subject to prior loans approved by the Canadian bankers. The bank also holds a first ranking security under Section 427 of the *Bank Act* over the Company's Canadian inventories.

Amounts owing under the \$2,300,000 term loan are repayable in 19 equal consecutive principal repayments of \$82,143 on each three-month anniversary of the date upon which the initial advance was made (December 28, 2005), and a balloon repayment of \$739,286 constituting the 20th and final payment of the residual capital balance of December 28, 2010. The loan bears interest at a fixed rate of 5.81% over the term of the loan.

10. Bank Indebtedness and Long-term Debt (Continued)

Amounts owing under the \$2,700,000 term loan are repayable in 19 equal consecutive principal repayments of \$96,429 on each three-month anniversary of the date upon which the initial advance was made (February 1, 2006), and a balloon repayment of \$867,857 constituting the 20th and final payment of the residual capital balance on February 1, 2011. The loan bears interest at a fixed rate of 5.85% over the term of the loan.

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

- b) The Company has a second Canadian facility comprised of a two year revolving term loan of \$11,587,500 and an amount not exceeding US\$5,000,000 to purchase foreign currency exchange contracts. The Company entered into this credit agreement on February 28, 2007 to refinance previous term loans of \$1,900,000 and \$5,000,000 and assist in the financing of the February 28, 2007 business acquisition (See Note 5(a)).

The credit facility bears interest at the bank's prime rate plus 0.25%, bankers' acceptance rate plus 1.40% or the Canadian government bond rate plus 2.00% at the option of the Company. As collateral, the bank holds movable hypothecs and general security agreements over all of the Company's Canadian capital assets of \$53,327,315 and a second ranking charge over all of the Canadian current assets of \$129,118,074. Amounts owing under the revolving term loan are payable at maturity which can be extended each year for one additional year, upon the Company's request and subject to the bank's approval. Starting January 2008, the credit facility will be increased by the equivalent amount of the capital payments of the term facilities provided by the credit facility in Note 10(a) to a maximum of \$17,500,000.

- c) SJ Corp has available a credit facility arranged with a U.S. bank comprised of a maximum demand operating loan of US\$20,000,000 (2006 – US\$12,000,000) of which the amount drawn is US\$14,387,124 as at December 31, 2007. The credit facility also includes a US\$1,100,000 term loan to fund capital assets and a US\$4,000,000 term loan to assist in the financing of the February 28, 2007 acquisition (see Note 5(a)). The operating line of credit bears interest at the bank's prime rate minus 1.25% or LIBOR plus 1.00% at the option of SJ Corp (previously U.S. prime rate or LIBOR plus 1.75%).

As collateral for the U.S. operating line of credit and the U.S. term loans, the U.S. bank holds a first security interest in all non-real estate assets of SJ Corp pursuant to the uniform commercial code covering all accounts receivable, inventory, equipment, furniture, documents, chattel paper and general intangibles presently owned and hereafter acquired, wherever located. The total net book value of these assets as at December 31, 2007 is US\$62,302,335. There is no recourse to the Canadian parent company in the event of default by SJ Corp. The Canadian parent company has signed an inventory repurchase agreement with the U.S. banker whereby the parent company has agreed to purchase any or all inventory of the U.S. subsidiary, at book value, upon an event of default by SJ Corp, if requested by the U.S. bank.

The US\$1,100,000 term loan was disbursed on September 1, 2005 and is repayable in 59 consecutive monthly instalments of US\$18,333 and one final payment of the remaining capital balance of September 1, 2010. The interest rate on the term loan is fixed under a swap agreement at 7.23% over its term. The US\$4,000,000 term loan was disbursed on February 28, 2007 bears interest at LIBOR plus 2.00% renewed monthly and is repayable in 60 consecutive monthly instalments of US\$66,667.

- d) Unsecured and non-convertible debenture bearing interest at 7.72%, repayable beginning July 1, 2011 in five consecutive annual principal repayments of \$1,000,000 and a last payment of \$5,000,000 on July 1, 2016.
- e) Unsecured and non-convertible debenture bearing interest at 7.0%, repayable after December 31, 2006 in five consecutive annual principal repayments of \$333,333 and a last payment of \$3,000,000 on December 21, 2012.

10. Bank Indebtedness and Long-term Debt (Continued)

- f) SJ Corp borrowed US\$750,000 from the Company's majority shareholder, Stella Jones International S.A., by way of a subordinated promissory note. The note is for a term of six years, bears interest at LIBOR plus 4.5% and is repayable in full on the 6th annual anniversary of the date of disbursement or August 3, 2011. The note is unsecured and subordinated in right of payment to the prior payment in full of the U.S. subsidiary's loans to all of its secured lenders.
- g) As part of a previous acquisition, SJ Corp assumed an unsecured note payable. The imputed interest rate of the note is 8.0% and is payable in quarterly instalments of US\$52,891 including interest through October 2013.
- h) Pursuant to the business acquisition on February 28, 2007 (see Note 5(a)), SJ Corp issued a note payable to J.H. Baxter & Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable, in 5 annual principal repayments of US\$500,000 with a final payment of US\$5,500,000 on the 6th anniversary date. The note was recorded in the consolidated financial statements at a fair value of \$6,981,288 using an interest rate of 8.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- i) The mortgage loans bear interest at a weighted average rate of 7.2% as at December 31, 2007 (2006 – 6.0%) and certain specific capital assets with a net book value of \$6,880,152 (2006 - \$4,556,632) have been pledged as collateral. Mortgage loans include loans denominated in U.S. dollars for an amount of US\$2,970,328 (2006 – US\$595,145). The loans are repayable in monthly instalments of \$136,960 including interest and mature at various dates to June 2012.
- j) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

Years	Obligations under capital leases		Long-term debt		Total
	Minimum Payments	Interest	Principal	Principal	Principal Repayments
	\$	\$	\$	\$	\$
2008	91,832	13,707	78,125	4,494,203	4,572,328
2009	64,095	8,903	55,192	3,899,021	3,954,213
2010	93,274	3,384	89,890	4,280,414	4,370,304
2011	—	—	—	5,142,851	5,142,851
2012	—	—	—	5,114,019	5,114,019
Thereafter	—	—	—	25,239,292	25,239,292
	249,201	25,994	223,207	48,169,800	48,393,007
Fair value adjustment	—	—	—	(949,112)	(949,112)
	249,201	25,994	223,207	47,220,688	47,443,895

- k) The aggregate fair value of the Company's long-term debt was estimated at \$49,500,000 as at December 31, 2007 (2006 - \$32,600,000) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

11. Asset Retirement Obligations

The Company assumed the asset retirement obligations of Bell Pole Company at the date of the acquisition. Asset retirement obligations relating to reforestation and site remediation have been estimated using a credit-adjusted risk-free rate of 6.9% (2006 – 6.1%) to approximate the present value of future expenditures.

11. Asset Retirement Obligations (Continued)

Reforestation:

Reforestation obligations represent discounted cash flow estimates of future silviculture costs relating to areas logged for which the Company has the responsibility of reforestation.

	2007	2006
Reforestation obligations, opening balance	\$ 1,237,564	\$ 1,110,294
Changes to reforestation estimates and accretion expense	711,342	429,894
Expenditures	(788,321)	(302,624)
Reforestation obligations, as at December 31	1,160,585	1,237,564
Current portion	693,366	822,929
	\$ 467,219	\$ 414,635

Future non-discounted reforestation expenditures approximate between \$270,000 and \$735,000 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential changes in regulation as well as the impact of weather-related changes on areas reforested. Accordingly, the actual cost of reforestation may differ from current estimates.

The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be \$488,409 (2006 – \$624,981). Payments, if any, required as a result of this contingency will be expensed in the period in which they are determined and are not included in the provision for reforestation noted above.

Site remediation:

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

	2007	2006
Site remediation obligations, opening balance	\$ 100,000	\$ 1,063,204
Changes to site remediation estimates	—	(275,586)
Expenditures	(42,478)	(687,618)
Site remediation obligations, as at December 31	57,522	100,000
Current portion	57,522	100,000
	\$ —	\$ —

Total asset retirement obligations:

	2007	2006
Reforestation obligations	\$ 1,160,585	\$ 1,237,564
Site remediation obligations	57,522	100,000
	1,218,107	1,337,564
Current portion	750,888	922,929
	\$ 467,219	\$ 414,635

12. Capital Stock

- a) Capital stock includes the following:

Authorized

An unlimited number of preferred shares issuable in series;
An unlimited number of common shares.

- b) Earnings per share

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

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

	2007	2006
Net earnings applicable to common shares	\$ 25,699,508	\$ 20,845,956
Weighted average number of common shares outstanding	12,324,385	11,541,087
Effect of dilutive stock options and warrants	365,650	327,220
Weighted average number of diluted common shares outstanding	12,690,035	11,868,307
Net earnings per common share	\$ 2.09	\$ 1.81
Diluted net earnings per common share	\$ 2.03	\$ 1.76

- c) Stock Option Plan

The Company has a stock option plan for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board or such committee. The stated purpose of the Stock Option 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 Stock Option Plan adopted on June 13, 1994 and amended on May 3, 1995, on March 15, 2001 and on May 3, 2007, the aggregate number of common shares in respect of which options may be granted is 1,200,000, and no optionee is able to hold options to purchase common shares exceeding 5% of the number of common shares outstanding from time to time. One-fifth of the options granted may be exercised within each year following the grant date. The exercise price of an option shall not be lower than the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the granting of the option and the term of the option may not exceed ten years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

12. Capital Stock (Continued)

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

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding – beginning of year	183,355	\$ 13.15	272,225	\$ 4.94
Exercised	37,785	7.37	161,370	2.29
Granted	22,500	39.58	72,500	19.79
Forfeited	6,000	13.00	—	—
Outstanding – end of year	162,070	\$ 18.17	183,355	\$ 13.15
Options exercisable – end of year	76,570	\$ 13.84	83,355	\$ 8.60

The following options were outstanding under the Stock Option Plan as at December 31, 2007:

Options outstanding			Options exercisable		
Year granted	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Expiration date
2001	20,070	\$ 2.15	20,070	\$ 2.15	2011
2005	52,000	13.00	28,000	13.00	2015
2006	67,500	19.78	24,000	19.76	2016
2007	22,500	39.58	4,500	39.58	2017
	162,070		76,570		

d) Stock Option Agreement

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

The Stock Option Agreement provides that the options are exercisable at a price of \$2.99 in whole or in part, commencing on May 6, 2008, or earlier in the event of a loss or change in control of the Company, the closing of a going private transaction, or the occurrence of termination without cause (each one being a "Triggering Event"). The right to exercise these options terminates on May 6, 2013 or, in the case of a Triggering Event, within thirty days of the event.

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

In 2007, the total stock-based compensation expenses relating to the Stock Option Agreement was \$1,483,140 (2006 – \$2,215,000).

12. Capital Stock (Continued)

e) Warrants

Warrants outstanding allowed for the subscription to 190,000 common shares at an exercise price of \$4.10 per share before July 31, 2008. These warrants were exercised on October 18, 2006.

f) Stock-based Compensation

The Company records expenses for the fair value of the stock options granted under the Stock Option Plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to earnings over the vesting period.

In 2007, 22,500 options (2006 – 72,500) were granted, their fair value was \$422,730 (2006 – \$672,610) and the expense amortized to earnings was \$28,182 (2006 – \$64,090). The fair value was estimated with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.2%	4.4%
Dividend yield	0.6%	1.0%
Expected lives (years)	7.8	7.1
Volatility	42.6%	44.7%
Weighted average of fair value of options granted during the year	\$ 18.79	\$ 9.28

In 2007, the total expense relating to Stock-Based Compensation amortized to earnings was \$241,962 (2006 – \$123,808).

g) Employee Share Purchase Plans

The aggregate number of common shares reserved for issuance under the Company's two Employee Share Purchase Plans is 180,000.

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at a price of 90% of the market value. Employees who hold common shares in the Employee Share Purchase Plan for 18 months following the date of acquisition of such shares ("Acquisition Date") receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the Acquisition Date. In 2007, 4,693 shares (2006 – 5,405) were issued to Canadian resident employees at an average price of \$34.00 per share (2006 – \$18.61).

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at a price equal to the market value. Employees who hold common shares in the Employee Share Purchase Plan for 18 months following the date of acquisition of such shares ("Acquisition Date") receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the Acquisition Date. In 2007, 595 shares (2006 – 400) were issued to U.S. resident employees at an average price of \$40.08 per share (2006 – \$22.71).

As at December 31, 2007, the total number of shares issued under these plans is 132,878 (2006 – 127,590).

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

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

12. Capital Stock (Continued)

Stock appreciation rights granted November 12, 2007 will become enforceable on November 12, 2013 and stock appreciation rights granted August 31, 2005 are enforceable at the rate of 20% per year from the date of grant.

The stock appreciation rights may become enforceable earlier in the event of a change in control of the Company, the closing of a going private transaction, or the occurrence of termination without cause (each one being a "Triggering Event").

As at December 31, 2007 the share price used to value the stock appreciation rights is \$41.00 and the change in liability is as follows:

	2007	2006
Balance – beginning of year	\$ 128,657	\$ —
Liability adjustment	336,409	128,657
Balance – end of year	\$ 465,066	\$ 128,657

13. Income Taxes

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

	2007	2006
Canada	\$ 26,399,226	\$ 25,498,419
U.S.A.	12,157,806	5,690,935
	\$ 38,557,032	\$ 31,189,354

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

	2007	2006
Current:		
Canada	\$ 8,679,213	\$ 8,592,213
U.S.A.	4,327,401	1,914,185
Total current expense	13,006,614	10,506,398
Future (recovery):		
Canada	(356,632)	(339,000)
U.S.A.	207,542	176,000
Total future (recovery)	(149,090)	(163,000)
Total	\$ 12,857,524	\$ 10,343,398

13. Income Taxes (Continued)

The effective income tax rate differs from the basic Canadian Federal and Provincial statutory tax rates due to the following:

	2007	2006
Statutory tax rates	34.05%	34.22%
Income tax expense at statutory rates	\$ 13,127,250	\$ 10,672,522
Income tax expense (recovery) resulting from:		
Future tax adjustments due to rate enactments	(679,320)	(361,909)
Manufacturing and processing credit	(110,195)	(179,500)
Effect of U.S. tax rates	418,676	270,888
Other permanent differences	101,113	(58,603)
	\$ 12,857,524	\$ 10,343,398
Effective tax rates	33.35%	33.16%

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

	2007	2006
Future income tax assets due to:		
Accrued liabilities	\$ 619,139	\$ 356,000
Employee future benefits	357,477	425,000
	\$ 976,616	\$ 781,000
Future income tax liabilities due to:		
Capital assets	\$ (5,968,406)	\$ (5,865,036)
Derivative financial instruments	(288,898)	—
Other assets	—	(95,000)
	\$ (6,257,304)	\$ (5,960,036)

14. Employee Future Benefits

- a) The Company offers to certain retired employees a post retirement program consisting of group health and dental care, life insurance and complementary retirement benefits. This plan is not funded.

The Company measures its accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuation of this plan was as of January 1, 2006 and the next required valuation will be as of January 1, 2009. The following information pertains to the Company's plan as established by independent actuaries.

Information about the Company's defined benefit plan is as follows:

	2007	2006
Accrued benefit obligation:		
Balance – beginning of year	\$ 1,748,890	\$ 1,261,690
Current service cost	109,799	86,142
Interest cost on obligation	92,237	66,962
Benefit payments	(27,900)	(27,899)
Actuarial loss	50,978	361,995
	\$ 1,974,004	\$ 1,748,890
Balance – end of year		

14. Employee Future Benefits (Continued)

	2007	2007
Plan assets:		
Fair value, beginning of year	\$ —	\$ —
Contributions - Employer	27,900	27,899
Benefits paid	(27,900)	(27,899)
Fair value, end of year	—	—
Net obligation – end of year	1,974,004	1,748,890
Unamortized net actuarial loss	(661,491)	(621,002)
Unamortized past service costs	(14,484)	(15,711)
Accumulated benefit obligation	\$ 1,298,029	\$ 1,112,177

The significant assumptions used are as follows:

	2007 %	2006 %
Accrued benefit obligation and benefit cost as of December 31, 2007		
Discount rate	5.25	5.00
Rate of compensation increase	4.00	4.00

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007. This rate is assumed to decrease gradually by 0.5% per year, to reach 5%.

An increase or decrease of 1% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
Impact on accrued benefit obligation	\$ 443,755	\$ 341,909
Impact on benefit cost	51,091	38,735

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

	2007	2006
Current year service cost	\$ 109,799	\$ 86,142
Interest cost	92,237	66,962
Actuarial loss	50,978	361,995
Elements of employee future benefits cost before adjustments to recognize the long-term nature of employee future cost	253,014	515,099
Adjustments to recognize the long-term nature of employee future benefits cost:		
Difference between net actuarial gain and actuarial gain for year	(23,490)	(354,900)
Amortization of past service costs	1,227	1,227
Defined benefit cost recognized	\$ 230,751	\$ 161,426

14. Employee Future Benefits (Continued)

- b) Bell Pole, acquired on July, 1, 2006, 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. Pension benefits are based on length of service and final average earnings.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of one of the pension plans for funding purposes was as of December 31, 2004; which is currently being updated as at December 31, 2007. The actuarial valuation date for the two other pension plans is December 31, 2005 which will be updated December 31, 2008.

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

	2007	2006
Accrued benefit obligation:		
Balance, beginning of period	\$ 10,721,500	\$ 10,560,800
Current service cost	437,300	205,000
Interest cost on obligation	530,700	279,650
Benefit payments	(653,250)	(1,171,350)
Actuarial loss	(350,300)	847,400
Balance, end of period	10,685,950	10,721,500
Plan assets:		
Fair value, beginning of period	11,190,650	10,895,050
Actual return on plan assets	(95,350)	1,353,500
Contributions - Employer	491,250	113,450
Benefits paid	(653,250)	(1,171,350)
Fair value, end of period	10,933,300	11,190,650
Funded status-plan surplus	247,350	469,150
Unamortized net actuarial gain (loss)	534,850	(33,435)
Accrued benefit asset, included in other assets	\$ 782,200	\$ 435,715

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:

	2007	2006
Accrued benefit obligation	\$ (3,610,400)	\$ (3,478,800)
Fair value of plan assets	3,188,100	3,189,300
Funded status-plan deficit	\$ (422,300)	\$ (289,500)

14. Employee Future Benefits (Continued)

Percentage of plan assets consist of the following for the period ending December 31:

	2007 %	2006 %
Equity securities	55	57
Debt securities	41	39
Short-term and cash	4	4
	100	100

The significant assumptions used are as follows (weighted-average):

	2007 %	2006 %
Accrued benefit obligation as of December 31:		
Discount rate	5.25	5.00
Rate of compensation increase	4.00	4.00
Benefit costs for the year ended December 31:		
Discount rate	5.00	5.50
Expected long-term rate of return on plan assets	7.50	7.50
Rate of compensation increase	4.00	4.00

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

	2007	2006
Current service cost, net of employee contributions	\$ 427,900	\$ 198,100
Interest cost	530,700	279,650
Actual return on plan assets	95,350	(1,353,500)
Actuarial (gain) loss	(350,300)	847,400
Element of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	703,650	(28,350)
Adjustment to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for year	(928,550)	960,350
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss for year	354,750	(841,652)
Defined benefit costs recognized	\$ 129,850	\$ 90,348

15. Interest in Joint Venture

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

	2007	2006
Assets		
Current assets		
Accounts receivable	\$ 330,802	\$ 221,392
Other receivable	144,967	963,506
Inventories	1,603,531	1,306,446
Prepaid expenses	13,991	19,455
	2,093,291	2,510,799
Capital assets	665,917	531,569
Other assets	71,500	89,415
Total assets	\$ 2,830,708	\$ 3,131,783
Liabilities		
Current liabilities		
Bank indebtedness	\$ 2,715,242	\$ 2,778,556
Accounts payable and accrued liabilities	115,466	353,227
Total liabilities	\$ 2,830,708	\$ 3,131,783
Earnings		
Sales	\$ 3,659,730	\$ 2,338,331
Cost of sales	3,659,730	2,338,331
Earnings	\$ —	\$ —
Cash flows		
Cash flows provided by (used in) operating activities	\$ 231,692	\$ (546,013)
Cash flows (used in) provided by financing activities	(42,452)	685,902
Cash flows used in investing activities	(189,240)	(139,889)
	\$ —	\$ —

16. 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 \$4,588,466 (2006 – \$127,396) under various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the financial statements.

16. Commitments and Contingencies (Continued)

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

2008	\$ 2,364,543
2009	2,101,632
2010	1,725,959
2011	1,186,840
2012	759,097
Thereafter	10,617,395

- 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.

17. Financial Instruments

Financial Instrument Fair Values in the Consolidated Balance Sheet

The carrying amounts of financial instruments falling under the scope of the CICA Handbook section 3855 are presented in the consolidated balance sheet at fair value or amortized cost according to the Company's accounting policies. Short term financial assets and liabilities, which includes accounts receivable, notes receivable, bank indebtedness and accounts payable approximate fair values due to the immediate or short-term maturities of these financial instruments.

The carrying amounts of foreign exchange forward contracts and interest rate swaps is equal to the fair value, which is based on the amount at which they could be settled based on estimated current market rates. They are presented in the consolidated balance sheet under derivative financial instruments as follows:

	2007
Current Assets	
Foreign exchange forward contracts	\$ 658,437
Long-term Assets	
Foreign exchange forward contracts	256,857
Interest rate swaps	16,643
	\$ 273,500

Currency Risks

The Company is exposed to currency risks due to its export of goods manufactured in Canada and because of its trade accounts receivables and payables denominated in U.S. dollars. These risks are partially covered by purchases. The Company also uses foreign exchange forward contracts to hedge contracted cash inflows and outflows of U.S. dollars. Sale prices on export contracts are generally established well in advance of shipment dates and, in order to protect margins from currency fluctuations, the Company sells forward the U.S. dollars to be received. Purchase prices for goods sourced from American suppliers are usually established at the order date and are also subject to currency fluctuations in the period from the date ordered to the date received. To manage this risk, the Company purchases forward the U.S. dollars required to pay these suppliers.

17. Financial Instruments (Continued)

The following table reflects the financial assets and liabilities denominated in U.S. dollars:

	2007 US\$	2006 US\$
Assets		
Accounts receivable	10,491,927	10,070,466
Liabilities		
Bank indebtedness	15,405,175	10,264,065
Accounts payable and accrued liabilities	6,687,844	4,730,800

The following table summarizes the Company's foreign currency commitments as at December 31:

Foreign currency contracts	2007				
	Notional Amount	Average Exchange Rate	Maturity Date	Notional Equivalent	Fair Value
	\$			\$CDN	\$CDN
Sell \$US to \$CDN	4,000,000	1.1593	Dec. 2008	4,637,075	658,437
Sell \$US to \$CDN	1,800,000	1.1497	Dec. 2009	2,069,500	256,857
	5,800,000	1.1563		6,706,575	915,294
2006					
Foreign currency contracts	Notional Amount	Average Exchange Rate	Maturity Date	Notional Equivalent	Fair Value
	\$			\$CDN	\$CDN
Sell \$US to \$CDN	2,000,000	1.6113	Dec. 2007	3,222,600	881,660

Interest Rate Risks

As at December 31, 2007, the Company had limited exposure to interest rate risk on long-term debt as only 2% (2006 – 3%) of the Company's long-term debt is at variable rates.

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

17. Financial Instruments (Continued)

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

	2007			
	Notional Amount	Fixed Rate	Maturing Date	Notional Equivalent
	\$	%		\$CDN
Interest rate swap - CDN	2,300,000	5.81	Dec. 2010	2,300,000
Interest rate swap - CDN	2,700,000	5.85	Feb. 2011	2,700,000
Interest rate swap - US	1,100,000	7.23	Sept. 2010	1,090,430

	2006			
	Notional Amount	Fixed Rate	Maturing Date	Notional Equivalent
	\$	%		\$CDN
Interest rate swap - CDN	2,300,000	5.81	Dec. 2010	2,300,000
Interest rate swap - CDN	2,700,000	5.85	Feb. 2011	2,700,000
Interest rate swap - US	1,100,000	7.23	Sept. 2010	1,281,940

The fair value of the interest rate swap agreements based on cash settlement requirements as of December 31, 2007 is a gain of \$16,643 (2006 – loss of \$32,727).

Credit Risks

The geographic distribution of customers and procedures regarding commercial risk management limit the concentration of credit risks.

Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing primarily with utility and telecommunication companies and other major corporations.

18. Related Party Transactions

The Company had the following transactions with related parties:

	2007		2006	
Parent company				
Marketing and technical service fees paid	\$	200,000	\$	200,000
Interest on promissory note		75,714		86,774
Ultimate shareholders				
Marketing and technical service fees paid		100,000		100,000

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

As at December 31, the balance sheets include the following amounts with related parties:

	2007		2006	
Accounts payable to parent company	\$	77,070	\$	86,675
Accounts payable to ultimate shareholders		25,000		25,000

19. Segment Information

The Company operates within one dominant business segment, the production and sale of pressure treated wood. Operating plants are located in Nova Scotia, Quebec, Ontario, Alberta, British Columbia, and the states of Wisconsin and Washington (USA). The Company also operates a distribution centre in the province of Newfoundland.

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

	2007	2006
Geographic sales information:		
Canada	\$ 163,122,298	\$ 152,988,724
U.S.A.	106,591,832	70,864,302
	\$ 269,714,130	\$ 223,853,026

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

	2007	2006
Canada	\$ 53,327,315	\$ 54,970,181
U.S.A.	16,937,071	4,955,475
Total	\$ 70,264,386	\$ 59,925,656

In 2007, the Company had one customer representing 15% of its sales (2006 – 21% of sales). As at December 31, 2007, the account receivable balance from this customer was \$3,637,533 (2006 – \$4,065,166).

20. Subsequent Event

On January 7, 2008, the Company announced that it had entered into a letter of intent to acquire The Burke-Parsons-Bowlby Corporation ("BPB"). The acquisition is expected to be structured as a merger between a U.S.-based wholly-owned subsidiary of the Company, and BPB. The letter of intent contemplates a purchase price of US\$33 million for the shares of BPB, to be paid through the conversion of each outstanding share of common stock of BPB into a right to receive approximately US\$47.78 per share in cash, subject to adjustment in certain circumstances.

The acquisition is subject to customary conditions, including entry into a definitive merger agreement, approval of BPB shareholders and the completion of satisfactory due diligence. The definitive merger agreement was entered into by the Company and BPB on March 11, 2008. It is anticipated that the proposed transaction, if finalized, would close April 1, 2008, with the right of the Company to extend the closing date by two 30-day increments. It is expected that financing for the transaction will be secured through existing and additional debt facilities.

21. Comparative Figures

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

Directors & Officers

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

A full report of Stella-Jones' corporate
governance practices is set out in the
Proxy Circular for the May 7, 2008
Annual and Special Meeting of
Shareholders.

OFFICERS

Tom A. Bruce Jones, CBE
Chairman of the Board

Gianni Chiarva
Vice-Chairman of the Board

Brian McManus
President and
Chief Executive Officer

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

Marla Eichenbaum
Vice-President,
General Counsel and Secretary

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

Martin Poirier
Vice-President and
General Manager,
Central Region

Rémi Godin, CGA
Vice-President and
Corporate Comptroller

SUBSIDIARIES

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

Robert Tilley
General Manager,
I.P.B. – W.P.I. International Inc.
dba Newfoundland Hardwoods

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

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

Glen Ritchie
Vice-President, Fibre,
Bell Pole Canada Inc.

TRANSFER AGENT AND REGISTRAR
Computershare Investor Services Inc.

AUDITORS
BDO Dunwoody LLP

LEGAL COUNSEL
Fasken Martineau DuMoulin LLP

Corporate Information

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

May 7, 2008
10:00 a.m.
Centre VIP Le 1000 De La
Gauchetière,
1000 De La Gauchetière Street West
Montréal, Québec

STOCK INFORMATION

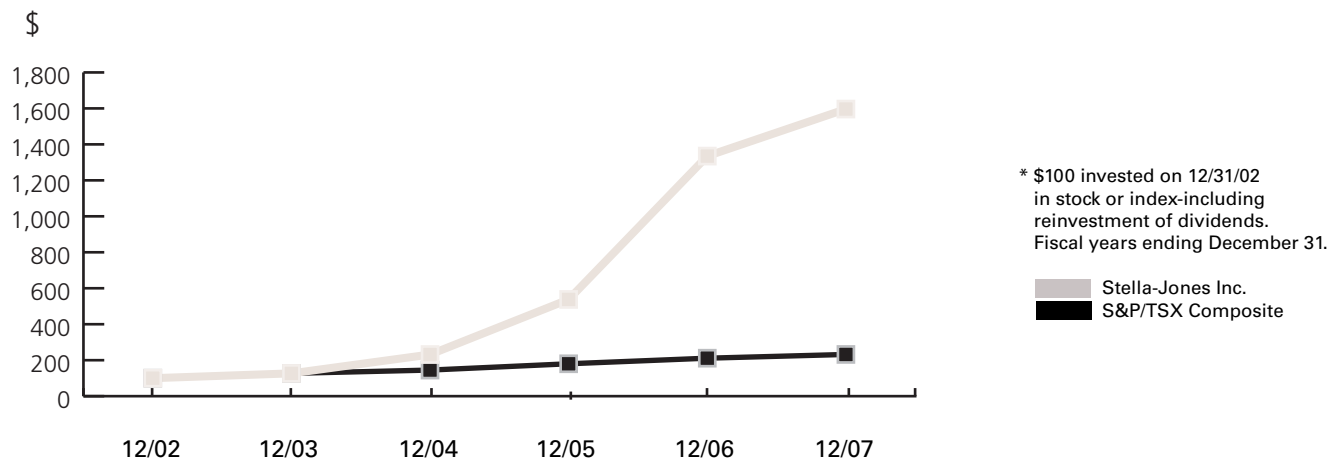
Shares listed: Toronto Stock
Exchange
Ticker symbol: SJ
Initial public offering: 1994
Majority shareholder:
Stella Jones International S.A. (61.4%)
52-week high/low
(Jan. 1 – Dec. 31, 2007):
\$48.99/\$30.85
Share price at March 12, 2008:
\$35.50
Common shares outstanding as at
December 31, 2007: 12.34 million

DIVIDEND POLICY

The Board of Directors considers a dividend on a semi-annual basis, conditional upon the Company's financial performance and cash requirements. On March 12, 2008, in light of the Company's strong financial performance in fiscal 2007 and confidence in the prospects for 2008, the Board of Directors resolved to increase the next semi-annual dividend to \$0.16 per common share.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*

Between Stella-Jones Inc. and the S&P/TSX Composite Index



Cumulative Total Return

	2003	2004	2005	2006	2007
Close	\$3.65	\$6.10	\$14.00	\$34.50	\$41.00
Price / earnings	9.1	8.5	12.7	19.1	19.6
Price / book value	0.86	1.27	2.35	4.01	3.96

Operating Locations

Head Office

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

British Columbia

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

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Prince George
British Columbia
V2N 5S4
Tel.: (250) 561-1161
Fax: (250) 561-0903
E-mail: p.george@stella-jones.com

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

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

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

Alberta

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

Ontario

Plant and Sales Office
Guelph Utility Pole Company Ltd.
7818 Wellington Road 22
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Guelph, Ontario
N1H 6J2
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Fax: (519) 822-5411
E-mail: info@guelphpole.com

Distribution Yard
555 Station Street
Belleville, Ontario
K8N 5A2
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E-mail: info@guelphpole.com

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Tel.: (450) 632-2011
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Plant
2210 chemin St-Roch
Sorel-Tracy, Québec
J3R 3L2
Tel.: (450) 742-5977
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E-mail: jgaudreau@stella-jones.com

Newfoundland

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

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B2N 5C1
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