



# STRONGER TOGETHER

2013 ANNUAL REPORT





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- 2013 marked the thirteenth consecutive year of growth in net income for Stella-Jones.
- Operating efficiency improved still further as the Company integrated into its North American network the facilities of McFarland, acquired in late 2012.
- Investments totalling \$28.4 million were allocated to plant and equipment upgrades, including nearly \$7.9 million to complete Stella-Jones' new wood treating plant in the state of Georgia.
- Key client relationships were enriched as the Company's range of offerings, as well as its distribution capabilities, increasingly improved.
- The acquisition of The Pacific Wood Preserving Companies® facilities in Oregon, Nevada and Arizona will allow Stella-Jones to expand its network and capacity, further enhancing the Company's penetration of its traditional markets.

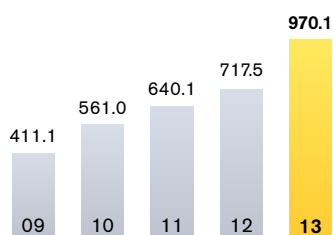
# FINANCIAL PERFORMANCE – 5 YEARS

FOR THE YEARS ENDED DECEMBER 31  
(millions of dollars, except per share data and ratios)

	2013 IFRS \$	2012 IFRS \$	2011 IFRS \$	2010 IFRS \$	2009 GAAP \$
<b>OPERATING RESULTS</b>					
Sales	970.1	717.5	640.1	561.0	411.1
Operating income <sup>1</sup>	138.7	109.6	88.0	60.7	50.3
Net income	92.5	73.1	55.7	34.4	30.1
<b>FINANCIAL POSITION</b>					
Working capital	517.0	444.8	273.2	189.5	170.1
Total assets	1,071.9	955.9	617.1	517.3	370.8
Total debt <sup>2</sup>	372.9	363.6	182.7	157.8	143.2
Shareholders' equity	572.2	468.8	331.9	280.1	180.0
<b>PER SHARE DATA</b>					
Basic earnings per common share	1.35	1.14	0.87	0.57	0.59
Diluted earnings per common share	1.34	1.13	0.87	0.57	0.59
Book value	8.33	6.83	5.20	4.40	3.54
Dividend per share	0.20	0.16	0.13	0.10	0.09
Average number of shares outstanding (000's)	68,681	64,313	63,782	60,652	50,552
Average number of diluted shares outstanding (000's)	69,053	64,597	64,027	60,816	50,816
Shares outstanding at year end (000's)	68,697	68,674	63,821	63,691	50,737
<b>FINANCIAL RATIOS</b>					
Operating margin	14.3%	15.3%	13.7%	10.8%	12.2%
Return on average equity	17.8%	18.3%	18.2%	15.0%	17.6%
Total debt <sup>2</sup> to total capitalization	0.39:1	0.44:1	0.35:1	0.36:1	0.44:1
Total debt <sup>2</sup> to trailing 12-month EBITDA <sup>1</sup>	2.41	3.02	1.89	2.22	2.43
Working capital	8.97	5.94	5.77	3.38	3.01

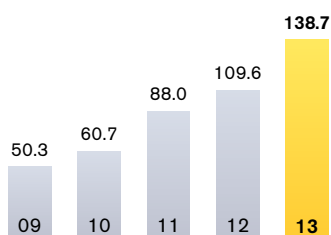
## SALES

(in millions of \$)



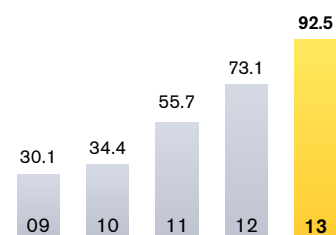
## OPERATING INCOME<sup>1</sup>

(in millions of \$)



## NET INCOME

(in millions of \$)



<sup>1</sup> Operating income before depreciation of property, plant and equipment and amortization of intangible assets ("EBITDA") and operating income are financial measures not prescribed by International Financial Reporting Standards ("IFRS") and 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 charge or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in our IFRS financial statements, as there are no adjustments for unusual or non-recurring items.

<sup>2</sup> Including short-term bank indebtedness.

# STRONGER TOGETHER

This timeline illustrates the history of Stella-Jones' acquisition strategy. Step by methodical step, in line with the logic of geography, the Company has extended its production and distribution network. Stella-Jones has integrated the wide-ranging facilities and personnel of leading producers in the wood treating industry into one, strong, seamless and reliable network. As a continuously growing and trusted supplier of pressure treated wood, Stella-Jones has consistently generated increased top-line revenues, higher net income, and enhancement of shareholder value.

## GUELPH UTILITY POLE COMPANY

Canada

2000

## LES INDUSTRIES LÉGARÉ

*(Certain wood treating assets)*

Canada

2004

## BELL POLE COMPANY

Canada

2006

2003

## CAMBIUM GROUP

Canada

2005

## WEBSTER WOOD PRESERVING

U.S.

2007

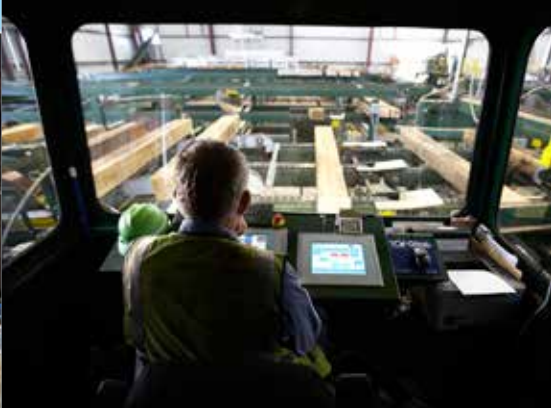
## J.H. BAXTER

*(Wood utility pole business division)*

U.S.

**Stella-JoneS**  
inc.  <sup>®</sup>





**THE BURKE-PARSONS-BOWLBY CORPORATION**

U.S.

**2008**

**THOMPSON INDUSTRIES**

U.S.

**2011**

**THE PACIFIC WOOD PRESERVING COMPANIES®**

*(Three wood treating facilities)*

U.S.

**2013**

**2010**

**TANGENT RAIL CORPORATION**

U.S.

**2012**

**PLS POLE YARD**

*(Certain assets)*

U.S.

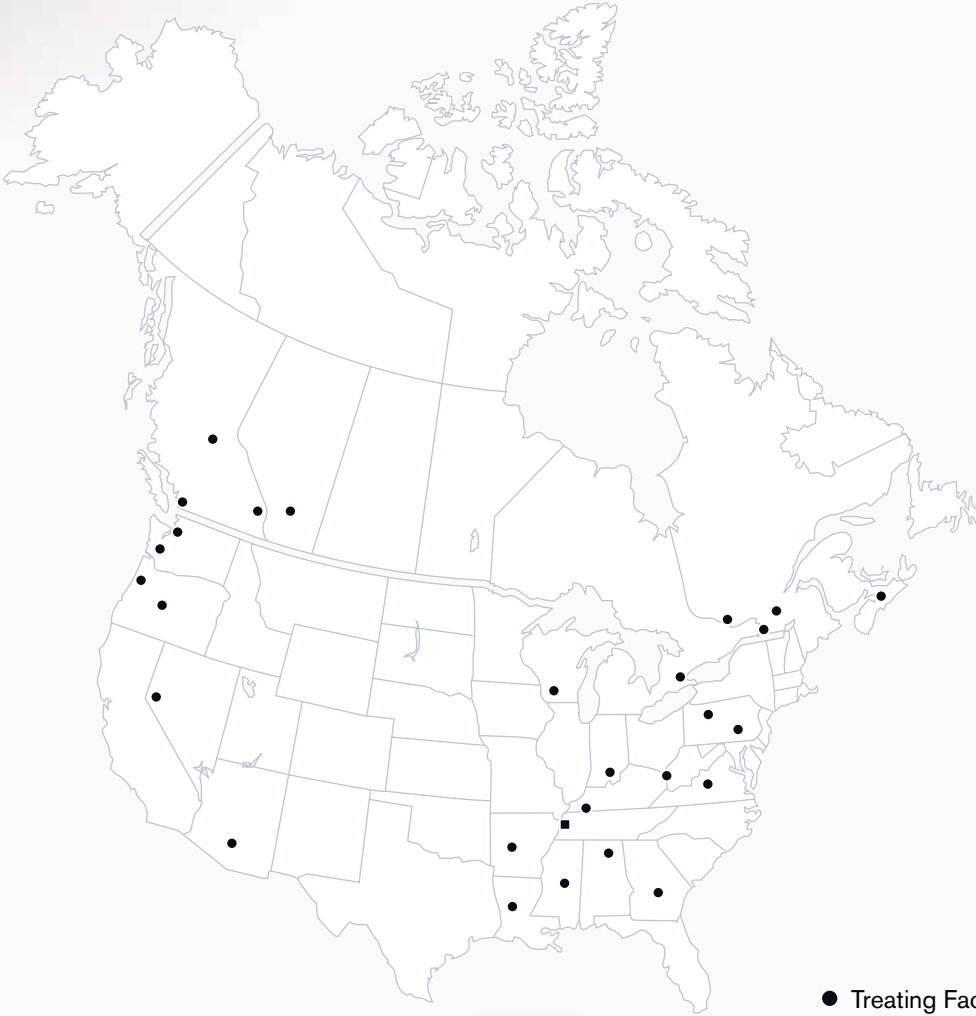
+

**MCFARLAND CASCADE HOLDINGS**

U.S.



# STELLA-JONES' NETWORK



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

**21.6%**  
SALES IN CANADA

**78.4%**  
SALES IN THE U.S.

- Treating Facilities
- Coal Tar Distillery



# CHAIRMAN'S REPORT

The theme of our Annual Report this year is **"Stronger Together"**, and this really encapsulates the essence of the Stella-Jones group and its strength. Stella-Jones Inc. was "born" in June 1993 and became a publicly listed company the following year on June 29, 1994. During these twenty years, the Company has grown from a purely Canadian business with 4 wood treatment plants, one in each of Quebec and Nova Scotia and two in British Columbia, to a Pan-American company with 27 plants and operations, in five Canadian provinces and seventeen U.S. states. This growth has been achieved by judicious acquisitions across the continent and rapid integration of the new companies into Stella-Jones Inc. It has all, of course, only been possible thanks to both our experienced management team and the many high quality individuals who have joined the Stella-Jones family over the course of the past few years through our numerous acquisitions across Canada and the United States.

In 2013, we expanded further with the acquisition of three treatment plants and one wood concentration yard previously owned by The Pacific Wood Preserving Companies® ("PWP"). Apart from the additional capacity gained, these plants complement well the west coast operations of Stella-Jones Inc. in Canada and the McFarland operations in the United States, which we acquired in November 2012.

The many sites and wide geographical spread of our business now gives us a strong market presence across North America which has enabled us to build long-term relationships with our major customers in our main market sectors of railway ties and utility poles. These customers know that we have the resources and multi-plant operations to meet both their regular, as well as exceptional, requirements. We have also demonstrated to them that, in addition to acquisitions, we are able and prepared to build new greenfield facilities, such as our new plant at Cordele, Georgia which we commissioned in the summer of 2013.

In 2013, Stella-Jones had another record year with sales of \$970.1 million compared to \$717.5 million in 2012, and net income of \$92.5 million versus \$73.1 million the previous year. 2013 results included a full year of contribution from McFarland and one and a half months for the former PWP plants. The prospects for 2014 look very encouraging and we expect to continue to grow on our strong base.

As shareholders are aware, we carried out a 4-for-1 share split in October 2013 by way of a share dividend in order to encourage wider share ownership in the retail market. The result has been positive.

On behalf of the Board, I thank our employees for another excellent year and our customers and shareholders for their support.



Tom A. Bruce Jones, CBE  
Chairman





## PRESIDENT'S MESSAGE

In 2013, Stella-Jones once again benefited significantly from its proven expansion strategy. The improved efficiency of our operations and increased confidence of our customers all resulted from the ongoing growth of our continental network. By virtue of the acquisitions and key strategic decisions we have made over the years, Stella-Jones has not only become larger, it has become stronger and more profitable.

The reach, expertise and dependability of our production network has grown to be second-to-none in North America. In our core markets, we offer a range of products, distribution capabilities and the resources to meet the ongoing as well as unforeseen demands of our clients.

These advantages helped the Company achieve another record year of revenues and net income in 2013. As demand remained strong for our treated wood railway ties, utility poles and ancillary products, sales increased to \$970.1 million. Net income totalled \$92.5 million, representing an increase of 26.6% over the previous year.

### STRONGER TOGETHER

Stella-Jones' solid financial results point to a feature of our Company's evolution that cannot be over-emphasized. On page 2 and 3 of this annual report, a timeline highlights the numerous acquisitions we have made over the past fourteen years. These additions to our operations were all strictly strategic. We sought only those companies whose assets, systems and personnel would enhance our core operations and widen our core markets.

For each acquisition, we first identified potential efficiencies to be leveraged. Similarly, following each purchase transaction, our experience in integrating assets and best practices allowed us to unlock further synergies. Also essential, our criteria for expansion stipulated that the effect of any acquisition had to be immediately accretive to earnings.

The map on page 4, showing the locations of our facilities across North America, signifies a critical aspect of the Company's achievement. No map, however, can depict the most remarkable quality of Stella-Jones' development, namely, the contribution of the many hundreds of highly motivated individuals who are responsible for the day-to-day execution of our business. The success of Stella-Jones is rooted in the professionalism of our people, and the diverse market experience they have consolidated within our Company.





Over the years, we have learned from every company we have acquired. The strategy progressively sharpened our skills and made Stella-Jones what it is today, something more than the sum of its parts – an integrated family of facilities; a seamless network of production and distribution; an entrenched and leading player in our industry.

#### RAILWAY TIES

In the railway tie category, Stella-Jones continued to generate strong sales as North American railways invested in their physical infrastructures. Our clients in the railway industry include leading Class 1 as well as numerous Short Line operators. These long established mainstays of freight shipment and passenger transportation are continuously involved in upgrading existing track or building new lines.

Stella-Jones' revenues in 2013 from railway tie sales amounted to \$394.0 million, down slightly from the previous year. It is important to note that the transition to a Black Tie program for a principal customer in the railway industry moderated our 2013 revenues in this category. Such program manages all of a client's needs in reference to railway ties, from sourcing to treating to warehousing, and denotes the level of confidence we have established in the industry, by way of both the quality of our service and the critical mass we have achieved with our network.

#### UTILITY POLES

In 2013, we continued to see steady demand for utility poles. These products constitute a fundamental component of electrical transmission and distribution infrastructure throughout the continent. In the United States, we saw improved penetration in this category as a result of a strong performance by the McFarland operations. Revenue from utility pole sales came to \$405.8 million, up \$187.3 million from the corresponding period in 2012. If we exclude the contribution by acquired operations, utility pole sales decreased slightly.

#### RESIDENTIAL LUMBER AND INDUSTRIAL PRODUCTS

In the residential lumber category, sales totalled \$112.3 million. The growth in this category represents an increase of \$76.8 million from a year earlier, and results from two factors. First, residential lumber sales of \$73.8 million from the McFarland operations; and secondly, the spike in demand for residential lumber in southern Alberta after the flooding of 2013.

In the industrial products category, demand for our marine and industrial treated wood remained stable. Sales of \$58.1 million represented a slight decrease from the previous year, mainly reflecting a planned phase-out of non-core products.

#### OUTLOOK

Looking ahead, we anticipate demand remaining healthy for our core products. In the utility pole market, we expect a stable business flow from regular maintenance projects and possibly an additional uptick in demand as a replacement cycle of aging poles begins.

As the North American economy continues to improve, we believe the railway industry will maintain or increase its investments in track upgrades and new lines. The adoption of our Black Tie program by a Class 1 railway in the U.S., as mentioned earlier, carries substantial potential for Stella-Jones' railway tie business. The transition signals the critical mass our Company has achieved and may well act as a model for other clients.

Integration of the assets of The Pacific Wood Preserving Companies® will be a key focus in the year ahead. The operating efficiencies we expect to achieve should, once again, strengthen our market penetration. As well, the success of this latest expansion will take us another step toward our objective of being North America's leading provider of treated wood products in our core categories.

As our Company enters what we believe will be a new stage of growth, I wish to thank the Board of Directors of Stella-Jones for their counsel, and our shareholders for their support. Most particularly, I want to acknowledge the contribution of our employees, whose skills and dedication represent the daily currency of Stella-Jones' success.



Brian McManus  
President and Chief Executive Officer



*More than 24 million cross-ties were sold during 2013 in North America, the highest total of this past quarter century, and the market for the product is expected to mirror investment in infrastructure.*



# RAILWAY TIES

Through organic growth and acquisitions, Stella-Jones has consistently increased its continental presence in the market for pressure treated wood crossties. Sales of ties in 2013 reached \$394.0 million, accounting for 40.6% of the Company's total sales.

## CONTINENT OF RAILWAYS

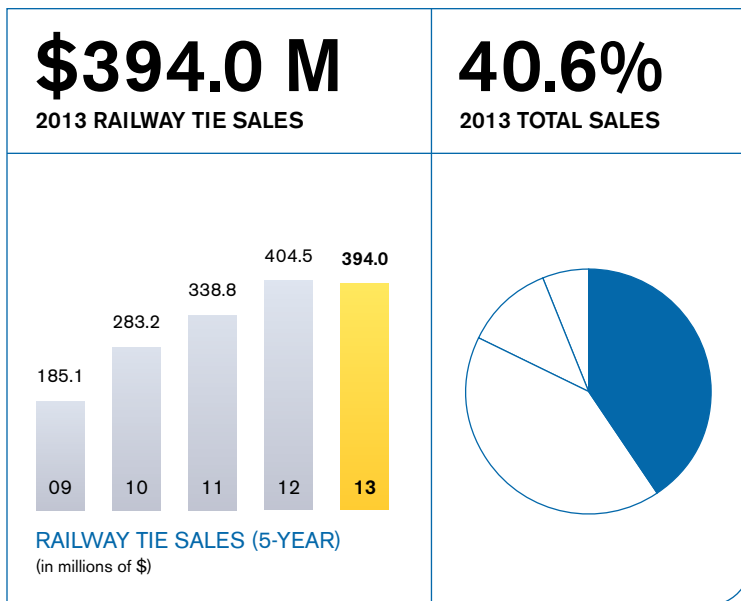
For nearly two centuries, the railways of North America have played an indispensable role in the continent's economic life. The convenience, energy efficiency and environmental benefits of rail ensure that it will long remain a vital artery of the freight and passenger transportation system.

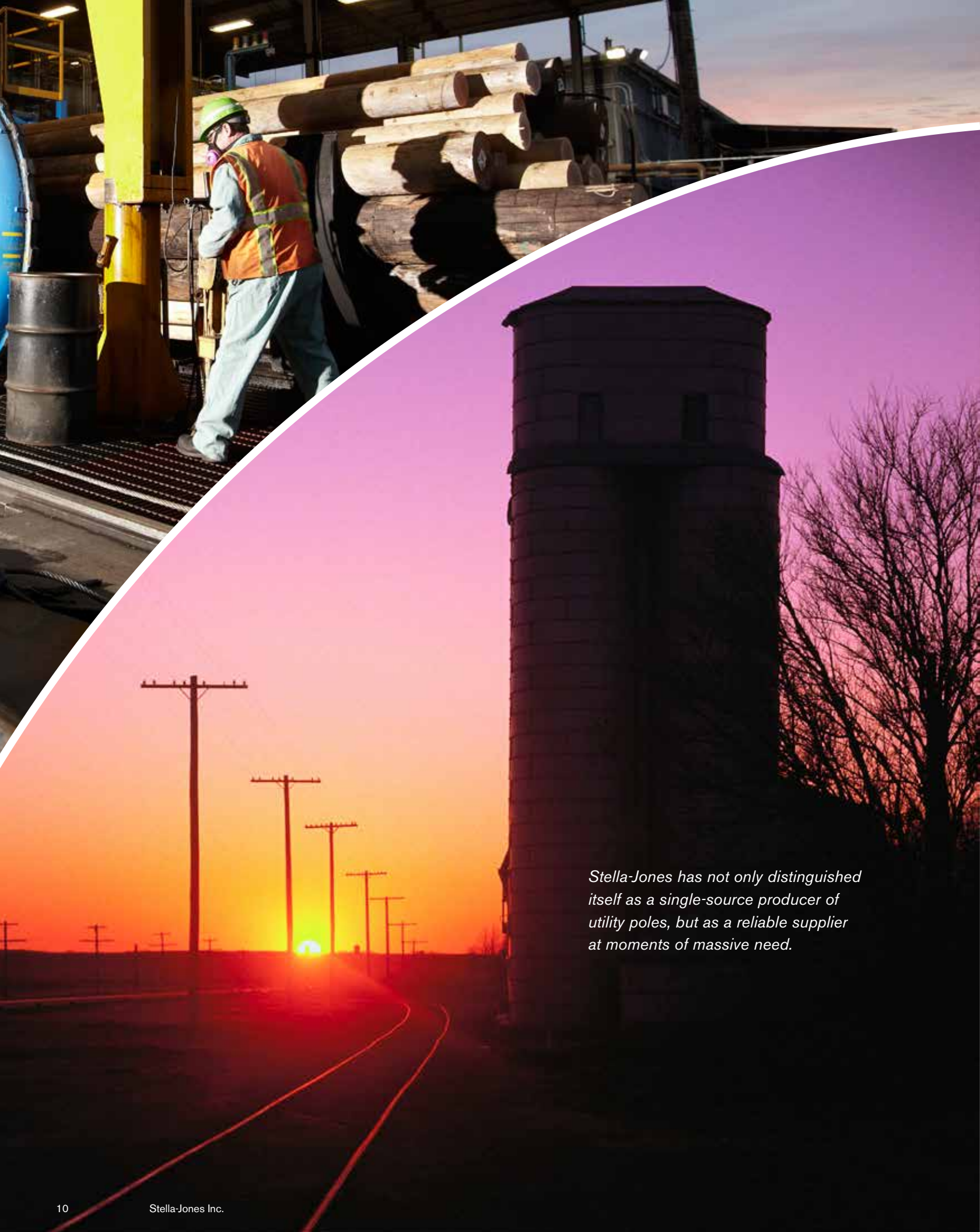
## ESSENTIAL PRODUCT

A basic component of railway infrastructure is the pressure treated wood crosstie. To maintain and further expand the continental network, railway operators must regularly replace aging ties and install ties on new track. More than 24 million crossties were sold during 2013 in North America, the highest total of this past quarter century, and the market for the product is expected to mirror investment in infrastructure.

## A PRINCIPAL PRODUCER ACROSS NORTH AMERICA

By virtue of the Company's longstanding reputation as a trusted supplier and the continent-wide footprint of its production network, Stella-Jones has grown to be a principal producer of railway crossties in North America. The strong relationships Stella-Jones has built with Class 1 and Short Line railway operators testify to the Company's product quality and distribution capability.





*Stella-Jones has not only distinguished itself as a single-source producer of utility poles, but as a reliable supplier at moments of massive need.*

# UTILITY POLES

The wood utility pole forms a basic part of North America's industrial infrastructure. The reputation of Stella-Jones in regard to pole production is unsurpassed. Revenue from this product in 2013 amounted to \$405.8 million, or 41.8% of total Company revenue.

## FUNDAMENTAL COMPONENT

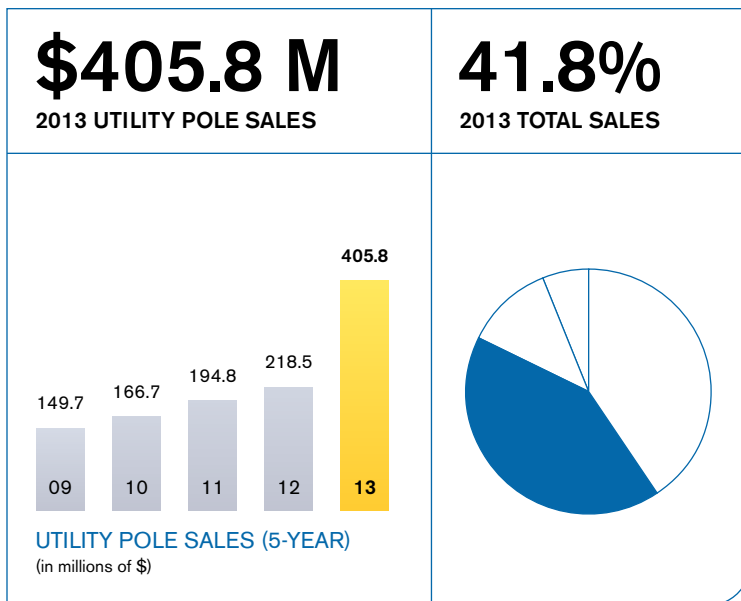
Wood utility poles provide vital support for electrical transmission and distribution networks. The market for this product should remain healthy, as aging poles require replacement and new lines require additional poles.

## RANGE OF PRODUCT

Utility poles come from diverse species of wood, are manufactured in an array of dimensions, and must be treated to withstand different types of environments. Using the highest quality timber in all required species, the factories of Stella-Jones produce poles sized between 25-feet and 140-feet, while the Company's state-of-the-art technology provides the full spectrum of preservative treatments.

## CONTINUITY OF SUPPLY

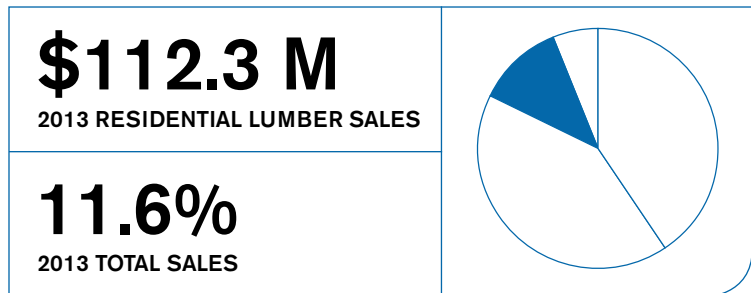
Stella-Jones has not only distinguished itself as a single-source producer of utility poles, but as a reliable supplier at moments of massive need. Due to the capacity, dispersion and flexibility of its plant network, Stella-Jones has provided swift assistance after natural disasters, thereby cementing key customer relationships – and confirming the Company's role as a leading player in the utility pole industry.





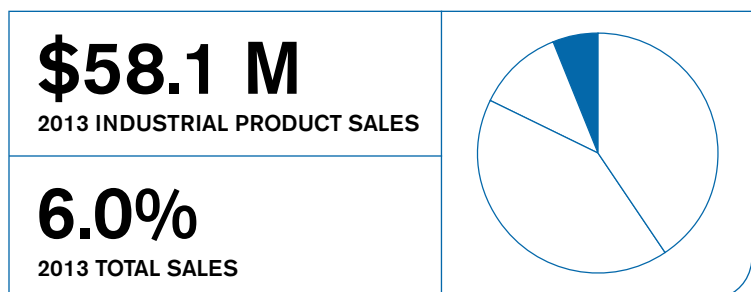
## RESIDENTIAL LUMBER

Sales in the residential lumber category totalled \$112.3 million in 2013. This represented 11.6% of Stella-Jones' total revenue, and a three-fold increase over the previous year. Stella-Jones has long exercised its core competence in the treatment of wood to supply the Canadian retail market with residential lumber. As a result of the acquisition of the McFarland operations in November 2012, the Company has become an important supplier of residential lumber in the northwestern United States. The specially treated wood produced by Stella-Jones is used for outdoor applications such as decks and fences.



## INDUSTRIAL PRODUCTS

Sales in the industrial products category amounted to \$58.1 million in 2013, accounting for 6.0% of Stella-Jones' overall revenue. In cases where wood is required in the marine and industrial construction sectors, Stella-Jones applies its wood treating expertise to produce specially preserved bridge and construction timbers to withstand demanding environmental conditions. Additionally, the Company distills coal tar to produce creosote, a preservative required for its wood treating operations. The distillation process generates derivative products such as road tar and roof pitch, enabling Stella-Jones to earn ancillary revenues through their sale.





MANAGEMENT'S DISCUSSION  
AND ANALYSIS

CONSOLIDATED FINANCIAL  
STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

# MANAGEMENT'S DISCUSSION & ANALYSIS

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

This MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 13, 2014. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2013 compared with the fiscal year ended December 31, 2012. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2013 and 2012 and the notes thereto.

The MD&A contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency rates and other factors referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

## OUR BUSINESS

Stella-Jones Inc. is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones also provides residential lumber and customized services to retailers and wholesalers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at December 31, 2013, the Company operates twenty-seven wood treating plants, ten pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and seventeen American states and are complemented by an extensive distribution network across North America. As at December 31, 2013, Stella-Jones' workforce numbered approximately 1,450 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, a long-standing stable source of wood supply, and a registration to produce and sell the wood preservative, creosote.

## OUR MISSION

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

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



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

### NON-IFRS FINANCIAL MEASURES

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

#### Reconciliation of EBITDA

##### and operating income to net income

	Three-month periods ended		Fiscal years ended	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
(thousands of dollars)				
Net income for the period	<b>19,690</b>	16,546	<b>92,536</b>	73,070
Plus:				
Provision for income taxes	<b>6,895</b>	2,197	<b>35,271</b>	28,207
Financial expenses	<b>2,934</b>	2,384	<b>10,892</b>	8,319
Operating income	<b>29,519</b>	21,127	<b>138,699</b>	109,596
Depreciation and amortization	<b>4,194</b>	3,044	<b>16,322</b>	10,705
EBITDA	<b>33,713</b>	24,171	<b>155,021</b>	120,301

### MAJOR ACHIEVEMENTS OF 2013

Stella-Jones recorded a solid performance in the year ended December 31, 2013. The Company proceeded with further network expansion through a strategic acquisition and the completion of the construction of a new wood treating facility in Georgia. On the operating front, Stella-Jones recorded record sales and net income, while concluding the year in a healthy financial position. Going forward, Stella-Jones will focus on executing its operating strategy based on continental expansion in its core railway tie and utility pole markets.

On October 1, 2013, Stella-Jones announced that its Board of Directors approved a 4-for-1 share split of its outstanding common shares. The 4-for-1 share split took the form of a share dividend whereby shareholders received three additional common shares for each common share held. The record date for the share dividend was October 21, 2013 and the payment date was October 25, 2013. In this MD&A, all references to common shares issued and outstanding, stock options outstanding, as well as per share data, reflect the 4-for-1 share split.

#### Network expansion

On November 15, 2013, Stella-Jones completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the businesses of Arizona Pacific Wood Preserving, Inc., Nevada Wood Preserving, Inc. and Pacific Wood Preserving of Oregon, Inc. (commonly referred to as The Pacific Wood Preserving Companies® ["PWP"]) conducted at their wood treating plants in Oregon, Nevada and Arizona and their wood concentration yard in Texas. These businesses consist of the manufacture of treated wood utility poles and railway ties, along with a variety of lumber-related products. Sales for PWP's fiscal year ended October 31, 2013 reached approximately US\$60.3 million.

The purchase price was approximately US\$33.0 million, plus the sellers' net working capital at closing, estimated at approximately US\$23.1 million, subject to post-closing adjustments. Stella-Jones financed the acquisition through a combination of its existing committed revolving credit facility and a vendor note of US\$7.0 million.

During 2013, Stella-Jones completed the construction of a new wood treating facility in Cordele, Georgia, approximately 225 kilometers south of Atlanta. The project represented a total investment of approximately US\$12.2 million, of which US\$7.7 million was spent in 2013. This facility is primarily devoted to the production of railway ties. Initial wood trimming activities began in February 2013, while treating activities started in August 2013.

### Operating results

Sales for the year ended December 31, 2013 reached \$970.1 million, up 35.2% from last year's sales of \$717.5 million. The operating facilities acquired from McFarland Cascade Holdings, Inc. ("McFarland") on November 30, 2012 contributed additional sales of \$275.4 million over an eleven-month period, net of production transferred from other Stella-Jones facilities, while the assets acquired from PWP on November 15, 2013 generated sales of approximately \$4.1 million in the fourth quarter of 2013. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$12.9 million when compared with the previous year. Excluding these factors, sales decreased approximately \$39.8 million due to a timing effect of \$30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a treating services only ("TSO") program to a black tie ("Black Tie") program, as detailed hereafter in the railway tie sales section and to the year-over-year timing difference for certain utility pole orders.

Stella-Jones' annual operating income reached \$138.7 million, or 14.3% of sales, in 2013. This represents a 26.6% increase over \$109.6 million, or 15.3% of sales, in the prior year. As a result, net income for the year grew 26.6% to \$92.5 million, or \$1.34 per share, fully diluted, compared with \$73.1 million, or \$1.13 per share, fully diluted, a year ago. The Company generated a solid 17.8% return on average equity in 2013.

Stella-Jones produced strong cash flows in 2013 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to \$160.6 million, up 33.0% from \$120.8 million in 2012. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the ninth consecutive year. Although the PWP acquisition was mostly financed through the Company's existing committed revolving credit facility, and completed shortly before year end, Stella-Jones' total debt to total capitalization ratio improved to 0.39:1 as at December 31, 2013, versus 0.44:1 twelve months earlier.

### SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

<b>Income</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
(thousands of dollars, except per share data)	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	<b>970,149</b>	717,494	640,148
Operating income	<b>138,699</b>	109,596	87,968
Net income	<b>92,536</b>	73,070	55,709
Basic earnings per common share	<b>1.35</b>	1.14	0.87
Diluted earnings per common share	<b>1.34</b>	1.13	0.87

<b>Financial Position</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
(thousands of dollars)	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	<b>581,896</b>	534,863	330,519
Total assets	<b>1,071,923</b>	955,863	617,056
Long-term debt*	<b>372,891</b>	349,608	180,094
Total debt**	<b>372,891</b>	363,608	182,679
Shareholders' equity	<b>572,183</b>	468,751	331,912

\* Including current portion

\*\* Including short-term bank indebtedness

## KEY PERFORMANCE INDICATORS

## For the years ended December 31

	2013	2012	2011
Operating margin	14.3%	15.3%	13.7%
Return on average equity	17.8%	18.3%	18.2%
Working capital ratio	8.97	5.94	5.77
Total debt to total capitalization	0.39:1	0.44:1	0.35:1
Total debt to trailing 12-month EBITDA	2.41	3.02	1.89
Dividend per share	0.20	0.16	0.13

## FOREIGN EXCHANGE

The table below shows exchange rates applicable to the years ended December 31, 2013 and 2012. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

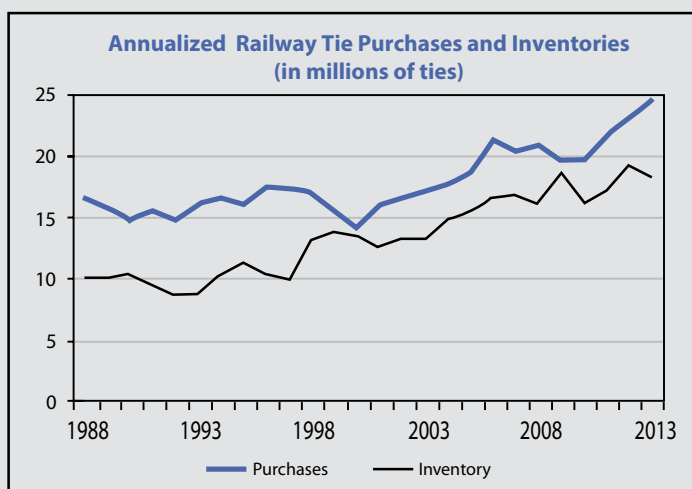
## Cdn\$/US\$

	2013		2012	
	Average	Closing	Average	Closing
First Quarter	1.0079	1.0160	1.0031	0.9975
Second Quarter	1.0201	1.0518	1.0061	1.0181
Third Quarter	1.0440	1.0303	1.0022	0.9832
Fourth Quarter	1.0450	1.0636	0.9919	0.9949
Fiscal Year	1.0292	1.0636	1.0008	0.9949

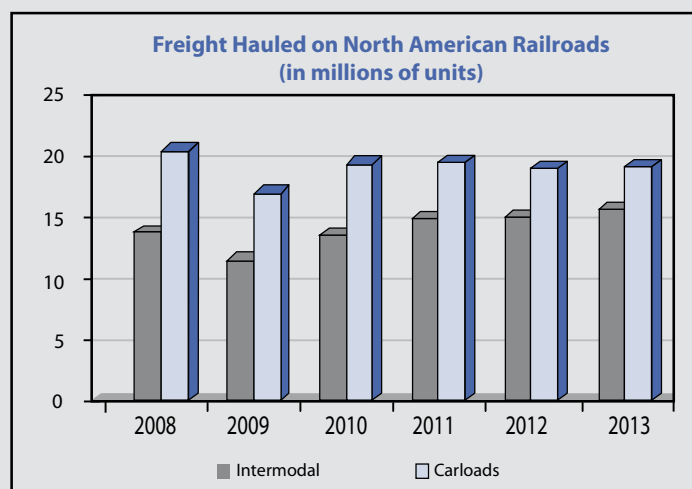
## INDUSTRY OVERVIEW

## Railway ties

As reported by the Railway Tie Association, railway tie purchases for 2013 rose 6.9% to reach 24.7 million ties, the highest annual total in the last 25 years. This solid demand, combined with a regular production output, resulted in an inventory-to-sales ratio of 0.74:1, as at December 31, 2013, down from 0.84:1 twelve months earlier, and slightly below the average ratio of the last ten years.



Source: Railway Tie Association



Source: Association of American Railroads

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

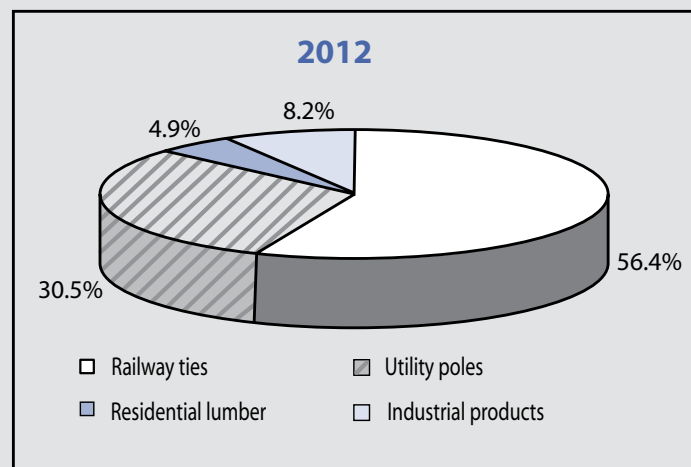
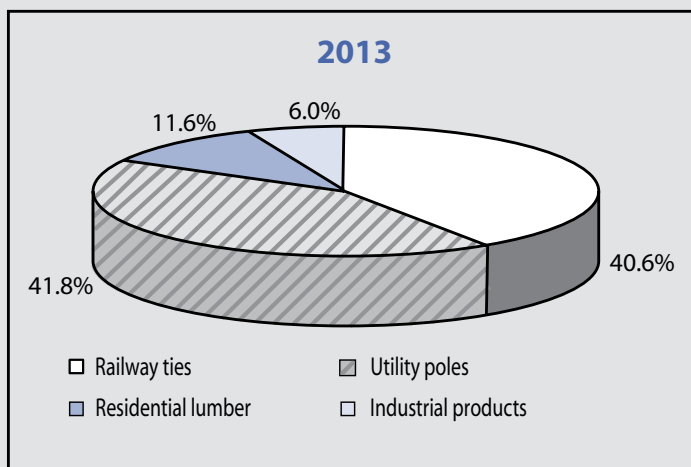
Despite weak economic growth, total traffic on North American railroads increased by 2.1% in 2013, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 4.4% from 2012 levels, the volume of carloads increased by 0.2% in 2013, as higher shipments of petroleum products offset lower shipments of coal and grain.

**OPERATING RESULTS**

**Sales**

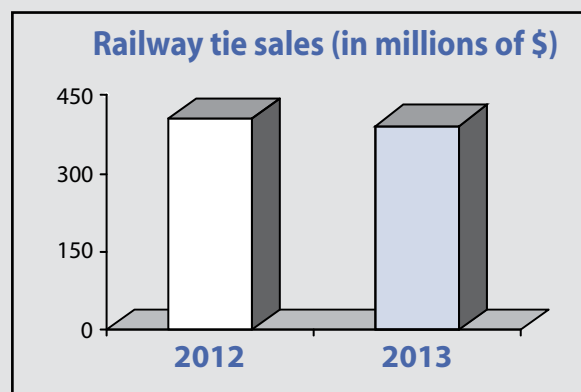
Sales for the year ended December 31, 2013 reached \$970.1 million, up 35.2% over last year's sales of \$717.5 million. The operating facilities acquired from McFarland on November 30, 2012 contributed additional sales of \$275.4 million over an eleven-month period in 2013, net of production transferred from other Stella-Jones facilities, while the assets acquired from PWP on November 15, 2013 generated sales of approximately \$4.1 million in the fourth quarter of 2013. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about \$12.9 million when compared with the previous year. Excluding these factors, sales decreased approximately \$39.8 million due to a timing effect of \$30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program, as detailed below, and to the year-over-year timing difference for certain utility pole orders.

**Sales by product category (% of sales)**



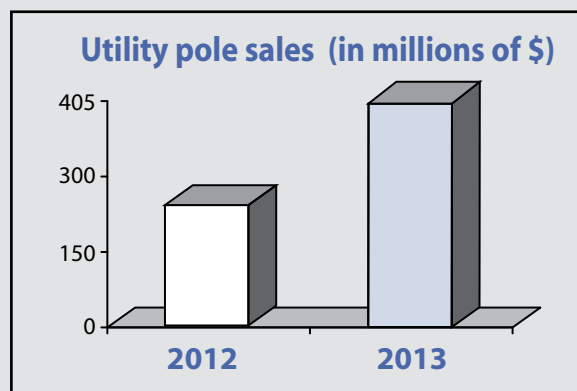
**Railway ties**

Railway tie sales for 2013 amounted to \$394.0 million, versus \$404.5 million in 2012. This decrease of \$10.5 million, or 2.6%, mainly reflects a timing effect of \$30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program. A TSO program is characterized by the customer owning the wood raw material and Stella-Jones providing the transformation service of the raw material into a finished product. In a Black Tie program, the customer is not involved in the process and purchases a finished product from Stella-Jones. This transition is mostly complete and should have a minimal impact on results in the first quarter of 2014. Thereafter, annualized sales to that customer should be greater than the timing effect on 2013 results, due to more value added under the Black Tie program. Excluding this timing effect, railway tie sales rose approximately \$20.4 million, or 5.0%. Railway tie sales accounted for 40.6% of the Company's total sales in 2013.



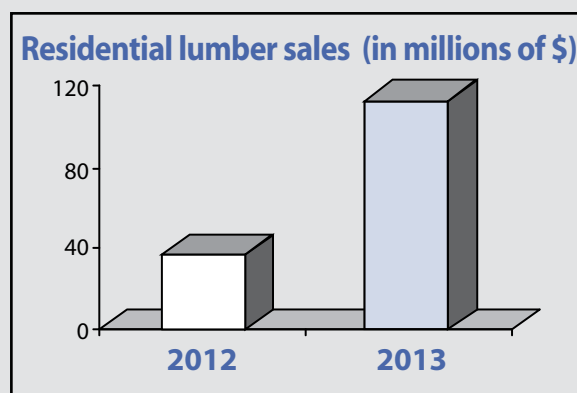
### Utility poles

Utility pole sales reached \$405.8 million in 2013, up \$187.3 million, or 85.7% over sales of \$218.5 million in 2012. This increase is essentially attributable to additional utility pole sales of \$197.9 million, net of transfers from other Stella-Jones facilities, from the McFarland operations over an eleven-month period. Excluding the latter, utility pole sales declined slightly, mainly reflecting the year-over-year timing difference for certain orders. Utility pole sales accounted for 41.8% of the Company's total sales in 2013.



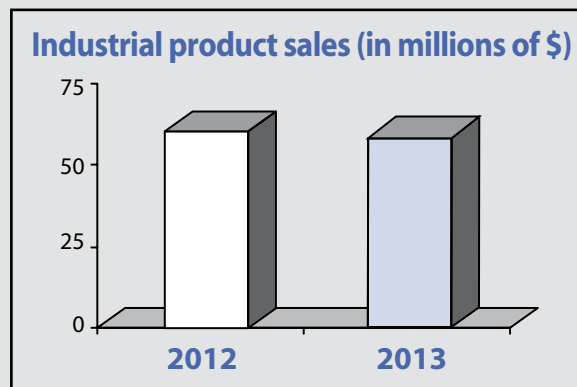
### Residential lumber

Sales in the residential lumber category totalled \$112.3 million in 2013, up from \$35.5 million in 2012. This \$76.8 million increase essentially reflects net additional residential lumber sales of \$73.8 million from the McFarland operations. McFarland sells residential lumber products to approximately 120 home renovation centres in the U.S. Northwest. To a lesser extent, the year-over-year increase also reflects stronger demand in southern Alberta subsequent to flooding in June 2013. Residential lumber accounted for 11.6% of Stella-Jones' sales in 2013.

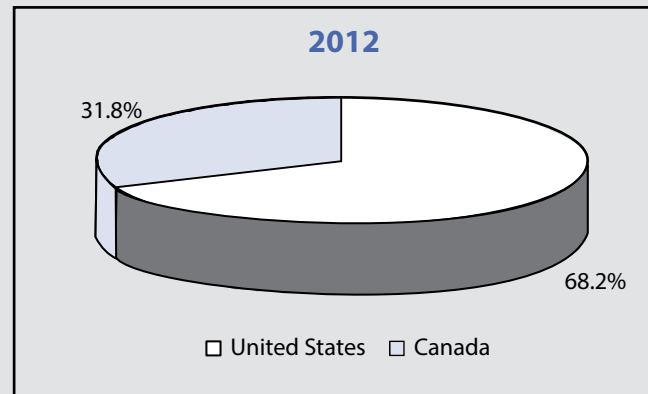
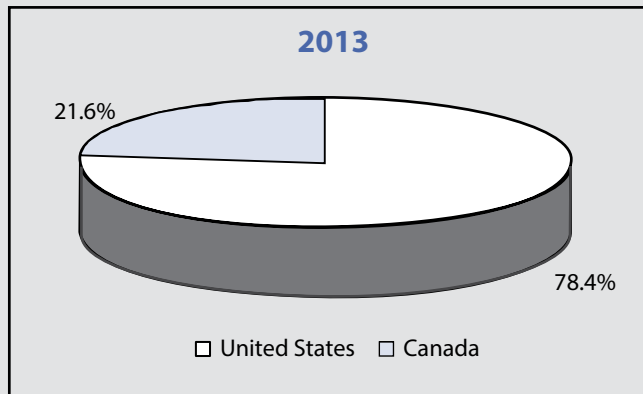


### Industrial products

Industrial product sales were \$58.1 million in 2013, compared with \$59.0 million in 2012. This slight decline is mainly attributable to a planned phase-out in the tie recycling business and a year-over-year decrease in the number of rail projects requiring industrial products. These factors were partially offset by a \$3.7 million net contribution from the McFarland operations. Excluding these factors, demand remained steady for the balance of the Company's principal products in this category for both Canada and the United States. Industrial products represented 6.0% of sales in 2013.



### Sales by geographic region (% of sales)



Sales in the United States amounted to \$761.0 million, or 78.4% of sales, in 2013, representing an increase of \$271.8 million, or 55.6%, over 2012. The year-over-year increase mainly reflects an additional contribution of \$268.8 million over an 11-month period from McFarland's U.S.-based operations, the acquisition of PWP and a higher conversion rate on U.S. dollar denominated sales.

Sales in Canada in 2013 decreased \$19.2 million, or 8.4%, to \$209.2 million, representing 21.6% of Stella-Jones' total sales. The variation is attributable to lower sales of railway ties and utility poles, the latter mainly due to the year-over-year timing difference in orders, partially offset by higher residential lumber sales and a \$6.6 million contribution from McFarland's Canadian operations.

### Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was \$772.8 million, or 79.7% of sales, in 2013. This compares with \$565.7 million, or 78.8% of sales, in 2012. The increase in absolute dollars essentially reflects the addition of the McFarland operations, as well as a higher average rate applied to convert U.S. dollar denominated costs. The increase as a percentage of sales is mainly due to a less favourable product mix and McFarland's lower margins at the beginning of the year. Reflecting a successful integration, margins at McFarland progressively improved during the year and their facilities further contributed to enhance efficiency throughout Stella-Jones' plant network.

Depreciation and amortization charges totalled \$16.3 million for the year ended December 31, 2013, versus \$10.7 million in the year ended December 31, 2012. The increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of McFarland.

As a result, gross profit reached \$197.3 million or 20.3% of sales in 2013, up from \$151.8 million or 21.2% of sales in 2012.

### Selling and administrative

Selling and administrative expenses for 2013 were \$57.2 million, or 5.9% of sales, compared with expenses of \$42.5 million, or 5.9% of sales, in 2012. The increase in monetary terms is mainly attributable to the addition of the McFarland operations for an additional 11-month period.

This year's selling and administrative expenses included approximately \$1.2 million in acquisition costs directly related to the PWP transaction. Last year's selling and administrative expenses included approximately \$4.1 million in acquisition costs, of which \$3.0 million were related to the McFarland transaction.

### Other losses (gains), net

Stella-Jones' other net losses of \$1.5 million for the year ended December 31, 2013 included a \$2.8 million loss on the disposal of assets, partially offset by a gain of \$660,000 on the sale of certain tie recycling assets and by a foreign exchange gain of \$707,000. In 2012, other net gains of \$313,000 included a \$1.6 million gain on the revaluation of assets previously held in a joint venture now wholly owned by the Company, and a foreign exchange gain of \$891,000, partially offset by net losses of \$2.2 million on asset disposals at several facilities.

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar denominated long-term debt held by its Canadian companies. Stella-Jones U.S. Holding Corporation ("SJ Holding"), the Company's wholly-owned U.S. subsidiary, is a foreign operation that has a different functional currency from that of the Company and foreign exchange gains and losses on translating its financial statements are deferred in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations. Its basic hedging activity for economic purposes consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

### Financial expenses

Financial expenses reached \$10.9 million in 2013, up from \$8.3 million in 2012. This increase in financial expenses is due to higher year-over-year average borrowings as a result of the acquisitions of McFarland on November 30, 2012 and of PWP on November 15, 2013.

### Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of \$127.8 million, or 13.2% of sales, in 2013. This represents an increase of 26.2% over income before income taxes of \$101.3 million, or 14.1% of sales, in 2012.

Stella-Jones' provision for income taxes totalled \$35.3 million in 2013, representing an effective tax rate of 27.6%. In 2012, the income tax expenses stood at \$28.2 million, equivalent to an effective tax rate of 27.9%. The slightly lower effective tax rate for 2013 is mainly attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

### Net income

Net income for the year ended December 31, 2013 reached \$92.5 million, or \$1.34 per share, fully diluted, compared with \$73.1 million, or \$1.13 per share, fully diluted, in 2012. This represents a year-over-year increase in net income of 26.6%.

## BUSINESS ACQUISITION

On November 15, 2013, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the businesses of PWP. These businesses consist of the manufacture of treated wood utility poles and railway ties, along with a variety of lumber-related products and were acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately \$48.8 million (US\$46.8 million), excluding acquisition costs of approximately \$1.2 million (US\$1.2 million), recognized in the consolidated statement of income under selling and administrative expenses.

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

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

(tabular information presented in thousands of dollars)	\$
<b>Assets acquired</b>	
Non-cash working capital	25,751
Property, plant and equipment	19,591
Customer relationships	4,241
Customer backlog	125
Goodwill	10,409
	<u>60,117</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	939
Site remediation provision	1,300
<b>Total net assets acquired and liabilities assumed</b>	<b><u>57,878</u></b>
<b>Consideration transferred</b>	
Cash	48,849
Unsecured promissory note	6,545
Consideration payable for the purchase of certain assets of the Nevada plant	3,134
Consideration receivable	(650)
<b>Consideration transferred</b>	<b><u>57,878</u></b>

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties. In the case of the PWP acquisition, goodwill values of \$9.7 million and \$663,000 are allocated to plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties, respectively. Note 8 to the consolidated financial statements provides a roll-forward of the net book value balances of intangible assets and goodwill.

The fair value of trade receivables included in non-cash working capital is \$8.7 million.

Consideration receivable represents a purchase consideration adjustment related to actual net working capital. As at December 31, 2013, Management has not yet received all information required to finalize the amount receivable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition date. With regards to the consideration payable for the purchase of certain assets of the Nevada plant, an equivalent amount of \$3.2 million (US\$3.0 million) was deposited in escrow and was recorded under cash in the consolidated statement of financial position as at December 31, 2013. On February 5, 2014, the consideration payable was settled.

Stella-Jones has financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of \$7.3 million (US\$7.0 million), bearing interest at 0.27% and repayable in twelve equal instalments over a 3-year period. The unsecured promissory note was fair-valued at \$6.5 million (US\$6.3 million) using an interest rate of 7.0%.



In the period from November 15 to December 31, 2013, PWP's sales and loss before income taxes amounted to \$4.1 million and \$1.7 million, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and PWP for the year ended December 31, 2013 would have been approximately \$1.0 billion and \$127.4 million respectively, had the PWP acquisition occurred as of January 1, 2013. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition as well as adjustments to fair value and harmonization of accounting policies. Management assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2013.

## QUARTERLY RESULTS

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

In 2013, the Company achieved year-over-year revenue and net income growth in all quarters, driven mainly by the contribution of the McFarland operations for an additional period of eleven months. The table below sets forth selected financial information for the Company's last eight quarters ending with the most recently completed financial year:

### 2013

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	217,039	273,161	268,087	211,862	970,149
Operating income before depreciation of property, plant and equipment and amortization of intangible assets <sup>1</sup>	33,875	44,917	42,516	33,713	155,021
Operating income <sup>1</sup>	29,671	40,959	38,550	29,519	138,699
Net income for the period	18,757	26,426	27,663	19,690	92,536
Earnings per common share					
Basic	0.27	0.38	0.40	0.29	1.35
Diluted	0.27	0.38	0.40	0.29	1.34

### 2012

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	\$	\$	\$	\$	\$
Sales	158,795	203,919	195,435	159,345	717,494
Operating income before depreciation of property, plant and equipment and amortization of intangible assets <sup>1</sup>	26,508	35,160	34,462	24,171	120,301
Operating income <sup>1</sup>	24,090	32,580	31,799	21,127	109,596
Net income for the period	15,006	20,835	20,683	16,546	73,070
Earnings per common share					
Basic	0.24	0.33	0.32	0.25	1.14
Diluted	0.23	0.32	0.32	0.25	1.13

<sup>1</sup> Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers they represent useful information for comparison with other similar operations in our industry, as they present financial results related to industry practice, not affected by non-cash charges or capital structure. Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in our IFRS consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

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

## Fourth Quarter Results

Sales for the fourth quarter of 2013 amounted to \$211.9 million, up 33.0% from \$159.3 million for the same period in 2012. This increase is attributable to a \$49.3 million additional contribution from the McFarland operations, net of sales transferred from other Stella-Jones facilities, over a two-month period, as well as a contribution of \$4.1 million from the assets acquired from PWP on November 15, 2013. The conversion effect from fluctuations in the value of the Canadian dollar, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by \$5.8 million when compared with last year. Excluding these factors, sales decreased approximately \$6.7 million, as the year-over-year timing difference for certain utility pole orders and the timing effect on sales from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program more than offset solid industry demand for railway ties.

Sales of railway ties reached \$78.3 million in 2013, versus \$73.7 million in 2012. This increase reflects solid market demand and the contribution from the PWP acquisition, partially offset by a timing effect of \$13.4 million from the ongoing transition of a Class 1 railroad customer from a TSO program to a Black Tie program. Utility pole sales rose \$36.9 million to \$107.1 million due to a \$41.3 million additional net contribution from the McFarland operations over a two-month period and the PWP acquisition. Excluding these factors, sales declined due to the year-over-year timing difference for certain orders. Residential lumber sales reached \$13.8 million, up from \$5.1 million last year, mainly due to additional sales of \$8.1 million from the McFarland operations. Finally, industrial product sales were \$12.7 million, versus \$10.4 million a year ago, as a result of higher sales of industrial timber for railway bridges.

Gross profit amounted to \$43.2 million, or 20.4% of sales, in the fourth quarter of 2013, versus \$33.2 million, or 20.8% of sales, in the fourth quarter of 2012. The increase in absolute dollars reflects the contribution of the McFarland operations for the full period, of PWP over a 46-day period, and a higher average rate applied to convert U.S. dollar denominated costs. Gross profit as a percentage of sales declined slightly, as a less favourable year-over-year product mix was partially offset by greater efficiencies throughout the Company's plant network.

Operating income was \$29.5 million, or 13.9% of sales, in the fourth quarter of 2013, versus \$21.1 million, or 13.3% of sales, in the fourth quarter of 2012. Results for the fourth quarter of 2013 include acquisition costs of \$1.2 million related to the PWP transaction, while results for the fourth quarter of 2012 include acquisition costs of \$2.4 million related to the McFarland transaction. Excluding these elements, operating income for the fourth quarter of 2013 was \$30.7 million, or 14.5% of sales, compared with \$23.5 million, or 14.8% of sales, a year earlier.

Net income for the period reached \$19.7 million, or \$0.29 per share, fully diluted, compared with \$16.5 million, or \$0.25 per share, fully diluted, last year. This represents a year-over-year increase in net income of 19.0%.

## STATEMENT OF FINANCIAL POSITION

### Assets

As at December 31, 2013, total assets reached \$1.1 billion, up from \$955.9 million as at December 31, 2012. This increase is mainly attributable to the PWP acquisition and to the effect of local currency translation on U.S.-based assets.

Current assets amounted to \$581.9 million as at December 31, 2013 compared with \$534.9 million at December 31, 2012. This variation is mostly attributable to increases in inventories and accounts receivable related to the PWP acquisition and to the effect of local currency translation on U.S.-based current assets.

The value of accounts receivable was \$108.0 million as at December 31, 2013 compared with \$89.6 million as at December 31, 2012. This increase of \$18.4 million mainly reflects the acquisition of PWP shortly before year end, the timing of sales in the fourth quarter, where activity was greater in the latter stages of the period in 2013 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

Inventories reached \$458.6 million as at December 31, 2013, up from \$413.4 million on December 31, 2012. This variation is mainly due to the acquisition of PWP shortly before year end and the effect of local currency translation on U.S.-based inventories.

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

Property, plant and equipment stood at \$234.2 million as at December 31, 2013, compared with \$189.0 million as at December 31, 2012. This increase is essentially related to the PWP acquisition (\$19.6 million), to purchases of property, plant and equipment for the year (\$28.4 million) exceeding depreciation (\$7.8 million) and to the effect of local currency translation on U.S.-based property, plant and equipment.

The value of intangible assets reached \$94.0 million as at December 31, 2013. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights and standing timber. As at December 31, 2012, intangible assets were \$93.1 million. The year-over-year increase is mainly explained by the acquisition of PWP (\$4.4 million), a non-compete agreement with a PWP shareholder (\$470,000), and the effect of local currency translation on U.S. dollar denominated intangible assets, partially offset by an amortization charge of \$8.6 million for 2013.

As at December 31, 2013, the value of goodwill stood at \$156.2 million, up from \$135.8 million a year earlier. This \$20.4 million increase in goodwill reflects the PWP acquisition (\$10.4 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

### Liabilities

As at December 31, 2013, Stella-Jones' total liabilities stood at \$499.7 million, up from \$487.1 million as at December 31, 2012, as a \$25.2 million decrease in current liabilities was more than offset by increases of \$26.9 million and \$7.4 million, respectively, in long-term debt and deferred income taxes.

The value of current liabilities was \$64.9 million as at December 31, 2013, down from \$90.1 million a year earlier. This variation is essentially due to a \$14.0 million decrease in bank indebtedness, representing bankers' acceptance loans that matured in January and February 2013, and a \$7.8 million decrease in accounts payable and accrued liabilities. The latter reflects the inclusion, as at December 31, 2012, of certain amounts payable in connection with the McFarland acquisition.

The Company's long-term debt, including the current portion, stood at \$372.9 million as at December 31, 2013, versus \$349.6 million as at December 31, 2012. The increase essentially reflects the additional long-term debt required to finance the acquisition of PWP and the effect of local currency translation on U.S. dollar denominated long-term debt. On December 13, 2013, the Company's committed revolving credit facility was increased from \$370.0 million to \$400.0 million, while the term was extended by one year to December 2018. As at December 31, 2013, an amount of \$320.4 million had been drawn against the Company's committed revolving credit facility.

### Shareholders' equity

Shareholders' equity was \$572.2 million as at December 31, 2013 compared with \$468.8 million as at December 31, 2012. This increase is mainly attributable to net income of \$92.5 million for the year and to a \$21.5 million favourable variation in the value of accumulated other comprehensive gain (loss). These factors were partially offset by dividends on common shares totalling \$13.7 million. Book value stood at \$8.33 per common share as at December 31, 2013, up from \$6.83 per share as at December 31, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (thousands of dollars)	Fiscal years ended	
	December 31, 2013	December 31, 2012
	\$	\$
Operating activities	<b>104,218</b>	28,516
Financing activities	<b>(33,783)</b>	163,541
Investing activities	<b>(81,244)</b>	(178,057)
Net change in cash and cash equivalents	<b>(10,809)</b>	14,000
Cash and cash equivalents - beginning	<b>14,000</b>	-
Cash and cash equivalents - end	<b>3,191</b>	14,000

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

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was \$160.6 million for the year ended December 31, 2013, up 33.0% from \$120.8 million in 2012. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by \$24.3 million in 2013. Main elements of this variation include increases of \$4.7 million and \$8.4 million in accounts receivable and inventories, respectively, as well as a decrease of \$10.4 million in accounts payable and accrued liabilities. In 2012, changes in non-cash working capital components had reduced liquidity by \$48.6 million, mainly due to a \$60.1 million increase in inventories.

Interest and income taxes paid further reduced liquidity by \$9.1 million and \$23.1 million, respectively, in 2013, versus \$7.2 million and \$36.5 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings related to the acquisitions of McFarland and PWP. Meanwhile, the decrease in income taxes paid reflects the variation between prepaid income taxes as at December 31, 2012 and an income taxes payable balance as at December 31, 2013.

As a result, cash flows provided by operating activities were \$104.2 million in 2013, versus \$28.5 million in 2012.

Financing activities for the year ended December 31, 2013 required liquidity of \$33.8 million. The main factors explaining this cash reduction were a \$14.0 million decrease in bank indebtedness, the payment of dividends on common shares totalling \$13.7 million, and a net decrease in long-term debt of \$4.5 million. For the year ended December 31, 2012, financing activities had provided liquidity of \$163.5 million, mainly reflecting additional debt and issuance of common shares required to finance the McFarland acquisition.

Investing activities required \$81.2 million in cash during 2013. The acquisition of PWP resulted in a cash consideration of \$48.8 million, while the conclusion of the McFarland acquisition required \$8.7 million. In addition, purchases of property, plant and equipment, required an investment of \$26.2 million, including \$7.9 million (US\$7.7 million) to complete construction of a new treating facility in Cordele, Georgia. In 2012, cash flows from investing activities had decreased liquidity by \$178.1 million as a result of the McFarland acquisition.

The following table details the maturities of the financial obligations as at December 31, 2013:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	58,054	58,054	58,054	–	–	–
Long-term debt obligations	372,891	407,309	11,326	57,838	332,423	5,722
Interest rate swaps	1,133	4,221	1,490	2,234	497	–
Minimum payments under operating lease obligations	–	53,349	11,953	17,103	9,274	15,019
Non-compete agreements	1,752	1,862	917	785	160	–
<b>Total</b>	<b>433,830</b>	<b>524,795</b>	<b>83,740</b>	<b>77,960</b>	<b>342,354</b>	<b>20,741</b>

#### SHARE AND STOCK OPTION INFORMATION

As at December 31, 2013, the capital stock issued and outstanding consisted of 68,697,366 common shares (68,673,700 as at December 31, 2012). The following table presents the outstanding capital stock activity for the year ended December 31, 2013:

Year Ended December 31, 2013	Number of shares (in '000s)
Balance – Beginning of year	68,674
Stock option plan	–
Employee share purchase plans	23
<b>Balance – End of year</b>	<b>68,697</b>

As at March 13, 2014, the capital stock issued and outstanding consisted of 68,750,166 common shares.

As at December 31, 2013, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 550,400 (December 31, 2012 – 520,400) of which 440,400 (December 31, 2012 – 398,800) were exercisable. As at March 13, 2014, the number of outstanding options was 497,600, of which 387,600 were exercisable.

#### DIVIDENDS

In 2013, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- \$0.05 per common share payable on April 30, 2013 to shareholders of record at the close of business on April 2, 2013.
- \$0.05 per common share payable on June 28, 2013 to shareholders of record at the close of business on June 3, 2013.
- \$0.05 per common share payable on September 30, 2013 to shareholders of record at the close of business on September 2, 2013.
- \$0.05 per common share payable on December 20, 2013 to shareholders of record at the close of business on December 2, 2013.

Subsequent to the end of the year, on March 13, 2014, the Board declared a quarterly dividend of \$0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.

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

## COMMITMENTS AND CONTINGENCIES

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

The Company has issued guarantees amounting to \$33.6 million (2012 – \$44.1 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

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

## CURRENT ECONOMIC CONDITIONS

### Operations

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

Based on current market conditions, Management continues to expect business activity to remain healthy in 2014. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while demand is expected to hold over the short-term, Management believes that industry demand should pick-up over the mid-term, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

### Liquidity

As at December 31, 2013, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2013, an amount of \$320.4 million had been drawn against the Company's committed revolving credit facility of \$400.0 million.

Accounts receivable increased in 2013 due to the acquisition of PWP shortly before year end, the timing of sales in the fourth quarter where activity was greater in the latter stages of the period in 2013 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default.

Inventories rose in 2013 mainly due to the acquisition of PWP shortly before year end and the effect of local currency translation on U.S.-based inventories. To ensure efficient treating operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

## RISKS AND UNCERTAINTIES

### Economic Conditions

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

### Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2013, the Company's top ten customers accounted for approximately 41.5% of its sales. During this same period, the Company's two largest customers accounted for approximately 9.8% and 6.2%, respectively, of its total sales.

### Availability and Cost of Raw Materials

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

In addition, there are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

### Environmental Risk

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

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

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

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

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

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

### **Risks Related to Acquisitions**

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

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

### **Litigation Risk**

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

### **Insurance Coverage**

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

### **Currency Risk**

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

The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves special risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.



### Interest Rate Fluctuations

As at December 31, 2013, approximately 34.3% of the Company's long-term debt was at variable rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have a material adverse effect on the Company's business operating results, profitability and financial position.

### Customers' Credit Risk

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

### Influence by Stella Jones International S.A.

As at December 31, 2013, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.7% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not, in all cases, be aligned with interests of the other shareholders.

### SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2013 and 2012 audited consolidated financial statements.

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

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

### CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

#### *IFRS 10 - Consolidated Financial Statements*

IFRS 10 replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

### ***IFRS 13 - Fair Value Measurement***

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### ***IAS 19 - Employee Benefits (amended in 2011)***

IAS 19 amends certain accounting requirements for defined benefit plans and termination benefits.

IAS 19 requires the net defined benefit liability (asset) to be recognized on the consolidated statement of financial position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided.

The Company adopted these amendments as of January 1, 2013. The adoption of these amendments to pension plans did not result in any significant adjustment to the opening equity. The review of the classification of the benefits and the termination benefits did not result either in any adjustment to the consolidated statement of financial position.

### ***IAS 36 - Impairment of Assets***

The company early adopted amendments to IAS 36. The amendments clarified that the recoverable amount is disclosed only when an asset or cash generating unit is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology and for cash-generating units with goodwill that are impaired, including the disclosure of the fair value. The adoption had no significant impact on the Company's consolidated financial statements.

### **Impact of accounting pronouncements not yet implemented**

#### ***IFRS 9 - Financial Instruments***

IFRS 9 was issued in November 2009. It addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit and loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent they do not clearly represent a return on investment, are recognized through profit and loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive gain (loss) indefinitely. In November 2013, the IASB issued amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

**IAS 32 - Financial Instruments: Presentation**

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

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

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

Gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would, therefore, satisfy the IAS 32 criterion in these instances.

The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014. The Company has assessed that the adoption of this standard will not have a significant impact on its consolidated financial statements.

**DISCLOSURE CONTROLS AND PROCEDURES**

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2013, and have concluded that such DC&P were designed and operating effectively.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2013.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from October 1, 2013 to December 31, 2013 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

## OUTLOOK

As the North American economy continues to strengthen, Management expects demand for the Company's core products to remain healthy in 2014. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while demand is expected to hold over the short-term, Management believes that industry demand should pick-up over the mid-term, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company has invested in additional capacity to meet this anticipated demand.

However, a stronger economy could result in a tighter market for untreated railway ties and utility poles, as demand for other wood-based products also increases. The Company believes its inventory position and the strength of its procurement network should allow Stella-Jones to meet demand at an optimal cost.

As one of the largest North American providers of industrial treated wood products, Stella-Jones will leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, while diligently seeking market opportunities. The Company will also remain focused on improving operating efficiencies throughout the organization. The integration of the PWP operations is a key priority, and the Company believes it will benefit from greater market penetration, synergies and additional operating efficiencies from a larger network.

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

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

March 13, 2014

# CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

## Management's Statement of Responsibility for Financial Information

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

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

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



Brian McManus  
President and  
Chief Executive Officer



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

Saint-Laurent, Quebec  
March 13, 2014

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stella-Jones Inc.

We have audited the accompanying consolidated financial statements of Stella-Jones Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of change in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP<sup>1</sup>*

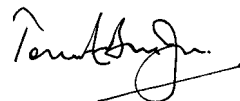
Montréal, Quebec  
March 13, 2014

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A119714

	Note	2013	2012
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash	4, 10	3,191	14,000
Accounts receivable	5	107,987	89,563
Inventories	6	458,616	413,400
Prepaid expenses		12,102	10,014
Income taxes receivable		–	7,886
		<b>581,896</b>	<b>534,863</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	234,234	189,028
Intangible assets	8	93,988	93,105
Goodwill	8	156,208	135,834
Derivative financial instruments	19	2,119	198
Other assets	9	3,478	2,835
		<b>1,071,923</b>	<b>955,863</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Bank indebtedness	10	–	14,000
Accounts payable and accrued liabilities	11	58,054	65,836
Income taxes payable		1,007	–
Current portion of long-term debt	12	2,732	6,358
Current portion of provisions and other long-term liabilities	13	3,060	3,862
		<b>64,853</b>	<b>90,056</b>
<b>Non-current liabilities</b>			
Long-term debt	12	370,159	343,250
Deferred income taxes	16	46,200	38,809
Provisions and other long-term liabilities	13	13,671	8,297
Employee future benefits	17	3,724	4,774
Derivative financial instruments	19	1,133	1,926
		<b>499,740</b>	<b>487,112</b>
<b>Shareholders' equity</b>			
Capital stock	14	211,162	210,636
Contributed surplus		1,353	1,229
Retained earnings		345,532	264,211
Accumulated other comprehensive gain (loss)		14,136	(7,325)
		<b>572,183</b>	<b>468,751</b>
		<b>1,071,923</b>	<b>955,863</b>

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

Approved by the Board of Directors,



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

Director



George J. Bunze, CPA, CMA

Director

	Accumulated other comprehensive gain (loss)							Total shareholders' equity
	Capital stock	Contributed surplus	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrecognized losses on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2012</b>	131,272	1,342	201,268	(2,239)	1,046	(777)	(1,970)	331,912
<b>Comprehensive income (loss)</b>								
Net income for the year	–	–	73,070	–	–	–	–	73,070
Other comprehensive income (loss)	–	–	(30)	(6,711)	1,731	(375)	(5,355)	(5,385)
<b>Comprehensive income (loss) for the year</b>	–	–	73,040	(6,711)	1,731	(375)	(5,355)	67,685
Dividends on common shares	–	–	(10,097)	–	–	–	–	(10,097)
Stock option plan	719	–	–	–	–	–	–	719
Exercise of stock options	–	(231)	–	–	–	–	–	(231)
Issuance of common shares (Note 4)	78,202	–	–	–	–	–	–	78,202
Employee share purchase plans	443	–	–	–	–	–	–	443
Stock-based compensation	–	118	–	–	–	–	–	118
	79,364	(113)	(10,097)	–	–	–	–	69,154
<b>Balance – December 31, 2012</b>	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751
<b>Balance – January 1, 2013</b>	210,636	1,229	264,211	(8,950)	2,777	(1,152)	(7,325)	468,751
<b>Comprehensive income (loss)</b>								
Net income for the year	–	–	92,536	–	–	–	–	92,536
Other comprehensive income (loss)	–	–	2,522	38,164	(18,621)	1,918	21,461	23,983
<b>Comprehensive income (loss) for the year</b>	–	–	95,058	38,164	(18,621)	1,918	21,461	116,519
Dividends on common shares	–	–	(13,737)	–	–	–	–	(13,737)
Employee share purchase plans	526	–	–	–	–	–	–	526
Stock-based compensation	–	124	–	–	–	–	–	124
	526	124	(13,737)	–	–	–	–	(13,087)
<b>Balance – December 31, 2013</b>	211,162	1,353	345,532	29,214	(15,844)	766	14,136	572,183

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



	Note	2013	2012
		\$	\$
<b>Sales</b>		<b>970,149</b>	717,494
<b>Expenses</b>			
Cost of sales		772,818	565,668
Selling and administrative		57,166	42,543
Other losses (gains), net		1,466	(313)
	15	<b>831,450</b>	607,898
<b>Operating income</b>		<b>138,699</b>	109,596
<b>Financial expenses</b>		<b>10,892</b>	8,319
<b>Income before income taxes</b>		<b>127,807</b>	101,277
<b>Provision for (recovery of) income taxes</b>			
Current	16	32,545	30,486
Deferred	16	2,726	(2,279)
		<b>35,271</b>	28,207
<b>Net income for the year</b>		<b>92,536</b>	73,070
<b>Basic earnings per common share</b>	14	<b>1.35</b>	1.14
<b>Diluted earnings per common share</b>	14	<b>1.34</b>	1.13

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

	2013	2012
	\$	\$
<b>Net income for the year</b>	<b>92,536</b>	73,070
<b>Other comprehensive income (loss)</b>		
<b>Items that may subsequently be reclassified to net income</b>		
Net change in gains (losses) on translation of financial statements of foreign operations	38,164	(6,711)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(18,113)	1,708
Income taxes on change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	(508)	23
Change in gains (losses) on fair value of derivatives designated as cash flow hedges	2,715	(528)
Income taxes on change in gains (losses) on fair value of derivatives designated as cash flow hedges	(797)	153
<b>Items that will not subsequently be reclassified to net income</b>		
Change in actuarial gains (losses) on post-retirement benefit obligations	3,543	(53)
Income taxes on change in actuarial gains (losses) on post-retirement benefit obligations	(1,021)	23
	<b>23,983</b>	(5,385)
<b>Comprehensive income for the year</b>	<b>116,519</b>	67,685

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

	Note	2013	2012
		\$	\$
<b>Cash flows provided by (used in)</b>			
<b>Operating activities</b>			
Net income for the year		92,536	73,070
Adjustments for			
Depreciation of property, plant and equipment		7,760	5,312
Amortization of intangible assets		8,562	5,393
Interest accretion		492	739
Asset revaluation following Kanaka's step acquisition		–	(1,623)
Loss on disposal of property, plant and equipment		2,173	2,597
Employee future benefits		320	(330)
Stock-based compensation		124	118
Financial expenses		10,892	8,319
Income taxes		32,545	30,486
Deferred income taxes		2,726	(2,279)
Restricted stock units obligation		2,593	(729)
Other		(92)	(276)
		<b>160,631</b>	<b>120,797</b>
Changes in non-cash working capital components and others			
Accounts receivable		(4,663)	32,220
Inventories		(8,438)	(60,076)
Prepaid expenses		(1,481)	(205)
Income taxes receivable		(348)	(284)
Accounts payable and accrued liabilities		(10,376)	(15,196)
Asset retirement obligations		1,099	(496)
Provisions and other long-term liabilities		(50)	(4,541)
		<b>(24,257)</b>	<b>(48,578)</b>
Interest paid		(9,075)	(7,202)
Income taxes paid		(23,081)	(36,501)
		<b>104,218</b>	<b>28,516</b>
<b>Financing activities</b>			
Decrease in bank indebtedness		(14,000)	(7,085)
Increase in deferred financing costs		(364)	(849)
Increase in long-term debt		4,814	174,550
Repayment of long-term debt		(9,328)	(70,163)
Non-competes payable		(1,694)	(1,296)
Dividend on common shares		(13,737)	(10,097)
Proceeds from issuance of common shares		526	78,481
		<b>(33,783)</b>	<b>163,541</b>
<b>Investing activities</b>			
Decrease in other assets		529	334
Business acquisition	4	(57,538)	(167,284)
Increase in intangible assets		(466)	(471)
Purchase of property, plant and equipment		(26,157)	(14,790)
Proceeds on disposal of assets		2,388	4,154
		<b>(81,244)</b>	<b>(178,057)</b>
<b>Net change in cash and cash equivalents during the year</b>		<b>(10,809)</b>	<b>14,000</b>
<b>Cash and cash equivalents – Beginning of year</b>		<b>14,000</b>	<b>–</b>
<b>Cash and cash equivalents – End of year</b>		<b>3,191</b>	<b>14,000</b>

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

## 1 DESCRIPTION OF THE BUSINESS

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

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

These consolidated financial statements were approved by the Board of Directors on March 13, 2014.

### Basis of measurement

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

### Principles of consolidation

#### Subsidiaries

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

Subsidiary	Parent	Country of incorporation
Guelph Utility Pole Company Ltd.	Stella-Jones Inc.	Canada
I.P.B. - W.P.I. International Inc.	Stella-Jones Inc.	Canada
4552822 Canada Inc.	Stella-Jones Inc.	Canada
4552831 Canada Inc.	Stella-Jones Inc.	Canada
Stella-Jones Canada Inc.	Stella-Jones Inc.	Canada
Selkirk Forest Products Company	Stella-Jones Canada Inc.	Canada
MCP Acquisition Holdings Ltd.	Selkirk Forest Products Company	Canada
Kanaka Creek Pole Company Limited (“Kanaka”)	Stella-Jones Canada Inc.	Canada
Selkirk Timber Company	Stella-Jones Canada Inc.	Canada
Stella-Jones U.S. Holding Corporation (“SJ Holding”)	Stella-Jones Inc.	United States
Stella-Jones U.S. Finance Corporation	Stella-Jones U.S. Holding Corporation	United States
Stella-Jones Corporation (“SJ Corp”)	Stella-Jones U.S. Holding Corporation	United States
McFarland Cascade Holdings, Inc. (“McFarland”)	Stella-Jones Corporation	United States
Electric Mills Wood Preserving LLC	McFarland Cascade Holdings, Inc.	United States
Cascade Pole and Lumber Company	McFarland Cascade Holdings, Inc.	United States
McFarland Cascade Pole & Lumber Company	McFarland Cascade Holdings, Inc.	United States
Canadalux S.à.r.l.	4552822 Canada Inc.	Luxembourg

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Principles of consolidation (continued)

#### Subsidiaries (continued)

As part of the November 30, 2012 McFarland acquisition, SJ Corp acquired Shelby County Forest Products LLC, as well as its wholly owned subsidiary Electric Mills Wood Preserving LLC. SJ Corp also acquired L. D. McFarland Company and Forest Products Research Laboratory LLC, which were wholly owned subsidiaries of McFarland. On May 1, 2013, Shelby County Forest Products LLC and Electric Mills Wood Preserving LLC merged and the surviving corporation was Electric Mills Wood Preserving LLC. On the same date, L. D. McFarland Company and McFarland also merged and the surviving corporation was McFarland. On December 23, 2013, Forest Products Research Laboratory LLC was dissolved.

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

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

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

### Foreign currency translation

#### a) Functional and presentation currency

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

#### b) Foreign currency transactions

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currency translation (continued)

#### b) Foreign currency transactions (continued)

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

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

#### c) Foreign operations

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

#### d) Hedges of net investments in foreign operations

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

### Revenue recognition

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

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

The Company also operates timber licences to harvest logs as part of a process to procure raw material for the 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 is a by-product of the Company's pole raw material procurement operations. Sales of non-pole-quality logs totalled \$41,141 for the year ended December 31, 2013 (2012 – \$14,938).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and cash equivalents

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

### Accounts receivable

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

### Inventories

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

### Property, plant and equipment

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

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

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

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

### Financial expenses

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

### Intangible assets

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (continued)

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

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

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

### Goodwill

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

### Impairment

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

### Non-financial assets

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

### Goodwill

The carrying value of goodwill is tested annually for impairment. Goodwill is allocated to CGUs for the purpose of impairment testing based on the level at which Management monitors it, which is not higher than that of an operating segment. The allocation is made to those CGUs that are expected to benefit from the synergies of the combination.

### Leases

The Company leases certain property, plant and equipment.

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



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (continued)

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

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

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

### Non-current assets held for sale

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

### Provisions

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

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

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

#### Reforestation obligations

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

#### Site remediation obligations

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income taxes

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

#### Current tax

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

#### Deferred tax

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

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

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

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

### Employee future benefits

#### Other post-retirement benefit programs

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

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

#### Defined benefit pension plan

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee future benefits (continued)

Defined benefit pension plan (continued)

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

### Stock-based compensation and other stock-based payments

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

Equity-settled plan

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

Cash-settled plan

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

### Financial instruments

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

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

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

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

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

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

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

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

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

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

### Hedging transactions

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Hedging transactions (continued)

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

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

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

### Earnings per share

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

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

### Segment reporting

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

### Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

#### **IFRS 10 - Consolidated Financial Statements**

IFRS 10 replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Changes in accounting policies (continued)

#### ***IFRS 13 - Fair Value Measurement***

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

#### ***IAS 19 - Employee Benefits (amended in 2011)***

IAS 19 amends certain accounting requirements for defined benefit plans and termination benefits.

IAS 19 requires the net defined benefit liability (asset) to be recognized on the consolidated statement of financial position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided.

The Company adopted these amendments as of January 1, 2013. The adoption of these amendments to pension plans did not result in any significant adjustment to the opening equity. The review of the classification of the benefits and the termination benefits did not result either in any adjustment to the consolidated statement of financial position.

#### ***IAS 36 - Impairment of Assets***

The Company early adopted amendments to IAS 36. The amendments clarified that the recoverable amount is disclosed only when an asset or CGU is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology and for CGUs with goodwill that are impaired, including the disclosure of the fair value. The adoption had no significant impact on the Company's consolidated financial statements.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impact of accounting pronouncements not yet implemented

#### ***IFRS 9 - Financial Instruments***

IFRS 9 was issued in November 2009. It addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit and loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent they do not clearly represent a return on investment, are recognized through profit and loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive gain (loss) indefinitely. In November 2013, the IASB issued amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

#### ***IAS 32 - Financial Instruments: Presentation***

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

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

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

Gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would, therefore, satisfy the IAS 32 criterion in these instances.

The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014. The Company has assessed that the adoption of this standard will not have a significant impact on its consolidated financial statements.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### **Estimated impairment of goodwill and intangible assets with indefinite useful lives**

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

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

#### Estimated impairment of long-lived assets

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

### 4 BUSINESS ACQUISITION

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

Total cash outlay associated with the acquisition was approximately \$48,849 (US\$46,759), excluding acquisition costs of approximately \$1,245 (US\$1,207), recognized in the consolidated statement of income under selling and administrative expenses.

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

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

	\$
<b>Assets acquired</b>	
Non-cash working capital	25,751
Property, plant and equipment	19,591
Customer relationships	4,241
Customer backlog	125
Goodwill	10,409
	<u>60,117</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	939
Site remediation provision	1,300
	<u>57,878</u>
<b>Total net assets acquired and liabilities assumed</b>	
	<u>57,878</u>
<b>Consideration transferred</b>	
Cash	48,849
Unsecured promissory note	6,545
Consideration payable for the purchase of certain assets of the Nevada plant	3,134
Consideration receivable	(650)
	<u>57,878</u>



#### 4 BUSINESS ACQUISITION (CONTINUED)

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to CGU's, which are defined as plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties. In the case of the PWP acquisition, goodwill values of \$9,746 and \$663 are allocated to plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties, respectively. Note 8 provides a roll-forward of the net book value balances of intangible assets and goodwill.

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

Consideration receivable represents a purchase consideration adjustment related to actual net working capital. As at December 31, 2013, Management has not yet received all information required to finalize the amount receivable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition date. With regards to the consideration payable for the purchase of certain assets of the Nevada plant, an equivalent amount of \$3,191 (US\$3,000) was deposited in escrow and was recorded under cash in the consolidated statement of financial position as at December 31, 2013. On February 5, 2014, the consideration payable was settled.

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

In the period from November 15 to December 31, 2013, PWP's sales and loss before income taxes amounted to \$4,121 and \$1,702, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and PWP for the year ended December 31, 2013 would have been approximately \$1,024,336 and \$127,449 respectively, had the PWP acquisition occurred as of January 1, 2013. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition, as well as adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2013.

- b) On November 30, 2012, the Company completed the acquisition of 100% of the shares of McFarland, a provider of treated wood products based in the state of Washington.

McFarland is a supplier of utility poles, as well as crossarms, piling and crane mats. It is also a provider of treated lumber for outdoor home projects, including composite decking, railings and related accessories. It serves its customer base through four wood treating facilities located in Tacoma, Washington; Eugene, Oregon; Electric Mills (Scooba), Mississippi; and Galloway, British Columbia, as well as through an extensive distribution network.

#### 4 BUSINESS ACQUISITION (CONTINUED)

Total cash outlay associated with the acquisition was \$238,854 (US\$240,393), excluding acquisition costs of \$2,979 (US\$2,877), recognized in the consolidated statement of income under selling and administrative expenses. This amount includes \$171,577 (US\$172,683) paid to McFarland's shareholders and \$67,277 (US\$67,710) used to reimburse McFarland's debts with financial institutions.

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

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

	\$
<b>Assets acquired</b>	
Non-cash working capital	153,093
Property, plant and equipment	59,902
Cutting rights	1,159
Customer relationships	27,099
Customer backlog	379
Goodwill	44,952
Deferred income tax assets	1,752
	288,336
<b>Liabilities assumed</b>	
Bank indebtedness	18,500
Accounts payable and accrued liabilities	20,999
Long-term debt	67,277
Site remediation provision	5,910
Employee future benefits	2,765
Deferred income tax liabilities	1,308
	171,577
<b>Total net assets acquired and liabilities assumed</b>	
	171,577
<b>Consideration transferred</b>	
Cash	238,854
Payment of long-term debt	(67,277)
	171,577
<b>Consideration transferred for shares</b>	
	171,577

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

#### 4 BUSINESS ACQUISITION (CONTINUED)

The fair value of trade receivables, included in non-cash working capital, is \$35,779 and the contractual amount is \$35,876, of which \$97 is expected to be uncollectible.

Financing for the acquisition was secured through private placements of subscription receipts which successfully closed on November 30, 2012, as well as a draw-down of \$152,615 (US\$153,598) on the Company's committed revolving credit facility. With respect to the private placements, the Company issued 4,706,000 subscription receipts at a price of \$17.00 per subscription receipt for aggregate gross proceeds of \$80,002. A syndicate of underwriters took up a private placement of 2,884,800 subscription receipts and Stella Jones International S.A. purchased 1,821,200 subscription receipts on a private placement basis (Note 21). The subscription receipts were exchanged on the basis of one common share of the Company per subscription receipt. Total proceeds net of legal and underwriting fees of the subscription receipts were \$77,550. The transaction was recorded at \$78,202, net of a deferred income tax adjustment of \$652.

In the month of December 2012, McFarland's sales and loss before income taxes amounted to \$15,937 and \$77, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and McFarland for the 12-month period ended December 31, 2012 would have been approximately \$986,621 and \$111,593, respectively, had the McFarland acquisition occurred as of January 1, 2012. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition as well as adjustments to fair value and harmonization of accounting policies. It was assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2012.

#### 5 ACCOUNTS RECEIVABLE

	2013	2012
	\$	\$
Trade receivables	102,606	82,252
Less: Provision for doubtful accounts	(201)	(1,080)
Trade receivables – net	102,405	81,172
Other receivables	5,582	8,391
	<b>107,987</b>	<b>89,563</b>

As at December 31, 2013, trade receivables of \$34,985 (2012 – \$31,655) were past due but not impaired.

**5 ACCOUNTS RECEIVABLE (CONTINUED)**

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

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Current	<b>67,420</b>	49,517
Past due 1-30 days	<b>24,405</b>	24,195
Past due 31-60 days	<b>8,422</b>	5,457
Past due more than 60 days	<b>2,359</b>	3,083
	<b>102,606</b>	82,252

As at December 31, 2013, trade receivables of \$201 (2012 - \$1,080) were impaired and provided for. Details of the provision for doubtful accounts are as follows:

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of year	<b>1,080</b>	414
Provision (reversal)	<b>(909)</b>	740
Bad debt write-off	<b>(13)</b>	(60)
Foreign exchange adjustments	<b>43</b>	(14)
Balance – End of year	<b>201</b>	1,080

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

**6 INVENTORIES**

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Raw materials	<b>288,881</b>	312,686
Finished goods	<b>169,735</b>	100,714
	<b>458,616</b>	413,400

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Roads	Buildings	Production and anti-pollution equipment	Rolling stock	Office equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2012</b>							
Cost	10,746	3,306	30,379	106,733	9,397	3,474	164,035
Accumulated depreciation	–	(1,646)	(5,960)	(31,887)	(3,633)	(1,468)	(44,594)
<b>Net book amount</b>	<b>10,746</b>	<b>1,660</b>	<b>24,419</b>	<b>74,846</b>	<b>5,764</b>	<b>2,006</b>	<b>119,441</b>
<b>Year ended December 31, 2012</b>							
Opening net book amount	10,746	1,660	24,419	74,846	5,764	2,006	119,441
Business acquisition	11,039	–	15,578	25,719	6,554	1,459	60,349
Additions	207	300	902	14,600	325	915	17,249
Disposals	–	–	(97)	(1,560)	(213)	–	(1,870)
Depreciation	–	–	(810)	(3,024)	(1,163)	(315)	(5,312)
Depreciation included in inventory	–	(483)	(23)	(100)	(57)	(2)	(665)
Transfer to assets held for sale	–	–	–	(131)	(604)	–	(735)
Kanaka's step acquisition (Note 4)	1,623	–	42	242	186	–	2,093
Exchange differences	(137)	–	(340)	(916)	(126)	(3)	(1,522)
<b>Closing net book amount</b>	<b>23,478</b>	<b>1,477</b>	<b>39,671</b>	<b>109,676</b>	<b>10,666</b>	<b>4,060</b>	<b>189,028</b>
<b>As at December 31, 2012</b>							
Cost	23,478	3,606	46,421	144,082	14,766	5,828	238,181
Accumulated depreciation	–	(2,129)	(6,750)	(34,406)	(4,100)	(1,768)	(49,153)
<b>Net book amount</b>	<b>23,478</b>	<b>1,477</b>	<b>39,671</b>	<b>109,676</b>	<b>10,666</b>	<b>4,060</b>	<b>189,028</b>
<b>Year ended December 31, 2013</b>							
Opening net book amount	23,478	1,477	39,671	109,676	10,666	4,060	189,028
Business acquisition	2,168	–	5,558	10,499	1,316	50	19,591
Additions	106	203	4,513	22,739	–	881	28,442
Disposals	–	–	(250)	(1,159)	(2,485)	–	(3,894)
Depreciation	–	–	(1,225)	(3,844)	(2,119)	(572)	(7,760)
Depreciation included in inventory	–	(454)	(170)	(318)	(804)	(42)	(1,788)
Transfer to/from assets held for sale	987	–	176	(34)	(256)	–	873
Exchange differences	1,019	–	2,305	5,514	506	398	9,742
<b>Closing net book amount</b>	<b>27,758</b>	<b>1,226</b>	<b>50,578</b>	<b>143,073</b>	<b>6,824</b>	<b>4,775</b>	<b>234,234</b>
<b>As at December 31, 2013</b>							
Cost	27,758	3,809	58,816	181,781	11,516	7,181	290,861
Accumulated depreciation	–	(2,583)	(8,238)	(38,708)	(4,692)	(2,406)	(56,627)
<b>Net book amount</b>	<b>27,758</b>	<b>1,226</b>	<b>50,578</b>	<b>143,073</b>	<b>6,824</b>	<b>4,775</b>	<b>234,234</b>

As a result of the November 30, 2012 McFarland acquisition, the Company has remeasured its previously held interest in 50% of Kanaka and a gain of \$1,623 has been recorded in the consolidated statement of income in other losses (gains), net and \$470 has been included in inventory.

## 8 INTANGIBLE ASSETS AND GOODWILL

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

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

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

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

### Impairment tests for goodwill

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

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

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, estimates of production costs and future capital expenditure. An addition of 1.0% to the discount rate or a 1.0% decrease in cash flows would not give rise to an impairment.

### The carrying value of goodwill is allocated to the following CGUs

CGUs	2013	2012
	\$	\$
Plants specialized in the treatment of utility poles	59,309	45,825
Plants specialized in the treatment of railway ties	96,899	90,009
	<b>156,208</b>	<b>135,834</b>

## 8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

### Impairment tests for intangible assets with indefinite useful life

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

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, estimates of production costs and future capital expenditure. An addition of 1.0% to the discount rate or a 1.0% decrease in cash flows would not give rise to an impairment.

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

	Intangible assets					Total	Goodwill
	Cutting rights	Standing timber	Customer relationships	Non-competes agreements	Creosote registration		
	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2012</b>							
Cost	6,792	6,010	37,965	5,787	31,761	88,315	91,720
Accumulated amortization	(592)	(3,146)	(9,898)	(3,617)	–	(17,253)	–
<b>Net book amount</b>	<b>6,200</b>	<b>2,864</b>	<b>28,067</b>	<b>2,170</b>	<b>31,761</b>	<b>71,062</b>	<b>91,720</b>
<b>Year ended December 31, 2012</b>							
Opening net book balance	6,200	2,864	28,067	2,170	31,761	71,062	91,720
Additions	–	471	–	889	–	1,360	–
Addition of PLS	–	–	800	–	–	800	1,285
Addition of McFarland	1,159	–	27,806	–	–	28,965	44,504
Adjustment of Thompson	–	–	–	–	–	–	286
Transfer to assets held for sale	–	–	(1,674)	–	–	(1,674)	–
Amortization	–	–	(4,434)	(959)	–	(5,393)	–
Amortization included in inventory	(189)	(509)	–	–	–	(698)	–
Exchange differences	–	–	(586)	(41)	(690)	(1,317)	(1,961)
<b>Closing net book amount</b>	<b>7,170</b>	<b>2,826</b>	<b>49,979</b>	<b>2,059</b>	<b>31,071</b>	<b>93,105</b>	<b>135,834</b>
<b>As at December 31, 2012</b>							
Cost	7,951	6,481	64,074	6,551	31,071	116,128	135,834
Accumulated amortization	(781)	(3,655)	(14,095)	(4,492)	–	(23,023)	–
<b>Net book amount</b>	<b>7,170</b>	<b>2,826</b>	<b>49,979</b>	<b>2,059</b>	<b>31,071</b>	<b>93,105</b>	<b>135,834</b>

## 8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Intangible assets					Total	Goodwill
	Cutting rights	Standing timber	Customer relationships	Non-compete agreements	Creosote registration		
	\$	\$	\$	\$	\$	\$	\$
<b>Year ended December 31, 2013</b>							
Opening net book balance	7,170	2,826	49,979	2,059	31,071	93,105	135,834
Additions	–	466	–	–	–	466	–
Adjustment of McFarland	–	–	(328)	–	–	(328)	–
Adjustment of McFarland	–	–	–	–	–	–	450
Addition of PWP	–	–	4,366	470	–	4,836	10,409
Amortization	–	–	(7,247)	(1,315)	–	(8,562)	–
Amortization included in inventory	(233)	(800)	–	–	–	(1,033)	–
Exchange differences	–	–	3,254	105	2,145	5,504	9,515
<b>Closing net book amount</b>	<b>6,937</b>	<b>2,492</b>	<b>50,024</b>	<b>1,319</b>	<b>33,216</b>	<b>93,988</b>	<b>156,208</b>
<b>As at December 31, 2013</b>							
Cost	7,951	6,947	72,503	7,483	33,216	128,100	156,208
Accumulated amortization	(1,014)	(4,455)	(22,479)	(6,164)	–	(34,112)	–
<b>Net book amount</b>	<b>6,937</b>	<b>2,492</b>	<b>50,024</b>	<b>1,319</b>	<b>33,216</b>	<b>93,988</b>	<b>156,208</b>

## 9 OTHER ASSETS

	Note	2013	2012
		\$	\$
Advances and notes receivable		247	501
Assets held for sale		–	498
Long-term bank fees		1,118	1,010
Accrued benefit asset	17	1,979	–
Other		134	826
		<b>3,478</b>	<b>2,835</b>

## 10 BANK INDEBTEDNESS

	2013	2012
	\$	\$
Bankers' acceptances	–	14,000
	<b>–</b>	<b>14,000</b>

As part of the McFarland acquisition (Note 4), the Company assumed and reimbursed debts with financial institutions. Upon reimbursement, all McFarland credit facilities were terminated. Certain cash amounts paid to financial institutions were held as collateral against bankers' acceptance loans that matured in January and February 2013. As at December 31, 2012, \$14,000 in bankers' acceptances were still outstanding with an equivalent amount presented under cash.



## 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2013	2012
		\$	\$
Trade payables		20,497	24,813
Amounts due to related parties	21	106	294
Accrued expenses		27,726	24,169
Other payables		9,725	16,560
		<b>58,054</b>	<b>65,836</b>

## 12 LONG-TERM DEBT

	Note	2013	2012
		\$	\$
Committed revolving credit facility	12(a)	320,360	298,056
Unsecured, subordinated and non-convertible debenture	12(b)	26,590	24,873
Unsecured and non-convertible debenture	12(c)	10,636	9,949
Unsecured promissory note	12(d)	6,664	–
Unsecured promissory note	12(e)	4,778	4,877
Bond – County of Fulton, Kentucky	12(f)	4,060	4,034
Bond – Arkansas Development Finance Authority	12(g)	–	2,447
Subordinated note	12(h)	–	5,424
Unsecured promissory note	12(i)	–	200
		<b>373,088</b>	<b>349,860</b>
Deferred financing costs		(197)	(252)
		<b>372,891</b>	<b>349,608</b>
Less: Current portion of long-term debt		2,791	6,417
Less: Current portion of deferred financing costs		(59)	(59)
Total current portion of long-term debt		<b>2,732</b>	<b>6,358</b>
		<b>370,159</b>	<b>343,250</b>

- a) On March 31 and December 13, 2013, the Company and SJ Holding, as borrowers, entered into agreements to amend the third amended and restated credit agreement dated November 21, 2012. The amended agreement makes available a committed revolving credit facility in the amount of \$400,000 (previously \$350,000), to be used for working capital and general corporate purposes. The \$400,000 committed revolving credit facility was also extended by a year making the facility available for a five-year term by a syndicate of lenders to the Company and SJ Holding, maturing December 13, 2018. Borrowings may be obtained in the form of Canadian prime rate loans, bankers' acceptances ("BA"), U.S. base rate loans, LIBOR loans in U.S. dollars and letters of credit. The interest rate margin with respect to Canadian prime rate loans and U.S. base rate loans will range from 0.0% to 1.0% based on a pricing grid. The interest rate margin with respect to BA, LIBOR loans and fees for letters of credit will range from 1.0% to 2.0% based on a pricing grid. As at December 31, 2013, borrowings by Canadian entities denominated in U.S. dollars represented \$274,622 (US\$258,200), of which \$268,240 (US\$252,200) was designated as a hedge of net investment in foreign operations.

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. The Company did not enter into any new agreements in 2013. Details of the outstanding interest rate swaps as at December 31, 2013 are provided in Note 19, Financial instruments.

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

## 12 LONG-TERM DEBT (CONTINUED)

- b) Unsecured, subordinated and non-convertible debenture bearing interest at 7.27%, and is repayable in a single instalment of US\$25,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.
- c) Unsecured and non-convertible debenture bearing interest at 7.27%, and is repayable in a single instalment of US\$10,000 on April 1, 2016 with no possibility of advance repayment. The debenture was designated as a hedge of net investment in foreign operations.
- d) As part of the PWP acquisition, SJ Corp and McFarland issued an unsecured promissory note of \$7,413 bearing interest at 0.27%. The note is repayable in 12 equal quarterly instalments up to November 2016. The note was initially recorded at a fair value of \$6,664 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- e) Pursuant to a business acquisition on December 7, 2011, SJ Corp issued an unsecured promissory note of \$6,617 bearing interest at 2.67%. The note is repayable in 10 equal annual instalments up to December 2021. The note was initially recorded at a fair value of \$5,357 using an interest rate of 7.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.
- f) Bond issued in favour of the County of Fulton, Kentucky (the Burke-Parsons-Bowlby Project), Series 2006, repayable in annual principal repayments of US\$200 starting July 2008 through July 2011, US\$300 starting August 2011 through July 2019 and US\$400 starting August 2019 through July 2026. The bond bears interest at a variable rate based on the SIFMA Municipal Swap Index. On June 15, 2009, the Company entered into an interest rate swap agreement fixing the rate at 2.99% up to December 1, 2015. The bond is secured by substantially all property, plant and equipment of the Fulton facility, which have a net book value of US\$7,445 as at December 31, 2013. The bond was initially recorded in the consolidated financial statements at a fair value of US\$4,835 using an interest rate of 6.5%. The difference between the face value and the fair value of the bond is being accreted on an effective yield basis over its term.

In order to provide security for the timely payment of the principal and interest due on the bond, the U.S. subsidiaries have made available a US\$4,653 irrevocable letter of credit with the bank that is also the trustee for the Series 2006 Bond Indenture, at an annual fee of 1.0% of the outstanding loan balance. The letter of credit expires on January 17, 2026.

- g) Pursuant to a business acquisition, SJ Corp assumed a bond issued in favour of the Arkansas Development Finance Authority, repayable in annual principal repayments ranging from US\$145 to US\$275 up to September 1, 2024. Interest rates on the bond ranged from 5.62% to 5.81% and were payable semi-annually on March 1 and September 1. In August 2013, the Company fully reimbursed the bond.
- h) Pursuant to a business acquisition on February 28, 2007, SJ Corp issued a note payable to J.H. Baxter & Co. The note was subordinated to existing lenders and bore interest at 5.0%. The note was repayable in five annual principal repayments of US\$500, with a final payment of US\$5,500 on the sixth anniversary date. The note was initially recorded at a fair value of \$6,981 using an interest rate of 8.0%. The difference between the face value and the fair value of the note was being accreted on an effective yield basis over its term. The note matured on February 28, 2013 and was fully repaid.
- i) Unsecured promissory note at 8.0%, payable in quarterly instalments of US\$53, including interest, matured on October 1, 2013.

## 12 LONG-TERM DEBT (CONTINUED)

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

	Principal
	\$
2014	3,429
2015	3,453
2016	40,704
2017	1,018
2018	321,397
Thereafter	5,569
	375,570
Fair value adjustment	(2,482)
	373,088

- k) The aggregate fair value of the Company's long-term debt was estimated at \$373,231 as at December 31, 2013 (2012 – \$350,194) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

## 13 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions				Other long-term liabilities			Grand total
	Reforestation	Site remediation	Others	Total	RSUs	Non-competes payable	Total	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2012</b>	1,316	610	5,857	7,783	1,170	2,582	3,752	11,535
Addition	417	1,328	1,059	2,804	1,995	889	2,884	5,688
Addition related to acquisition	–	6,365	–	6,365	–	373	373	6,738
Provision reversal	–	–	(1,655)	(1,655)	–	–	–	(1,655)
Payment	(541)	(1,700)	(3,945)	(6,186)	(2,724)	(1,296)	(4,020)	(10,206)
Interest accretion	–	–	–	–	–	208	208	208
Exchange differences	–	(9)	(88)	(97)	–	(52)	(52)	(149)
<b>Balance as at December 31, 2012</b>	1,192	6,594	1,228	9,014	441	2,704	3,145	12,159
Addition	823	1,376	110	2,309	2,593	–	2,593	4,902
Addition related to acquisition	–	1,300	–	1,300	–	470	470	1,770
Provision reversal	–	(105)	(4)	(109)	–	–	–	(109)
Payment	(367)	(628)	(156)	(1,151)	–	(1,694)	(1,694)	(2,845)
Interest accretion	–	–	–	–	–	126	126	126
Exchange differences	–	499	83	582	–	146	146	728
<b>Balance as at December 31, 2013</b>	1,648	9,036	1,261	11,945	3,034	1,752	4,786	16,731

### 13 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Analysis of provisions and other long-term liabilities

	2013	2012
	\$	\$
Current		
Provisions	2,181	2,262
Other long-term liabilities	879	1,600
Total current	3,060	3,862
Non-current		
Provisions	9,765	6,752
Other long-term liabilities	3,906	1,545
Total non-current	13,671	8,297
	<b>16,731</b>	<b>12,159</b>

#### Provisions

##### Reforestation

Stella-Jones Canada Inc. has asset retirement obligations relating to reforestation and site remediation that have been estimated using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation of 2.7% (2012 – 4.0%) to approximate the present value of future expenditures.

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

Future non-discounted reforestation expenditures are estimated at between \$531 and \$672 in each of the next three years. There are uncertainties in estimating future reforestation costs due to potential regulatory changes as well as the impact of weather-related changes on reforested areas. Accordingly, the actual cost of reforestation may differ from current estimates.

##### Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of current and former treating sites for a period ranging from 1 to 21 years.

As part of the PWP acquisition, the Company recorded \$1,300 of provisions for site remediation. The remaining balance of \$7,736 is related to ongoing compliance efforts.

##### Others

Other provisions comprise \$214 in legal litigation provisions and \$1,047 in a provision set up to acquire the land of the Memphis facility, which is presently being leased.

#### Other long-term liabilities

##### Restricted stock units

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

### 13 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

#### Other long-term liabilities (continued)

##### Restricted stock units (continued)

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

The RSUs granted on December 18, 2009 reached their third year anniversary on December 18, 2012 and were fully paid.

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

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

As at December 31, 2013, the provision for RSUs was valued at \$3,034 (\$441 as at December 31, 2012). The number of additional RSUs to be issued will be calculated in the same manner as the initial grant.

##### Non-competes payable

The Company entered into non-compete agreements as part of the PWP and previous acquisitions.

### 14 CAPITAL STOCK

	Note	2013	2012
		\$	\$
Number of shares outstanding – Beginning of year*		<b>68,674</b>	63,821
Stock option plan*		–	115
Share issuance*	4	–	4,706
Employee share purchase plans*		<b>23</b>	32
Number of shares outstanding – End of year*		<b>68,697</b>	68,674

\* Number of shares is presented in thousands.

On October 1, 2013, the Board of Directors approved a share split of the Company's outstanding common shares on a 4-for-1 basis. The share split took the form of a share dividend whereby shareholders received three additional common shares for each common share held. The record date for the share dividend was October 21, 2013 and the share dividend payment date was October 25, 2013. The Company's common shares commenced trading on a split basis on October 28, 2013. All references to common shares issued and outstanding, stock options outstanding, as well as per data share have been adjusted to reflect the share split.

a) Capital stock consists of the following:

Authorized

An unlimited number of preferred shares issuable in series

An unlimited number of common shares

#### 14 CAPITAL STOCK (CONTINUED)

##### b) Earnings per share

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

	2013	2012
<b>Net income applicable to common shares</b>	<b>\$ 92,536</b>	<b>\$ 73,070</b>
Weighted average number of common shares outstanding*	68,681	64,312
Effect of dilutive stock options*	372	268
Weighted average number of diluted common shares outstanding*	69,053	64,580
<b>Basic earnings per common share **</b>	<b>\$ 1.35</b>	<b>\$ 1.14</b>
<b>Diluted earnings per common share **</b>	<b>\$ 1.34</b>	<b>\$ 1.13</b>

\* Number of shares is presented in thousands.

\*\* Basic and diluted earnings per common share are presented in dollar per share.

##### c) Stock option plan

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

Under the Plan adopted on June 13, 1994 and amended on May 3, 1995, March 15, 2001, May 3, 2007, December 10, 2010 and October 21, 2013, the aggregate number of common shares in respect of which options may be granted is 4,800,000 and no optionee may hold options to purchase common shares exceeding 5% of the number of common shares issued and outstanding from time to time. The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the last trading day immediately preceding the date of the granting of the option. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. Options will not be assignable and will terminate, in the case of an employee, either 30 or 180 days following cessation of service with the Company, depending on the circumstances of such cessation, and in the case of a director who is not an employee of the Company, either 30 or 180 days following the date on which such optionee ceases to be a director of the Company, depending on the circumstances.

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

	2013		2012	
	Number of options*	Weighted average exercise price**	Number of options*	Weighted average exercise price**
		\$		\$
<b>Outstanding – Beginning of year</b>	<b>520</b>	<b>6.19</b>	635	5.84
Exercised	–	–	(115)	4.25
Granted	30	22.13	–	–
<b>Outstanding – End of year</b>	<b>550</b>	<b>7.06</b>	520	6.19
<b>Options exercisable – End of year</b>	<b>440</b>	<b>6.43</b>	399	6.21

\* Number of options is presented in thousands.

\*\* Exercise price is presented in dollars per option.

#### 14 CAPITAL STOCK (CONTINUED)

##### c) Stock option plan (continued)

The following options were outstanding under the Plan as at December 31, 2013:

Date granted	Options outstanding		Options exercisable		
	Number of options*	Exercise price**	Number of options*	Exercise price**	Expiration date
		\$		\$	
December 2005	44	3.25	44	3.25	December 2015
July 2006	138	4.88	138	4.88	July 2016
August 2006	12	5.14	12	5.14	August 2016
August 2007	90	9.90	90	9.90	August 2017
December 2009	190	6.01	110	6.01	December 2016
December 2009	16	6.01	16	6.01	August 2014
May 2010	30	7.07	24	7.07	May 2020
May 2013	30	22.13	6	22.13	May 2023
	550		440		

\* Number of options is presented in thousands.

\*\* Exercise price is presented in dollars per option.

##### d) Stock-based compensation

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

On May 7, 2013, 30,000 options were granted at a fair value of \$151 and the expense amortized to earnings amounted to \$46. No options were granted during 2012. The fair value was estimated with the following weighted average assumptions:

	2013
Risk-free interest rate	1.28%
Dividend yield	1.00%
Expected life	10 years
Volatility	21.30%
Weighted average of fair value of options granted during the year	\$ 5.05

In 2013, the total expense relating to stock-based compensation amortized to earnings was \$124 (2012 – \$118).

##### e) Employee share purchase plans

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

Under the first plan, Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.0% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2013, 12,746 common shares (2012 – 19,244) were issued to Canadian resident employees at an average price of \$20.30 per share (2012 – \$11.89).

#### 14 CAPITAL STOCK (CONTINUED)

##### e) Employee share purchase plans (continued)

Under the second plan, Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10.0% of the amount of their contributions made on the date of acquisition. In 2013, 10,920 common shares (2012 – 12,444) were issued to U.S. resident employees at an average price of \$22.96 per share (2012 – \$13.19).

As at December 31, 2013, the total number of common shares issued under these plans is 776,646 (2012 – 752,980).

#### 15 EXPENSES BY NATURE

	2013	2012
	\$	\$
Raw materials and consumables	628,973	461,925
Employee benefit expenses	73,379	57,065
Depreciation and amortization	16,322	10,705
Other expenses incurred in manufacturing process	25,679	20,609
Freight	62,122	36,669
Other expenses	24,975	20,925
	<b>831,450</b>	<b>607,898</b>

	2013	2012
	\$	\$
<b>Employee benefit expenses</b>		
Salaries, wages and benefits	69,363	54,273
Share options granted to directors and employees	124	118
Pension costs	1,721	913
Group registered retirement savings plans	2,171	1,761
	<b>73,379</b>	<b>57,065</b>

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

	2013	2012
	\$	\$
<b>Other losses (gains), net</b>		
Asset revaluation following Kanaka's step acquisition	–	(1,623)
Losses on disposal of long-term assets	2,173	2,201
Foreign exchange gain	(707)	(891)
	<b>1,466</b>	<b>(313)</b>



## 16 INCOME TAXES

	2013	2012
	\$	\$
<b>Current tax</b>		
Current tax on income for the year	33,562	30,620
Adjustments in respect of prior years	(1,017)	(134)
<b>Total current tax</b>	<b>32,545</b>	<b>30,486</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,790	(1,879)
Impact of change in tax rate	33	(285)
Adjustment in respect of prior years	903	(115)
<b>Total deferred tax</b>	<b>2,726</b>	<b>(2,279)</b>
<b>Income tax expense</b>	<b>35,271</b>	<b>28,207</b>

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

	2013	2012
	\$	\$
<b>Income before income tax</b>	<b>127,807</b>	<b>101,277</b>
Tax calculated at domestic tax rates of 26.89% (2012 – 26.59%) applicable to income in the respective countries	34,367	26,930
Tax effects of:		
Difference in tax rate of foreign subsidiaries	8,456	6,511
Income not subject to tax	(4,993)	(2,611)
Expenses not deductible for tax purposes	(190)	(10)
Remeasurement of deferred tax – change in tax rate	33	(285)
Adjustment in respect of prior years	(114)	(249)
Exchange revaluation of deferred tax	(86)	(2)
Manufacturing and processing tax credit	(2,202)	(2,077)
<b>Income tax expense</b>	<b>35,271</b>	<b>28,207</b>

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

	2013	2012
	\$	\$
<b>Deferred tax assets</b>		
To be recovered after more than 12 months	2,153	13,088
To be recovered within 12 months	8,838	8,338
<b>Deferred tax liabilities</b>		
To be reversed after more than 12 months	(57,191)	(60,235)
To be reversed within 12 months	–	–
<b>Deferred tax liability, net</b>	<b>(46,200)</b>	<b>(38,809)</b>

## 16 INCOME TAXES (CONTINUED)

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

	2013	2012
	\$	\$
<b>As at January 1</b>	<b>(38,809)</b>	(43,417)
Statement of income charge (credit)	<b>(2,726)</b>	2,279
Tax charge (credit) relating to components of other comprehensive income	<b>(2,327)</b>	199
Tax charge directly to equity	—	652
Tax charge (credit) relating to acquisition	<b>(115)</b>	695
Exchange differences	<b>(2,223)</b>	783
<b>As at December 31</b>	<b>(46,200)</b>	(38,809)

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

	Financing fees	Reserves	Derivative financial instruments	Deferred pension benefits	Capital loss unrealized on foreign exchange on debts	Intangible assets	Net operating loss	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Deferred tax assets</b>								
<b>As at January 1, 2012</b>	731	5,433	422	596	—	—	—	7,182
Charged (credited)								
to statement of income	(431)	(693)	—	(117)	(23)	(1,022)	62	(2,224)
Charged to other comprehensive income	—	—	153	23	23	—	—	199
Charged to equity	652	—	—	—	—	—	—	652
Charged to goodwill	—	3,700	—	1,060	—	10,869	60	15,689
Exchange differences	(3)	(102)	2	8	—	23	—	(72)
<b>As at December 31, 2012</b>	949	8,338	577	1,570	—	9,870	122	21,426
Charged (credited)								
to statement of income	(362)	1,358	—	134	(72)	82	(30)	1,110
Charged (credited) to other comprehensive income	—	—	(424)	(550)	72	—	—	(902)
Credited to goodwill	—	(1,223)	—	—	—	(9,865)	—	(11,088)
Exchange differences	6	365	2	72	—	—	—	445
<b>As at December 31, 2013</b>	593	8,838	155	1,226	—	87	92	10,991

## 16 INCOME TAXES (CONTINUED)

	Property, plant and equipment	Deferred pension benefits	Intangible assets	Deferred financial instruments	Investment tax credit	Capital gain unrealized on foreign exchange gain on debts	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Deferred tax liabilities</b>							
<b>As at January 1, 2012</b>	(27,584)	–	(22,908)	–	(107)	–	(50,599)
Charged to							
statement of income	726	–	3,776	–	1	–	4,503
Charged (credited)							
to goodwill	(15,016)	–	22	–	–	–	(14,994)
Exchange differences	393	–	462	–	–	–	855
<b>As at December 31, 2012</b>	(41,481)	–	(18,648)	–	(106)	–	(60,235)
Charged (credited)							
to statement of income	(5,281)	(30)	1,477	–	(2)	–	(3,836)
Credited to other							
comprehensive income	–	(471)	–	(373)	–	(581)	(1,425)
Charged (credited)							
to goodwill	11,867	–	(894)	–	–	–	10,973
Exchange differences	(1,368)	–	(1,300)	–	–	–	(2,668)
<b>As at December 31, 2013</b>	(36,263)	(501)	(19,365)	(373)	(108)	(581)	(57,191)

In 2012, the Company did not recognize deferred income tax assets of \$378 in respect of capital losses amounting to \$2,848 that can be carried forward indefinitely against future taxable capital gain.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled \$133,321 as at December 31, 2013 (2012 – \$86,133).

## 17 EMPLOYEE FUTURE BENEFITS

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

Following the McFarland acquisition, the Company now contributes to two U.S. defined benefit pension plans.

## 17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

All other active employees are entitled to a group registered retirement savings plan to which the Company matches 1.5 times employee contributions to a maximum of 4% of salary. The recognized costs for employee future benefits were as follows:

	2013	2012
	\$	\$
Post-retirement benefits	154	154
Defined benefit pension plans	1,178	430
Contributions to multi-employer plan	389	329
Contributions to group registered retirement savings plans	2,171	1,761

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

	2013	2012
	\$	\$
<b>Assets</b>		
Accrued benefit asset, included in other assets	1,979	–
	1,979	–
<b>Liabilities</b>		
Accrued benefit liability included in employee future benefits	(1,972)	(1,722)
Accrued benefit obligation, included in employee future benefits	(1,752)	(3,052)
	(3,724)	(4,774)

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

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

	2013	2012
	\$	\$
<b>Accrued benefit obligation</b>		
Balance – Beginning of year	1,722	1,630
Current service cost	83	81
Interest cost	71	73
Benefits payments	(45)	(50)
Actuarial gain	(79)	(12)
Balance – End of year	1,752	1,722
<b>Plan assets</b>		
Employer's contributions	45	50
Benefits paid	(45)	(50)
Fair value – End of year	–	–
<b>Accrued benefit obligation</b>	<b>1,752</b>	<b>1,722</b>

## 17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The significant assumptions used are as follows:

	2013	2012
	%	%
<b>Accrued benefit obligation as at December 31</b>		
Discount rate	4.7	4.0
Rate of compensation increase	2.0	2.0
<b>Benefit costs for the year ended December 31</b>		
Discount rate	4.0	4.3
Rate of compensation increase	2.0	2.0

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed to start in 2009. This rate is assumed to decrease gradually by 0.5% per year, to reach 5.0%. Therefore, the rate used to calculate the cost per capita of health care cost increases in 2013 was 7.5%. An increase or decrease of 1.0% in this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	\$	\$
Impact on accrued benefit obligation	67	(58)
Impact on benefit costs	3	(2)

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

	2013	2012
	\$	\$
Current service cost	83	81
Interest cost	71	73
Past service cost	—	—
<b>Post-retirement benefits program costs recognized</b>	<b>154</b>	<b>154</b>

<b>Consolidated statement of comprehensive income</b>	2013	2012
	\$	\$
<b>Year ended December 31</b>		
Actuarial gains	79	12
<b>Total recognized in other comprehensive income before income tax</b>	<b>79</b>	<b>12</b>

<b>Accumulated actuarial losses recognized in other comprehensive income (loss)</b>	2013	2012
	\$	\$
Balance of actuarial losses as at January 1	(166)	(178)
Net actuarial gains recognized in the year (net of tax)	59	12
<b>Balance of actuarial losses as at December 31</b>	<b>(107)</b>	<b>(166)</b>

## 17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

	Date of last actuarial valuation
Plan 1	December 31, 2010
Plan 2	December 31, 2010
Plan 3	December 31, 2010
Plan 4	December 31, 2011
Plan 5	December 31, 2012
Plan 6	December 31, 2012

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

	2013	2012
	\$	\$
<b>Accrued benefit obligation</b>		
Balance – Beginning of year	19,673	12,755
Addition of subsidiaries	–	6,001
Current service cost	878	560
Interest cost	770	605
Benefits payments	(680)	(611)
Actuarial loss (gain)		
Plan experience	781	(178)
Changes in demographic assumptions	403	–
Changes in financial assumptions	(3,116)	541
Exchange difference	413	–
<b>Balance – End of year</b>	<b>19,122</b>	<b>19,673</b>
<b>Plan assets</b>		
Fair value – Beginning of year	16,621	12,114
Addition of subsidiaries	–	3,266
Interest income on plan assets	451	720
Return on plan asset excluding interest income	1,531	241
Employer's contributions	983	876
Employee's contributions	19	15
Benefits paid	(680)	(611)
Exchange difference	205	–
<b>Fair value – End of year</b>	<b>19,130</b>	<b>16,621</b>
<b>Accrued benefit asset (liability)</b>	<b>8</b>	<b>(3,052)</b>

## 17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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:

	2013	2012
	\$	\$
Accrued benefit obligation	8,675	17,308
Fair value of plan assets	6,031	13,963
<b>Funded status – Plan deficit</b>	<b>(2,644)</b>	<b>(3,345)</b>

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

	2013	2012
	%	%
Equity securities	48.0	46.0
Debt securities	49.0	52.0
Short-term investments and cash	3.0	2.0
	<b>100.0</b>	<b>100.0</b>

The significant weighted average assumptions used are as follows:

	2013	2012
	%	%
<b>Accrued benefit obligation as at December 31</b>		
Discount rate	4.9	3.9
Inflation assumption	2.0	2.0
Rate of compensation increase	3.0	3.0
<b>Benefit costs for the year ended December 31</b>		
Discount rate	3.9	4.5
Inflation assumption	2.0	2.3
Rate of compensation increase	3.0	4.0

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

	2013	2012
	\$	\$
Current service cost, net of employee's contributions	859	545
Interest cost	770	605
Interest income on plan assets	(451)	(720)
Past service cost	–	–
<b>Defined benefit plan expense</b>	<b>1,178</b>	<b>430</b>

Expected contributions to the defined benefit pension plans for the year ending December 31, 2014 are \$1,078.

## 17 EMPLOYEE FUTURE BENEFITS (CONTINUED)

<b>Consolidated statement of comprehensive income</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Year ended December 31</b>		
Actuarial gains (losses)	3,464	(65)
<b>Total recognized in other comprehensive income before income tax</b>	<b>3,464</b>	<b>(65)</b>
<b>Accumulated actuarial losses recognized in other comprehensive income (loss)</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Balance of actuarial losses as at January 1	(2,748)	(2,706)
Net actuarial gains (losses) recognized in the year (net of tax)	2,463	(42)
<b>Balance of actuarial losses as at December 31</b>	<b>(285)</b>	<b>(2,748)</b>

## 18 COMMITMENTS AND CONTINGENCIES

- a) The Company is involved from time to time in various claims and legal proceedings arising in the ordinary course of business. No provision in relation to those claims has been recognized in these consolidated financial statements, as legal advice indicates that it is not probable that a significant liability will arise.
- b) The Company has issued guarantees amounting to \$33,636 (2012 – \$44,061) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.
- c) Future minimum payments under operating leases related to land, equipment and rolling stock are as follows:

	<b>\$</b>
2014	11,953
2015	9,616
2016	7,487
2017	5,499
2018	3,775
Thereafter	15,019
	<b>53,349</b>

- d) The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.
- e) The Company has contracts whereby third party licensees that harvest certain areas assume the responsibility for reforestation. Should the third party licensees fail to perform, the Company is responsible for these additional future reforestation costs, which are currently estimated to be \$785 (2012 – \$730). 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.



## 19 FINANCIAL INSTRUMENTS

### Financial instruments, carrying values and fair values

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

### Credit risk

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

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

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

Note 5 provides details on the receivable aging as well as on the provision for doubtful accounts for the years ended December 31, 2013 and 2012. In 2013, the Company had one customer representing 10.0% of its sales (2012 – 14.0%). As at December 31, 2013, the accounts receivable balance from this customer amounted to \$1,464 (2012 – \$1,278).

### Liquidity risk

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

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

## 19 FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity risk (continued)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The operating activities of the Company are the primary source of cash flows. The Company also has a committed revolving credit facility (Note 12(a)) made available by a syndicate of lenders which can be used for working capital and general corporate requirements. As at December 31, 2013, an amount of \$320,360 was drawn against the Company's committed revolving credit facility. The following table details the maturities of the financial liabilities as at December 31:

	2013					
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	58,054	58,054	58,054	–	–	–
Long-term debt obligations	372,891	407,309	11,326	57,838	332,423	5,722
Interest rate swaps	1,133	4,221	1,490	2,234	497	–
Non-competes payable	1,752	1,862	917	785	160	–
	433,830	471,446	71,787	60,857	333,080	5,722

	2012					
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Bank indebtedness	14,000	14,000	14,000	–	–	–
Accounts payable and accrued liabilities	65,836	65,836	65,836	–	–	–
Long-term debt obligations	349,608	388,324	15,188	18,457	346,440	8,239
Interest rate swaps	1,926	5,010	1,355	2,427	1,228	–
Non-competes payable	2,704	2,953	1,740	915	298	–
	434,074	476,123	98,119	21,799	347,966	8,239

### Market risk

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

### Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar denominated long-term debt held by its Canadian companies. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions to mitigate its currency risk. The Company's basic hedging activity consists of entering into foreign exchange forward contracts for the sale of U.S. dollars and the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the purchase of U.S. dollars for significant purchases of goods and services that were not covered by natural hedges. As at December 31, 2013, the Company had no foreign exchange forward contracts outstanding.

## 19 FINANCIAL INSTRUMENTS (CONTINUED)

### Currency risk (continued)

The following table provides information on the impact of a 10.0% strengthening of the U.S. dollar against the Canadian dollar on net income for the years ended December 31, 2013 and 2012. For a 10.0% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and comprehensive income:

	2013	2012
	\$	\$
Loss to net income	<b>(900)</b>	(1,631)

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

	2013	2012
	\$	\$
<b>Assets</b>		
Accounts receivable	<b>1,492</b>	168
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<b>3,584</b>	2,148
Long-term debt	<b>6,907</b>	14,373
	<b>10,491</b>	16,521

The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been excluded for the most part from the sensitivity analysis for other comprehensive income, as the long-term debt is designated as a hedge of net investment in foreign operations (Note 12).

### Interest rate risk

As at December 31, 2013, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swaps; 66.0% (2012 – 67.0%) of the Company's long-term debt is at fixed rates.

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

The committed revolving credit facility defined in Note 12(a) is made available by a syndicate of bank lenders. The financing of these loans is tied to the Canadian bank's prime rate, the BA rate, the U.S. bank's base rate or LIBOR. The Company has minimized its exposure to interest rate fluctuations by entering into interest rate swaps as detailed below. The impact of a 10.0% increase in these rates on the average annual balance of operating credit facility, for borrowings that have not been swapped, would have increased interest expense by \$180 for the year ended December 31, 2013 (2012 – \$85).

19 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

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

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

				2012
Notional amount	Related debt instrument	Fixed rate	Maturity date	Notional equivalent
			%	CA\$
CA\$10,000	Committed revolving credit facility	1.09*	August 2014	10,000
CA\$10,000	Committed revolving credit facility	1.57*	August 2016	10,000
US\$25,000	Committed revolving credit facility	0.71*	December 2017	24,873
US\$25,000	Committed revolving credit facility	0.69*	December 2017	24,873
US\$25,000	Committed revolving credit facility	0.71*	December 2017	24,873
US\$25,000	Committed revolving credit facility	0.70*	December 2017	24,873
US\$25,000	Committed revolving credit facility	1.16*	December 2016	24,873
US\$15,000	Committed revolving credit facility	1.45*	August 2016	14,294
US\$15,000	Committed revolving credit facility	0.75*	August 2014	14,294
US\$ 5,000	Committed revolving credit facility	5.80	July 2015	4,975
US\$ 5,000	Committed revolving credit facility	5.54	July 2015	4,975
US\$ 1,000	Committed revolving credit facility	4.69	December 2015	995
US\$ 5,600	Bond – County of Fulton, Kentucky	2.99	December 2015	5,571

\* Plus applicable spread

The Company's interest rate swaps are designated as cash flow hedges. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2013, all cash flow hedges were effective.

## 19 FINANCIAL INSTRUMENTS (CONTINUED)

### Interest rate risk (continued)

The fair value of these financial instruments has been determined by obtaining mark-to-market values as at December 31, 2013 from different third parties. This type of measurement falls under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*. A description of each level of the hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of the interest rate swap agreements based on cash settlement requirements as at December 31, 2013 is a net asset of \$986 (2012 – net loss of \$1,728), of which an asset of \$2,119 is recorded in non-current assets and a liability of \$1,133 is recorded in non-current liabilities in the consolidated statement of financial position. A 10.0% decrease in interest rates as at December 31, 2013 would have reduced the net gain recognized in other comprehensive income by approximately \$99 (2012 – \$173). For a 10.0% increase in the interest rates, there would be an equal and opposite impact on the net gain.

## 20 CAPITAL DISCLOSURES

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

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

	2013	2012
	\$	\$
Total debt	<b>372,891</b>	363,608
Shareholders' equity	<b>572,183</b>	468,751
Total capital	<b>945,074</b>	832,359
Total debt to total capitalization ratio	<b>0.39:1</b>	0.44:1

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

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

## 21 RELATED PARTY TRANSACTIONS

### a) Transactions

The Company had the following transactions with related parties:

	2013	2012
	\$	\$
Stella Jones International S.A.*		
Marketing and technical service fees paid	200	200
Stella International S.A. and James Jones & Sons Limited**		
Marketing and technical service fees paid	100	100
Other		
Legal fees charged by a firm in which a director of the Company is a partner	388	458

\* Stella Jones International S.A. holds, directly or indirectly, approximately 38.7% of the outstanding common shares of the Company.

\*\* Stella International S.A. and James Jones & Sons Limited hold 51.0% and 49.0% of all voting shares of Stella Jones International S.A., respectively.

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

On November 30, 2012, in connection with the McFarland acquisition, the Company completed a private placement of subscription receipts with Stella Jones International S.A. The gross amount paid was \$30,960.

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

	2013	2012
	\$	\$
Accounts payable to Stella International S.A. and James Jones & Sons Limited	25	25
Accounts payable to Stella Jones International S.A.	50	50
Accounts payable to a firm in which a director of the Company is a partner	31	219
	106	294

### b) Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management. The compensation paid or payable to key management for employee services is as follows:

	2013	2012
	\$	\$
Salaries, compensation and benefits	3,863	4,417
Share-based payments	46	81
	3,909	4,498

## 22 SEGMENT INFORMATION

The Company operates within one business segment which is the production and sale of pressure-treated wood and related services. Operating plants are located in the Canadian provinces of Nova Scotia, Quebec, Ontario, Alberta and British Columbia, and in the U.S. states of Pennsylvania, Virginia, West Virginia, Kentucky, Wisconsin, Alabama, Indiana, Louisiana, Tennessee, Arkansas, Oregon, Mississippi, Washington, Nevada, Arizona, Texas and Georgia. The Company also operates a large distribution network across North America.

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

	2013	2012
	\$	\$
Canada	209,180	228,356
U.S.	760,969	489,138
	<b>970,149</b>	<b>717,494</b>

Sales by product as at December 31 are as follows:

	2013	2012
	\$	\$
Railway ties	393,968	404,461
Utility poles	405,808	218,491
Industrial products	58,079	59,035
Residential lumber	112,294	35,507
	<b>970,149</b>	<b>717,494</b>

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

	2013	2012
	\$	\$
Canada	64,484	59,380
U.S.	169,750	129,648
	<b>234,234</b>	<b>189,028</b>

Intangible assets with a net book value of \$84,559 (2012 – \$83,109) are attributed to the Company's U.S. operations.

Goodwill with a value of \$155,004 (2012 – \$135,834) is allocated to the U.S., the location where the CGUs hold the majority of their business activities.

## 23 SUBSEQUENT EVENT

On March 13, 2014, the Board of Directors approved a quarterly dividend of \$0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.

# DIRECTORS AND OFFICERS

## BOARD OF DIRECTORS

**Tom A. Bruce Jones, CBE** <sup>(1)</sup>  
Chairman of the Board,  
Stella-Jones Inc.  
Chairman of the Board,  
James Jones & Sons Limited  
(Forest products company)  
Larbert, Scotland  
Director since July 1993

**George J. Bunze, CPA, CMA** <sup>(2) (3)</sup>  
Vice-Chairman and Director,  
Kruger Inc.  
(Manufacturer of paper, tissue,  
wood products, energy (hydro/  
wind) and wine and spirits  
products)  
Montréal, Québec  
Director since May 2001

**Gianni Chiarva** <sup>(3)</sup>  
Vice-Chairman of the Board,  
Stella-Jones Inc.  
Chairman,  
Stella Jones International S.A.  
Milan, Italy  
Director since July 1993

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

**Nycol Pageau-Goyette** <sup>(1) (2) (3) (4)</sup>  
President, Pageau Goyette  
et associés limitée  
(Management services firm)  
Chairperson, Sorinco Inc.  
(Waste management company)  
Montréal, Québec  
Director since July 1993

**Simon Pelletier** <sup>(2)</sup>  
Senior Vice-President,  
Life Cycle Services, Metso  
Mining & Construction Technology  
(manufacturer of mineral pro-  
cessing and construction equip-  
ment)  
Senneville, Québec  
Director since May 2012

**Daniel Picotte** <sup>(1)</sup>  
Partner, Fasken Martineau  
DuMoulin LLP (Law firm)  
Montréal, Québec  
Director since July 1993

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

**Mary Webster** <sup>(1)</sup>  
Corporate Director  
Wayzata, MN, USA  
Director since May 2007

(1) Member of the Environmental,  
Health and Safety Committee

(2) Member of the Audit Committee

(3) Member of the Remuneration  
Committee

(4) Lead Director

A full report of Stella-Jones' corporate  
governance practices is set out in the  
Proxy Circular for the May 1, 2014  
Annual Meeting of Shareholders.

## OFFICERS

**Tom A. Bruce Jones, CBE**  
Chairman of the Board

**Gianni Chiarva**  
Vice-Chairman of the Board

**Brian McManus**  
President and  
Chief Executive Officer

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

**Marla Eichenbaum**  
Vice-President,  
General Counsel and Secretary

## SUBSIDIARIES-SENIOR MANAGEMENT

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

**George Caric**  
Vice-President, Marketing  
Stella-Jones Corporation

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

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

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

**Kris Hedding**  
Vice-President, Sales  
Stella-Jones Corporation

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

**Martin Poirier**  
Vice-President and  
General Manager,  
Central Region

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

**Ian Jones**  
Senior Vice-President  
Stella-Jones Canada Inc.  
and McFarland Cascade  
Holdings, Inc.

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

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

**Michael Sylvester**  
Vice-President, Operations  
Stella-Jones Corporation

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

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

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



# OPERATING LOCATIONS – CANADA

## CORPORATE HEAD OFFICE

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

## ALBERTA

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

## BRITISH COLUMBIA

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

### Plant

Stella-Jones Canada Inc.  
7400 Galloway Mill Road  
Galloway  
British Columbia  
VOB 7P0  
T: (250) 429-3493  
F: (250) 429-3931

### Plant and Sales Office

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

### Fibre & Woodlands Dept.

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

## NOVA SCOTIA

**Plant and Sales Office**  
278 Park Street  
P.O. Box 278  
Truro, Nova Scotia  
B2N 5C1  
T: (902) 893-9456  
F: (902) 893-3874  
truro@stella-jones.com

## ONTARIO

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

## QUÉBEC

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

### Plant and Sales Office

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

### Plant

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

# OPERATING LOCATIONS – UNITED STATES

## CORPORATE OFFICE

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

## LEGAL AND COMPLIANCE

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

## ALABAMA

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

## ARIZONA

**Plant**  
Stella-Jones Corporation  
850 West Chambers St.  
Eloy, AZ  
85231 U.S.A.  
T: (520) 466-7801  
F: (520) 466-3607  
sjcorp@stella-jones.com

## ARKANSAS

**Plant**  
Stella-Jones Corporation  
4260 South  
Arkansas Ave.  
Russellville, AR  
72802 U.S.A.  
T: (479) 968-5085  
F: (479) 968-4636  
sjcorp@stella-jones.com

## GEORGIA

**Plant**  
Stella-Jones Corporation  
3500 Pateville Road  
Cordele, GA  
31015 U.S.A.  
T: (229) 273-8012  
F: (229) 273-8220  
sjcorp@stella-jones.com

## INDIANA

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

## KENTUCKY

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

## LOUISIANA

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

## MISSISSIPPI

**Plant**  
McFarland Cascade  
13539 Highway 45  
Scooba, MS  
39358-7611 U.S.A.  
T: (662) 476-8000  
F: (662) 475-8005  
info@mcfarland  
cascade.com

## NEVADA

**Plant**  
McFarland Cascade  
1680 E Spruce Avenue  
Silver Springs, NV  
89429 U.S.A.  
T: (775) 577-2000  
F: (775) 577-9045  
info@mcfarland  
cascade.com

## OREGON

**Plant and Office**  
McFarland Cascade  
90049 Highway 99N.  
Eugene, OR  
97402 U.S.A.  
T: (541) 689-1278  
F: (541) 689-6027  
info@mcfarland  
cascade.com

**Plant**  
McFarland Cascade  
22125 SW  
Rock Creek Road  
Sheridan, OR  
97378 U.S.A.  
T: (503) 843-2122  
F: (503) 843-7058  
info@mcfarland  
cascade.com

## PENNSYLVANIA

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

## Plant

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

## TENNESSEE

## Coal Tar Distillation Facility

Stella-Jones Corporation  
1471 Channel Avenue  
Memphis, TN  
38106 U.S.A.  
T: (901) 942-3326  
F: (901) 942-3128  
sjcorp@stella-jones.com

## VIRGINIA

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

## WASHINGTON

**Plant and Sales Office**  
McFarland Cascade  
6520 - 188th NE.  
Arlington, WA  
98223 U.S.A.  
T: (360) 435-2146  
F: (360) 435-3035  
info@mcfarland  
cascade.com

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

## WEST VIRGINIA

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

## WISCONSIN

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

# CORPORATE INFORMATION

## ANNUAL MEETING OF SHAREHOLDERS

May 1, 2014

10:00 a.m.

Hotel Omni Mont-Royal

Salon Pierre de Coubertin

1050 Sherbrooke Street West

Montréal, Québec

## STOCK INFORMATION

Shares listed: Toronto Stock Exchange

Ticker symbol: SJ

Initial public offering: 1994

52-week high/low (Jan. 1 – Dec. 31, 2013): \$30.36 / \$17.99

Share price at March 13, 2014: \$27.04

Common shares outstanding as at December 31, 2013: 68.7 million

## DIVIDEND POLICY

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

On March 13, 2014, the Board of Directors declared a quarterly dividend of \$0.07 per common share.

## TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

## AUDITORS

PricewaterhouseCoopers LLP

## LEGAL COUNSEL

Fasken Martineau Dumoulin LLP

Foley & Lardner LLP

All references to common shares issued and outstanding, as well as per share data, reflect a 4-for-1 share split that took the form of a share dividend whereby shareholders received three additional common shares for each common share held. The payment date for the share dividend was October 25, 2013.



# Stella-Jones<sup>Inc.</sup>

[WWW.STELLA-JONES.COM](http://WWW.STELLA-JONES.COM)

