Management's Discussion & Analysis

Three-month period ended September 30, 2007 compared with three-month period ended September 30, 2006.

The following Management's Discussion and Analysis ("MD&A") dated November 13, 2007 should be read in conjunction with the MD&A for the year ended December 31, 2006, the audited consolidated financial statements for the year ended December 31, 2006, and the unaudited consolidated interim financial statements of the Company for the three months ended September 30, 2007 with the notes thereto. The interim financial results are prepared in accordance with Canadian Generally Accepted Accounting Principles and results are reported in Canadian dollars. 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. Additional information, including the Company's annual information form, quarterly and annual reports, and supplementary information is available on SEDAR at **www.sedar.com.** Press releases and other information are also available in the Financial Information section of the Company's Web site at **www.stella-jones.com.**

Operating results

Sales for the third quarter ended September 30, 2007 reached $74.8 million, an increase of $6.7 million, or 9.9%, over last year's third quarter sales of $68.1 million. The sales increase is largely attributable to the Arlington, Washington facility, acquired on February 28, 2007, which contributed sales of $9.0 million. Organically, sales experienced a modest decline owing to the negative impact of a stronger Canadian dollar and to the forest industry strike in southern British Columbia that began on July 20, 2007 and continued until October 21, 2007. The strike forced the suspension of operations at the New Westminster treating facility and at Stella-Jones' pole peeling joint venture in Maple Ridge.

For the first nine months of 2007, sales reached $221.3 million, an increase of 26.9% over the $174.3 million in sales recorded in the same period last year. In addition to the acquisition of the Arlington facility, the increase reflects the nine-month contribution from the Carseland, Alberta facility, versus only three months in 2006.

All of the Company's product categories posted sales increases over last year's third quarter. Utility pole sales increased by 7.0% to reach $32.8 million, as they benefited from the addition of the Arlington facility, but were tempered by the labour conflict in British Columbia. Railway tie sales improved to $26.8 million in the third quarter, a 13.1% increase over the $23.7 million recorded during the same quarter in 2006. This was due in large part to the addition of a new treatment cylinder at the Bangor, Wisconsin facility earlier this year that allowed the Company to improve its market share. Third quarter consumer lumber sales also increased significantly, rising to $10.5 million from $9.1 million in the same period last year, driven by a strong housing market across Canada. Finally, sales of industrial lumber were up marginally to $4.6 million, with strength in Eastern Canada offset by the impact of the strike in British Columbia.

Gross profit improved in the third quarter of 2007, both in dollar terms and as a percentage of sales. Gross profit was $17.9 million, or 23.9% of sales, up from $15.6 million or 22.9% of sales in the same period in 2006. While railway tie and consumer lumber margins increased owing to higher volume in both categories, margins for utility poles and industrial lumber were slightly affected by the strike in British Columbia that caused some production to be transferred to other treatment facilities at higher costs to the Company. Nevertheless, a favourable product mix, improved product pricing, economies of scale, operating efficiencies and better throughput continued to have positive effects on gross profit.

For the nine-month period ended September 30, 2007, gross profit amounted to $54.1 million, representing 24.4% of sales, compared with $39.0 million, or 22.4% of sales for the same nine-month period in 2006.

Selling and administrative expenses for the third quarter of 2007 were $4.4 million, or 5.8% of sales, up from $3.8 million, or 5.6% of sales, in the same period one year ago. This $0.6 million increase is largely the result of the Company's additional activities related to the acquisition of the Arlington, Washington facility. For the nine-month period ended September 30, 2007, selling and administrative expenses increased to $13.1 million, up from $10.5 million, also reflecting the inclusion of the Carseland, Alberta facility for the entire period, versus only three months in 2006. However, as a percentage of sales, year-to-date selling and administrative expenses decreased to 5.9% from 6.0% last year.

The Company realized a **foreign exchange** loss of $290,000 in the third quarter of 2007, compared with a foreign exchange gain of $455,000 in the corresponding period a year earlier. Total foreign exchange loss for the year-to-date period was $776,000, compared with a foreign exchange gain of $431,000 for the same period in 2006.

Amortization of capital assets increased to $1.4 million for the third quarter of 2007 compared with $872,000 in the corresponding period one year earlier. This increase stems from higher capital assets as a result of acquisitions and investments in new equipment. After nine months, amortization of capital assets stood at $3.8 million, up from $2.5 million in the same period in 2006.

Financial expenses for the quarter ended September 30, 2007 were $1.3 million compared with $1.1 million for the same period last year. The rise in financial expenses is due to increases in short and long-term borrowings resulting from the acquisitions of the Arlington, Washington facility in February 2007 as well as increases in the Company's working capital requirements. After the first nine months of the year, financial expenses were $4.2 million, up from $2.6 million in the same period in 2006.

Income tax expenses amounted to $3.4 million for the third quarter of 2007, representing an effective tax rate of 32.7%, compared with 33.9% for the same period in the prior year. For the first nine months of this year, income tax expenses reached $11.1 million, for an effective tax rate of 34.3%, a figure comparable to the effective rate of 34.2% for the first nine months of 2006.

Net earnings were $7.1 million, or $0.56 per share, fully diluted, in the third quarter ended September 30, 2007, compared with $6.8 million, or $0.55 per share, fully diluted, in the corresponding period of 2006. For the first nine months of 2007, net earnings totalled $21.3 million, or $1.68 per share, fully diluted, compared with $15.7 million, or $1.36 per share, fully diluted, in the prior year.

Business Acquisition

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

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management's estimate of their fair value as of the acquisition date. The following fair value allocation is preliminary and is based on Management's best estimates and information known at the time of preparing these interim unaudited consolidated financial statements. Subsequent revisions to this preliminary fair value allocation, if any, are expected to be accounted for by December 31, 2007. The results of operations of Baxter have been included in the consolidated financial statements from the acquisition date.

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

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Assets acquired	
Accounts receivable	3,792,494
Inventories	9,849,614
Prepaid expenses	143,523
Capital assets	12,605,534
	26,391,165
Liabilities assumed	
Obligation under capital lease	278,995
	26,112,170
Consideration	
Cash, including transaction costs of $386,528	16,975,602
Receivable from vendor	(168,749)
Long-term subordinated note payable to vendor	9,285,600
Reserve amount for transaction costs, included in accounts payable	19,717
	26,112,170

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

Liquidity and capital resources

Cash flows from operating activities amounted to $9.3 million for the third quarter of 2007, compared with $8.4 million in the corresponding period last year. For the nine-month period, cash flows from operating activities reached $26.8 million, an increase of $6.6 million over the corresponding period last year.

After working capital requirements, third-quarter operating activities generated cash flows of $14.5 million versus $14.9 million in the corresponding period last year, whereas on a year-to-date basis, cash flows totalled $8.6 million, versus $12.7 million a year earlier. So far in 2007, accounts receivable have increased by $7.3 million while inventories have grown by $8.5 million owing to a higher level of business activity. The acquisition of Baxter is also partially responsible for these variances. Inventory levels also reflect increased purchases of raw wood in order to benefit from favourable procurement conditions.

This solid cash flow generation resulted in a $15.1 million decrease in **short-term bank indebtedness** during the third quarter, to reach $42.8 million as at September 30, 2007, a level comparable to a short-term debt of $42.3 million at the end of 2006. The Company remains within its bank margining limits and was in compliance with all of its banking covenants throughout the nine-month period.

Long-term debt and other long-term liabilities, including the current portion, remained virtually unchanged at $49.7 million during the third quarter. However, since the start of 2007, the $17.8 million increase in long-term debt and other long-term liabilities is mainly related to credit facilities arranged to partially finance the Baxter acquisition in February.

Shareholders' equity increased to $125.0 million as at September 30, 2007, representing a book value of $10.13 per share, up from $8.60 per share at the end of 2006. The Company's long-term debt-to-equity

ratio was 0.40:1 as at September 30, 2007, compared with 0.30:1 as at December 31, 2006, as a result of the increased borrowing for the Baxter acquisition. As at November 12, 2007, the capital stock issued and outstanding consisted of 12,339,905 common shares (12,298,015 as at December 31, 2006).

Capital expenditures were $1.7 million and $5.8 million, respectively, for the third quarter and first nine months of 2007. Investments in the quarter were mainly for equipment upgrades, renovations and repairs at several facilities, while year-to-date investments include $3.2 million related to the expansion of the Bangor, Wisconsin facility with, among other initiatives, the addition of a new treating cylinder.

Risks and Uncertainties

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2006 Annual Report.

Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new Handbook Sections which are effective for the Company's interim periods beginning on January 1, 2007:

- Handbook Section 3855, "Financial Instruments – Recognition and Measurement", describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, except for those classified as held-to-maturity or loans and receivables, and derivative financial instruments must be measured at their fair value. All financial liabilities must be measured at their fair value if they are classified as held for trading purposes. If not, they are measured at their carrying value.

  The Company has implemented the following classification:

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

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

  Bank loans, accounts payable, credit facilities, notes, loans payable, and obligations under capital leases are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

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

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

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

The Company enters into foreign exchange forward contracts to limit its exposure under contracted cash inflows and outflows of US dollars. The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. The Company has documented its use of derivative financial instruments and has concluded that they qualify for hedge accounting.

The adoption of these new standards translated into the following changes as at January 1, 2007: a $568,785 increase in accumulated other comprehensive income, a $848,933 increase in short-term and long-term derivative financial instruments reported under assets and a $280,148 increase in future tax liabilities.

For the three-month period ended September 30, 2007, the Company recorded a decrease of $76,268 in accumulated other comprehensive income, a decrease of $96,043 in short-term and long-term derivative financial instruments reported under assets and a decrease of $19,775 in future income tax liabilities. During the period, a gain on foreign exchange forward contracts of $520,422 was reclassified from other comprehensive income to sales.

For the nine-month period ended September 30, 2007, the Company recorded an increase of $368,352 in accumulated other comprehensive income, an increase of $592,817 in short-term and long-term derivative financial instruments reported under assets and an increase of $224,465 in future tax liabilities. During the period, a gain on foreign exchange forward contracts of $1,211,551 was reclassified from other comprehensive income to sales.

In order to qualify for hedge accounting, the effectiveness of a financial instrument in offsetting changes in the fair value of the hedged item must be demonstrated. On a quarterly basis the Company assesses the effectiveness of its financial instruments both retroactively and prospectively. When a portion of a financial instrument becomes ineffective, the proportionate gain or loss recorded on the balance sheet is reclassified from other comprehensive income to foreign exchange gain or loss in the statement of earnings. For the three and nine month periods ended September 30th, 2007, the Company reclassified a gain of $200,836 from other comprehensive income to the statement of earnings as a portion of a forward contract became ineffective.

Impact of accounting pronouncements not yet implemented

The CICA has issued the following new Handbook Sections which are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007:

Handbook Section 3031, "*Inventories",* was issued in June 2007 and replaces the existing standard for inventories, Section 3030. The main features of the new Section are as follows:

- Measurement of inventories at the lower of cost and net realizable value
- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost
- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new Section is effective for the Company beginning January 1, 2008. The Company is currently assessing the impact on its consolidated financial statements.

Handbook Section 3862, *"Financial Instruments – Disclosures",* describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

Handbook Section 3863, "*Financial Instruments – Presentation",* establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, "*Financial Instruments – Disclosure and Presentation*". The Company does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

Handbook Section 1535, "*Capital Disclosures",* establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

Contractual Obligations

In the normal course of business, the Company enters into certain contractual obligations and commercial commitments, such as operating leases, letters of credit and others. The summary of the Company's obligations and commitments as at December 31, 2006 can be found in its 2006 Annual Report and have not materially changed since December 31, 2006.

Outlook

Stella-Jones is satisfied with its third-quarter results despite the disruptions caused by the labour conflict in British Columbia, which has since been resolved. Operations at New Westminster and Maple Ridge resumed on October 22, 2007. However, near term results will continue to be affected by the rapid rise in the Canadian versus the US dollar. A significant portion of our revenue stream is generated in US dollars and accordingly, impacts the conversion to our reporting currency, the Canadian dollar. Foreign exchange fluctuations on asset and liability conversions will affect reported net earnings until the relative currencies stabilize.

Nevertheless, end markets for the Company's products continue to enjoy solid fundamentals. Demand for utility poles is stable and the February 28, 2007 acquisition in the Pacific Northwest will allow Stella-Jones to leverage market opportunities and synergies for all of its facilities. Management is in the process of optimizing the contribution of these assets. In railway ties, the consolidation movement in the railway industry with recently completed or proposed acquisitions by Canadian Class 1 operators should benefit large-scale suppliers, such as Stella-Jones. The increased production capacity of the Bangor, Wisconsin facility resulting from the additional treating cylinder should also have an increasingly favourable impact on operating results. In residential lumber, Management continues to expect a solid performance going forward, while our industrial lumber sales should remain sound, although last year's record performance in this category will likely not be matched.

Acquisitions will continue to be an integral part of Stella-Jones' growth strategy going forward. The Company has a strong balance sheet and the capacity to act as an industry consolidator. Management will continue to pursue opportunities that meet its stringent investment requirements.

November 13, 2007