Management's Discussion & Analysis

Three-month period ended March 31, 2008 compared with three-month period ended March 31, 2007.

The following Management's Discussion and Analysis ("MD&A") dated May 7, 2008 should be read in conjunction with the MD&A for the year ended December 31, 2007, the audited consolidated financial statements for the year ended December 31, 2007, and the unaudited consolidated interim financial statements of the Company for the three months ended March 31, 2008 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.**

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

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

As at May 7, 2008, the Company owns and operates 15 wood treating plants, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These 20 facilities are located in six Canadian provinces and seven American states. The Company's workforce currently numbers approximately 750 employees.

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

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

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

Foreign exchange
The table below shows the closing and average exchange rates for the periods ended March 31, 2008 and 2007.

Canada/US exchange rate		**2008**	**2007**
Closing rate to translate assets and liabilities	Cdn$/US$	1.0265	1.1546
Average rate to translate sales and expenses	Cdn$/US$	0.9909	1.1697

Operating results

Sales
Sales for the quarter ended March 31, 2008 reached $66.2 million, an increase of $4.2 million, or 6.8%, over sales of $61.9 million for the quarter ended March 31, 2007. The contribution from the Arlington, Washington facility for the full period in 2008, versus only one month in 2007, accounted for essentially all of this gain. The appreciation of the Canadian dollar, Stella-Jones' reporting currency, reduced the value of U.S. dollar denominated sales by approximately $5.0 million when compared with the same period last year.

Sales by product group
Railway ties
Railway tie sales for the first quarter of 2008 amounted to $32.3 million, a 31.4% increase over sales of $24.6 million achieved in the same period a year earlier. These results reflect continued strength in railway tie demand and increased supply capability, following the expansion of the Company's Bangor, Wisconsin facility with the addition, in May 2007, of a treating cylinder that increased the capacity of the plant by over 50%. Railway tie sales accounted for 48.8% of the Company's total sales in the first quarter of 2008.

Utility poles
Utility pole sales reached $27.7 million in the first quarter of 2008 compared with $30.5 million during the same period in 2007. This 9.2% decrease is mainly due to three factors: a softening in the U.S. market for utility poles which resulted in more competitive pricing; a lower conversion rate on U.S. utility pole sales; and adverse weather conditions in Canada that delayed utility pole installation. These factors were offset by a $7.2 million contribution over three months from the Arlington, Washington facility, acquired in February 2007, versus $2.8 million over one month in the first quarter of 2007. Utility pole sales accounted for 41.8% of the Company's total sales in the first quarter of 2008.

Consumer lumber
Sales in the consumer lumber category totalled $4.1 million in the first quarter of 2008, up 12.7% from $3.7 million in the first quarter of 2007. Consumer lumber accounted for 6.2% of Stella-Jones' total sales in the first quarter of 2008.

Industrial lumber
Industrial lumber sales declined by 36.0% in the first quarter of 2008, to $2.1 million, from $3.2 million reported in the corresponding period of 2007. The decrease is essentially due to lower demand because of adverse weather conditions in Canada. The category represented 3.2% of overall sales in the first quarter of 2008.

Sales by destination
In the first quarter of 2008, sales in Canada reached $38.3 million, or 57.9% of the Company's total sales, up 3.9% over sales of $36.9 million a year earlier. Sales in the United States amounted to $27.9 million, or 42.1% of sales, an increase of 11.1% over the first quarter of 2007.
The strong increase in sales in the U.S. market came as a result of the contribution of the Arlington, Washington facility, acquired on February 28, 2007 and increased sales from the Bangor, Wisconsin facility following its capacity expansion.

Gross profit
Gross profit reached $13.7 million or 20.6% of sales in the first quarter of 2008, versus $15.9 million or 25.7% of sales in 2007. The decrease in gross profit results from an unfavourable product mix with lower sales of higher margin transmission poles compared with the corresponding period a year earlier. A lower conversion rate on U.S. dollar denominated sales also negatively affected margins, in absolute dollar terms, when compared with the same period last year.

Expenses
Selling and administrative expenses for the first quarter of 2008 were $2.9 million, a decrease of $671,000 or 19.0% compared with a year earlier. This decrease is attributable to a reduction in administrative expenses resulting from lower compensation costs for the period. As a result, selling and administrative expenses represented 4.3% of sales in the first quarter of 2008, down from 5.7% in the first quarter of 2007.

The Company realized a foreign exchange gain of $175,000 for the quarter, versus a foreign exchange loss of $68,000 last year. As at March 31, 2008, the Company had on hand foreign exchange contracts for the future sale of U.S. dollars totalling $4.6 million at rates averaging Cdn$1.1548/US$1.00 maturing up to December 2009. The unrealized net foreign exchange gain on these contracts totalled $544,000 as at March 31, 2008.

Amortization of capital assets totalled $1.4 million in the first quarter of 2008, an increase of $315,000 over the first quarter of 2007. This increase is mainly attributable to the acquisition of the Arlington, Washington facility in February 2007, as well as to the addition of a treatment cylinder at the Bangor, Wisconsin facility in May 2007.

Financial expenses for the three-month period ended March 31, 2008, remained stable at $1.4 million compared with the three-month period ended March 31, 2007. A slightly higher average indebtedness in the first quarter of 2008 than in the corresponding period in 2007 was offset by the recent easing in North American interest rates.

Stella-Jones' income tax expense amounted to $2.9 million in the first quarter of 2008, for an effective tax rate of 35.2%, compared with $3.8 million in the first quarter of 2007, representing an effective tax rate of 38.1%.

Net earnings
Net earnings for the period ended March 31, 2008 totalled $5.3 million, or $0.42 per share, fully diluted, compared with $6.1 million, or $0.48 per share, fully diluted, in the same period in 2007.

Subsequent event
On April 1, 2008 the Company completed the acquisition of The Burke-Parsons-Bowlby Corporation (“BPB”), a producer of treated wood products primarily for the railroad industry. The acquisition has been structured as a merger between a U.S.-based wholly-owned subsidiary of the Company, and BPB. This acquisition includes five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky.

The purchase price totalled approximately US$33.0 million (CDN$33.7 million), which was paid to existing stockholders of BPB through the conversion of each outstanding share of common stock of BPB into the right to receive US$47.78 (CDN$48.82) per share in cash, plus an additional payment equal to BPB’s audited net income for its fiscal year ending March 31, 2008, less any distributions to shareholders during that period. The parties have placed US$3.0 million (CDN$3.1 million) in escrow until the additional payment amount has been determined. Stella-Jones is also assuming BPB’s liabilities of approximately US$34.0 million (CDN$34.7 million) as at December 31, 2007, making the total transaction value approximately US$70.0 million (CDN$71.5 million). The transaction was financed by a US$25.0 million (CDN$25.5 million) debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, as well as through existing and additional debt facilities.

Additionally, three former executive officers of BPB have entered into non-competition agreements with Stella-Jones for a six-year period following the transaction, in return for an annual non-competition fee of US$416,667 (CDN$425,709) per individual.

BPB, which began operations in 1955, had sales of approximately US$100.0 million for the twelve-month period ended December 31, 2007.

Quarterly results

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

2008

For the quarters ended	**March 31**				
(thousands of dollars, except per share data)	**$**				
Sales	66,182				
Operating earnings before amortization of capital assets [1]	10,997				
Operating earnings [1]	9,616				
Net earnings	5,323				
Net earnings per common share	0.43				
Diluted net earnings per common share	0.42				

2007

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

2006

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

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

Liquidity and capital resources

As at March 31, 2008, Stella-Jones' working capital reached $113.3 million, up from $106.5 million as at December 31, 2007. Current assets amounted to $192.6 million on March 31, 2008, up from $172.8 million as at December 31, 2007. Most of this $19.8 million increase is attributable to a $13.8 million rise in the value of accounts receivable owing to stronger business activity at the end of the quarter. The value of inventories remained relatively steady at $147.7 million, versus $142.9 million three months earlier, as usage of raw material purchased at favourable terms in late 2007 was offset by requirements for future sales volume increases.

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

Capital assets stood at $70.1 million as at March 31, 2008, compared with $70.3 million as at December 31, 2007. This moderate decrease relates to amortization levels in excess of capital expenditures during the three-month period.

Bank indebtedness at the end of the first quarter totalled $55.4 million, an increase of $16.4 million over bank indebtedness of $39.0 million at the beginning of the fiscal year. This increase essentially mirrors the aforementioned rise in accounts receivable. Bank indebtedness includes a $50.0 million demand operating loan with Canadian banks, as well as a US$20.0 million operating line of credit with the U.S. bankers of Stella-Jones Corporation. Total availability under the Company's Canadian and U.S. operating lines of credit was $18.9 million and US$3.0 million, respectively, as at March 31, 2008.

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

On March 31, 2008, the Company's long-term debt amounted to $42.6 million, a decrease of $461,000 since the beginning of the fiscal year, essentially reflecting scheduled repayments.

Shareholders' equity was $134.2 million as at March 31, 2008, a $6.4 million increase from December 31, 2007 levels. The Company's earnings for the three-month period accounted for most of this gain. Book value stood at $10.87 per common share as at March 31, 2008, up from $10.35 per common share as at December 31, 2007.

As at March 31, 2008, Stella-Jones' ratio of total long-term debt, including the current portion, to shareholders' equity stood at 0.35:1 compared with 0.37:1 as at December 31, 2007.

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

Summary of cash flows	**Three-month periods ended**	
(thousands of dollars)	**March 31, 2008**	**March 31, 2007**
Operating activities	($14,441)	($3,840)
Financing activities	$15,056	$22,987
Investing activities	($615)	($19,147)

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

Cash flow from operating activities before changes in non-cash working capital components was $7.1 million for the three-month period ended March 31, 2008, compared with $7.6 million for the same period in 2007. The reduction essentially stems from lower net earnings in the first quarter of 2008. After taking into account the changes in non-cash working capital components, operating activities resulted in a cash utilization of $14.4 million in the first quarter of 2008, versus a cash utilization of $3.8 million a year earlier.

The Company's net financing activities generated cash of $15.1 million for the first quarter ended March 31, 2008, compared with $23.0 million for the same period a year earlier. Such activities consist of increases in short and long-term bank and other borrowings as well as proceeds from the issuance of common shares under the Company's stock option and employee share purchase plans, less repayments of long-term debt.

Investing activities required $615,000 in cash during the first quarter of 2008, primarily for the purchase of capital assets, compared with $19.1 million in the first quarter of the 2007, a period that included the Arlington, Washington facility acquisition, which required the use of nearly $17.0 million in cash.

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

(thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	$	$	$	$	$
Long-term debt obligations	47,694	4,615	8,823	14,511	19,745
Capital lease obligations	218	77	141	-	-
Operating leases	18,860	2,399	3,849	1,882	10,730
Total contractual obligations	66,772	7,091	12,813	16,393	30,475

Share and stock option information
As at May 6, 2008, the capital stock issued and outstanding consisted of 12,351,646 common shares (12,341,088 as at December 31, 2007).

As at March 31, 2008, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 153,070 (December 31, 2007 – 162,070) of which 67,570 (December 31, 2007 – 76,570) were exercisable.

Effective May 6, 2003, the Company granted to its President and Chief Executive Officer, under a Stock Option Agreement, 300,000 options to acquire an equivalent number of common shares at an exercise price of $2.99 per share. These options became exercisable on May 6, 2008.

Dividends
On March 12, 2008, the Board of Directors declared a semi-annual dividend of $0.16 per common share. The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based upon and subject to the Company's earnings and financial requirements, any covenants in its loan documentation and other conditions prevailing at the time. There can be no assurance as to the amount or timing of such dividends in the future.

Commitments and contingencies
The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2007 Annual Report.

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 2007 Annual Report.

Changes in accounting policies
The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standards which were adopted by the Company on January 1, 2008:

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

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

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

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

Impact of accounting pronouncements not yet implemented
The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2009:

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

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

Disclosure controls and internal control over financial reporting
In accordance with the Canadian Securities Administrators' Multilateral Instrument 52-109, the Company has filed certificates signed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

The Company did not make any material changes to the design of internal controls over financial reporting during the three months ended March 31, 2008 that have had a material effect on the Company's internal controls over financial reporting.

Outlook

Stella-Jones' core railway tie and utility pole markets are still experiencing strong fundamentals and Management remains optimistic about future organic growth.

The Company will continue to seek organic growth by focusing on its key markets. This will be achieved by capturing more of its existing clients' business and expanding its customer base, as it realizes the full potential of recent acquisitions.

While strategic acquisitions will remain an integral part of the Company's growth plan, Management's primary focus over the near term will be integrating and optimizing the BPB acquisition. Nonetheless, Management will continue to seek targets in its core markets that meet its stringent investment requirements and provide synergistic opportunities.

The railway tie market, in which Stella-Jones has established itself as the second largest player in North America following its acquisition of BPB on April 1, 2008, is expected to stay strong, driven by Class-1 railroad capital expenditures and short-line railroad expansion projects. The optimization of the BPB assets, along with expanded capacity at the Bangor, Wisconsin facility should enable the Company to better service its growing customer base in the United States.

In utility poles, emerging energy sources, such as wind farms, and an aging infrastructure creating pent-up demand for pole replacement are important demand drivers. Geographical diversification and a complete product offering are key attributes that give Stella-Jones the ability to promptly respond to market opportunities.

Integration of the BPB acquisition will be a key success factor in upcoming periods. Although BPB presently generates lower operating margins, the Company is confident about its ability to gradually increase BPB's margins close to a level comparable to that of its existing facilities over the next 24 months.

May 7, 2008