Management's Discussion & Analysis

Three-month period ended September 30, 2008 compared with three-month period ended September 30, 2007.

The following Management's Discussion and Analysis ("MD&A") was approved by the Audit Committee and the Board of Directors on November 13, 2008 and 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 September 30, 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 Investor/Media Centre 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, specializing in the production of railway ties and timbers, as well as wood poles supplied to electrical utilities and telecommunications companies.

The Company also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges.

As at November 13, 2008, the Company owns and operates fifteen wood treating plants, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These twenty facilities are located in six Canadian provinces and seven American states. The Company's workforce currently numbers approximately 740 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 quarters ended September 30.

Canada/US exchange rate		2008	2007
Closing rate to translate assets and liabilities	Cdn$/US$	1.0642	0.9948
Average rate to translate sales and expenses	Cdn$/US$	1.0425	1.0631

Operating results

Sales

Sales for the quarter ended September 30, 2008 reached $111.8 million, an increase of $37.0 million, or 49.5%, over sales of $74.8 million for the quarter ended September 30, 2007. The acquisition of The Burke-Parsons-Bowlby Corporation (“BPB”), effective April 1, 2008, contributed sales of approximately $31.5 million. Organically, sales increased by about 7.0%, although last year’s third quarter results were negatively affected by a forest industry strike in British Columbia that forced the suspension of operations at the New Westminster treating facility and at the Company’s pole peeling joint venture in Maple Ridge. Year-over-year fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, did not materially impact the value of U.S. dollar denominated sales in the third quarter when compared with the same period last year.

For the first nine months of 2008, sales totalled $301.1 million, an improvement of $79.8 million, or 36.1%, over sales of $221.3 million recorded in the first nine months of 2007. In addition to the BPB acquisition, the increase is also due to the contribution from the Arlington, Washington facility for the entire period, versus only seven months in 2007. When compared with the same period a year ago, the appreciation of the Canadian dollar reduced the value of U.S. dollar denominated sales by approximately $7.8 million in the first nine months of 2008.

Sales by product group

Railway ties

Railway tie sales for the third quarter of 2008 amounted to $55.2 million, an increase of $28.4 million, or 106.2%, over the third quarter of 2007. These results reflect the BPB acquisition and sustained industry demand in both Canada and the United States. Railway tie sales accounted for 49.4% of the Company’s total sales in the third quarter of 2008. For the nine-month period ended September 30, 2008, railway tie sales reached $153.2 million, an increase of 84.5% over sales of $83.1 million a year earlier.

Utility poles

Utility pole sales reached $37.6 million in the third quarter of 2008 compared with $32.8 million during the same period in 2007. This 14.6% increase relates to solid sales of both distribution and transmission poles, reflecting an increase in the rate of utility pole installations, which had been delayed earlier in the year. Utility pole sales accounted for 33.6% of the Company’s total sales in the third quarter of 2008. In the first nine months of 2008, utility pole sales totalled $102.3 million, an increase of $3.1 million, or 3.1%, over sales of $99.2 million last year.

Consumer lumber

Sales in the consumer lumber category totalled $12.4 million in the third quarter of 2008 compared with $10.5 million in the third quarter of 2007. This 17.7% increase mainly reflects further expansion by the Company’s largest customer in that business category. Consumer lumber accounted for 11.1% of Stella-Jones' total sales in the third quarter of 2008. After the first nine months of 2008, consumer lumber sales amounted to $29.5 million compared with $26.7 million last year, representing an increase of 10.6%.

Industrial lumber

In the third quarter of 2008, industrial lumber sales were $6.6 million, representing an increase of $1.9 million, or 41.4%, over the third quarter of 2007. The increase reflects the addition of BPB’s ancillary product sales offset by lower demand for industrial lumber products in both Eastern and Western Canada. This category represented 5.9% of overall sales in the third quarter of 2008. For the first nine months of 2008, industrial lumber sales totalled $16.1 million, representing an increase of 30.3% over sales of $12.3 million a year earlier.

Sales by destination

In the third quarter of 2008, sales from the Company’s Canadian facilities reached $58.3 million, or 52.2% of the Company's total sales, up 15.6% over sales of $50.5 million a year earlier. The increase is explained by robust demand for the Company's products and by the impact on 2007 sales of the forest industry strike in southern British Columbia. In addition, a three-week shutdown of the Arlington, Washington facility in August for operational systems improvements necessitated the temporary transfer of some production to the Company's facilities in Western Canada.

Sales by the United States facilities amounted to $53.5 million, or 47.8% of sales, in the third quarter of 2008 compared with $24.4 million in the third quarter of 2007. The strong increase came essentially as a result of the contribution of the BPB operations.

For the first nine months of 2008, sales from the Canadian facilities totalled $166.9 million, versus $159.6 million a year ago, representing an increase of 4.5%. Sales from U.S.-based facilities were $134.2 million, compared with $61.6 million last year, reflecting the contribution of the BPB operations since April 1, 2008 and of the Arlington, Washington facility for the entire period, versus only seven months in 2007.

Gross profit

Gross profit stood at $20.8 million, or 18.6% of sales, in the third quarter of 2008, versus $17.9 million, or 23.9% of sales, in 2007. The decrease as a percentage of sales is a direct result of the unprecedented rapid rise in wood and energy costs in the quarter.

Wood cost increases have primarily impacted profitability on the Company's U.S. railway tie sales and result from wood shortages caused by mill closures and production slowdowns in the Southeastern United States. The weak U.S. housing market is largely driving these closures. Energy cost increases have directly affected shipping, handling and treating costs in all product categories. These factors have also hindered Management's ability to raise the relatively lower BPB margins during the third quarter. In addition, many of the Company's multi-year railway tie contracts are on a calendar year basis and have fixed prices, which may only be adjusted annually, further impacting percentage margins.

For the first nine months of 2008, gross profit reached $59.7 million, or 19.8% of sales, up from $54.1 million, or 24.4% of sales, a year earlier.

Expenses

Selling and administrative expenses for the third quarter of 2008 were $6.2 million, an increase of $1.8 million over the third quarter of 2007. The increase is mainly attributable to the BPB acquisition. As a percentage of sales, selling and administrative expenses amounted to 5.6% in the third quarter of 2008, down from 5.8% in the third quarter of 2007. The decrease in selling and administrative expenses expressed as a percentage of sales reflects overhead cost containment, synergies from increased volumes for the period and reduced compensation expenses. For the nine-month period ended September 30, 2008, selling and administrative expenses totalled $15.0 million, up from $13.1 million for the same period a year earlier.

The Company incurred a foreign exchange loss of $388,000 in the third quarter of 2008, versus a foreign exchange loss of $290,000 last year. As at September 30, 2008, the Company had on hand foreign exchange contracts for the future sale of U.S. dollars totalling $2.2 million at rates averaging Cdn$1.1503/US$1.00 maturing up to December 2009. The unrealized net foreign exchange gain on these contracts totalled $181,000 as at September 30, 2008.

Amortization of capital and intangible assets totalled $2.0 million in the third quarter of 2008, an increase of $0.6 million over the corresponding period in 2007. This increase is mainly attributable to the BPB acquisition in April 2008. Amortization of capital and intangible assets reached $5.2 million in the first nine months of 2008, an increase of $1.4 million over amortization of $3.8 million in the same period last year.

Financial expenses for the three-month period ended September 30, 2008 amounted to $1.9 million compared with $1.3 million in the three-month period ended September 30, 2007. The increase is due to higher borrowings resulting from the acquisition of BPB. In the first nine months of 2008, the Company incurred financial expenses of $5.5 million compared with $4.2 million in 2007.

Stella-Jones' income tax expense amounted to $3.4 million in the third quarter of 2008, for an effective tax rate of 33.3%, compared with $3.4 million in the third quarter of 2007, representing an effective tax rate of 32.7%. The increase in the effective tax rate is due to a greater proportion of earnings before income taxes generated in the United States, where corporate income tax rates are typically higher. For the first nine months of 2008, the income tax expense reached $11.6 million, for an effective tax rate of 34.3%, compared with $11.1 million, equivalent to an effective tax rate of 34.3%, in the first nine months of 2007.

Net earnings

Net earnings for the quarter ended September 30, 2008 totalled $6.9 million, or $0.54 per share, fully diluted, compared with $7.1 million, or $0.56 per share, fully diluted, in the same period in 2007. For the nine-month period ended September 30, 2008, net earnings amounted to $22.2 million, or $1.75 per share, fully diluted, up from $21.3 million, or $1.68 per share, fully diluted, a year prior.

Business Acquisition

On April 1, 2008 the Company completed the acquisition of The Burke-Parsons-Bowlby Corporation (“BPB”) through a merger between a wholly-owned U.S. subsidiary of the Company, and BPB. BPB produces pressure treated wood products, primarily for the railroad industry. This acquisition included five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky. BPB had sales of approximately US$107.0 million for the twelve-month period ended March 31, 2008.

Total consideration for this acquisition was approximately $44.0 million (US$43.0 million), including estimated acquisition costs of approximately $1.1 million (US$1.1 million), and cash on hand of $0.1 million (US$0.1 million). This amount includes $33.7 million (US$33.0 million) paid to BPB stockholders through the conversion of each outstanding share of common stock of BPB into the right to receive US$47.78 per share in cash, $3.5 million (US$3.4 million) representing 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 and other post-closing adjustments, as well as an additional discounted amount of $5.8 million (US$5.7 million) to be paid in equal quarterly installments over a six-year period with respect to non-compete agreements entered into with certain former BPB executives.

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. The purchase price allocation is expected to be completed by December 31, 2008 and consequently, changes could occur mainly with respect to acquisition costs, intangible assets, goodwill and future income taxes. The results of operations of BPB 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 as of the acquisition date:

In thousands of Canadian dollars	$
Assets acquired	
Non cash working capital	41,600
Capital assets	24,432
Customer relationships	3,953
Non-compete agreements	5,814
Goodwill	5,775
Future income tax assets	1,355
	82,929
Liabilities assumed	
Notes payable to banks	(14,007)
Accounts payable and accrued liabilities	(6,858)
Long-term debt	(9,206)
Interest-bearing employee deposits	(2,134)
Future income tax liabilities	(6,690)
	44,034
Consideration	
Cash, financed by debt	33,716
Purchase price adjustment paid in cash	3,478
Non-compete agreements payable	5,814
Cash on hand	(97)
Acquisition costs	1,123
	44,034

The transaction was financed through additional borrowings of approximately $40.9 million (US$40.0 million), including the issuance of a $25.5 million (US$25.0 million) unsecured and nonconvertible debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, a $10.2 million ($US10.0 million) revolving term loan from a Canadian bank and a draw-down on an existing operating margin of $5.1 million (US$5.0 million).

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	June 30	Sept. 30		
(thousands of dollars, except per share data)	$	$	$		
Sales	66,182	123,081	111,828		
EBITDA [1]	10,997	19,394	14,148		
Operating earnings [1]	9,616	17,599	12,127		
Net earnings	5,323	10,047	6,850		
Net earnings per common share	0.43	0.81	0.55		
Diluted net earnings per common share	0.42	0.80	0.54		

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	74,816	48,440	269,714
EBITDA [1]	12,301	14,725	13,255	8,720	49,000
Operating earnings [1]	11,235	13,424	11,864	7,537	44,060
Net earnings	6,097	8,078	7,084	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
EBITDA [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 EBITDA, consisting of operating earnings before amortization of capital and intangible 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. EBITDA 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.

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

Liquidity and capital resources
As at September 30, 2008, Stella-Jones' working capital reached $146.1 million, up from $106.5 million as at December 31, 2007. Current assets amounted to $247.7 million on September 30, 2008, up from $172.8 million as at December 31, 2007. Most of this $74.9 million increase is attributable to accounts receivable and inventories related to BPB's operations.

Excluding BPB, the value of accounts receivable would have risen by $16.1 million since the beginning of the year, owing to solid organic growth in the peak second and third quarters, while the value of inventories would have modestly increased by $2.2 million.

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 $97.5 million as at September 30, 2008, compared with $70.3 million as at December 31, 2007. This increase results from the addition of BPB's capital assets and to capital expenditures of $6.2 million during the nine-month period.

Following the BPB acquisition, intangible assets totalling $9.3 million, comprised of customer relationships and the discounted value of the non-compete agreements, as well as goodwill of $6.0 million, were included in the Company's balance sheet as at September 30, 2008.

Bank indebtedness at the end of the third quarter totalled $63.0 million, an increase of $23.9 million over bank indebtedness of $39.0 million at the beginning of the fiscal year. This increase essentially mirrors increased working capital requirements during the Company's peak season comprised of the second and third quarters. Bank indebtedness includes a $50.0 million demand operating loan with a Canadian bank, as well as a US$40.0 million operating line of credit with the U.S. bankers of Stella-Jones' U.S. subsidiaries. Total availability under the Company's Canadian and U.S. operating lines of credit was $26.1 million and US$10.4 million, respectively, as at September 30, 2008.

Management believes that these operating lines of credit, combined with the Company's 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 September 30, 2008, the Company's long-term debt, including the current portion, amounted to $96.3 million, up from $47.4 million at the beginning of the fiscal year, essentially attributable to the BPB acquisition.

Shareholders' equity was $149.7 million as at September 30, 2008, an increase of $22.0 million since December 31, 2007. The Company's earnings for the nine-month period accounted for most of this increase. Book value stood at $11.92 per common share as at September 30, 2008, up from $10.35 per common share as at December 31, 2007.

As at September 30, 2008, Stella-Jones' ratio of total long-term debt, including the current portion, to shareholders' equity stood at 0.64:1 compared with 0.66:1 as at the end of the previous quarter on June 30, 2008, and 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 (thousands of dollars)	**Three-month periods ended** Sept. 30, 2008	**Three-month periods ended** Sept. 30, 2007	**Nine-month periods ended** Sept. 30, 2008	**Nine-month periods ended** Sept. 30, 2007
Operating activities	$6,091	$14,624	$1,403	$9,066
Financing activities	($2,720)	($13,358)	$42,905	$13,066
Investing activities	($3,371)	($1,266)	($44,308)	($22,132)
Cash and cash equivalents	$---	$---	$---	$---

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 $9.4 million for the quarter ended September 30, 2008, compared with $9.3 million for the same period in 2007. The increase reflects higher amortization of capital and intangible assets mainly related to the BPB acquisition partially offset by lower net earnings in the third quarter of 2008. Changes in non-cash working capital components used funds of $3.3 million in the third quarter of 2008 compared with providing funds of $5.3 million in the third quarter of 2007. The difference essentially stems from a greater inventory build-up in the third quarter of 2008, versus the same period a year ago. As a result, cash flows from operating activities generated liquidity of $6.1 million in the third quarter of 2008, versus $14.6 million a year earlier. For the first nine months of 2008, cash flows from operating activities generated funds of $1.4 million compared with $9.1 million in 2007.

The Company's net financing activities were a use of cash of $2.7 million for the quarter ended September 30, 2008, compared with $13.4 million for the same period last year. Such activities consist of variations 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. The variation between the two periods of comparison is attributable to a greater reduction, a year ago, of short-term bank indebtedness. For the nine-month period ended September 30, 2008, net financing activities generated liquidity of $42.9 million compared with $13.1 million a year earlier.

Investing activities required $3.4 million in cash during the third quarter of 2008, primarily for the purchase of capital assets ($3.3 million), compared with $1.3 million in the third quarter of 2007. Investing activities required liquidity of $44.3 million in the first nine months of 2008 compared with $22.1 million for the same period in 2007.

The maturities of the Company's financial liabilities as at September 30, 2008 are outlined in the table below:

(thousands of dollars)	Payments due by period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	$	$	$	$	$
Bank indebtedness	62,957	---	---	---	62,957
Accounts payable and accrued liabilities	30,451	---	---	---	30,451
Long-term debt obligations	4,965	11,566	20,290	61,652	98,473
Capital lease obligations	79	129	161	-	369
Non-compete agreements	1,330	2,660	2,660	665	7,315
Total	99,782	14,355	23,111	62,317	199,565

Share and stock option information
As at November 13, 2008, the capital stock issued and outstanding consisted of 12,561,075 common shares (12,341,088 as at December 31, 2007).

As at November 13, 2008, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 147,785 (December 31, 2007 – 162,070) of which 81,285 (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 and 100,000 options remained outstanding and exercisable as at November 13, 2008.

Dividends
On August 13, 2008, the Board of Directors declared a semi-annual dividend of $0.18 per common share, payable to shareholders on October 10, 2008. 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.

The Company monitors the credit worthiness of its customers and has not, to date, observed any significant deterioration in the collection of trade accounts receivable. The Company believes credit risk is limited by the geographical distribution and large size of its customers, which primarily include utility, telecommunications and Class 1 railroad companies, and by procedures regarding commercial risk management.

Off-balance sheet arrangements and financial instruments
On September 26, 2008, the Company designated a portion of its U.S. dollar denominated long-term debt as a hedge of its net investment in a self-sustaining foreign operation. For such debt designated as a hedge of the net investment in a self-sustaining foreign operation, exchange gains and losses are recognized in "Accumulated Other Comprehensive Loss".

For additional details pertaining to off-balance sheet arrangements and financial instruments, refer to Note 11 to the Company's unaudited consolidated financial statements for the third quarter ended September 30, 2008

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.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative figures reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS, and the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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 September 30, 2008 that have had a material effect on the Company's internal controls over financial reporting.

Outlook
Driven by strong fundamentals, demand for Stella-Jones' core railway tie and utility pole products is holding. However, the current financial and economic climate will continue to cause uncertainty. As a result, despite an acknowledged infrastructure deficit, certain projects requiring the Company's products may be delayed.

The Company will continue to seek organic growth by capturing more of its existing clients' business and expanding its customer base, as it leverages the full potential of its extensive North American network. Strategic acquisitions also remain an integral part of the Company's growth plan, and Management will further search for targets in its core markets that meet its stringent investment requirements and provide synergistic opportunities.

Nonetheless, Management's primary focus over the near term remains integrating and optimizing the BPB acquisition. Although BPB presently generates lower operating margins, the Company is confident about its ability to gradually improve BPB's margins to a level comparable to that of the remainder of its operations by the end of 2009. Margins may also gradually improve if the Company can successfully adjust selling prices to reflect increases in raw material costs, as per provisions in most of the Company's multi-year contracts, which call for adjustments towards the end of each calendar year. Finally, the recent reduction in oil prices and the weakening of the Canadian dollar versus the U.S. currenty since the end of the third quarter should have a beneficial effect on margins.

November 13, 2008

NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the third quarter ended September 30, 2008 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle
Senior Vice-President and Chief Financial Officer

Montréal, Québec
November 14, 2008

CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

as at September 30, 2008 and December 31, 2007

	Sept. 30, 2008 unaudited ($)	Dec. 31, 2007 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	59,214	26,411
Derivative financial instruments (Note 11)	153	658
Inventories	181,494	142,874
Prepaid expenses	2,526	1,472
Income taxes receivable	1,936	784
Future income taxes	2,418	619
	247,741	172,818
CAPITAL ASSETS	97,476	70,264
DERIVATIVE FINANCIAL INSTRUMENTS (Note 11)	28	274
INTANGIBLE ASSETS (Notes 3 & 4)	9,343	---
GOODWILL (Notes 3 & 4)	6,015	---
OTHER ASSETS (Note 5)	2,381	1,143
FUTURE INCOME TAXES	357	357
	363,341	244,856
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	62,957	39,026
Accounts payable and accrued liabilities	32 712	21,856
Future income taxes	---	289
Current portion of long-term debt (Note 7)	4,696	4,409
Current portion of asset retirement obligations	731	751
Current portion of non-compete payable	522	---
	101,618	66,331
LONG-TERM DEBT (Note 7)	91,554	43,035
FUTURE INCOME TAXES	12,957	5,968
ASSET RETIREMENT OBLIGATIONS	499	467
EMPLOYEE FUTURE BENEFITS	1,494	1,298
DERIVATIVE FINANCIAL INSTRUMENTS (Note 11)	333	---
NON-COMPETE PAYABLE	5,174	---
	213,629	117,099
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	49,849	46,023
CONTRIBUTED SURPLUS	1,829	4,045
RETAINED EARNINGS	98,728	80,745
ACCUMULATED OTHER COMPREHENSIVE LOSS	(694)	(3,056)
	149,712	127,757
	363,341	244,856

See accompanying Notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of dollars, except where specified otherwise)

Unaudited	three months ended Sept. 30, 2008 (#)	three months ended Sept. 30, 2007 (#)	nine months ended Sept. 30, 2008 (#)	nine months ended Sept. 30, 2007 (#)
SHARE CAPITAL				
Shares outstanding – beginning of period	12,557,177	12,326,969	12,341,088	12,298,015
Stock option plan	1,500	11,500	14,285	37,785
Stock option agreement	---	---	200,000	---
Share purchase plan	2,102	1,335	5,406	4,004
Shares outstanding – end of period	12,560,779	12,339,804	12,560,779	12,339,804
	($)	**($)**	**($)**	**($)**
Shares outstanding – beginning of period	49,754	45,762	46,023	45,473
Stock option plan	43	165	286	367
Stock option agreement	---	---	3,384	---
Share purchase plan	52	48	156	135
Shares outstanding – end of period	49,849	45,975	49,849	45,975
CONTRIBUTED SURPLUS				
Balance - beginning of period	1,766	3,296	4,045	2,417
Stock-based compensation	76	527	664	1,406
Exercise of stock options	(13)	(88)	(2,880)	(88)
Balance – end of period	1,829	3,735	1,829	3,735
RETAINED EARNINGS				
Balance - beginning of period	94,139	70,948	80,745	58,004
Net earnings for the period	6,850	7,084	22,220	21,260
Dividends on common shares	(2,261)	---	(4,237)	(1,232)
Balance – end of period	98,728	78,032	98,728	78,032
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance - beginning of period	(2,837)	(951)	(3,056)	(73)
Adoption of new accounting standards for financial instruments, net of taxes of $280	---	---	---	569
Other comprehensive gain (loss)	2,143	(1,769)	2,362	(3,216)
Balance – end of period	(694)	(2,720)	(694)	(2,720)
SHAREHOLDERS' EQUITY	149,712	125,022	149,712	125,022

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of dollars, except per share data)

Unaudited	three months ended Sept. 30, 2008 ($)	2007 ($)	nine months ended Sept. 30, 2008 ($)	2007 ($)
SALES	111,828	74,816	301,091	221,275
EXPENSES				
Cost of sales (Note 9)	91,053	56,943	241,358	167,208
Selling and administrative	6,221	4,376	14,983	13,074
Foreign exchange loss	388	290	227	776
Amortization of capital and intangible assets	2,021	1,391	5,197	3,758
Loss (gain) on disposal of capital assets	18	(48)	(16)	(64)
	99,701	62,952	261,749	184,752
OPERATING EARNINGS	12,127	11,864	39,342	36,523
INTEREST ON LONG-TERM DEBT	1,207	731	3,716	2,137
OTHER INTEREST	644	614	1,821	2,017
EARNINGS BEFORE INCOME TAXES	10,276	10,519	33,805	32,369
PROVISION FOR INCOME TAXES	3,426	3,435	11,585	11,109
NET EARNINGS FOR THE PERIOD	6,850	7,084	22,220	21,260
NET EARNINGS PER COMMON SHARE (Note 8)	0.55	0.57	1.79	1.73
DILUTED NET EARNINGS PER COMMON SHARE (Note 8)	0.54	0.56	1.75	1.68

See accompanying Notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in thousands of dollars)

Unaudited	three months ended Sept. 30, 2008 ($)	2007 ($)	nine months ended Sept. 30, 2008 ($)	2007 ($)
NET EARNINGS FOR THE PERIOD	6,850	7,084	22,220	21,260
Other comprehensive earnings:				
Net change in unrealized losses on translating financial statements of self-sustaining foreign operation	3,209	(1,692)	3,867	(3,584)
Net change in unrealized gains (losses) on translating long-term debt designated as a hedge of net investment in self-sustaining foreign operation (Note 2)	(758)	---	(758)	---
Change in fair value of derivatives designated as cash flow hedges	(347)	625	(500)	2,004
Gain on cash flow hedges reclassed to sales	(101)	(721)	(583)	(1,412)
Corresponding income tax recovery (expense)	140	19	336	(224)
	2,143	(1,769)	2,362	(3,216)
COMPREHENSIVE EARNINGS	8,993	5,316	24,582	18,044

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Unaudited	three months ended Sept. 30, 2008 ($)	three months ended Sept. 30, 2007 ($)	nine months ended Sept. 30, 2008 ($)	nine months ended Sept. 30, 2007 ($)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	6,850	7,084	22,220	21,260
Adjustments for				
Amortization of capital assets	1,598	1,391	4,404	3,758
Amortization of intangible assets	423	---	793	---
Amortization of defered financing charges	14	---	35	---
Change in fair value of debt	(15)	---	335	---
Loss (gain) on disposal of capital assets	18	---	(16)	(16)
Employee future benefits	64	81	196	207
Stock-based compensation	76	527	664	1,406
Unrealized foreign exchange loss on long-term debt	388	---	388	---
Future income taxes	---	216	---	216
Other	5	21	(34)	59
	9,421	9,320	28,985	26,890
CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS				
Decrease (increase) in:				
Accounts receivable	8,617	6,710	(16,007)	(7,560)
Inventories	(9,748)	(3,026)	(5,501)	(8,080)
Prepaid expenses	(234)	1,647	(801)	1,194
Income taxes receivable	(2,263)	---	(1,075)	---
Increase (decrease) in:				
Accounts payable and accrued liabilities	522	1,168	(4,210)	(1,502)
Income taxes payable	---	(884)	---	(1,742)
Asset retirement obligations	(224)	(311)	12	(134)
	(3,330)	5,304	(27,582)	(17,824)
	6,091	14,624	1,403	9,066
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	(1,415)	(15,085)	8,091	2,749
Increase in long-term debt	89	2,664	45,719	13,570
Repayment of long-term debt	(1,160)	(1,063)	(9,243)	(2,435)
Proceeds from issuance of common shares	83	126	946	414
Non-compete payable	(317)	---	(632)	---
Dividend on common shares	---	---	(1,976)	(1,232)
	(2,720)	(13,358)	42,905	13,066
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES				
(Increase) decrease in other assets	(59)	391	(8)	513
Business acquisition	(182)	---	(38,220)	(16,976)
Purchase of capital assets	(3,251)	(1,655)	(6,235)	(5,812)
Proceeds from disposal of capital assets	121	(2)	155	143
	(3,371)	(1,266)	(44,308)	(22,132)
NET CHANGE IN CASH AND CASH EQUIVALENTS – DURING THE PERIOD	---	---	---	---
CASH AND CASH EQUIVALENTS – BEGINNING AND END OF THE PERIOD	---	---	---	---
SUPPLEMENTAL DISCLOSURE				
Interest paid	1,769	1,495	4,907	4 360
Income taxes paid	5,313	4,131	11,861	12,731

See accompanying Notes

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements for the nine months ended September 30, 2008 and 2007, are unaudited and include estimates and adjustments that the Management of Stella-Jones Inc. (the "Company") consider necessary for a fair presentation of the financial position, shareholders' equity, earnings, comprehensive earnings and cash flows.

The interim consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a basis consistent with those followed in the annual consolidated financial statements of the Company for the year ended December 31, 2007, except for new accounting policies that were adopted January 1, 2008, as described below. However, they do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the Company's latest audited year-end consolidated financial statements and notes.

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

Principles of consolidation

The unaudited interim consolidated financial statements include the accounts of the Company, its wholly-owned Canadian subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Bell Pole Canada Inc. and its wholly-owned U.S. subsidiaries, Stella-Jones U.S. Holding Corporation, Stella-Jones Corporation, The Burke-Parsons-Bowlby Corporation, and Stella-Jones U.S. Finance Corporation. The consolidated accounts of Bell Pole Canada Inc. include the accounts of a 50% interest in Kanaka Creek Pole Company Limited, a joint venture which is accounted for under the proportionate consolidation method of accounting.

Changes in accounting policies

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

- Handbook Section 3031, "Inventories", replaces Section 3030, "Inventories". The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal 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. The adoption of this new standard did not have any material impact on the financial results.

- Handbook Section 3862, "Financial Instruments – Disclosures", Handbook Section 3863, "Financial Instruments – Presentation" and Handbook Section 1535, "Capital Disclosures" establish standards for disclosing information about an entities financial instruments and capital. These Sections relate to disclosure and presentation only and did not have an impact on the interim consolidated financial statements. Notes 11 and 12 provide the required information.

NOTE 1 (cont'd.)

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 Statement Concepts" was amended according to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented Companies. The Company is presently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board (AcSB) has confirmed that Canadian GAAP, as used by public companies, will be converged to International Financial Reporting Standards (IFRS) over a transition period that is expected to be completed by 2011.

While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTE 2 – NET INVESTMENT HEDGE

On September 26, 2008, the Company designated a portion of its U.S. dollar denominated long-term debt as a hedge of its net investment in a self-sustaining foreign operation. For such debt designated as a hedge of the net investment in a self-sustaining foreign operation, exchange gains and losses are recognized in "Accumulated Other Comprehensive Loss".

NOTE 3 – BUSINESS ACQUISITION

On April 1, 2008, the Company completed the acquisition of The Burke-Parsons-Bowlby Corporation ("BPB") through a merger with a wholly-owned U.S. subsidiary of the Company, and BPB. BPB produces pressure treated wood products, primarily for the railroad industry. This acquisition included five treating plants located in DuBois, Pennsylvania; Goshen, Virginia; Spencer, West Virginia; and Stanton and Fulton, Kentucky.

Total consideration for the acquisition was approximately $44.0 million (US$43.0 million), including estimated acquisition costs of approximately $1.1 million (US$1.1 million), and cash on hand of $0.1 million (US$0.1 million). This amount includes $33.7 million (US$33.0 million) paid to BPB stockholders through the conversion of each outstanding share of common stock of BPB into the right to receive US$47.78 per share in cash, $3.5 million (US$3.4 million) representing an additional payment equal to BPB's audited net income for its fiscal year ended March 31, 2008, less any distributions to shareholders during that period and other post-closing adjustments, as well as an additional discounted amount of $5.8 million (US$5.7 million) to be paid in equal quarterly instalments over a six-year period with respect to non-compete agreements entered into with certain former BPB executives.

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. During the third quarter, the Company adjusted the carrying value of certain capital assets as well as goodwill, intangible assets and future income taxes. The purchase price allocation is expected to be completed by December 31, 2008 and consequently, changes could occur mainly with respect to acquisition costs, intangible assets, goodwill and future income taxes. The results of operations of BPB have been included in the interim consolidated financial statements from the acquisition date.

NOTE 3 (cont'd.)

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

(in thousands of dollars)	**($)**
Assets acquired	
Non cash working capital	41,600
Capital assets	24,432
Customer relationships	3,953
Non-compete agreements	5,814
Goodwill	5,775
Future income tax assets	1,355
	82,929
Liabilities assumed	
Notes payable to banks	(14,007)
Accounts payable and accrued liabilities	(6,858)
Long-term debt	(9,206)
Interest-bearing employee deposits	(2,134)
Future income tax liabilities	(6,690)
Total consideration	44,034
Consideration	
Cash, financed by debt	33,716
Purchase price adjustment paid in cash	3,478
Non-compete agreements payable	5,814
Cash on hand	(97)
Acquisition costs	1,123
Total consideration	44,034

The BPB acquisition was financed through additional borrowings of approximately $40.9 million (US$40.0 million), including the issuance of a $25.5 million (US$25.0 million) unsecured and nonconvertible debenture to the *Fonds de solidarité des travailleurs du Québec (F.T.Q.),* a $10.2 million (US$10.0 million) revolving term loan from a Canadian bank and a draw-down on an existing operating margin of $5.1 million (US$5.0 million). Details on the financing are available in Note 6 on Bank Indebtedness and Note 7 on Long-Term Debt.

NOTE 4 – GOODWILL AND INTANGIBLE ASSETS

The Company has recognized goodwill and intangible assets as part of the purchase price allocation of the BPB acquisition. Upon recognition of these assets, the Company adopted the following accounting policies.

Goodwill is not amortized and will be subject to an annual impairment test, or more frequently if events or changes in circumstances indicate that it might be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based upon discounted estimated cash flows, exceeds the net carrying amount of that reporting unit as of the assessment date. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the sum of the discounted estimated cash flows, a second test must be performed whereby the fair value of the reporting unit's goodwill must be estimated to determine if it is less than its net carrying amount. Fair value of goodwill is estimated in the same way as goodwill was determined at the date of the acquisition in a business combination, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit.

NOTE 4 (cont'd.)

Intangible assets are initially accounted for at fair value which subsequently becomes the cost. The presentation in the interim consolidated balance sheets is at cost less accumulated amortization and the related amortization expense is included under amortization in the consolidated statements of earnings. For the three-month period ended September 30, 2008, the amortization expense for customer relationships and the non-compete agreements was $174,723 and $247,958 respectively. For the nine-month period ended September 30, 2008, the amortization expense for customer relationships and the non-compete agreements was $310,834 and $482,258 respectively. Amortization is calculated on a straight-line basis over the useful life of the intangible assets as follows:

Customer relationships	3 to 10 years
Non-compete agreements	6 years

NOTE 5 – OTHER ASSETS

(in thousands of dollars)	**Sept. 30, 2008**	**Dec. 31, 2007**
	($)	**($)**
Notes receivable	397	361
Accrued benefit asset	782	782
Assets held for resale	1,202	---
	2,381	1,143

Notes receivable comprise a home relocation mortgage of $220,000 bearing interest at a variable rate per year prescribed by the Canada Revenue Agency and supplier loans with balances of $176,746.

The accrued benefit asset arises from the Bell Pole Canada Inc. pension funds, which is measured for accounting purposes as at December 31 of each year.

The Company has decided to sell an office building and underlying land that were acquired from BPB which are recorded at a fair value of $530,059. These assets are considered redundant as a new office is being constructed on newly acquired land. The Company has also decided to sell a building and its underlying land located in Christina Lake, British Columbia which have a net book value of $671,629.

NOTE 6 – BANK INDEBTEDNESS

(in thousands of dollars)	**Sept. 30, 2008**	**Dec. 31, 2007**
	($)	**($)**
Demand operating loan arranged with a Canadian bank (Note 6 (a))	26,128	21,494
Demand operating loan arranged with a U.S. bank (Note 6 (b))	33,748	14,817
Proportionate share of Kanaka Creek Pole Company Limited demand operating loan (Note 6 (c))	3,081	2,715
Total bank indebtedness	62,957	39,026

NOTE 6 – (cont'd.)

(a) The Company has available a credit facility arranged with a Canadian bank, renewable annually, comprised of a maximum demand operating loan of $50,000,000 (December 31, 2007 - $50,000,000) of which $26,103,268 was available as at September 30, 2008. The credit facility also includes a term loan facility of $6,900,000, a bid and performance bond guarantee facility of up to a maximum of $5,000,000, a $5,027,706 capital lease facility, a demand revolving line of credit in the amount of $5,963,000 for the purchase of forward exchange contracts with an aggregate nominal value of $25,100,000, and an interest rate swap facility for up to the full amount outstanding under the term loans.

The operating loan bears interest at the bank's prime rate, the bank's U.S. base rate or LIBOR plus 1.50%. As collateral, the bank holds moveable hypothecs and general security agreements over the universality of the Company's Canadian assets, creating a first charge over all of the Company's Canadian current assets of $137,086,606 as at September 30, 2008 and a second ranking charge over all of the Canadian capital assets of $50,792,948 as at September 30, 2008, subject to prior loans approved by the Canadian bankers. The bank also holds a first ranking security under Section 427 of the *Bank Act* over the Company's Canadian inventories.

(b) The U.S. subsidiaries have available a credit facility arranged with a U.S. bank, renewable annually, comprised of a maximum demand operating loan of US$40,000,000 (December 31, 2007 – US$20,000,000) of which US$10,378,157 was available as at September 30, 2008. On April 1, 2008, the demand operating loan was increased to US$40,000,000 to ensure that the Company had sufficient credit facilities to support the additional working capital arising from the BPB acquisition. The operating line of credit bears interest at the bank's prime rate minus 1.75% or LIBOR plus 1.00% (previously U.S. prime rate minus 1.25% or LIBOR plus 1.00%).

As collateral for the U.S. demand operating loan, the U.S. bank holds a first security interest in all assets of the U.S. subsidiaries, except for certain equipment, having a net book value of US$117,392,076 as at September 30, 2008. The bank also has a second security interest on certain equipment of the U.S. subsidiaries having a netbook value of US$34,472,174 as at September 30, 2008. There is no recourse to the Canadian parent company in the event of default by the U.S. subsidiaries. The Canadian parent company has signed an inventory repurchase agreement with the U.S. bank whereby the parent company has agreed to purchase any or all inventory of the U.S. subsidiaries, at book value, upon an event of default by the U.S. subsidiaries if requested by the U.S. bank.

(c) The Company includes in its consolidated interim financial statements its 50% proportionate share of Kanaka Creek Pole Company Limited, which has a credit facility with a Canadian bank comprised of a $7,000,000 demand operating loan. The demand operating loan bears interest at the bank's prime rate, bank's U.S. base rate, LIBOR plus 1.13% or bankers' acceptance plus 1.13%. One half of the indebtedness, up to a maximum of $5,000,000, has been guaranteed by Bell Pole Canada Inc. and the Company. The Company has also provided an Environmental Indemnity Agreement to the bank with respect to the Maple Ridge property, the site of Kanaka Creek Pole Company Limited's operations, with liability limited to one half of the monies which become due and owing to the bank under such indemnity.

NOTE 7 – LONG-TERM DEBT

(in thousands of dollars)	Sept. 30, 2008 ($)	Dec. 31, 2007 ($)
Long-term debt		
Term loans with a Canadian bank (Note 7 (a))	4,132	4,768
Revolving term loan with a Canadian bank (Note 7 (b))	22,130	11,588
Term loans with a U.S. bank (Note 7 (c))	10,430	3,886
Unsecured and non-convertible debenture (Note 7 (d))	10,000	10,000
Unsecured and non-convertible debenture (Note 7 (e))	4,333	4,333
Unsecured and non-convertible debenture (Note 7 (f))	26,605	---
Promissory note (Note 7 (g))	798	743
Promissory note (Note 7 (h))	958	992
Subordinated note (Note 7 (i))	7,230	6,981
Bond (Note 7 (j))	4,987	---
Promissory note (Note 7 (k))	466	---
Promissory note (Note 7 (l))	386	---
Mortgage loans (Note 7 (m))	4,005	3,930
Obligations under capital leases (Note 7 (n))	369	223
	96,829	47,444
Deferred financing charges	(579)	---
	96,250	47,444
Less: current portion of long-term debt	4,761	4,409
Less: current portion of deferred financing charges	(65)	---
Long-term debt	91,554	43,035

(a) The Company has available three term loans of $2,300,000, $2,700,000 and $1,900,000 arranged with a Canadian bank.

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

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

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

(b) As part of the financing for the BPB acquisition, the Company entered into a new two-year revolving term loan with a Canadian bank comprised of a Canadian dollar loan of $11,587,500 and a new U.S. dollar loan of US$10,000,000 as well as an amount not exceeding US$5,000,000 to purchase foreign currency exchange contracts. The new revolving term loan facility matures February 14, 2010. The US$10,000,000 term loan was designated as a hedge of net investment in a self-sustaining foreign operation. (As at December 31, 2007, a two-year revolving term loan comprised of a Canadian dollar loan of $11,587,500 and an amount not exceeding US$5,000,000 to purchase foreign currency exchange contracts. This revolving term loan facility was to have matured February 28, 2009).

NOTE 7 – (cont'd.)

For loans in Canadian dollars, the credit facility bears interest at the bank's prime rate plus 0.25% or bankers' acceptance rate plus 1.40% and for loans in U.S. dollars, the credit facility bears interest at the bank's prime rate plus 0.25% or LIBOR plus 1.40%. Previously the revolving term loan did not offer financing conditions for U.S. dollar loans. As collateral, the bank holds moveable hypothecs and general security agreements over all of the Company's Canadian capital assets of $50,792,948 as at September 30, 2008 and a second ranking charge over all of the Canadian current assets of $137,086,606 as at September 30, 2008. Amounts owing under the revolving term loan are payable at maturity which can be extended each year for one additional year, upon the Company's request and subject to the bank's approval. Starting January 2008, the credit facility will be increased by the equivalent amount of the capital payments of the term facilities provided by the credit facility in Note 7 (a) to a maximum of $27,500,000.

(c) As part of the financing of the BPB acquisition, the Company's U.S. subsidiaries entered into a US$10,000,000 term loan agreement with a U.S. bank. A portion of the proceeds of the loan were used to repay existing term loans in Stella-Jones Corporation of US$1,100,000 and US$4,000,000 with the balance applied against outstanding bank indebtedness in the U.S. subsidiaries. The new term loan is repayable in 84 consecutive monthly instalments of US$119,048. The loan is subject to two interest rate swaps of US$5,000,000 each, fixing the rate at 5.80% and 5.54 % respectively over the term of the loan.

As collateral, the bank has a first priority security interest on certain equipment in the Company's U.S. subsidiaries, having a net book value of US$34,472,174 as at September 30, 2008. The bank also has a second priority security interest in the accounts receivable and inventory of the Company's U.S. subsidiaries having a book value of US$117,392,076 as at September 30, 2008.

(d) Unsecured and non-convertible debenture bearing interest at 7.72%, repayable beginning July 1, 2011 in five consecutive annual principal repayments of $1,000,000 and a last payment of $5,000,000 on July 1, 2016.

(e) Unsecured and non-convertible debenture bearing interest at 7.0%, repayable after December 31, 2006 in five consecutive annual principal repayments of $333,333 and a last payment of $3,000,000 on December 21, 2012.

(f) Unsecured and non-convertible debenture bearing interest at 7.89%, repayable in five consecutive annual principal repayments of US$2,500,000 starting on April 1, 2013 and a last payment of US$12,500,000 on April 1, 2018. This loan was arranged as part of the financing of the BPB acquisition. This debenture was designated as a hedge of net investment in a self-sustaining foreign operation.

(g) Stella-Jones Corporation borrowed US$750,000 from the Company's majority shareholder, Stella Jones International S.A., by way of a subordinated promissory note. The note is for a term of six years, bears interest at LIBOR plus 4.5% and is repayable in full on the 6^{th} annual anniversary of the date of disbursement or August 3, 2011. The note is unsecured and subordinated in right of payment to the prior payment in full of the U.S. subsidiaries loans to all of its secured lenders.

(h) As part of a previous acquisition, Stella-Jones Corporation assumed an unsecured note payable. The imputed interest rate of the note is 8.0% and is payable in quarterly instalments of US$52,891 including interest maturing on October 2013.

(i) Pursuant to the business acquisition of February 28, 2007, Stella-Jones Corporation issued a note payable to J.H. Baxter & Co. The note is subordinated to existing lenders and bears interest at 5.0%. The note is repayable in 5 annual principal repayments of US$500,000 with a final payment of US$5,500,000 on the 6th anniversary date. The note was recorded at a fair value of $6,981,288 using an interest rate of 8.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

NOTE 7 – (cont'd.)

(j) Pursuant to the BPB acquisition, the Company assumed a bond issue in favour of the County of Fulton, Kentucky (The Burke-Parsons-Bowlby Project), series 2006, repayable in annual principal repayments of US$200,000 starting on July 2008 through July 2011, US$300,000 starting July 2012 through July 2019 and $US400,000 starting July 2020 through July 2026. The bond bears interest at 2.38% and is secured by substantially all assets of the Company's Fulton, Kentucky facility which have a net book value of US$7,786,504 as at September 30, 2008. The bond was recorded in the interim consolidated financial statements at a fair value of US$4,835,379 using an interest rate of 6.50%. 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 the security for the timely payment of the principal and interest due on the Bonds, the Company entered into an 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 August 15, 2009.

(k) Pursuant to the BPB acquisition, the Company assumed a note payable to the Hickman-Fulton Rural Electric Cooperative Corporation, bearing interest at a fixed rate of 3.0% and repayable in 84 equal monthly instalments of principal and interest of approximately US$6,604 starting January 15, 2008. The note is secured by a US$500,000 irrevocable letter of credit issued by a regional financial institution and expires December 17, 2017. The note was recorded in the interim consolidated financial statements at a fair value of US$462,344 using an interest rate of 5.55%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

(l) Pursuant to the BPB acquisition, the Company assumed a note payable to Hickman-Fulton Rural Electric Cooperative Corporation, bearing no interest and repayable in 108 equal monthly instalments of US$4,167 starting January 1, 2009. The note is secured by a US$450,000 irrevocable letter of credit issued by a regional financial institution and expiring December 18, 2017. The note was recorded in the interim consolidated financial statements at a fair value of US$354,217 using an interest rate of 6.0%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term.

(m) The mortgage loans bear interest at a weighted average rate of 7.6% as at September 30, 2008 (December 31, 2007 – 7.2%) and certain specific capital assets with a net book value of $5,735,304 (December 31, 2007 - $6,880,152) have been pledged as collateral. Mortgage loans include loans denominated in U.S. dollars for an amount of US$3,574,683 (December 31, 2007 – US$2,970,328). The loans are repayable in monthly instalments of $81,733 including interest and mature at various dates to December 2016.

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

(in thousands of dollars)	**Obligations under capital leases**			**Long-term debt**	**Total**
Years	**Minimum Payments ($)**	**Interest ($)**	**Principal ($)**	**Principal ($)**	**Principal Repayments ($)**
Year 1	99	20	79	4,965	5,044
Year 2	138	15	123	4,849	4,972
Year 3	15	9	6	6,717	6,723
Year 4	15	9	6	5,479	5,485
Year 5	159	4	155	14,811	14,966
Thereafter	---	---	---	61,652	61,652
	426	57	369	98,473	98,842
Fair value adjustment	---	---	---	(2,013)	(2,013)
	426	57	369	96,460	96,829

NOTE 8 – EARNINGS PER SHARE

The following table provides the reconciliation between net earnings per common share and diluted net earnings per common share for the three-month and nine-month periods ended September 30:

	three months ended Sept. 30, 2008	2007	nine months ended Sept. 30, 2008	2007
Net earnings applicable to common shares*	$6,850	$7,084	$22,220	$21,260
Weighted average number of common shares outstanding*	12,559	12,322	12,432	12,319
Effect of dilutive stock options*	158	373	253	343
Weighted average number of diluted common shares outstanding*	12,717	12,705	12,685	12,662
Net earnings per common share	$0.55	$0.57	$1.79	$1.73
Diluted net earnings per common share	$0.54	$0.56	$1.75	$1.68

* *Net earnings are presented in thousands of dollars and share information is presented in thousands.*

NOTE 9 – COST OF SALES

For the three-month periods ending September 30, 2008 and 2007, cost of sales includes an inventory cost of $79,832,987 and $50,749,981 respectively. For the nine-month periods ending September 30, 2008 and 2007, cost of sales includes an inventory cost of $211,782,245 and $149,323,868 respectively.

NOTE 10 – EMPLOYEE FUTURE BENEFITS

The recognized cost for employee future benefits was as follows:

(in thousands of dollars)	three months ended Sept. 30, 2008 ($)	2007 ($)	nine months ended Sept. 30, 2008 ($)	2007 ($)
Post retirement benefit program	66	63	198	189
Defined benefit pension plans	52	32	124	96
Contributions to multi-employer plans	85	53	236	191
Contributions to group registered retirement savings plans	417	219	882	494

NOTE 11 – FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company has adopted the requirements of CICA Handbook Section 3862, “Financial Instruments – Disclosures”. This section requires disclosures to enable the users to evaluate the significance of financial instruments for the entity’s financial position and performance, and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

This note provides disclosures about financial instruments, fair values, as well as credit, liquidity and market risks associated with financial instruments.

NOTE 11 – (cont'd.)

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet 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 respective carrying amounts. The fair value of forward foreign exchange contracts and swap agreements has been recorded using mark to market information as supplied by a financial institution.

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, and 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 due to the following reasons:

- Geographically, there is no concentration of credit risk.
- The Company deals primarily with utility and telecommunication companies, and other major corporations.
- Historically, trade receivables outstanding for more than 90 days are under 2.0%.

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 represents the maximum open amount without 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. As at September 30, the details of the allowance for doubtful accounts are as follows:

(in thousands of dollars)	**three months ended Sept. 30,**		**nine months ended Sept. 30,**	
	2008 ($)	**2007 ($)**	**2008 ($)**	**2007 ($)**
Balance – beginning of period	388	105	230	33
Provision adjustment	26	23	184	95
Balance – end of period	414	128	414	128

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 the Company's 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. Details regarding the Company's operating lines of credit can be found in Note 6.

NOTE 11 – (cont'd.)

The Company monitors all financial liabilities and ensures it will have sufficient liquidity to meet these future payments. The following table details the maturities of the financial liabilities as at September 30, 2008:

(in thousands of dollars)	**Less than 1 year ($)**	**1 – 3 years ($)**	**4 – 5 years ($)**	**After 5 years ($)**	**Total ($)**
Bank indebtedness	62,957	---	---	---	62,957
Accounts payable and accrued liabilities	30,451	---	---	---	30,451
Long-term debt obligations	4,965	11,566	20,290	61,652	98,473
Capital lease obligations	79	129	161	---	369
Non-compete agreements	1,330	2,660	2,660	665	7,315
Total	99,782	14,355	23,111	62,317	199,565

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 its sales and purchases in U.S. dollars by its Canadian-based operations and to its 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. Its basic hedging activity consists of entering into forward exchange contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider forward exchange contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges.

The following table summarizes the Company's derivative financial instruments relating to the sale of foreign currencies through forward foreign exchange contracts as at September 30, 2008:

(in thousands of dollars) **Foreign Currency Contracts**	**Notional Amount $US**	**Average Exchange Rate**	**Maturity Period**	**Notional Equivalent $CDN**	**Fair Value $CDN**
Sell $US/Buy $CDN	1,800	1.1506	Less than 1 year	2,071	153
Sell $US/Buy $CDN	350	1.1490	After 1 year	402	28
	2,150	1.1503		2,473	181

The following table provides information on the impact of a 10.0% strengthening of the U.S. dollar against the Canadian dollar on net earnings for the three and nine month periods ended September 30, 2008. For a 10.0% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive earnings.

(in thousands of dollars)	**three months ended Sept. 30, 2008**	**nine months ended Sept. 30, 2008**
Net earnings	500	1,332

NOTE 11 – (cont'd.)

Interest rate risk

As at September 30, 2008, the Company had limited exposure to interest rate risk on long-term debt as after giving effect to its interest rate swaps 99.2% of the Company's long-term debt is at a fixed rate up to February 2010. After this date, 76.3% of the Company's long-term debt is at a fixed rate up to maturity.

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

The following table summarizes the Company's derivative financial instruments relating to interest rate swaps as at September 30, 2008:

(in thousands of dollars)	Notional Amount ($)	Fixed Rate Paid %	Maturing Date	Notional Equivalent $CDN
Interest rate swap - CDN	2,300	5.81	Dec. 2010	2,300
Interest rate swap - CDN	2,700	5.85	Feb. 2011	2,700
Interest rate swap - US	5,000	5.80	July 2015	5,321
Interest rate swap - US	5,000	5.54	July 2015	5,321

The fair value of the interest rate swap agreements based on cash settlement requirements as of September 30, 2008 is a loss of $333,441.

NOTE 12 – 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 towards financial leverage and management of financial risk. The Company manages its capital structure and makes adjustments to it in the 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 and acquire or sell assets to improve its financial performance and flexibility.

The Company's capital is composed of long-term debt and shareholders' equity which includes capital stock.

(in thousands of dollars, except ratios)	Sept. 30, 2008 ($)	December 31, 2007 ($)
Long-term debt, including current portion	96,250	47,444
Shareholders' equity	149,712	127,757
Total capital	245,962	175,201
Long-term debt to equity ratio	0.64:1	0.37:1

The Company's primary uses of capital are to finance increases in 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 operating lines of credit. However, future corporate acquisitions may require new sources of financing.

NOTE 12 – (cont'd.)

The primary measure used by the Company to monitor its financial leverage is the long-term debt to equity ratio, which it aims to maintain within a range of 0.30:1 to 0.75:1. The long-term debt to equity ratio is defined as the long-term debt including the current portion divided by shareholders' equity. As at September 30, 2008 the long-term debt to equity ratio was 0.64:1.

The Company is subject to certain covenants on its credit facilities. The covenants include a working capital ratio, debt to tangible net worth ratio, a minimum fixed charge coverage ratio and a minimum requirement for earnings before interest, taxes and amortization. The Company monitors the ratios on a monthly basis. The ratios are also reviewed by the Company's Audit Committee and Board of Directors on a quarterly basis. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

NOTE 13 – SEASONALITY

The Company's operations follow 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 the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season. The first and fourth quarters usually generate similar sales.

NOTE 14 – SEGMENT INFORMATION

The Company operates within one dominant business segment, the production and sale of pressure treated wood.