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