MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended September 30, 2009 compared with three-month period ended September 30, 2008

The following Management's Discussion and Analysis ("MD&A") and the Company's interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on November 12, 2009. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended September 30, 2009 compared with the three-month period ended September 30, 2008. The MD&A should be read in conjunction with the Company's interim unaudited consolidated financial statements for the periods ended September 30, 2009 and 2008 and the notes thereto. The interim financial statements 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 section of the Company's Web site at www.stella-jones.com.

OUR BUSINESS

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

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

As of November 12, 2009, the Company owns and operates fourteen wood treating plants, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These nineteen facilities are located in six Canadian provinces and seven American states. During the three-month period ended September 30, 2009, the Company closed its Stanton, Kentucky facility, resulting in the termination of ten employees. Production, consisting essentially of treated wood for custom log homes and highway timbers, was transferred to the Company's Spencer, West Virginia facility. Furthermore, the workforce at the Spencer facility was reduced by 29 employees during the third quarter, as the Company shifted the majority of Spencer's railway tie production to its other U.S. plants. The Company's workforce currently numbers approximately 705 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treatment industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, and a long-standing stable source of wood supply. Stella-Jones also operates dedicated production facilities which result in higher productivity and better efficiency, helping to preserve a competitive manufacturing cost structure.

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.

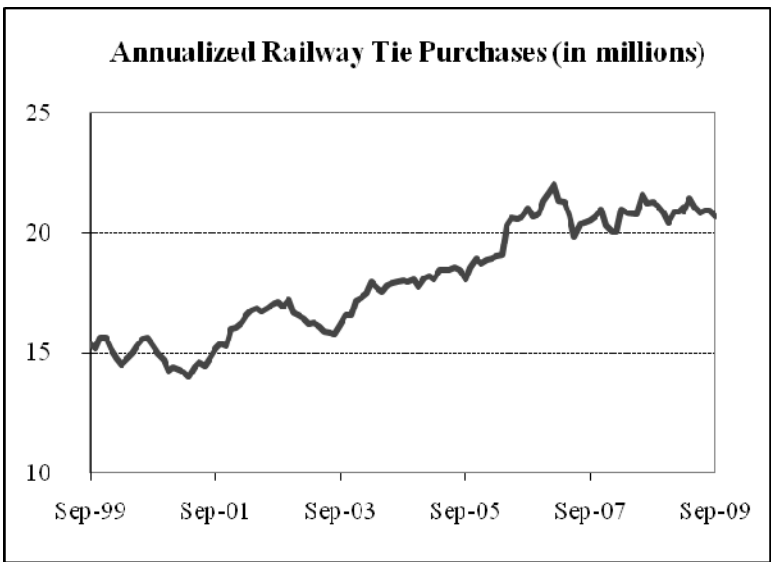
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the quarters ended September 30, 2009 and 2008. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of self-sustaining foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	2009		2008	
	Average	**Closing**	**Average**	**Closing**
Third Quarter	1.1118	1.0707	1.0425	1.0642

INDUSTRY OVERVIEW

Railway ties



Source: Railway Tie Association

As reported by the Railway Tie Association (RTA), railway tie purchases further decelerated during the third quarter of 2009 with a more pronounced decline in the late stages of the period. As at September 30, the annualized purchase rate stood at 20.6 million ties, a level that still remains healthy by historical standards, as shown in the accompanying chart.

This deceleration reflects a more prudent approach to capital spending by railway operators, as a weaker economy has reduced the volume of carloads on North American railways in the first nine months of 2009 by 18.8%, according to data published by the Association of American Railroads.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2009 reached $104.7 million, a decrease of 6.4% over last year's third quarter sales of $111.8 million. This reduction is essentially attributable to lower demand in the railway tie product category. Fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $3.6 million.

Sales for the nine-month period ended September 30, 2009 totalled $345.7 million, up $44.6 million, or 14.8%, from sales of $301.1 million in the first nine months of 2008. This increase includes an additional contribution of $37.3 million from the operations of The Burke-Parsons-Bowlby Corporation ("BPB"), acquired on April 1, 2008. In addition, a weaker Canadian dollar versus the U.S. currency over the first nine months of 2009 increased the value of U.S. dollar denominated sales by about $20.5 million when compared with the previous year.

Sales by product group

Railway ties
Railway tie sales for the third quarter of 2009 amounted to $44.1 million, a decrease of 13.8% over sales of $51.2 million in the third quarter of 2008. These results primarily reflect lower demand from both Class 1 and short-line railway operators during the period as well as softer pricing. Railway tie sales accounted for 42.1% of the Company's total sales in the third quarter of 2009, versus 45.7% in the corresponding quarter last year. For the first nine months of 2009, railway tie sales reached $163.0 million, up from $146.3 million in the corresponding period of 2008, reflecting a nine-month contribution from BPB versus only six months last year.

Utility poles
Utility pole sales stood at $36.9 million in the third quarter of 2009, a decrease of $0.8 million, or 2.2%, over sales of $37.8 million in the same period last year. Lower distribution pole sales offset higher sales of transmission poles. Utility pole sales accounted for 35.3% of the Company's total sales in the third quarter of 2009, versus 33.8% in the corresponding quarter last year. For the nine-month period ended September 30, 2009, sales of utility poles totalled $118.6 million, up 15.8% from $102.5 million a year ago.

Industrial lumber
Industrial lumber sales reached $12.4 million in the third quarter of 2009, compared with $10.5 million a year earlier. The 17.6% sales increase is mainly related to strong demand for marine applications in eastern Canada. The category represented 11.8% of overall sales in the third quarter of 2009. For the first nine months of 2009, industrial lumber sales were $34.7 million compared with $22.9 million in 2008, reflecting the added contribution from BPB for the full period.

Consumer lumber
Sales in the consumer lumber category totalled $11.3 million in the third quarter of 2009, down 9.2% from $12.4 million for the corresponding period in 2008. The decrease reflects reduced renovation spending due to unfavourable summer weather conditions in western Canada. The Company does not sell consumer lumber into the U.S. market. Consumer lumber accounted for 10.8% of Stella-Jones' total sales in the third quarter of 2009. For the first nine months of 2009, consumer lumber sales amounted to $29.5 million, which was the same as the corresponding period of 2008.

Sales by destination
In the third quarter of 2009, sales in Canada grew 4.2% to $52.8 million, or 50.4% of the Company's total sales. Sales in the United States amounted to $51.9 million, or 49.6% of sales, a decrease of $9.3 million, or 15.2%, over the third quarter of 2008, essentially attributable to lower railway tie sales.

For the first nine months of 2009, sales in Canada reached $153.2 million, representing 44.3% of sales, up from $146.4 million a year ago, while sales in the United States amounted to $192.5 million, or 55.7% of sales, versus $154.7 million, or 51.4% of sales, in the corresponding period of 2008.

Gross profit
Gross profit reached $19.6 million in the third quarter of 2009, down from $20.9 million in the third quarter of 2008. This reduction is essentially attributable to lower sales. However, as a percentage of sales, gross profit reached 18.8% of sales, up from 18.7% last year. This increase in gross profit as a percentage of sales mainly stems from more favourable raw material prices versus the corresponding period a year ago and increased efficiencies from the BPB integration. These factors were mostly offset by lower selling prices in most markets.

For the nine-month period ended September 30, 2009, gross profit was $66.1 million, or 19.1% of sales, compared with $60.0 million, or 19.9% of sales, for the nine-month period ended September 30, 2008. Cost of sales for the first nine months of 2009 includes a $511,600 (US$468,600) provision for plant closure and workforce reductions. Excluding this provision, which was recognized in the second quarter, gross profit would have been $66.6 million, or 19.3% of sales in the first nine months of 2009.

Expenses

Selling and administrative expenses amounted to $6.0 million in the third quarter of 2009, down 3.9% from $6.2 million in the corresponding period of 2008. As a percentage of sales, selling and administrative expenses represented 5.7% of sales in the third quarter of 2009, compared with 5.6% in the prior year.

For the first nine months of 2009, selling and administrative expenses totalled $17.1 million, or 4.9% of sales, compared with $15.0 million, or 5.0% of sales, in the corresponding period of 2008.

The Company realized a foreign exchange gain of $576,000 for the quarter ended September 30, 2009, as opposed to a foreign exchange loss of $388,000 last year. For the nine-month period ended September 30, 2009, the realized foreign exchange gain stood at $854,000, versus a loss of $227,000 a year ago.

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. Stella-Jones U.S. Holding Corporation, the Company's wholly-owned U.S. subsidiary, is a self-sustaining foreign operation and unrealized foreign exchange gains and losses on translating its financial statements are deferred in shareholders' equity. The Company monitors its transactions in U.S. dollars generated by Canadian based operations. Its basic hedging activity for economic purposes consists of entering into forward foreign 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 foreign exchange contracts for the purchase of U.S. dollars for significant purchases of goods and services that are not covered by natural hedges. On September 30, 2009, the Company had on hand forward foreign exchange contracts for the future sale of US$16.6 million at an average contract rate of Cdn$1.2199/US$1.00. The non-cash gain on these forward foreign exchange contracts resulting from the change in their mark-to-market values as at September 30, 2009, compared to June 30, 2009, totalled $1.2 million, whereas the non-cash gain from the change compared to December 31, 2008, was $2.5 million.

Amortization of capital and intangible assets totalled $1.9 million in the third quarter of 2009, a decrease of $0.2 million over the same period in 2008. This decrease reflects a lower amortization expense related to the Company's forestry operations in the third quarter of 2009. For the first nine months of 2009, amortization of capital and intangible assets amounted to $7.0 million, up from $5.5 million in the corresponding period of 2008, primarily related to the additional three months of amortization for the capital and intangible assets acquired in the BPB transaction.

Financial expenses for the third quarter of 2009 were $2.2 million, up from $1.9 million in the third quarter of 2008. The increase reflects higher average short-term indebtedness in the third quarter of 2009 resulting from previous working capital requirements. After the first nine months of 2009, financial expenses reached $6.6 million versus $5.5 million in the corresponding period of 2008. This year includes three months of additional financial expenses related to the short- and long-term loans put in place to finance the BPB acquisition as well as subsequent working capital requirements.

Earnings before income taxes and income tax expense
Stella-Jones generated earnings before income taxes of $11.2 million, or 10.7% of sales, in the third quarter of 2009, representing an increase of $0.9 million over earnings before income taxes of $10.3 million, or 9.2% of sales, in the third quarter of 2008.

The Company's income tax expense totalled $2.9 million in the third quarter of 2009, representing an effective tax rate of 25.7%. In the corresponding period of 2008, the income tax expense stood at $3.4 million, equivalent to an effective tax rate of 33.3%. The lower effective tax rate is a consequence of the higher proportion of revenue generated in the United States that is subject to the domestic manufacturing tax deduction for qualifying manufacturing income and deductions for Canadian income tax related to dividends received from a related party. Other non-income based corporate taxes represent a relatively small component of the Company’s total tax burden.

For the first nine months of 2009, earnings before income taxes amounted to $38.5 million, or 11.1% of sales, compared with $33.8 million, equivalent to 11.2% of sales, in the first nine months of 2008. The income tax expense totalled $11.5 million, representing an effective tax rate of 29.9%, compared with an income tax expense of $11.6 million, equivalent to an effective tax rate of 34.3% in the corresponding period of 2008.

Net earnings
Net earnings for the three-month period ended September 30, 2009 totalled $8.3 million, or $0.65 per share, fully diluted, compared with $6.9 million, or $0.54 per share, fully diluted, in the third quarter of 2008. This represents a year-over-year increase in net earnings of 21.5%. For the nine-month period ended September 30, 2009, net earnings reached $27.0 million, or $2.13 per share, fully diluted, versus net earnings of $22.2 million, or $1.75 per share, fully diluted, in the corresponding period of 2008.

QUARTERLY RESULTS

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

2009

For the quarters ended	**March 31**	**June 30**	**Sept. 30**		
(thousands of dollars, except per share data)	**$**	**$**	**$**		
Sales	111,954	129,104	104,671		
Operating earnings before amortization of capital and intangible assets [1]	15,924	20,976	15,272		
Operating earnings [1]	13,313	18,475	13,376		
Net earnings for the period	7,687	11,021	8,320		
Net earnings per common share Basic Diluted	 0.61 0.61	 0.87 0.87	 0.66 0.65		

2008

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	66,182	123,081	111,828	83,731	384,822
Operating earnings before amortization of capital and intangible assets [1]	11,199	19,402	14,249	13,479	58,329
Operating earnings [1]	9,616	17,599	12,127	10,622	49,964
Net earnings for the period	5,323	10,047	6,850	6,327	28,547
Net earnings per common share					
Basic	0.43	0.81	0.55	0.50	2.29
Diluted	0.42	0.80	0.54	0.50	2.25

2007

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	61,949	84,510	74,815	48,439	269,714
Operating earnings before amortization of capital and intangible assets [1]	12,301	14,725	13,254	9,219	49,500
Operating earnings [1]	11,235	13,424	11,864	7,537	44,060
Net earnings for the period	6,097	8,078	7,085	4,440	25,700
Net earnings per common share					
Basic	0.50	0.66	0.57	0.36	2.09
Diluted	0.48	0.64	0.56	0.35	2.03

1 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. Operating earnings before amortization of capital and intangible assets and operating earnings are readily reconcilable to net earnings presented in our Canadian GAAP financial statements, as there are no adjustments for unusual or non-recurring items.

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

BALANCE SHEET

The Company's total assets stood at $389.1 million as at September 30, 2009, compared with $422.8 million as at June 30, 2009 and $407.5 million as at December 31, 2008. In addition to item-specific factors discussed below, the reduction in Stella-Jones' asset base partially reflects the depreciation of the U.S. dollar on U.S. based assets during the three- and nine-month periods ended September 30, 2009.

Working capital at September 30, 2009 was $171.2 million, a value similar to working capital of $171.0 million as at June 30, 2009, but an increase of $14.3 million over the working capital balance of $156.9 million at December 31, 2008.

The value of current assets decreased $27.7 million and $6.3 million during the three- and nine-month periods ended September 30, 2009, respectively. Reflecting lower year-over-year third-quarter sales, the value of accounts receivable decreased $11.6 million during the three-month period ended September 30, 2009 to $49.2 million. However, accounts receivable have increased $7.7 million since December 31, 2008 as a result of higher sales for the nine-month period as well as normal seasonal demand pattern. Inventories stood at $210.6 million as at

September 30, 2009, down from $225.9 million three months earlier and from $223.2 million at the end of the previous year, as a result of normal seasonal demand pattern.

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 $100.5 million as at September 30, 2009, compared with $108.8 million as at December 31, 2008. This $8.3 million decrease is related to local currency depreciation on U.S. based capital assets and to the amortization expense exceeding purchases of capital assets since December 31, 2008.

Intangible assets totalling $13.8 million, comprised of customer relationships and the discounted value of the non-compete agreements, as well as goodwill of $5.6 million, were included in the Company's balance sheet as at September 30, 2009.

Bank indebtedness as at September 30, 2009 stood at $59.5 million, compared with $84.9 million three months earlier and $81.6 million at the end of December 2008. These decreases for the three- and nine-month period ended September 30, 2009 essentially mirror a reduction in inventory, strong cash flow generation and the effect of local currency depreciation on the Company's U.S. operating lines of credit.

Bank indebtedness includes a $50.0 million demand operating loan with a Canadian bank as well as a US$45.0 million (Cdn$48.2 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 $21.5 million and US$16.1 million (Cdn$17.3 million), respectively, as at September 30, 2009.

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

As at September 30, 2009, the Company's long-term debt, including the current portion, amounted to $93.2 million, down from $105.8 million as at December 31, 2008. This decrease is due to a lower conversion rate of U.S. dollar denominated long-term debt into Canadian currency as well as to repayment of $3.9 million in long-term debt during the first nine months of 2009.

Shareholders' equity was $177.5 million as at September 30, 2009, a $16.4 million increase from December 31, 2008 levels. The Company's strong earnings generation accounted for most of this gain. Book value stood at $14.00 per common share as at September 30, 2009, up from $12.82 per share at the end of last year.

As at September 30, 2009, Stella-Jones' ratio of long-term debt, including the current portion, to shareholders' equity was 0.53:1, down from 0.66:1 as at December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month periods ended**		**Nine-month periods ended**	
(thousands of dollars)	**Sept. 30, 2009**	**Sept. 30, 2008**	**Sept. 30, 2009**	**Sept. 30, 2008**
Operating activities	$25,976	$6,091	$28,118	$1,403
Financing activities	($24,719)	($2,720)	($24,740)	$42,905
Investing activities	($1,257)	($3,371)	($3,378)	($44,308)
Cash and cash equivalents	$---	$---	$---	$---

The Company's activities, acquisitions and capital expenditures are primarily financed by cash flows from operating activities and the use of cash and operating lines of credit. The Company's operating lines of credit are demand operational facilities that are renewable annually and are subject to review by the Company's bankers at intervals no greater than one year. In the first quarter of 2009, the Company's Canadian bankers amended the interest rate structure with no change to the available amount of the operating facility and approved an increase to the credit availability for the purchase of forward foreign exchange contracts. The Company anticipates no difficulties in its ability to renew these demand operating facilities.

Cash flow from operating activities before changes in non-cash working capital components was $10.3 million for the three-month period ended September 30, 2009, compared with $9.5 million for the prior year. This increase of 8.3% reflects higher net earnings for the period. For the nine-month period ended September 30, 2009, cash flow from operating activities before changes in non-cash working capital components reached $34.2 million, up from $29.3 million in the corresponding period of 2008.

For the three-month period ended September 30, 2009, changes in non-cash working capital components provided liquidity of $15.7 million, as opposed to a liquidity requirement of $3.4 million for the corresponding three-month period a year ago. This improvement reflects reduced accounts receivable and inventories during the third quarter of 2009. As a result, operating activities increased liquidity by $26.0 million for the three-month period ended September 30, 2009 compared with $6.1 million a year earlier. For the nine-month period ended September 30, 2009, cash flows from operating activities provided liquidity of $28.1 million, compared with $1.4 million in the first nine months of 2008.

Cash flows used for financing activities amounted to $24.7 million for the quarter ended September 30, 2009, mainly as a result of a $23.2 million reduction in bank indebtedness. Financing activities had used liquidity of $2.7 million for the same period a year prior. For the nine-month period ended September 30, 2009, cash flows from financing activities used liquidity of $24.7 million, as opposed to providing funds of $42.9 million a year earlier.

Investing activities required $1.3 million in cash during the third quarter of 2009, versus requiring $3.4 million in the third quarter of 2008, a variation essentially due to lower capital spending in 2009. For the first nine months of 2009, cash flows used for investing activities reduced liquidity by $3.4 million compared with a reduction of $44.3 million in 2008.

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

Payments due by period (in thousands of dollars)	Less than 1 year ($)	1 – 3 years ($)	4 – 5 years ($)	After 5 years ($)	Total ($)
Bank indebtedness	59,538	-	-	-	59,538
Accounts payable and accrued liabilities	32,605	-	-	-	32,605
Long-term debt obligations	4,715	10,986	20,981	57,404	94,086
Interest on long-term debt obligations	5,146	9,283	6,993	6,649	28,071
Operating leases and other contractual obligations	3,229	4,601	2,408	9,701	19,939
Capital lease obligations	158	84	238	860	1,340
Interest on capital lease obligation	64	110	89	52	315
Foreign exchange forward contracts					
Outflow	-	-	-	-	-
Inflow	-	-	-	-	-
Non-compete agreements	1,338	2,677	2,008	-	6,023
Total	106,793	27,741	32,717	74,666	241,917

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2009, the capital stock issued and outstanding consisted of 12,680,624 common shares (12,564,925 as at December 31, 2008). As at November 12, 2009, the capital stock issued and outstanding consisted of 12,681,007 common shares.

As at September 30, 2009, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 140,785 (December 31, 2008 – 147,785) of which 106,785 (December 31, 2008 – 93,285) were exercisable. As at November 12, 2009, the number of outstanding options was 140,785, of which 106,785 were exercisable.

DIVIDENDS

On August 12, 2009, the Board of Directors declared a semi-annual dividend of $0.18 per common share payable on October 9, 2009. 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, 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 2008 Annual Report.

CURRENT ECONOMIC CONDITIONS

In light of weaker economic and financial markets conditions, the Company continues to carefully monitor its strategy and risk management. Although financial results remain positive, the economic climate is prompting Management to take a more cautious approach in executing its business strategy.

Operations
Though not recession proof, the Company's core utility pole and railway tie product categories are integral to capital infrastructure projects that governments often initiate during times of economic slowdown. Therefore, the Company's position as a supplier of utility poles and railway ties could prove particularly advantageous given the American and Canadian governments' stated intention to invest heavily in infrastructure projects. Moreover, various U.S. tax credit initiatives, whether enacted into law or proposed, could prove a significant stimulus for infrastructure projects.

Liquidity
As at September 30, 2009, the Company is in full compliance with its debt covenants and contractual obligations. In addition, it has total availability under its Canadian and U.S. operating lines of credit of $21.5 million and US$16.1 million, respectively, as at September 30, 2009.

Management considers that substantially all receivables are fully collectible as major customers, mainly Class 1 railway operators and large-scale utility service providers, have good credit standings and a limited history of default. Nevertheless, Management is providing additional focus on accounts receivable collection and credit extensions.

Inventories decreased during the third quarter of 2009 as a result of normal seasonal demand patterns. To ensure efficient treatment operations, given that air-dried wood reduces treatment cycles, inventory turnover has historically been relatively low. Nevertheless, Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

RISKS AND UNCERTAINTIES

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 2008 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 1 to the September 30, 2009, interim unaudited consolidated financial statements.

The Company prepares its consolidated financial statements in conformity with Canadian generally accepted accounting principles which require Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and such differences could be material. Estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of long-lived assets, future income taxes, stock-based compensation, pension and post retirement benefits, legal liabilities, bad debts, allowance for doubtful accounts and environmental provisions.

CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") issued the following new accounting standard which was adopted by the Company effective January 1, 2009:

- Handbook Section 3064, "Goodwill and Intangible Assets", replaces 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 has assessed that the impact of this new accounting standard is not significant. Additionally, the new required disclosures have been included in Note 3 to the September 30, 2009 interim unaudited consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board ("AcSB") issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC Abstract 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company has assessed that the impact of EIC Abstract 173 is not significant.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2011:

- Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". This Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS 3 (Revised) standard, "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new accounting standard on its consolidated financial statements.

- Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of the IAS 27 (Revised) standard, "Consolidated and Separate Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB confirmed that Canadian publicity listed companies will be required to use International Financial Reporting Standards (« IFRS ») in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP , but there are significant differences in recognition, measurement and disclosures.

Management has established an IFRS implementation team to develop an IFRS changeover plan. In 2008, a preliminary diagnostic analysis was prepared by external consultants which identified the key areas where changes in accounting policy may have some impact on the Company's consolidated financial statements.

In addition, as a first time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". IFRS 1 provides a number of selected optional exemptions that the Company is presently evaluating. The more significant elections include: recognizing through opening retained earnings cumulative translation adjustments on self-sustaining operations and using fair value at the transition date as deemed cost for capital assets.

The Company is presently in the phase 2 stage of its changeover plan, which includes a definition of roles and responsibilities, a review of the differences between current Canadian GAAP (as applied by the Company) and IFRS, and the analysis of possible options regarding adoption. Once phase 2 is completed, Management will be able to determine the consequences of the change. Planning continued in the third quarter of 2009 to precisely establish and document the changes to be made to accounting principles and computer systems, training requirements, internal control mechanisms for financial reporting and the repercussions on the Company's business activities.

The Company continues to monitor standards to be issued by the International Accounting Board ("IASB", but it is difficult to predict the IFRS that will be effective at the end of its first IFRS reporting period, as the IASB work plan estimates the completion of several projects in calendar years 2010 and 2011. As a result, 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' National Instrument 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), 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 on 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, 2009 that have had a material effect on the Company's internal controls over financial reporting.

OUTLOOK

Challenging market conditions continue to prevail in the railway tie market. Class 1 railway operators have given indications that in the fourth quarter of this year, contrary to past years, they will not be taking advanced deliveries of railway ties for their regular 2010 maintenance programs. Traditionally, they order in the latter part of the year to have ties on hand and available to their maintenance crews early in the following year. In the current economic environment, Class 1 railway operators are deferring railway tie deliveries until the first quarter of next year in order to keep inventory levels down. Also, certain special projects which often generate increased activities in the short-line and contractor markets have been put on hold until economic and financing conditions recover. Meanwhile, conditions remain generally more stable in the North American utility pole market.

Stella-Jones' products remain a vital component of basic transportation and utility infrastructure and are integral to capital projects that governments often initiate during times of economic slowdown. Such initiatives would drive demand, as they would potentially involve, in both maintenance and new installation endeavours, many of the Company's clients in the railway and electrical transmission and distribution industries. However, certain projects that would have already begun with conventional funding are on hold while undertakers wait to see if they qualify for government stimulus funding. Therefore, in the absence of government driven infrastructure projects, Management believes that sales will remain soft in the short-term until general economic conditions improve.

In light of the uncertain global economic situation, the Company maintains its cautious outlook and Management will continue to proactively review the cost efficiency of its operations and seek to optimize capacity utilization across Stella-Jones' continental plant network.

In the short-term, Management remains focused on maintaining and growing its markets, although the Company's long-term strategic vision, focused on continental expansion and consolidation, remains intact. Given the fragmented state of the wood treatment industry, acquisitions remain an integral part of the Company's growth plan. Management will continue to seek targets in its core railway tie and utility pole markets that meet its stringent investment requirements, provide synergistic opportunities and add value for Stella-Jones' shareholders.

November 12, 2009