MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated March 12, 2010 provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2009 compared with the fiscal year ended December 31, 2008. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the notes thereto. The audited consolidated financial statements and MD&A have been reviewed by the Company's Audit Committee and, upon its recommendation, have been approved by the Board of Directors.

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.

The Company's audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and results are reported in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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 March 12, 2010, 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. The Company's workforce currently numbers approximately 690 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.

NON-GAAP MEASURES

Operating earnings before amortization of capital and intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating earnings, and cash flow from operations 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 it to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company.

MAJOR ACHIEVEMENTS OF 2009

Financial results for the year ended December 31, 2009, marked the ninth consecutive year of uninterrupted growth in revenues and net earnings. Revenues grew by 6.8%, primarily as a result of the acquisition of The Burke-Parsons-Bowlby Corporation ("BPB") completed in 2008 and favourable currency fluctuations. Organically, sales decreased approximately 7.0%, mainly reflecting reduced demand in the railway tie product category. Gross profit decreased in monetary terms and as a percentage of sales, reflecting softer pricing in most markets as the year progressed. Net earnings grew 5.3% to reach $30.1 million.

Stella-Jones' solid performance once again generated strong cash flows in 2009, with cash flow from operations, before changes in non-cash working capital components, reaching $40.9 million, compared with $41.1 million in 2008. The Company improved an already sound balance sheet, with a total long-term debt to equity ratio of 0.48:1 and a ratio of total debt to operating earnings before amortization of capital and intangible assets of 2.43:1.

On December 15, 2009, the Company announced it had signed a non-binding letter of intent to acquire Tangent Rail Corporation ("Tangent"), a provider of wood crosstie supply chain services to the railroad industry. Tangent serves the railroad industry with treated wood products, mainly railway ties, through five facilities located in Alabama, Indiana (2), Louisiana and Pennsylvania. It also produces creosote, a wood preservative, at two distilleries in Indiana and Tennessee. Subsequent to year-end, on February 4, 2010, the proposed transaction received U.S. antitrust clearance. The transaction is expected to close no later than April 1, 2010 subject to customary closing conditions, including entry into a definitive purchase agreement and satisfactory due diligence.

KEY PERFORMANCE INDICATORS

For the years ended December 31	2009	2008	2007
(thousands of dollars, except per share data and ratios)	$	$	$
Sales	411,119	384,822	269,714
Gross profit	76,669	78,398	66,788
Net earnings	30,069	28,547	25,700
Net earnings per common share	2.38	2.29	2.09
Diluted net earnings per common share	2.37	2.25	2.03
Total assets	370,795	407,546	244,856
Total long-term debt*	87,080	105,759	47,444
Total long-term debt* to equity ratio	0.48:1	0.66:1	0.37:1
Total debt** to operating earnings before amortization of capital and intangible assets	2.43	3.21	1.75
Dividend per share	0.36	0.34	0.24

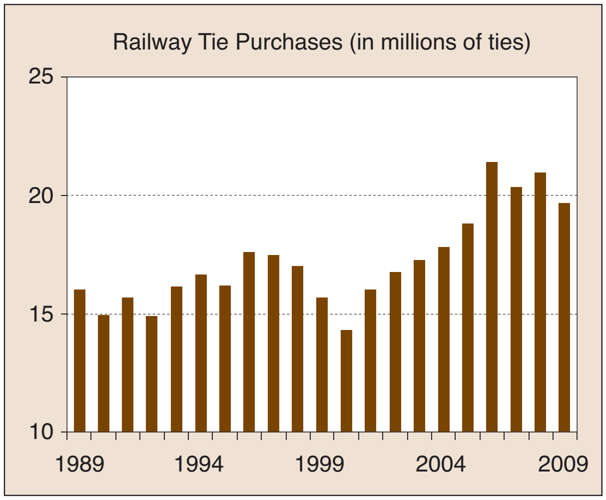
* Including current portion
** Including short-term bank indebtedness

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended December 31, 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
First Quarter	1.2389	1.2613	0.9909	1.0265
Second Quarter	1.1820	1.1630	1.0110	1.0197
Third Quarter	1.1118	1.0707	1.0425	1.0642
Fourth Quarter	1.0694	1.0510	1.1686	1.2180
Fiscal Year	1.1505	1.0510	1.0515	1.2180

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties

As reported by the Railway Tie Association, railway tie purchases declined approximately 6.0% to 19.6 million ties in 2009. Although below previous year levels, railway tie purchases still remained high in comparison with the average for the last twenty years.

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting surge in rail transportation volume, combined with an aging infrastructure, yielded increased demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

According to the Association of American Railroads, economic weakness reduced the number of carloads hauled on North American railroads by approximately 16.0% in 2009, while the volume of intermodal trailers and containers was down 14.0% from 2008 levels.

OPERATING RESULTS

Sales

Sales for the year ended December 31, 2009 reached $411.1 million, an increase of $26.3 million, or 6.8%, over last year's sales of $384.8 million. All of the Company's product categories posted gains with the exception of consumer lumber, where sales were marginally lower. A full-year's contribution, in 2009, from the BPB operations, compared with nine months in the preceding year, added sales of approximately $37.3 million. Organically, sales decreased approximately 7.0%, reflecting weaker demand and softer pricing for the Company's core products, mainly in the second half of 2009. When compared with the previous year, 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 $17.7 million.

Sales by product category

Railway ties

Railway tie sales for 2009 amounted to $185.1 million, an increase of 2.2% over sales of $181.2 million in 2008. These results reflect the contribution for a full year from the BPB operations, offset by weaker industry demand in North America and softer pricing in the last nine months of the year. While demand from normal maintenance activity held, the weaker economy resulted in fewer special projects in the short-line and contractor markets. In addition, Class 1 railway operators deferred advanced deliveries, normally occurring in the fourth quarter, to later periods to reduce their tie inventory levels. Railway tie sales accounted for 45.0% of the Company's total sales in 2009.

Utility poles

Utility pole sales amounted to $149.7 million in 2009, an increase of 8.6% over sales of $137.8 million in 2008. The increase is due to higher sales of transmission poles and stable demand for distribution poles. It also reflects greater penetration of the U.S. market and a higher average conversion rate on U.S. dollar denominated utility pole sales. These factors were somewhat offset by softer pricing in the second half of 2009. Utility pole sales accounted for 36.4% of the Company's total sales in 2009.

Industrial lumber

Industrial lumber sales rose 35.5% in 2009, reaching $44.8 million, compared with $33.1 million in 2008. This increase is attributable to solid demand for marine applications in Eastern Canada and to the full-year contribution from the BPB operations, which added both new products aimed at the rail transportation industry, such as panelized railway crossings, as well as additional bridge timber sales. This product category also includes BPB's custom log home business. Industrial lumber represented 10.9% of overall sales in 2009.

Consumer lumber

Sales in the consumer lumber category totalled $31.5 million in 2009, down 3.7% from $32.7 million in 2008. The decrease reflects reduced renovation spending in Canada due to unfavourable weather during the peak summer period, somewhat offset by demand stemming from the home renovation tax credit program in Canada. The Company does not sell consumer lumber into the U.S. market. Consumer lumber accounted for 7.7% of Stella-Jones' total sales in 2009.

Sales by destination

In 2009, sales in Canada grew 4.4% over 2008 levels, reaching $188.0 million, or 45.7% of the Company's total sales. Sales in the United States amounted to $223.1 million, or 54.3% of sales, representing an increase of 9.0% over 2008. Sales of products exported to the United States from the Canadian based facilities totalled $13.1 million in 2009, compared with $25.5 million in 2008, as the Company continues to optimize its asset base through plant specialization. The increase in sales in the U.S. market, in addition to the foreign exchange effect, came mainly as a result of the full-year contribution of the BPB operations, acquired in April 2008.

Management believes that the U.S. market presents additional growth opportunities, as evidenced by the proposed acquisition of Tangent. This would further solidify the Company's number two position in the North American railway tie market.

Gross profit

Gross profit reached $76.7 million or 18.6% of sales in 2009, down slightly from $78.4 million or 20.4% of sales in 2008. The reduction in gross profit, both in monetary terms and as a percentage of sales, essentially stems from softer pricing in most product categories resulting from lower demand. These factors were partially offset by greater efficiencies from the BPB integration.

Cost of sales in 2009 also included $511,600 (US$468,600) for plant closure and workforce reduction costs in connection with the closure of the Stanton, Kentucky facility on September 4, 2009 and the downsizing of the Spencer, West Virginia facility effective August 13, 2009.

Expenses

Selling and administrative expenses for 2009 were $20.4 million, essentially stable in comparison with 2008 expenses of $20.3 million. As a percentage of sales, selling and administrative expenses decreased to 5.0% of sales in 2009, from 5.3% in the prior year.

The Company realized a foreign exchange gain of $1.4 million for the year ended December 31, 2009, versus a foreign exchange gain of $0.3 million last year.

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 December 31, 2009, the Company had on hand forward foreign exchange contracts for the future sale of US$12.8 million at an average contract rate of Cdn$1.2240/US$1.00. The non-cash loss on these forward foreign exchange contracts resulting from the change in their mark-to-market values as at December 31, 2009, compared to September 30, 2009, totalled $0.3 million, whereas the non-cash gain from the change compared to December 31, 2008, was $2.2 million.

Amortization of capital and intangible assets totalled $8.8 million in 2009, an increase of $0.4 million over 2008. This marginal increase reflects the amortization of BPB's capital and intangible assets for the full year in 2009, as opposed to nine months in 2008, partially offset by a change in accounting estimates that increased the useful life of certain capital assets in order to better reflect their use in time (see "Changes in Accounting Policies" below). This revision resulted in an adjustment that reduced the total amortization expense by $579,625 in the fourth quarter of 2009.

Financial expenses for 2009 amounted to $8.5 million, a decrease of $0.3 million over financial expenses incurred in 2008. The decline in financial expenses is due to lower interest rates, on average, in 2009 and to the gradual year-over-year deleveraging of the balance sheet, as a solid cash flow generation enabled the Company to repay long- and short-term borrowings.

Earnings before income taxes and income tax expense

Stella-Jones generated earnings before income taxes of $41.8 million, or 10.2% of sales, in 2009. This represents an increase of $0.6 million, or 1.4%, over earnings before income taxes of $41.2 million, or 10.7% of sales, in the prior year.

Stella-Jones' income tax expense totalled $11.7 million in 2009, representing an effective tax rate of 28.1%. In 2008, the income tax expense stood at $12.7 million, equivalent to an effective tax rate of 30.8%. 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.

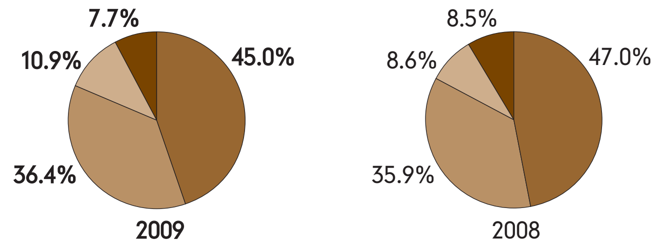
Net earnings

Net earnings for the year totalled $30.1 million, or $2.37 per share, fully diluted, compared with $28.5 million, or $2.25 per share, fully diluted, in 2008. This represents a year-over-year increase in net earnings of $1.5 million, or 5.3%.

Sales by product

(% of revenues)

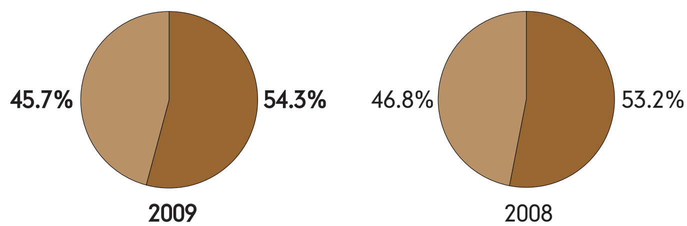
- Railway Ties 45.0% (2008 – 47.0%)
- Utility Poles 36.4% (2008 – 35.9%)
- Industrial Lumber 10.9% (2008 – 8.6%)
- Consumer Lumber 7.7% (2008 – 8.5%)



Sales by geographic region

(% of revenues)

- United States 54.3% (2008 – 53.2%)
- Canada 45.7% (2008 – 46.8%)



BUSINESS ACQUISITION

On December 15, 2009, the Company announced that it had signed a non-binding letter of intent to acquire Tangent Rail Corporation ("Tangent"), a provider of wood crosstie supply chain services to the railroad industry.

Tangent serves the railroad industry with treated wood products, mainly railway ties, through facilities located in Warrior, Alabama; Terre Haute and Winslow, Indiana; Alexandria, Louisiana and McAlisterville, Pennsylvania. It also operates two creosote manufacturing facilities in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions, consisting of tie pickup and tie disposal, are carried out at three facilities in Alabama, Minnesota and North Carolina.

For the year ended December 31, 2009, Tangent is expected to generate sales of approximately US$178.0 million and earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately US$28.0 million. The value of the transaction, which would solidify the Company's position as the second largest North American provider of railway ties, is estimated at US$165.0 million, subject to post closing adjustments. The Company plans to finance the acquisition through a combination of equity and debt, subject to prevailing market conditions.

The transaction received antitrust clearance in the United States on February 4, 2010, and remains subject to customary closing conditions, including entry into a definitive purchase agreement and satisfactory due diligence. The non-binding letter of intent signed on December 14, 2009 between Stella-Jones and Tangent provides the Company with the exclusive right to negotiate and execute a definitive purchase agreement during the period leading up to April 1, 2010 (the "Termination Date"). The parties intend to close the transaction by the Termination Date.

On February 24, 2010, the Company announced that it had entered into an underwriting agreement with a syndicate of underwriters led by RBC Capital Markets, pursuant to which such underwriters have agreed to purchase from treasury, on an underwritten private placement basis, 2,402,000 Subscription Receipts of the Company (the "Subscription Receipts") at a price of $25.00 per Subscription Receipt, for aggregate gross proceeds to the Company of $60,050,000 (the "Underwriters' Private Placement").

In addition to the Underwriters' Private Placement, the Company has received firm commitments from Stella Jones International S.A. ("SJ International") and the Solidarity Fund QFL (the "Fund") whereby such shareholders have agreed to purchase Subscription Receipts under the same terms as the Underwriters' Private Placement for gross proceeds of $15,000,000 and $5,000,000, respectively (the "Shareholders' Private Placement").

The closing date of the Underwriters' Private Placement and the Shareholders' Private Placement (collectively, the "Private Placements") is expected to occur on or about March 15, 2010. Completion of the Private Placements is subject to certain conditions, including the receipt of the approval of the Toronto Stock Exchange and all other necessary regulatory approvals.

Net proceeds from the Private Placements will be used by the Company to partially fund the proposed acquisition of Tangent.

The Subscription Receipts will be exchangeable, without additional payment, into common shares of the Company on a one-for-one basis upon completion of the acquisition. If the acquisition is not completed by April 30, 2010 at the latest, then the Subscription Receipts shall be automatically terminated and cancelled and the principal amount subscribed plus accrued interest will be returned to the holders of Subscription Receipts.

An aggregate of 3,202,000 common shares could be issued upon exchange of the Subscription Receipts to be sold under the Private Placements, representing 25.2% of the number of outstanding common shares, on a non-diluted basis.

QUARTERLY RESULTS

The Company's sales follow 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 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.

After posting sales increases in the first two quarters of 2009, compared with the corresponding periods in 2008, challenging economic conditions led to lower industry demand and softer pricing in most markets in the latter half of 2009. In addition, the value of the Canadian dollar, Stella-Jones' reporting currency, firmed up against the U.S. dollar as 2009 progressed, thereby gradually reducing the conversion rate applicable to the Company's revenue stream generated in U.S. dollars. Reflecting increased efficiencies and cost controls measures, operating earnings increased in all periods with the exception of the fourth quarter, where lower volume had a negative impact on fixed cost absorption.

The table below sets forth selected financial information for the Company's last eight quarters ending with the most recently completed financial year:

2009

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	111,954	129,104	104,671	65,390	411,119
Operating earnings before amortization of capital and intangible assets [1]	15,924	20,976	15,272	6,851	59,023
Operating earnings [1]	13,313	18,475	13,376	5,104	50,268
Net earnings	7,687	11,021	8,320	3,041	30,069
Net earnings per common share					
Basic	0.61	0.87	0.66	0.24	2.38
Diluted	0.61	0.87	0.65	0.24	2.37

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	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

[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.

Fourth quarter results

Sales for the fourth quarter of 2009 reached $65.4 million, down from $83.7 million reported for the same period in 2008. This $18.3 million, or 21.9%, decrease is mainly attributable to weak industry demand and soft pricing in most product categories. The stronger year-over-year value of the Canadian dollar, Stella-Jones' reporting currency, decreased the value of U.S. dollar denominated sales by approximately $2.8 million. A fire that broke out at the New Westminster, British Columbia facility on November 6, 2009 had no impact on sales. Although local operations were suspended for 12 days, no customer shipments were lost due to the incident, as the Company's inventory was sufficient and wood treating operations were carried out at the Company's other regional facilities.

Fourth quarter sales of railway ties amounted to $22.1 million, down from $34.9 million a year earlier. This decrease reflects weaker industry demand resulting from lower advanced deliveries to Class 1 railway operators for their regular 2010 maintenance programs, as purchases have been deferred to keep tie inventory levels down. Utility pole sales reached $31.1 million, compared with sales of $35.4 million in the fourth quarter of 2008. This decrease of 12.2% is attributable to lower demand for distribution poles and competitive pricing. Industrial lumber sales amounted to $10.1 million, stable in comparison with $10.2 million a year earlier, as stronger sales in Eastern Canada were offset by lower sales in Western Canada and the United States. Finally, consumer lumber sales reached $2.1 million, versus $3.2 million last year.

Gross profit in the fourth quarter of 2009 totalled $10.6 million, or 16.2% of sales, compared with $18.4 million, or 21.9% of sales, in the corresponding period in 2008. The decrease in gross profit, both in dollars and as a percentage of sales, principally reflects a less favourable product mix, softer pricing in most markets and lower volume that negatively affected the absorption of fixed costs.

Net earnings for the period totalled $3.0 million, or $0.24 per share, fully diluted, compared with $6.3 million, or $0.50 per share, fully diluted, in the fourth quarter of 2008.

BALANCE SHEET

The Company's working capital at December 31, 2009 was $170.1 million, an increase of $13.2 million over a working capital balance of $156.9 million at December 31, 2008. Current assets amounted to $254.6 million at the end of 2009 compared with $277.1 million twelve months earlier.

The value of accounts receivable was $30.2 million as at December 31, 2009 compared with $41.5 million at the same date in 2008. This decrease essentially reflects lower business activity at year end and a lower conversion rate applicable to U.S. dollar denominated receivables.

Inventories stood at $212.6 million, down from $223.2 million a year earlier. This decrease is due to the impact of local currency depreciation on U.S. based inventory and reduced wood prices compared with the same period a year ago.

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 $96.9 million as at December 31, 2009, compared with $108.8 million as at December 31, 2008. This $11.9 million decrease was primarily related to local currency depreciation on U.S. based capital assets and, to a lesser extent, to the amortization of capital assets exceeding purchases of capital assets in 2009.

Intangible assets totalled $13.1 million as at December 31, 2009, compared with $17.1 million one year earlier. Intangible assets include customer relationships, the discounted value of the BPB related non-compete agreements as well as goodwill. The year-over-year decline of $4.0 million reflects the amortization of customer relationships and non-compete agreements as well as local currency depreciation on U.S. based intangible assets.

Bank indebtedness at the end of 2009 totalled $56.1 million, down from $81.6 million at the end of 2008. This decrease mirrors a strong cash flow generation. The credit facilities supporting bank indebtedness include a $50.0 million demand operating loan with a Canadian bank (unchanged from last year), as well as a US$45.0 million operating line of credit with the U.S. bankers of Stella-Jones' U.S. subsidiaries (unchanged from last year). At the beginning 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 foreign exchange contracts. Total availability under the Company's Canadian and U.S. operating lines of credit was $13.2 million and US$14.1 million, respectively, as at December 31, 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, such as the proposed Tangent transaction, would require new sources of financing.

As at December 31, 2009, the Company's long-term debt, including the current portion, amounted to $87.1 million, down from $105.8 million as at December 31, 2008. This decrease is due to principal repayments of $9.0 million and favourable currency movements near the end of 2009 that decreased the conversion rate of U.S. dollar denominated long-term debt into Canadian currency.

Shareholders' equity was $180.0 million as at December 31, 2009, an increase of $18.9 million from December 31, 2008. The Company's strong earnings generation accounted for most of this gain, offset by a greater dividend payout than the previous year. Book value stood at $14.19 per common share as at December 31, 2009, up from $12.82 per share twelve months earlier.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	Fiscal Year Ended	
(thousands of dollars)	December 31, 2009	December 31, 2008
	$	$
Operating activities	40,481	(3,296)
Financing activities	(36,220)	52,335
Investing activities	(4,261)	(49,039)
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 common shares. 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. 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 $40.9 million for the year ended December 31, 2009, compared with $41.1 million for the prior year. This marginal decrease reflects a reduction in non-cash expenses resulting from a gain on derivative financial instruments that more than offset the increase in net earnings.

Changes in non-cash working capital components used liquidity of $0.5 million compared with a liquidity reduction of $44.4 million a year ago. This relative stability, in 2009, essentially mirrors lower accounts receivable offset by lower accounts payable and accrued liabilities. Last year's liquidity requirement mainly resulted from increased inventories following the BPB acquisition. As a result, operating activities provided liquidity of $40.5 million for the year ended December 31, 2009, versus requiring liquidity of $3.3 million a year earlier.

The Company's use of funds for net financing activities for the year ended December 31, 2009 was $36.2 million. This amount mainly reflects reductions in short-term bank indebtedness ($21.8 million), repayment of long-term debt ($9.0 million), and the payment of annual dividends ($4.5 million). For the year ended December 31, 2008, cash flows from financing activities had generated liquidity of $52.3 million, mainly because of short- and long-term indebtedness required to finance the BPB transaction in April 2008.

Investing activities required $4.3 million in cash during 2009, primarily for the purchase of capital assets. Capital asset expenditures were mainly for the addition of various equipment upgrades and expansion. For the year ended December 31, 2008, cash flows from investing activities reduced liquidity by $49.0 million, owing to the BPB acquisition.

The following table details the maturities of the financial obligations as at December 31, 2009:

(thousands of dollars)	Carrying Amount ($)	Contractual Cash flow ($)	Less than 1 year ($)	1 – 3 years ($)	4 – 5 years ($)	After 5 years ($)
Bank indebtedness	56,119	57,109	57,109	—	—	—
Accounts payable and accrued liabilities	19,152	19,152	19,152	—	—	—
Long-term debt obligations [1]	85,786	111,328	9,112	17,918	23,694	60,604
Capital lease obligations [1]	1,584	1,584	203	192	317	872
Interest rate swaps	1,431					
Outflow	—	6,274	1,859	1,766	1,371	1,278
Inflow	—	(2,712)	(1,007)	(734)	(620)	(351)
Other contractual obligations	—	19,686	3,236	4,293	2,203	9,954
Non-compete agreements	4,602	5,585	1,314	2,628	1,643	—
Total	168,674	218,006	90,978	26,063	28,608	72,357

[1] Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2009, the capital stock issued and outstanding consisted of 12,684,325 common shares (12,564,925 as at December 31, 2008). As at March 12, 2010, the capital stock issued and outstanding consisted of 12,688,325 common shares.

As at December 31, 2009, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 197,785 (December 31, 2008 – 147,785) of which 126,185 (December 31, 2008 – 93,285) were exercisable. As at March 12, 2010, the number of outstanding options was 193,785, of which 122,185 were exercisable.

DIVIDENDS

On March 11, 2010, the Board of Directors declared a semi-annual dividend of $0.18 per common share. On August 12, 2009, the Board of Directors declared a semi-annual dividend of $0.18 per common share.

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based upon and subject to the Company's earnings and financial requirements, 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 Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $14,583,548 (2008 – $14,788,448) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the financial statements.

The Company's operations are subject to Canadian Federal and Provincial as well as U.S. Federal and State environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

CURRENT ECONOMIC CONDITIONS

In light of an uncertain economy and tighter credit conditions in the financial markets, 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 large-scale supplier of utility poles and railway ties could prove particularly advantageous given the American and Canadian governments' investments in infrastructure projects. Moreover, various U.S. tax credit initiatives, whether enacted into law or proposed, could prove a significant stimulus for infrastructure projects.

Economic and financial market conditions have put on hold certain projects with significant capital requirements for which some of the Company's products could be required, including alternative energy projects, such as wind farms. In recent years, the Company has supplied railway ties to link up ethanol plants with the continental rail network and utility poles to connect wind farms with the electricity transmission grid. In addition, special projects in the railway tie market, which often generate increased activity in the short-line and contractor markets, have been put on hold until economic and financing conditions recover. As at March 12, 2010, Stella-Jones has only been mildly affected by such deferrals.

Liquidity

As at December 31, 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 $13.2 million and US$14.1 million, respectively, as at December 31, 2009.

Management considers that substantially all receivables are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default. Nevertheless, Management is providing additional focus on accounts receivable collection and credit extensions. As at December 31, 2009 58.8% of accounts receivable were past due less than 30 days (58.0% as at December 31, 2008) and only 2.3% were past due more than 90 days (5.7% as at December 31, 2008).

RISKS AND UNCERTAINTIES

Environmental laws and regulations

The Company is subject to a variety of environmental laws and regulations, including those relating to emission to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites.

The enforcement of these laws by regulatory agencies will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures required for compliance. Failure to comply with environmental statutes, regulations or orders could result in civil or criminal enforcement actions. The Company makes financial expenditures in order to comply with regulations governing environmental issues adopted by federal, provincial, state and local regulatory agencies.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. Management believes that its commitment to the environmental integrity of the Company's plants and operations, supported by significant investments toward that end, will allow the Company to continue to meet the applicable regulatory requirements.

Availability and cost of raw materials

Management considers that the Company may be affected by the industry-wide concerns of long-term availability of competitively priced wood and potential fluctuations in wood prices. Nevertheless, the Company's overall competitiveness in this industry is strengthened by its access to a high quality timber supply provided by its long-term cutting licenses and its long-standing relationships with private woodland owners and other suppliers. In addition, there are a limited number of suppliers for certain of the preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. The Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply.

Currency risk

The Company is exposed to currency risks due to its export of goods manufactured in Canada. These risks are partially covered by purchases of goods and services denominated in U.S. dollars. The Company also uses foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars.

Interest rate fluctuations

As at December 31, 2009, the Company had limited exposure to interest rate risk on long-term debt as only 14.0% (2008 – 7.0%) of the Company's long-term debt is at variable rates. 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.

Credit risk

The geographic distribution of customers and procedures regarding commercial risk management limit the concentration of credit risks. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing primarily with utility and telecommunication companies and other major corporations.

OFF-BALANCE SHEET ARRANGEMENTS AND FINANCIAL INSTRUMENTS

For details pertaining to off-balance sheet arrangements and financial instruments, refer to Note 19 to the Company's audited consolidated financial statements for the year ended December 31, 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 2 to the December 31, 2009 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, inventory valuation, reforestation and environmental provisions.

CHANGES IN ACCOUNTING POLICIES

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis using rates based on the estimated useful lives of the assets. During the fourth quarter, Management reviewed and increased the useful life of certain capital assets in order to better reflect their use in time. These changes were applied prospectively from October 1, 2009. The impact on the amortization expense for the twelve-month period ended December 31, 2009 was as follows:

	Previous useful lives	Revised useful lives	Reduction in amortization expense $
Buildings	20 to 40 years	20 to 60 years	81,725
Production equipment	5 to 40 years	5 to 60 years	405,175
Rolling stock	3 to 10 years	3 to 15 years	5,100
Anti-pollution equipment	10 to 20 years	10 to 60 years	81,675
Office equipment	2 to 10 years	2 to 10 years	5,950
			579,625

The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards which were 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 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 has assessed that the impact of this new accounting standard is not significant. Additionally, the required disclosures have been included in Note 9 to the December 31, 2009 consolidated financial statements.

Handbook Section 3862, "Financial Instruments – Disclosures", was amended to include additional disclosure and presentation requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure and presentation requirements for publicly accountable enterprises and other entities after September 30, 2009. The adoption of this amended Section has had no material impact on the Company's consolidated financial statements other than to provide enhanced disclosures in note 19.

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 financial 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, 2010:

Handbook Section 1582, "Business Combinations" replaces Section 1581 of the same title. This new Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standard ("IFRS") 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. The Company will apply this new standard effective January 1, 2010 as early adoption is permitted.

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. These standards are equivalent to the corresponding provisions of the International Accounting Standard 27 (Revised), "Consolidated and Separate Financial Statements". The Company will apply these new standards effective January 1, 2010 as early adoption is permitted. The adoption of these new standards will not have a significant impact on the Company's consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB confirmed that Canadian publicly listed companies will be required to use 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 (phase I) was prepared by external consultants who identified the key areas where changes in accounting policy may have some impact on the Company's consolidated financial statements.

The Company is presently in the phase II 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 II is completed, Management will be able to determine the consequences of the change by the end of the second quarter of 2010. Planning continued in the fourth 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.

In the period leading up to the changeover, the Company continues to monitor standards to be issued by the International Accounting Standards Board ("IASB"), because the IASB work plan expects the completion of several projects in calendar years 2010 and 2011.

Set out below are the key areas where changes in accounting policies may impact the Company's consolidated financial statements. It is intended to highlight those areas the Company believes to be most significant. However, the analysis of changes is still in process and not all decisions have been made when alternative accounting policies are available.

Property, plant and equipment

IAS 16 – Property, plant and equipment permits assets to be measured based on either a cost model or a revaluation model. Under a revaluation model, an item of property, plant and equipment is carried at a revalued amount, being the fair value at the date of the revaluation.

The property, plant and equipment ("capital assets") review and analysis has been completed. The useful life of certain capital assets has been revised. The impact of this review and analysis will be assessed in the first quarter of 2010. The Company plans to continue to use the cost model under IFRS.

Leases

The company undertook a detailed review of material lease arrangements in order to determine the appropriate lease classification under IFRS.

After reviewing lease contracts subject to IAS 17, the Company concluded that capital and operational leases are properly classified.

Cutting rights

Cutting rights contracts are presently being analyzed to determine if they should be considered under IAS 17, Leases or under IAS 38, Intangible Assets. Current discussions indicate that cutting rights should be recorded under intangible assets. This analysis will be completed by the end of the second quarter of 2010.

As at December 31, 2009, cutting rights were accounted for as part of capital assets. Under IFRS, the company might have to reclassify these assets from capital assets to intangible assets on the balance sheet.

Joint ventures

Under Canadian GAAP, the 50% interest that the Company has in Kanaka Creek Pole Company Limited ("Kanaka") is accounted for under the proportionate consolidation method. Essentially, 50% of the balance sheet and profit and loss statement of Kanaka are added to the Company's consolidated financial statements. Under Exposure Draft 9, which addresses joint venture accounting, the proportionate consolidation method will no longer be allowed and proposes instead the equity method. The equity method presents joint ventures in the financial statements as an investment valued at the original contribution cost in the joint venture.

The documentation for joint venture accounting is in place and no additional disclosures will be required.

Financial instruments

Effective January 1, 2008, the Company adopted CICA handbook Section 3862 – Financial Instruments - Disclosure and handbook Section 3863 - Financial Instruments - Presentation. These new sections were introduced to better harmonize Canadian GAAP to IFRS by incorporating many of the concepts found in IAS 32 - Financial Instruments Presentation and IAS 39 - Financial Instruments Recognition and Measurement. Under IAS 39, the Company must prepare an analysis to demonstrate that the cash flows from the hedged item and the hedging instrument are matched in an effective manner. This analysis has been prepared by an external consultant.

Employee future benefits

In August 2009, Stella-Jones mandated Morneau Sobeco, Human Resource Consultants, to perform an analysis of adopting IAS 19 – Pensions and Other Employee Benefits. Morneau Sobeco submitted their conclusions on October 9, 2009. Based on their report, the Company has made a decision concerning the various approaches for addressing gains and losses under IAS 19 and the Company has decided to reflect the same in the statement of other comprehensive income. As a result, a total unamortized gain of approximately $270,000 as of January 1, 2010 will be reflected on the balance sheet upon transition.

Share-based payments

The Company has a stock option plan, employee share purchase plans and restricted stock units that will be subject to IFRS 2 – Share-Based Payments. Under this standard, the expense related to these arrangements must be recognized based on a financial model such as Black-Scholes. The stock option plan is currently calculated based on the Black-Scholes model and no financial impact is expected for the conversion. For the employee share purchase plans and the restricted stock units, the analysis will be completed before the end of the second quarter of 2010, but no major impact is expected.

Asset retirement obligations

Under the British Columbia Forest Act and the Alberta Forests Act, the Company is obligated to assume the costs related to reforestation on certain harvest licences and to incur remediation costs for certain sites.

The Company modified the Asset retirement obligation calculations in 2008 and current disclosure adequately meets IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Business combinations and goodwill

Effective July 1, 2009, IFRS 3 becomes the reference document to guide corporations through business combinations. The Company is aware of these new rules, which are similar to Canadian GAAP with the significant exception that acquisition costs can no longer be deferred. Those costs shall be expensed in the period they are incurred. Under IFRS, these costs are not permitted to form a component of goodwill as is permitted under Canadian GAAP.

Under IFRS 1, the Company has the option to retroactively apply IFRS 3 to all business combinations or may chose to apply the standard prospectively only to those acquisitions that occur after the date of transition. The Company has not yet taken a decision regarding this choice.

Impairment

IAS 36 – Impairment of Assets uses a one-step approach for testing and measuring asset impairment. Asset carrying values are being compared to the higher of the value in use and fair value less disposal costs. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists.

As of December 2009, a goodwill impairment test model has been prepared and no impairment adjustment is required. The IFRS documentation has also been completed.

First time adoption of IFRS

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 the deemed cost for capital assets. The Company is presently assessing the impact of these exemptions and a decision will be made before the end of the second quarter of 2010.

Impact on information systems

The Company is assessing the information requirements of IFRS reporting. During the fourth quarter of 2009, the diagnostic analysis regarding current information systems was completed. Changes are being made to ensure that dual reporting of both Canadian GAAP and IFRS will be possible in 2010 and new reports will be created to meet IFRS disclosure requirements.

Impact on internal controls over financial reporting and disclosure

The Canadian Securities Administrators' National Instrument 52-109 sets out rules that public companies are required to follow concerning internal controls over financial reporting and disclosure controls and procedures. In compliance with these rules, Management intends to identify, review and potentially modify, as considered necessary, certain key controls that may be impacted by changes due to IFRS conversion. Affected key controls will be evaluated and tested using a risk based approach to ensure they are properly designed and are operating effectively in order to ensure that no material errors will be generated from the changeover to IFRS.

Impact on business activities

The effects of IFRS conversion on the Company's debt covenants are being reviewed. It is not expected that the conversion to IFRS will significantly impact these requirements.

DISCLOSURE CONTROLS

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2009, and have concluded that such disclosure controls and procedures were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) for the year ended December 31, 2009. The evaluation was based on the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively.

The Company did not make any material changes to the design of internal controls over financial reporting during the twelve months ended December 31, 2009 that have had a material effect on the Company's internal controls over financial reporting.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

RELATED PARTY TRANSACTIONS

In 2009, the Company paid a total of $300,000 (2008 - $300,000) to its parent company and ultimate shareholders with respect to marketing and technical services fees and incurred interest expense of $52,000 (2008 - $64,000) with respect to a loan from its parent company, as detailed in Note 21 to the December 31, 2009 audited consolidated financial statements.

These transactions were with the majority shareholder, Stella Jones International S.A. (marketing services and interest on promissory note) and the ultimate shareholders, Stella S.p.A. and James Jones & Sons Ltd. (marketing and technical service fees). The majority shareholder and ultimate shareholders have extensive international experience in the forest products and wood treating industries and Management considers the amounts paid with respect to the various transactions to be reasonable and competitive.

OUTLOOK

Although global economic conditions have shown signs of improvement, the recovery is likely to be gradual in the Company's core markets. However, demand is not expected to be generally lower and the key role played by Stella-Jones' products in basic transportation and utility infrastructure should enable the Company to maintain market share and a steady business level.

The Company's products are integral to capital infrastructure projects that governments often initiate during times of economic slowdown and various stimulus measures and programs with such aims have been announced. These actions may drive demand, as they could potentially involve, in both maintenance and new installation endeavours, many of the Company's clients in the railway and electrical transmission and distribution industries.

In the railway tie category, Class 1 railway operators seeking to reduce their inventory levels deferred advanced deliveries of their regular 2010 maintenance programs. Such deferrals, which reduced fourth quarter sales, are scheduled for the first half of 2010. As a result, demand declines and pricing pressures are believed to have bottomed out. Meanwhile, demand is holding in the utility pole market although pricing pressures are being experienced.

The successful integration of the proposed Tangent acquisition will also be a major performance driver in 2010. This transaction would solidify the Company's position as the second largest North American provider of railway ties and yield appreciable synergies. Organically, Stella-Jones will strive to capture more of its existing clients' business in the railway tie and utility pole markets across North America, while diligently seeking new market opportunities, as it continues to realize the full potential of recent acquisitions. The Company will also remain focused on improving operating efficiencies throughout the organization.

The Company will continue to focus on cash generation and to maintain a prudent use of leverage, as a solid balance sheet will favourably position Stella-Jones to continue its acquisition strategy while meeting the challenges of current market conditions. The Company's long-term strategic vision, focused on continental expansion and consolidation, remains intact. Stella-Jones will continue to seek targets in its core railway tie and utility pole markets that meet its stringent investment requirements, provide synergistic opportunities, and, most of all, add value for shareholders.

March 12, 2010