MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2010 compared with three-month period ended March 31, 2009

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 May 3, 2010. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2010 compared with the three-month period ended March 31, 2009. The MD&A should be read in conjunction with the Company's interim unaudited consolidated financial statements for the periods ended March 31, 2010 and 2009 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. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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 disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

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 Inc. (TSX: SJ) is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties, timbers and recycling services; and the continent's electrical utilities and telecommunications companies with utility poles. Stella-Jones also provides industrial lumber and services for construction and marine applications, as well as consumer lumber to retailers and wholesalers for outdoor applications.

Following the acquisition of Tangent Rail Corporation ("Tangent") on April 1, 2010 (see "Subsequent Event" below), the Company operates nineteen wood treating plants, two coal tar distilleries, three facilities providing railway tie pickup and disposal services, two distribution centres, two pole peeling facilities and has a 50% interest in a third pole peeling operation. These twenty-nine facilities are located in six Canadian provinces and fourteen American states. The Company's workforce currently numbers approximately 1,000 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, a long-standing stable source of wood supply, and a license to produce the wood preservative, creosote. 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

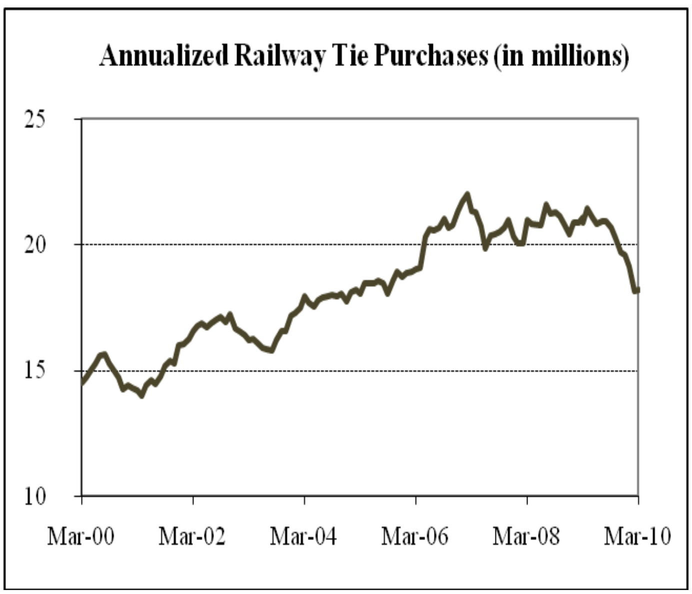
Operating earnings before amortization of capital and intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating earnings, and cash flow from operations are financial measures not prescribed by Canadian generally accepted accounting principles ("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.

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended March 31, 2010 and 2009. 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$/US$	2010		2009	
	Average	Closing	Average	Closing
First Quarter	1.0576	1.0158	1.2389	1.2613

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties
As reported by the Railway Tie Association, railway tie purchases declined in the first quarter of 2010. The reduction in freight hauled on North American railroads as a result of a weaker economy prompted a more cautious management of capital expenditures by Class 1 and short-line railway operators. As at March 31, 2010, the annualized purchase rate stood at 18.2 million ties.

However, after bottoming out in late 2009, the number of carloads hauled on North American railroads has increased by approximately 5.0% in the first three months of 2010, compared with the year earlier period, while the volume of intermodal trailers and containers rose nearly 9.0% from year earlier levels, according to the Association of American Railroads.

OPERATING RESULTS

Sales
Sales for the quarter ended March 31, 2010 reached $99.4 million, a decrease of $12.6 million, or 11.2%, over last year's first quarter sales of $112.0 million. The major factor in comparing quarterly sales this year versus last year, however, was fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar. The conversion effect decreased the value of U.S. dollar denominated sales by about $8.9 million when compared with the same period a year earlier. Organically, sales decreased approximately 3.0%, primarily reflecting lower demand for railway ties compared with the same period a year earlier.

Sales by product category

Railway ties

Railway tie sales for the first quarter of 2010 amounted to $48.2 million, a decrease of 21.5% over sales of $61.4 million in the first quarter of 2009. With respect to this decrease of $13.2 million, the lower average conversion rate on U.S. dollar denominated railway tie sales represented approximately $6.3 million of this variance versus last year. These results also reflect lower industry demand in North America due to current economic conditions affecting rail shipping in general. Also, severe winter weather in the eastern United States in the first two months of the year reduced railcar availability and delayed railway tie shipments. Railway tie sales accounted for 48.5% of the Company’s total sales in the first quarter of 2010.

Utility poles

Utility pole sales amounted to $36.5 million in the first quarter of 2010, a decrease of 2.2% compared with sales of $37.3 million in the first quarter of 2009. Excluding the negative conversion effect on U.S. dollar denominated sales, organic sales were up approximately $900,000, with sales increases in Canada offsetting weaker transmission pole sales in the U.S. market. Utility pole sales accounted for 36.8% of the Company’s total sales in the first quarter of 2010.

Industrial lumber

Sales of industrial lumber declined marginally to $10.1 million in the first quarter of 2010, compared with $10.5 million in the first quarter of 2009, as solid demand for marine applications in Eastern and Western Canada was more than offset by lower sales in the United States due to reduced railcar availability and currency variations. This product category also includes the Company’s log home business. Industrial treated wood represented 10.2% of overall sales in the first quarter of 2010.

Consumer lumber

Sales in the consumer lumber category totalled $4.5 million in the first quarter of 2010, up 65.6% from $2.7 million in the first quarter of 2009. The increases are weather related, with a much milder first quarter in Canada this year versus last year. The Company does not sell consumer lumber into the U.S. market. Consumer lumber accounted for 4.5% of Stella-Jones' total sales in the first quarter of 2010.

Sales by destination

In the first quarter of 2010, sales in Canada grew 16.0% to $47.6 million, or 47.9% of the Company's total sales. Sales in the United States amounted to $51.8 million, or 52.1% of sales, representing a decrease of $19.1 million, or 27.0%, over the first quarter of 2009, essentially attributable to a lower conversion rate on U.S. dollar denominated sales and lower railway tie sales.

Gross profit

Gross profit reached $18.2 million or 18.3% of sales in the first quarter of 2010, down from $22.5 million or 20.1% of sales in the corresponding period of 2009. The reduction in gross profit as a percentage of sales, essentially stems from softer pricing in most product categories resulting from lower demand as well as a different product mix in the railway tie category. The reduction in monetary terms primarily reflects a lower average rate applied to convert gross profit from U.S. dollar denominated sales.

Expenses

Selling and administrative expenses for the three-month period ended March 31, 2010 were $5.9 million, up slightly from $5.8 million in the three-month period ended March 31, 2009. Excluding expenses of approximately $1.8 million directly related to the acquisition of Tangent, selling and administrative expenses decreased in monetary terms during the first quarter of 2010 owing to a lower conversion rate on U.S. dollar costs and last year’s greater compensation expenses as a result of higher provisions for the Company’s profit sharing plan.

The Company realized a foreign exchange loss of $24,000 during the quarter ended March 31, 2010, versus a foreign exchange gain of $7,000 during the quarter ended March 31, 2009.

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 March 31, 2010, the Company had on hand forward foreign exchange contracts for the future sale of US$10.8 million at an average contract rate of Cdn$1.2199/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 March 31, 2010, compared to December 31, 2009, totalled $15,000.

Amortization of capital and intangible assets totalled $1.8 million in the first quarter of 2010, a decrease of $0.8 million over the corresponding period of 2009. This decline mainly reflects 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). These changes were applied prospectively from October 1, 2009.

Financial expenses for the first quarter of 2010 amounted to $1.8 million, a decrease of $0.3 million over financial expenses incurred in the first quarter of 2009. The decline in financial expenses is due to lower interest rates, on average, in the first quarter of 2010 and lower Canadian dollar interest on the conversion of U.S. dollar denomination debt.

Earnings before income taxes and income tax expense

Stella-Jones generated earnings before income taxes of $8.7 million, or 8.8% of sales, in the first quarter of 2010. This represents a decrease of $2.5 million over earnings before income taxes of $11.2 million, or 10.0% of sales, in the first quarter of 2009.

Stella-Jones' income tax expense totalled $2.9 million in the three-month period ended March 31, 2010, representing an effective tax rate of 33.1%. In the three-month period ended March 31, 2009, the income tax expense stood at $3.5 million, equivalent to an effective tax rate of 31.2%. The higher effective tax rate is a consequence of the higher proportion of revenue generated in the United States where the statutory corporate income tax rate is higher. Other non-income based corporate taxes represent a relatively small component of the Company's total tax burden.

Net earnings

Net earnings for the period totalled $5.8 million, or $0.46 per share, fully diluted, compared with $7.7 million, or $0.61 per share, fully diluted, in the same period a year earlier. This represents a 24.4% year-over-year decrease in net earnings.

SUBSEQUENT EVENT

On April 1, 2010, the Company completed the acquisition of 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. The wood preservative, creosote, is produced at its distilleries 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. This acquisition will expand the Company's capabilities within the U.S. railway tie industry and provide the Company with creosote manufacturing operations.

The consideration transferred totalled approximately US$165.0 million, subject to post closing adjustments. Financing for the transaction has been secured through an $80,050,000 private placement of subscription receipts which successfully closed on March 15, 2010, as well as through the issuance to the Solidarity Fund QFL of a US$25,000,000 unsecured and non-convertible debenture, the addition of a US$40,000,000 syndicated bank term facility which successfully closed on March 24, 2010, and the increase of existing operating debt facilities. The subscription receipts were exchanged as at the close of business, April 1, 2010, for common shares in the share capital of the Company on the basis of one common share per subscription receipt. Holders of subscription receipts did not need to take any action in order to receive the common shares to which they are entitled. As the subscription receipts were sold on a private placement basis, these common shares are subject to regulatory restrictions on resale until July 16, 2010.

The acquisition will be accounted for using the acquisition method which requires the identification and measurement of all assets acquired and liabilities assumed in the transaction at their fair values and may result in the recognition of certain gains or losses. As the transaction closed April 1, 2010, Management has just commenced the process of determining the fair value of the net assets acquired and is not in a position to provide a preliminary estimate of their values however expects the measurement period to be completed by December 31, 2010.

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.

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

2010

For the quarters ended	**March 31**				
(thousands of dollars, except per share data)	**$**				
Sales	99,360				
Operating earnings before amortization of capital and intangible assets [1]	12,266				
Operating earnings [1]	10,500				
Net earnings	5,814				
Net earnings per common share Basic Diluted	 0.46 0.46				

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.

BALANCE SHEET

The Company's working capital at March 31, 2010 was $308.4 million, an increase of $138.3 million over a working capital balance of $170.1 million at December 31, 2009. The increase reflects restricted cash of $142.9 million as at March 31, 2010 consisting of proceeds from the financing transactions entered into to secure the acquisition of Tangent (see "Subsequent Events" above). These funds were considered restricted as they were repayable or refundable in the event the acquisition did not close. They were subsequently disbursed on April 1, 2010. Also as a result of restricted cash, current assets amounted to $400.3 million as at March 31, 2010 compared with $254.6 million as at December 31, 2009.

The value of accounts receivable was $52.1 million as at March 31, 2010 compared with $30.2 million as at December 31, 2009. This increase essentially reflects higher sales near the end of the period due to the normal seasonal demand pattern.

Inventories stood at $197.9 million on March 31, 2010, compared with $212.6 million on December 31, 2009. This decrease is due to higher seasonal business activity at the end of the period and to the impact of local currency depreciation on U.S. based inventory. Management is satisfied with current inventory levels heading into peak summer demand.

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 $95.3 million as at March 31, 2010, compared with $96.9 million as at December 31, 2009. This $1.6 million decrease was primarily related to local currency depreciation on U.S. based capital assets and to the amortization of capital assets exceeding purchases of capital assets in the first quarter of 2010.

Intangible assets totalled $12.2 million as at March 31, 2010, compared with $13.1 million as at December 31, 2009. Intangible assets include customer relationships, the discounted value of the non-compete agreements as well as goodwill. The decline of $0.9 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 as at March 31, 2010 totalled $49.9 million, down from $56.1 million at the end of 2009. This decrease is the result of a solid cash flow generation. As at March 31, 2010, the credit facilities supporting bank indebtedness include a $50.0 million demand operating loan with a syndicate of Canadian banks ($50.0 million as at December 31, 2009), as well as a US$75.0 million operating line of credit with a syndicate of U.S. bankers (US$45.0 million as at December 31, 2009). Total availability under the Company's Canadian and U.S. operating lines of credit was $19.3 million and US$58.4 million, respectively, as at March 31, 2010.

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 March 31, 2010, the Company's long-term debt, including the current portion, amounted to $149.0 million, up from $87.1 million as at December 31, 2009. This increase is due to the issuance to the Solidarity Fund QFL of a US$25.0 million (Cdn$25.4 million) unsecured and non-convertible debenture and the addition of a US$40.0 million (Cdn$40.6 million) term facility to partially finance the acquisition of Tangent. Excluding these borrowings, Stella-Jones' long-term debt, including the current portion, would have been approximately $83.0 million.

Shareholders' equity was $260.0 million as at March 31, 2010, up from $180.0 million as at December 31, 2009. This increase of $80.0 million is mostly attributable to net proceeds of $77.7 million from the issuance of subscription receipts to partially finance the acquisition of Tangent. The subscription receipts were exchanged, without additional payment, into common shares of the Company on a one-for-one basis upon completion of the acquisition on April 1, 2010. Excluding the value of subscription receipts, book value stood at $14.36 per common share as at March 31, 2010, up from $14.19 per share as at December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (thousands of dollars)	**Three-month periods ended** March 31, 2010	March 31, 2009
Operating activities	$8,848	($12,526)
Financing activities	$135,168	$14,632
Investing activities	($144,016)	($2,106)
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 raised from operating lines of credit and long-term debt, 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 $8.5 million for the quarter ended March 31, 2010, compared with $11.3 million for the corresponding period in 2009. This decrease mirrors the reduction in net earnings for the period as well as lower amortization of capital assets.

Changes in non-cash working capital components provided liquidity of $320,000 in the first quarter of 2010 compared with a liquidity reduction of $23.8 million in the first quarter of 2009. This improvement is attributable to lower inventories and income tax receivable as well as higher accounts payable and accrued liabilities that more than offset an increase in accounts receivable. As a result, operating activities generated liquidity of $8.8 million for the three-month period ended March 31, 2010, as opposed to requiring liquidity of $12.5 million for the corresponding period a year earlier.

The Company's source of funds for net financing activities for the three-month period ended March 31, 2010 was $135.2 million. This amount mainly reflects net additions of $64.6 million to long-term debt and $77.0 million to capital stock to partially finance the acquisition of Tangent, slightly offset by a reduction of $5.3 million in short-term bank indebtedness. For the three-month period ended March 31, 2009, cash flows from financing activities had generated liquidity of $14.6 million.

Investing activities required $144.0 million in cash during the first quarter of 2010, essentially as a result of an increase of $142.9 million in restricted cash pending the completion of the Tangent acquisition. Capital asset expenditures, mainly for the addition of various equipment upgrades and expansion, amounted to $1.2 million. For the first quarter of 2009, cash flows from investing activities reduced liquidity by $2.1 million.

The following table details the maturities of the financial obligations as at March 31, 2010:

(in thousands of dollars)	Carrying Amount ($)	Contractual Cash flow ($)	Less than 1 year ($)	1 – 3 years ($)	4 – 5 years ($)	After 5 years ($)
Bank indebtedness[1]	49,861	50,924	50,924	-	-	-
Accounts payable and accrued liabilities	28,015	28,015	28,015	-	-	-
Long-term debt obligations[1]	147,805	205,038	17,503	41,254	39,655	106,626
Capital lease obligations[1]	1,227	1,227	124	229	78	796
Interest rate swaps	1,508					
Outflow	-	6,121	1,794	1,729	1,350	1,248
Inflow	-	(3,149)	(1,068)	(884)	(772)	(425)
Other contractual obligations	-	18,925	3,367	4,375	2,201	8,982
Non-compete agreements	4,234	5,080	1,270	2,540	1,270	-
Total	232,650	312,181	101,929	49,243	43,782	117,227

[1] Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2010, the capital stock issued and outstanding consisted of 12,691,094 common shares (12,684,325 as at December 31, 2009). As at May 3, 2010, the capital stock issued and outstanding consisted of 15,893,094 common shares.

As at March 31, 2010, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 193,785 (December 31, 2009 – 197,785) of which 122,185 (December 31, 2009 – 126,185) were exercisable. As at May 3, 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 payable on May 14, 2010. 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 2009 Annual Report.

CURRENT ECONOMIC CONDITIONS

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.

Liquidity
As at March 31, 2010, 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 $19.3 million and US$58.4 million, respectively.

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.

Inventories decreased during the first quarter of 2010 due to higher seasonal business activity at the end of the period and to the impact of local currency depreciation on U.S. based inventory. 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 2009 Annual Report.

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

The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards which were adopted by the Company effective January 1, 2010:

Handbook Section 1582, "Business Combinations" replaces Section 1581 of the same title. The new Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standard ("IFRS") standard, 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 has applied this new standard effective January 1, 2010 as early adoption is permitted. As a result of the application of this new accounting standard, the Company charged deferred acquisition expenses in the amount of $328,399 to earnings. Effective January 1, 2010, expenses of a similar nature will be recorded to results in the period they are incurred.

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 IAS 27 (Revised) standard, "Consolidated and Separate Financial Statements". The Company has applied these new standards effective January 1, 2010 as early adoption is permitted. The adoption of these new standards did not have any impact on the Company's consolidated financial statements.

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 of 2009, 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.

	Previous useful lives	**Revised useful lives**
Buildings	20 to 40 years	20 to 60 years
Production equipment	5 to 40 years	5 to 60 years
Rolling stock	3 to 10 years	3 to 15 years
Anti-pollution equipment	10 to 20 years	10 to 60 years
Office equipment	2 to 10 years	2 to 10 years

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("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 is expecting to be able to determine the consequences of the change by the end of the second quarter of 2010. Planning continued in the first quarter of 2010 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 as described under the "Changes in Accounting Policies" section. 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 finance 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, based on the current standards.

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 and reviewed by Management.

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 is expected to 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 licenses 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. There are proposed changes to 1AS 37 that may require the Company to perform other assessments.

Business combinations and goodwill
Effective July 1, 2009, IFRS 3 becomes the reference document to guide corporations through business combinations.

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. In addition, the Company has elected to early adopt a new standard under Canadian GAAP from January 1, 2010 which would align the accounting for business combinations under Canadian GAAP to IFRS.

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 was 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 is expected to 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 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 March 31, 2010 that have had a material effect on the Company's internal controls over financial reporting.

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.

The successful integration of the Tangent acquisition will be a major performance driver in 2010. This transaction solidifies the Company's position as the second largest North American provider of railway ties and should 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.

May 3, 2010