

MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended September 30, 2010 compared with three-month period ended September 30, 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 November 11, 2010. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended September 30, 2010 compared with the three-month period ended September 30, 2009. The MD&A should be read in conjunction with the Company's interim unaudited consolidated financial statements for the periods ended September 30, 2010 and 2009 and the notes thereto as well as the Company's annual consolidated financial statements and MD&A. 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 [.sedar.com](http://www.sedar.com). Press releases and other information are also available in the Investor/Media Centre section of the Company's Web site at [.stella-jones.com](http://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 products and services for construction and marine applications, as well as consumer lumber to retailers and wholesalers for outdoor applications.

The Company operates nineteen wood treating plants, a coal tar distillery, 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-eight facilities are located in six Canadian provinces and fourteen American states. The Company's workforce currently numbers approximately 950 employees.

Stella-Jones enjoys a number of key attributes which should further enhance the Company's strategic positioning and competitive advantage in the wood treating 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 registration to produce and sell the wood preservative, creosote.

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

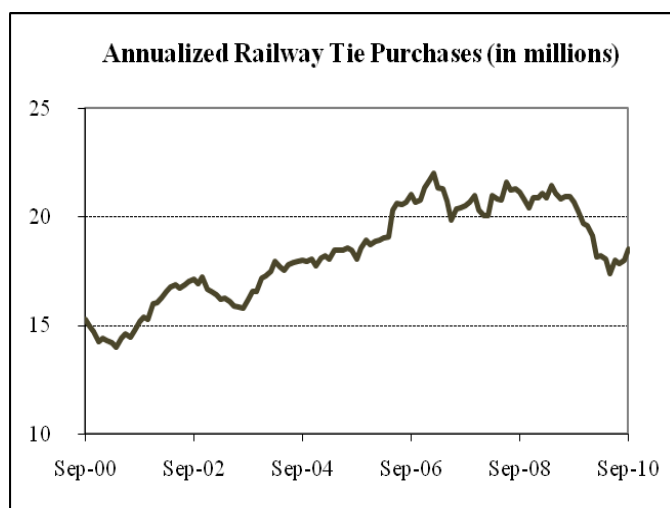
Operating earnings before amortization of capital and intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating earnings, and cash flow from operations are financial measures not prescribed by Canadian generally accepted accounting principles ("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 September 30, 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
Third Quarter	1.0531	1.0290	1.1118	1.0707

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties

As reported by the Railway Tie Association ("RTA"), the annualized tie purchase rate at the end of the third quarter of 2010 rose to 18.5 million ties, up from approximately 18 million ties at the end of the previous quarter. This increased demand has also resulted in a further decline in tie inventories across the industry.

Meanwhile, the Association of American Railroads reported year-over-year increases of 9.8% and 15.2%, respectively, in the number of carloads and of intermodal trailers and containers hauled on North American railroads in the first nine months of 2010. These increases further support a gradually recovering economy.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2010 reached \$161.3 million, an increase of \$56.6 million, or 54.1%, over last year's third quarter sales of \$104.7 million. The acquisition of Tangent Rail Corporation ("Tangent"), effective April 1, 2010, contributed sales of approximately \$41.2 million. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar decreased the value of U.S. denominated sales by about \$3.6 million when compared with the same period a year earlier. Organically, sales increased approximately 18.0%, reflecting higher railway tie sales in the United States and greater utility pole sales in both the United States and Canada.

Sales for the nine-month period ended September 30, 2010 amounted to \$428.0 million, up from \$345.7 million for the corresponding period a year earlier. The increase reflects an \$83.3 million contribution from the Tangent acquisition, while the stronger year-over-year Canadian dollar reduced the value of U.S. dollar denominated sales by about \$21.8 million in the first nine months of 2010. Organically, sales increased approximately 6.0%.

Sales by product category

Railway ties

Railway tie sales for the third quarter of 2010 were \$84.3 million, an increase of \$40.2 million, or 91.2% over sales of \$44.1 million in the third quarter of 2009. This increase reflects the acquisition of Tangent, which contributed railway tie sales of approximately \$27.1 million, as well as increased market penetration. Excluding Tangent, year-over-year railway tie sales increased \$13.1 million, net of a \$1.8 million adverse effect due to a lower average conversion rate on U.S. dollar denominated tie sales versus last year. Railway tie sales accounted for 52.3% of the Company's total sales in the third quarter of 2010.

In the nine-month period ended September 30, 2010, railway tie sales reached \$220.8 million, up \$57.8 million from a year earlier. While Tangent added tie sales of \$56.4 million, a lower conversion rate on U.S. dollar denominated tie sales reduced sales by approximately \$15.3 million in the first nine months of 2010 compared with the same period a year earlier. Excluding these factors, year-to-date tie sales increased \$16.7 million, or approximately 10.0%.

Utility poles

Utility pole sales amounted to \$42.7 million in the third quarter of 2010, an increase of 15.6% compared with sales of \$36.9 million in the third quarter of 2009. This increase mainly reflects higher sales of distribution poles, partially offset by lower sales of transmission poles, the latter mainly due to the timing of orders. The negative conversion effect on U.S. dollar denominated sales reduced utility pole sales by approximately \$0.7 million. Utility pole sales accounted for 26.5% of the Company's total sales in the third quarter of 2010.

For the nine-month period ended September 30, 2010, sales of utility poles amounted to \$118.0 million, stable in comparison with \$118.6 million for the corresponding period in 2009. Excluding a negative conversion effect on U.S. dollar denominated pole sales of approximately \$4.3 million, sales rose \$3.7 million, or approximately 3.0%, in the first nine months of 2010 compared with the same period a year earlier.

Industrial products

Sales of industrial products rose to \$24.7 million in the third quarter of 2010, up from \$12.4 million in the third quarter of 2009. This increase reflects the contribution from Tangent's operations related to coal tar distillation and lifecycle solutions, including used tie pickup and disposal services, partially offset by lower demand for marine applications in Eastern Canada. Industrial products represented 15.3% of overall

sales in the third quarter of 2010. For the first nine months of 2010, sales of industrial products reached \$61.6 million, up from \$34.7 million in the first nine months of 2009.

Consumer lumber

Sales in the consumer lumber category totalled \$9.5 million in the third quarter of 2010, down 15.4% from \$11.3 million in the third quarter of 2009. The decrease reflects lower renovation spending in Canada due to unfavourable weather and to the expiry of the home renovation tax credit program at the beginning of 2010. The Company does not sell consumer lumber into the U.S. market. Consumer lumber accounted for 5.9% of Stella-Jones' total sales in the third quarter of 2010. In the nine-month period ended September 30, 2010, consumer lumber sales were \$27.6 million, down from \$29.5 million for the corresponding period in 2009.

Sales by destination

In the third quarter of 2010, sales in Canada grew 4.1% to \$55.0 million, or 34.1% of the Company's total sales. Sales in the United States amounted to \$106.3 million, or 65.9% of sales, representing an increase of \$54.5 million over the third quarter of 2009. The increase reflects the Tangent acquisition and solid organic growth, partially offset by a lower conversion rate on U.S. dollar denominated sales.

For the first nine months of 2010, sales in Canada totalled \$167.1 million, representing 39.0% of sales, up from \$153.2 million in 2009, while sales in the United States amounted to \$260.9 million, or 61.0% of sales, versus \$192.5 million in the corresponding period of 2009.

Gross profit

Gross profit reached \$29.3 million or 18.2% of sales in the third quarter of 2010, up from \$19.6 million or 18.8% of sales in the corresponding period of 2009. The increase in gross profit dollars essentially reflects the contribution of the Tangent operations partially offset by a lower average rate applied to convert gross profit from U.S. dollar denominated sales. Meanwhile, the reduction in gross profit as a percentage of sales mainly stems from a different product mix more heavily weighted towards railway ties. For the first nine months of 2010, gross profit stood at \$76.4 million, or 17.8% of sales, compared with \$66.1 million, or 19.1% of sales, for the same period a year earlier.

Expenses

Selling and administrative expenses for the three-month period ended September 30, 2010 were \$7.4 million, up from \$6.0 million in the three-month period ended September 30, 2009. This increase is essentially attributable to expenses from the Tangent operations. As a percentage of sales, selling and administrative expenses represented 4.6% of sales in the third quarter of 2010, versus 5.7% in the third quarter of 2009.

Selling and administrative expenses for the first nine months of 2010 were \$24.5 million, up from \$17.1 million for the first nine months of 2009. Selling and administrative expenses for the first nine months of 2010 also include approximately \$5.0 million in non-recurring expenses consisting of acquisition costs directly related to the purchase of Tangent, severance expenses, as well as a provision for an unfavourable legal judgement. These non-recurring expenses were recorded in earnings during the first and second quarter.

During the nine-month period ended September 30, 2010, the Company recorded asset impairment charges of \$2.5 million for the Spencer, West Virginia facility and the Ripley, West Virginia U.S. corporate office. These charges were mostly recorded in earnings during the second quarter.

The Company realized a foreign exchange gain of \$509,000 during the quarter ended September 30, 2010, versus a foreign exchange gain of \$576,000 during the quarter ended September 30, 2009. For the first nine months of 2010, the foreign exchange loss totalled \$479,000, compared with a foreign exchange gain of \$854,000 for the corresponding period in 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.

The non-cash gain on forward foreign exchange contracts resulting from the change in mark-to-market values as at September 30, 2010, compared to June 30, 2010, amounted to \$122,000, whereas the non-cash gain from the change compared to December 31, 2009, totalled \$83,000. In the three- and nine-month periods ended September 30, 2009, gains on the change in mark-to-market values had amounted to \$1.2 million and \$2.5 million, respectively. On September 30, 2010, the Company had on hand forward foreign exchange contracts for the future sale of US\$3.4 million at an average contract rate of Cdn\$1.2042/US\$1.00.

Amortization of capital and intangible assets totalled \$3.0 million in the third quarter of 2010, an increase of \$1.1 million over the corresponding period of 2009. This increase mainly reflects the amortization of Tangent's capital and intangible assets. These elements were partially offset by a change in accounting estimates, applied prospectively from October 1, 2009, that increased the useful life of certain capital assets in order to better reflect their use in time (see "Critical Accounting Policies and Estimates" below). For the first nine months of 2010, amortization of capital and intangible assets reached \$7.6 million, compared with \$7.0 million in the first nine months of 2009.

Financial expenses for the third quarter of 2010 amounted to \$2.8 million, up from \$2.2 million incurred in the third quarter of 2009. The increase in financial expenses is due to higher borrowings to partially finance the acquisition of Tangent, partially offset by lower Canadian dollar interest on the conversion of U.S. dollar denominated debt. For the first nine months of 2010, financial expenses were \$7.8 million, up from \$6.6 million in the first nine months of 2009.

Earnings before income taxes and income tax expense

Stella-Jones generated earnings before income taxes of \$16.7 million, or 10.3% of sales, in the third quarter of 2010. This represents an increase of \$5.5 million over earnings before income taxes of \$11.2 million, or 10.7% of sales, in the third quarter of 2009.

For the first nine months of 2010, earnings before income taxes amounted to \$33.6 million, or 7.8% of sales, compared with \$38.5 million, or 11.1% of sales, in the first nine months of 2009. Excluding non-recurring items and asset impairment charges, earnings before income taxes for the first nine months of 2010 were approximately \$41.0 million, or 9.6% of sales.

Stella-Jones' income tax expense totalled \$4.5 million in the three-month period ended September 30, 2010, representing an effective tax rate of 26.7%. In the three-month period ended September 30, 2009, the income tax expense stood at \$2.9 million, equivalent to an effective tax rate of 25.7%.

For the nine-month period ended September 30, 2010, Stella-Jones' income tax expense was \$10.0 million, representing an effective tax rate of 29.6%. This compares to an income tax expense of \$11.5 million, representing an effective tax rate of 29.9%, in the first nine months of 2009.

Net earnings

Net earnings for the three-month period ended September 30, 2010 totalled \$12.2 million, or \$0.77 per share, fully diluted, compared with \$8.3 million, or \$0.65 per share, fully diluted, in the same period a year earlier. The exchange of subscription receipts for common shares on April 1, 2010 to partially finance the Tangent acquisition increased the basic number of weighted average shares outstanding by approximately 26.0% in the third quarter of 2010 compared with the same period a year earlier.

Net earnings for the nine-month period ended September 30, 2010, were \$23.6 million, or \$1.59 per share, fully diluted, compared with \$27.0 million, or \$2.13 per share, fully diluted, in the nine-month period ended September 30, 2009.

BUSINESS ACQUISITION

On April 1, 2010, the Company completed the acquisition of 100% of the shares of Tangent, a provider of wood crosstie supply chain services to the railroad industry. Tangent served 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, was produced at its distilleries in Terre Haute, Indiana and Memphis, Tennessee. Lifecycle solutions, consisting of used tie pickup and disposal, were carried out at three facilities in Alabama, Minnesota and North Carolina. This acquisition expanded the Company's capabilities within the U.S. railway tie industry and provided the Company with creosote manufacturing operations.

Total cash outlay associated with the acquisition was approximately \$172.7 million (US\$170.0 million), including cash on hand of \$6.8 million (US\$6.7 million) and excluding acquisition costs of approximately \$2.0 million (US\$2.0 million). This amount includes \$89.9 million (US\$88.5 million) paid to Tangent's shareholders, \$81.3 million (US\$80.1 million) used to reimburse Tangent's debts with financial institutions and \$1.0 million (US\$0.9 million) to pay accrued interest on these debts.

The acquisition has been accounted for using the acquisition method and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management's estimate of their fair value as at the acquisition date. The following fair value allocation is preliminary and is based on Management's best estimates and information known at the time of preparing the third quarter interim unaudited consolidated financial statements. During the third quarter, the Company adjusted the cash consideration paid as well as goodwill and the future income tax liability. The purchase price allocation is expected to be completed by December 31, 2010 and consequently, changes could occur mainly with respect to intangible assets, goodwill and future income taxes. The results of operations of Tangent have been included in the Company's unaudited consolidated financial statements from the acquisition date.

The following is a preliminary summary of the net assets acquired at fair value as at the acquisition date. The original transaction was made in US dollars and converted into Canadian dollars as at the acquisition date.

	\$
(tabular information presented in thousands of dollars)	
Assets acquired	
Non-cash working capital	49,238
Capital assets	22,323
Customer relationships	20,905
Customer backlog	670
Creosote registration	31,723
Non-deductible goodwill	69,489
Future income tax assets	615
	194,963
Liabilities assumed	
Accounts payable and accrued liabilities	4,529
Long-term debt	81,340
Asset retirement obligation	1,311
Future income tax liabilities	24,218
	83,565
Total consideration	
	83,565
Consideration	
Cash	172,694
Payment of accrued interest	(956)
Payment of long-term debt	(81,340)
Cash on hand	(6,833)
	83,565
Purchase consideration for shares	83,565

The Company's preliminary valuation of intangible assets has identified customer relationships, a creosote registration and customer backlog. The assigned useful lives for customer relationships are between 6 to 10 years and 3 months for the customer backlog. The creosote registration is not subject to amortization as the Company considers it to have an indefinite useful life.

Goodwill value is determined as the excess of the total consideration over the estimated fair value of tangible and intangible assets acquired as well as liabilities assumed. Goodwill is not amortized, not deductible for tax purposes and represents the future economic value associated with the increased railroad network access, acquired work force and synergies with the Company's operations.

The following table presents a roll forward of the intangible assets and goodwill net book value balances from December 31, 2009 to September 30, 2010:

(tabular information presented in thousands of dollars)	Customer Relationships	Non-compete Agreements	Creosote Registration	Total Intangible assets	Goodwill
	\$	\$	\$	\$	\$
Year ended December 31, 2009					
Cost	4,603	5,980	---	10,583	5,494
Accumulated depreciation	(1,259)	(1,744)	---	(3,003)	---
Net book value as at Dec. 31, 2009	3,344	4,236	---	7,580	5,494
Nine-month period ended September 30, 2010					
Opening net book balance	3,344	4,236	---	7,580	5,494
Addition of Tangent customer relationships	20,905	---	---	20,905	---
Addition of Tangent customer backlog	670	---	---	670	---
Addition of Tangent creosote registration	---	---	31,723	31,723	---
Addition of Tangent goodwill	---	---	---	---	69,489
Amortization	(2,556)	(743)	---	(3,299)	---
Exchange difference	253	(78)	413	588	789
Net book value as at September 30, 2010	22,616	3,415	32,136	58,167	75,772

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 \$25,395,000 (US\$25,000,000) unsecured and subordinated non-convertible debenture, the addition of a \$40,632,000 (US\$40,000,000) syndicated bank term facility which successfully closed on March 24, 2010, and the increase of existing operating debt facilities. Underwriting and legal fees related to the private placement of subscription receipts amounted to \$3,147,000 generating net proceeds of \$76,903,000. 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 were entitled. As the subscription receipts were sold on a private placement basis, these common shares were subject to regulatory restrictions on resale until July 16, 2010.

Tangent's sales and net earnings in the six month period ended September 30, 2010 were \$83,300,000 and \$6,278,000, respectively. On a pro-forma basis, Management's estimate of the sales and net earnings of the combined Company and Tangent's operations, for the nine-month period ended September 30, 2010, would have been approximately \$468,289,000 and \$27,129,000 respectively, had the Tangent acquisition occurred as of January 1, 2010. To arrive at the pro-forma estimates, Management has considered the financing structure resulting from the acquisition as well as other acquisition adjustments.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole and industrial product 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 eleven quarters ending with the most recently completed financial year:

2010

For the quarters ended	March 31	June 30	Sept. 30		
(thousands of dollars, except per share data)	\$	\$	\$		
Sales	99,360	167,317	161,298		
Operating earnings before amortization of capital and intangible assets ¹	12,266	14,202	22,498		
Operating earnings ¹	10,500	11,325	19,522		
Net earnings	5,814	5,610	12,218		
Net earnings per common share					
Basic	0.46	0.35	0.77		
Diluted	0.46	0.35	0.77		

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 September 30, 2010 was \$192.6 million, an increase of \$22.5 million over a working capital balance of \$170.1 million at December 31, 2009. Current assets amounted to \$288.6 million as at September 30, 2010 compared with \$254.6 million as at December 31, 2009. Most of this increase is attributable to accounts receivable and inventories related to Tangent's operations.

The value of accounts receivable was \$87.4 million as at September 30, 2010 compared with \$30.2 million as at December 31, 2009. This increase mainly reflects normal seasonal demand pattern as well as the addition of Tangent's accounts receivable. Excluding Tangent, accounts receivable would have been \$67.6 million as at September 30, 2010.

Inventories stood at \$192.4 million on September 30, 2010, compared with \$212.6 million on December 31, 2009. This decrease is due to strong demand for the Company's products and normal seasonal business activity which more than offset the addition of Tangent's inventory. Excluding the latter, inventories would have been \$161.6 million.

Because of the long periods required to air season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital. However, solid relationships and long-term contracts with certain customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flow from operations and available operating lines of credit are adequate to meet its working capital requirements for the foreseeable future.

Capital assets stood at \$114.7 million as at September 30, 2010, compared with \$96.9 million as at December 31, 2009. This \$17.8 million increase is related to the addition of Tangent's capital assets. Excluding the acquisition, capital assets would have been \$92.2 million.

Owing to the Tangent acquisition, the value of intangible assets reached \$133.9 million as at September 30, 2010, compared with \$13.1 million as at December 31, 2009. Intangible assets include customer relationships, the discounted value of the non-compete agreements, Tangent's creosote registration and goodwill.

Bank indebtedness as at September 30, 2010 totalled \$22.5 million, down from \$56.1 million at the end of 2009. This \$33.6 million reduction mainly results from a solid cash flow generation and better working capital. As at September 30, 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 demand operating loan 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 \$36.4 million and US\$62.6 million, respectively, as at September 30, 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 September 30, 2010, the Company's long-term debt, including the current portion, amounted to \$147.3 million, up from \$87.1 million as at December 31, 2009. This increase is essentially due to the issuance to the Solidarity Fund QFL of a US\$25.0 million (Cdn\$25.4 million) unsecured and subordinated 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. Subsequent to the end of the third quarter, the Company negotiated an accelerated repayment of a \$10.0 million unsecured and non-convertible debenture owing to the Solidarity Fund QFL. This debenture bore interest at 7.72% and was originally repayable in five consecutive annual principal repayments of \$1.0 million beginning July 1, 2011 and a final payment of \$5.0 million on July 1, 2016.

Shareholders' equity was \$275.7 million as at September 30, 2010, up from \$180.0 million as at December 31, 2009. This increase of \$95.7 million is mostly attributable to net proceeds of \$76.9 million from the issuance of subscription receipts to partially finance the acquisition of Tangent, as well as to net earnings of \$23.6 million since the beginning of the year. 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. Book value stood at \$17.34 per common share as at September 30, 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)	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Operating activities	\$24,984	\$25,976	\$65,246	\$28,118
Financing activities	(\$24,292)	(\$24,719)	\$22,138	(\$24,740)
Investing activities	<u>(\$692)</u>	<u>(\$1,257)</u>	<u>(\$87,384)</u>	<u>(\$3,378)</u>
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 \$15.2 million for the quarter ended September 30, 2010, compared with \$10.3 million for the corresponding period in 2009. This increase mainly reflects higher net earnings for the period.

For the nine-month period ended September 30, 2010, cash flow from operating activities before changes in non-cash working capital components totalled \$34.8 million, up from \$34.2 million in the corresponding period a year earlier.

Changes in non-cash working capital components provided liquidity of \$9.8 million in the third quarter of 2010, essentially attributable to an inventory reduction of \$9.5 million. In the third quarter of 2009, changes in non-cash working capital components had provided liquidity of \$15.7 million. As a result, operating activities generated liquidity of \$25.0 million for the three-month period ended September 30, 2010, compared with \$26.0 million for the corresponding period a year earlier.

For the nine-month period ended September 30, 2010, changes in non-cash working capital components provided liquidity of \$30.4 million, as opposed to reducing liquidity by \$6.1 million in the nine-month period ended September 20, 2009. As a result, operating activities provided liquidity of \$65.2 million in the first nine months of 2010, compared with providing liquidity of \$28.1 million in the first nine months of 2009.

Financing activities for the three-month period ended September 30, 2010 used funds of \$24.3 million. This amount mainly reflects a reduction in short-term bank indebtedness of \$21.3 million as well as the repayment of long-term debt totalling \$2.7 million. For the three-month period ended September 30, 2009, cash flows from financing activities had required liquidity of \$24.7 million.

For the first nine months of 2010, financing activities provided liquidity of \$22.1 million, due to the partial financing of the Tangent acquisition, as opposed to requiring \$24.7 million in the corresponding period in 2009.

Investing activities required \$0.7 million in cash during the third quarter of 2010. Capital asset expenditures, mainly for the addition of various equipment upgrades and expansion, amounted to \$1.8 million during the period. For the third quarter of 2009, cash flows from investing activities had reduced liquidity by \$1.3 million.

In the first nine months of 2010, cash flows used for investing activities were \$87.4 million compared with \$3.4 million in the first nine months of 2009, an increase essentially due to the Tangent acquisition on April 1, 2010.

The following table details the maturities of the financial obligations as at September 30, 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	22,492	23,825	23,825	-	-	-
Accounts payable and accrued liabilities	45,646	45,646	45,646	-	-	-
Long-term debt obligations ¹	146,209	197,890	20,222	45,207	75,210	57,251
Capital lease obligations ¹	1,136	1,409	95	332	160	822
Interest rate swaps	1,930					
Outflow	-	7,866	2,565	2,144	1,742	1,415
Inflow	-	(5,818)	(1,851)	(1,521)	(1,280)	(1,166)
Other contractual obligations	-	22,785	4,749	5,756	2,565	9,715
Non-compete agreements	3,838	4,501	1,286	2,572	643	-
Total	221,251	298,104	96,537	54,490	79,040	68,037

¹ Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2010, the capital stock issued and outstanding consisted of 15,903,253 common shares (12,684,325 as at December 31, 2009). As at November 11, 2010, the capital stock issued and outstanding consisted of 15,910,804 common shares.

As at September 30, 2010, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 197,285 (December 31, 2009 – 197,785) of which 137,185 (December 31, 2009 – 126,185) were exercisable. As at November 11, 2010, the number of outstanding options was 190,142 of which 130,042 were exercisable.

DIVIDENDS

On August 11, 2010, the Board of Directors declared a semi-annual dividend of \$0.20 per common share payable on October 8, 2010 to shareholders of record at the close of business on September 3, 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

The Company's core utility pole and railway tie product categories are integral to the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained which provides Stella-Jones with relatively steady demand for its core products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

Based on current market conditions, Management continues to expect business activity to further improve in the upcoming quarters. Increased freight volume on North American railroads should lead to greater investments in the continental rail network, including ties, as operators constantly seek optimal line efficiency. Meanwhile, demand is expected to hold in utility poles with regular maintenance projects providing a stable business flow.

Liquidity

As at September 30, 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 \$36.4 million and US\$62.6 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.

Inventories decreased during the third quarter of 2010 due to strong demand for the Company's products and normal seasonal business activity. 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.

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

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 have been recorded to results in the period they were 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.

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. Phase II is practically completed, the consequences of most of the changes have been determined and Management is presently in the process of finalizing the Company’s opening balance sheet as of January 1, 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 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 and Standing Timber

Cutting rights contracts have been analyzed to determine if they should be considered under IAS 17, Leases or under IAS 38, Intangible Assets. This analysis has been completed and Management concluded that cutting rights should be recorded under intangible assets.

As at December 31, 2009, cutting rights were accounted for as part of capital assets. Under IFRS, the company will have to reclassify these assets from capital assets to intangible assets on the balance sheet. This reclassification will be for a net book value of \$6.1 million. Standing timber, will, under IAS 38, also have to be reclassified under Intangible assets. This reclassification will be for a net book value of \$3.1 million.

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 the equity method is proposed instead. The equity method presents joint ventures in the financial statements as an investment valued at the original contribution cost in the joint venture. Under IFRS, as of January 1, 2010, Stella-Jones will present its joint venture under the equity method.

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. Management has determined that hedging relationships qualifying for hedge accounting under Canadian GAAP are also qualifying under IFRS.

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 related to Stella-Jones pension plans of \$307,000 as of January 1, 2010 will be reflected on the balance sheet upon transition.

Stella-Jones also mandated Towers Watson to perform the same analysis regarding the post-retirement benefits. As a result, there will be two adjustments to the opening balance sheet as of January 1, 2010: an unamortized loss of \$1.1 million and a gain of \$549,000 related to the attribution period which changes under IAS 19.

Share-based payments

The Company has a stock option plan, employee share purchase plans and restricted stock units (“RSU”) 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. IFRS also requires the use of the graded vesting method for grants with vesting periods greater than one year. Currently, Stella-Jones accounts for the costs under the straight-line method for Canadian GAAP. As a result of that change of method, there will be an adjustment to the opening balance sheet of \$307,000.

For the employee share purchase plans, there will be no impact upon transition.

Under IFRS, Stella-Jones will have to use a Black-Scholes valuation model to measure the liability related to its RSU (instead of the intrinsic value under Canadian GAAP). That change of method will have no impact on the opening balance sheet. Afterwards, the liability will be re-measured every quarter.

Borrowing costs

IAS 23 requires the Company to capitalize borrowing costs on certain qualifying assets. Stella-Jones is evaluating the impact focusing on assets that will take more than six months to build. At that time, upon IFRS conversion, the Company is not expecting IAS 23 to have a material impact on its financial statements.

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 IAS 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 choose to apply the standard prospectively only to those acquisitions that occur after the date of transition. The Company has decided to apply the standard prospectively. 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 has made a decision regarding cumulative translation adjustment. Under IFRS, as of January 1, 2010 the cumulative translation adjustment on self-sustaining operations will be deemed to be \$0. The amount of \$1.8 million will be reclassified from accumulated other comprehensive income to retained earnings.

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 have been 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 (“DC&P”) and on the design of internal control over financial reporting (“ICFR”).

The Company did not make any material changes to the design of ICFR during the three months ended September 30, 2010 that have had a material effect on the Company's ICFR. As a result of Tangent's migration to Stella-Jones' financial reporting platform, Management has extended the Company's ICFR and DC&P structure to the operations of Tangent. Management has evaluated the impact of the acquisition of Tangent on the overall structure of ICFR and, due to the similar nature of Tangent's business to that of Stella-Jones, has concluded that it does not represent a material change in ICFR and DC&P.

OUTLOOK

As global economic conditions have shown further signs of improvement, the recovery should continue to take hold in the Company's core markets. Demand is expected to be steady and the key role played by Stella-Jones' products in basic transportation and utility infrastructure should enable the Company to maintain a healthy level of business activity.

Based on current market conditions, Management continues to expect business activity to further improve in the upcoming quarters. Increased freight volume on North American railroads should lead to greater investments in the continental rail network, including ties, as operators constantly seek optimal line efficiency. Meanwhile, demand is expected to hold in utility poles with regular maintenance projects providing a stable business flow.

The successful integration of the Tangent acquisition will continue to be a major performance driver going forward. This transaction solidifies the Company's position as the second largest North American provider of railway ties. 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 its expanded network. 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. 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.

November 11, 2010