MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended June 30, 2011 compared with the three-month period ended June 30, 2010

The following Management's Discussion and Analysis ("MD&A") and the Company's condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on August 10, 2011. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended June 30, 2011 compared with the three-month period ended June 30, 2010. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended June 30, 2011 and 2010 and the notes thereto as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2010. The interim unaudited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") 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 North American producer and marketer of industrial treated wood products, specializing in the production of railway ties and timbers as well as wood poles supplied to electrical utilities and telecommunication companies. The Company manufactures the wood preservative creosote and other coal tar based products and provides the railroad industry with used tie pickup and disposal services. Switching, locomotive and railcar maintenance services are also offered, as is tie-derived boiler fuel. The Company also provides treated residential lumber products and customized services to lumber retailers and wholesalers for outdoor applications. Other treated wood products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges.

The Company operates eighteen 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-seven 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-IFRS FINANCIAL MEASURES

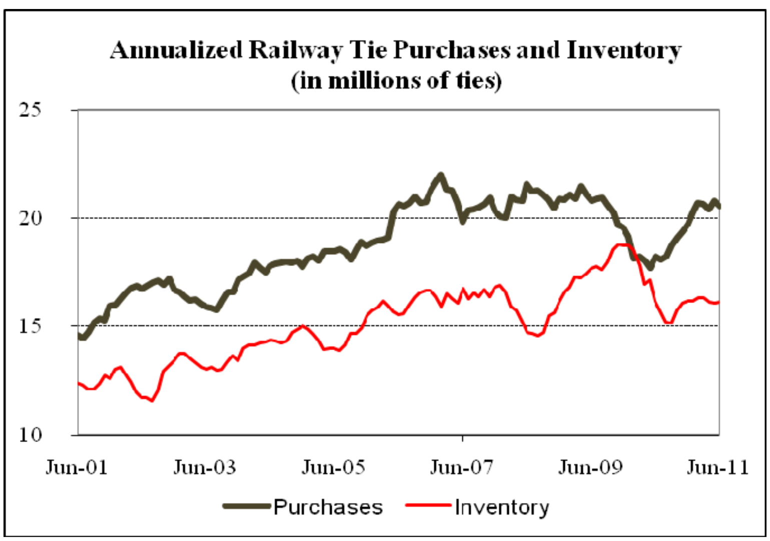
Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operations are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these measures 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 June 30, 2011 and 2010. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	2011		2010	
	Average	Closing	Average	Closing
Second Quarter	0.9615	0.9645	1.0250	1.0646

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties

As reported by the Railway Tie Association, railway tie purchases for the first six months of 2011 were approximately 8% higher than in the year-earlier corresponding period. As a result, industry purchases for the 12-month period ended June 30, 2011 reached 20.5 million ties. Meanwhile, industry inventory remained relatively stable in the first half of 2011, holding steady near 16.1 million ties as at June 30, 2011. As at that same date, the inventory-to-sales ratio stood at 0.79:1, a level in keeping with the average value of the previous decade.

The number of carloads hauled on North American railroads increased by 2.7% in the first six months of 2011, while the volume of intermodal trailers and containers was up 7.1% from 2010 levels, according to data released by the Association of American Railroads.

OPERATING RESULTS

Sales

Sales for the quarter ended June 30, 2011 totalled $180.3 million, an increase of $13.0 million, or 7.8%, over last year's sales of $167.3 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. dollar denominated sales by about $7.3 million when compared with the previous year. Sales, excluding this conversion effect, increased approximately 12.0%, primarily reflecting higher sales of railway ties and utility poles as the Company benefitted from increased market demand on both maintenance and special projects.

For the six-month period ended June 30, 2011, sales amounted to $310.8 million, up 16.6% from $266.7 million in the six-month period ended June 30, 2010. The operating facilities acquired from Tangent Rail Corporation ("Tangent"), on April 1, 2010, contributed additional sales of approximately $37.7 million in the first quarter of 2011. The conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar decreased the value of U.S. dollar denominated sales by about $10.7 million, while organically, sales increased approximately 6.0%.

Sales by product category

Railway ties

Railway tie sales for the second quarter of 2011 amounted to $95.5 million, an increase of $7.1 million, or 8.0%, over sales of $88.4 million in the second quarter of 2010. These results reflect increased market demand. Adjusting for a negative foreign exchange effect of $5.0 million due to a lower average conversion rate on U.S. dollar denominated tie sales, year-over-year comparable railway tie sales increased $12.1 million, or 13.7%. Railway tie sales accounted for 53.0% of the Company's second-quarter sales.

For the six-month period ended June 30, 2011, railway tie sales totalled $172.1 million, up from $136.6 million in the six-month period ended June 30, 2010. This increase reflects additional tie sales of approximately $29.5 million from the Tangent operations and greater market demand, partially offset by a $7.5 million negative foreign exchange effect due to a lower conversion rate on U.S. dollar denominated tie sales.

Utility poles

Utility pole sales amounted to $52.4 million in the second quarter of 2011, up 35.2% over sales of $38.7 million in the corresponding period in 2010. The increase is mainly attributable to solid demand for transmission poles related to orders for special projects and to partial recuperation of distribution poles sales that had been postponed by severe winter weather in the first quarter. A lower year-over-year conversion rate reduced the value of U.S. dollar denominated pole sales by $1.1 million during the second quarter. Utility pole sales accounted for 29.0% of the Company's total sales in the second quarter of 2011.

For the first six months of 2011, sales of utility poles reached $88.0 million, up from $75.2 million in the corresponding period a year earlier. This $12.8 million increase essentially reflects higher demand for transmission poles related to orders for special projects, while a lower conversion rate reduced the value of U.S. dollar denominated pole sales by approximately $1.8 million.

Industrial products

Industrial product sales decreased 22.7% in the second quarter of 2011, reaching $20.6 million, compared with $26.6 million in 2010. This $6.0 million decline is attributable to reduced demand for marine applications in Canada and to the timing of special projects that strongly contributed to U.S. - based sales of industrial products in the second quarter of 2010. A lower year-over-year conversion rate reduced the value of U.S. dollar denominated industrial product sales by approximately $1.1 million during the second quarter. Industrial products represented 11.4% of sales in the three-month period ended June 30, 2011.

For the six-month period ended June 30, 2011, industrial product sales amounted to $35.7 million, down 2.8% from $36.7 million in the six-month period ended June 30, 2010. Excluding an additional contribution of approximately $8.2 million from Tangent's operations related to coal tar distillation and lifecycle solutions, and net of a negative conversion effect of $1.3 million on U.S. dollar denominated sales, year-to-date sales of industrial products declined approximately $7.9 million in comparison with the year prior due to the aforementioned factors and severe winter weather in the first quarter of 2011.

Residential lumber
Sales in the residential lumber category totalled $11.9 million in the second quarter of 2011, down 12.5% from $13.5 million a year earlier. The decrease reflects reduced demand in Canada as a result of unfavourable weather compared with last year. The Company does not sell residential lumber into the U.S. market. Residential lumber accounted for 6.6% of Stella-Jones' sales in the second quarter of 2011.

For the first six months of 2011, sales of residential lumber amounted to $15.0 million, down from $18.1 million in the first six months of 2010.

Sales by destination

Sales in Canada in the second quarter of 2011 increased $5.8 million, or 9.0%, to $70.3 million, representing 39.0% of Stella-Jones' total sales. The increase in year-over-year sales is mainly attributable to higher sales of utility poles. For the first six months of 2011, sales in Canada amounted to $113.7 million, up 1.4% from $112.1 million a year ago.

Sales in the United States amounted to $110.0 million, or 61.0% of sales, in the second quarter of 2011, representing an increase of $7.2 million, or 7.0%, over the corresponding period in 2010. The increase mainly reflects higher sales of railway ties, partially offset by a lower conversion rate on other U.S. dollar denominated sales. For the first six months of 2011, sales in the United States reached $197.1 million, up 27.5% from $154.5 million a year prior, an increase principally due to an additional contribution in the first quarter of $37.7 million from the Tangent operations.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $144.3 million, or 80.0% of sales, for the three-month period ended June 30, 2011. This compares with $141.3 million, or 84.5% of sales, in the three-month period ended June 30, 2010. The increase in absolute dollars essentially reflects higher business activity, partially offset by a lower average rate applied to convert U.S. dollar denominated costs. The decrease as a percentage of sales mainly stems from a different product mix, more heavily weighted towards utility poles than in the corresponding period a year ago, as well as from lower raw material costs and greater efficiency from the integration of the Tangent operations.

Depreciation and amortization charges totalled $2.4 million for the three-month period ended June 30, 2011, down from $2.9 million in the corresponding period in 2010.

As a result, gross profit reached $36.0 million or 20.0% of sales in the second quarter of 2011, up from $26.0 million or 15.5% of sales in the second quarter of 2010.

For the first six months of 2011, cost of sales reached $253.9 million, or 81.7% of sales, versus $224.3 million, or 84.1% of sales in the first six months of 2010. Depreciation and amortization charges totalled $4.9 million for the six-month period ended June 30, 2011, up from $4.6 million in the corresponding period in 2010. Gross profit amounted to $56.9 million, or 18.3% of sales, in the second quarter of 2011, up from $42.4 million, or 15.9% of sales, in the first six months of 2010.

Selling and administrative

Selling and administrative expenses for the second quarter of 2011 were $8.2 million, compared with expenses of $13.7 million in the second quarter of 2010. As a percentage of sales, selling and administrative expenses were 4.6% of sales in the three-month period ended June 30, 2011, compared to 8.2% in the prior year.

Of note, last year's selling and administrative expenses included non-recurring expenses of approximately $3.0 million in connection with severance expenses as well as a provision for an unfavourable legal judgement. During the three-month period ended June 30, 2010, the Company also recorded asset impairment charges of $2.4 million for the Spencer, West Virginia facility and the former U.S. corporate office in Ripley, West Virginia.

In the six-month period ended June 30, 2011, selling and administrative expenses reached $15.2 million, or 4.9% of sales, compared with $19.6 million, or 7.4% of sales in the corresponding period a year earlier. In addition to the aforementioned non-recurring expenses and asset impairment charges, selling and administrative expenses for the six-month period ended June 30, 2010 included approximately $2.0 million in acquisition costs directly related to the purchase of Tangent which had been recorded in the first quarter of 2010.

Other losses (gains), net

Stella-Jones' other net losses of $230,000 for the three-month period ended June 30, 2011, were with respect to foreign exchange. Last year's net loss of $1.0 million included a foreign exchange loss of $964,000, a loss on derivative financial instruments of $24,000 and a loss on disposal of property, plant and equipment of $56,000.

For the six-month period ended June 30, 2011, other net gains of $276,000 pertained to foreign exchange, while other net losses of $1.1 million for the six-month period ended June 30, 2010 related to a foreign exchange loss of $988,000, a loss on derivative financial instruments of $39,000 and a loss on disposal of property, plant and equipment of $25,000.

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 foreign operation that has a different functional currency from that of the Company 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.

Financial expenses

Financial expenses for the second quarter of 2011 amounted to $2.0 million, down from $3.1 million in the second quarter of 2010. This decrease in financial expenses is due to lower year-over-year borrowings following the early repayment of certain long-term obligations on April 1, 2011 (US$15.0 million) and in the fourth quarter of 2010 ($11.5 million and US$4.1 million) and to lower Canadian dollar interest charges on the conversion of U.S. dollar denominated debt.

For the first six months of 2011, financial expenses were $4.3 million, versus $4.9 million in the corresponding period a year earlier.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $25.6 million, or 14.2% of sales, in the second quarter of 2011. This represents an increase of $17.4 million over income before income taxes of $8.2 million, or 4.9% of sales, in the second quarter of 2010. Excluding non-recurring items and asset impairment charges, income before income taxes were $13.6 million, or 8.1% of sales, in the second quarter of 2010.

For the first six months of 2011, income before income taxes amounted to $37.7 million, or 12.1% of sales, up from $16.9 million, or 6.3% of sales, in the first six months of 2010. Excluding non-recurring items and asset impairment charges, income before income taxes for the latter period were $24.3 million, or 9.1% of sales.

Stella-Jones' provision for income taxes totalled $8.3 million in the second quarter of 2011, representing an effective tax rate of 32.5%. In the second quarter of 2010, the income tax expense stood at $2.6 million, equivalent to an effective tax rate of 32.0%. The slightly higher effective tax rate for 2011 is attributable to a greater proportion of revenues generated in the U.S. where the statutory tax rate is higher.

For the six-month period ended June 30, 2011, the provision for income taxes was $11.9 million, representing an effective tax rate of 31.6%, compared with $5.5 million in the six-month period ended June 30, 2010, representing an effective tax rate of 32.6%.

Net income

Net income for the three-month period ended June 30, 2011 reached $17.3 million, or $1.08 per share, fully diluted, compared with $5.6 million, or $0.35 per share, fully diluted, in 2010. This represents a year-over-year increase in net income of $11.7 million.

For the six-month period ended June 30, 2011, net income was $25.8 million, or $1.61 per share, fully diluted, up from $11.4 million, or $0.79 per share, fully diluted, in the six-month period ended June 30, 2010.

SUBSEQUENT EVENT

On July 28, 2011, Stella-Jones Inc. ("Stella-Jones") and Stella-Jones U.S. Holding Corporation ("SJ Holding"), as borrowers, entered into an agreement to further amend and restate in its entirety, but without novation, their existing revolving credit agreement. The existing demand revolving facility made available by a syndicate of bank lenders under the March 24, 2010 amendment was replaced by a committed revolving facility in the amount of $170.0 million, to be used to repay and refinance existing indebtedness and for working capital and general corporate purposes. The $170.0 million committed revolving facility is being made available for a five-year term by a syndicate of lenders. Borrowings may be obtained in the form of prime rate loans, Acceptances in Canadian Dollars or US Dollars, US Base Rate Loans, LIBOR loans in US Dollars and Letters of Credit. The interest rate margin with respect to Canadian prime rate loans and US base rate loans will range from 0.25% to 1.50% based on a pricing grid (previously 0.75%). The interest rate margin with respect to Acceptances, LIBOR loans and fees for letters of credit will range from 1.25% to 2.50% based on a pricing grid (previously 2.0%).

As collateral for the committed revolving facility, the bank lenders hold a first ranking charge over the majority of the assets, tangible and intangible, present and future of Stella-Jones, SJ Holding and their material subsidiaries.

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. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales levels.

The table below sets forth selected financial information for the Company's last 10 quarters and accounting policies applicable to such financial information.

2011 (IFRS)

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	130,485	180,331			
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	16,970	29,966			
Operating income [1]	14,418	27,582			
Net income for the period	8,500	17,271			
Earnings per common share Basic Diluted	 0.53 0.53	 1.08 1.08			

2010 (IFRS)

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	99,360	167,317	161,298	133,071	561,046
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	12,241	14,155	22,720	21,929	71,045
Operating income [1]	10,474	11,278	19,744	19,194	60,690
Net income for the period	5,788	5,563	12,440	10,650	34,441
Earnings per common share Basic Diluted	 0.46 0.45	 0.35 0.35	 0.78 0.78	 0.67 0.67	 2.27 2.26

2009 (Previous Canadian GAAP)

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 income before depreciation of property, plant and equipment and amortization of intangible assets [1]	15,924	20,976	15,272	6,851	59,023
Operating income [1]	13,313	18,475	13,376	5,104	50,268
Net income for the period	7,687	11,021	8,320	3,041	30,069
Earnings per common share Basic Diluted	 0.61 0.61	 0.87 0.87	 0.66 0.65	 0.24 0.24	 2.38 2.37

1 Operating income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are financial measures not prescribed by IFRS or 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 income before depreciation of property, plant and equipment and amortization of intangible assets and operating income are readily reconcilable to net income presented in our IFRS 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.

STATEMENT OF FINANCIAL POSITION

The Company's working capital at June 30, 2011 was $192.2 million, an increase of $2.7 million over a working capital balance of $189.5 million at December 31, 2010. Current assets amounted to $329.4 million as at June 30, 2011 compared with $269.0 million at December 31, 2010. Most of this increase is attributable to higher accounts receivable, as explained below.

The value of accounts receivable was $102.9 million as at June 30, 2011 compared with $56.3 million as at December 31, 2010. This variation reflects the normal increase in accounts receivable during the seasonally-strong second quarter.

Inventories stood at $213.6 million as at June 30, 2011, up from $205.3 million as at December 31, 2010. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters as well as anticipated sales growth.

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.

Property, plant and equipment stood at $104.5 million as at June 30, 2011, compared with $104.8 million as at December 31, 2010. This $0.3 million decrease is essentially related to local currency depreciation on U.S. based property, plant and equipment, as purchase of property, plant and equipment for the period ($3.8 million) exceeded depreciation ($2.6 million).

The value of intangible assets and goodwill reached $60.5 million and $71.7 million, respectively, as at June 30, 2011. Intangible assets include customer relationships, the discounted value of the non-compete agreements, a creosote registration, cutting rights and standing timber. As at December 31, 2010, intangible assets, and goodwill were $64.2 million and $74.0 million, respectively. The decrease in the value of intangible assets and goodwill stems from the effect of local currency depreciation on U.S. based intangible assets and goodwill, while the value of intangible assets also reflects an amortization charge of $2.4 million in the first six months of 2011.

Bank indebtedness at the end of the second quarter of 2011 was $73.8 million, up from $31.9 million at the end of 2010. This increase essentially reflects higher working capital. As at June 30, 2011, the credit facilities supporting bank indebtedness include a $50.0 million demand operating loan ($50.0 million as at December 31, 2010), as well as a US$75.0 million demand operating loan (US$75.0 million as at December 31, 2010), both made available by a syndicate of bank lenders. Combined availability under the Company's Canadian and U.S. demand operating loans was $53.5 million as at June 30, 2011.

On July 28, 2011, the Company entered into an agreement to further amend and restate in its entirety, but without novation, their existing revolving credit agreement (see "Subsequent Event"). The Company believes that this revolving credit facility, combined with its cash flows from operating activities 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 June 30, 2011, the Company's long-term debt, including the current portion, amounted to $101.9 million, down from $125.8 million as at December 31, 2010. This decrease is due to the repayment of long-term debt amounting to $20.4 million in the first six months of 2011, including the advanced repayment of US$15.0 million in the capital amount of a non-convertible debenture on April 1, 2011, and to a lower exchange rate applied to convert U.S. dollar denominated debt.

Shareholders' equity was $297.9 million as at June 30, 2011 compared with $280.1 million as at December 31, 2010. This increase of $17.8 million is mostly attributable to net income of $25.8 million, partially offset by dividend payments on common shares totalling $3.8 million and a $5.0 million increase in the accumulated other comprehensive loss. Book value stood at $18.68 per common share as at June 30, 2011, up from $17.59 per share as at December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month Periods Ended**		**Six-month Periods Ended**	
(thousands of dollars)	**June 30, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Operating activities	$14,649	$31,414	($14,002)	$40,262
Financing activities	($12,385)	($88,738)	$17,878	$46,430
Investing activities	($2,264)	$57,324	($3,876)	($86,692)
Cash and cash equivalents	$---	$---	$---	$---

The Company's activities, acquisitions and purchases of property, plant and equipment are primarily financed by cash flows from operating activities, the use of cash raised from its revolving facility and long-term debt, and the issuance of common shares. The Company's revolving facility is made available for a five-year term.

Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $29.5 million for the three-month period ended June 30, 2011, compared with $18.6 million for the same period in 2010. This increase mostly reflects the increase in net income.

Changes in non-cash working capital components reduced liquidity by $6.4 million, as an increase in accounts receivable was partially offset by a reduction in inventories and an increase in accounts payable and accrued liabilities. Interest and income tax paid further reduced liquidity by $2.9 million and $5.5 million, respectively, in the second quarter of 2011. As a result, cash flows provided by operating activities were $14.6 million in the second quarter of 2011, versus $31.4 million in the second quarter of 2010.

For the six-month period ended June 30, 2011, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $47.1 million, up from $31.4 million in the corresponding period a year earlier. Changes in non-cash working capital components reduced liquidity by $46.4 million, while interest and income tax paid further reduced liquidity by $5.0 million and $9.7 million, respectively. Consequently, cash flows used in operating activities amounted to $14.0 million in the first six months of 2011, as opposed to providing funds of $40.3 million a year earlier.

Financing activities for the quarter ended June 30, 2011 used funds of $12.4 million. The main factors explaining this cash utilization were the repayment of long-term debt totalling $15.9 million, including the advanced repayment of US$15.0 million in the capital amount of a non-convertible debenture on April 1, 2011, and a dividend payment on common shares of $3.8 million. These factors were partially offset by a $7.4 million increase in bank indebtedness due to working capital requirements. For the quarter ended June 30, 2010, financing activities reduced liquidity by $88.7 million, an amount mostly related to the repayment of long-term debt in connection with the Tangent acquisition.

For the six-month period ended June 30, 2011, financing activities provided liquidities of $17.9 million compared with providing $46.4 million for the corresponding period a year earlier.

Investing activities required $2.3 million in cash during the second quarter of 2011, as purchases of property, plant and equipment, mainly for the addition of various equipment upgrades and expansion, required an investment of $2.4 million. For the quarter ended June 30, 2010, cash flows from investing activities increased liquidity by $57.3 million, as the $84.6 million acquisition of Tangent resulted in a $142.9 million decrease in restricted cash.

For the six-month period ended June 30, 2011, investing activities reduced liquidity by $3.9 million compared with a reduction of $86.7 million for the corresponding period a year earlier.

The following table details the maturities of the financial obligations as at June 30, 2011:

(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]	73,812	75,624	75,624	-	-	-
Accounts payable and accrued liabilities	48,894	52,703	52,703	-	-	-
Long-term debt obligations[1]	101,927	125,251	13,567	29,170	57,333	25,181
Interest rate swaps						
Outflow	-	2,148	898	873	377	-
Inflow	-	(519)	(219)	(213)	(87)	-
Other contractual obligations	-	23,186	5,670	6,762	2,084	8,670
Non-compete agreements	2,925	3,729	1,243	2,486	-	-
Total	227,558	282,122	149,486	39,078	59,707	33,851

[1] Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at June 30, 2011, the capital stock issued and outstanding consisted of 15,949,991 common shares (15,922,668 as at December 31, 2010). The following table presents the outstanding capital stock activity for the three- and six-month periods ended June 30, 2011:

Number of shares (in '000s)	Three-month Period Ended June 30, 2011	Six-month Period Ended June 30, 2011
Balance – Beginning of period	15,939	15,923
Stock option plan	8	22
Employee share purchase plans	3	5
Balance – End of period	15,950	15,950

As at August 10, 2011, the capital stock issued and outstanding consisted of 15,949,991 common shares.

As at June 30, 2011, the number of outstanding options to acquire common shares issued under the Company’s Stock Option Plan was 158,800 (December 31, 2010 – 181,000) of which 107,600 (December 31, 2010 – 128,300) were exercisable. As at August 10, 2011, the number of outstanding options was 158,800, of which 107,600 were exercisable.

DIVIDENDS

On August 10, 2011, the Board of Directors declared a semi-annual dividend of $0.26 per common share payable on October 7, 2011 to shareholders of record at the close of business on September 2, 2011.

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 2010 Annual Report.

CURRENT ECONOMIC CONDITIONS

Operations

The Company's core railway tie and utility pole 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 remain strong in the upcoming quarters. Increased freight volume on North American railroads should lead to continued investments in the continental rail network, including ties, as operators constantly seek optimal line efficiency. Solid demand is expected to continue in utility poles, as regular maintenance projects provide a stable business flow for distribution poles, while the vigour of the transmission pole market is more correlated to the timing of orders, mostly for special projects.

Liquidity

As at June 30, 2011, the Company is in full compliance with its debt covenants and contractual obligations. In addition, it has a combined availability under the Company's Canadian and U.S. demand operating loans of $53.5 million as at June 30, 2011.

Accounts receivables increased during the first half of 2011 due to the normal increase during the seasonally-strong second quarter. 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 also increased during the first half of 2011 due to the normal seasonal inventory build-up in anticipation of higher projected sales volumes. 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 2010 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the March 31, 2011 and 2010 interim consolidated financial statements.

The Company prepares its consolidated financial statements in conformity with IFRS which requires 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 the financial statements of the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets.

CHANGES IN ACCOUNTING POLICIES

Conversion to IFRS

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.

The interim unaudited consolidated financial statements for the period ended June 30, 2011 are prepared under IFRS. For all accounting periods ended on or before December 31, 2010, the Company prepared its financial statements under Canadian GAAP Part V. In accordance with IFRS 1, certain disclosures relating to the transition to IFRS are provided below. These disclosures are prepared under IFRS as set out in the basis of presentation in Note 2 to the June 30, 2011 interim consolidated financial statements.

IFRS 1 requires that comparative financial information be provided. The date at which the Company began applying IFRS, January 1, 2010, is recognized as the "Transition Date". IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters.

Initial elections upon adoption

IFRS 1 optional exemptions:

Business combinations – IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the Transition Date. The Company has taken advantage of this election.

Employee future benefits – IFRS 1 indicates that a first-time adopter may elect to recognize all cumulative gains or losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Company has taken advantage of this election.

Cumulative translation adjustment – IFRS 1 allows a first-time adopter to be exempt from the requirements of IAS 21, *The Effects of Changes in Foreign Exchange Rate*s, for cumulative translation differences that existed at the Transition Date. It permits cumulative translation differences to be reset to zero at the Transition Date. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the Transition Date.

Leases – The exemption provided in IFRS 1 from the full retrospective application of International Financial Reporting Interpretations Committee Interpretation 4 ("IFRIC 4"), *Determining whether and Arrangement Contains a Lease*, has been applied to determine whether an arrangement existing as of January 1, 2010 contains a lease based on the facts and circumstances existing at that date.

Share-based payments – IFRS 1 allows a first-time adopter not to apply IFRS 2, *Share-Based Payments*, to all equity instruments of share-based payments that had vested at the Transition Date and not to apply IFRS 2 for all cash-settled share-based payments that had been settled before the Transition Date. The Company has elected not to take advantage of this exemption and to apply IFRS 2 to all stock options.

Asset retirement obligation – The Company applied the requirements of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities,* which retrospectively requires specified changes, in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life. The Company elected not to comply with the requirements of IFRIC 1 for changes that occurred in such liabilities before the Transition Date.

Borrowing costs – IFRS 1 allows an entity to adopt IAS 23, *Borrowing Costs*, prospectively and to capitalize borrowing costs to projects for which the capitalization commencement date is after the Transition Date. The Company has taken advantage of this election.

<u>IFRS 1 mandatory exceptions:</u>

Hedge accounting – Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as at the Transition Date are reflected as hedges in the Company's results under IFRS.

Estimates – In accordance with IFRS 1, an entity's estimates under IFRS at the Transition Date must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's estimates as at January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Impact of transition to IFRS

The differences between IFRS and Canadian GAAP identified as having a significant effect on the Company's previously reported consolidated financial performance and financial position are summarized in Note 4 to the June 30, 2011 interim consolidated financial statements, which provides a summary of the impacts resulting from the transition to IFRS.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

In June 2011, the International Accounting Standards Board ("IASB") amended IAS 19, *Employee Benefits* and IAS 1, *Financial Statements Presentation,* which has not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new and amended standards:

IAS 19 **-** *Employee Benefits*

IAS 19 has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits.

The amended standard removes the option to use the "corridor approach" whereby actuarial gains and losses are deferred and it also removes the option to recognize actuarial gains and losses immediately through income. Instead, it requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period. Instead, past service costs will be recognized immediately in the period of a plan amendment.

Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. The amendments clarify that benefits requiring future services (e.g. stay bonuses) are not termination benefits in the scope of IAS 19 and this may result in a different pattern of recognition of such costs.

A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IAS 1 – *Presentation of Financial Statements*

Presentation of items of other comprehensive income (“OCI”):

IAS 1 is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

The new requirements are effective for annual periods beginning on or after July 1, 2012.

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”).

On January 1, 2011, the Company adopted IFRS as its standard for financial reporting. In connection with the adoption of IFRS, the Company updated its ICFR, as necessary, to facilitate the respective IFRS convergence and transition activities performed. As mentioned in the “Conversion to IFRS” section, the impact from these changes was minimal. Other than the adoption of IFRS, no other changes were made to the design of ICFR during the three months ended June 30, 2011 that have had a material effect on the Company’s ICFR.

OUTLOOK

Management expects demand for the Company’s core products to remain solid in the second half of 2011. In the railway tie market, increased freight volume on North American railroads is leading to greater investments in the continental rail network, as operators constantly seek optimal line efficiency. Meanwhile, demand is expected to hold in utility poles, as regular maintenance projects provide a stable business flow for distribution poles, while the strength of the transmission pole market is more correlated to the timing of orders, mostly for special projects.

As one of the largest North American providers of industrial treated wood products, 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. 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 financial position will allow 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 add value for shareholders.

August 10, 2011