MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended September 30, 2011 compared with the three-month period ended September 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 November 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 September 30, 2011 compared with the three-month period ended September 30, 2010. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 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

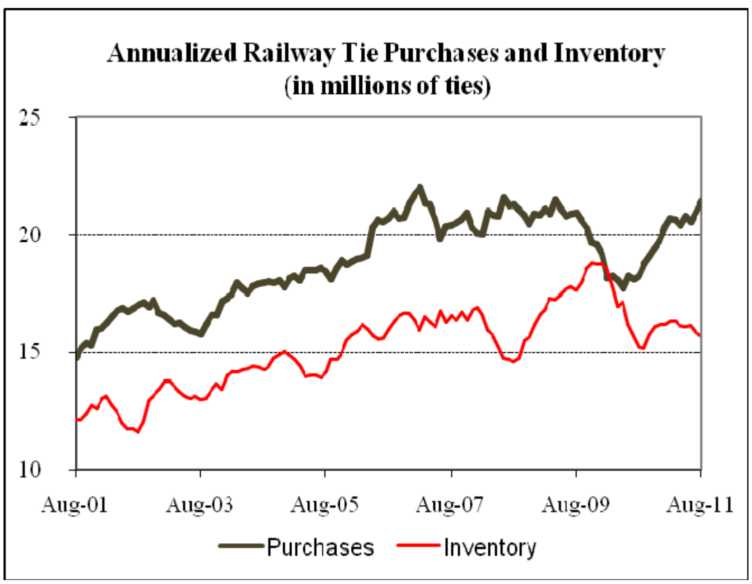
Operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), operating income, and cash flow from operations are financial measures not prescribed by IFRS and 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 September 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**
Third Quarter	0.9665	1.0482	1.0531	1.0290

INDUSTRY OVERVIEW



Source: Railway Tie Association

Railway ties

As reported by the Railway Tie Association, railway tie purchases through the first eight months of 2011 were approximately 12% higher than in the corresponding period a year earlier. As a result, industry purchases for the 12-month period ended August 31, 2011 reached 21.4 million ties. Such high demand lowered industry inventory to 15.7 million ties as at August 31, 2011. As a result, the inventory-to-sale ratio was 0.73:1, the lowest level in nearly three years.

The number of carloads hauled on North American railroads increased by 2.1% in the first nine months of 2011, while the volume of intermodal trailers and containers was up 5.3% from 2010 levels, according to data released by the Association of American Railroads.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2011 totalled $181.8 million, an increase of $20.5 million, or 12.7%, over last year's sales of $161.3 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 $10.2 million when compared with the previous year. Excluding this conversion effect, sales increased approximately 19.0%, as demand remained robust for the Company's core railway tie and utility pole product categories. Increased demand reflects requirements for regular maintenance as well as special projects.

For the nine-month period ended September 30, 2011, sales amounted to $492.6 million, up 15.1% from $428.0 million in the nine-month period ended September 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 $20.9 million, while organically, sales increased approximately 11.0%.

Sales by product category

Railway ties

Railway tie sales for the third quarter of 2011 amounted to $92.3 million, an increase of $8.2 million, or 9.7%, over sales of $84.1 million in the third quarter of 2010. These results reflect solid market demand. Adjusting for a negative foreign exchange effect of $7.1 million due to a lower average conversion rate on U.S. dollar denominated tie sales, year-over-year comparable railway tie sales increased approximately $15.3 million, or 18.2%. Railway tie sales accounted for 50.8% of the Company's third-quarter sales.

For the nine-month period ended September 30, 2011, railway tie sales totalled $264.4 million, up from $220.8 million in the nine-month period ended September 30, 2010. This increase reflects additional tie sales of approximately $29.5 million from the Tangent operations in the first quarter of 2011 and greater market demand, partially offset by a $14.6 million negative foreign exchange effect due to a lower average conversion rate on U.S. dollar denominated tie sales.

Utility poles

Utility pole sales amounted to $56.2 million in the third quarter of 2011, up 31.6% over sales of $42.7 million in the corresponding period in 2010. The increase is mostly attributable to robust demand for transmission poles related to orders for special projects. Meanwhile, distribution pole sales remained relatively steady due mainly to regular maintenance demand. A lower year-over-year average conversion rate reduced the value of U.S. dollar denominated pole sales by $1.7 million during the third quarter. Utility pole sales accounted for 30.9% of the Company's total sales in the third quarter of 2011.

For the first nine months of 2011, sales of utility poles reached $144.2 million, up from $118.0 million in the corresponding period a year earlier. This 22.3% increase essentially reflects higher demand for transmission poles related to orders for special projects, while demand for distribution poles remained essentially stable. A lower conversion rate reduced the value of U.S. dollar denominated pole sales by approximately $3.5 million.

Industrial products

Industrial product sales decreased 9.4% in the third quarter of 2011, reaching $22.6 million, compared with $24.9 million in 2010. This $2.3 million decline is attributable to the sale of certain assets of the Terre Haute, Indiana facility in the fourth quarter of 2010, as demand remained solid for the balance of the Company's principal products and services in this category for both Canada and the United States. In addition, a lower year-over-year average conversion rate reduced the value of U.S. dollar denominated industrial product sales by approximately $1.4 million during the third quarter. Industrial products represented 12.4% of sales in the three-month period ended September 30, 2011.

For the nine-month period ended September 30, 2011, industrial product sales amounted to $58.3 million, down 5.5% from $61.6 million in the nine-month period ended September 30, 2010. Excluding an additional contribution of approximately $8.2 million in the first quarter from Tangent's operations related to coal tar distillation and lifecycle solutions, and net of a negative conversion effect of $2.8 million on U.S. dollar denominated sales, year-to-date sales of industrial products declined approximately $8.8 million in comparison with the year prior as a result of retiring from certain non-core market areas following the sale of certain assets of the Terre Haute, Indiana facility in the fourth quarter of 2010 and lower demand for special projects versus the prior year.

Residential lumber
Sales in the residential lumber category totalled $10.7 million in the third quarter of 2011, up 12.0% from $9.5 million a year earlier. The increase reflects higher demand in Canada due to more favourable weather compared with last year in the peak summer season. The Company does not sell residential lumber in the U.S. market. Residential lumber accounted for 5.9% of Stella-Jones' sales in the third quarter of 2011.

For the first nine months of 2011, sales of residential lumber amounted to $25.7 million, down from $27.6 million in the first nine months of 2010.

Sales by destination

Sales in Canada in the third quarter of 2011 increased $13.0 million, or 23.6%, to $67.9 million, representing 37.4% of Stella-Jones' total sales. The increase in year-over-year sales is mainly attributable to higher sales of utility poles. For the first nine months of 2011, sales in Canada amounted to $181.6 million, up 8.7% from $167.1 million a year ago.

Sales in the United States amounted to $113.9 million, or 62.6% of sales, in the third quarter of 2011, representing an increase of $7.6 million, or 7.1%, over the corresponding period in 2010. The increase mainly reflects higher sales of railway ties and utility poles, partially offset by a lower conversion rate on U.S. dollar denominated sales. For the first nine months of 2011, sales in the United States reached $311.0 million, up 19.2% from $260.9 million a year prior, an increase partially 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 $144.2 million, or 79.3% of sales, for the three-month period ended September 30, 2011. This compares with $135.0 million, or 83.7% of sales, in the three-month period ended September 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 greater efficiencies throughout our plant network.

Depreciation and amortization charges totalled $2.1 million for the three-month period ended September 30, 2011, down from $3.0 million in the corresponding period of 2010. In 2011, depreciation and amortization of cutting rights, standing timber and roads is now included in inventory or cost of sales as part of wood costs, resulting in this reduction.

As a result, gross profit reached $37.6 million or 20.7% of sales in the third quarter of 2011, up from $26.3 million or 16.3% of sales in the third quarter of 2010.

For the first nine months of 2011, cost of sales reached $398.1 million, or 80.8% of sales, versus $359.2 million, or 83.9% of sales in the first nine months of 2010. Depreciation and amortization charges totalled $6.4 million for the nine-month period ended September 30, 2011, down from $7.6 million in the corresponding period in

2010. Gross profit amounted to $94.5 million, or 19.2% of sales, in the first nine months of 2011, up from $68.8 million, or 16.1% of sales, in the first nine months of 2010.

Selling and administrative

Selling and administrative expenses for the third quarter of 2011 were $10.9 million, compared with expenses of $7.3 million in the third quarter of 2010. This $3.6 million increase is mainly attributable to higher compensation charges, amortization of bank charges related to new financings, write-offs of previously deferred bank charges, provisions for legal matters and a one-time provision for site remediation at the non-operating Terre Haute facility. As a percentage of sales, selling and administrative expenses were 6.0% of sales in the three-month period ended September 30, 2011, compared to 4.5% in the prior year.

In the nine-month period ended September 30, 2011, selling and administrative expenses reached $26.1 million, or 5.3% of sales, compared with $26.9 million, or 6.3% of sales in the corresponding period a year earlier. Of note, last year's selling and administrative expenses included non-recurring expenses of approximately $5.0 million in connection with severance expenses, a provision for an unfavourable legal judgement, as well as acquisition costs directly related to the purchase of Tangent. During the nine-month period ended September 30, 2010, the Company also recorded asset impairment charges of $2.5 million for the Spencer, West Virginia facility and the former U.S. corporate office in Ripley, West Virginia.

Other losses (gains), net

Stella-Jones' other net losses of $1.2 million for the three-month period ended September 30, 2011, were primarily with respect to foreign exchange. Last year's net gain of $684,000 included a foreign exchange gain of $509,000, a gain on derivative financial instruments of $122,000 and a gain on disposal of property, plant and equipment of $53,000.

For the nine-month period ended September 30, 2011, other net losses of $897,000 largely pertained to foreign exchange, while other net losses of $368,000 for the nine-month period ended September 30, 2010 related to a foreign exchange loss of $479,000, partially offset by a gain of $83,000 on derivative financial instruments and a gain of $28,000 on disposal of property, plant and equipment.

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 third quarter of 2011 amounted to $1.8 million, down from $2.8 million in the third 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), lower interest rates resulting from the July 28, 2011 amendment and restatement of existing credit agreements (see "Statement of Financial Position" below), and to lower Canadian dollar interest charges on the conversion of U.S. dollar denominated debt.

For the first nine months of 2011, financial expenses were $6.1 million, versus $7.8 million in the corresponding period a year earlier.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $23.8 million, or 13.1% of sales, in the third quarter of 2011. This represents an increase of $6.9 million, or 40.6%, over income before income taxes of $16.9 million, or 10.5% of sales, in the third quarter of 2010.

For the first nine months of 2011, income before income taxes amounted to $61.4 million, or 12.5% of sales, up from $33.7 million, or 7.9% of sales, in the first nine months of 2010. Excluding non-recurring items and asset impairment charges, income before income taxes for the latter period were approximately $41.2 million, or 9.6% of sales.

Stella-Jones' provision for income taxes totalled $7.2 million in the third quarter of 2011, representing an effective tax rate of 30.3%. In the third quarter of 2010, the income tax expense stood at $4.5 million, equivalent to an effective tax rate of 26.4%. The higher effective tax rate for 2011 is attributable to a greater proportion of income generated in the U.S. compared to the same period last year, where the statutory tax rate is higher.

For the nine-month period ended September 30, 2011, the provision for income taxes was $19.1 million, representing an effective tax rate of 31.1%, compared with $10.0 million in the nine-month period ended September 30, 2010, representing an effective tax rate of 29.5%.

Net income

Net income for the three-month period ended September 30, 2011 reached $16.6 million, or $1.03 per share, fully diluted, compared with $12.4 million, or $0.78 per share, fully diluted, in 2010. This represents a year-over-year increase in net income of $4.1 million, or 33.2%.

For the nine-month period ended September 30, 2011, net income was $42.3 million, or $2.65 per share, fully diluted, up from $23.8 million, or $1.60 per share, fully diluted, in the nine-month period ended September 30, 2010.

SUBSEQUENT EVENT

On October 11, 2011, the Company announced that it had signed a non-binding letter of intent to acquire Thompson Industries, Inc. (“Thompson”), a provider of treated wood products to the railroad industry.

The letter of intent contemplates a total purchase price of approximately US$41.0 million. The transaction, if finalized, is expected to close by December 2011 and is subject to customary closing conditions, including entry into a definitive purchase agreement and satisfactory due diligence. Stella-Jones plans to finance the acquisition through existing credit facilities.

Founded in 1981, Thompson produces treated wood products, mainly railway ties and timbers, at a facility located in Russellville, Arkansas. Thompson's sales for its fiscal year ended September 30, 2011 are expected to reach approximately US$49.0 million.

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 11 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	181,812		
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	16,970	29,966	27,672		
Operating income [1]	14,418	27,582	25,569		
Net income for the period	8,500	17,271	16,569		
Earnings per common share Basic Diluted	 0.53 0.53	 1.08 1.08	 1.04 1.03		

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 September 30, 2011 was $283.2 million, an increase of $93.7 million over a working capital balance of $189.5 million at December 31, 2010. Most of this increase is attributable to a $47.0 million increase in accounts receivable and a $29.6 million reduction in bank indebtedness, as explained below.

Current assets amounted to $333.9 million as at September 30, 2011 compared with $269.0 million at December 31, 2010. Most of this increase is attributable to higher accounts receivable.

The value of accounts receivable was $103.3 million as at September 30, 2011 compared with $56.3 million as at December 31, 2010. This variation of $47.0 million reflects the normal seasonal increase in accounts receivable during the peak summer period and, to a lesser extent, the appreciation of the U.S. dollar on U.S. based accounts receivable.

Inventories stood at $216.1 million as at September 30, 2011, up from $205.3 million as at December 31, 2010. This increase reflects the inventory build-up ahead of anticipated sales growth and the appreciation of the U.S. dollar on U.S. based inventories.

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 credit facilities are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $109.7 million as at September 30, 2011, compared with $104.8 million as at December 31, 2010. This increase is essentially related to local currency appreciation on U.S. based property, plant and equipment, and to the purchase of property, plant and equipment for the period ($5.3 million) exceeding depreciation ($3.4 million).

The value of intangible assets and goodwill reached $63.8 million and $78.0 million, respectively, as at September 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 stems from an amortization charge of $3.0 million in the first nine months of 2011 partially offset by the effect of local currency appreciation on U.S. based intangible assets. The latter factor also explains the increase in the value of goodwill.

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 amend and restate in its entirety their existing revolving credit agreement. The existing demand revolving facility ($50.0 million and US$75.0 million) 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, Bankers' acceptances in Canadian Dollars or U.S. Dollars, U.S. Base Rate Loans, LIBOR loans in U.S. Dollars and Letters of Credit.

The interest rate margin with respect to Canadian prime rate loans and U.S. 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 bankers' 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.

As a result of this agreement, all bank indebtedness is now considered long-term debt with the exception of the Company's proportion of the operating line of its joint venture. Consequently, bank indebtedness now stands at $2.3 million as at September 30, 2011, down from $31.9 million as at December 31, 2010.

The Company's long-term debt, including the current portion, rose to $170.6 million as at September 30, 2011, from $125.8 million as at December 31, 2010. The increase essentially reflects the new credit agreement. In the first nine months of 2011, Stella-Jones proceeded with the advanced repayment of US$15.0 million in the capital amount of a non-convertible debenture on April 1, 2011. As at September 30, 2011, an amount of $122.1 million had been drawn against the Company's committed revolving facility of $170.0 million.

Shareholders' equity was $324.4 million as at September 30, 2011 compared with $280.1 million as at December 31, 2010. This increase of $44.3 million is mainly attributable to net income of $42.3 million and a $10.8 million increase in accumulated other comprehensive income, partially offset by dividends on common shares totalling $8.0 million. Book value stood at $20.34 per common share as at September 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**		**Nine-Month Periods Ended**	
(thousands of dollars)	**Sept. 30, 2011**	**Sept. 30, 2010**	**Sept. 30, 2011**	**Sept. 30, 2010**
Operating activities	$15,325	$24,984	$1,323	$65,246
Financing activities	($13,665)	($24,292)	$4,213	$22,138
Investing activities	($1,660)	($692)	($5,536)	($87,384)
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 committed 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 $27.8 million for the three-month period ended September 30, 2011, compared with $23.5 million for the same period in 2010. This increase mostly reflects a higher net income for the period.

Changes in non-cash working capital components reduced liquidity by $3.9 million in the third quarter of 2011, as a decrease in accounts payable and accrued liabilities was partially offset by reductions in accounts receivable and inventories during the period. In the third quarter of 2010, changes in non-cash working capital components had provided liquidity of $5.3 million. Interest and income tax paid further reduced liquidity by $1.4 million and $7.2 million, respectively, in the third quarter of 2011, versus $2.8 million and $1.0 million, respectively, a year earlier. As a result, cash flows provided by operating activities were $15.3 million in the third quarter of 2011, versus $25.0 million in the third quarter of 2010.

For the nine-month period ended September 30, 2011, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $74.9 million, up from $54.9 million in the corresponding period a year earlier. Changes in non-cash working capital components reduced liquidity by $50.2 million in 2011, as opposed to increasing liquidity by $24.7 million last year. Interest and income tax paid further reduced liquidity by $6.4 million and $16.9 million, respectively, in the first nine months of 2011, compared with $7.0 million and $7.3 million, respectively, in the first nine months of 2010. Consequently, cash flows provided by operating activities amounted to $1.3 million in the first nine months of 2011, versus $65.2 million a year earlier.

Financing activities for the quarter ended September 30, 2011 used funds of $13.7 million. The main factors explaining this cash utilization were the repayment of long-term debt totalling $58.9 million and a decrease in bank indebtedness of $44.2 million, partially offset by a $89.6 million increase in long-term debt. These factors are mainly related to the July 28, 2011 amendment and restatement of the Company's credit agreement as mentioned above. For the quarter ended September 30, 2010, financing activities reduced liquidity by $24.3 million.

For the nine-month period ended September 30, 2011, financing activities provided liquidities of $4.2 million, compared with providing $22.1 million for the corresponding period a year earlier.

Investing activities required $1.7 million in cash during the third quarter of 2011, as purchases of property, plant and equipment, mainly for the addition of various equipment upgrades and expansion, required an investment of $1.5 million. For the quarter ended September 30, 2010, cash flows from investing activities decreased liquidity by $692,000.

For the nine-month period ended September 30, 2011, investing activities reduced liquidity by $5.5 million compared with a reduction of $87.4 million for the corresponding period a year earlier as a result of the Tangent acquisition.

The following table details the maturities of the financial obligations as at September 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]	2,300	2,370	2,370	-	-	-
Accounts payable and accrued liabilities	40,297	40,297	40,297	-	-	-
Long-term debt obligations[1]	170,629	186,905	7,837	19,150	155,128	4,790
Interest rate swaps						
Outflow	-	11,203	3,217	5,266	2,582	138
Inflow	-	(8,017)	(2,234)	(3,850)	(1,823)	(110)
Other contractual obligations	-	24,593	5,981	7,118	2,202	9,292
Non-compete agreements	2,923	3,275	1,310	1,965	-	-
Total	216,149	260,626	58,778	29,649	158,089	14,110

[1] Amounts include capital and interest

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2011, the capital stock issued and outstanding consisted of 15,952,609 common shares (15,922,668 as at December 31, 2010). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2011:

Number of shares (in '000s)	Three-month Period Ended September 30, 2011	Nine-month Period Ended September 30, 2011
Balance – Beginning of period	15,950	15,923
Stock option plan	-	22
Employee share purchase plans	3	8
Balance – End of period	15,953	15,953

As at November 10, 2011, the capital stock issued and outstanding consisted of 15,953,043 common shares.

As at September 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 112,100 (December 31, 2010 – 128,300) were exercisable. As at November 10, 2011, the number of outstanding options was 158,800, of which 112,100 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 September 30, 2011, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at September 30, 2011, an amount of $122.1 million had been drawn against the Company's committed revolving facility of $170.0 million.

Accounts receivables increased during the first nine months of 2011 mostly due to normal seasonal demand patterns. Management considers that all recorded 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 slightly during the first nine months of 2011 in part due to 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 unaudited 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 September 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 September 30, 2011 interim unaudited 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

<u>IFRS 1 optional exemptions:</u>

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 an 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.

IFRS 1 mandatory exceptions:

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 3 to the September 30, 2011 interim unaudited consolidated financial statements, which provides a summary of the impacts resulting from the transition to IFRS.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with the Canadian Securities Administrators' Regulation 52-109 (Certification of Disclosure in Issuers' 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 September 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 fourth quarter of 2011, despite recent volatility in the macro-economic environment. 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 leverage the strength of its continental network to capture more of its existing clients' business in its core railway tie and utility pole markets, 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, as shown by its proposed acquisition of Thompson Industries, Inc. 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 markets that meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

November 10, 2011