MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended June 30, 2013 compared with the three-month period ended June 30, 2012

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 8, 2013. 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, 2013 compared with the three-month period ended June 30, 2012. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended June 30, 2013 and 2012 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2012. The condensed 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. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

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. 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.

As at June 30, 2013, the Company operates twenty-four wood treating plants, ten pole peeling facilities, a coal tar distillery and a facility providing railway tie pickup and disposal services. These facilities are located in five Canadian provinces and fifteen American states and are complemented by an extensive distribution network across North America. As at June 30, 2013, the Company's workforce numbered approximately 1,370 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.

Reconciliation of EBITDA and operating income to net income (thousands of dollars)	**Three-month periods ended**		**Six-month periods ended**	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Net income for the period	26,426	20,835	45,183	35,841
Plus:				
Provision for income taxes	11,881	9,657	20,064	16,701
Financial expenses	2,652	2,088	5,383	4,128
Operating income	40,959	32,580	70,630	56,670
Depreciation and amortization	3,958	2,580	8,162	4,998
EBITDA	44,917	35,160	78,792	61,668

FOREIGN EXCHANGE

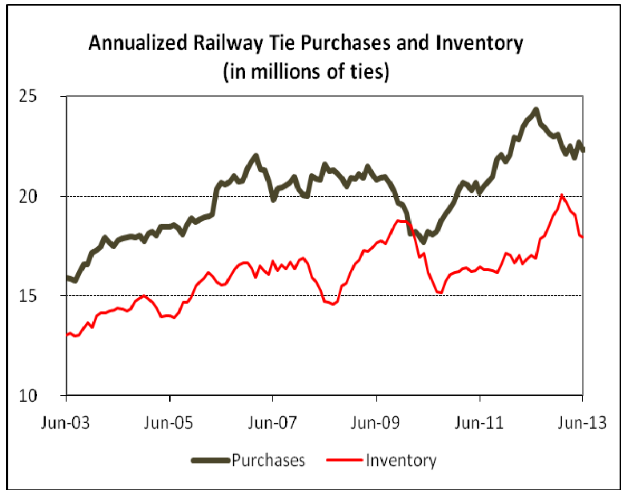
The table below shows exchange rates applicable to the periods ended June 30, 2013 and 2012. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	**2013**		**2012**	
	Average	**Closing**	**Average**	**Closing**
Second Quarter	1.0201	1.0518	1.0061	1.0181

INDUSTRY OVERVIEW

Railway ties

As reported by the Railway Tie Association, railway tie purchases for the first six months of 2013 amounted to 11.9 million ties, resulting in industry purchases of 22.3 million ties for the 12-month period ended June 30, 2013. Meanwhile, industry inventory stood at 18.0 million ties as at June 30, 2013. Accordingly, the inventory-to-sales ratio was 0.81:1, in line with the previous ten-year average ratio of 0.81:1.



Source: Railway Tie Association

Total traffic on North American railroads rose 1.4% in the first six months of 2013, according to data released by the Association of American Railroads. While the number of carloads decreased by 0.4%, mainly due to lower shipments of coal and grain, the volume of intermodal trailers and containers was up 3.7% from 2012 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended June 30, 2013 totalled $273.2 million, up 34.0% over last year's sales of $203.9 million for the same period. The operating facilities acquired from McFarland Cascade Holdings, Inc. ("McFarland") on November 30, 2012 contributed sales of approximately $75.0 million, while the conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, had a positive impact of $1.8 million on the value of U.S. dollar denominated sales when compared with the previous year's second quarter. Excluding these factors, sales decreased approximately $7.5 million, as a result of more traditional seasonal demand patterns in 2013 versus the prior year, lower sales of industrial products, and reduced railcar availability in Western Canada due to flooding in southern Alberta.

For the six-month period ended June 30, 2013, sales amounted to $490.2 million, up 35.1% from $362.7 million in the six-month period ended June 30, 2012. The operating facilities acquired from McFarland contributed sales of approximately $140.0 million while the year-over-year conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar, increased the value of U.S. dollar denominated sales by $2.3 million. Excluding these factors, sales decreased approximately $14.8 million.

Sales by product category

Railway ties

Railway tie sales for the second quarter of 2013 reached $119.8 million, essentially stable compared with sales of $120.1 million in the second quarter of 2012, as market demand remained healthy across North America. The start-up of the new Cordele, Georgia facility remains on track and wood treatment operations are scheduled to begin in August 2013. Railway tie sales accounted for 43.9% of the Company's second-quarter sales. For the first six months of 2013, railway tie sales totalled $216.3 million versus $216.1 million in the first six months of 2012.

Utility poles

Utility pole sales amounted to $95.1 million in the second quarter of 2013, up $43.4 million from sales of $51.7 million in the corresponding period in 2012. The increase is mainly attributable to utility pole sales of $46.0 million from the McFarland operations. Excluding the latter, the Company experienced a slight decrease in utility pole sales as a result of more traditional seasonal demand patterns this year versus last, as well as reduced railcar availability in Western Canada due to flooding in Southern Alberta. Utility pole sales accounted for 34.8% of the Company’s total sales in the second quarter of 2013. For the six-month period ended June 30, 2013, sales of utility poles reached $185.9 million, up from $95.2 million in the six-month period ended June 30, 2012. The increase is essentially due to a contribution of approximately $96.7 million from the McFarland operations.

Residential lumber

Sales in the residential lumber category totalled $41.3 million in the second quarter of 2013, up from $14.0 million a year earlier. The increase reflects additional residential lumber sales of $26.7 million from the McFarland operations. Excluding the latter, sales increased slightly primarily due to solid demand for outdoor projects in Canada. Residential lumber accounted for 15.1% of Stella-Jones' sales in the second quarter of 2013. For the six-month period ended June 30, 2013, residential lumber sales amounted to $59.2 million, up from $18.1 million a year earlier, driven by a $40.8 million contribution from the McFarland operations.

Industrial products

Industrial product sales totalled $17.0 million in the second quarter of 2013, compared with $18.1 million in the second quarter of 2012. This variation mainly reflects a reduction in the tie recycling business and in rail projects requiring industrial products compared to the second quarter of last year, as well as a reduction in sales of certain non-core products. These elements were partially offset by a $2.3 million contribution from the McFarland operations. Industrial products represented 6.2% of sales in the three-month period ended June 30, 2013. In the first six months of 2013, industrial product sales were $28.9 million, down from $33.2 million in the first six months of 2012.

Sales by destination

Sales in the United States amounted to $209.9 million, or 76.8% of sales, in the second quarter of 2013, representing an increase of $74.7 million, or 55.3%, over the corresponding period in 2012. The year-over-year increase is mainly attributable to a $73.9 million contribution from McFarland’s U.S.-based operations. For the first six months of 2013, sales in the United States reached $384.7 million, up $134.1 million, or 53.5%, from $250.7 million in the first six months of 2012.

Meanwhile, sales in Canada in the second quarter of 2013 were $63.3 million, representing 23.2% of Stella-Jones' total sales, down 7.9% from the second quarter of 2012. The year-over-year sales variation reflects more traditional seasonal demand patterns in 2013 versus the prior year and reduced railcar availability in Western Canada due to flooding in southern Alberta, partially offset by a $1.1 million contribution from McFarland’s Canadian operations. For the first six months of 2013, sales in Canada totalled $105.5 million, versus $112.1 million in the corresponding period a year earlier.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $215.4 million, or 78.8% of sales, for the three-month period ended June 30, 2013. This compares with $161.6 million, or 79.2% of sales, in the three-month period ended June 30, 2012. The increase in absolute dollars essentially reflects the addition of the McFarland operations, while the decrease as a percentage of sales results from greater efficiency across the Company’s plant network, including the McFarland facilities, as well as a reduction in low margin non-core product sales. Reflecting the McFarland acquisition, depreciation and amortization charges reached $4.0 million for the second quarter of 2013, up from $2.6 million in the corresponding period of 2012. As a result, gross profit reached $57.8 million, or 21.2% of sales, in the second quarter of 2013, up from $42.3 million, or 20.8% of sales, in the second quarter of 2012.

For the six-month period ended June 30, 2013, cost of sales was $389.2 million, or 79.4% of sales, versus $286.9 million, or 79.1% of sales in the six-month period ended June 30, 2012. Depreciation and amortization charges totalled $8.2 million in the first six months of 2013, up from $5.0 million a year earlier. As a result, gross profit reached $101.0 million, or 20.6% of sales, in the first half of 2013, compared with $75.9 million, or 20.9% of sales, in the first half of 2012

Selling and administrative

Selling and administrative expenses for the three- and six-month periods ended June 30, 2013 were $14.7 million and $28.2 million, respectively, compared with expenses of $9.1 million and $18.5 million, respectively, in the three- and six-month periods ended June 30, 2012. These increases are mainly attributable to the addition of the McFarland operations. As a percentage of sales, selling and administrative expenses were 5.4% and 5.8% of sales, respectively, in the three- and six-month periods ended June 30, 2013, compared to 4.4% and 5.1%, respectively, in the three- and six-month periods ended June 30, 2012.

Other losses, net

Stella-Jones' other net losses of $2.1 million for the three-month period ended June 30, 2013, include a $2.4 million loss on the disposal of property plant and equipment, essentially resulting from the disposal of surplus assets at certain facilities acquired in prior years, partially offset by a $349,000 foreign exchange gain. Last year's net loss of $712,000 was also primarily related to the disposal of property plant and equipment. For the first six months of 2013, other net losses amounted to $2.2 million compared with net losses of $652,000 for the corresponding period in 2012.

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 and to U.S. dollar denominated long-term debt held by its Canadian companies. 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 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 foreign exchange forward contracts for the sale of U.S. dollars and purchasing certain goods and services in U.S. dollars. The Company will also consider foreign exchange forward 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 amounted to $2.7 million and $5.4 million, respectively, for the three- and six-month periods ended June 30, 2013, up from $2.1 million and $4.1 million, respectively, for the three- and six-month periods ended June 30, 2012. This increase in financial expenses is due to higher year-over-year borrowings related to the acquisition of McFarland.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $38.3 million, or 14.0% of sales, in the second quarter of 2013. This represents an increase of 25.6% over income before income taxes of $30.5 million, or 15.0% of sales, in the second quarter of 2012. The provision for income taxes totalled $11.9 million in the second quarter of 2013, representing an effective tax rate of 31.0%, compared with an income tax expense of $9.7 million, equivalent to an effective tax rate of 31.7%, in the second quarter of 2012. The lower effective tax rate for 2013 is attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

For the first half of 2013, income before income taxes stood at $65.2 million, or 13.3% of sales, while the provision for income taxes amounted to $20.1 million, representing an effective tax rate of 30.8%. In the first half of 2012, income before income taxes reached $52.5 million, or 14.5% of sales, while the provision for income taxes amounted to $16.7 million, representing an effective tax rate of 31.8%.

Net income

Net income for the three-month period ended June 30, 2013 reached $26.4 million, or $1.53 per share, fully diluted, compared with $20.8 million, or $1.30 per share, fully diluted, in the three-month period ended June 30, 2012. This represents a year-over-year increase in net income of 26.8%.

For the six-month period ended June 30, 2013, net income rose 26.1% to $45.2 million, or $2.62 per share, fully diluted, up from $35.8 million, or $2.24 per share, fully diluted, in the six-month period ended June 30, 2012.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole and industrial product shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. 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 ten quarters.

2013

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	217,039	273,161			
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	33,875	44,917			
Operating income [1]	29,671	40,959			
Net income for the period	18,757	26,426			
Earnings per common share					
Basic	1.09	1.54			
Diluted	1.09	1.53			

2012

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(thousands of dollars, except per share data)	$	$	$	$	$
Sales	158,795	203,919	195,435	159,345	717,494
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	26,508	35,160	34,462	24,171	120,301
Operating income [1]	24,090	32,580	31,799	21,127	109,596
Net income for the period	15,006	20,835	20,683	16,546	73,070
Earnings per common share					
Basic	0.94	1.30	1.29	1.01	4.54
Diluted	0.94	1.30	1.29	1.00	4.53

2011

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	147,520	640,148
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	16,593	29,696	27,670	22,724	96,683
Operating income [1]	14,418	27,582	25,569	20,399	87,968
Net income for the period	8,500	17,271	16,569	13,369	55,709
Earnings per common share					
Basic	0.53	1.08	1.04	0.84	3.49
Diluted	0.53	1.08	1.03	0.83	3.48

[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 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

Assets

As at June 30, 2013, total assets reached $1.02 billion, up from $955.9 million as at December 31, 2012. This increase is mainly attributable to an increase in accounts receivable, as detailed below.

Current assets amounted to $573.0 million as at June 30, 2013 compared with $534.9 million as at December 31, 2012. This variation of $38.1 million is due to increases in the value of accounts receivable and inventories, partially offset by a decrease in cash.

The value of accounts receivable was $141.9 million as at June 30, 2013, compared with $89.6 million as at December 31, 2012. The variation is attributable to higher sales volumes in the second quarter when compared to the fourth quarter of 2012.

Inventories stood at $420.0 million as at June 30, 2013, up from $413.4 million as at December 31, 2012. This slight increase mainly reflects anticipated sales growth in the second half of the year.

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 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.

The value of property, plant and equipment stood at $201.9 million as at June 30, 2013, compared with $189.0 million as at December 31, 2012. This increase is essentially related to the purchase of property, plant and equipment ($11.7 million) exceeding depreciation ($3.9 million) for the six-month period ended June 30, 2013 and to the effect of local currency translation on U.S.-based property, plant and equipment over the same period.

The value of intangible assets and goodwill reached $92.8 million and $144.3 million, respectively, as at June 30, 2013. 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, 2012, intangible assets and goodwill were $93.1 million and $135.8 million, respectively. The decrease in the value of intangible assets stems from an amortization charge of $4.3 million in the first six months of 2013, partially offset by the effect of local currency translation on U.S.-based intangible assets. The latter factor also explains the variation in the value of goodwill.

Liabilities

As at June 30, 2013, Stella-Jones' total liabilities stood at $488.4 million, up slightly from $487.1 million as at December 31, 2012. This variation mainly reflects an increase in long-term debt partially offset by a decrease in current liabilities.

The value of current liabilities was $59.8 million as at June 30, 2013, versus $90.1 million as at December 31, 2012. The decrease is attributable to a $14.0 million reduction in bank indebtedness, a $13.2 million decline in the value of accounts payable and accrued liabilities and a $5.5 million decrease in the current portion of long-term debt.

The Company's long-term debt, including the current portion, was $373.7 million as at June 30, 2013, up from $349.6 million as at December 31, 2012. The increase essentially reflects higher working capital requirements. As at June 30, 2013, an amount of $335.5 million was drawn against the Company's committed revolving credit facility of $370.0 million. During the first quarter of 2013, the authorized amount under the committed revolving credit facility was increased to $370.0 million from $350.0 million. The increase is justified by working capital needs and the acceleration of certain capacity enhancement initiatives required for anticipated sales growth.

Shareholders' equity

Shareholders' equity rose to $527.4 million as at June 30, 2013 compared with $468.8 million as at December 31, 2012. This increase is mainly attributable to net income of $45.2 million as well as a positive variation of $18.1 million in the value of the accumulated other comprehensive gain (loss), partially offset by dividend payments of $6.9 million. Book value stood at $30.72 per common share as at June 30, 2013, up from $27.30 per share as at December 31, 2012.

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, 2013**	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Operating activities	$35,211	($2,472)	$15,014	($4,230)
Financing activities	($26,986)	$4,933	($14,969)	$7,742
Investing activities	($8,225)	($2,461)	($14,045)	($3,512)
Net change in cash and cash equivalents during the period	$---	$---	($14,000)	$---
Cash and cash equivalents - beginning	$---	$---	$14,000	$---
Cash and cash equivalents - end	$---	$---	$---	$---

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

Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $48.2 million for the three-month period ended June 30, 2013, compared with $36.0 million for the same period in 2012. This increase mostly reflects a higher net income for the period.

Changes in non-cash working capital components reduced liquidity by $4.2 million in the second quarter of 2013, as increases of $9.9 million and $4.3 million, respectively, in accounts receivable and prepaid expenses, as well as a $1.7 million reduction in accounts payable and accrued liabilities, were partially offset by a $12.2 million reduction in inventories. In the second quarter of 2012, changes in non-cash working capital components had used liquidity of $24.4 million. Interest and income tax paid further reduced liquidity by $2.7 million and $6.0 million, respectively, in the second quarter of 2013, versus $1.7 million and $12.4 million, respectively, a year earlier. As a result, cash flows provided by operating activities were $35.2 million in the second quarter of 2013, as opposed to cash flows used in operating activities of $2.5 million in the second quarter of 2012.

For the six-month period ended June 30, 2013, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid stood at $82.5 million, up from $63.1 million in the six-month period ended June 30, 2012. Changes in non-cash working capital components required liquidity of $53.0 million in the first half of 2013, compared with a liquidity reduction of $45.4 million in the first half of 2012. Interest and income tax paid further reduced liquidity by $5.8 million and $8.7 million, respectively, in the first six months of 2013, versus $3.9 million and $18.1 million, respectively, a year earlier. Consequently, cash flows provided by operating activities were $15.0 million in the first six months of 2013, compared with cash flows used in operating activities of $4.2 million in the first six months of 2012.

Financing activities for the quarter ended June 30, 2013 required funds of $27.0 million due to a $19.9 million reduction in long-term debt and the payment of dividends on common shares amounting to $6.9 million. For the quarter ended June 30, 2012, financing activities provided liquidity of $4.9 million.

In the first six months of 2013, financing activities reduced liquidity by $15.0 million, as opposed to providing liquidity of $7.7 million in the first six months of 2012.

Investing activities used $8.2 million in liquidity during the second quarter of 2013. Purchases of property, plant and equipment, primarily for the addition of various equipment upgrades and incremental capacity, required an investment of $5.9 million, including $1.8 million to continue the construction of a new treating facility in Cordele, Georgia and an initial amount of $1.4 million for a new treating cylinder at the New Westminster, British Columbia facility. For the quarter ended June 30, 2012, cash flows from investing activities decreased liquidity by $2.5 million.

For the six-month period ended June 30, 2013, investing activities reduced liquidity by $14.0 million, versus a liquidity reduction of $3.5 million in the six-month period ended June 30, 2012.

The following table details the maturities of the financial obligations as at June 30, 2013:

(in thousands of dollars)	Carrying Amount ($)	Contractual Cash flow ($)	Less than 1 year ($)	1 – 3 years ($)	4 – 5 years ($)	After 5 years ($)
Accounts payable and accrued liabilities	52,680	52,680	52,680	-	-	-
Long-term debt obligations	373,742	408,831	9,580	55,013	335,326	8,912
Net settled interest rate swaps	-	4,093	1,318	2,128	647	-
Minimum payments under operating lease obligations	-	59,620	12,411	18,360	11,629	17,220
Non-compete agreements	2,234	2,413	1,511	586	316	-
Total	428,656	527,637	77,500	76,087	347,918	26,132

SHARE AND STOCK OPTION INFORMATION

As at June 30, 2013, the capital stock issued and outstanding consisted of 17,171,332 common shares (17,168,425 as at December 31, 2012). The following table presents the outstanding capital stock activity for the three- and six-month periods ended June 30, 2013:

Number of shares (in '000s)	Three-month Period Ended June 30, 2013	Six-month Period Ended June 30, 2013
Balance – Beginning of period	17,170	17,168
Stock option plan	-	-
Employee share purchase plans	1	3
Balance – End of period	17,171	17,171

As at August 8, 2013, the capital stock issued and outstanding consisted of 17,171,332 common shares.

As at June 30, 2013, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 137,600 (December 31, 2012 – 130,100) of which 102,700 (December 31, 2012 – 99,700) were exercisable. As at August 8, 2013, the number of outstanding options was 137,600, of which 102,700 were exercisable.

DIVIDENDS

On August 8, 2013, the Board of Directors declared a quarterly dividend of $0.20 per common share payable on September 30, 2013 to shareholders of record at the close of business on September 2, 2013.

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 covenants in its loan documentation as well as its financial performance and cash requirements. 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 2012 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 healthy in 2013. In the railway tie market, increased freight volume on North American railroads results in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while demand is expected to hold over the short-term, Management believes that industry demand should pick-up over the mid-term, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced.

Liquidity

As at June 30, 2013, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at June 30, 2013, an amount of $335.5 million had been drawn against the Company's committed revolving credit facility of $370.0 million.

Accounts receivable increased during the first six months of 2013, reflecting higher sales and 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 six months of 2013 due to the anticipation of sales growth in the second half of the year. 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 2012 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2012 audited consolidated financial statements, except for those accounting policies adopted as of January 1, 2013 which are described in the Company's condensed interim unaudited consolidated financial statements for the periods ended June 30, 2013 and 2012.

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.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at June 30, 2013, and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR (as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed, as at June 30, 2013.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from April 1, 2013 to June 30, 2013 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

LIMITATION ON SCOPE OF DESIGN OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's assessment of and conclusion on the design of the Company's DC&P and ICFR as at June 30, 2013, did not include the controls or procedures of the operations of McFarland, which were acquired on November 30, 2012 and are included in the June 30, 2013 condensed interim unaudited consolidated financial statements. The Company has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of this acquisition in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

The following table summarizes the unaudited financial information for McFarland:

Six-month period ended June 30, 2013 (thousands of dollars)	**$**
Sales	139,988

As at June 30, 2013 (thousands of dollars)	**$**
Current assets	160,173
Non-current assets	137,468
Current liabilities	15,938
Non-current liabilities	12,832

OUTLOOK

Management expects demand for the Company's core products to remain healthy for the remainder of 2013. In the railway tie market, increased freight volume on North American railroads is resulting in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, while demand is expected to hold over the short-term, Management believes that industry demand should pick-up over the mid-term, as an increasing number of installed poles are approaching the end of their normal service life and will need to be replaced. Increased forecasted demand by some of the Company's larger utility pole customers supports this belief. The Company is investing in additional capacity to meet this anticipated demand.

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. Completing the integration of the McFarland operations is a key priority, and the Company believes it will benefit from greater market penetration, synergies and additional operating efficiencies from a larger network.

In the short-term, the Company will continue to focus on cash generation and to maintain a prudent use of leverage. The solid cash flow provided by operating activities will be used to reduce debt, invest in working capital, as well as in property, plant and equipment and in maintaining an optimal dividend policy to the benefit of shareholders.

Over the long-term, the Company's strategic vision, focused on continental expansion, remains intact. A solid financial position will allow Stella-Jones to continue to seek targets in its core markets that meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

August 8, 2013