

MANAGEMENT'S DISCUSSION & ANALYSIS

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

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc., and shall include its independent operating subsidiaries. The following 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 7, 2013. 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, 2013 compared with the three-month period ended September 30, 2012. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 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. is a leading producer and marketer of pressure treated wood products. The Company supplies North America's railroad operators with railway ties and timbers, and the continent's electrical utilities and telecommunication companies with utility poles. Stella-Jones also provides residential lumber and customized services to retailers and wholesalers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at September 30, 2013, the Company operates twenty-four wood treating plants, ten pole peeling facilities and a coal tar distillery. 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 September 30, 2013, the Company's workforce numbered approximately 1,355 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		Nine-month periods ended	
	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2013	Sept. 30, 2012
Net income for the period	27,663	20,683	72,846	56,524
Plus:				
Provision for income taxes	8,312	9,309	28,376	26,010
Financial expenses	<u>2,575</u>	<u>1,807</u>	<u>7,958</u>	<u>5,935</u>
Operating income	38,550	31,799	109,180	88,469
Depreciation and amortization	<u>3,966</u>	<u>2,663</u>	<u>12,128</u>	<u>7,661</u>
EBITDA	42,516	34,462	121,308	96,130

FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended September 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.

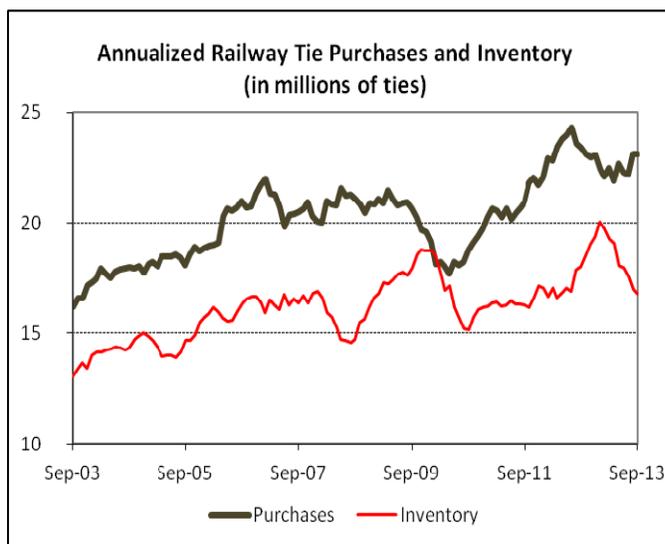
Cdn\$/US\$	2013		2012	
	Average	Closing	Average	Closing
Third Quarter	1.0440	1.0303	1.0022	0.9832

INDUSTRY OVERVIEW

Railway ties

As reported by the Railway Tie Association, railway tie purchases for the first nine months of 2013 amounted to 18.6 million ties, stable from a year earlier. As a result, industry purchases for the 12-month period ended September 30, 2013 reached 23.1 million ties. Meanwhile, industry inventory stood at 16.8 million ties as at September 30, 2013. Accordingly, the inventory-to-sales ratio was 0.73:1, below the previous ten-year average ratio of 0.80:1.

According to data released by the Association of American Railroads, total traffic on North American railroads rose 1.6% in the first nine months of 2013. While the number of carloads was essentially stable, the volume of intermodal trailers and containers was up 3.6% from 2012 levels.



Source: Railway Tie Association

SUBSEQUENT EVENTS

4-for-1 share split

On October 1, 2013, Stella-Jones announced that its Board of Directors approved a 4-for-1 share split of its outstanding common shares. The 4-for-1 share split took the form of a share dividend whereby shareholders received three additional common shares for each common share held. The record date for the share dividend was October 21, 2013 and the payment date was October 25, 2013.

In this MD&A, all references to common shares issued and outstanding, stock options outstanding, as well as per share data, reflect the 4-for-1 share split.

Agreement to acquire wood treating facilities in Oregon, Nevada and Arizona

On October 8, 2013, the Company announced that it had signed a definitive agreement to acquire, through its wholly-owned U.S. subsidiaries, substantially all of the operating assets employed in the businesses of Arizona Pacific Wood Preserving, Inc., Nevada Wood Preserving, Inc. and Pacific Wood Preserving of Oregon, Inc. (commonly referred to as The Pacific Wood Preserving Companies®) conducted at their wood treating plants in Oregon, Nevada and Arizona and their wood concentration yard in Texas. These businesses consist of the manufacture of treated wood utility poles and railway ties, along with a variety of lumber related products. Sales for the fiscal year ended October 31, 2012 reached approximately US\$52.4 million. The assets of Pacific Wood Preserving of Bakersfield, Inc. are not being acquired and existing shareholders will continue to own this operating business.

The definitive agreement provides for a purchase price of approximately US\$33.0 million plus the sellers' net working capital at closing (estimated at approximately US\$24.0 million). The transaction is expected to close in November 2013 and is subject to satisfactory completion of environmental due diligence, assignment of certain governmental authorizations and permits and other customary closing conditions. Stella-Jones plans to finance the acquisition through a combination of its existing credit facilities and a vendor note of US\$7.0 million.

OPERATING RESULTS

Sales

Sales for the quarter ended September 30, 2013 totalled \$268.1 million, up 37.2% over last year's sales of \$195.4 million for the same period. The operating facilities acquired from McFarland Cascade Holdings, Inc. ("McFarland") on November 30, 2012 contributed sales of approximately \$86.2 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 \$4.7 million on the value of U.S. dollar denominated sales when compared with the previous year's third quarter. Excluding these factors, sales decreased approximately \$18.2 million due to lower railway tie sales, as detailed below.

For the nine-month period ended September 30, 2013, sales amounted to \$758.3 million, up 35.9% from \$558.1 million in the nine-month period ended September 30, 2012. The operating facilities acquired from McFarland contributed sales of approximately \$226.1 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 \$7.1 million. Excluding these factors, sales decreased approximately \$33.0 million.

Sales by product category

Railway ties

Railway tie sales for the third quarter of 2013 reached \$99.4 million, compared with sales of \$114.7 million in the third quarter of 2012. This decrease mainly reflects the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, whereby the customer purchases an integrated product and service offering from the Company. The transition is expected to create a lag effect on sales to this customer until the first quarter of 2014. Meanwhile, wood treatment operations began as scheduled at the new Cordele, Georgia facility, which contributed sales of approximately \$2.3 million during the third quarter of 2013. Railway tie sales accounted for 37.1% of the Company's third-quarter sales. For the first nine months of 2013, railway tie sales totalled \$315.7 million versus \$330.8 million in the first nine months of 2012.

Utility poles

Utility pole sales amounted to \$112.8 million in the third quarter of 2013, up \$59.7 million from sales of \$53.1 million in the corresponding period in 2012. The increase is mainly attributable to utility pole sales of \$59.9 million from the McFarland operations. Excluding the latter, utility pole sales remained stable. Utility pole sales accounted for 42.1% of the Company's total sales in the third quarter of 2013. For the nine-month period ended September 30, 2013, sales of utility poles reached \$298.7 million, up from \$148.3 million in the nine-month period ended September 30, 2012. The increase is essentially due to a contribution of approximately \$156.5 million from the McFarland operations.

Residential lumber

Sales in the residential lumber category totalled \$39.3 million in the third quarter of 2013, up from \$12.3 million a year earlier. The increase reflects additional residential lumber sales of \$25.0 million from the McFarland operations. Excluding the latter, sales increased primarily due to solid demand for residential lumber in southern Alberta subsequent to flooding earlier in the year. Residential lumber accounted for 14.7% of Stella-Jones' sales in the third quarter of 2013. For the nine-month period ended September 30, 2013, residential lumber sales amounted to \$98.5 million, up from \$30.4 million a year earlier, driven by a \$65.8 million contribution from the McFarland operations.

Industrial products

Industrial product sales totalled \$16.5 million in the third quarter of 2013, compared with \$15.4 million in the third quarter of 2012. This variation mainly reflects a \$1.3 million contribution from the McFarland operations. Industrial products represented 6.2% of sales in the three-month period ended September 30, 2013. In the first nine months of 2013, industrial product sales were \$45.4 million, down from \$48.6 million in the first nine months of 2012.

Sales by destination

Sales in the United States amounted to \$209.1 million, or 78.0% of sales, in the third quarter of 2013, representing an increase of \$81.8 million, or 64.2%, over the corresponding period in 2012. The year-over-year increase is mainly attributable to an \$85.3 million contribution from McFarland's U.S.-based operations. For the first nine months of 2013, sales in the United States reached \$593.9 million, up \$216.0 million, or 57.1%, from \$378.0 million in the first nine months of 2012.

Meanwhile, sales in Canada in the third quarter of 2013 were \$59.0 million, representing 22.0% of Stella-Jones' total sales, down from \$68.1 million in the third quarter of 2012. The year-over-year sales variation reflects lower sales of railway ties and utility poles, explained by timing differences on special projects, partially offset by a \$0.9 million contribution from McFarland's Canadian operations. For the first nine months of 2013, sales in Canada totalled \$164.4 million, versus \$180.2 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 \$214.9 million, or 80.2% of sales, for the three-month period ended September 30, 2013. This compares with \$152.6 million, or 78.1% of sales, in the three-month period ended September 30, 2012. The increase in absolute dollars essentially reflects the addition of the McFarland operations, while the increase as a percentage of sales results from a less favourable product mix and higher shipping costs due to unexpected strong demand for residential lumber in southern Alberta. These costs stemmed from greater shipments from Stella-Jones' eastern Canada facilities to adequately meet customer requirements. Reflecting the McFarland acquisition, depreciation and amortization charges reached \$4.0 million for the third quarter of 2013, up from \$2.7 million in the corresponding period of 2012. As a result, gross profit stood at \$53.1 million, or 19.8% of sales, in the third quarter of 2013, versus \$42.8 million, or 21.9% of sales, in the third quarter of 2012.

For the nine-month period ended September 30, 2013, cost of sales was \$604.2 million, or 79.7% of sales, versus \$439.5 million, or 78.7% of sales in the nine-month period ended September 30, 2012. Depreciation and amortization charges totalled \$12.1 million in the first nine months of 2013, up from \$7.7 million a year earlier. As a result, gross profit reached \$154.1 million, or 20.3% of sales, in the first nine months of 2013, compared with \$118.7 million, or 21.3% of sales, in the first nine months of 2012.

Selling and administrative

Selling and administrative expenses for the three- and nine-month periods ended September 30, 2013 were \$14.3 million and \$42.5 million, respectively, compared with expenses of \$11.4 million and \$29.9 million, respectively, in the three- and nine-month periods ended September 30, 2012. These increases are mainly attributable to the addition of the McFarland operations. As a percentage of sales, selling and administrative expenses were 5.3% and 5.6% of sales, respectively, in the three- and nine-month periods ended September 30, 2013, compared to 5.8% and 5.4%, respectively, in the three- and nine-month periods ended September 30, 2012.

Other losses (gains), net

Stella-Jones' other net losses of \$270,000 for the three-month period ended September 30, 2013 are primarily related to foreign exchange. Last year's net gain of \$349,000 was also mostly related to foreign exchange. For the first nine months of 2013, other net losses amounted to \$2.4 million, reflecting a loss recorded in the second quarter of 2013 related to the disposal of property, plant and equipment totalling \$2.4 million, essentially resulting from the disposal of surplus assets at certain facilities acquired in prior years. In the nine-month period ended September 30, 2012, net losses stood at \$303,000.

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 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 \$2.6 million and \$8.0 million, respectively, for the three- and nine-month periods ended September 30, 2013, up from \$1.8 million and \$5.9 million, respectively, for the three- and nine-month periods ended September 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 \$36.0 million, or 13.4% of sales, in the third quarter of 2013. This represents an increase of 19.9% over income before income taxes of \$30.0 million, or 15.3% of sales, in the third quarter of 2012. The provision for income taxes totalled \$8.3 million in the third quarter of 2013, representing an effective tax rate of 23.1%, compared with an income tax expense of \$9.3 million, equivalent to an effective tax rate of 31.0%, in the third quarter of 2012. The lower effective tax rate for 2013 is mainly attributable to a variation in U.S. tax true-up adjustments between the two periods compared and to a deduction, for Canadian income tax purposes, of dividends received from a related party.

For the first nine months of 2013, income before income taxes stood at \$101.2 million, or 13.3% of sales, while the provision for income taxes amounted to \$28.4 million, representing an effective tax rate of 28.0%. In the first nine months of 2012, income before income taxes reached \$82.5 million, or 14.8% of sales, while the provision for income taxes amounted to \$26.0 million, representing an effective tax rate of 31.5%.

Net income

Net income for the three-month period ended September 30, 2013 reached \$27.7 million, or \$0.40 per share, fully diluted, compared with \$20.7 million, or \$0.32 per share, fully diluted, in the three-month period ended September 30, 2012. This represents a year-over-year increase in net income of 33.7%.

For the nine-month period ended September 30, 2013, net income rose 28.9% to \$72.8 million, or \$1.05 per share, fully diluted, up from \$56.5 million, or \$0.88 per share, fully diluted, in the nine-month period ended September 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 eleven 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	268,087		
Operating income before depreciation of property, plant and equipment and amortization of intangible assets ¹	33,875	44,917	42,516		
Operating income ¹	29,671	40,959	38,550		
Net income for the period	18,757	26,426	27,663		
Earnings per common share					
Basic	0.27	0.38	0.40		
Diluted	0.27	0.38	0.40		

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	0.24	0.33	0.32	0.25	1.14
Diluted	0.23	0.32	0.32	0.25	1.13

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	0.13	0.27	0.26	0.21	0.87
Diluted	0.13	0.27	0.26	0.21	0.87

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 September 30, 2013, total assets reached \$980.4 million, 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 \$542.9 million as at September 30, 2013 compared with \$534.9 million as at December 31, 2012. This variation of \$8.0 million is due to an increase in the value of accounts receivable and inventories, partially offset by decreases in cash.

The value of accounts receivable was \$128.9 million as at September 30, 2013, compared with \$89.6 million as at December 31, 2012. The variation reflects higher sales volumes in the third quarter when compared to the fourth quarter of 2012.

Inventories stood at \$403.2 million as at September 30, 2013, down from \$413.4 million as at December 31, 2012. This decrease mainly reflects normal seasonal demand patterns as well as efficiencies resulting from the integration of McFarland.

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 \$203.7 million as at September 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 (\$18.7 million) exceeding depreciation (\$5.8 million) for the nine-month period ended September 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 \$88.9 million and \$141.8 million, respectively, as at September 30, 2013. Intangible assets include customer relationships, the discounted value of 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 \$6.3 million in the first nine 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 September 30, 2013, Stella-Jones' total liabilities stood at \$434.7 million, down from \$487.1 million as at December 31, 2012. This variation mainly reflects decreases in the value of current liabilities and long-term debt.

The value of current liabilities was \$62.6 million as at September 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 \$7.7 million decline in the value of accounts payable and accrued liabilities and a \$5.7 million decrease in the current portion of long-term debt.

The Company's long-term debt, including the current portion, was \$318.4 million as at September 30, 2013, versus \$349.6 million as at December 31, 2012. The decrease essentially reflects lower working capital requirements in the third quarter of 2013. As at September 30, 2013, an amount of \$279.4 million was drawn against the Company's committed revolving credit facility of \$370.0 million.

Shareholders' equity

Shareholders' equity rose to \$545.7 million as at September 30, 2013 compared with \$468.8 million as at December 31, 2012. This increase is mainly attributable to net income of \$72.8 million as well as a positive variation of \$11.2 million in the value of the accumulated other comprehensive gain (loss), partially offset by dividend payments on common shares of \$10.3 million. Book value stood at \$7.94 per common share as at September 30, 2013, up from \$6.83 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 (thousands of dollars)	<u>Three-Month Periods Ended</u>		<u>Nine-Month Periods Ended</u>	
	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2013	Sept. 30, 2012
Operating activities	\$65,321	\$11,660	\$80,335	\$7,430
Financing activities	(\$52,673)	(\$4,772)	(\$67,642)	\$2,970
Investing activities	<u>(\$12,648)</u>	<u>(\$6,888)</u>	<u>(\$26,693)</u>	<u>(\$10,400)</u>
Net change in cash and cash equivalents during the period	\$---	\$---	(\$14,000)	\$---
Cash and cash equivalents - beginning	<u>\$---</u>	<u>\$---</u>	<u>\$14,000</u>	<u>\$---</u>
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 taxes paid was \$43.5 million for the three-month period ended September 30, 2013, compared with \$35.3 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 provided liquidity of \$34.4 million in the third quarter of 2013 driven by decreases of \$10.6 million and \$14.6 million, respectively, in accounts receivable and inventories during the period. In the third quarter of 2012, changes in non-cash working capital components had used liquidity of \$13.2 million. Interest and income taxes paid further reduced liquidity by \$1.6 million and \$11.1 million, respectively, in the third quarter of 2013, versus \$0.9 million and \$9.5 million, respectively, a year earlier. As a result, cash flows provided by operating activities were \$65.3 million in the third quarter of 2013, versus \$11.7 million in the third quarter of 2012.

For the nine-month period ended September 30, 2013, cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid stood at \$126.0 million, up from \$98.4 million in the nine-month period ended September 30, 2012. Changes in non-cash working capital components required liquidity of \$18.5 million in the first nine months of 2013, compared with a liquidity reduction of \$58.6 million during the first nine months of 2012. Interest and income taxes paid reduced liquidity by \$7.3 million and \$19.8 million, respectively, in the first nine months of 2013, versus \$4.8 million and \$27.6 million, respectively, a year earlier. Consequently, cash flows provided by operating activities amounted to \$80.3 million in the first nine months of 2013, compared with \$7.4 million in the first nine months of 2012.

Financing activities for the quarter ended September 30, 2013 required funds of \$52.7 million due to a \$48.9 million reduction in long-term debt as a result of lower working capital requirements, and the payment of dividends on common shares of \$3.4 million. For the quarter ended September 30, 2012, financing activities reduced liquidity by \$4.8 million.

In the first nine months of 2013, financing activities reduced liquidity by \$67.6 million, as opposed to providing liquidity of \$3.0 million in the first nine months of 2012.

Investing activities used \$12.6 million in liquidity during the third quarter of 2013. Purchases of property, plant and equipment, primarily for the addition of various equipment upgrades and incremental capacity, required an investment of \$6.9 million during the third quarter of 2013, including \$2.0 million to complete the construction of a new treating facility in Cordele, Georgia and an amount of \$0.9 million for a new treating cylinder at the New Westminster, British Columbia facility. For the quarter ended September 30, 2012, cash flows from investing activities decreased liquidity by \$6.9 million.

For the nine-month period ended September 30, 2013, investing activities reduced liquidity by \$26.7 million, versus a liquidity reduction of \$10.4 million in the nine-month period ended September 30, 2012.

The following table details the maturities of the financial obligations as at September 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	58,102	58,102	58,102	-	-	-
Long-term debt obligations	318,378	346,830	8,343	51,296	280,873	6,318
Net settled interest rate swaps	-	4,515	1,491	2,316	708	-
Minimum payments under operating lease obligations	-	54,244	11,490	17,548	9,437	15,769
Non-compete agreements	1,755	1,896	1,141	497	258	-
Total	378,235	465,587	80,567	71,657	291,276	22,087

SHARE AND STOCK OPTION INFORMATION

(As restated to consider the share split)

As at September 30, 2013, the capital stock issued and outstanding consisted of 68,691,608 common shares (68,673,700 as at December 31, 2012). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2013:

Number of shares (in '000s)	Three-month Period Ended September 30, 2013	Nine-month Period Ended September 30, 2013
Balance – Beginning of period	68,685	68,674
Stock option plan	-	-
Employee share purchase plans	7	18
Balance – End of period	68,692	68,692

As at November 7, 2013, the capital stock issued and outstanding consisted of 68,691,608 common shares.

As at September 30, 2013, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 550,400 (December 31, 2012 – 520,400) of which 410,800 (December 31, 2012 – 398,800) were exercisable. As at November 7, 2013, the number of outstanding options was 550,400, of which 410,800 were exercisable.

DIVIDENDS

On November 7, 2013, the Board of Directors declared a quarterly dividend of \$0.05 per common share payable on December 20, 2013 to shareholders of record at the close of business on December 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 over the upcoming quarters. 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 September 30, 2013, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at September 30, 2013, an amount of \$279.4 million had been drawn against the Company's committed revolving credit facility of \$370.0 million.

Accounts receivable increased during the first nine months of 2013, reflecting higher sales. 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 decreased slightly during the first nine months of 2013 due to normal seasonal demand patterns as well as efficiencies resulting from the integration of McFarland. 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 September 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 September 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 (1992) (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 September 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 July 1, 2013 to September 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 September 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 September 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:

Nine-month period ended September 30, 2013

(thousands of dollars)

	\$
Sales	226,079

As at September 30, 2013

(thousands of dollars)

	\$
Current assets	161,831
Non-current assets	135,366
Current liabilities	15,652
Non-current liabilities	8,858

OUTLOOK

Management expects demand for the Company's core products to remain healthy over the upcoming quarters. 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. However, the aforementioned transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program will create a lag effect on sales to this customer until the first quarter of 2014. Management is pleased with this opportunity to demonstrate its ability to provide a comprehensive offering to this customer.

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 create value for its shareholders by leveraging 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.

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 and provide synergistic opportunities, as evidenced by the proposed acquisition of three wood treating facilities in Oregon, Nevada and Arizona. Should this transaction be completed, the Company believes it will benefit from greater market penetration, synergies and additional operating efficiencies from a larger network.

November 7, 2013