MANAGEMENT'S DISCUSSION & ANALYSIS

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.

This MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee and the Board of Directors on March 13, 2014. The MD&A provides a review of the significant developments and results of operations of the Company during the fiscal year ended December 31, 2013 compared with the fiscal year ended December 31, 2012. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2013 and 2012 and the notes thereto.

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.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Chartered Professional Accountants Canada Handbook Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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 December 31, 2013, the Company operates twenty-seven wood treating plants, ten pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and seventeen American states and are complemented by an extensive distribution network across North America. As at December 31, 2013, Stella-Jones' workforce numbered approximately 1,450 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 operating activities before changes in non-cash working capital components and interest and income taxes paid are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors regarding the Company's financial condition and operating results as they provide additional measures of its performance.

Reconciliation of EBITDA and operating income to net income

	Three-month periods ended		Fiscal years ended	
(thousands of dollars)	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012
Net income for the period	**19,690**	16,546	**92,536**	73,070
Plus:				
Provision for income taxes	**6,895**	2,197	**35,271**	28,207
Financial expenses	**2,934**	2,384	**10,892**	8,319
Operating income	**29,519**	21,127	**138,699**	109,596
Depreciation and amortization	**4,194**	3,044	**16,322**	10,705
EBITDA	**33,713**	24,171	**155,021**	120,301

MAJOR ACHIEVEMENTS OF 2013

Stella-Jones recorded a solid performance in the year ended December 31, 2013. The Company proceeded with further network expansion through a strategic acquisition and the completion of the construction of a new wood treating facility in Georgia. On the operating front, Stella-Jones recorded record sales and net income, while concluding the year in a healthy financial position. Going forward, Stella-Jones will focus on executing its operating strategy based on continental expansion in its core railway tie and utility pole markets.

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.

Network expansion

On November 15, 2013, Stella-Jones completed, through its wholly-owned U.S. subsidiaries, the acquisition of 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® ["PWP"]) 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 PWP's fiscal year ended October 31, 2013 reached approximately US$60.3 million.

The purchase price was approximately US$33.0 million, plus the sellers' net working capital at closing, estimated at approximately US$23.1 million, subject to post-closing adjustments. Stella-Jones financed the acquisition through a combination of its existing committed revolving credit facility and a vendor note of US$7.0 million.

During 2013, Stella-Jones completed the construction of a new wood treating facility in Cordele, Georgia, approximately 225 kilometers south of Atlanta. The project represented a total investment of approximately US$12.2 million, of which US$7.7 million was spent in 2013. This facility is primarily devoted to the production of railway ties. Initial wood trimming activities began in February 2013, while treating activities started in August 2013.

Operating results

Sales for the year ended December 31, 2013 reached $970.1 million, up 35.2% from last year's sales of $717.5 million. The operating facilities acquired from McFarland Cascade Holdings, Inc. ("McFarland") on November 30, 2012 contributed additional sales of $275.4 million over an eleven-month period, net of production transferred from other Stella-Jones facilities, while the assets acquired from PWP on November 15, 2013 generated sales of approximately $4.1 million in the fourth quarter of 2013. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $12.9 million when compared with the previous year. Excluding these factors, sales decreased approximately $39.8 million due to a timing effect of $30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a treating services only ("TSO") program to a black tie ("Black Tie") program, as detailed hereafter in the railway tie sales section and to the year-over-year timing difference for certain utility pole orders.

Stella-Jones' annual operating income reached $138.7 million, or 14.3% of sales, in 2013. This represents a 26.6% increase over $109.6 million, or 15.3% of sales, in the prior year. As a result, net income for the year grew 26.6% to $92.5 million, or $1.34 per share, fully diluted, compared with $73.1 million, or $1.13 per share, fully diluted, a year ago. The Company generated a solid 17.8% return on average equity in 2013.

Stella-Jones produced strong cash flows in 2013 with cash flow from operating activities, before changes in non-cash working capital components and interest and income taxes paid, amounting to $160.6 million, up 33.0% from $120.8 million in 2012. This performance allowed the Company to maintain a sound financial position and to increase its annual dividend payout for the ninth consecutive year. Although the PWP acquisition was mostly financed through the Company's existing committed revolving credit facility, and completed shortly before year end, Stella-Jones' total debt to total capitalization ratio improved to 0.39:1 as at December 31, 2013, versus 0.44:1 twelve months earlier.

SELECTED ANNUAL FINANCIAL INFORMATION (years ended December 31)

Income	**2013**	2012	2011
(thousands of dollars, except per share data)	**$**	$	$
Sales	**970,149**	717,494	640,148
Operating income	**138,699**	109,596	87,968
Net income	**92,536**	73,070	55,709
Basic earnings per common share	**1.35**	1.14	0.87
Diluted earnings per common share	**1.34**	1.13	0.87

Financial Position	**2013**	2012	2011
(thousands of dollars)	**$**	$	$
Current assets	**581,896**	534,863	330,519
Total assets	**1,071,923**	955,863	617,056
Long-term debt*	**372,891**	349,608	180,094
Total debt**	**372,891**	363,608	182,679
Shareholders' equity	**572,183**	468,751	331,912

* Including current portion

** Including short-term bank indebtedness

KEY PERFORMANCE INDICATORS

For the years ended December 31	2013	2012	2011
Operating margin	**14.3%**	15.3%	13.7%
Return on average equity	**17.8%**	18.3%	18.2%
Working capital ratio	**8.97**	5.94	5.77
Total debt to total capitalization	**0.39:1**	0.44:1	0.35:1
Total debt to trailing 12-month EBITDA	**2.41**	3.02	1.89
Dividend per share	**0.20**	0.16	0.13

FOREIGN EXCHANGE

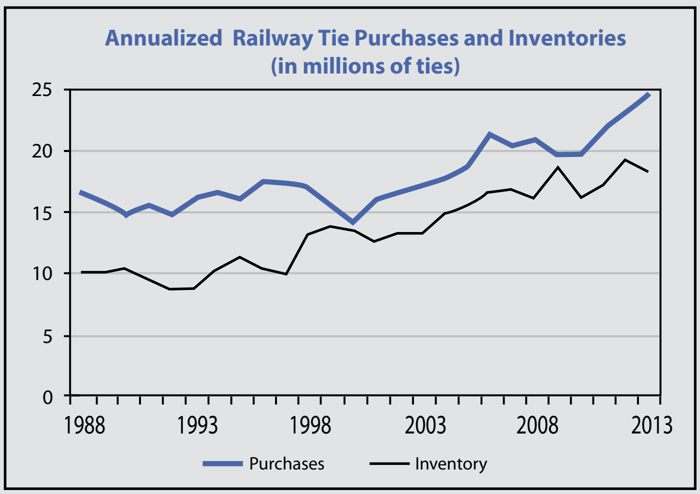
The table below shows exchange rates applicable to the years ended December 31, 2013 and 2012. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	2013		2012	
	Average	**Closing**	Average	Closing
First Quarter	**1.0079**	**1.0160**	1.0031	0.9975
Second Quarter	**1.0201**	**1.0518**	1.0061	1.0181
Third Quarter	**1.0440**	**1.0303**	1.0022	0.9832
Fourth Quarter	**1.0450**	**1.0636**	0.9919	0.9949
Fiscal Year	**1.0292**	**1.0636**	1.0008	0.9949

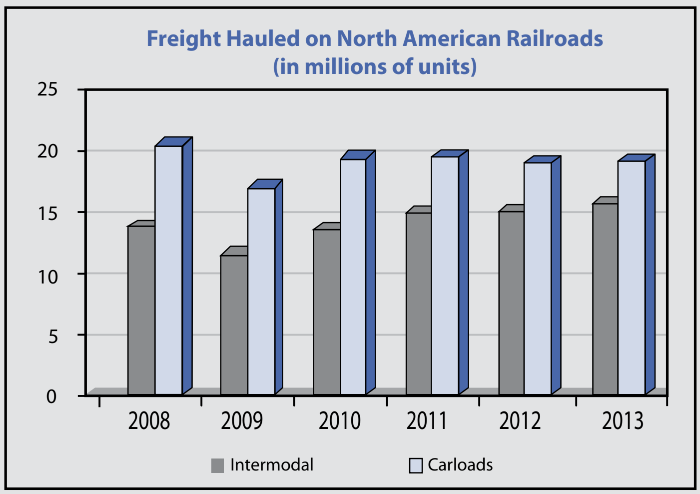
INDUSTRY OVERVIEW

Railway ties

As reported by the Railway Tie Association, railway tie purchases for 2013 rose 6.9% to reach 24.7 million ties, the highest annual total in the last 25 years. This solid demand, combined with a regular production output, resulted in an inventory-to-sales ratio of 0.74:1, as at December 31, 2013, down from 0.84:1 twelve months earlier, and slightly below the average ratio of the last ten years.



Source: Railway Tie Association



Source: Association of American Railroads

In the last decade, volatile fuel prices and persistent highway congestion have increasingly caused shippers to favour rail, a more fuel efficient transportation mode, over trucks. The resulting increase in rail transportation volume, combined with an aging infrastructure, yielded greater demand for products and services related to the modernization and extension of the North American rail network, including railway ties.

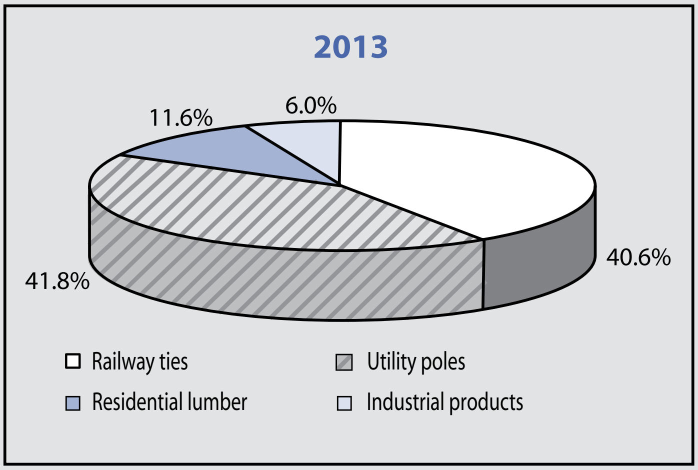
Despite weak economic growth, total traffic on North American railroads increased by 2.1% in 2013, according to data released by the Association of American Railroads. While the number of intermodal trailers and containers was up 4.4% from 2012 levels, the volume of carloads increased by 0.2% in 2013, as higher shipments of petroleum products offset lower shipments of coal and grain.

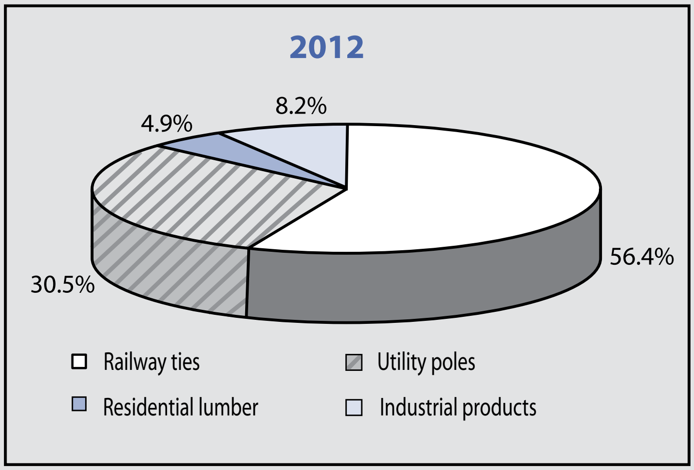
OPERATING RESULTS

Sales

Sales for the year ended December 31, 2013 reached $970.1 million, up 35.2% over last year's sales of $717.5 million. The operating facilities acquired from McFarland on November 30, 2012 contributed additional sales of $275.4 million over an eleven-month period in 2013, net of production transferred from other Stella-Jones facilities, while the assets acquired from PWP on November 15, 2013 generated sales of approximately $4.1 million in the fourth quarter of 2013. The conversion effect from fluctuations in the value of the Canadian dollar, Stella-Jones' reporting currency, versus the U.S. dollar, increased the value of U.S. dollar denominated sales by about $12.9 million when compared with the previous year. Excluding these factors, sales decreased approximately $39.8 million due to a timing effect of $30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program, as detailed below, and to the year-over-year timing difference for certain utility pole orders.

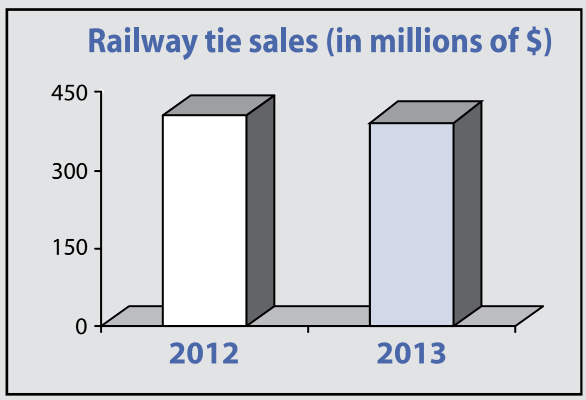
Sales by product category (% of sales)





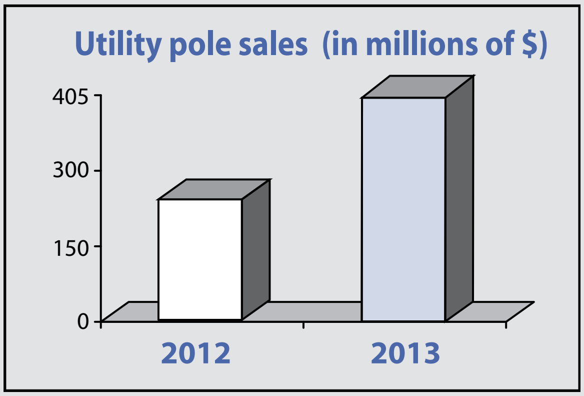
Railway ties

Railway tie sales for 2013 amounted to $394.0 million, versus $404.5 million in 2012. This decrease of $10.5 million, or 2.6%, mainly reflects a timing effect of $30.9 million on railway tie sales resulting from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program. A TSO program is characterized by the customer owning the wood raw material and Stella-Jones providing the transformation service of the raw material into a finished product. In a Black Tie program, the customer is not involved in the process and purchases a finished product from Stella-Jones. This transition is mostly complete and should have a minimal impact on results in the first quarter of 2014. Thereafter, annualized sales to that customer should be greater than the timing effect on 2013 results, due to more value added under the Black Tie program. Excluding this timing effect, railway tie sales rose approximately $20.4 million, or 5.0%. Railway tie sales accounted for 40.6% of the Company's total sales in 2013.



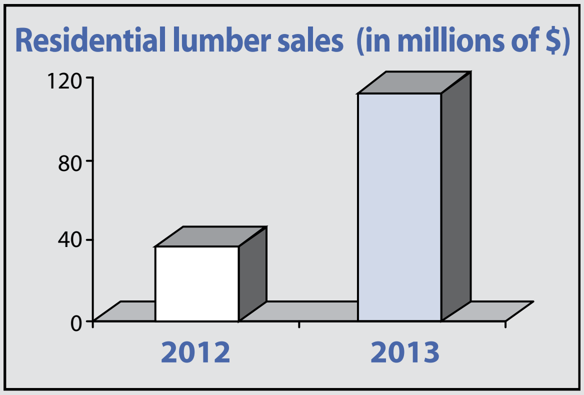
Utility poles

Utility pole sales reached $405.8 million in 2013, up $187.3 million, or 85.7% over sales of $218.5 million in 2012. This increase is essentially attributable to additional utility pole sales of $197.9 million, net of transfers from other Stella-Jones facilities, from the McFarland operations over an eleven-month period. Excluding the latter, utility pole sales declined slightly, mainly reflecting the year-over-year timing difference for certain orders. Utility pole sales accounted for 41.8% of the Company's total sales in 2013.



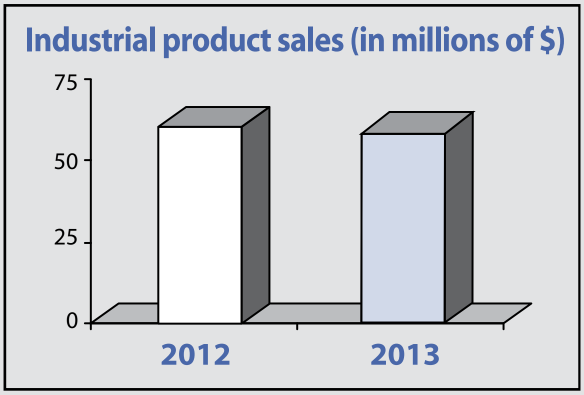
Residential lumber

Sales in the residential lumber category totalled $112.3 million in 2013, up from $35.5 million in 2012. This $76.8 million increase essentially reflects net additional residential lumber sales of $73.8 million from the McFarland operations. McFarland sells residential lumber products to approximately 120 home renovation centres in the U.S. Northwest. To a lesser extent, the year-over-year increase also reflects stronger demand in southern Alberta subsequent to flooding in June 2013. Residential lumber accounted for 11.6% of Stella-Jones' sales in 2013.

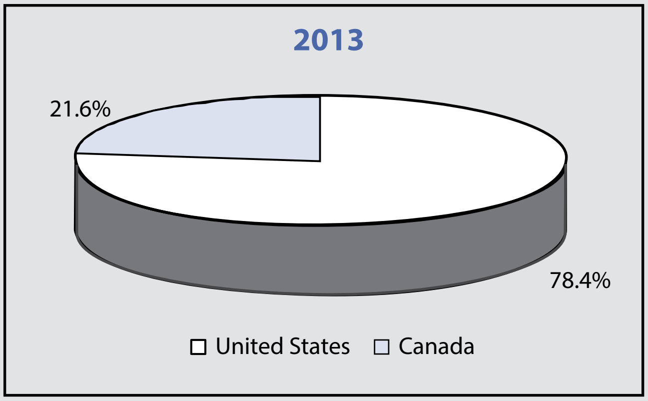


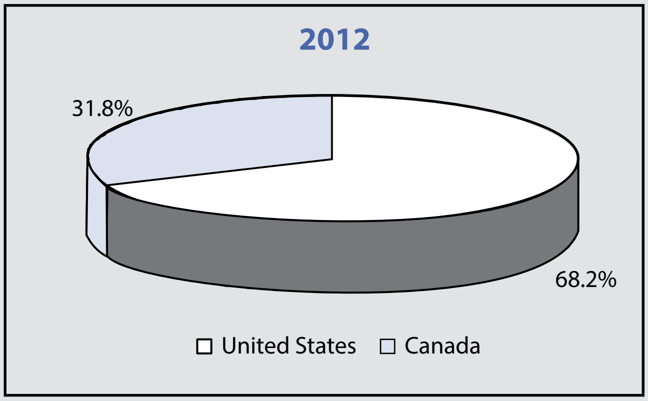
Industrial products

Industrial product sales were $58.1 million in 2013, compared with $59.0 million in 2012. This slight decline is mainly attributable to a planned phase-out in the tie recycling business and a year-over-year decrease in the number of rail projects requiring industrial products. These factors were partially offset by a $3.7 million net contribution from the McFarland operations. Excluding these factors, demand remained steady for the balance of the Company's principal products in this category for both Canada and the United States. Industrial products represented 6.0% of sales in 2013.



Sales by geographic region (% of sales)





Sales in the United States amounted to $761.0 million, or 78.4% of sales, in 2013, representing an increase of $271.8 million, or 55.6%, over 2012. The year-over-year increase mainly reflects an additional contribution of $268.8 million over an 11-month period from McFarland's U.S.-based operations, the acquisition of PWP and a higher conversion rate on U.S. dollar denominated sales.

Sales in Canada in 2013 decreased $19.2 million, or 8.4%, to $209.2 million, representing 21.6% of Stella-Jones' total sales. The variation is attributable to lower sales of railway ties and utility poles, the latter mainly due to the year-over-year timing difference in orders, partially offset by higher residential lumber sales and a $6.6 million contribution from McFarland's Canadian operations.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $772.8 million, or 79.7% of sales, in 2013. This compares with $565.7 million, or 78.8% of sales, in 2012. The increase in absolute dollars essentially reflects the addition of the McFarland operations, as well as a higher average rate applied to convert U.S. dollar denominated costs. The increase as a percentage of sales is mainly due to a less favourable product mix and McFarland's lower margins at the beginning of the year. Reflecting a successful integration, margins at McFarland progressively improved during the year and their facilities further contributed to enhance efficiency throughout Stella-Jones' plant network.

Depreciation and amortization charges totalled $16.3 million for the year ended December 31, 2013, versus $10.7 million in the year ended December 31, 2012. The increase is mainly attributable to the depreciation and amortization charges related to the tangible and intangible assets of McFarland.

As a result, gross profit reached $197.3 million or 20.3% of sales in 2013, up from $151.8 million or 21.2% of sales in 2012.

Selling and administrative

Selling and administrative expenses for 2013 were $57.2 million, or 5.9% of sales, compared with expenses of $42.5 million, or 5.9% of sales, in 2012. The increase in monetary terms is mainly attributable to the addition of the McFarland operations for an additional 11-month period.

This year's selling and administrative expenses included approximately $1.2 million in acquisition costs directly related to the PWP transaction. Last year's selling and administrative expenses included approximately $4.1 million in acquisition costs, of which $3.0 million were related to the McFarland transaction.

Other losses (gains), net

Stella-Jones' other net losses of $1.5 million for the year ended December 31, 2013 included a $2.8 million loss on the disposal of assets, partially offset by a gain of $660,000 on the sale of certain tie recycling assets and by a foreign exchange gain of $707,000. In 2012, other net gains of $313,000 included a $1.6 million gain on the revaluation of assets previously held in a joint venture now wholly owned by the Company, and a foreign exchange gain of $891,000, partially offset by net losses of $2.2 million on asset disposals at several facilities.

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 ("SJ Holding"), 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 reached $10.9 million in 2013, up from $8.3 million in 2012. This increase in financial expenses is due to higher year-over-year average borrowings as a result of the acquisitions of McFarland on November 30, 2012 and of PWP on November 15, 2013.

Income before income taxes and income tax expenses

Stella-Jones generated income before income taxes of $127.8 million, or 13.2% of sales, in 2013. This represents an increase of 26.2% over income before income taxes of $101.3 million, or 14.1% of sales, in 2012.

Stella-Jones' provision for income taxes totalled $35.3 million in 2013, representing an effective tax rate of 27.6%. In 2012, the income tax expenses stood at $28.2 million, equivalent to an effective tax rate of 27.9%. The slightly lower effective tax rate for 2013 is mainly attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

Net income

Net income for the year ended December 31, 2013 reached $92.5 million, or $1.34 per share, fully diluted, compared with $73.1 million, or $1.13 per share, fully diluted, in 2012. This represents a year-over-year increase in net income of 26.6%.

BUSINESS ACQUISITION

On November 15, 2013, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the businesses of PWP. These businesses consist of the manufacture of treated wood utility poles and railway ties, along with a variety of lumber-related products and were acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $48.8 million (US$46.8 million), excluding acquisition costs of approximately $1.2 million (US$1.2 million), recognized in the consolidated statement of income under selling and administrative expenses.

The following fair value determination of the assets acquired and liabilities assumed is preliminary and is based on Management's best estimates and information known at the time of preparing the consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets, goodwill and consideration receivable.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(tabular information presented in thousands of dollars)	$
Assets acquired	
Non-cash working capital	25,751
Property, plant and equipment	19,591
Customer relationships	4,241
Customer backlog	125
Goodwill	10,409
	60,117
Liabilities assumed	
Accounts payable and accrued liabilities	939
Site remediation provision	1,300
Total net assets acquired and liabilities assumed	**57,878**
Consideration transferred	
Cash	48,849
Unsecured promissory note	6,545
Consideration payable for the purchase of certain assets of the Nevada plant	3,134
Consideration receivable	(650)
Consideration transferred	**57,878**

The Company's valuation of intangible assets has identified customer relationships and customer backlog. The assigned useful lives are 20 years for customer relationships and 4 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is amortized and deductible for U.S. tax purposes, and represents the future economic value associated with the increased distribution network, acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to cash generating units, which are defined as plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties. In the case of the PWP acquisition, goodwill values of $9.7 million and $663,000 are allocated to plants specialized in the treatment of utility poles and plants specialized in the treatment of railway ties, respectively. Note 8 to the consolidated financial statements provides a roll-forward of the net book value balances of intangible assets and goodwill.

The fair value of trade receivables included in non-cash working capital is $8.7 million.

Consideration receivable represents a purchase consideration adjustment related to actual net working capital. As at December 31, 2013, Management has not yet received all information required to finalize the amount receivable and therefore it is considered preliminary. Adjustments to the estimated purchase consideration, if any, will affect the amount of goodwill recognized on the acquisition date. With regards to the consideration payable for the purchase of certain assets of the Nevada plant, an equivalent amount of $3.2 million (US$3.0 million) was deposited in escrow and was recorded under cash in the consolidated statement of financial position as at December 31, 2013. On February 5, 2014, the consideration payable was settled.

Stella-Jones has financed the acquisition through a combination of its existing committed revolving credit facility and an unsecured promissory note of $7.3 million (US$7.0 million), bearing interest at 0.27% and repayable in twelve equal instalments over a 3-year period. The unsecured promissory note was fair-valued at $6.5 million (US$6.3 million) using an interest rate of 7.0%.

In the period from November 15 to December 31, 2013, PWP's sales and loss before income taxes amounted to $4.1 million and $1.7 million, respectively. On a pro forma basis, Management's estimate of sales and income before income taxes of the combined operations of the Company and PWP for the year ended December 31, 2013 would have been approximately $1.0 billion and $127.4 million respectively, had the PWP acquisition occurred as of January 1, 2013. To arrive at the pro forma estimates, Management considered the financing structure resulting from the acquisition as well as adjustments to fair value and harmonization of accounting policies. Management assumed that the fair value adjustment made at the acquisition date would have been the same had the acquisition occurred on January 1, 2013.

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.

In 2013, the Company achieved year-over-year revenue and net income growth in all quarters, driven mainly by the contribution of the McFarland operations for an additional period of eleven months. The table below sets forth selected financial information for the Company's last eight quarters ending with the most recently completed financial year:

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**	**211,862**	**970,149**
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	**33,875**	**44,917**	**42,516**	**33,713**	**155,021**
Operating income [1]	**29,671**	**40,959**	**38,550**	**29,519**	**138,699**
Net income for the period	**18,757**	**26,426**	**27,663**	**19,690**	**92,536**
Earnings per common share					
Basic	**0.27**	**0.38**	**0.40**	**0.29**	**1.35**
Diluted	**0.27**	**0.38**	**0.40**	**0.29**	**1.34**

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

[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 consolidated 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.

Fourth Quarter Results

Sales for the fourth quarter of 2013 amounted to $211.9 million, up 33.0% from $159.3 million for the same period in 2012. This increase is attributable to a $49.3 million additional contribution from the McFarland operations, net of sales transferred from other Stella-Jones facilities, over a two-month period, as well as a contribution of $4.1 million from the assets acquired from PWP on November 15, 2013. The 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 $5.8 million when compared with last year. Excluding these factors, sales decreased approximately $6.7 million, as the year-over-year timing difference for certain utility pole orders and the timing effect on sales from the transition of a Class 1 railroad customer from a TSO program to a Black Tie program more than offset solid industry demand for railway ties.

Sales of railway ties reached $78.3 million in 2013, versus $73.7 million in 2012. This increase reflects solid market demand and the contribution from the PWP acquisition, partially offset by a timing effect of $13.4 million from the ongoing transition of a Class 1 railroad customer from a TSO program to a Black Tie program. Utility pole sales rose $36.9 million to $107.1 million due to a $41.3 million additional net contribution from the McFarland operations over a two-month period and the PWP acquisition. Excluding these factors, sales declined due to the year-over-year timing difference for certain orders. Residential lumber sales reached $13.8 million, up from $5.1 million last year, mainly due to additional sales of $8.1 million from the McFarland operations. Finally, industrial product sales were $12.7 million, versus $10.4 million a year ago, as a result of higher sales of industrial timber for railway bridges.

Gross profit amounted to $43.2 million, or 20.4% of sales, in the fourth quarter of 2013, versus $33.2 million, or 20.8% of sales, in the fourth quarter of 2012. The increase in absolute dollars reflects the contribution of the McFarland operations for the full period, of PWP over a 46-day period, and a higher average rate applied to convert U.S. dollar denominated costs. Gross profit as a percentage of sales declined slightly, as a less favourable year-over-year product mix was partially offset by greater efficiencies throughout the Company's plant network.

Operating income was $29.5 million, or 13.9% of sales, in the fourth quarter of 2013, versus $21.1 million, or 13.3% of sales, in the fourth quarter of 2012. Results for the fourth quarter of 2013 include acquisition costs of $1.2 million related to the PWP transaction, while results for the fourth quarter of 2012 include acquisition costs of $2.4 million related to the McFarland transaction. Excluding these elements, operating income for the fourth quarter of 2013 was $30.7 million, or 14.5% of sales, compared with $23.5 million, or 14.8% of sales, a year earlier.

Net income for the period reached $19.7 million, or $0.29 per share, fully diluted, compared with $16.5 million, or $0.25 per share, fully diluted, last year. This represents a year-over-year increase in net income of 19.0%.

STATEMENT OF FINANCIAL POSITION

Assets

As at December 31, 2013, total assets reached $1.1 billion, up from $955.9 million as at December 31, 2012. This increase is mainly attributable to the PWP acquisition and to the effect of local currency translation on U.S.-based assets.

Current assets amounted to $581.9 million as at December 31, 2013 compared with $534.9 million at December 31, 2012. This variation is mostly attributable to increases in inventories and accounts receivable related to the PWP acquisition and to the effect of local currency translation on U.S.-based current assets.

The value of accounts receivable was $108.0 million as at December 31, 2013 compared with $89.6 million as at December 31, 2012. This increase of $18.4 million mainly reflects the acquisition of PWP shortly before year end, the timing of sales in the fourth quarter, where activity was greater in the latter stages of the period in 2013 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable.

Inventories reached $458.6 million as at December 31, 2013, up from $413.4 million on December 31, 2012. This variation is mainly due to the acquisition of PWP shortly before year end and the effect of local currency translation 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 flows from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

Property, plant and equipment stood at $234.2 million as at December 31, 2013, compared with $189.0 million as at December 31, 2012. This increase is essentially related to the PWP acquisition ($19.6 million), to purchases of property, plant and equipment for the year ($28.4 million) exceeding depreciation ($7.8 million) and to the effect of local currency translation on U.S.-based property, plant and equipment.

The value of intangible assets reached $94.0 million as at December 31, 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 were $93.1 million. The year-over-year increase is mainly explained by the acquisition of PWP ($4.4 million), a non-compete agreement with a PWP shareholder ($470,000), and the effect of local currency translation on U.S. dollar denominated intangible assets, partially offset by an amortization charge of $8.6 million for 2013.

As at December 31, 2013, the value of goodwill stood at $156.2 million, up from $135.8 million a year earlier. This $20.4 million increase in goodwill reflects the PWP acquisition ($10.4 million) and the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at December 31, 2013, Stella-Jones' total liabilities stood at $499.7 million, up from $487.1 million as at December 31, 2012, as a $25.2 million decrease in current liabilities was more than offset by increases of $26.9 million and $7.4 million, respectively, in long-term debt and deferred income taxes.

The value of current liabilities was $64.9 million as at December 31, 2013, down from $90.1 million a year earlier. This variation is essentially due to a $14.0 million decrease in bank indebtedness, representing bankers' acceptance loans that matured in January and February 2013, and a $7.8 million decrease in accounts payable and accrued liabilities. The latter reflects the inclusion, as at December 31, 2012, of certain amounts payable in connection with the McFarland acquisition.

The Company's long-term debt, including the current portion, stood at $372.9 million as at December 31, 2013, versus $349.6 million as at December 31, 2012. The increase essentially reflects the additional long-term debt required to finance the acquisition of PWP and the effect of local currency translation on U.S. dollar denominated long-term debt. On December 13, 2013, the Company's committed revolving credit facility was increased from $370.0 million to $400.0 million, while the term was extended by one year to December 2018. As at December 31, 2013, an amount of $320.4 million had been drawn against the Company's committed revolving credit facility.

Shareholders' equity

Shareholders' equity was $572.2 million as at December 31, 2013 compared with $468.8 million as at December 31, 2012. This increase is mainly attributable to net income of $92.5 million for the year and to a $21.5 million favourable variation in the value of accumulated other comprehensive gain (loss). These factors were partially offset by dividends on common shares totalling $13.7 million. Book value stood at $8.33 per common share as at December 31, 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	Fiscal years ended	
(thousands of dollars)	**December 31, 2013**	December 31, 2012
	$	$
Operating activities	**104,218**	28,516
Financing activities	**(33,783)**	163,541
Investing activities	**(81,244)**	(178,057)
Net change in cash and cash equivalents	**(10,809)**	14,000
Cash and cash equivalents - beginning	**14,000**	–
Cash and cash equivalents - end	**3,191**	14,000

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 thus considered long-term debt.

Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid was $160.6 million for the year ended December 31, 2013, up 33.0% from $120.8 million in 2012. This increase mostly reflects a higher net income for the year.

Changes in non-cash working capital components reduced liquidity by $24.3 million in 2013. Main elements of this variation include increases of $4.7 million and $8.4 million in accounts receivable and inventories, respectively, as well as a decrease of $10.4 million in accounts payable and accrued liabilities. In 2012, changes in non-cash working capital components had reduced liquidity by $48.6 million, mainly due to a $60.1 million increase in inventories.

Interest and income taxes paid further reduced liquidity by $9.1 million and $23.1 million, respectively, in 2013, versus $7.2 million and $36.5 million, respectively, a year earlier. The increase in interest paid mainly stems from higher year-over-year borrowings related to the acquisitions of McFarland and PWP. Meanwhile, the decrease in income taxes paid reflects the variation between prepaid income taxes as at December 31, 2012 and an income taxes payable balance as at December 31, 2013.

As a result, cash flows provided by operating activities were $104.2 million in 2013, versus $28.5 million in 2012.

Financing activities for the year ended December 31, 2013 required liquidity of $33.8 million. The main factors explaining this cash reduction were a $14.0 million decrease in bank indebtedness, the payment of dividends on common shares totalling $13.7 million, and a net decrease in long-term debt of $4.5 million. For the year ended December 31, 2012, financing activities had provided liquidity of $163.5 million, mainly reflecting additional debt and issuance of common shares required to finance the McFarland acquisition.

Investing activities required $81.2 million in cash during 2013. The acquisition of PWP resulted in a cash consideration of $48.8 million, while the conclusion of the McFarland acquisition required $8.7 million. In addition, purchases of property, plant and equipment, required an investment of $26.2 million, including $7.9 million (US$7.7 million) to complete construction of a new treating facility in Cordele, Georgia. In 2012, cash flows from investing activities had decreased liquidity by $178.1 million as a result of the McFarland acquisition.

The following table details the maturities of the financial obligations as at December 31, 2013:

	Carrying Amount	Contractual Cash flow	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
(in thousands of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	58,054	58,054	58,054	–	–	–
Long-term debt obligations	372,891	407,309	11,326	57,838	332,423	5,722
Interest rate swaps	1,133	4,221	1,490	2,234	497	–
Minimum payments under operating lease obligations	–	53,349	11,953	17,103	9,274	15,019
Non-compete agreements	1,752	1,862	917	785	160	–
Total	433,830	524,795	83,740	77,960	342,354	20,741

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2013, the capital stock issued and outstanding consisted of 68,697,366 common shares (68,673,700 as at December 31, 2012). The following table presents the outstanding capital stock activity for the year ended December 31, 2013:

Year Ended December 31, 2013	Number of shares (in '000s)
Balance – Beginning of year	68,674
Stock option plan	–
Employee share purchase plans	23
Balance – End of year	68,697

As at March 13, 2014, the capital stock issued and outstanding consisted of 68,750,166 common shares.

As at December 31, 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 440,400 (December 31, 2012 – 398,800) were exercisable. As at March 13, 2014, the number of outstanding options was 497,600, of which 387,600 were exercisable.

DIVIDENDS

In 2013, the Board of Directors of Stella-Jones declared the following quarterly dividends:

- $0.05 per common share payable on April 30, 2013 to shareholders of record at the close of business on April 2, 2013.
- $0.05 per common share payable on June 28, 2013 to shareholders of record at the close of business on June 3, 2013.
- $0.05 per common share payable on September 30, 2013 to shareholders of record at the close of business on September 2, 2013.
- $0.05 per common share payable on December 20, 2013 to shareholders of record at the close of business on December 2, 2013.

Subsequent to the end of the year, on March 13, 2014, the Board declared a quarterly dividend of $0.07 per common share payable on April 30, 2014 to shareholders of record at the close of business on April 2, 2014.

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 Company is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of Management that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's financial position or results of operations.

The Company has issued guarantees amounting to $33.6 million (2012 – $44.1 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian Federal and Provincial as well as U.S. Federal and State environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

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 2014. 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 has invested in additional capacity to meet this anticipated demand.

Liquidity

As at December 31, 2013, the Company was in full compliance with its debt covenants and contractual obligations. In addition, as at December 31, 2013, an amount of $320.4 million had been drawn against the Company's committed revolving credit facility of $400.0 million.

Accounts receivable increased in 2013 due to the acquisition of PWP shortly before year end, the timing of sales in the fourth quarter where activity was greater in the latter stages of the period in 2013 compared to last year and the effect of local currency translation on U.S. dollar denominated accounts receivable. Management considers that all recorded accounts receivable 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 rose in 2013 mainly due to the acquisition of PWP shortly before year end and the effect of local currency translation on U.S.-based inventories. To ensure efficient treating 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

Economic Conditions

The difficulties in certain global credit markets, softening economies and an apprehension among customers may negatively impact the markets the Company serves in all of its operating categories. Additionally, certain negative economic conditions may affect most or all of the markets it serves at the same time, reducing demand for its products and adversely affecting its operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a significant reduction in its profitability. For the year ended December 31, 2013, the Company's top ten customers accounted for approximately 41.5% of its sales. During this same period, the Company's two largest customers accounted for approximately 9.8% and 6.2%, respectively, of its total sales.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide adequate timber to the Company.

In addition, there are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. While the Company is mitigating this risk by researching and identifying alternate suppliers outside of its traditional sources of supply, there can be no assurance that it will be able to secure the supply of all materials required to manufacture its products.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emission to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected.

While the Company has been party to environmental litigation in the past, which have included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown and its image strengthened, in large part by its consistent production and delivery of high quality products, while maintaining as well, a high level of environmental responsibility. Claims of environmentally irresponsible practices by regulatory authorities or local communities could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could result even if the allegations are not valid and the Company is not found liable.

Risks Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could have a material adverse effect on the Company's business, operating results, profitability and financial position. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could have a material adverse effect on the Company's business operating results, profitability and financial position.

Litigation Risk

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Company. In addition, litigation could divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage

The Company maintains property, casualty, general liability and workers' compensation insurance, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance for companies in the Company's industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk

The Company is exposed to currency risks due to its export of goods manufactured in Canada.

The Company strives to mitigate such risks by purchases of goods and services denominated in U.S. dollars. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves special risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuations

As at December 31, 2013, approximately 34.3% of the Company's long-term debt was at variable rates, thereby exposing the Company to interest rate risk. The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have a material adverse effect on the Company's business operating results, profitability and financial position.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railways, as well as with utility and telecommunication companies, and other major corporations, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Influence by Stella Jones International S.A.

As at December 31, 2013, Stella Jones International S.A. ("SJ International") owned or controlled 26,572,836 common shares of the Company, which represented approximately 38.7% of the outstanding common shares. As a result of this share ownership, SJ International has the ability to influence all matters submitted to the shareholders for approval, including without limitation, the election and removal of directors, amendments to the articles of incorporation and by-laws and the approval of any business combination. The interests of SJ International may not, in all cases, be aligned with interests of the other shareholders.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2013 and 2012 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and Chartered Professional Accountants Canada Handbook Part I.

The preparation of financial statements in conformity with IFRS 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets. It is possible that 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 consolidated statement of income in the period in which they become known.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 13 - Fair Value Measurement

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 19 - Employee Benefits (amended in 2011)

IAS 19 amends certain accounting requirements for defined benefit plans and termination benefits.

IAS 19 requires the net defined benefit liability (asset) to be recognized on the consolidated statement of financial position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided.

The Company adopted these amendments as of January 1, 2013. The adoption of these amendments to pension plans did not result in any significant adjustment to the opening equity. The review of the classification of the benefits and the termination benefits did not result either in any adjustment to the consolidated statement of financial position.

IAS 36 - Impairment of Assets

The company early adopted amendments to IAS 36. The amendments clarified that the recoverable amount is disclosed only when an asset or cash generating unit is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology and for cash-generating units with goodwill that are impaired, including the disclosure of the fair value. The adoption had no significant impact on the Company's consolidated financial statements.

Impact of accounting pronouncements not yet implemented

IFRS 9 - Financial Instruments

IFRS 9 was issued in November 2009. It addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit and loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent they do not clearly represent a return on investment, are recognized through profit and loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive gain (loss) indefinitely. In November 2013, the IASB issued amendments to include the new general hedge accounting model and to postpone the mandatory effective date of this standard indefinitely. The full impact of this standard will not be known until the amendments addressing impairments, classification and measurement have been completed. When these projects are completed, an effective date will be added by the IASB. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

IAS 32 - Financial Instruments: Presentation

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the consolidated statement of financial position.

The current offsetting model in IAS 32 requires an equity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available immediately and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

Gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would, therefore, satisfy the IAS 32 criterion in these instances.

The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014. The Company has assessed that the adoption of this standard will not have a significant impact on its consolidated financial statements.

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 and operating 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 December 31, 2013, and have concluded that such DC&P were designed and operating 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 and operating effectiveness 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 and operating effectively, as at December 31, 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 October 1, 2013 to December 31, 2013 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

As the North American economy continues to strengthen, Management expects demand for the Company's core products to remain healthy in 2014. 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 has invested in additional capacity to meet this anticipated demand.

However, a stronger economy could result in a tighter market for untreated railway ties and utility poles, as demand for other wood-based products also increases. The Company believes its inventory position and the strength of its procurement network should allow Stella-Jones to meet demand at an optimal cost.

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 market opportunities. The Company will also remain focused on improving operating efficiencies throughout the organization. The integration of the PWP 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 on maintaining 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 opportunities to further expand its presence in its core markets. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

March 13, 2014