MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2014 compared with the three-month period ended March 31, 2013

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 condensed interim unaudited consolidated financial statements were approved by the Audit Committee and the Board of Directors on April 30, 2014. The MD&A provides a review of the significant developments and results of operations of the Company during the three-month period ended March 31, 2014 compared with the three-month period ended March 31, 2013. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2014 and 2013 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2013.

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 condensed interim unaudited 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 March 31, 2014, 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 March 31, 2014, the Company's workforce numbered approximately 1,455 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 (thousands of dollars)	**Three-month periods ended** March 31, 2014	**Three-month periods ended** March 31, 2013
Net income for the period	$22,518	$18,757
Plus:		
Provision for income taxes	$9,648	$8,183
Financial expenses	$2,569	$2,731
Operating income	$34,735	$29,671
Depreciation and amortization	$4,327	$4,204
EBITDA	$39,062	$33,875

FOREIGN EXCHANGE

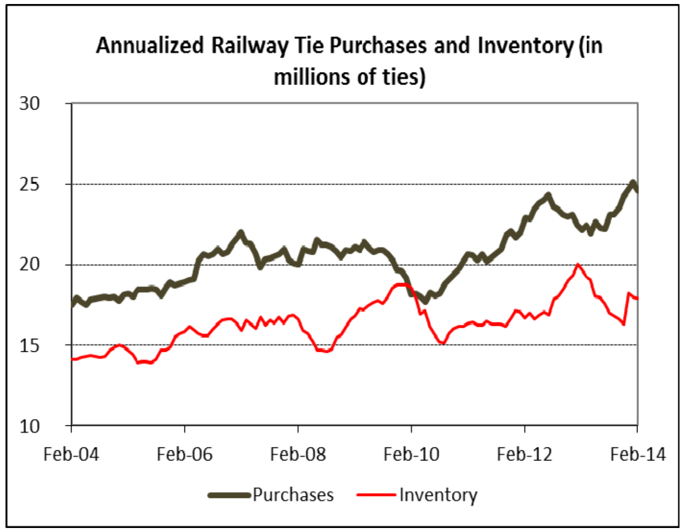
The table below shows exchange rates applicable to the periods ended March 31, 2014 and 2013. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$	**2014**		**2013**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.0949	1.1055	1.0079	1.0160

INDUSTRY OVERVIEW

Railway ties

As reported by the Railway Tie Association, railway tie purchases for the first two months of 2014 amounted to 3.3 million ties, resulting in industry purchases of 24.6 million ties for the 12-month period ended February 28, 2014. Meanwhile, industry inventory reached 17.9 million ties as at February 28, 2014, representing an inventory-to-sales ratio of 0.73:1, slightly below the previous ten-year average ratio of 0.80:1. The ratio has gradually tightened over the last 12 months.



Source: Railway Tie Association

Total traffic on North American railroads increased 1.1% in the first three months of 2014, according to data released by the Association of American Railroads. While the number of carloads decreased by 0.7%, the volume of intermodal trailers and containers was up 3.3% from 2013 levels.

OPERATING RESULTS

The Company has increasingly been ensuring its own pole sourcing by harvesting logs on woodland territories. Harvested logs not meeting pole-quality standards are regularly sold to third parties. Sales of these non-pole-quality logs have become more significant to the consolidated operations of the Company. Accordingly, effective January 1, 2014, Stella-Jones' sales of non-pole-quality logs are reported as revenue in the consolidated statement of income and are no longer credited to cost of sales. Comparative figures have been restated to comply with the current year's presentation and details are presented in a new product category. Margins from non-pole-quality log sales are nominal as they are sold close to cost of sales.

Sales

Sales for the quarter ended March 31, 2014 reached $257.5 million, up $34.9 million, or 15.7%, over last year's sales of $222.6 million for the same period. The operating assets acquired from The Pacific Wood Preserving Companies® ("PWP") on November 15, 2013 contributed sales of approximately $13.2 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 $16.2 million on the value of U.S. dollar denominated sales when compared with the previous year's first quarter. Excluding these factors, sales increased approximately $5.5 million, or 2.5%, despite unfavourable weather conditions across North America in the first quarter of 2014.

Sales by product category

Railway ties

Railway tie sales for the first quarter of 2014 amounted to $108.6 million, an increase of $12.1 million, or 12.6%, over sales of $96.5 million in the first quarter of 2013. Excluding sales from the PWP assets and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, railway tie sales rose approximately $1.9 million, or 1.9%, reflecting solid market demand which was partially offset by unfavourable weather conditions that limited railcar availability. Railway tie sales accounted for 42.2% of the Company's first-quarter sales.

Utility poles

Utility pole sales reached $107.5 million in the first quarter of 2014, up from sales of $90.8 million in the corresponding period in 2013. Excluding sales from the PWP assets and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, sales increased $3.1 million, or 3.5%, as a result of higher customer orders for both distribution and transmission poles. Utility pole sales accounted for 41.8% of the Company's total sales in the first quarter of 2014.

Residential lumber
Sales in the residential lumber category totalled $17.3 million in the first quarter of 2014, versus $17.9 million a year earlier. The variation mainly reflects less favourable weather in Canada compared with the same period last year. Residential lumber accounted for 6.7% of Stella-Jones' sales in the first quarter of 2014.

Industrial products
Industrial product sales reached $15.8 million in the first quarter of 2014, compared with $11.9 million in the first quarter of 2013. This variation mainly reflects the contribution of the PWP assets. Industrial products represented 6.1% of sales in the three-month period ended March 31, 2014.

Non-pole-quality logs
For the first three months of 2014, non-pole-quality log sales amounted to $8.3 million, up from $5.5 million in the first three months of 2013. This variation is attributable to the timing of timber harvesting. Non-pole-quality log sales represented 3.2% of sales in the three-month period ended March 31, 2014.

Sales by destination

Sales in the United States amounted to $217.8 million, or 84.6% of sales, in the first quarter of 2014, up $43.0 million from sales of $174.8 million in the corresponding period of 2013. The year-over-year increase is mainly attributable to the contribution from the PWP assets, the effect of local currency translation on U.S.-dollar denominated sales, and higher sales in all product categories as a result of healthy industry demand.

Meanwhile, sales in Canada in the first quarter of 2014 were $39.7 million, representing 15.4% of Stella-Jones' total sales, versus sales of $47.8 million in the first quarter of 2013. The year-over-year variation reflects the adverse effect on sales of more severe winter weather in the first quarter of 2014 compared with the same period last year.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $207.2 million, or 80.5% of sales, for the three-month period ended March 31, 2014. This compares with $179.4 million, or 80.6% of sales, in the three-month period ended March 31, 2013. The increase in absolute dollars essentially reflects the addition of the PWP assets and the effect of currency translation, while the reduction as a percentage of sales mainly stems from greater efficiency throughout the Company's plant network, partially offset by higher year-over-year costs for untreated railway ties and utility poles.

Depreciation and amortization charges reached $4.3 million for the three-month period ended March 31, 2014, versus $4.2 million in the corresponding period of 2013.

As a result, gross profit reached $50.3 million, or 19.5% of sales, in the first quarter of 2014, up from $43.2 million, or 19.4% of sales, in the first quarter of 2013.

Selling and administrative

Selling and administrative expenses for the first quarter of 2014 were $15.4 million, compared with expenses of $13.5 million in the first quarter of 2013. This variation is mainly attributable to an increase in remuneration expenses due to the effect of the Company's higher share price on share-based compensation, as well as the effect of currency translation. As a percentage of sales, selling and administrative expenses were stable year-over-year at 6.0% of sales.

Other losses, net
Stella-Jones' other net losses of $88,000 for the three-month period ended March 31, 2014, were primarily with respect to a loss on the sale of fixed assets. Last year's other net losses of $75,000 were primarily related to foreign exchange.

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 for the first quarter of 2014 amounted to $2.6 million, down slightly from $2.7 million in the first quarter of 2013. This variation is due to a lower average interest rate in the first quarter of 2014, as certain higher interest bearing debts matured in 2013, partially offset by higher year-over-year borrowings due to the acquisition of PWP.

Income before income taxes and income tax expense
Stella-Jones generated income before income taxes of $32.2 million, or 12.5% of sales, in the first quarter of 2014. This represents an increase of 19.4% over income before income taxes of $26.9 million, or 12.1% of sales, in the first quarter of 2013.

Stella-Jones' provision for income taxes totalled $9.6 million in the first quarter of 2014, representing an effective tax rate of 30.0%. In the first quarter of 2013, the income tax expense stood at $8.2 million, equivalent to an effective tax rate of 30.4%. The lower effective tax rate for the first quarter of 2014 is attributable to a deduction, for Canadian income tax purposes, of dividends received from a related party.

Net income
Net income for the three-month period ended March 31, 2014 reached $22.5 million, or $0.33 per share, fully diluted, compared with $18.8 million, or $0.27 per share, fully diluted, in the three-month period ended March 31, 2013. This represents a year-over-year increase in net income of 20.1%.

PROPOSED ACQUISITION OF TWO TREATING PLANTS

On March 18, 2014, the Company announced that it has signed a non-binding letter of intent to acquire the wood treating facilities of Boatright Railroad Products, Inc. ("Boatright") located in Montevallo and Clanton, Alabama. Boatright manufactures, sells and distributes creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers. These products are sold to railroad operators.

The transaction, if finalized, is expected to close during the latter part of the second quarter of 2014 and is subject to customary closing conditions, including signature of a definitive asset purchase agreement and satisfactory due diligence. Stella-Jones plans to finance the transaction through its existing credit facility.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with railway tie, utility pole and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; thus the first and fourth quarters are typically characterized by relatively lower sales levels. The table below sets forth selected financial information for the Company's last nine quarters.

2014

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(thousands of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	257,498				
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	39,062				
Operating income [1]	34,735				
Net income for the period	22,518				
Earnings per common share					
Basic	0.33				
Diluted	0.33				

2013

For the quarters ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
(thousands of dollars, except per share data)	**$**	**$**	**$**	**$**	**$**
Sales	222,580	280,894	285,304	222,512	1,011,290
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	163,185	206,418	200,022	162,807	732,432
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 the 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 Stella-Jones' 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.

STATEMENT OF FINANCIAL POSITION

Assets

As at March 31, 2014, total assets reached $1,140.6 million, up from $1,071.9 million as at December 31, 2013. This increase is mainly attributable to an increase in current assets, as detailed below.

Current assets amounted to $637.2 million as at March 31, 2014, compared with $581.9 million as at December 31, 2013. This variation of $55.3 million is due to increases in accounts receivable and inventories, partially offset by a decrease in cash.

The value of accounts receivable was $136.8 million as at March 31, 2014, compared with $108.0 million as at December 31, 2013. The variation is attributable to higher sales near the end of the period, as per normal seasonal demand patterns, and to the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $487.7 million as at March 31, 2014, up from $458.6 million as at December 31, 2013. This increase reflects the normal seasonal inventory build-up ahead of peak demand in the second and third quarters, as well as the effect of local currency translation on U.S. 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 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 $240.1 million as at March 31, 2014, compared with $234.2 million as at December 31, 2013. This increase is mainly related to the effect of local currency translation on U.S.-based property, plant and equipment during the first quarter of 2014 and, to a lesser extent, to the purchase of property, plant and equipment ($2.7 million) exceeding depreciation ($2.3 million) for the period.

The value of intangible assets and goodwill reached $95.3 million and $162.3 million, respectively, as at March 31, 2014. 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, 2013, intangible assets and goodwill were $94.0 million and $156.2 million, respectively. The increase in the value of intangible assets stems from the effect of local currency translation on U.S.-based intangible assets, partially offset by an amortization charge of $2.0 million in the first three months of 2014. The increase in goodwill is explained by the effect of local currency translation on U.S. dollar denominated goodwill.

Liabilities

As at March 31, 2014, Stella-Jones' total liabilities stood at $536.1 million, up from $499.7 million as at December 31, 2013. This variation mainly reflects an increase in long-term debt and the effect of local currency translation on U.S. dollar denominated liabilities.

The value of current liabilities was $64.0 million as at March 31, 2014, versus $64.9 million as at December 31, 2013. This slight decrease is attributable to a $3.1 million reduction in accounts payable and accrued liabilities, partially offset by a $1.9 million increase in the current portion of provisions and other long-term liabilities.

The Company's long-term debt, including the current portion, was $407.0 million as at March 31, 2014, up from $372.9 million as at December 31, 2013. The increase essentially reflects higher working capital requirements, as per normal seasonal demand patterns, and the effect of local currency translation on U.S. dollar denominated long-term debt. As at March 31, 2014, an amount of $352.8 million was drawn against the Company's committed revolving credit facility of $400.0 million.

Shareholders’ equity

Shareholders’ equity reached $604.5 million as at March 31, 2014 compared with $572.2 million as at December 31, 2013. This increase is mainly attributable to net income of $22.5 million. Book value stood at $8.79 per common share as at March 31, 2014, up from $8.33 per share as at December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-month Periods Ended**	
(thousands of dollars)	**March 31, 2014**	**March 31, 2013**
Operating activities	($18,278)	($20,197)
Financing activities	$20,715	$12,017
Investing activities	($5,628)	($5,820)
Net change in cash and cash equivalents during the period	($3,191)	($14,000)
Cash and cash equivalents - beginning	$3,191	$14,000
Cash and cash equivalents - end	$---	$---

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

Cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid was $40.3 million for the three-month period ended March 31, 2014, compared with $34.3 million for the same period in 2013. This increase mostly reflects a higher net income for the period.

Changes in non-cash working capital components reduced liquidity by $47.7 million in the first quarter of 2014, mainly due to increases of $25.3 million and $18.4 million, respectively, in accounts receivable and inventories as a result of normal seasonal working capital requirements. In the first quarter of 2013, changes in non-cash working capital components had used liquidity of $48.8 million. Interest and income tax paid further reduced liquidity by $3.1 million and $7.8 million, respectively, in the first quarter of 2014, versus $3.1 million and $2.7 million, respectively, a year earlier. As a result, cash flows used in operating activities reached $18.3 million in the first quarter of 2014, versus $20.2 million in the first quarter of 2013.

Financing activities for the quarter ended March 31, 2014 provided funds of $20.7 million. This cash generation stems from a net increase of $20.7 million in long-term debt. For the quarter ended March 31, 2013, financing activities provided liquidity of $12.0 million.

Investing activities used $5.6 million in liquidity during the first quarter of 2014. Purchases of property, plant and equipment, essentially for the addition of various equipment upgrades and expansion, required an investment of $2.7 million, while a disbursement of $3.1 million in connection with the PWP acquisition also reduced liquidity. For the quarter ended March 31, 2013, cash flows from investing activities decreased liquidity by $5.8 million.

The following table details the maturities of the financial obligations as at March 31, 2014:

(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	54,917	54,917	54,917	-	-	-
Long-term debt obligations	406,989	446,571	12,498	61,967	366,180	5,926
Interest rate swaps	1,076	4,030	1,556	2,099	375	-
Minimum payments under operating lease obligations	-	63,540	13,564	21,850	11,410	16,716
Non-compete agreements	1,337	1,448	598	796	54	-
Total	464,319	570,506	83,133	86,712	378,019	22,642

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2014, the capital stock issued and outstanding consisted of 68,757,633 common shares (68,697,366 as at December 31, 2013). The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2014:

Number of shares (in '000s)	Three-month Period Ended March 31, 2014
Balance – Beginning of period	68,697
Exercise of stock options	53
Employee share purchase plans	8
Balance – End of period	68,758

As at April 30, 2014, the capital stock issued and outstanding consisted of 68,758,141 common shares.

As at March 31, 2014, the number of outstanding options to acquire common shares issued under the Company’s Stock Option Plan was 497,600 (December 31, 2013 – 550,400) of which 387,600 (December 31, 2013 – 440,400) were exercisable. As at April 30, 2014, the number of outstanding options was 497,600, of which 387,600 were exercisable.

DIVIDENDS

On April 30, 2014, the Board of Directors approved a quarterly dividend of $0.07 per common share payable on June 27, 2014 to shareholders of record at the close of business on June 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 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 2013 Annual Report.

CURRENT ECONOMIC CONDITIONS

Operations

The Company's core railway tie and utility pole product categories are integral to the North American basic transportation and utility infrastructure. Such infrastructure needs to be regularly maintained which provides Stella-Jones with relatively steady demand for its core products. In periods of economic growth, the Company may also benefit from additional demand stemming from expansions to the railway and telecommunication networks.

Based on current market conditions, Management continues to expect business activity to remain healthy in 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, demand is expected to grow steadily over the next few quarters and Management believes that industry demand should further accelerate 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 March 31, 2014, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at March 31, 2014, an amount of $352.8 million had been drawn against the Company's committed revolving credit facility of $400.0 million.

Accounts receivable increased during the first three months of 2014 as a result of higher sales near the end of the period as per normal seasonal demand patterns. Management considers that all recorded receivables are fully collectible as major customers, mainly Class 1 railroad operators and large-scale utility service providers, have good credit standing and limited history of default.

Inventories also increased during the first three months of 2014 due to the normal seasonal inventory build-up in anticipation of higher projected peak sales volumes in the second and third quarters. 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 2013 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2013 audited consolidated financial statements, except for those accounting policies adopted as of January 1, 2014 which are described in the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2014 and 2013.

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 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 March 31, 2014, 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 effectively designed as at March 31, 2014.

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 January 1, 2014 to March 31, 2014 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 results in further investments in the continental rail network, as operators constantly seek optimal line efficiency. In the utility pole market, demand is expected to grow steadily over the next few quarters and Management believes that industry demand should further accelerate 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 is resulting in a tighter procurement market for untreated railway ties and utility poles, as demand for other wood-based products also increases. This situation has been further impacted by the inclement weather which has restricted logging activities. The Company believes its current inventory position and the strength of its procurement network should allow Stella-Jones to meet demand at an optimal cost. Still, margins may be slightly impacted in the short term.

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 assets 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, as evidenced by the proposed acquisition of the wood treating facilities of Boatright. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

April 30, 2014