MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine-month periods ended September 30, 2014 compared with the three- and nine-month periods ended September 30, 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 November 6, 2014. The MD&A provides a review of the significant developments and results of operations of the Company during the three- and nine-month periods ended September 30, 2014 compared with the three- and nine-month periods ended September 30, 2013. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 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, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. 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 September 30, 2014, the Company operates twenty-eight 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 September 30, 2014, the Company's workforce numbered approximately 1,525 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**		**Nine-month periods ended**	
	Sept. 30, 2014	**Sept. 30, 2013**	**Sept. 30, 2014**	**Sept. 30, 2013**
Net income for the period	29,541	27,663	80,880	72,846
Plus:				
Provision for income taxes	12,662	8,312	31,759	28,376
Financial expenses	3,289	2,575	9,205	7,958
Operating income	45,492	38,550	121,844	109,180
Depreciation and amortization	5,783	3,966	14,721	12,128
EBITDA	51,275	42,516	136,565	121,308

FOREIGN EXCHANGE

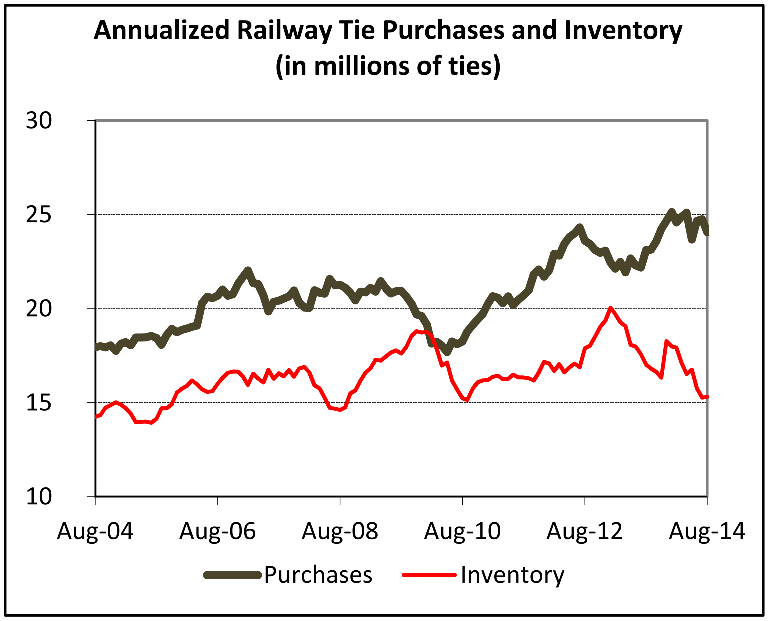
The table below shows exchange rates applicable to the periods ended September 30, 2014 and 2013 as well as the period ended December 31, 2013. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations.

Cdn$/US$ rate	**2014**		**2013**	
	Average rate for the three-month period ended Sept. 30, 2014	**Closing rate as at Sept. 30, 2014**	**Average rate for the three-month period ended Sept. 30, 2013**	**Closing rate as at December 31, 2013**
	1.0816	1.1200	1.0440	1.0636

INDUSTRY OVERVIEW

Railway ties
As reported by the Railway Tie Association, railway tie purchases for the first eight months of 2014 amounted to 16.0 million ties, resulting in industry purchases of 24.1 million ties for the 12-month period ended August 31, 2014. Meanwhile, industry inventory remained tight at 15.3 million ties as at August 31, 2014, representing an inventory-to-sales ratio of 0.64:1, well below the previous ten-year average ratio of 0.79:1. The ratio has tightened over the last 18 months, as untreated railway tie availability has diminished.

Total traffic on North American railroads increased 4.2% in the first nine months of 2014, according to data released by the Association of American Railroads. While the number of carloads increased by 3.0%, the volume of intermodal trailers and containers rose sharply, up 5.8% from 2013 levels.



Source: Railway Tie Association

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 September 30, 2014 reached $357.3 million, up $72.0 million, or 25.2%, over last year's sales of $285.3 million for the same period. The operating assets acquired from The Pacific Wood Preserving Companies® ("PWP") on November 15, 2013 contributed sales of approximately $11.2 million, while the wood treating facilities acquired from Boatright Railroad Products, Inc. ("Boatright") on May 22, 2014 added sales of $12.0 million. 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 $8.9 million on the value of U.S.-dollar denominated sales when compared with the previous year's third quarter. Excluding these factors, sales increased approximately $39.9 million, or 14.0%.

For the nine-month period ended September 30, 2014, sales amounted to $959.6 million, versus $788.8 million for the corresponding period a year earlier. Acquisitions accounted for total sales of $52.0 million, while the conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar had a positive year-over-year impact of $43.2 million on the value of U.S.-dollar denominated sales. Excluding these factors, sales increased approximately $75.6 million, or 9.6%.

Sales by product category

Railway ties
Railway tie sales for the third quarter of 2014 amounted to $148.8 million, an increase of $49.4 million, or 49.7%, over sales of $99.4 million in the third quarter of 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, railway tie sales rose approximately $34.5 million, or 34.7%. Further adjusting for the approximately $15.0 million negative effect on last year's third-quarter railway tie sales as a result of the transition of a Class 1 railroad customer from a "treating services only" program to a "black-tie" program, year-over-year sales increased $19.5 million, or 17.0%. This increase reflects solid market demand from tie replacement programs and increased pricing. A "treating services only" 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. Railway tie sales accounted for 41.7% of the Company's third-quarter sales.

For the first nine months of 2014, railway tie sales reached $398.9 million, up from $315.7 million in the first nine months of 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, railway tie sales rose approximately $44.1 million, or 14.0%, of which approximately $17.5 million is related to the aforementioned customer transition effect on last year's sales.

Utility poles
Utility pole sales reached $127.6 million in the third quarter of 2014, up from $112.8 million in the corresponding period in 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, sales increased $4.0 million, or 3.5%. This increase reflects higher sales of distribution poles stemming from increased demand from replacement programs partially offset by slightly lower sales of transmission poles due to the timing of certain special projects. Utility pole sales accounted for 35.7% of the Company's total sales in the third quarter of 2014.

For the first nine months of 2014, utility pole sales stood at $356.7 million, up from $298.7 million in the first nine months of 2013. Excluding sales from acquisitions and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, utility pole sales rose approximately $21.1 million, or 7.1%.

Residential lumber
Sales in the residential lumber category totalled $43.5 million in the third quarter of 2014, up 10.6% from $39.3 million a year earlier. The variation is mainly attributable to solid demand in Western Canada and in the United States due to the general improvement in the North American economy. Residential lumber accounted for 12.2% of Stella-Jones' sales in the third quarter of 2014. For the nine-month period ended September 30, 2014, residential lumber sales stood at $110.1 million, versus $98.5 million a year earlier.

Industrial products
Industrial product sales reached $29.7 million in the third quarter of 2014, compared with $16.5 million in the third quarter of 2013. This increase mainly reflects the contribution of the PWP and Boatright assets as well as increased sales of rail-related industrial products. Industrial products represented 8.3% of sales in the three-month period ended September 30, 2014. For the first nine months of 2014, industrial product sales totalled $70.7 million, up from $45.4 million in the first nine months of 2013.

Non-pole-quality logs
For the third quarter of 2014, non-pole-quality log sales amounted to $7.7 million, down from $17.2 million in the third quarter of 2013. This variation is attributable to the timing of timber harvesting. Non-pole-quality log sales represented 2.1% of sales in the three-month period ended September 30, 2014. In the first nine months of 2014, non-pole-quality log sales reached $23.2 million, versus $30.5 million in the first nine months of 2013.

Sales by destination

Sales in the United States amounted to $282.5 million, or 79.1% of sales, in the third quarter of 2014, up 26.9% from sales of $222.7 million in the corresponding period of 2013. The year-over-year increase is mainly attributable to the contribution from the PWP and Boatright assets, the effect of local currency translation on U.S.-dollar denominated sales, and higher sales as a result of healthy industry demand. For the first nine months of 2014, sales in the United States reached $778.6 million, versus $614.5 million in the first nine months of 2013.

Sales in Canada in the third quarter of 2014 were $74.8 million, representing 20.9% of Stella-Jones' total sales, up 19.4% from sales of $62.6 million in the third quarter of 2013. The year-over-year variation mainly reflects higher sales of railway ties due to solid industry demand and higher residential lumber sales in Western Canada. For the first nine months of 2014, sales in Canada stood at $181.0 million, versus $174.3 million in the first nine months of 2013.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $294.9 million, or 82.5% of sales, for the three-month period ended September 30, 2014. This compares with $232.2 million, or 81.4% of sales, in the three-month period ended September 30, 2013. The increase in absolute dollars essentially reflects the addition of the PWP and Boatright assets and the effect of currency translation. As a percentage of sales, the increase is mainly attributable to higher year-over-year costs for untreated railway ties and to a product mix more heavily weighted towards railway ties, partially offset by greater efficiency throughout the Company’s plant network. While the year-over-year gross profit for the second and third quarters of 2014 have been negatively impacted by the increase of untreated railway tie costs, the Company has been able to begin adjusting its selling prices, as permitted in most of the multi-year contracts, which has resulted in better gross profit in the third quarter as a percentage of sales when compared to the previous quarter.

Reflecting the PWP and Boatright acquisitions, depreciation and amortization charges stood at $5.8 million for the third quarter of 2014, versus $4.0 million in the corresponding period of 2013.

As a result, gross profit reached $62.4 million, or 17.5% of sales, in the third quarter of 2014, up from $53.1 million, or 18.6% of sales, in the third quarter of 2013.

For the first nine months of 2014, cost of sales reached $786.8 million, or 82.0% of sales, versus $634.6 million, or 80.5% of sales, in the first nine months of 2013. The variations, both in dollars and as a percentage of sales, are attributable to the factors described above. Depreciation and amortization charges were $14.7 million in the first nine months of 2014, up from $12.1 million a year earlier. As a result, gross profit reached $172.8 million, or 18.0% of sales, in the nine-month period ended September 30, 2014, compared to $154.1 million, or 19.5% of sales, in the nine-month period ended September 30, 2013.

Selling and administrative

Selling and administrative expenses for the third quarter of 2014 were $16.6 million, compared with expenses of $14.3 million in the third quarter of 2013. This variation is mainly attributable to the effect of currency translation, costs of $502,000 related to the closure of the Warrior, Alabama facility (see “Capacity Optimization Measures” below) and a $443,000 increase in stock-based compensation. As a percentage of sales, selling and administrative expenses were 4.7% of sales in the three-month period ended September 30, 2014, down from 5.0% of sales in the three-month period ended September 30, 2013.

For the nine-month period ended September 30, 2014, selling and administrative expenses reached $49.9 million, compared with $42.5 million in the nine-month period ended September 30, 2013. As a percentage of sales, selling and administrative expenses were 5.2% of sales in the nine-month period ended September 30, 2014, down from 5.4% of sales in the nine-month period ended September 30, 2013.

Other losses, net

Stella-Jones' other net losses of $283,000 for the three-month period ended September 30, 2014 result from asset impairment charges of $3.5 million, including a $1.7 million charge for certain property, plant and equipment following the closure of the Warrior, Alabama facility and a $545,000 charge for a building in West Virginia. These elements were partially offset by a $2.9 million reversal of an environmental provision at a site acquired from McFarland Cascade Holdings, Inc. following a more favourable assessment than initially anticipated and a foreign exchange gain of $281,000. This compares to other net losses of $270,000 for the three-month period ended September 30, 2013, which were primarily related to foreign exchange.

For the first nine months of 2014, other net losses amounted to $1.0 million, as the aforementioned asset impairment charges and a $1.6 million write-off of certain property, plant and equipment recorded in the second quarter were partially offset by the $2.9 million provision reversal and foreign exchange gains amounting to $1.2 million. This compares with other net losses of $2.4 million for the corresponding period in 2013 that mainly resulted from the disposal of property, plant and equipment.

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to its sales and purchases in U.S. dollars by its Canadian-based operations 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 three- and nine-month periods ended September 30, 2014 amounted to $3.3 million and $9.2 million, respectively, up from $2.6 million and $8.0 million, respectively, for the three- and nine-month periods ended September 30, 2013. This variation is due to higher year-over-year borrowings in relation to the acquisitions of PWP and Boatright, partially offset by a lower average interest rate in 2014, as certain higher interest bearing debts matured in 2013.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $42.2 million, or 11.8% of sales, in the third quarter of 2014, versus income before income taxes of $36.0 million, or 12.6% of sales, in the third quarter of 2013. The year-over-year decrease in income before income taxes as a percentage of sales essentially reflects a lower gross profit as a percentage of sales.

The provision for income taxes totalled $12.7 million in the third quarter of 2014, representing an effective tax rate of 30.0%, compared with a provision for income taxes of $8.3 million, equivalent to an effective tax rate of 23.1%, in the third quarter of 2013. The tax rate for the third quarter of 2014 allowed for a more representative year-to-date income tax provision, while the tax rate for the third quarter of 2013 reflected the favourable impact of a U.S. tax true-up adjustment.

For the first nine months of 2014, income before income taxes stood at $112.6 million, or 11.7% of sales, while the provision for income taxes amounted to $31.8 million, representing an effective tax rate of 28.2%. In the first nine months of 2013, income before income taxes was $101.2 million, or 12.8% of sales, while the provision for income taxes was $28.4 million, equivalent to an effective tax rate of 28.0%.

Net income

Net income for the three-month period ended September 30, 2014 reached $29.5 million, or $0.43 per share, fully diluted, compared with $27.7 million, or $0.40 per share, fully diluted, in the three-month period ended September 30, 2013. This represents a year-over-year increase in net income of 6.8%.

For the first nine months of 2014, net income rose 11.0% to $80.9 million, or $1.17 per share, fully diluted, from $72.8 million, or $1.05 per share, fully diluted, in the first nine months of 2013.

CAPACITY OPTIMIZATION MEASURES

As part of the Company's continuous monitoring of operating cost efficiency, Management proactively reviews capacity utilization across Stella-Jones' continental plant network to ensure such utilization is optimized. In this regard, following the acquisition of the Boatright facilities located in Alabama, the Company decided to close its Warrior, Alabama facility during the third quarter of 2014. As a result of this closure, Stella-Jones recorded a $1.7 million impairment charge for certain property, plant and equipment as well as $502,000 in closing costs. The impairment charge and the closing costs are included in the Company's other net losses and selling and administrative expenses, respectively, for the three- and nine-month periods ended September 30, 2014.

BUSINESS ACQUISITION

On May 22, 2014, the Company completed, through its wholly-owned U.S. subsidiaries, the acquisition of substantially all of the operating assets employed in the wood treating facilities of Boatright, located in Montevallo and Clanton, Alabama. These facilities manufacture, sell and distribute creosote and borate-treated crossties as well as switch ties, tie plugs and bridge timbers to the railroad industry and was acquired for synergistic reasons.

Total cash outlay associated with the acquisition was approximately $37.0 million (US$33.9 million), excluding acquisition costs of approximately $616,000 (US$563,000), recognized in the interim 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 interim 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 deferred income taxes. During the third quarter of 2014, the site remediation provision was reduced by $3.1 million and the adjustment was mainly offset against goodwill.

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	
Inventories	9,718
Property, plant and equipment	22,527
Customer relationships	17,486
Customer backlog	1,463
Goodwill	23,316
Deferred income tax assets	935
	75,445
Liabilities assumed	
Accounts payable and accrued liabilities	160
Site remediation provision	3,029
Total net assets acquired and liabilities assumed	**72,256**
Consideration transferred	
Cash	37,000
Unsecured promissory note	13,426
Consideration payable for the purchase of the Montevallo plant assets	21,830
Consideration transferred	**72,256**

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 6 months for customer backlog. Significant assumptions used in the determination of intangible assets, as defined by Management, include 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 either plants specialized in the treatment of utility poles or plants specialized in the treatment of railway ties. In the case of the Boatright acquisition, goodwill is allocated to plants specialized in the treatment of railway ties.

The consideration payable of $21.8 million (US$20.0 million) recorded under accounts payable and accrued liabilities in the interim consolidated statement of financial position, is the counterpart of a cash amount held in escrow pending the formal title transfer of the Montevallo plant assets, which shall occur concurrently with the issue to the Company, of certain governmental permits relating to the facility. The balance held in escrow was recorded under restricted cash in the interim consolidated statement of financial position as at September 30, 2014.

The Company has financed the acquisition through a combination of its existing committed revolving credit facility, which was increased from $400.0 million to $450.0 million as at May 12, 2014 and an unsecured promissory note of $15.5 million (US$14.2 million), bearing interest at 1.93% and repayable in 5 equal instalments over a 5-year period. The unsecured promissory note was fair-valued at $13.4 million (US$12.3 million) using an interest rate of 7.0%.

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 eleven 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	344,796	357,285		
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	39,062	46,228	51,275		
Operating income [1]	34,735	41,617	45,492		
Net income for the period	22,518	28,821	29,541		
Earnings per common share					
Basic	0.33	0.42	0.43		
Diluted	0.33	0.42	0.43		

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 September 30, 2014, total assets reached $1,266.8 million, up from $1,071.9 million as at December 31, 2013. The increase is mainly attributable to the acquisition of Boatright as well as items set out below.

Current assets amounted to $696.0 million as at September 30, 2014, compared with $581.9 million as at December 31, 2013. This variation of $114.1 million reflects increases of $67.8 million and $17.7 million, respectively, in accounts receivable and inventories, as described below, as well as a net increase of $19.2 million in cash and restricted cash. Restricted cash of $22.4 million as at September 30, 2014 is related to the Boatright acquisition (see “Business Acquisition” above).

The value of accounts receivable was $175.7 million as at September 30, 2014, compared with $108.0 million as at December 31, 2013. The variation is attributable to higher sales volumes in the third quarter of 2014 when compared with the fourth quarter of 2013.

Inventories stood at $476.4 million as at September 30, 2014, up from $458.6 million as at December 31, 2013. This increase reflects the acquisition of Boatright as well as the currency conversion effect 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 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 $268.3 million as at September 30, 2014, compared with $234.2 million as at December 31, 2013. This increase is mainly related to the acquisition of Boatright, the purchase of property, plant and equipment of $14.0 million and the currency conversion effect on U.S.-based property, plant and equipment. These elements were partially offset by a depreciation charge of $7.1 million and $3.5 million in asset impairment charges in the first nine months of 2014.

The value of intangible assets and goodwill reached $110.2 million and $188.3 million, respectively, as at September 30, 2014. Intangible assets include customer relationships, the discounted value of 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 acquisition of Boatright and from the currency conversion effect on U.S.-based intangible assets, partially offset by an amortization charge of $7.6 million in the first nine months of 2014. The increase in goodwill is also explained by the acquisition of Boatright and the currency conversion effect.

Liabilities

As at September 30, 2014, Stella-Jones’ total liabilities stood at $607.9 million, up from $499.7 million as at December 31, 2013. This variation mainly reflects increases in current liabilities and in long-term debt.

The value of current liabilities was $117.8 million as at September 30, 2014, versus $64.9 million as at December 31, 2013. This variation is mostly attributable to a $40.6 million increase in accounts payable and accrued liabilities, as a result of a consideration payable recorded as part of the Boatright acquisition and greater business activity in the third quarter of 2014 as compared with the fourth quarter of 2013.

The Company’s long-term debt, including the current portion, was $433.6 million as at September 30, 2014, up from $372.9 million as at December 31, 2013. The increase essentially reflects higher borrowings following the acquisition of Boatright as well as increased working capital requirements due to higher business activity. As at September 30, 2014, an amount of $365.9 million was drawn against the Company’s committed revolving credit facility.

Shareholders’ equity

Shareholders’ equity reached $658.9 million as at September 30, 2014 compared with $572.2 million as at December 31, 2013. This increase is mainly attributable to net income of $80.9 million for the nine-month period ended September 30, 2014, partially offset by dividend payments of $14.4 million. Book value stood at $9.57 per common share as at September 30, 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**		**Nine-month periods ended**	
(thousands of dollars)	**Sept. 30, 2014**	**Sept. 30, 2013**	**Sept. 30, 2014**	**Sept. 30, 2013**
Operating activities	$54,778	$65,321	$58,948	$80,335
Financing activities	($48,580)	($52,673)	$13,231	($67,642)
Investing activities	($6,198)	($12,648)	($75,370)	($26,693)
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 amended on December 13, 2013 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 $54.8 million for the three-month period ended September 30, 2014, compared with $43.5 million for the same period in 2013. This variation mostly reflects increases in net income, as well as in depreciation and amortization charges between the two periods compared.

Changes in non-cash working capital components provided liquidity of $6.9 million in the third quarter of 2014, as an increase of $14.9 million in accounts payable and accrued liabilities and a $13.7 million decrease in inventories were partially offset by a $9.5 million increase in accounts receivable. All these variations reflect normal seasonal demand patterns. In the third quarter of 2013, changes in non-cash working capital components had increased liquidity by $34.4 million. Interest and income taxes paid further reduced liquidity by $3.2 million and $3.6 million, respectively, in the third quarter of 2014, versus $1.6 million and $11.1 million, respectively, a year earlier. As a result, cash flows provided by operating activities reached $54.8 million in the third quarter of 2014, versus $65.3 million in the third quarter of 2013.

For the nine-month period ended September 30, 2014, cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid stood at $143.6 million, up from $126.0 million in the nine-month period ended September 30, 2013. Changes in working capital components reduced liquidity by $46.8 million in the first nine months of 2014, compared with a liquidity reduction of $18.5 million last year. Interest and income taxes paid further reduced liquidity by $9.1 million and $28.8 million, respectively, in the first nine months of 2014, versus $7.3 million and $19.8 million, respectively, a year earlier. As a result, cash flows provided by operating activities were $58.9 million in the first nine months of 2014, versus $80.3 million in the first nine months of 2013.

Financing activities for the quarter ended September 30, 2014 used funds of $48.6 million. This cash requirement resulted from a net decrease of $44.0 million in long-term debt as well as dividend payments on common shares amounting to $4.8 million. During the quarter ended September 30, 2013, financing activities required liquidity of $52.7 million.

In the first nine months of 2014, financing activities provided liquidity of $13.2 million, compared with requiring funds of $67.6 million in the first nine months of 2013.

Investing activities used $6.2 million in liquidity during the third quarter of 2014, mostly due to purchases of property, plant and equipment amounting to $6.2 million, essentially for the addition of various equipment upgrades and expansion. For the quarter ended September 30, 2013, cash flows used in investing activities decreased liquidity by $12.6 million.

In the first nine months of 2014, investing activities reduced liquidity by $75.4 million, including a disbursement of $37.0 million for the acquisition of Boatright, an increase of $21.8 million in restricted cash and $14.0 million for purchases of property, plant and equipment. This compares with a liquidity reduction of $26.7 million in the first nine months of 2013.

The following table details the maturities of the financial obligations as at September 30, 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	98,609	98,609	98,609	-	-	-
Long-term debt obligations	433,567	476,414	17,121	68,107	385,557	5,629
Interest rate swaps	734	5,187	2,195	2,896	96	-
Minimum payments under operating lease obligations	-	66,482	13,867	22,900	11,892	17,823
Non-compete agreements	1,036	1,118	550	540	28	-
Total	533,946	647,810	132,342	94,443	397,573	23,452

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2014, the capital stock issued and outstanding of the Company consisted of 68,849,782 common shares (68,697,366 as at December 31, 2013). The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2014:

Number of shares (in thousands)	Three-month Period Ended Sept. 30, 2014	Nine-month Period Ended Sept. 30, 2014
Balance – Beginning of period	68,816	68,697
Exercise of stock options	25	129
Employee share purchase plans	9	24
Balance – End of period	68,850	68,850

As at November 6, 2014, the capital stock issued and outstanding of the Company consisted of 68,849,782 common shares.

As at September 30, 2014, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 421,206 (December 31, 2013 – 550,400) of which 323,206 (December 31, 2013 – 440,400) were exercisable. As at November 6, 2014, the number of outstanding options was 421,206, of which 323,206 were exercisable.

DIVIDENDS

On November 6, 2014, the Board of Directors approved a quarterly dividend of $0.07 per common share payable on December 18, 2014 to shareholders of record at the close of business on December 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 for the remainder of 2014 and through 2015. In the railway tie market, increased freight volume on North American railroads is resulting in continued 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 September 30, 2014, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at September 30, 2014, an amount of $365.9 million had been drawn against the Company's committed revolving credit facility of $450.0 million.

Accounts receivable increased during the first nine months of 2014 as a result of higher sales volumes in the third quarter of 2014 when compared with the fourth quarter of 2013. 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 a limited history of default.

Inventories also increased during the first nine months of 2014 due to the acquisition of Boatright. 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

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 September 30, 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 September 30, 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 September 30, 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 July 1, 2014 to September 30, 2014 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

As the North American economy should continue to grow at a moderate pace, Management expects demand for the Company's core products to remain healthy for the remainder of 2014 and through 2015. In the railway tie market, increased freight volume on North American railroads is resulting in continued 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.

A stronger economy has, however, resulted in a tighter procurement market for untreated railway ties, as demand for other wood-based products also increases. This situation has been further aggravated by reduced hardwood sawmill capacity as well as inclement weather in some of the Company's key procurement areas earlier this year which restricted logging activities. Nonetheless, the Company believes that the strength of its procurement network should allow Stella-Jones to meet demand at an optimal cost. Margins will be affected in the short-term until the Company is able to adjust selling prices as per provisions in most of its multi-year contracts. Certain adjustments have started to take effect in the third quarter, as evidenced by a reduction in the year-over-year negative variation in the Company's gross profit as a percentage of sales, when compared with the second quarter.

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. Finalizing the integration of the PWP and Boatright 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 acquisitions realized in the last twelve months. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

November 6, 2014