MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and six-month periods ended June 30, 2015 compared with the three- and six-month periods ended June 30, 2014

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 on August 6, 2015 and the Board of Directors on August 7, 2015. The MD&A provides a review of the significant developments and results of operations of the Company during the three- and six-month periods ended June 30, 2015 compared with the three- and six-month periods ended June 30, 2014. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended June 30, 2015 and 2014 and the notes thereto, as well as the Company's annual consolidated financial statements and MD&A for the year ended December 31, 2014.

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 June 30, 2015, the Company operates twenty-seven wood treating plants, eleven pole peeling facilities and a coal tar distillery. These facilities are located in five Canadian provinces and sixteen American states and are complemented by an extensive distribution network across North America. As at June 30, 2015, the Company's workforce numbered approximately 1,600 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**		**Six-month periods ended**	
(millions of dollars)	**June 30, 2015**	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
Net income for the period	$38.9	$28.8	$69.0	$51.3
Plus:				
Provision for income taxes	$18.1	$9.5	$31.7	$19.0
Financial expenses	$4.1	$3.3	$8.1	$5.9
Operating income	$61.1	$41.6	$108.8	$76.4
Depreciation and amortization	$5.5	$4.6	$11.2	$8.9
EBITDA	$66.6	$46.2	$120.0	$85.3

* Numbers may not add exactly due to rounding

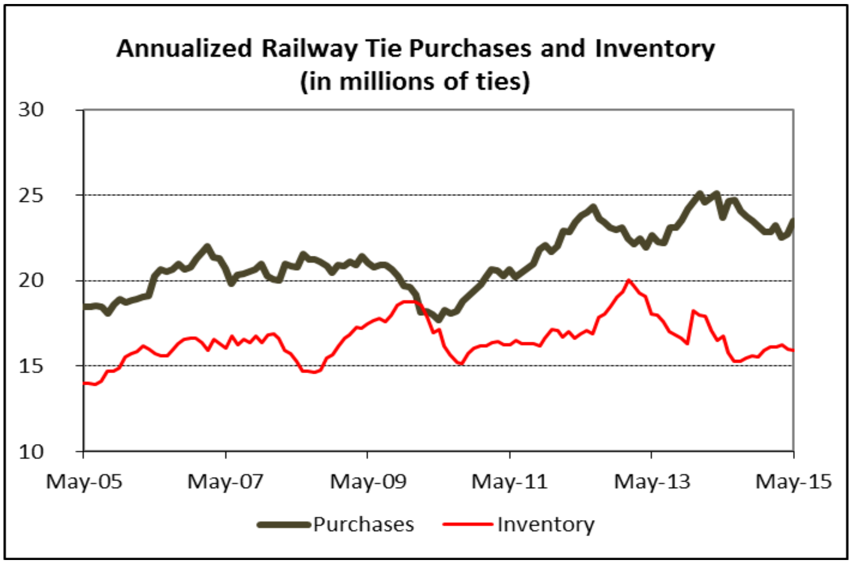
FOREIGN EXCHANGE

The table below shows exchange rates applicable to the periods ended June 30, 2015 and 2014, as well as the period ended December 31, 2014. 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	**2015**		**2014**	
	Average rate for the three-month period ended June 30, 2015	**Closing rate as at June 30, 2015**	**Average rate for the three-month period ended June 30, 2014**	**Closing rate as at December 31, 2014**
	1.2389	1.2490	1.0952	1.1601

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association, railway tie purchases for the first five months of 2015 reached 9.9 million ties, up 6.8% from the same period in 2014. As a result, industry purchases amounted to 23.5 million ties for the 12-month period ended May 31, 2015. Meanwhile, industry inventory remained tight at 16.0 million ties as at May 31, 2015, representing an inventory-to-sales ratio of 0.68:1, below the previous ten-year average ratio of 0.78:1. Lower untreated railway tie availability in 2014 has tightened the ratio, which is expected to trend upwards as this situation is gradually improving in 2015.



Source: *Railway Tie Association*

Year-over-year total traffic on North American railroads remained stable in the first six months of 2015, according to data released by the Association of American Railroads. While the number of carloads decreased by 3.0%, mainly due to lower coal shipments, the volume of intermodal trailers and containers rose 3.3% from 2014 levels.

OPERATING RESULTS

Sales

Sales for the quarter ended June 30, 2015 reached $428.1 million, up $83.3 million, or 24.2%, over last year's sales of $344.8 million for the same period. The wood treating facilities acquired from Boatright Railroad Products, Inc. ("Boatright") on May 22, 2014 contributed additional sales of $27.3 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 $38.1 million on the value of U.S. dollar denominated sales when compared with last year's second quarter. Excluding these factors, sales increased approximately $17.9 million, or 5.2%, as a result of higher year-over-year pricing for railway ties and higher sales of residential lumber.

For the six-month period ended June 30, 2015, sales amounted to $768.8 million, versus $602.3 million for the corresponding period a year earlier. The Boatright facilities contributed additional sales of $48.4 million, while the conversion effect from fluctuations in the value of the Canadian dollar versus the U.S. dollar, had a positive impact of $67.5 million on the value of U.S. dollar denominated sales. Excluding these factors, sales increased approximately $50.6 million, or 8.4%.

Sales by product category

Railway ties

Railway tie sales for the second quarter of 2015 amounted to $194.8 million, representing an increase of 37.7%, over sales of $141.5 million in the second quarter of 2014. Excluding sales from the Boatright assets and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, railway tie sales rose approximately $9.6 million, or 6.8%, primarily as a result of higher selling prices. Railway tie sales accounted for 45.5% of the Company's second-quarter sales.

For the first six months of 2015, railway tie sales reached $361.5 million, up 44.6% from $250.1 million in the first six months of 2014. Excluding sales from the Boatright assets and the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, railway tie sales increased approximately $33.2 million, or 13.3%, primarily as a result of higher selling prices.

Utility poles

Utility pole sales reached $136.7 million in the second quarter of 2015, up 12.4% from sales of $121.6 million in the corresponding period in 2014. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, sales increased $2.7 million, or 2.2%, compared to the previous year. The variation reflects a steady rise in sales of distribution poles stemming from regular maintenance projects, partially offset by lower sales of transmission poles due to decreased demand in special projects as a result of the weakness in the oil and gas as well as mining industries. Utility pole sales accounted for 31.9% of the Company’s total sales in the second quarter of 2015.

For the six-month period ended June 30, 2015, utility pole sales amounted to $255.9 million, compared with $229.2 million a year earlier. Excluding the conversion effect from fluctuations in the value of the Canadian dollar against the U.S. dollar, sales increased $4.7 million, or 2.0%.

Residential lumber

Sales in the residential lumber category totalled $60.9 million in the second quarter of 2015, versus $49.4 million a year earlier. The variation mainly reflects higher sales in the United States due to a healthy economy and a higher conversion rate on U.S. dollar denominated sales, as well as higher sales in Western Canada, mostly explained by the Company’s increasing market reach in British Columbia. Residential lumber accounted for 14.2% of Stella-Jones' sales in the second quarter of 2015. For the first six months of 2015, residential lumber sales stood at $89.3 million, versus $66.6 million in the first six months of 2014.

Industrial products

Industrial product sales reached $25.4 million in the second quarter of 2015, compared with $25.1 million in the second quarter of 2014. Excluding the additional contribution of the Boatright assets and the year-over-year currency conversion effect on U.S. dollar denominated sales, industrial product sales declined due to lower sales of rail related products. Industrial products represented 5.9% of the Company’s sales in the three-month period ended June 30, 2015. In the six-month period ended June 30, 2015, industrial product sales totalled $45.3 million, up from $40.9 million a year earlier.

Non-pole-quality logs

For the quarter ended June 30, 2015, non-pole-quality log sales amounted to $10.4 million, versus $7.2 million for the same period in 2014. This variation is attributable to the timing of timber harvesting. Non-pole-quality log sales represented 2.4% of the Company’s sales in the three-month period ended June 30, 2015. For the first six months of 2015, non-pole-quality log sales were $16.8 million, compared with $15.5 million last year.

Sales by destination

Sales in the United States amounted to $350.9 million, or 82.0% of sales, in the second quarter of 2015, up $72.6 million from $278.3 million in the corresponding period of 2014. This 26.1% year-over-year increase is mainly attributable to the additional contribution from the Boatright assets, the effect of local currency translation on U.S. dollar denominated sales, and higher railway tie sales, primarily resulting from selling price increases. For the first six months of 2015, sales in the United States reached $642.6 million, or 83.6% of sales, compared with $496.0 million in the corresponding period a year earlier.

Meanwhile, sales in Canada in the second quarter of 2015 were $77.2 million, representing 18.0% of Stella-Jones' total sales, up $10.7 million from $66.5 million in the second quarter of 2014. This 16.0% year-over-year increase reflects higher railway tie sales and increased market reach for residential lumber in British Columbia. In the first half of 2015, sales in Canada amounted to $126.2 million, or 16.4% of sales, compared with $106.3 million last year.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, as well as amortization of intangible assets, was $343.9 million, or 80.3% of sales, for the three-month period ended June 30, 2015. This compares with $284.7 million, or 82.6% of sales, in the three-month period ended June 30, 2014. The increase in absolute dollars essentially reflects higher business activity, the addition of the Boatright assets and the effect of currency translation on U.S. dollar denominated costs. The decrease as a percentage of sales is mainly attributable to adjusted pricing for railway ties and greater efficiency throughout the Company's network. Depreciation and amortization charges reached $5.5 million for the three-month period ended June 30, 2015, versus $4.6 million in the corresponding period of 2014. As a result, gross profit reached $84.1 million, or 19.7% of sales, in the second quarter of 2015, up from $60.1 million, or 17.4% of sales, in the second quarter of 2014.

For the first six months of 2015, cost of sales reached $618.2 million, or 80.4% of sales, versus $492.0 million, or 81.7% of sales, in the first six months of 2014. The variations, both in dollars and as a percentage of sales, are attributable to the factors described in the above paragraph. Depreciation and amortization charges reached $11.2 million for the six-month period ended June 30, 2015, versus $8.9 million a year earlier. As a result, gross profit reached $150.6 million, or 19.6% of sales, in the six-month period ended June 30, 2015, up from $110.3 million, or 18.3% of sales, in the six-month period ended June 30, 2014.

Selling and administrative

Selling and administrative expenses for the second quarter of 2015 were $21.0 million, compared with expenses of $17.8 million in the second quarter of 2014. This variation is mainly attributable to increases of $1.5 million and $1.2 million, respectively, in profit-sharing expenses and stock-based compensation, as well as the effect of currency translation. As a percentage of sales, selling and administrative expenses were 4.9% of sales in the second quarter of 2015, down from 5.2% of sales a year earlier.

For the six-month period ended June 30, 2015, selling and administrative expenses reached $40.3 million, or 5.2% of sales, compared with $33.2 million, or 5.5% of sales, in the six-month period ended June 30, 2014.

Other losses, net

Stella-Jones' other net losses of $2.0 million for the three-month period ended June 30, 2015, essentially consisted of a $558,000 loss on the sale of timber licences, a foreign exchange loss of $469,000 and plant closure provision adjustments of $463,000. Last year's other net losses of $650,000 were primarily related to a $1.6 million write-off of certain property, plant and equipment in the United States, partially offset by a $909,000 foreign exchange gain. For the first six months of 2015, other net losses amounted to $1.5 million, compared with $738,000 in the first six months of 2014.

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 six-month periods ended June 30, 2015 amounted to $4.1 million and $8.1 million, respectively, up from $3.3 million and $5.9 million, respectively, in the three- and six-month periods ended June 30, 2014. These variations are due to higher year-over-year borrowings following the acquisition of Boatright, increased working capital requirements and the effect of local currency conversion on financial expenses related to the Company's U.S. dollar denominated borrowings.

Income before income taxes and income tax expense

Stella-Jones generated income before income taxes of $57.1 million, or 13.3% of sales, in the second quarter of 2015. This represents an increase of 49.2% over income before income taxes of $38.3 million, or 11.1% of sales, in the second quarter of 2014. The provision for income taxes totalled $18.2 million in the second quarter of 2015, representing an effective tax rate of 31.8%. In the second quarter of 2014, the income tax expense stood at $9.4 million, equivalent to an effective tax rate of 24.7%.

For the first half of 2015, income before income taxes stood at $100.7 million, or 13.1% of sales, while the provision for income taxes amounted to $31.7 million, representing an effective tax rate of 31.4%. In the first half of 2014, income before income taxes was $70.4 million, or 11.7% of sales, while the provision for income taxes stood at $19.1 million, equivalent to an effective tax rate of 27.1%.

For the three- and six-month periods ended June 30, 2015, the year-over-year increase in income before income taxes as a percentage of sales essentially reflects a higher gross profit as a percentage of sales. The higher effective tax rate for the three- and six-month periods ended June 30, 2015 is attributable to a less favourable allocation of taxable income within the Company's different tax jurisdictions.

Net income

Net income for the quarter ended June 30, 2015 reached $38.9 million, or $0.56 per share, fully diluted, compared with $28.8 million, or $0.42 per share, fully diluted, in the quarter ended June 30, 2014. This represents a year-over-year increase in net income of 35.1%.

For the first half of 2015, net income rose 34.5% to $69.0 million, or $1.00 per share, fully diluted, from $51.3 million, or $0.74 per share, fully diluted, in the first half of 2014.

PROPOSED ACQUISITION OF RAM FOREST GROUP INC. AND RAMFOR LUMBER INC.

On June 19, 2015, the Company signed a definitive agreement to purchase the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. The signature of a non-binding letter of intent in respect of the proposed acquisition was reported by Stella-Jones on April 29, 2015.

Through its wholly-owned subsidiaries, Ram Forest Products Inc. and Trent Timber Treating Ltd., Ram Forest Group manufactures and sells pressure treated wood products and accessories to the retail building materials industry. Ramfor Lumber is a lumber purchasing entity serving Ram Forest Products and Trent Timber Treating.

The definitive share purchase agreement provides for a purchase price of $58.0 million, which includes $15.0 million of working capital and is subject to adjustments. The transaction is expected to close in October 2015 and is subject to customary closing conditions, including regulatory clearance. The proposed timetable for the transaction has been designed to minimize disruption of Ram Forest Group's operations and ensure a seamless transition for its customers, suppliers and employees. Stella-Jones plans to finance the transaction through its existing committed revolving credit facility.

ACQUISITION OF MCCORMICK PILING AND LUMBER CO.

On April 7, 2015, the Company completed, through its wholly-owned U.S. subsidiary, the acquisition of certain assets of McCormick Piling and Lumber Co. ("McCormick"), a provider of untreated wood poles. McCormick operates a wood pole peeling yard located in Warren, Oregon. This acquisition enhances the Company's wood procurement operations.

Total cash outlay associated with the acquisition was approximatively $4.4 million (US$3.5 million), excluding acquisition costs of approximately $226,000, 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 these 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 the respect to intangible assets and 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	
Accounts receivable	701
Inventories	1,486
Property, plant and equipment	727
Customer relationships	849
Goodwill	3,069
	6,832
Liabilities assumed	
Accounts payable and accrued liabilities	294
Total net assets acquired and liabilities assumed	**6 538**
Consideration transferred	
Cash	4,391
Unsecured promissory note – 12 months	1,342
Unsecured promissory note – 24 months	805
Consideration transferred	**6,538**

The Company's valuation of intangible assets has identified customer relationships. The assigned useful life for the customer relationships is three years. 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 enhanced procurement 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 McCormick acquisition, goodwill is allocated to plants specialized in the treatment of utility poles.

The Company financed the acquisition through a combination of its existing committed revolving credit facility and two unsecured promissory notes. The first unsecured promissory note of $1.4 million (US$1.1 million) bears interest at 0.48%, is repayable in a single instalment on April 8, 2016 and was fair valued at $1.3 million, using an interest rate of 7.0%. The second unsecured promissory note of $927,609 (US$742,800) bears interest at 0.48%, is repayable in a single instalment on April 8, 2017 and was fair valued at $805,476, 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 ten quarters.

2015*

For the quarters ended	March 31	June 30			
(millions of dollars, except per share data)	$	$			
Sales	340.7	428.1			
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	53.3	66.6			
Operating income [1]	47.6	61.1			
Net income for the period	30.1	38.9			
Earnings per common share Basic Diluted	 0.44 0.43	 0.56 0.56			

2014*

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(millions of dollars, except per share data)	$	$	$	$	$
Sales	257.5	344.8	357.3	289.9	1,249.5
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	39.1	46.2	51.3	39.7	176.3
Operating income [1]	34.7	41.6	45.5	33.9	155.7
Net income for the period	22.5	28.8	29.5	23.0	103.8
Earnings per common share Basic Diluted	 0.33 0.33	 0.42 0.42	 0.43 0.43	 0.33 0.33	 1.51 1.50

2013*

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(millions of dollars, except per share data)	$	$	$	$	$
Sales	222.6	280.9	285.3	222.5	1,011.3
Operating income before depreciation of property, plant and equipment and amortization of intangible assets [1]	33.9	44.9	42.5	33.7	155.0
Operating income [1]	29.7	41.0	38.6	29.5	138.7
Net income for the period	18.8	26.4	27.7	19.7	92.5
Earnings per common share Basic Diluted	 0.27 0.27	 0.38 0.38	 0.40 0.40	 0.29 0.29	 1.35 1.34

[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 unaudited interim consolidated financial statements, as there are no adjustments for unusual or non-recurring items.

* Numbers may not add exactly due to rounding

STATEMENT OF FINANCIAL POSITION

Assets

As at June 30, 2015, total assets reached $1.49 billion, up from $1.29 billion as at December 31, 2014. The increase mostly reflects higher accounts receivable and inventories, as detailed below, as well as the effect of local currency translation on U.S.-based assets.

The value of accounts receivable was $213.8 million as at June 30, 2015, compared with $127.5 million as at December 31, 2014. The variation is attributable to higher sales volumes in the second quarter of 2015 when compared with the fourth quarter of 2014, and the effect of local currency translation on U.S.-based accounts receivable.

Inventories stood at $620.1 million as at June 30, 2015, up from $547.2 million as at December 31, 2014. This increase reflects anticipated sales growth going forward, the gradual rebuilding of inventory as untreated railway tie availability returned to normal levels, as well as 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 customers enable the Company to better ascertain inventory requirements. The Company believes that its cash flow from operations and available credit facility are adequate to meet its working capital requirements for the foreseeable future.

The value of property, plant and equipment stood at $312.0 million as at June 30, 2015, compared with $281.6 million as at December 31, 2014. This increase is attributable to the effect of local currency translation on U.S.-based property, plant and equipment during the first half of 2015, and to the purchase of property, plant and equipment ($20.1 million) exceeding depreciation ($5.9 million) for the period.

The value of intangible assets and goodwill reached $110.9 million and $212.9 million, respectively, as at June 30, 2015. 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, 2014, intangible assets and goodwill were $110.3 million and $195.0 million, respectively. The increase in the value of intangible assets stems from the effect of local currency translation on U.S.-based intangibles, partially offset by the disposal of forest licenses valued at $2.6 million and the amortization charge of $5.3 million in the first six months of 2015. The increase in goodwill is explained by the effect of local currency translation on U.S. dollar denominated goodwill and by the acquisition of McCormick.

Liabilities

As at June 30, 2015, Stella-Jones' total liabilities stood at $702.6 million, up from $595.2 million as at December 31, 2014. 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 $145.1 million as at June 30, 2015, versus $82.4 million as at December 31, 2014. This variation is mainly attributable to a $50.3 million increase in the current portion of long-term debt due to the maturity, on April 1, 2016, of an unsecured, subordinated and non-convertible debenture of $31.2 million (US$25.0 million), as well as of an unsecured and non-convertible debenture of $12.5 million (US$10.0 million). The Company intends to repay these debentures through its current committed revolving credit facility and its cash flow from operating activities. The increase in current liabilities also reflects a $7.6 million increase in accounts payable and accrued liabilities, as a result of greater business activity and the effect of local currency translation on U.S. dollar denominated accounts payable and accrued liabilities.

The Company's long-term debt, including the current portion, was $538.1 million as at June 30, 2015, up from $444.6 million as at December 31, 2014. 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 June 30, 2015, an amount of $85.5 million was available against the Company's committed revolving credit facility of $562.1 million (US$450.0 million).

Shareholders' equity

Shareholders' equity reached $790.3 million as at June 30, 2015 compared with $692.3 million as at December 31, 2014. This increase is attributable to net income of $69.0 million in the first half of 2015 and to a $38.2 million favourable variation in the value of accumulated other comprehensive gain resulting from the effect of currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows	**Three-Month Periods Ended**		**Six-Month Periods Ended**	
(millions of dollars)	**June 30, 2015**	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
Operating activities	$1.1	$22.4	($24.8)	$4.2
Financing activities	$13.7	$41.1	$46.8	$61.8
Investing activities	($14.8)	($63.5)	($22.0)	($69.2)
Net change in cash and cash equivalents during the period	$---	$---	$---	($3.2)
Cash and cash equivalents - beginning	$---	$---	$---	$3.2
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 $69.6 million for the three-month period ended June 30, 2015, compared with $48.5 million for the same period in 2014. This increase mostly reflects a higher net income for the period.

Changes in non-cash working capital components reduced liquidity by $44.8 million in the second quarter of 2015, mainly due to increases of $39.7 million and $12.8 million, respectively, in accounts receivable and inventories as a result of normal seasonal working capital requirements, including the aforementioned inventory rebuilding of inventory. In the second quarter of 2014, changes in non-cash working capital components had used liquidity of $5.9 million. Interest and income tax paid further reduced liquidity by $3.0 million and $20.7 million, respectively, in the second quarter of 2015, versus $2.8 million and $17.3 million, respectively, a year earlier. As a result, cash flows provided by operating activities reached $1.1 million in the second quarter of 2015, versus $22.4 million in the second quarter of 2014.

For the six-month period ended June 30, 2015, cash flow from operating activities before changes in non-cash working capital components and interest and income tax paid stood at $125.3 million, up from $88.8 million for the same period in 2014. Changes in non-cash working capital components reduced liquidity by $114.0 million in the first six months of 2015, compared with a liquidity reduction of $53.7 million last year. Interest and income tax paid further reduced liquidity by $6.5 million and $29.6 million, respectively, in the first half of 2015, versus $5.9 million and $25.1 million, respectively, a year earlier. As a result, operating activities used liquidity of $24.8 million in the first six months of 2015, versus providing liquidity of $4.2 million in the first six months of 2014.

Financing activities for the quarter ended June 30, 2015 provided funds of $13.7 million. This cash generation essentially stems from a net increase of $24.4 million in long-term debt, partially offset by the payment of $11.0 million in dividends on common shares. For the quarter ended June 30, 2014, financing activities provided liquidity of $41.1 million.

In the first six months of 2015, financing activities generated liquidity of $46.8 million, compared with $61.8 million in the first six months of 2014.

Investing activities used $14.8 million in liquidity during the second quarter of 2015, mainly consisting of purchases of property, plant and equipment, primarily for the addition of various equipment upgrades and expansions for an amount of $12.9 million. For the quarter ended June 30, 2014, cash flows from investing activities decreased liquidity by $63.5 million due to the acquisition of Boatright.

In the first six months of 2015, investing activities reduced liquidity by $22.0 million, compared with $69.2 million in the first six months of 2014.

The following table details the maturities of the financial obligations as at June 30, 2015:

(in millions 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	77.3	77.3	77.3	-	-	-
Long-term debt obligations	538.1	578.9	70.6	30.0	476.5	1.8
Interest rate swaps	1.1	4.0	2.1	1.9	-	-
Minimum payments under operating lease obligations	-	78.3	18.9	28.4	14.0	17.0
Non-compete agreements	0.8	0.8	0.5	0.3	-	-
Total	617.3	739.3	169.4	60.6	490.5	18.8

SHARE AND STOCK OPTION INFORMATION

As at June 30, 2015, the capital stock issued and outstanding consisted of 69,015,369 common shares (68,949,064 as at December 31, 2014). The following table presents the outstanding capital stock activity for the three- and six-month periods ended June 30, 2015:

Number of shares (in '000s)	**Three-month Period Ended June 30, 2015**	**Six-month Period Ended June 30, 2015**
Balance – Beginning of period	68,978	68,949
Exercise of stock options	31	54
Employee share purchase plans	6	12
Balance – End of period	69,015	69,015

As at August 7, 2015, the capital stock issued and outstanding consisted of 69,015,369 common shares.

As at June 30, 2015, the number of outstanding options to acquire common shares issued under the Company's Stock Option Plan was 274,706 (December 31, 2014 – 328,706) of which 262,706 (December 31, 2014 – 310,706) were exercisable. As at August 7, 2015, the number of outstanding options was 274,706, of which 262,706 were exercisable.

DIVIDENDS

On August 7, 2015, the Board of Directors declared a quarterly dividend of $0.08 per common share payable on September 25, 2015 to shareholders of record at the close of business on September 4, 2015.

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 2014 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.

Railway tie demand is expected to remain healthy, as solid fundamental factors are leading to further investments in the continental rail network. Product availability has returned to a more appropriate level in the untreated railway tie market and consistent supply in the coming months will be a key factor in rebuilding inventory. The Company believes the strength of its procurement network and its current inventory position should allow Stella-Jones to meet demand at an optimal cost.

In the utility pole market, while regular maintenance demand should continue to grow at a steady pace, lower resource prices have resulted in a decrease in demand for special projects. Stella-Jones nonetheless believes that industry demand should improve in upcoming years, 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 June 30, 2015, the Company is in full compliance with its debt covenants and contractual obligations. In addition, as at June 30, 2015, an amount of $85.5 million was available against the Company's committed revolving credit facility of $562.1 million (US$450.0 million).

Accounts receivable increased during the first six months of 2015 as a result of higher sales volumes in the second quarter of 2015 when compared with the fourth quarter of 2014, and the effect of local currency translation on U.S.-based accounts receivable. 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 six months of 2015 due to anticipated sales growth going forward, the gradual rebuilding of inventory as untreated railway tie availability returns to normal levels, as well as the effect of local currency translation on U.S.-based inventories. 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 2014 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2014 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and such differences could be material. Estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the financial statements of the period in which they become known.

Significant items subject to estimates and assumptions include the estimated useful life of assets, impairment of goodwill and impairment of long-lived assets.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at June 30, 2015, and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other

Company management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at June 30, 2015.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of ICFR during the period from April 1, 2015 to June 30, 2015 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

Railway tie demand is expected to remain healthy for the remainder of 2015 as solid fundamental factors are leading to further investments in the continental rail network. Product availability has returned to a more appropriate level in the untreated railway tie market and consistent supply in the coming months will be a key factor in rebuilding inventory. The Company believes the strength of its procurement network and its current inventory position should allow Stella-Jones to meet demand at the most optimal cost.

In the utility pole market, while regular maintenance demand should continue to grow at a steady pace, lower resource prices have resulted in a decrease in demand for special projects. Stella-Jones nonetheless believes that industry demand should improve in upcoming years, 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.

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.

In the short-term, the Company will continue to focus on cash generation and on maintaining a prudent use of leverage. The solid cash flows 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 the wood treating industry, as evidenced by the proposed acquisition of the shares of Ram Forest Group Inc. and Ramfor Lumber Inc. These opportunities must meet its stringent investment requirements, provide synergistic opportunities, and add value for shareholders.

August 7, 2015