



ESG REPORT



February 2019



INTRODUCTION

I am pleased to present Stella-Jones' first Environmental, Social and Governance (ESG) Report. While this is our inaugural report, we have been committed to sustainability for many years. As a manufacturer of industrial treated wood products with close to 40 treating plants, a coal tar distillery and multiple pole peeling facilities spread across Canada and the United States, we are mindful that our everyday actions can have an impact on our environment, as well as the health and safety of our employees. Over the years, we have implemented numerous sustainability initiatives including a dedicated Environmental, Health and Safety Committee of the Board, an Environmental, Health & Safety (EH&S) Management System, dedicated employee training programs, and Whistleblowing and Diversity policies, among others. We are committed to being a model corporate citizen and to continuously improving our sustainability practices.

Our first edition can be characterized as a baseline report from which we will be able to measure our progress going forward. It covers ESG indicators that we believe are important to our business such as energy use, air emissions, health and safety of our employees and governance practices for the year ended December 31, 2017. It provides a snapshot of where we stand on sustainability today. Our focus in the short-term is to build a solid base of historical data. Once we have this foundation, we will develop ESG goals, targets and more formalized timelines to achieve our objectives, so that following year end 2018, we will be in a position to provide a meaningful update on our progress on an annualized basis.

The release of our first ESG Report is an important milestone in the evolution of our Company. I am confident that we will continue to strengthen our sustainability performance just as we have been able to improve our financial performance over the past 25 years.

A handwritten signature in black ink, appearing to read 'B. McManus', with a long horizontal flourish extending to the right.

Brian McManus
President and Chief Executive Officer



01

GOVERNANCE

GUIDING PRINCIPLES

Stella-Jones is committed to the sound principles of corporate governance. The Board of Directors reviews the applicable corporate governance guidelines on an annual basis, evaluates the Company's practices against them and initiates changes, where appropriate, to improve performance. Sound governance practices guide the decisions and behaviours that are central to the effective operation and success of the Company.



GOVERNANCE

GOVERNANCE INDICATOR	2017 RESULTS	2018 RESULTS	COMMENTS
Number of Board members	10	9	The Board of Directors' profile changed significantly in 2018. The founding members, Mr. Tom A. Bruce Jones and Mr. Gianni Chiavra, stepped down from the Board on August 14, 2018, immediately following the sale by their holding company, Stella Jones International S.A., of all of its common shares in Stella-Jones Inc. In addition, in September and November 2018, Stella-Jones announced a new Chair of the Board, Board member changes, the establishment of a Governance and Nomination Committee and the implementation of additional governance initiatives.
Percentage of independent Directors	60%	78%	
Percentage of women on Board	30%	44%	
Chair and CEO roles are separate	Yes	Yes	
Chair is independent	No	Yes	
Lead independent Director	Yes	N/A	
Independent Board member meetings	Yes	Yes	The independent Board members meet in an executive session at every Board of Directors' meeting.
Whistleblowing Policy	Stella-Jones has a Whistle Blowing Procedures Policy .		The Whistleblowing Policy, Code of Business Conduct and Ethics and Diversity Policy are reviewed by the Board on an annual basis and updated when deemed necessary.
Bribery and Corruption Policy	Yes, within the Code of Business Conduct and Ethics policy.		
Code of Ethics	Stella-Jones has a Code of Business Conduct and Ethics .		
Diversity Policy	Stella-Jones has a Board Diversity Policy .		



SOCIAL

GUIDING PRINCIPLES

Stella-Jones is committed to Health and Safety stewardship. Stella-Jones is focused on continuous improvement towards an accident-free workplace through effective administration, education, training and proper maintenance of facilities and equipment.



SOCIAL

SOCIAL INDICATOR	2017 RESULTS	COMMENTS
Number of total employees	1,877	Women represent 20% of manager-level positions at Stella-Jones. The role of Vice-President, General Counsel and Secretary is held by a woman (representing 5% of all senior executives).
Number of female employees	292	
Number of male employees	1,585	
Percentage of female employees	16%	
Percentage of male employees	84%	
Number of women in senior executive roles	1	
Percentage of women in senior executive roles	5%	
Number of unionized employees	313	The majority of unionized employees are from the Canadian operations and many originate from acquisitions.
Percentage of unionized employees	17%	
Employee turnover rate (% of employees)	18.9%	The employee turnover rate is primarily related to entry-level employees in the Company's manufacturing facilities.

SOCIAL

SOCIAL INDICATOR	2017 RESULTS	COMMENTS
Health & Safety Management System ⁽¹⁾	Yes	<p>Stella-Jones is committed to having a safe environment for its employees. It provides them with many hours of training. In fact, the Company's consolidated DART rate is better than the industry average of 3.2. The majority of the Company's lost time accident cases are for minor injuries that require light duty recovery. Stella-Jones continues to strive to improve this rate every year.</p> <p>Stella-Jones uses integrated environmental, health and safety (EH&S) management systems designed to provide employees with the necessary tools to proactively identify, manage and minimize EH&S risks. In the U.S., the management system is named SHIELD (Safety, Health and Improved Environment Leading our Decisions). In Canada, the environmental management system is part of the Technical Recommendations Documents (TRD) process and is externally certified by Environment Canada and the Canadian Wood Preservation Association. In 2017, the Canadian audited facilities scored, on average, above 98%.</p>
Average hours of training per year, per employee (H&S) ⁽¹⁾	32.5	
Lost time accident cases (based on DART ⁽²⁾ : days away, restricted or transferred) ⁽¹⁾	44	
Lost time accident frequency rate (DART rate ⁽¹⁾⁽³⁾)	2.2	
Number of fatalities	0	

(1) This result is based on the Company's 37 treating facilities and does not include its 12 pole peeling facilities.

(2) This safety metric is required by the United States Occupational Safety and Health Administration.

(3) DART rate = (Total number of recordable injuries and illnesses that caused a worker to be away, restricted, or transferred x 200,000) / Total number of hours worked by all employees (200,000 represents the number of hours that 100 employees will work over a 50-week span (leaving out two weeks to account for holidays), assuming a 40-hour work week).



03

ENVIRONMENT

GUIDING PRINCIPLES

Stella-Jones recognizes the environmental implications of its activities, as well as its responsibility to take proactive measures in order to conserve and protect the environment, including air, water, land and other natural resources. We are committed to being a model corporate citizen and to continuously improving our sustainability practices as is evidenced by our dedicated senior leadership in environment, our strong compliance processes, our open communication with environmental authorities and our long-standing Environmental, Health and Safety Committee of the Board of Directors.



ENVIRONMENT

ENVIRONMENT INDICATOR	2017 RESULTS		COMMENTS
Number of plants/facilities in Canada and the U.S. ⁽¹⁾	37		Stella-Jones operates 37 treating plants (13 in Canada and 24 in the U.S.), 12 pole peeling facilities and a coal tar distillery. These facilities are located in 6 Canadian provinces and 19 American states. Most of Stella-Jones' operations are in the U.S., where over 70% of its revenues are generated.
Environmental Policy	Yes		The Environment, Health and Safety Policy is included in the Annual Information Form .
Environmental Management System based on ISO 14001 ⁽¹⁾	Yes		Stella-Jones uses integrated environmental, health and safety (EH&S) management systems designed to provide employees with the necessary tools to proactively identify, manage and minimize EH&S risks. In the U.S., the management system is named SHIELD (Safety, Health and Improved Environment Leading our Decisions). In Canada, the environmental and safety management system is part of the Technical Recommendations Documents (TRD) process.
Energy used from fossil fuels ⁽¹⁾ (natural gas, propane and diesel) (in MWh) or per 1,000 cubic feet produced	338,480	3.557 cu ft	Stella-Jones continually seeks opportunities for reduction of energy usage and emissions. Low carbon fuels are utilized when possible. For example, biomass in the form of scrap wood and sawdust from wood working operations is utilized as fuel where feasible. Using biomass as fuel reduces the amount of scrap wood and sawdust that could take up limited and valuable landfill space, if an alternative use is not found. In addition, the use of biomass in place of fossil fuels reduces greenhouse gas (GHG) emissions.
Energy used from electricity purchased ⁽¹⁾ (in MWh) or per 1,000 cubic feet produced	61,900	0.651 cu ft	
Energy intensity ⁽¹⁾ (MWh/\$million revenue)	0.21		

(1) This result is based on the Company's 37 treating facilities and does not include its 12 pole peeling facilities.

ENVIRONMENT

ENVIRONMENT INDICATOR	2017 RESULTS		COMMENTS
Greenhouse gases (GHG) ⁽¹⁾⁽²⁾ – Scope 1 (in tonnes) <i>or per 1,000 cubic feet produced</i>	70,200	0.738 cu ft	Stella-Jones' emissions are from its electricity usage as well as its consumption of fossil fuels, such as diesel, gasoline, and fuel oil to power boilers, vehicles and mobile equipment. Direct emissions (Scope 1) are primarily a result of the combustion of natural gas in stationary fuel combustion sources (boilers) and diesel and gasoline in transportation/mobile sources. In addition, Stella-Jones uses a small amount of fuel, propane gas and kerosene.
Greenhouse gases (GHG) ⁽¹⁾⁽²⁾ – Scope 2 (in tonnes) <i>or per 1,000 cubic feet produced</i>	17,700	0.186 cu ft	
Greenhouse gases (GHG) intensity ⁽¹⁾⁽²⁾ (tCO ₂ e/\$million revenue)	0.046		
Volatile organic compounds (VOC) ⁽¹⁾ (in tonnes) <i>or per 1,000 cubic feet produced</i>	310	0.003 cu ft	The hazardous wastes generated at Stella-Jones' facilities primarily consist of spent wood preservative chemicals with dust, metal and wood particles. Hazardous wastes are shipped to government licensed and approved facilities. Wastes are typically disposed of via energy recovery, incineration, stabilization, landfill, or a combination of these technologies.
Total waste generated absolute ⁽¹⁾ (tonnes) <i>or per 1,000 cubic feet produced</i>	8,980	0.094 cu ft	
Total weight of hazardous waste ⁽¹⁾ (tonnes) <i>or per 1,000 cubic feet produced</i>	2,020	0.021 cu ft	
Total weight of non-hazardous waste ⁽¹⁾ (tonnes) <i>or per 1,000 cubic feet produced</i>	8,950	0.094 cu ft	
Waste generated intensity ⁽¹⁾ (tonnes/revenue)	0.01		
Waste sent to landfills ⁽¹⁾ (mt) <i>or per 1,000 cubic feet produced</i>	11,900	0.125 cu ft	

(1) This result is based on the Company's 37 treating facilities and does not include its 12 pole peeling facilities, which does not carry out significant industrial activity.

(2) This result includes the coal tar distillery.

ENVIRONMENT

ENVIRONMENT INDICATOR	2017 RESULTS	COMMENTS
Number of reportable spills ⁽¹⁾	4	All significant spills are reported to the appropriate regulatory agencies and remediated as necessary.
Notices of violation for non-compliance with environmental regulation ⁽¹⁾	7	All Notices of violation with environmental regulations are investigated and corrected as quickly as possible. Corrective and preventive actions are completed to prevent recurrence. Stella-Jones reports the results of the corrective and preventive actions back to the regulatory authority as required.
Participation in the Carbon Disclosure Project (CDP)	Yes	Stella-Jones' railway tie division in the U.S. discloses environmental information to the CDP. As part of the Company's commitment for improvement, its U.S. pole treating facilities and its Canadian operations will start disclosing environmental information in the future.
Storm water pollution prevention ⁽¹⁾	Yes	All manufacturing facilities operate in compliance with their government issued stormwater permit or stormwater regulations. Stormwater permits and stormwater regulations require Stella-Jones' facilities to inspect stormwater quality, test for specific parameters as required by the permit or regulation, and implement Best Management Practices (BMP's) to ensure that stormwater leaving the facilities meets all appropriate government issued standards.
Forest management	Yes	Stella-Jones adheres to leading forestry management practices in Canada. The Company complies with requirements to submit cutting plans to reduce soil erosion, to use bridges to cross streams, to preserve vegetation along water courses and replant clear-cut areas.
Investment in land remediation	\$2.2 million	Stella-Jones works cooperatively with regulatory authorities to remediate impacts to the environment from historical wood treating operations which were not governed and controlled by today's rigorous standards.

(1) This result is based on the Company's 37 treating facilities and does not include its 12 pole peeling facilities, as they do not manage nor utilize wood preservatives.



04

TOPICS OF INTEREST

The topics of interest presented in this section were selected based on discussions among management and various stakeholders. The information given is meant to supplement the core report by providing answers to the most frequently asked questions.





PROCUREMENT PRACTICES



Stella-Jones has obtained long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers of timber products. Stella-Jones has contracts with suppliers for preservatives used in its wood treating operations and produces the wood preservative, creosote, at its Memphis, Tennessee facility. The Company obtains its raw material requirements for utility poles from its own timber harvesting licenses (forest licenses, timber quota), through Quebec's auction system of the *Bureau de Mise en Marché des Bois*, Government timber sales, private woodland owners, and through purchases of timber on the open market. Wood supply for railway ties and timbers are purchased from hundreds of sawmills in various regions throughout Canada and the U.S.



EH&S DEPARTMENT STRUCTURE, ACTIVITIES AND MANDATE



As mandated by the Environmental, Health and Safety Committee of Stella-Jones' Board of Directors, Stella-Jones has developed and maintains corporate Environmental Health and Safety (EH&S) personnel. In the U.S., the EH&S Department is led by the Vice President, EH&S US Operations and is staffed by full-time EH&S professionals who are qualified by both university degrees in the EH&S field as well as many years of hands-on EH&S experience. On average, each member of the US EH&S Department has over 20 years of practical EH&S experience. In Canada, the Environmental Department is led by the Vice-President Environment and Technology and General Manager, Atlantic Region. The EH&S team comprises personnel located throughout Canada who are certified by the TRD program as internal auditors and have, on average, 20 years of pertinent experience. EH&S personnel regularly visit all manufacturing facilities to ensure compliance with all EH&S regulations. Activities include: auditing, inspection, training, assistance with corrective actions and development of new or improved EH&S programs.



PRESERVATIVE MANAGEMENT AND CONTROL CYCLE



Wood preservative usage is strictly controlled at Stella-Jones' manufacturing sites and as a result, the Company has recorded no significant spills since inception. Upon delivery, all wood preservatives are stored in specialized tanks and containers which are inside full secondary containment. The wood treating process occurs completely within containment and only after the finished product is inspected and approved does it exit the contained area for shipment to the customer. These safeguards ensure that wood preservatives are not spilled or released into the environment. If an incident occurs, the facility implements its spill contingency plan to control and clean up any accidental spill. Once the clean up is completed, and if applicable, authorities notified, the facility evaluates the effectiveness of the containment and spill plan. Corrective and preventive actions are taken to prevent any recurrence.



WATER MANAGEMENT SYSTEMS



Wood treating processes may generate water which occurs naturally within the raw wood as tree sap. To effectively preserve wood, the internal water must be removed to make room for the wood preservative. This water and other waters generated from precipitation, cleaning, and the wood preserving process is strictly controlled and managed due to the potential for it to contain wood preservatives. The waters are either directly reused in the wood treating process or are treated in an on-site water treatment system specifically designed to capture and remove the wood preservative for reuse. The remaining clean water is either disposed in accordance with government-issued discharge permits, reused, or evaporated on site. In addition, the Company implements Best Management Practices (BMPs) to ensure that stormwater leaving the facilities meets all appropriate government issued standards. As a result, the Company has had an impeccable compliance record over the years.



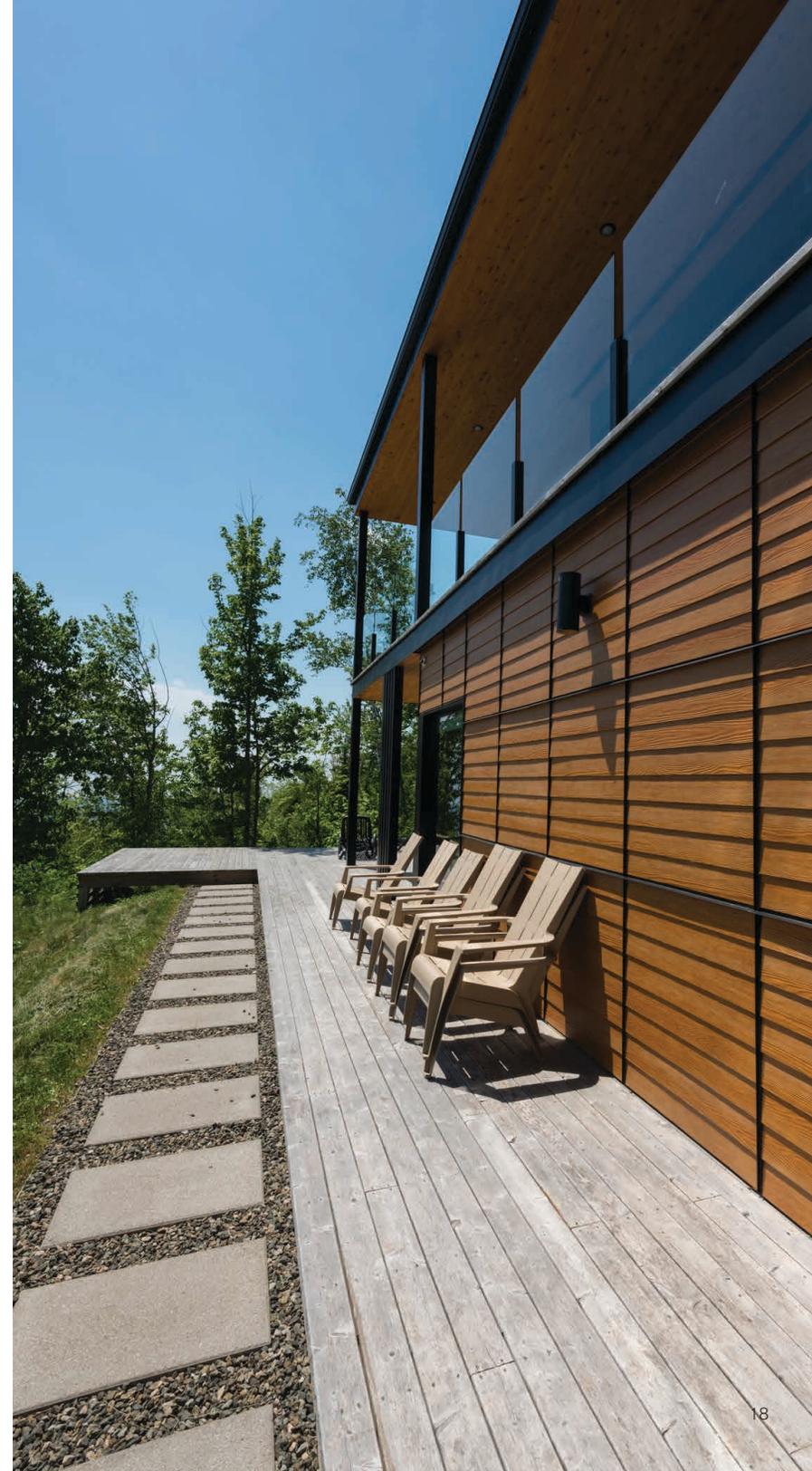
AIR EMISSION PERMITS



Stella-Jones' manufacturing facilities have air emissions associated with the wood treating process. These air emissions are authorized by facility-specific air permits issued by the government regulatory authorities. To obtain its permits, Stella-Jones must identify, quantify, and disclose all sources of air emissions at the applicable site to the government authority. In some cases, emissions must be controlled to meet government standards. In these cases, Stella-Jones employs appropriate air emission control devices to ensure applicable standards are achieved. The Company has had an excellent compliance record with regards to air emissions.

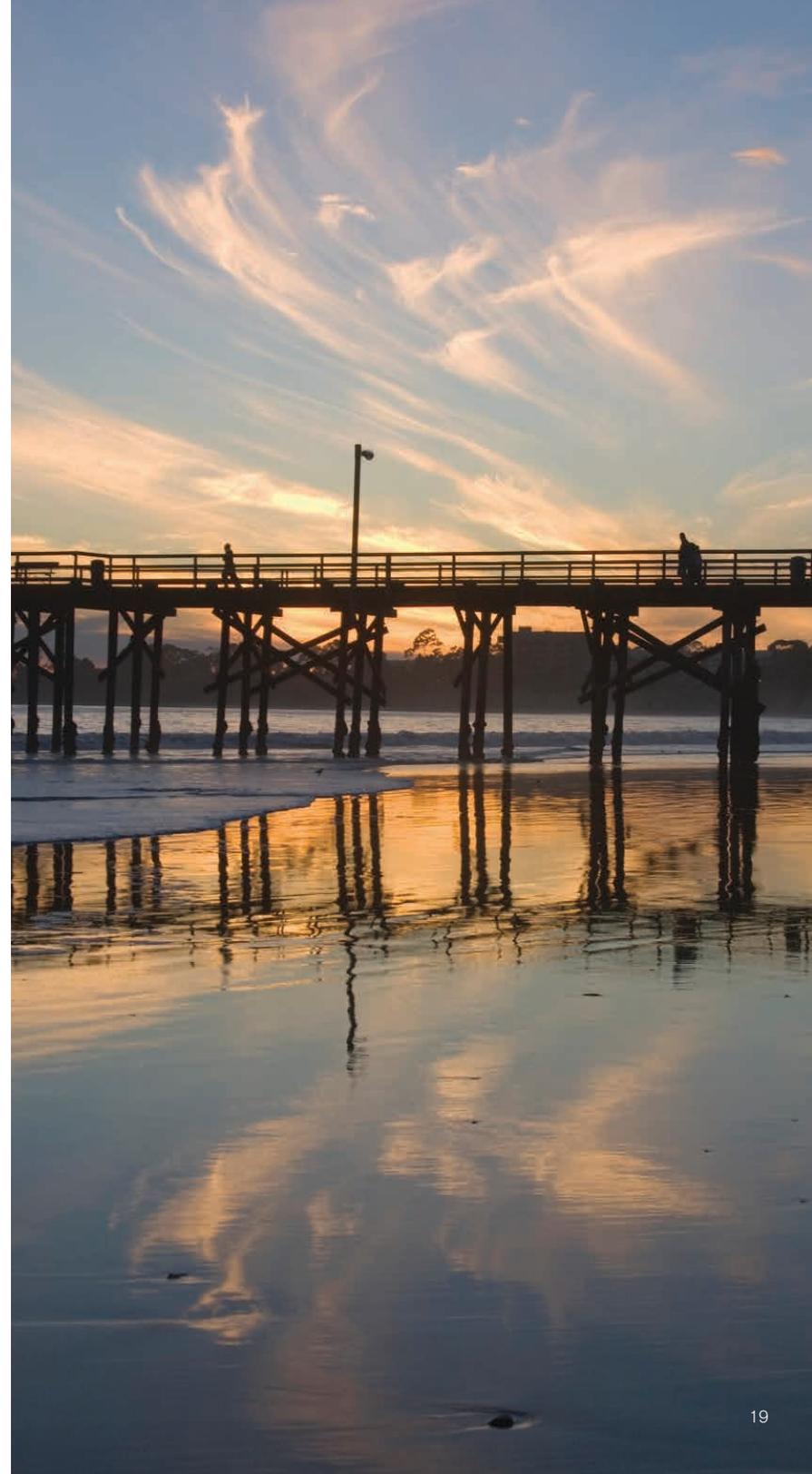
STELLA-JONES' PROFILE

Stella-Jones Inc. (TSX: SJ) 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 manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.



DATA

The data presented in this report includes Stella-Jones' affiliated operational companies and is based on data available as at December 31, 2017 (except for Board statistics, which also show results for year-to-date 2018). Note that the data has not been audited by an independent third party and some indicators were manually compiled. The information provided is accurate to the best of Stella-Jones' knowledge.





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