

**FORWARD
DRIVEN
CUSTOMER
FOCUSED**

2019

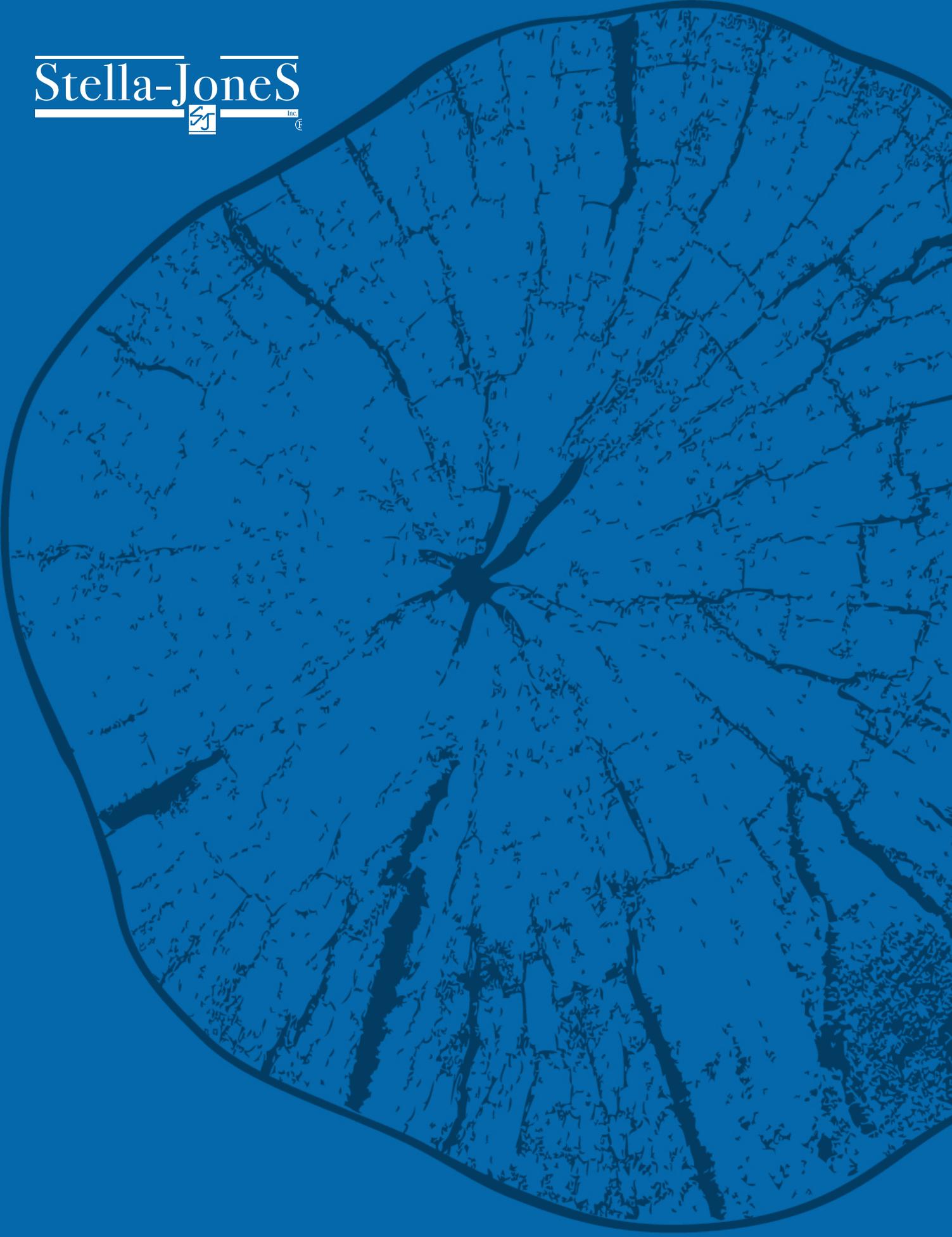
ENVIRONMENTAL, SOCIAL
AND GOVERNANCE
(ESG) REPORT

November 2020

Stella-JoneS^{INC}



INC





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Our ability to react and rapidly adjust to this changing working environment speaks to the heart of our company.

Message from the President & CEO

I am pleased to share with you Stella-Jones' second environmental, social and governance (ESG) report. Building on our first ESG report and continuous engagement with strategic stakeholders, this report provides additional context on our ESG priorities and greater insight into our Company culture and philosophy.

While this report covers data for calendar years 2018 and 2019, we are publishing it during a time when the world is facing a global crisis. As a provider of essential services in the United States and Canada, our response to the COVID-19 pandemic included a wide range of measures to support the safety and well-being of our employees and local communities, while maintaining the continuity of our operations. We enabled our office employees to work from home, extending additional resources and services to support them during the transition. At our plants and facilities, we put in place sanitary measures, physical distancing procedures, and other protocols for the safety of our employees.

Despite the challenges of COVID-19, our employees have shown up every day to serve our customers, helping railways, utilities, the residential lumber industry and other essential infrastructure to continue to function as needed. This commitment has been a true testimony to our organization's entrepreneurial spirit. Our ability to react and rapidly adjust to this changing working environment speaks to the heart of our Company, and I have never been more confident in our business resilience, further demonstrated by our strong operational and financial performance.

In the following pages, we share in more detail, what we believe are our most important priorities —product stewardship, people, environmental performance, and governance. As part of our journey, we recognize that we need to continue to integrate ESG into our day-to-day decision making processes, and this remains an integral consideration at the Board level and throughout the Company. We see ESG as fundamental to our business strategies and risk management, and to how we create value for all our stakeholders.

This report is a stepping stone in the evolution of our internal ESG culture, and I would like to thank the entire Stella-Jones team for their contribution to its development. I hope you enjoy learning more about our business, our commitment to ESG issues and the efforts we are making to be model corporate citizens.



Éric Vachon
President and CEO
Stella-Jones Inc.

2019 ESG Highlights

The long-term success of our Company requires the integration of ESG into all aspects of our business. We are committed to maintaining high performance standards in health, safety, environmental compliance and the development of our workforce.

OUR PRODUCT STEWARDSHIP



90%

RAILWAY TIE
SUPPLIERS
FROM LOCAL
COMMUNITIES

87%

WOOD FOR
RESIDENTIAL LUMBER
PURCHASED
FROM CERTIFIED
SOURCES



135,000

HECTARES OF SUSTAINABLY
MANAGED FOREST IN
BRITISH COLUMBIA

OUR PEOPLE



16%

WOMEN IN THE
WORKFORCE

19%

EMPLOYEE
TURNOVER RATE

3.7

DAYS AWAY,
RESTRICTED OR
TRANSFERRED RATE

OUR ENVIRONMENTAL PERFORMANCE

124,949

SCOPE 1 & 2
GREENHOUSE GAS (GHG)
EMISSIONS (METRIC TONS
OF CO₂ EQUIVALENT)

5.6

ENERGY INTENSITY
(IN MWH/1,000 FT³
OF TREATED WOOD
PRODUCTION)

3 of 40

FACILITIES ARE BOTH
IN WATER STRESSED
AREAS AND USE
WATERBORNE
PRESERVATIVES

OUR GOVERNANCE PRINCIPLES



7 out of 8

BOARD MEMBERS
INDEPENDENT FROM
MANAGEMENT



38%

WOMEN BOARD
MEMBERS

4

NUMBER OF TIMES PER YEAR
THE CODE OF BUSINESS
CONDUCT AND ETHICS IS
SHARED WITH EMPLOYEES



Our Approach to ESG Reporting

At Stella-Jones, we believe that environmental, social and governance (ESG) performance contributes to long-term value creation and enhances our business resilience.

This report is meant to share with our stakeholders, information on Stella-Jones' ESG priorities for the foreseeable future. We hope this report will also serve as a platform to engage with our stakeholders on how Stella-Jones can continue working with our employees, clients and communities for a more sustainable economy and future. In the following reports, we will provide updates on our progress and ESG goals.

MATERIALITY ASSESSMENT PROCESS

Our reporting approach centres on the most relevant ESG priorities for our business and our stakeholders. We engaged a third party to support us with our materiality assessment and the focus topics for our 2019 ESG report.

This process was a first step in defining our ESG priorities internally and we plan to leverage this report to drive conversations with our external stakeholders on their perceptions of Stella-Jones' contributions to the environment, communities, society and economy.

How we identified material ESG topics

A preliminary list of topics was compiled to better understand the ESG areas of importance to our business and our stakeholders. This initial list was based on:

- Industry benchmarking and research
- Consultation of reporting frameworks, including the Global Reporting Framework (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-Related Financial Disclosures (TCFD), and the Carbon Disclosure Project (CDP).
- Discussions among key Stella-Jones personnel to define the priorities of internal and external stakeholders

How we ranked and prioritized topics

Workshops were held with key personnel, senior leadership and the executive management team to prioritize topics with the goal of enhancing the Company's ESG reporting approach. Topics were classified into four levels to reflect their level of materiality for our business's success. Topics that were ranked as level 1 and 2 are most significant and the focus of this report.

OUR MATERIALITY PROCESS





As part of our commitment to our mission to be the performance leader in the wood-preserving industry and a model corporate citizen exercising environmental responsibility and integrity, we conducted an assessment to identify what ESG topics have material implications to our Company.



REPORTING SCOPE AND BOUNDARY

This report provides an overview of our Company and its operations in Canada and the United States throughout the 2018 and 2019 fiscal years (ending December 31, 2019). Our inaugural ESG report covers the 2017 fiscal year and is available at <https://www.stella-jones.com/en-CA/investor-relations/environmental-social-governance>.

We constantly aim to improve and expand the performance indicators we report on and improve our data collection systems. Any reporting limitations and exceptions are identified with the data.

This report has been reviewed and approved by our executive leadership team and Board of Directors for publication.

References to we, our or the Company mean Stella-Jones Inc. and its operating subsidiaries unless indicated otherwise.

ESG INDEX



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Governance

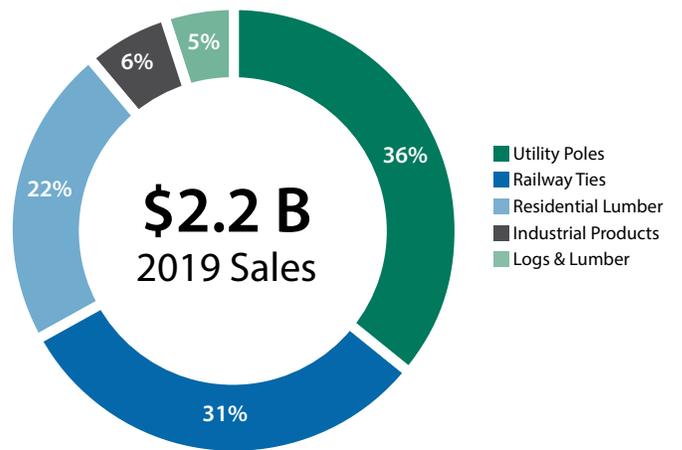
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- Governance of ESG-related risks** / Our Governance Principles / [Page 43](#)

About Stella-Jones

Our Business

Stella-Jones is North America’s leading producer and marketer of pressure-treated wood products. We are a major supplier of utility poles to electrical utilities and telecommunication companies and of railway ties and timber to railroad operators across the continent. We also manufacture and distribute residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar-based products.

STELLA-JONES AT A GLANCE



2,190
Employees



40
Wood Treating Facilities
25 U.S. and 15 Canada



12
Pole Peeling Facilities



1
Coal Tar Distillery

All figures as of December 31, 2019. All dollar amounts are presented in Canadian currency.

OUR VISION

At Stella-Jones, our vision is clear: we deliver premium value to our clients by providing the best available products and services in the wood preserving industry. We continuously seek to improve our operations and service delivery and recognize that, in doing so, we must improve the impacts we have on our clients and stakeholders, our people and the communities in which we operate, as well as the environment. By adhering to a core set of principles and pursuing strategic growth, we have positioned ourselves as a strong, reliable supplier of wood-treated products to our customers and a leader in the North American industry.

OUR MISSION

To be the performance leader in the wood-preserving industry and a model corporate citizen, exercising environmental responsibility and integrity.

OUR VALUES

Our core values make up the backbone of our Company. Our employees embody these values in all facets of their everyday work, from senior executives to the wood manufacturing and distribution floor.

Integrity

We stick to our word. We act with honesty and integrity in all interactions with employees, clients, suppliers and the public, and adhere to the highest standards of professional behaviour and ethics.

Respect

We believe that the contribution of every employee is valuable. We foster a culture of inclusion in which employees are encouraged to take initiative, participate and exchange ideas.

Teamwork

We work together to meet the needs of our customers by providing superior customer service and products.

Perseverance

We take a straightforward, nose-to-the-grindstone approach to our business, knowing that success comes through hard work and dedication.

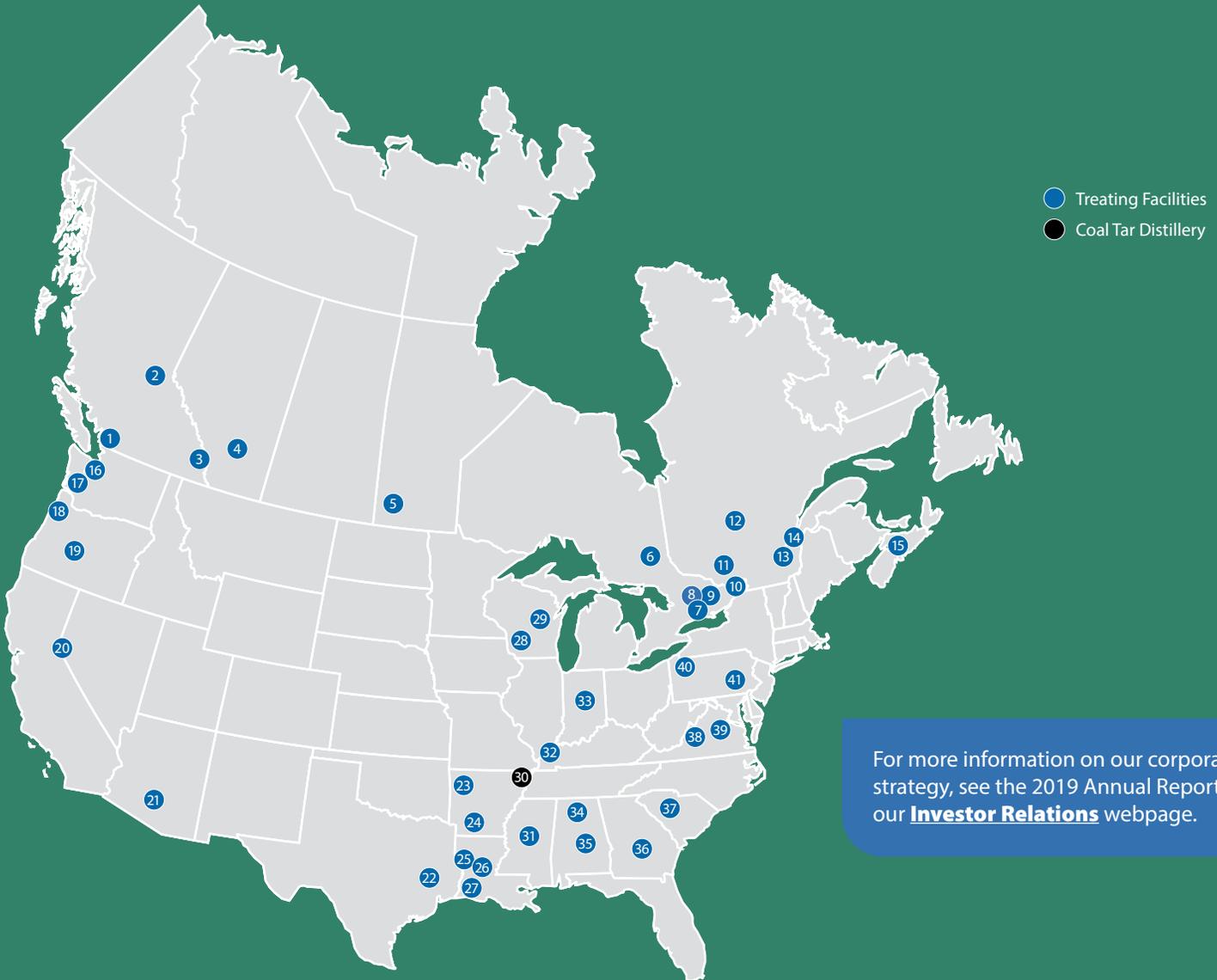
SUMMARY OF OPERATIONS

Our treating facilities are located in 6 Canadian provinces and 17 U.S. states and are complemented by an extensive distribution network across North America. This network of strategically located production facilities, coupled with our multiple distribution

yards, enables us to meet increasing demand with unprecedented speed and agility.

Stella-Jones has expanded its reach by constructing new operating facilities and through numerous strategic

acquisitions. The most recent acquisition was completed on April 1, 2019, when the Company acquired Shelburne Wood Protection Ltd., a residential lumber treatment plant located in Shelburne, Ontario.

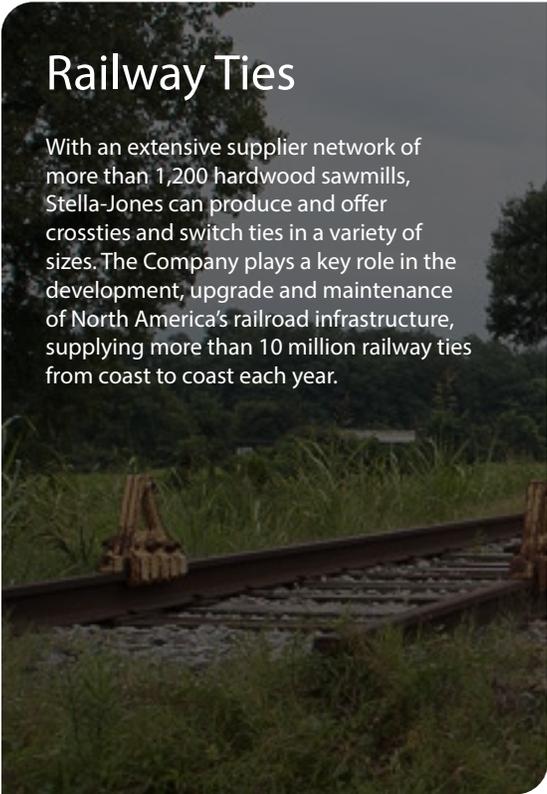


For more information on our corporate strategy, see the 2019 Annual Report in our [Investor Relations](#) webpage.

- | | | | | | |
|-----------------------|----------------------|-----------------------|---------------------|-------------------|------------------------|
| 1 New Westminster, BC | 8 Shelburne, ON* | 15 Truro, NS | 22 Lufkin, TX | 29 Cameron, WI | 36 Cordelle, GA |
| 2 Prince George, BC | 9 Stouffville, ON | 16 Arlington, WA | 23 Russellville, AR | 30 Memphis, TN | 37 Whitmire, SC |
| 3 Galloway, BC | 10 Peterborough, ON | 17 Tacoma, WA | 24 Rison, AR | 31 Scooba, MS | 38 Goshen, VA |
| 4 Carseland, AB | 11 Gatineau, QC | 18 Sheridan, OR | 25 Converse, LA | 32 Fulton, KY | 39 Warsaw, VA |
| 5 Neepawa, MB | 12 Rivière-Rouge, QC | 19 Eugene, OR | 26 Pineville, LA | 33 Winslow, IN | 40 Dubois, PA |
| 6 South River, ON | 13 Delson, QC | 20 Silver Springs, NV | 27 Alexandria, LA | 34 Montevallo, AL | 41 McAllisterville, PA |
| 7 Guelph, ON | 14 Sorel-Tracy, QC | 21 Eloy, AZ | 28 Bangor, WI | 35 Clanton, AL | |

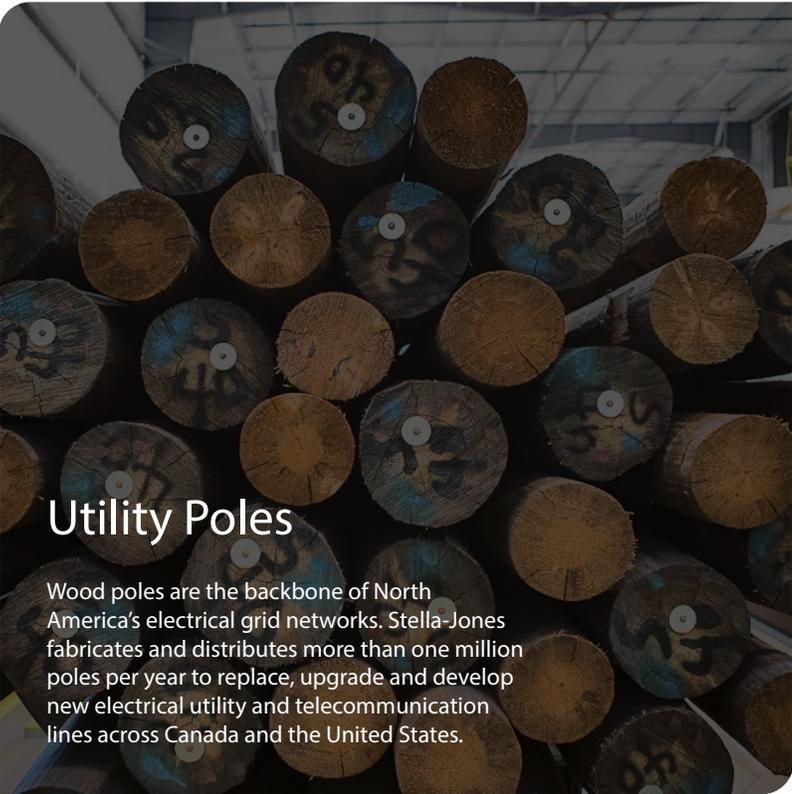
* Acquired in 2019

Our Products



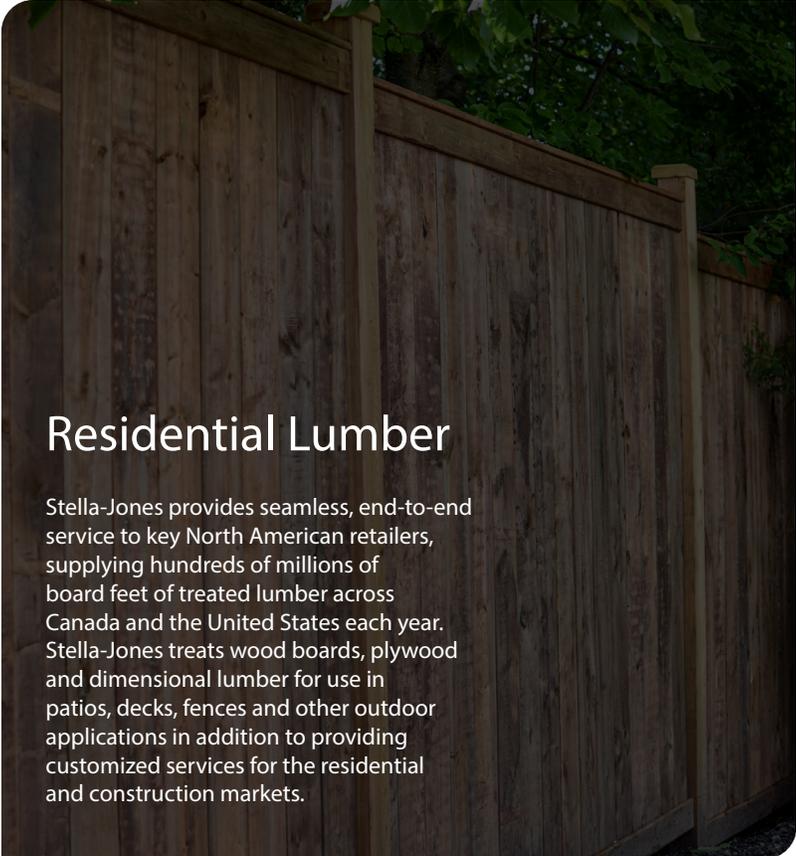
Railway Ties

With an extensive supplier network of more than 1,200 hardwood sawmills, Stella-Jones can produce and offer crossties and switch ties in a variety of sizes. The Company plays a key role in the development, upgrade and maintenance of North America's railroad infrastructure, supplying more than 10 million railway ties from coast to coast each year.



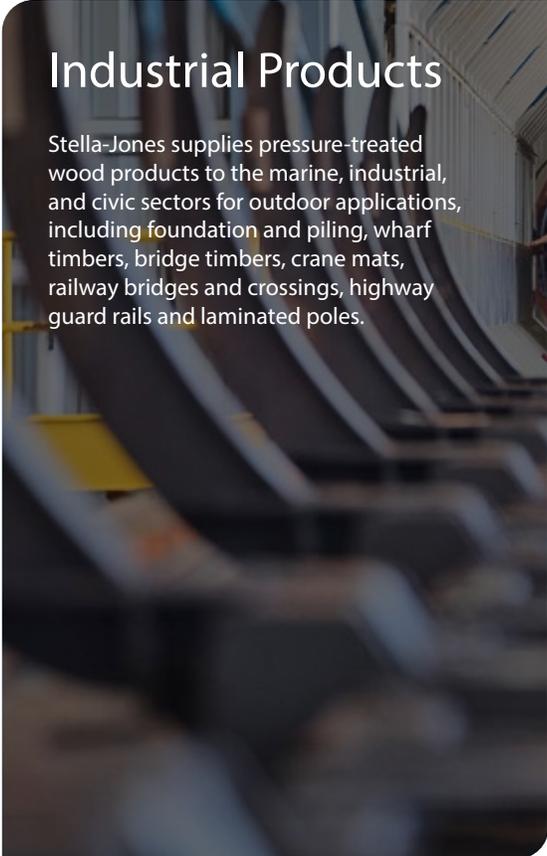
Utility Poles

Wood poles are the backbone of North America's electrical grid networks. Stella-Jones fabricates and distributes more than one million poles per year to replace, upgrade and develop new electrical utility and telecommunication lines across Canada and the United States.



Residential Lumber

Stella-Jones provides seamless, end-to-end service to key North American retailers, supplying hundreds of millions of board feet of treated lumber across Canada and the United States each year. Stella-Jones treats wood boards, plywood and dimensional lumber for use in patios, decks, fences and other outdoor applications in addition to providing customized services for the residential and construction markets.



Industrial Products

Stella-Jones supplies pressure-treated wood products to the marine, industrial, and civic sectors for outdoor applications, including foundation and piling, wharf timbers, bridge timbers, crane mats, railway bridges and crossings, highway guard rails and laminated poles.

SUSTAINABILITY AT STELLA-JONES

As a manufacturer of industrial-treated wood products, we are mindful that our everyday actions can have an impact on our environment and the health and safety of our employees. Our business success depends on our ability to operate in a sustainable, environmentally and socially responsible manner. We strongly believe that the integration of ESG considerations in our daily business decisions and strategies will make us a more resilient and agile business in the

long term, improving our performance and motivating our people. Our Board-level Environmental, Health and Safety Committee, established in 1995, alongside our executive and senior leadership team, oversee and manage our ESG risks and opportunities as an integral part of our business.

Our assessment process highlighted several priority ESG issues, mapped across our main pillars: product stewardship, people, environmental performance and governance principles.



Stella-Jones is committed to continuously improving our sustainability practices and to being transparent about our ESG performance.

Learn more about our assessment process in the [Our Approach to ESG Reporting](#) section.



Priority Issues



Product Stewardship

- Contributing to climate change mitigation through carbon sequestration in our products and supplying less carbon-intensive building materials.
- Promoting sustainable forest management across our value chain.
- Continuous improvement initiatives to ensure products are manufactured responsibly while meeting customer needs for durability.
- Product innovation and development of services that enhance our customer offering.



People

- Ensuring the safety and wellbeing of our employees is critical to our business and our communities.
- Creating a collaborative, inclusive workplace that empowers employees to achieve business, professional and personal goals.
- Implementing training and succession plans to facilitate knowledge transfer and drive diversity across the business.



Environmental Performance

- Effective environmental management and compliance with regulations are central to the continued operation of our business.
- Improving the use and management of natural resources and raw materials to maximize our manufacturing efficiency and reduce our environmental impact.



Governance Principles

- Integrating ESG in our decision-making processes and our enterprise risk management framework.
- Commitment to operating ethically and with integrity.

Our Product

Stewardship



“

Growing trees absorb carbon dioxide from the atmosphere and store it as carbon in wood.

PRODUCT DESIGN AND LIFE CYCLE

Forests and responsible forest management have a significant role to play in climate change mitigation. Forests sequester carbon in wood, and when trees are harvested for the manufacture of forest products, the carbon continues to be sequestered in the wood.

Forests remove the most carbon dioxide from the atmosphere when they are young and growing.¹ As the forest matures, carbon absorption in trees slows down, and when trees die the carbon is released to the atmosphere as they decompose. When trees are harvested, the carbon is stored in treated wood for the lifetime of the products and new trees are planted, restarting the growth and carbon sequestration cycle.

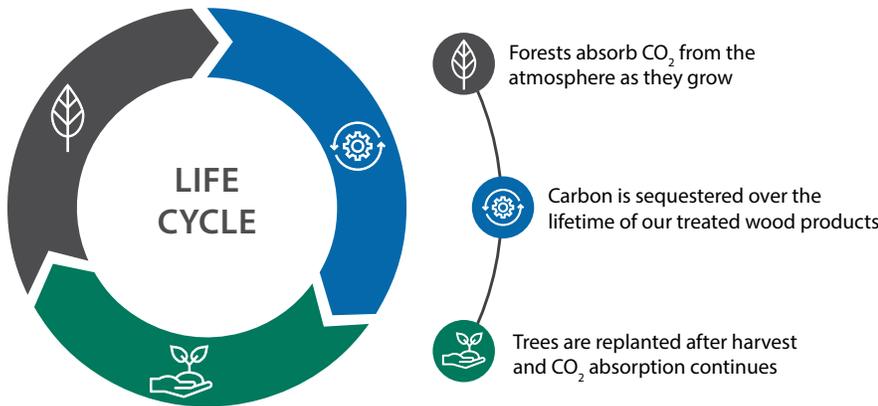
As a manufacturer of treated wood products, we have an opportunity to reduce the amount of carbon in the atmosphere through:

- Sustainable forest management
- Long-term carbon sequestration in our treated wood products
- Use of wood by-products from manufacturing as biofuel
- Improved end-of-life management by prioritizing reuse and recycling over disposal

¹ Pugh, T. A., Lindeskog, M., Smith, B., Poulter, B., Arneth, A., Haverd, V., & Calle, L. (2019). Role of forest regrowth in global carbon sink dynamics. Proceedings of the National Academy of Sciences, 116(10), 4382-4387.



Treated wood products have a longer service life and offer multiple benefits to our customers, including reductions in their overall product costs and environmental footprint.



Treated Wood Lifespan

Wood products continue to store carbon until they decay, and the use of wood preservatives extends the longevity of wood products and the carbon sequestration potential of the wood, and reduces the number of trees harvested. Wood preservation increases the lifespan of our products, on average, between 35 and 60 years depending on the wood species, preservative used and area of service.

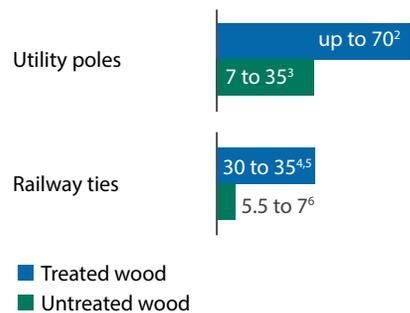
At the end of service life, treated wood products can be reused, recycled or disposed of. Treated wood products can often be repurposed for use in landscaping and other applications long after their service life. Depending on the preservative used, treated wood can also be used as biofuel, reducing the consumption of fossil

fuels. Treated wood disposed of in landfills will eventually decay and release the sequestered carbon back into the atmosphere.

Accounting for the amount of carbon stored in our treated wood products is a complex task and is affected by many factors, including the tree species, age and size at the time of harvest.

Over the next year, we will be initiating steps to develop a tool for the calculation of carbon that is sequestered in our products. This tool will allow us to calculate the amount of sequestration achieved on an annual basis. We also plan to quantify how increasing the lifespan of our products has reduced the number of harvested trees. The purpose of this tool is to better understand and obtain information on the net benefit of wood treatment.

AVERAGE SERVICE LIFE OF TREATED AND UNTREATED WOOD UTILITY POLES AND RAILWAY TIES (#YEARS)



² Utility Solid Waste Activities Group(2005). Comments of the Utility Solid Waste Activities Group on the notice of availability of the preliminary risk assessment for wood preservatives containing pentachlorophenol reregistration eligibility decision.

³ Joseph, L. (2009). Factors affecting the service life of poles in BC. Proc. Can. Wood Preserv. Assoc., 30, 45-68.

⁴ Webb, G. V., Webb, D. A., & Zarembski, A. M. (2005). The tie guide: Handbook for commercial timbers used by the cross-tie industry. Railway Tie Association.

⁵ Zeta-Tech(2011). Determination of effect of introduction of dual treatment (borate-creosote) ties on average tie life and wood tie life cycle costs. Railway Tie Association.

⁶ Bescher, R.H. (1977). Creosote Cross-ties. American Wood-Preservers' Association.

Wood and Lifecycle Assessment

A lifecycle assessment (LCA) delivers a quantified measure of the environmental impact of a product throughout its entire life — from resource extraction to disposal, commonly known as “cradle to grave”.

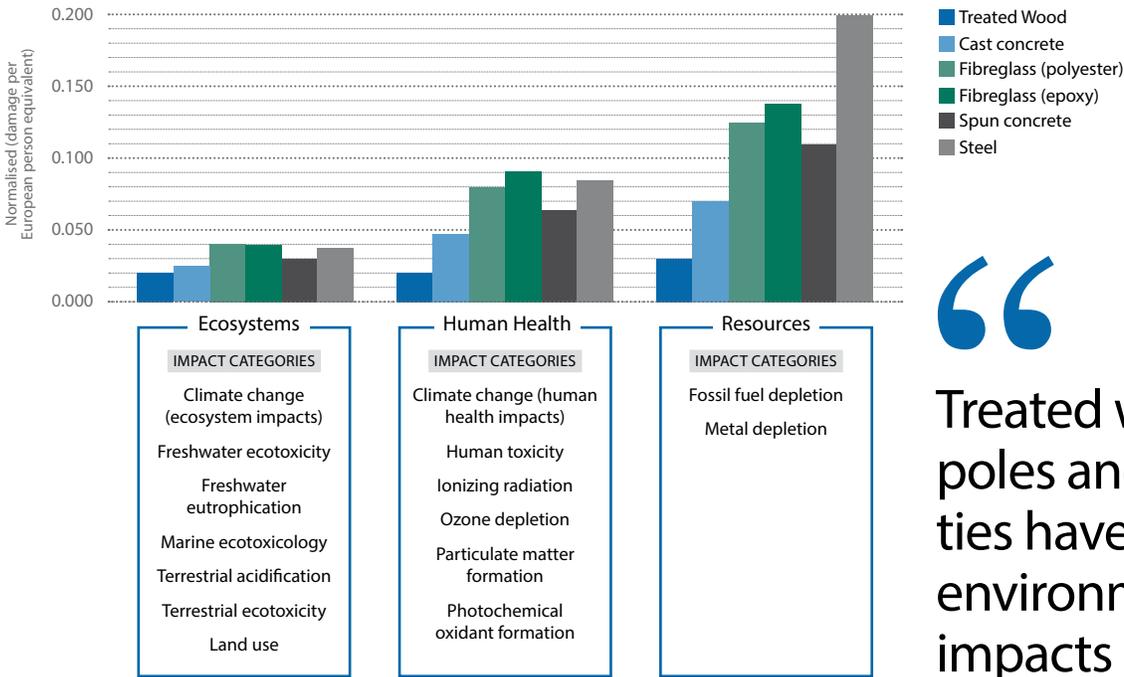
Several LCA studies have shown that treated wood products have environmental advantages over other materials used in buildings and infrastructure. These results reinforce the use of wood as a more sustainable building material.

FROM TREE TO PRODUCT: THE TREATED WOOD PRODUCT LIFE CYCLE



The results of a recent LCA commissioned by the Western European Institute for Wood Protection (WEI) show that treated wood utility poles have the lowest impact compared to alternative products for damage to ecosystems, human health and resources. The LCA compared poles made from preservative-treated wood with a 30-year service life to poles with a 60-year life made from concrete, fibreglass and steel.

UTILITY POLES LCA — OVERALL IMPACTS

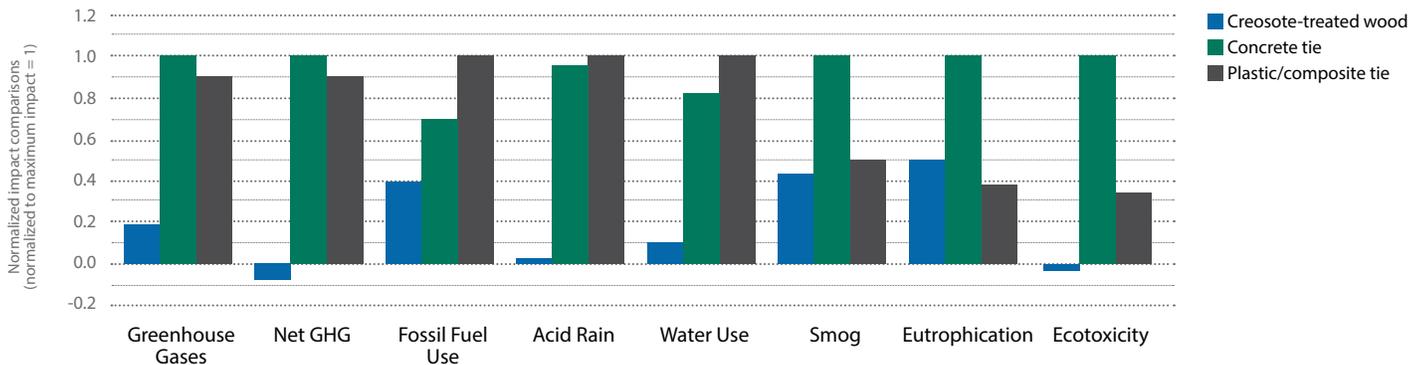


“Treated wood utility poles and railway ties have lower environmental impacts compared to alternative materials.”

Source: Western European Institute for Wood Protection (2020), ISO 14001 Life Cycle Assessment of Utility Poles

An LCA comparing competing railway tie products shows that creosote-treated wooden railway ties have lower environmental impacts compared to alternative materials. The LCA compared creosote-treated railway ties with a 35-year service life to railway ties with a 40-year life made from concrete and plastic/composite material.

RAILWAY TIES LCA — IMPACTS

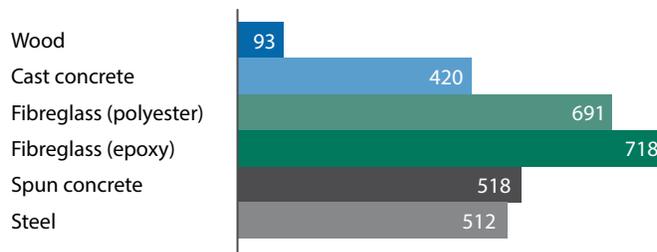


Source: Bolin, C. A., & Smith, S. T. (2013). Life cycle assessment of creosote-treated wooden railroad cross-ties in the US with comparisons to concrete and plastic composite railroad cross-ties.

The reviewed LCAs show the climate change mitigation benefits of treated wood products compared with competing alternative products. Treated wood railway ties and utility poles require on average 80% less greenhouse gas emissions than alternative materials.

Comparison of embodied greenhouse gas emissions in wood and alternative materials

UTILITY POLES: GHG EMISSIONS (kg CO₂e) RELEASED PER MATERIAL TYPE



Source: Western European Institute for Wood Protection (2020), ISO 14001 Life Cycle Assessment of Utility Poles

RAILWAY TIES: GHG EMISSIONS (kg CO₂e) RELEASED PER MATERIAL TYPE



Source: Bolin, C. A., & Smith, S. T. (2013). Life cycle assessment of creosote-treated wooden railroad cross-ties in the US with comparisons to concrete and plastic composite railroad cross-ties.

MATERIAL SOURCING AND RESPONSIBLE SUPPLY CHAIN

We rely on forests for the wood used to manufacture our products. We are committed to sustainable forest management so that forests can continue to provide value to society, support biodiversity, protect air and water, and provide habitat to wildlife in the future.

Everywhere that we operate, forest management is subject to regulation by federal, provincial, state and local environmental authorities. These regulations include industry-specific environmental regulations relating to forestry practices.

Responsibly managing our supply chain starts with the purchase of our raw materials. Our wood is primarily sourced from timber-harvesting companies for the production of utility poles and from more than one thousand sawmills for the production of railway ties, residential lumber and industrial products.

We take steps to ensure that we are legally and responsibly sourcing the wood we use. Our products promote harvesting timber at maximum sustained yield and biological maturity, which fosters stand biodiversity and wildlife habitat. Our buyers and foresters are regularly on the ground and on site, using their extensive local knowledge of forestry operations to ensure that our suppliers are complying with country, regional, and local regulations and laws.

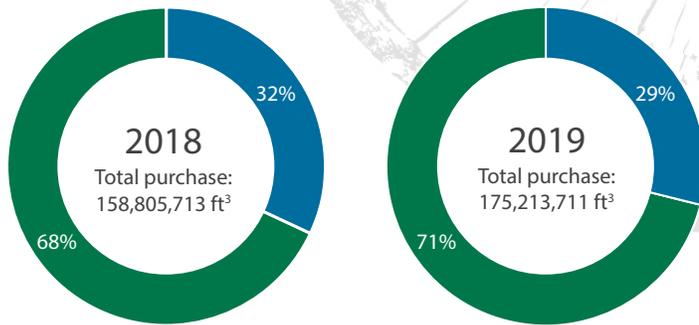
We manage public forestland exclusively in British Columbia, Canada, where we operate under tenure agreements with the provincial government, which has jurisdiction over the land. Only a small portion of our wood supply in Canada is sourced from our own managed forestland. The rest is procured from supply agreements with major licensees and private woodlot owners or private landowners.

In Canada, detailed regulations govern forestry practices, including for reforestation, environmental protection and biodiversity conservation. Most of the wood sourced from Canada is from Crown land and is either certified Forest Stewardship Council® (FSC®) or Sustainable Forest Initiative® (SFI®).



Stella-Jones advocates for sustainable forest management and responsible purchasing. Our business activities can only continue if forests are sustained.

TOTAL WOOD PURCHASED



■ Canada
■ U.S.

We do not directly manage forestlands in the U.S. All of our U.S. wood for utility poles is purchased from timber managers, state timber sale programs or private landowners. Our timber is harvested by contracted third parties. The practices we employ are designed to harvest timber safely and efficiently while minimizing environmental impacts.

Wood for railway ties, residential lumber and industrial products are purchased pre-cut from thousands of sawmills across Canada and the U.S. Most of our residential lumber is procured from third-party forest certified sources, as required from our retail customers.

The majority of our operations in Canada and the U.S. are located in rural communities, and our suppliers are generally small and family-owned businesses. Due to the size of their operations, the railway tie sawmills that we work with generally do not have the resources required to obtain third-party forest certifications. Certification costs are substantial, and while larger operations can sustain those costs, smaller operations cannot.

To support the rural communities in which we operate, we prioritize local suppliers. Ninety percent of the sawmills we purchase railway ties from are located within 240 km of our facilities.

STELLA-JONES DOES NOT ENGAGE IN ANY DEFORESTATION NOR DO WE CONVERT FOREST TO NON-FOREST USE. ALL THE SITES THAT WE HARVEST ARE RETURNED TO NATURAL FOREST COVER.

STELLA-JONES DIRECTLY MANAGES APPROXIMATELY 135,000 HECTARES OF PUBLIC FOREST LAND IN CANADA.

87% OF WOOD FOR RESIDENTIAL LUMBER IS PROCURED FROM CERTIFIED SOURCES.

99% OF THE SAWMILLS WHERE WOOD FOR RAILWAY TIES IS PROCURED IDENTIFY AS SMALL BUSINESSES WITH FEWER THAN 500 EMPLOYEES.

PRODUCT RESPONSIBILITY

We manufacture renewable wood products that are used in essential infrastructure and building services and that often have a smaller environmental impact than alternative materials.

Quality is front of mind when it comes to our products, and our objective is to develop safe products that meet the demands of the wood-preserving industry and the customers we serve. We work with clients to meet their specifications, propose products with the wood species and preservative combination that suits their needs and provide a full quality control program.

Our products are treated with wood preservatives to prolong their lifespan. Preservation of wood is the process by which wood is protected against decay and pests through controlled pressure impregnation with preservatives that are resistant to wood-destroying organisms.

Using preservatives to protect wood is not a new practice, but it has come under increasing scrutiny from the public. This scrutiny includes concerns with respect to the use of chemicals and about potential leaching into the surrounding environment.

While the use of preservatives is continuously challenged, producers of these chemicals have demonstrated through rigorous testing and adherence to process and quality controls, that they can be used safely and with minimal environmental impacts. The U.S. Environmental Protection Agency and Canada's Pesticide Management Regulatory Agency review the use of these wood preservatives under their jurisdictions on an ongoing basis and continue to permit their use in the products that we produce.

WOOD PRESERVATIVES USED IN OUR PRODUCTS



Utility poles

- Chromated Copper Arsenate
- Creosote
- Copper Naphthenate
- Pentachlorophenol



Railway ties

- Creosote
- Borate
- Copper Naphthenate



Residential lumber

- Micronized Copper Azole
- Alkaline Copper Quaternary
- Copper Azole



All preservatives that we use in our operations are approved by Health Canada and the United States Environmental Protection Agency. We comply with all regulations specific to our products, and regularly monitor developments in Canada and the U.S. to ensure that our products meet and reflect regulatory requirements. Safety data sheets are available for all of our products on our [products webpage](#) to provide information regarding appropriate handling and use. We also provide safety data sheets to all our customers.

Wood preservatives have an impact on the environment, health and safety if not properly handled. To protect the environment and adhere to the highest standards of safety, wood preservative usage is strictly controlled at our manufacturing facilities. Upon delivery, all wood preservatives are stored in specialized tanks and containers which are within a 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.

Should an incident occur at a facility, a spill contingency plan to control and clean up any accidental spill is immediately activated, and authorities are notified where required. Once the cleanup is completed, an evaluation of the effectiveness of the containment and spill plan is undertaken, along with corrective and preventive actions to prevent a recurrence.

Another concern related to the use of treated wood is disposal. Rules and regulations relating to end-of-life disposal vary widely between jurisdictions. In the U.S., the first recommendation for treated wood that

has reached the end of its service life is for its reuse in a similar application. Depending on the preservative used in the treatment, wood can also be used in combustion processes for energy recovery. In most of North America, treated wood can also be disposed of in lined landfills.⁷

As part of our product stewardship, we also work with regulatory authorities to remediate impacts to the environment from historical wood treating operations that may not have been governed or controlled by today's rigorous standards. In 2018 and 2019, we invested approximately \$5.6 million CAD in environmental land remediation.



Learn more about how we support our clients with treated wood recycling under the [Innovation and Technology](#) section.

⁷ Morrell, J. J. (2017). *Protection of Wood: A Global Perspective on the Future*. In *Wood is Good* (pp. 213-226). Springer, Singapore.

INNOVATION AND TECHNOLOGY

We view innovation and technology as essential to addressing the challenges and needs of our customers while also minimizing the environmental impacts of our products. We continuously work to enhance our products, provide solutions to our customers and optimize our operations.

To improve our knowledge base, we are an active member in several industry associations that keep us abreast of key topics and developments in the industry and provide a forum for alignment on and discussion of industry issues.

Sustainability Initiatives

We make significant investments in research and development to deliver innovations that address our customer challenges and generate growth for

our business. In 2018 and 2019, we invested in two notable sustainability driven initiatives.

RECYCLING PROGRAM FOR UTILITY POLES: Our utility customers in the U.S. approached us for sustainable disposal options for their retired utility poles. This request was driven by the cost of disposal as well as the more challenging regulatory environment for the recycling of treated wood.

We partnered with a third party that specializes in treated wood recycling to provide an end-of-life disposal service for utilities with the aim of repurposing, recycling and safely disposing of wood, significantly reducing the amount sent to landfill.

While the concept of reusing retired utility poles is not new, past practices were not aligned with today's requirements to minimize environmental and health impacts

that could arise from the preservatives present in the treated wood. Our recycling and disposal service provides utilities with the option to be better stewards of the environment and ensures that products taken out of service are repurposed or disposed of safely.

FIRE-RESISTANT UTILITY POLES: Faced with an increase in the frequency and severity of wildfires, a California utility approached us in 2018 to find possibilities to harden their grid against fire.

Our team undertook a literature review of the performance of utility poles made from wood and alternative materials such as steel, concrete and fibreglass to evaluate their resistance to fire conditions.

The review found that the point of failure of wood occurred at a higher temperature than that of alternative materials. This led us to study potential solutions to prevent wood from combusting when heated.

Over 15 months, we worked with an external specialized company to develop an intumescent fire wrap to provide protection to utility poles in wildfires. When the pole is exposed to a fire, the intumescent coating activates, creating an effective heat insulation barrier that helps protect it from the damaging heat.

The following is a list of associations we are affiliated with:

- › American Association of Railroads
 - › American Lumber Standards Committee
 - › American National Standards Institute
 - › American Railway Engineering and Maintenance-Of-Way Association
 - › American Wood Protection Association
 - › Appalachian Hardwood Utilization Group
 - › Canadian Institute of Treated Wood
 - › Canadian Standards Institute
 - › Canadian Wood Preservation Association/ Wood Preservation Canada
 - › Clearfield County LEPC
 - › Creosote Council
 - › Electric Utility Industry Sustainable Supply Chain Association
 - › Forest Products Laboratory
 - › GoRail
 - › International Research Group
 - › Lake States Lumber Association
 - › Mississippi State University - Wood Sciences
 - › National Railroad Contractors Association
 - › North American Wood Pole Council
 - › Northwest Public Power Association
 - › Oregon State University Environmental Performance of Treated Wood Research Cooperative
 - › Oregon State University Utility Pole Research Cooperative
 - › Railway Tie Association
 - › Real American Hardwood Promotion Coalition
 - › Rural Utilities Service
 - › Southern Pressure Treaters Association
 - › Timber Products Inspection
 - › Treated Wood Council
 - › Western Wood Preservers Institute
 - › Wood Quality Control, Inc. Pole Inspection
-



We ask our customers about the challenges they face and offer them tailored solutions.



The combination of the high performing wood utility pole and intumescent fire-resistant wrap has led to a promising development in fire resistant utility pole innovation.

The product was tested by a third party on wood utility poles and wood alternatives. Wood utility poles wrapped with the intumescent material performed best out of all the alternatives. The intumescent wrap is easy to apply to new and existing wood utility poles using galvanized staples and is made of environmentally safe materials.

The development of this product resolved our customer's challenge, providing protection to utility poles, hardening wood utility structures against wildfires and increasing the service life of the product in areas prone to wildfires.

Technology Initiatives

Technology improvements play an important role in making our workplace safer and optimizing efficiencies. Two notable technology upgrades at our facilities were initiatives driven by our employees:

ROBOTIC STACKERS: Railway ties are delivered to our treatment plants, where they are temporarily stored for air drying prior to the treatment process. Traditionally, the stacking process uses a knuckle boom crane to position the ties and a ground employee to space the ties, typically using a 1'x1' wood spacer. This approach for stacking the ties can lead to bottlenecks that slow down the process and may expose employees to safety hazards during the stacking process.

To date, we have invested in robotic stackers at four of our facilities to automate the stacking process, increase productivity, reduce costs and decrease the risk of injury. The implementation of robotic stackers has resulted in the following benefits:

- Elimination of fossil fuels required for the operation of knuckle boom cranes
- Reduction in maintenance costs, as robots require less maintenance than traditional machinery
- Increased employee safety resulting from a decrease of exposure to moving parts and the stacking process; the robots operate in an interlocked cage and have safety mechanisms to cease operations if the cage door is open
- Increased stack stability and consistency, reducing potential hazards in the stack yard

LASER TECHNOLOGY FOR POLE CLASSING: Inspection and classing is a critical phase in the manufacturing process of utility poles which determines conformance to national standards based on physical properties and sizing and supports sales inventories. Traditionally, freshly peeled poles are moved from the outfeed of a peeler by large wheeled loaders and laid out on inspection skids for manual inspection.

Thus far, we have upgraded four of our facilities to use inline scanning systems to replace traditional manual pole inspection methods. The use of this technology has resulted in enhanced productivity, including the following benefits:

- Increased employee safety due to the reduction of manual processes
- Reduction in the use of mobile equipment
- Enhanced electronic data collection for reporting and monitoring
- Improvements in inventory management, as the scanner automatically assesses and records the items

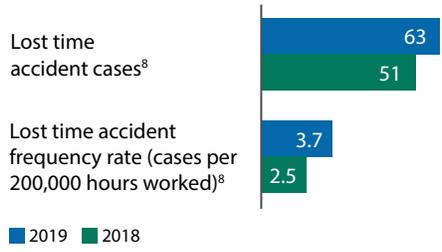
Our People



HEALTH AND SAFETY

Providing a safe work environment is fundamental to Stella-Jones, and each of our employees has a responsibility to ensure that they and their colleagues follow safe and approved work processes. We monitor work-related accident cases and rates at all our facilities to implement continuous improvement measures to reduce these cases, with a zero-harm objective.

SAFETY PERFORMANCE



Over the past three years, our average lost time accident frequency rate has been 2.8, which is lower than the current industry average of 3.5.⁹ While a certain degree of variability in safety performance can be expected from year to year, we are committed to continuously improving safety by addressing workplace hazards inherent to our operations.

⁸ Lost time accident cases and lost time accident frequency rate are KPIs based on DART (days away, restricted or transferred).
⁹ Industry average based on 2018 Bureau of Labor Statistics for the wood product manufacturing industry (NAICS 321xxx)



Health and Safety is a top priority for our Company.

Environment Health and Safety (EHS) Management System

SHIELD, our “Safety Health Improved Environment Leading our Decisions” program, provides a strong foundation for employee health and safety. SHIELD is an integrated EHS management system designed to provide the necessary tools for management of EHS risks throughout the organization. SHIELD is driven by senior management and implemented and maintained by our facility managers. It provides a framework for all aspects of EHS in our organization, and guides decisions regarding EHS activities with the overall goal of zero workplace safety accidents and environmental incidents.

As outlined in our EHS Policy, SHIELD represents a commitment to:

- Compliance with all applicable legal and other requirements related to environmental matters as well as health and safety hazards
- Continuous improvement, pollution prevention and conformity with our environmental, health and safety requirements
- Protection of employee and contractor health and safety, and the environment in which we operate
- Communication and employee participation at all levels
- Ongoing employee EHS training
- Effective assessments of the SHIELD management system using key performance indicators

Safety is a shared responsibility. Employees and contractors working on our behalf are accountable to abide by our SHIELD Policy commitments.

EHS Department Structure, Activities and Mandate

We develop and maintain corporate EHS personnel throughout our network.

In the U.S., our EHS Department is led by the Vice-President, EHS, U.S. Operations, and is staffed by full-time EHS professionals. On average, each member of our U.S. EHS Department has over 20 years of practical EHS experience.

In Canada, the EHS Department is led by the Vice-President, Environment and Technology and General Manager, Atlantic Region. The EHS team comprises personnel who are certified by Environment Canada’s technical recommendations documents (TRD) program as internal auditors and have, on average, 20 years of pertinent experience.

EHS personnel regularly visit all manufacturing facilities to ensure compliance with regulations. Activities include auditing, inspection, training, assistance with devising and implementing corrective actions, and development of new or improved EHS programs.

EHS Employee Training Program

Providing ongoing general and task-specific training is critical for ensuring the health and safety of our people. As part of SHIELD, we make sure that personnel are properly educated, adequately trained and sufficiently experienced to carry out their tasks. To accomplish this, we identify training needs based on recognized risks and hazards and according to SHIELD requirements.

Examples of EHS trainings required by Stella-Jones include hazard communication, security awareness, confined space entry and electrical safety, among many others.

Our EHS Training Policy lists all required health and safety trainings, associated regulatory requirements and training frequency details.

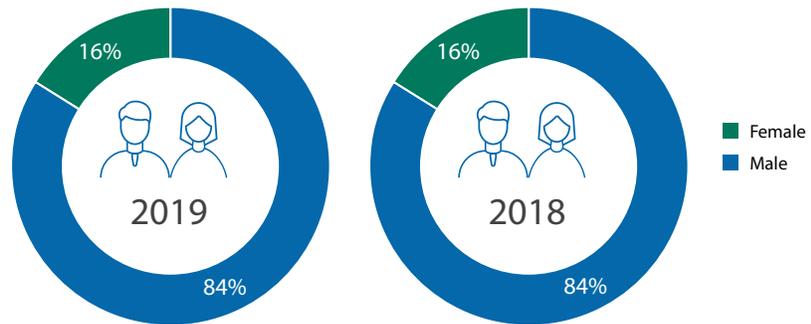


We strive to foster a work environment and culture where our employees are given equal opportunity for growth and development.

DIVERSITY AND INCLUSION

With more than 2,000 employees, we understand that our people are our most important asset. Each and every one of our employees should be treated fairly and with respect and dignity.

EMPLOYEES BY GENDER



WOMEN IN SENIOR EXECUTIVE ROLES



Our commitment to diversity and inclusion begins at the top with our Board of Directors and our Board Diversity Policy. At the employee level, our foundation is built on our Equal Opportunity Employment Policy. This policy applies to recruiting, hiring, training and promoting for all job titles, and reinforces our commitment to giving all qualified individuals an equal opportunity in employment.

Our Anti-Discrimination and Anti-Harassment Policy applies to all employees and persons present at our facilities and emphasizes our commitment to providing a discrimination- and harassment-free environment. The purpose of this policy is to foster a culture of inclusiveness at all our facilities by ensuring the safety and wellbeing of our people.

In the U.S., our Affirmative Action Program ensures that all qualified applicants and employees are considered for job openings, promotions, training opportunities, pay raises and other terms and conditions of employment. This program highlights our attempt to actively recruit and expand our pool of qualified candidates. To monitor our affirmative action efforts, we are required to maintain data on individuals' race/ethnicity, gender, disability status and protected veteran status. All employees in management or supervisory roles regularly receive training on the Affirmative Action Program.



“

We are committed to providing a discrimination- and harassment-free workplace and to fostering a culture of inclusiveness.

Learn more about our Board Diversity Policy under the [Corporate Governance](#) section of the report.

HUMAN CAPITAL

The Stella-Jones Human Resources team leads the Company’s initiative to provide a safe and engaging environment for our employees. Aligned with our core Company values, we continuously strive to create a workplace where:

- We embrace change and welcome diverse perspectives
- We provide a respectful and inclusive work environment
- We reward performance and promote collaborative teamwork
- We prioritize the retention and cultivation of talent and foster opportunities for career advancement

Recruitment

To support the successful accomplishment of our goals, we target talent who share our sense of purpose, values and are a good fit for our Company’s work culture, while

also reflecting the diversity of the cities, towns and communities in which we operate. A portion of our recruitment efforts focuses on new graduates through our Internship Program. This program provides participants with an introduction to the wood industry, project work, and pertinent administrative and support tasks. In return, the program allows us to:

- Evaluate potential talent prior to a formal offer
- Provide learning opportunities to groom individuals with needed skills
- Expand leadership competencies of current personnel through intern mentorship
- Create stronger networks with colleges and universities, attracting qualified graduates entering the workforce
- Connect with communities
- Grow industry awareness to create interest in wood science studies

Training and onboarding process for employees of acquired companies

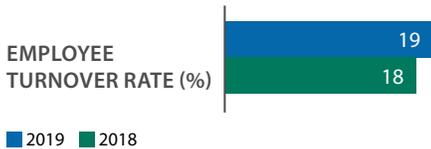
Stella-Jones’ growth strategy has included significant network expansion through acquisitions. With each addition to the Stella-Jones family, a new group of employees joins us. We remain mindful of respecting additional sets of values and diverse corporate cultures while making sure to embrace our acquired talent and the best of what they bring. Our onboarding approach is hands on by design. Each time we grow by acquisition, a dedicated integration team is deployed to our acquired sites to help coach, guide and train new employees on Stella-Jones’ systems, processes, policies and procedures. This approach ensures that our newest team members are successfully integrated and given the tools needed to create value for our entire organization within the shortest possible time frame.



At Stella-Jones, we seek to cultivate existing talent and understand the value of attained knowledge and seasoned experience. As such, many of our acquired employees find that their years of experience prior to joining Stella-Jones allow them equal opportunity to stand as candidates for promotion to management and senior roles. At the end of calendar year 2019, 13 of the Company's 20 vice-presidents originated from acquired companies.

Employee Engagement, Training and Development

Our overall annual employee turnover rate has been stable in a highly competitive market and is a metric that we closely monitor. Turnover rates are highly influenced by the persistently strong demand for skilled labour. Our commitment to creating a safe and fair workplace, building a culture of innovation and self improvement and our competitive compensation and benefits programs, combine to help us attract and retain top talent.



We believe that employees who enjoy their work and are supported by like minded leadership are more likely to thrive, be engaged and act as key drivers towards meeting shared company goals.

Our management team receives training on enhancing employee engagement in the workplace. These training sessions focus primarily on effective interaction and communication with employees. Managers are specifically taught to actively listen with an intent to learn, inquire for insight, provide feedback, and express confidence in their employees. This training program fosters a culture of continuous

coaching and real-time feedback to give our employees the best possible chance of achieving their career and personal goals.

We developed our Lead Development Training Program in 2018 and introduced it in our utility pole division in the U.S. in 2019 to promote the transfer of knowledge and learning from our senior leadership team to the next generation of leaders. The program's main focus is to enhance leadership capabilities through improvement of knowledge, skills and abilities to better meet the needs of our operations. The training focuses on the development of hard and soft skills and ranges from leadership coaching to technical certifications. Participants in the program meet on a monthly basis with Human Resources and operational vice-presidents to agree on projects and set tasks and objectives. At the end of each month, participants report back on achievements and lessons learned. This program has been highly successful in developing high performing individuals with the potential to fill roles of greater responsibility. With the success of this program in our U.S. utility pole division, we look forward to extending it to our other divisions.

Providing continuous learning and development opportunities is essential for enabling our people to grow professionally and personally. We invest time and energy in training and development programs that help our employees expand their technical, professional and interpersonal skills. We provide our employees with professional growth pathways and offer resources to enhance their skills, knowledge and management capabilities.

In addition to supporting the development of a broad-spectrum of knowledge and leadership skills across the Company, we also recognize the importance of continuing education and provide our employees with tuition assistance as part of our total compensation and benefits package. In the U.S. and Canada, employees are offered tuition assistance for accredited college courses, that allow them to pursue education aligned with their job function and personal development plan. In 2018 and 2019, 7 employees requested and received tuition assistance.

Investing in the potential of our existing workforce by enhancing their skills through training and educational advancement is a cornerstone of our success. We believe that empowering our people will enhance our ability to reach key objectives and sustain our competitive advantage.



We offer career development opportunities for emerging leaders, driving greater engagement and retention of top talent.

Succession Planning

Early succession planning is critical to maintaining a skilled and agile workforce, and key to managing human capital risk within our organization. We have commenced the implementation of a succession program with the support of our Human Resources department to help us proactively develop our next-generation workforce and leadership to meet the long-term needs of our evolving business.

In 2018 and 2019, the focus of our succession planning has been on identifying emerging and high-potential leaders with the objective of eventually succeeding members of our senior management team. This has been a collaborative approach across the organization, with the senior members of the team providing input on viable candidates, their existing skillsets and strengths, and developing action plans to enhance these candidates' business knowledge, competencies, and strategic leadership capabilities. Our next area of focus is developing appropriate succession plans for our plant managers who currently take the day-to-day lead at our forty wood treating facilities across North America.

Compensation and Benefits

At Stella-Jones, we strive to encourage performance by fostering a culture of employee recognition. We know our people are essential to our success and reward their contributions by providing them with competitive compensation and benefits that provide value to their professional and personal lives.

Our approach to compensation is systematic and benchmarked against the market. All positions are documented and rated in order to provide unbiased and equitable remuneration. We conduct biannual market reviews and compensation analyses for job roles relative to the industry standard and take appropriate action to pay our employees competitively. The results of these market reviews lead to adjustments to the salary ranges we offer, where necessary.

Our employee benefit programs are designed to be flexible, allowing our employees to select plans customized to their own personal or familial situation. Benefits that we offer include a comprehensive health insurance plan that covers medical, dental, prescription and vision care and employee assistance for services such as counseling sessions, legal resources and financial resources.

We also provide our employees with tools to save for retirement. We offer voluntary group registered retirement savings plans (RRSP and 401k plans for our Canadian and American employees, respectively) to all our employees with an employer matching contribution component. Our retirement savings plan allows employees to contribute, together with Stella-Jones, towards their future financial well being,



Our approach to compensation is systematic and benchmarked against the market.



OUR COVID-19 RESPONSE

The Coronavirus pandemic has highlighted the importance of human health and illustrated the value of the health and safety message we have established across our organization throughout the years. Our Human Resource personnel with the support of our internal health and safety professionals, were able to swiftly issue company-wide communications explaining our comprehensive program for symptom identification, hygiene and sanitation across our North American network and the initiation of Covid-19 specific protocols and processes where none existed before.

These actions were further supported through the procurement and distribution of dedicated cleaning and sanitation supplies to required destinations in our network and into the hands of our workforce. Our entrenched culture of health and safety facilitated the rapid and thorough implementation of and adherence to these measures across our organization. As a result, our 40 essential manufacturing facilities remained open with few outbreaks and zero closures, and continue to serve our utility pole, railway tie and residential lumber customers without pandemic-related interruption.

All of our office-based employees were provided with the resources they needed to work effectively from the safety of their homes. Investments in our IT infrastructure have strengthened the reliability and security of our network, ensuring the effectiveness of remote work.

Our Environmental Performance

ENVIRONMENTAL COMPLIANCE

We're committed to reducing the environmental impact of our operations through dedicated senior leadership, strong compliance processes and open communication with environmental authorities.

Our operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations. We take necessary measures to comply with such laws and regulations by obtaining relevant environmental registrations, licences, permits and other approvals, as well as by carrying out timely inspections and compliance testing, and meeting reporting requirements.

We investigate cases of non-compliance and take corrective and preventive measures to prevent recurrence. Results of corrective and preventive actions are reported to regulatory authorities, as required.

ENVIRONMENTAL INCIDENTS



* In all cases, the Company works with local authorities to apply proper corrective action and ensure no impact to human health or the environment.

Reportable quantities vary from jurisdiction to jurisdiction, and the increase in the number of reportable spills in 2019 can be attributed to 3 spills of non-hazardous diesel/hydraulic oil that took place at our Bangor facility in Wisconsin, where spills of oil-containing products in quantities greater than 5 gallons must be reported to the state immediately.

Environmental Management System

To maintain compliance with all applicable environmental laws and regulations in the countries where we operate, we have a comprehensive Environmental Management System: SHIELD. Our SHIELD Management System is based on the ISO 14001 standard and tracks how the EHS policy and environmental processes are implemented across all our facilities.

As part of SHIELD, and consistent with our EHS policy, we have implemented processes to aid us with the identification and mitigation of significant hazards and to reduce potential risks associated with new processes and changes to existing operations, products, services or suppliers.



Our company-wide Management of Change Program requires that compliance with existing permits and regulations be confirmed prior to the implementation of any operational changes at our facilities. As part of this process, we are responsible for identifying any actions or controls that would mitigate the risk of non-compliance with existing regulations.

Environmental risks at the plant level are identified and monitored using Continuous Improvement Plans (CIPs). Each plant is responsible for using its CIP in conjunction with the Company's environmental policy to identify, rate and manage risks.



Environmental risks as they relate to overarching business continuity are addressed by the Enterprise Risk Management (ERM) Committee.

Learn more about our enterprise risk management within the **Governance of ESG-related risks** section.

EHS Scorecard

We promote a culture of environmental awareness and accountability through our EHS Scorecard. The EHS Scorecard tracks leading and lagging safety and environmental indicators on an annual basis.

Our 2019 EHS Scorecard incentivized several sustainability measures, including waste minimization and compliance with permitted air pollutant emissions limits. The use of the Scorecard promotes facility-level emission reduction projects and encourages management oversight through increased facility-level EHS Committee meetings, EHS Committee-led area inspections and environmental reporting.

CLIMATE CHANGE

Energy Use and GHG Emissions

In 2019, the energy consumption for our facilities, including direct and indirect energy, was 571,228 MWh — up 5% from 542,169 MWh in 2018 and was the result of an increase in production. The majority of our energy consumption is associated with fossil fuel combustion from stationary and mobile equipment.

ENERGY INTENSITY

Energy intensity (MWh/1,000 ft³ treated wood produced)



% intensity variation from 2018 to 2019

0%

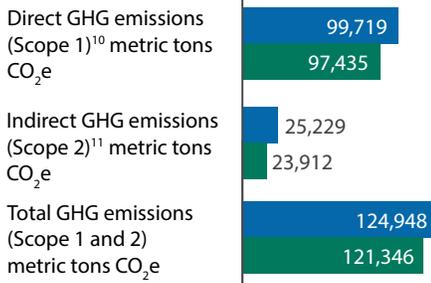
■ 2019 ■ 2018

In 2019, our facilities emitted 124,948 metric tons of GHG emissions, generated directly by burning fossil fuels on site (Scope 1) and indirectly by consuming purchased electricity (Scope 2). This included emissions from our wood treating plants, bark shaving yards, railway tie grinding recycling operation, crane mat construction facility and coal tar distillery. We calculate our emissions following the Greenhouse Gas Protocol using an operational control approach.

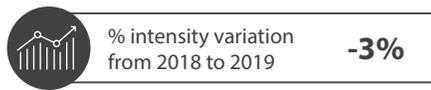
- 80% of our emissions are from direct energy use at our sites (e.g., natural gas, diesel)
- 20% of our emissions are from indirect energy use at our sites (e.g., electricity)



GHG EMISSIONS



GHG INTENSITY



■ 2019 ■ 2018

We are committed to reducing our Scope 1 and 2 GHG emissions through energy efficiency efforts, finding alternative sustainable energy sources, production processes and technology improvements.

At our Silver Springs, Nevada wood treatment facility, we use onsite wind power to generate electricity to meet operational requirements. In 2019, 39 MWh of renewable energy was generated onsite, more than double the amount generated in 2018 (18.5 MWh).

Since 2014, we have participated in the CDP Climate Change and Forest questionnaires, reflecting our commitment to transparency regarding our environmental performance and climate change impact. Our disclosures are publicly available on the [CDP website](#).

AIR

Operations at our manufacturing facilities can affect local air quality due to combustion emissions such as nitrogen oxides (NOx), sulfur oxides (SOx) and volatile organic compounds (VOCs). Data on our air emissions is provided in the Performance Table in the [Appendix](#).

To comply with local air quality regulations and permits, and as part of our Air Quality Permit Management Program, our facilities identify, quantify and disclose all sources of air emissions to government authorities and implement air emission control devices to limit air pollutant emissions.

In 2018 and 2019, all our facilities were in material compliance with air quality permits in all jurisdictions.

Safety is fundamental to our business. The same safety mindset applies to our commitment to our neighbours and the communities where we operate. In the unlikely event of emergencies, environmental incidents or health and safety accidents, our facilities have well-defined plans and procedures to respond. Procedures also apply to incidents or concerns reported by our neighbours. The Company conducts thorough investigations and engages in open dialogue with its neighbours when feasible to address their concerns and find suitable solutions.



We take the safety of our neighbouring communities seriously.

¹⁰ Direct (Scope 1) GHG emissions are from sources that are owned or controlled by the reporting company.

¹¹ Indirect (Scope 2) GHG emissions are energy-related emissions that are a consequence of our operations but occur at sources owned or controlled by another company (e.g., purchases of electricity, steam, heat and cooling).



WATER

Water at our facilities is mainly sourced from public water systems and is used in several activities, including waterborne wood treating operations, dust and emission controls, process steam heating and process cooling.



52%
of facilities use public water systems



18%
of facilities use well water



30%
of facilities use a combination of stormwater with public water systems or wells



Stella-Jones recognizes that water is an important resource that needs to be managed responsibly.

Wastewater Management

Water used in operations or generated from precipitation and cleaning is treated before reuse or release to the environment due to its potential to contain wood preservatives.

We implement best management practices to ensure that stormwater leaving our facilities meets all appropriate government-issued standards. These stormwater permits and regulations require our facilities to inspect stormwater quality and test for specific parameters. At applicable facilities, monthly or quarterly sampling is undertaken to maintain compliance with the issued water permit.

OPERATIONS

Reused in operations — to the extent practicable, water is captured and reused in operations. Water can be directly reused in the waterborne treating processes.

Evaporated — water is treated on site to remove contaminants and then evaporated.

Discharged to municipality — water is treated and discharged to a municipal water treatment system or the ground surface via government-issued water permits.

STORMWATER

Onsite water treatment system — the systems are designed to capture and remove stormwater pollutants to allow for reuse or for discharge.

Stormwater management plans — All manufacturing facilities maintain stormwater management plans that describe the methods used to reduce or eliminate stormwater contact with wood treating products and feedstocks.

Discharged to municipality — water is discharged to a municipal water treatment system or the ground surface via government-issued water permits.

Water-related Risks

Our primary use of water is for the treatment of wood with waterborne preservatives. While oilborne treating facilities do not require water as part of their treating solution, water is used in process heat and process cooling activities.



**Including 12 pole peeling facilities; a tie grinding facility (recycling) in Superior, Wisconsin; a wood crane mat production facility in Livingston, Texas and a coal tar distillery in Memphis, Tennessee*

Each of our facilities operates in a watershed with its own specific geography, land use and social characteristics that may influence the availability of water for use in our operations. Understanding the risks to our water supplies for facilities that rely on water for wood treatment is therefore essential.

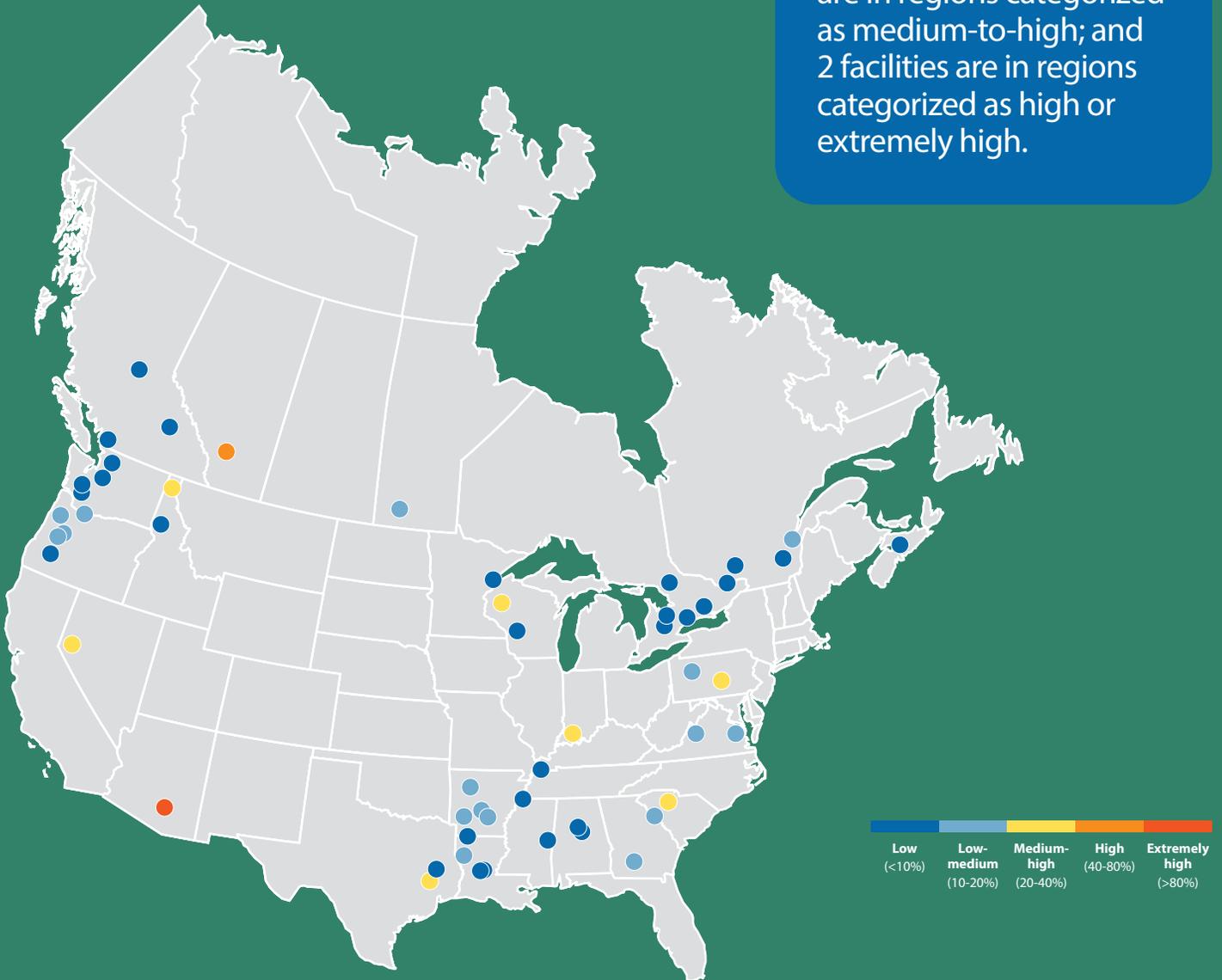
In 2019, we evaluated our presence in water-stressed areas using the World Resources Institute's (WRI) Aqueduct Water Risk Atlas Tool. We used the baseline water stress indicator in our analysis, which is a measure of the ratio of total annual water withdrawals to total available annual renewable supply from surface and groundwater. Higher values indicate more competition among users. The analysis determined that nine facilities are located in regions designated as having significant regional baseline water stress. Of those nine facilities, three facilities use waterborne preservatives in their operations. They are located in Eloy, Arizona, Carseland, Alberta, and Whitmire, South Carolina.



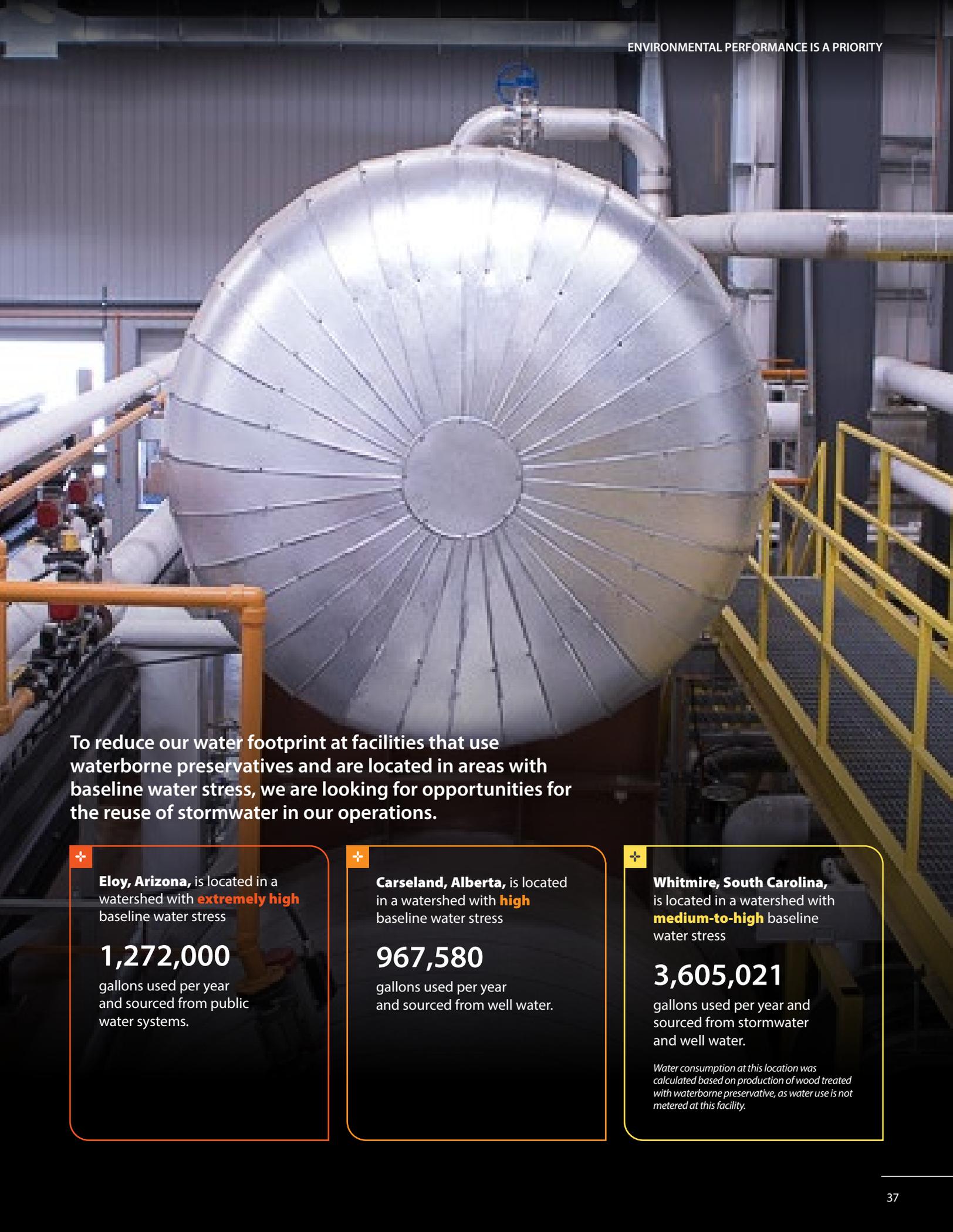


84%

of facilities are located in regions with low or low-to-medium baseline water stress; 7 facilities are in regions categorized as medium-to-high; and 2 facilities are in regions categorized as high or extremely high.



Sources: WRI Aqueduct 2014; FAO AQUASTAT 2008-2012; NASA GLDAS-2 2012; Shiklomanov and Rodda 2004; Flörke et al. 2012; Matsutomi et al. 2009.



To reduce our water footprint at facilities that use waterborne preservatives and are located in areas with baseline water stress, we are looking for opportunities for the reuse of stormwater in our operations.



Eloy, Arizona, is located in a watershed with **extremely high** baseline water stress

1,272,000

gallons used per year and sourced from public water systems.



Carseland, Alberta, is located in a watershed with **high** baseline water stress

967,580

gallons used per year and sourced from well water.



Whitmire, South Carolina, is located in a watershed with **medium-to-high** baseline water stress

3,605,021

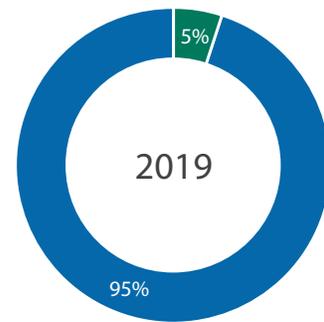
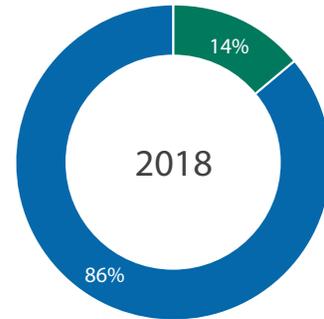
gallons used per year and sourced from stormwater and well water.

Water consumption at this location was calculated based on production of wood treated with waterborne preservative, as water use is not metered at this facility.



WASTE

WASTE GENERATED BY TYPE (%)



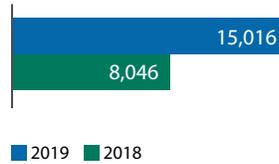
- Hazardous waste
- Non-hazardous waste

Note: Hazardous waste is only a small portion of the total waste generated in our operations.

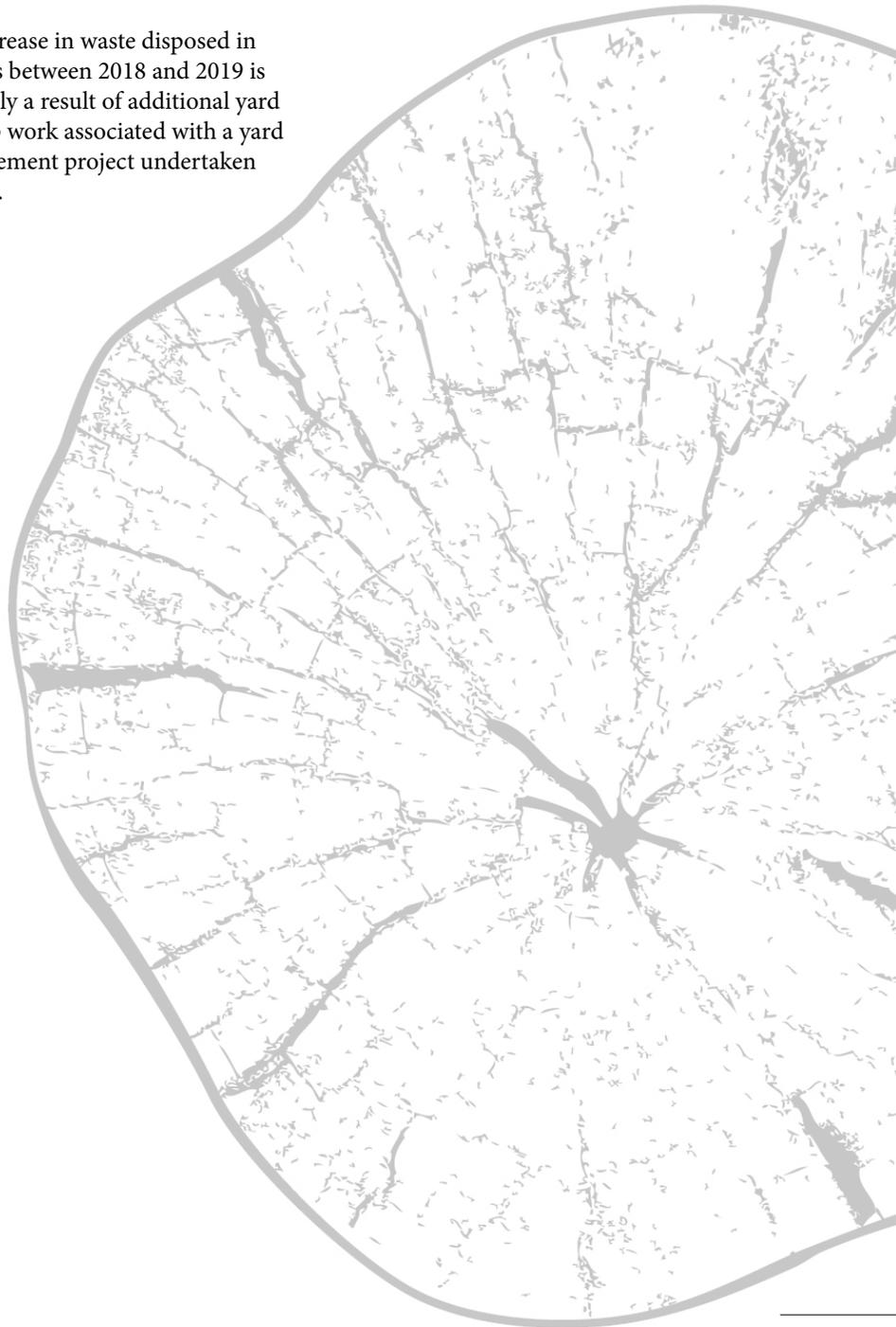
We are committed to finding new opportunities to reduce, reuse or recycle our non-hazardous waste. Wood by-products are used as biofuel in our onsite boilers, generating steam for our production processes. This is a carbon-neutral process, as it prevents wood waste material from being sent to landfills where it would emit GHGs during decomposition. The use of our wood by-products for biofuel not only reduces our environmental footprint, but it also decreases our waste disposal costs.

At each of our sites, trained personnel operate plant waste treatment and environmental protection facilities in such a way as to recover any preservatives for reuse in manufacturing processes. Hazardous waste generated at our operating facilities consists primarily of spent wood preservative chemicals with dust, metal and wood particles. Hazardous waste is shipped to government-licensed and -approved facilities where they are typically disposed of via energy recovery, incineration, stabilization or landfilled. We work closely with our waste management suppliers to ensure that hazardous materials are transported safely, treated effectively and recycled or disposed of according to regulatory requirements.

WASTE SENT TO LANDFILL (METRIC TONS)



The increase in waste disposed in landfills between 2018 and 2019 is primarily a result of additional yard cleanup work associated with a yard improvement project undertaken in 2019.



Our Governance Principles

CORPORATE GOVERNANCE

Board's Role and Responsibilities

Our Board of Directors is viewed as an indispensable component of our business. It brings together individuals with diverse backgrounds and experiences to help the Company operate successfully and uphold its values.

The Board is responsible for monitoring, evaluating and contributing to the strategic and operational direction of the Company. This includes helping the business to be managed effectively and in accordance with regulatory and legal requirements, and ensuring that it operates in an ethical and socially responsible manner, while also

maximizing short-term and long-term stakeholder value. The Board is further responsible for defining and upholding company policies and guidelines and overseeing the risk assessment and management processes.

We believe that an independent Board of Directors is crucial to effective management oversight. Reflecting this, seven out of eight Board members are independent from management, with the exception of our current President and CEO. Independent Board members meet without the presence of management following each regularly scheduled Board meeting, and all four of the Company's Board-level committees are composed solely of independent directors.

FOUR BOARD COMMITTEES ARE TASKED WITH ASSISTING AND ADVISING THE BOARD OF DIRECTORS ON A NUMBER OF KEY ISSUES:

- 1 Audit Committee
- 2 Environmental, Health and Safety Committee
- 3 Remuneration Committee
- 4 Governance and Nomination Committee

Learn more about the mandate of our Board of Directors and its committees on our [Corporate Governance](#) webpage.



Board Diversity

The varied experiences and backgrounds of our Board of Directors provide a broad range of perspectives and insight. This fosters enhanced decision-making, which strengthens our business. Talent, skills and character are considered alongside several diversity attributes, including professional designations, regional and industry experience, as well as gender, age and national origin when identifying suitable candidates to join our Board.

As per our [Board Diversity Policy](#), the Governance and Nomination Committee considers the existing level of diversity on the Board when recommending nominees. At present, three of our eight (38%) Board directors are women and none are Indigenous peoples, persons with disabilities or members of visible minorities.

While we do not have diversity representation targets in place at the time of publication of this report, we continue to be mindful of diversity when identifying desirable candidates and determining optimal succession strategies for our Board.

Board Renewal

Our philosophy is to continually enrich the quality of the Board by balancing the benefits of fresh ideas and perspectives of new directors with the more developed business knowledge that longer-serving seasoned members have gained while serving on the Board. To reflect this, our Board Diversity Policy was modified in 2018 to limit service to 15 years and set mandatory retirement at the age of 75, subject to adjustment in exceptional circumstances. As at December 31, 2019, four out of eight (50%) Board members had served for under five years.

Compensation Plans and Policies

Our executive compensation plans and policies are based on a pay-for-performance philosophy. The Remuneration Committee advises and assists the Board regarding policies on compensation and benefits, salaries of senior management, as well as profit sharing, and the allocation of long-term incentives. Our executive compensation plan is designed to reward and encourage teamwork among senior executives and promote financial and operating performance in the short and long term.



Strong governance strengthens our performance and is at the heart of our corporate values and ethics.

2019 2018



Board and Governance Information

Number of Board directors **8** **9**

Number of independent directors **7** **7**

Separate Chair & CEO **Yes** **Yes**

Annual Board evaluation process **Yes** **Yes**



Board Renewal and Diversity

Majority voting policy **Yes** **Yes**

Mandatory retirement age **75** **75**

Women Board members **38%** **44%**

Board Diversity Policy **Yes** **Yes**



Business Ethics and related policies



Executive Officer Clawback Compensation Policy

Yes



Whistleblowing Policy

Yes



Anti-Hedging Policy

Yes



Code of Ethics

Yes

BUSINESS ETHICS

Business Conduct and Ethics

Our [Code of Business Conduct and Ethics](#) (Code) outlines the standard of ethical behaviour and corporate conduct that we expect from our people and those working on our behalf. The Code applies to all employees at all levels and sets out basic principles in which all employees shall conduct business and maintain relationships with fellow employees, customers, competitors, business partners and regulatory authorities.

The Code is circulated to all staff quarterly, reviewed by the Board annually and updated as necessary.

Anti-Corruption

In 2019, we amended our Code to incorporate Anti-Hedging and Anti-Bribery Policies with the intent of strengthening our employees' alignment with the common objectives of our business and our shareholders, and to further bolster the Company's culture of integrity throughout its ranks.

Whistleblowing Policy

As compliance with the Code is an essential condition of employment for all our employees, we provide a company-wide anonymous whistleblowing mechanism through an online portal and hotline for employees who recognize compliance violations of the Code or who wish to report ethical concerns without fear of retaliation or intimidation.

In the event that an employee reports a violation of the Code or submits an ethical concern or complaint, the Company adheres to its [Whistle Blowing Procedure](#) by immediately submitting the matter to the responsible department for investigation. If grounds for a violation are validated, swift action is taken and appropriate corrective plans are implemented. Summaries of complaints, investigation results and corrective action taken are reported to the Audit Committee on a quarterly basis.

Executive Clawback Compensation Policy

We believe in fostering a work environment built on hard work and good ethics. For us, this starts with the insistence on exemplary behaviour from the leadership team.

Our Executive Officer Clawback Compensation Policy sets out that the Company will not tolerate fraud, intentional misconduct or grossly negligent actions. The policy authorizes the Board to commission investigations and seek reimbursement of both short- and long- term incentives awarded to executive officers, past and present, due to serious misconduct in certain instances.

Learn more about our corporate governance and business ethics in our [Management Proxy Circulars](#).

GOVERNANCE OF ESG-RELATED RISKS

Responsibility and accountability for risk is incorporated into all levels of our organization as we strive to integrate risk management into all our decision-making processes and overall strategy.

Risk management is governed by our Board, the Board committees, and the Enterprise Risk Management (ERM) Committee with the goal of defining and mitigating the principal risks to our business, including ESG-related risks. The ERM Committee is a non-Board committee composed primarily of members of the senior management team.

Board Oversight and Management's Role

The Environmental, Health and Safety Committee of the Board (the "EHS Committee") has the responsibility of overseeing our activities with respect to the environment and the health and safety of our workforce, with primary goals of assuring regulatory compliance and an entrenched culture of safety throughout the organization.

The EHS Committee holds regularly scheduled meetings where it meets with senior members of the environmental management team and third-party experts to receive reports on EHS compliance, company-wide and plant-specific capital projects, improvement programs, performance metrics, incidents and key objectives. The Chair of the EHS Committee reports a detailed summary of each EHS Committee meeting to the Board at regular intervals.

EHS Committee Responsibilities

As part of its mandate, the EHS Committee's core responsibilities include:

- Overseeing EHS and Occupational Health and Safety (OHS) significant policies and management systems
- Overseeing public, policy and regulatory requirements on EHS matters as they relate to capital investments, operations and products
- Evaluating environmental risks and mitigation strategies associated with business acquisitions and dispositions
- Monitoring EHS and OHS performance at various sites
- Maintaining management plans and implementing long-term objectives for improved EHS and OHS performance
- Monitoring the impact of EHS and OHS issues on the Company's medium- and long-term business strategies
- Ensuring corporate resources are available for effective EHS management
- Ensuring a proper reporting system is in place with respect to any EHS risks, emergency or non-compliance events.

Risk Identification, Assessment and Management

In 2019, we completed our first enterprise-wide risk assessment. Strategic, operational, information technology, financial and compliance risks at the enterprise, division, location and functional levels were identified and evaluated based on interviews with more than 100 business leaders across the organization. Risks were evaluated against three consequence categories: financial impact, EHS/regulatory/legal compliance, and reputation.

Mitigation measures were implemented for key risks, either through the improvement of existing controls or the implementation of new ones. The effectiveness of controls in reducing inherent risk is measured over time, and the risk register is maintained in our corporate risk management information system.

Looking Forward

In this, our second ESG report, we have identified many of the topics that have the most material implications to our Company, and which will drive our ESG priorities and objectives for the near future. These fundamental matters will play a greater role in the way we operate and will be more wholly integrated into the decisions we make and the goals we set as an organization. Leveraging this report to drive important conversations will allow us to enhance our ESG practices, develop better strategies to meet our ESG goals and create superior value for all our stakeholders.

Appendix

Performance Data

OPERATIONAL DATA	UNIT	2019	2018
Treated Wood Production	1,000 CF ¹²	102,083	96,615
ENVIRONMENTAL DATA	UNIT	2019	2018
Greenhouse gas (GHG) and energy			
Energy use ¹³	MWh ¹⁴	571,228	542,169
Direct energy use ¹⁵	MWh	488,398	467,269
Indirect energy use ¹⁶	MWh	82,830	74,900
Energy intensity	MWh/1,000 CF production	5.6	5.6
GHG (Scope 1 and 2) emissions	metric tons CO ₂ e ¹⁷	124,948	121,345
GHG (Scope 1) emissions ¹⁸	metric tons CO ₂ e	99,719	97,434
GHG (Scope 2) emissions ¹⁹	metric tons CO ₂ e	25,229	23,911
GHG Intensity by revenue	tCO ₂ e/\$million revenue	57.6	57.1
GHG Intensity by production	tCO ₂ e/1,000 CF Production	1.22	1.26
Air emissions			
VOC ²⁰ emissions	metric tons	36	32
VOC emissions intensity	metric tons/1,000 CF production	0.0004	0.0003
SO _x ²¹ emissions ²²	metric tons	90	NPT ²³
SO _x emissions intensity	metric tons/1,000 CF production	0.0009	NPT ²³
NO _x ²⁴ emissions ²²	metric tons	101	NPT ²³
NO _x emissions intensity	metric tons/1,000 CF production	0.0010	NPT ²³
Waste			
Total waste generated (absolute) ²⁵	metric tons	32,667	10,909
Total weight of hazardous waste	metric tons	1,659	1,547
Total weight of non-hazardous waste ²⁶	metric tons	31,008	9,362
Landfilled waste	metric tons	15,016	8,045
Environmental compliance			
Reportable spills	Number	8	3
Notices of violation for non-compliance with environmental regulation	Number	3	4

¹² CF: Cubic feet.

¹³ Total energy use is equal to the sum of direct and indirect energy.

¹⁴ MWh: Megawatt-hour.

¹⁵ Direct energy is primary energy consumed on-site by Stella-Jones operated facilities.

¹⁶ Indirect energy includes imported electricity, steam, heating and cooling from third parties.

¹⁷ CO₂e: Carbon dioxide equivalent.

¹⁸ Direct (Scope 1) GHG emissions are from sources that are owned or controlled by the reporting company.

¹⁹ Indirect (Scope 2) GHG emissions are energy-related emissions that are a consequence of our operations but occur at sources owned or controlled by another company (e.g., purchases of electricity, steam, heat and cooling).

²⁰ VOC: volatile organic compounds

²¹ SO_x: sulfur oxides

²² SO_x emissions and NO_x emissions are from fuel combustion processes only.

SOCIAL DATA	UNIT	2019	2018
Workforce			
Stella-Jones employees	Number	2,186	2,126
Female employees	Number	345	329
Male employees	Number	1,841	1,797
Percentage of female employees	%	16	16
Percentage of male employees	%	84	84
Women in senior executive roles	Number	2	1
Percentage of women in senior executive roles	%	9	5
Unionized employees ²⁷	Number	392	326
Percentage of unionized employees	%	18	20
Employee turnover rate	%	19	18
Health and safety			
Lost time accident frequency rate (DART rate) ²⁸	Rate (number per 200,000 hours worked)	3.7	2.5
Lost time accident cases (based on DART: days away, restricted or transferred) ²⁸	Number	63	51
Number of fatalities	Number	0	0

GOVERNANCE DATA	UNIT	2019	2018
Total Board members	Number	8	9
Percentage of independent Directors	%	88%	78%
Percentage of women on Board	%	38%	44%

²³ NPT: not previously tracked

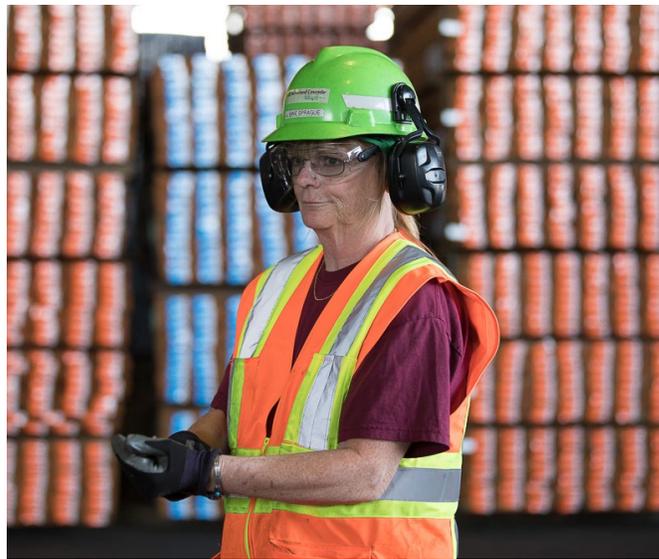
²⁴ NO_x: nitrogen oxides

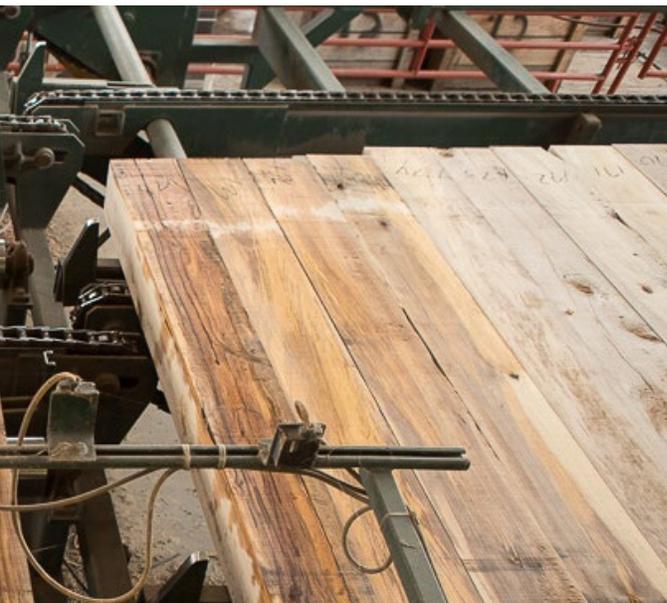
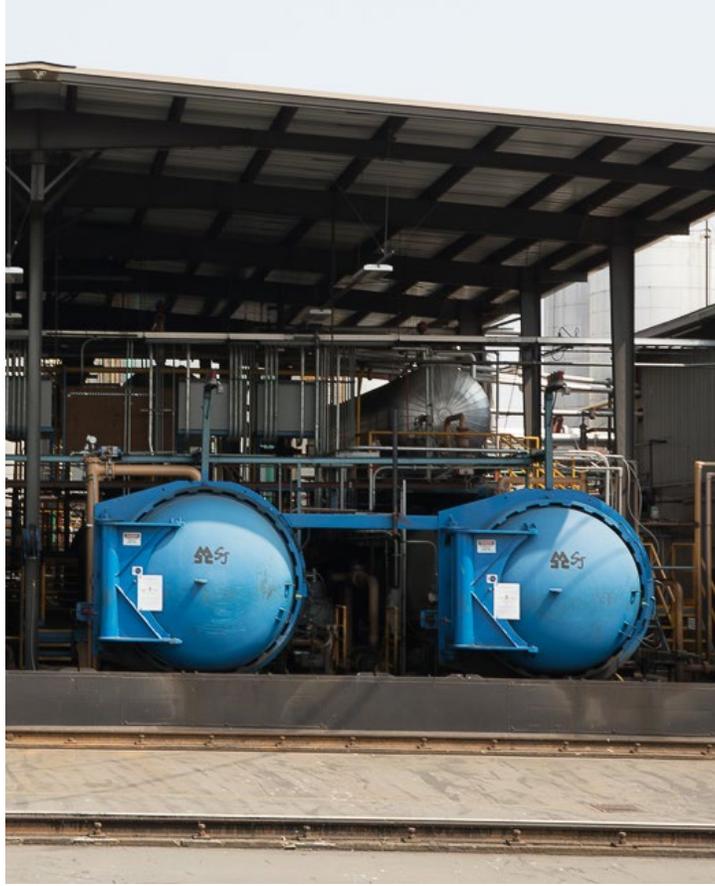
²⁵ Total waste generated reflects the sum of hazardous and non-hazardous waste generated throughout our operations.

²⁶ The increase in non-hazardous waste in 2019 was solely a result of improved data collection. In 2017 and 2018, plant estimates of waste volume were used, while in 2019 waste disposal supplier invoices were used to collect the data.

²⁷ Unionized workforce data is only applicable in areas where there is a unionized environment.

²⁸ Based on DART (days away, restricted or transferred), a safety metric required by the United States Occupational Safety and Health Administration. **Lost Time Accident** refers to accidents that result in days away, restricted duty, or transfer to a new job type. **Lost time accident frequency rate** is calculated as (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).





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