



ANNUAL INFORMATION FORM

For the financial year ended December 31, 2019

March 10, 2020

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ITEM 1 DATE OF ANNUAL INFORMATION FORM

This Annual Information Form (“AIF”) is dated as of March 10, 2020. Unless otherwise indicated, the information contained in this AIF is stated as at December 31, 2019.

ITEM 2 CORPORATE STRUCTURE

2.1 NAME AND INCORPORATION

Stella-Jones Inc. (“SJI”) was incorporated as 2865165 Canada Inc. on October 26, 1992 under the *Canada Business Corporations Act* and changed its name to Stella-Jones Inc. on February 19, 1993. SJI’s Articles were amended on March 31, 1994 to delete private company restrictions. The Articles were again amended on June 13, 1994, subdividing all 100,001 common shares issued and outstanding into 6,200,000 common shares redesignated “Common Shares”, creating Preferred Shares, issuable in series, cancelling all authorized but non-issued preferred shares and creating the Series 1 Preferred Shares. On May 27, 1996, SJI’s Articles were further amended to add a provision to the effect that the directors may appoint a limited number of additional directors to hold office until the close of the next annual meeting of shareholders. On January 1, 2014 SJI filed Articles of Amalgamation evidencing its amalgamation with its wholly-owned subsidiary, I.P.B. – W.P.I. International Inc. (“I.P.B.”). On January 1, 2015, SJI filed Articles of Amalgamation evidencing its amalgamation with its wholly-owned subsidiaries, Stella-Jones Canada Inc. (“SJ Canada”) and Guelph Utility Pole Company Ltd. On January 1, 2016, SJI filed Articles of Amalgamation evidencing its amalgamation with its wholly-owned subsidiaries, Ram Forest Group Inc. (“Ram Forest Group”), Ramfor Lumber Inc. (“Ramfor”), Ram Forest Products Inc. (“RFP”) and Trent Timber Treating Ltd. (“Trent”). On May 12, 2017, Stella-Jones filed Articles of Amendment to increase the minimum and maximum number of directors to three and 12, respectively.

The registered office of SJI is located at 3100 de la Côte-Vertu Blvd., Suite 300, Montréal, Québec, H4R 2J8.

2.2 INTERCORPORATE RELATIONSHIPS

As at December 31, 2019, Stella-Jones Corporation (“SJ Corporation”), McFarland Cascade Pole & Lumber Company (“MCPL”), Cascade Pole and Lumber Company (“Cascade”), Kisatchie Midnight Express, L.L.C. (“KME”) and Stella-Jones U.S. Holding Corporation (“SJ Holding”), were the principal subsidiaries of the Company⁽¹⁾.

NAME OF SUBSIDIARY	PERCENTAGE OF VOTING SHARES OWNED BY THE COMPANY	JURISDICTION OF INCORPORATION
SJ Corporation ⁽²⁾	100%	Delaware
MCPL	100%	Washington
Cascade	100%	Washington
KME	100%	Louisiana
SJ Holding ⁽³⁾	100%	Delaware

(1) On December 31, 2019, Stella-Jones CDN Finance Inc., a wholly owned subsidiary, was liquidated into SJI.

(2) On December 31, 2019, Lufkin Creosoting Co., Inc. merged into McFarland Cascade Holding, Inc. (“McFarland”) and immediately hereafter, the surviving entity, McFarland, merged into SJ Corporation, the ultimate surviving entity.

(3) On December 31, 2019, Stella-Jones U.S. Finance II Corporation, Stella-Jones U.S. Finance III Corporation, Stella-Jones U.S. II LLC and Stella-Jones U.S. III LLC, all wholly owned subsidiaries, were liquidated into SJ Holding.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

Unless the context dictates otherwise, “Stella-Jones”, “SJI” and “the Company” mean Stella-Jones Inc. and its subsidiaries.

3.1 THREE YEAR HISTORY

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 telecommunications companies with utility poles. Stella-Jones Inc. also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products for construction and marine applications.

On December 19, 2017, Stella-Jones completed the acquisition of substantially all of the wood treating assets of Wood Products Industries Inc. (“WPI”), located in South River, Ontario. Total cash outlay amounted to approximately \$4.2 million, excluding acquisition costs of approximately \$234,000. The Company financed the acquisition through its existing syndicated credit facilities. As this transaction was not a significant acquisition for the purposes of Part 8 of National Instrument 51-102, Form 51-102F4 (Business Acquisition Report) was not filed in respect of this acquisition.

On February 9, 2018, the Company completed the acquisition of the wood treating facility and post peeling operations of Prairie Forest Products (“PFP”), a division of Prendiville Industries Ltd., located in Neepawa and Birch River, Manitoba, respectively. Total cash outlay was approximately \$27.0 million, excluding acquisition costs of approximately \$425,000. The Company financed the acquisition through its existing syndicated credit facilities. As this transaction was not a significant acquisition for the purposes of Part 8 of National Instrument 51-102, Form 51-102F4 (Business Acquisition Report) was not filed in respect of this acquisition.

On April 9, 2018, the Company, through its wholly owned U.S. subsidiary, completed the acquisition of substantially all of the operating assets employed in the business of Wood Preservers Incorporated (“WP”), located at its wood treating facility in Warsaw, Virginia. WP manufactures, sells and distributes marine and foundation pilings and treated wood utility poles. Total cash outlay associated with the acquisition was approximately \$27.5 million (US\$21.6 million), excluding acquisition costs of approximately \$423,000. The Company financed the acquisition through its existing syndicated credit facilities and an unsecured promissory note. As this transaction was not a significant acquisition for the purpose of Part 8 of National Instrument 51-102, Form 51-102F4 (Business Acquisition Report) was not filed in respect of this acquisition.

On April 1, 2019, the Company completed the acquisition of substantially all of the assets of Shelburne Wood Protection Ltd. (“SWP”), located in Shelburne, Ontario. The SWP plant is specialized in the treatment of residential lumber. Total consideration for the acquisition was approximately \$9.2 million, of which \$8.5 million was financed through the Company's syndicated credit facilities and \$0.7 million was recorded as a balance of purchase price. The balance of purchase price bears no interest, will be paid to the seller in two equal amounts on the first and second anniversary of the transaction and was recorded at fair value using an effective interest rate of 3.31 %. The SWP acquisition has been accounted for as an acquisition of a group of assets.

ITEM 4 DESCRIPTION OF THE BUSINESS

4.1 GENERAL

The Company operates within two business segments, the production and sale of pressure treated wood for several different product groups (described below) and logs and lumber. Wood treating facilities are located in the Canadian provinces of Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Québec, and the states of Alabama, Arizona, Arkansas, Georgia, Indiana, Kentucky, Louisiana, Mississippi, Nevada, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, and Wisconsin in the

United States. Additionally, the Company distills coal tar and distributes products from that process at its Memphis, Tennessee distillery.

4.2 DESCRIPTION OF PRODUCT GROUPS AND SERVICES

Railway Ties

Since railway products must have a high resistance to wear and decay, a creosote-based treatment is required to provide the maximum protection.

Demand for railway ties is comprised primarily of replacement requirements with limited activity in new track construction. Capital expenditures on track and infrastructure improvements should remain solid in the years to come.

A relatively stable volume of new ties is required for maintenance purposes, as management estimates that approximately 1.5% to 3.0% of all ties on active railway lines are in need of replacement every year. In addition to servicing the demands of the Class 1 railroads for railway ties and timbers, the Company also sells to many short line railroads and to contractors that install and repair rail lines.

Utility Poles

Customers for transmission and distribution poles are predominantly regional telecommunication and electric utility companies. Although there exist alternative transmission methods, treated wood poles are the preferred method due to their durability (poles could typically last from 40 to 50 years or longer) and their relatively low cost of purchase, installation and maintenance. Furthermore, wood poles can be easily drilled and cross cut and allow greater ease for servicing by linesmen. Steel, concrete and composite poles are more expensive than wood poles in most sizes and applications. Due to the higher cost and characteristics such as conductivity, potential for corrosion, poor serviceability, flexibility and workability (drilling, machining, climbing), wood poles continue to be the preferred choice of most utilities. Underground cable is used mainly in urban centers where existing underground infrastructures exist but is less preferred in rural areas due to the higher cost and difficult accessibility.

Residential Lumber

This category consists primarily of pressure treated consumer lumber for use in patios, decks, fences and other outdoor applications, as well as the distribution of wood and wood alternative accessories. The Company provides residential lumber throughout Canada as well as in the U.S. Pacific Northwest and Alaska.

Industrial Products

These products include foundation and marine piling, railway bridge and crossing timbers, crane mats, construction timbers, fence posts and highway guardrail posts.

The Company also manufactures the wood preservative, creosote, for use in its wood treating activities, as well as other coal tar-based products such as roof pitch and road tar, which are sold to third party customers.

Logs and Lumber

In this segment, logs comprise the sale of logs harvested in the course of the Company's procurement process which are determined to be unsuitable for use as utility poles. Additionally, in the course of procuring sufficient competitively priced residential lumber volume, the Company engages in reselling excess lumber into local home-building markets.

4.3 DESCRIPTION OF MANUFACTURING PROCESS

Preservation 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.

The manufacturing process involves at least two stages: drying and impregnation with preservatives through hydraulic pressure. The preservatives, all of which are approved by Health Canada and the United States Environmental Protection Agency, are either oil-based or water-based. The raw materials consist of wood and preservatives.

In the first phase of treatment, excessive moisture in the wood is reduced prior to impregnation with the preservative. This is accomplished by air-seasoning, kiln drying or through a “conditioning process” in the treatment cylinder itself.

In the second phase, treatment is performed on batches of wood that are similar in species, shape and moisture content. Such batches are inserted into the treatment cylinder, where either a vacuum or a pressurized condition is created prior to the admission of the preservative. Following the admission of the preservative, hydraulic pressure is maintained in the treatment cylinder until the wood has absorbed the preservative to a pre-determined amount. Upon completion of the absorption process, excess preservative is returned to the storage tanks and a few remaining process steps are taken to avoid preservative concentrations on wood surfaces prior to removal from the treatment cylinder.

4.4 MANUFACTURING OPERATIONS

The Company operates 15 wood treating facilities in Canada and 25 wood treating facilities in the United States. In Canada, the facilities are located in Carseland (Alberta), Galloway, New Westminster and Prince George (British Columbia), Neepawa (Manitoba), Truro (Nova Scotia), Stouffville, Guelph, Peterborough, Shelburne and South River (Ontario), Delson, Gatineau, Rivière Rouge and Sorel-Tracy (Québec). In the United States, the facilities are located in Clanton and Montevallo (Alabama), Eloy (Arizona), Rison and Russellville (Arkansas), Cordele (Georgia), Winslow (Indiana), Fulton (Kentucky), Alexandria, Converse and Pineville (Louisiana), Electric Mills (Mississippi), Silver Springs (Nevada), Eugene and Sheridan (Oregon), Dubois and McAlister (Pennsylvania), Whitmire (South Carolina), Lufkin (Texas), Goshen and Warsaw (Virginia), Arlington and Tacoma (Washington), and Bangor and Cameron (Wisconsin).

The wood preservative, creosote, is produced at the Company’s distillery in Memphis, Tennessee.

The Company operates 12 pole peeling facilities in Canada and in the United States, and is also serviced by numerous pole peeling sites operated by third parties in both Canada and the United States.

Carseland, Alberta

Constructed in 1978, the Carseland facility is situated on a 64-hectare site of which 32 hectares are utilized for the production and storage of utility poles and residential lumber. The operation includes a state-of-the-art Pentachlorophenol (“PCP”) pressure system, a Micronized Copper Azole (“MCA”) water-borne pressure system, along with two drying/stabilization chambers. In addition, there is a pole butt treating tank, an incising/grading line and an automated lumber packaging line. Total annual treating capacity is approximately 147,000 cubic metres. The plant’s location is well situated to provide utility poles to Western Canada and U.S. markets and is supported by a long-established forestry operation headquartered at Salmon Arm, British Columbia, which manages the Company’s forest tenures in British Columbia.

In 2019, capital expenditures approximating \$2.2 million were devoted to the facility, mainly for the purchase of a new pole peeler and new dry kiln, as well as a replacement door for the MCA treating cylinder.

The Salmon Arm forestry operation saw capital expenditures of approximately \$600,000 in 2019, primarily for logging road construction.

Galloway, British Columbia

Located in Galloway, British Columbia, the 15-hectare site is used to manufacture utility poles, with key processes of peeling, incising, framing and treating. The facility conducts thermal and pressure treating and is equipped with an oil-based pressure treating cylinder and a butt-treating tank. Total annual production capacity approximates 55,500 cubic metres.

Capital expenditures at the Galloway facility during the year ended December 31, 2019 amounted to approximately \$46,000 and was primarily for the rebuild of a heat exchanger.

New Westminster, British Columbia

The New Westminster facility is situated on approximately 31 hectares of land. The plant operates four oil cylinders, one water-borne cylinder and a fixation chamber, with a total annual production capacity of over 88,000 cubic metres. The plant is also equipped with a pole peeler and a double track dry kiln. The plant produces mainly poles and piling, primarily for the North American market and is located near Vancouver on both the Canadian Pacific Rail system and the Burlington Northern Santa Fe (“BNSF”) main lines. It has easy truck access to Western North American markets in addition to Western ports for offshore export shipping.

For the year ended December 31, 2019, capital improvements amounted to approximately \$528,000, primarily for the upgrade of its pole peeling operations and automation of its CCA treating cylinder.

Prince George, British Columbia

The Prince George plant operates on 31 hectares and operates two oil cylinders, one water-borne cylinder, a dry kiln and a fixation chamber. The total annual treating capacity is approximately 58,750 cubic metres. The facility also includes a pole peeler, a railway tie mill and a pole grading and framing line. The plant produces mainly poles and crossties to serve Canadian utilities and railway market sectors. A spur line in the plant connects to the Canadian National Railway Company main line. Truck access is available to British Columbia ports for offshore shipments.

Capital expenditures of approximately \$427,000 were devoted primarily to a boiler replacement and heat exchange rebuild at the Prince George plant during the year ended December 31, 2019.

Neepawa, Manitoba

This 12-hectare property located in Neepawa, Manitoba produces treated lumber, treated posts and poles for agricultural applications, pre-stained decking and fencing as well as utility poles. Treatment is conducted in two water-borne treating cylinders using Chromated Copper Arsenate (“CCA”), Alkaline Copper Quaternary (“ACQ”) and MCA. Total annual treating capacity is approximately 115,000 cubic metres.

Capital expenditures carried out in 2019 totalled approximately \$568,000 for the addition of an in-line incisor and lunchroom renovation.

Truro, Nova Scotia

This facility operates on just over 27 hectares of land. The facilities include one oil-based cylinder and three water-borne preservative cylinders, giving a combined annual treating capacity of approximately 70,000 cubic metres. The facilities also include a lumber/timber framing and incising line, mobile handling equipment, a maintenance shop, a fully equipped research laboratory and offices for production, sales and wood procurement personnel for the region.

In 2019, there were approximately \$600,000 in capital expenditures at the facility, devoted primarily to convert a former creosote cylinder to chromated copper arsenate, allowing the flexibility to treat with either oil or water borne preservative, and to upgrade the automated treating system.

The plant currently produces a broad range of products, serving the utilities telecommunications, railways and industrial markets. It is located along the Canadian National Railway Company main line, with easy truck access to domestic and United States markets and major eastern ports for offshore export shipments.

Shelburne, Ontario

Acquired in 2019 and operating on approximately eleven hectares of land, the Shelburne facility specializes in the manufacture of residential lumber, producing approximately 190,000 cubic metres annually. The plant is equipped with a lumber grading and stacking line, and includes two treating cylinders using the MCA preservative, as well as a bagging line and a drying bay for treated lumber.

Capital expenditures at the facility amounted to \$4.4 million in 2019, which were primarily devoted to the conversion of the plant to the MCA treating preservative, a new treating automation system, yard grading and a lumber line upgrade.

Stouffville, Ontario

The Stouffville facility operates on approximately six hectares of land and is equipped with four treating cylinders using the MCA preservative. It also contains a wood milling plant, a lumber grading and stacking line and a kiln to thaw frozen lumber in winter. The facility produces approximately 170,000 cubic metres of lumber annually. Offices for accounting, operations and sales personnel are also located on site.

The facility produces premium grade pressure treated residential lumber for the construction of outdoor decks and fences, milled wood accessories such as wood balusters and fence toppers to enhance outdoor fences and decks, as well as railing systems for the retail building materials industry.

Capital expenditures at the Stouffville facility for the year ended December 31, 2019 amounted to approximately \$345,000, for a new tilt hoist at the grading and stacking line, as well as plant and equipment upgrades.

Guelph, Ontario

Specializing in the treatment of utility poles, the Guelph facility operates on approximately 11 hectares of land. It utilizes its water-borne cylinders, four dry kilns and two fixation chambers for the CCA treating process, where total annual treating capacity approaches 160,000 cubic metres. The facilities also include an incising/framing line. The plant benefits from access to a rail loading and unloading facility within minutes of the plant.

In 2019, \$967,000 in capital expenditures were devoted primarily to upgrades to the CCA treating fixation process, the automated treating system and treating cylinder track repairs.

Peterborough, Ontario

The Peterborough plant operates on approximately six hectares of land and includes a wood treating plant, a lumber grading and stacking line as well as a dry kiln. The facility produces approximately 120,000 cubic metres of lumber annually. With a total of four treating cylinders, primary preservatives include MCA (three cylinders) and Dricon (one cylinder), the latter to treat fire-retardant lumber products used for structural roof trusses and sheathing.

Capital expenditures devoted to the facility during the year totalled approximately \$110,545, relating to a stormwater system upgrade as well as upgrades to the Dricon drying system.

South River, Ontario

This 14-hectare property includes an operational area of approximately 7 hectares. The site, which specializes primarily in residential lumber, includes two pressure treating cylinders using the MCA preservative as well as a grading and stacking lumber line and maintenance shop. Annual treating capacity approaches 85,000 cubic metres.

Capital expenditures at the South River facility totalled approximately \$3.2 million during the year, primarily for completing the installation of a new grading and stacking line and a new stormwater management system and paving projects.

Delson, Québec

The Delson plant operates on 66 hectares of land and includes three oil cylinders, two water-borne cylinders and two dry kilns. The total annual treating capacity approaches 280,000 cubic metres. The plant has two railway tie mills and a switch tie mill, which includes inspection, cutting, incising and plating stations.

For the year ended December 31, 2019, capital expenditures at the Delson plant totalled approximately \$1.8 million. The major portion of these expenditures were devoted to a new tie plating line and preliminary upgrades to the automated treating and cooling systems as well as a sanitary sewer system upgrade.

The Delson plant is located within minutes of Montréal, with sidings on both the Canadian National Railway Company and Canadian Pacific Railway main lines.

Gatineau, Québec

The Gatineau plant has a total annual treating capacity of approximately 60,000 cubic metres, operates on eight hectares of land and has a water-borne preservative cylinder, three dry kilns, two fixation chambers and a pole peeler. The plant is located approximately 30 kilometres east of Gatineau, Québec and specializes in the production of CCA treated utility poles.

Capital improvements totalled \$204,000 at the Gatineau facility during the year ended December 31, 2019, primarily for a new boiler as well as the first phase of drip pad upgrades.

Rivière Rouge, Québec

The facility operates on approximately 16 hectares of land and specializes in the production of utility poles treated with waterborne preservative. The site includes two treating cylinders, two fixation chambers, two dry kilns as well as a pole peeler and has a total throughput of approximately 20,000 poles per year or approximately 60,000 cubic metres.

During the year ended December 31, 2019, expenditures totalling approximately \$21,000 were devoted to the facility, mainly for vacuum pump upgrades.

Sorel-Tracy, Québec

The Sorel-Tracy plant has a total annual treating capacity of approximately 90,000 cubic metres, operates on nine hectares of land and is equipped with two water-borne preservative cylinders and a drying chamber for treated lumber. The plant specializes in treated lumber and specialty products.

For the year ended December 31, 2019, capital expenditures totalling \$600,000 were dedicated to updating the facility's groundwater pumping system, vacuum cooling system and the preparation of a new grading and stacking line for lumber, as well as adding a new lumber inspection line.

Clanton, Alabama

This facility is located on 26 hectares in Clanton, Chilton County, Alabama. The site includes an 89,000 square foot facility for treating, storage tanks, maintenance shop and offices and utilizes creosote and borate in the treating process, giving it an annual capacity of approximately 240,000 cubic metres.

For the year ended December 31, 2019, approximately US\$193,000 of capital expenditures were dedicated to the facility, mainly for the addition of a new vacuum pump and for treating process automation.

Montevallo, Alabama

Located in Shelby County, Alabama, this facility operates on a 24-hectare parcel of land and specializes in the manufacture of creosote, copper naphthenate and borate treated railway ties. The facility includes seven creosote pressure treating cylinders, giving annual treating capacity of approximately 256,000 cubic metres, as well as a prefabrication department which can produce flange, crossing and bridge timbers. The plant also has an equipment maintenance facility and offices for personnel.

For the year ended December 31, 2019, capital expenditures amounted to approximately US\$381,000, primarily for a new bridge line pre plate station

Eloy, Arizona

Located in Eloy, Arizona, this facility is comprised of approximately 9 hectares of land. Operations include two pressure treating cylinders for oil-borne and water-borne preservatives and treated and white wood storage yards. The primary product currently manufactured by the facility is residential lumber.

There were no capital expenditures dedicated to the facility during the year ended December 31, 2019.

Rison, Arkansas

In operation since 2008, this 16-hectare site, located in Rison, Arkansas, specializes in the production of treated utility poles. It includes two treatment cylinders for oil-borne preservatives, providing a combined annual treating capacity of approximately 85,000 cubic metres.

There were capital expenditures totalling approximately US\$83,000 made during the year at the facility, primarily for a skid steer loader and a kiln upgrade.

Russellville, Arkansas

Located in Russellville, Arkansas, USA, and operating on approximately 40 hectares of land, the plant specializes in the treating of railway ties. The facilities include three pressure treating cylinders for oil-borne preservatives, with one of them alternating for borate, giving a combined annual treating capacity of approximately 165,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing 1.5 million ties annually, and a maintenance facility and offices for production and wood procurement.

For the year ended December 31, 2019, capital expenditures amounted to approximately US\$594,000, mainly for boiler control software and tank replacement.

Cordele, Georgia

Located on an 18-hectare site in Cordele, Georgia, USA, this facility was constructed by the Company in 2013. With an approximate annual treating capacity of approaching 90,000 cubic metres, the plant specializes in the treatment of utility poles following an extensive conversion in 2018.

For the year ended December 31, 2019, capital expenditures of approximately US\$1.3 million were devoted to the CCA pole storage yard and an optimizer classing line.

Winslow, Indiana

Operating on approximately 16 hectares of land, the plant specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 150,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing 1.5 million ties annually, a maintenance facility, and offices for production and wood procurement personnel.

For the year ended December 31, 2019, capital expenditures at the Winslow plant amounted to approximately US\$1.6 million, primarily towards initiating a two-step borate process, a switch tie inspection line and incisor, and the purchase of neighbouring land.

Fulton, Kentucky

Located in Fulton, Kentucky, USA, and operating on approximately 32 hectares of land, the plant specializes in the treating of railway ties. The facility includes two pressure treating cylinders for oil-borne preservatives, providing an annual treating capacity of approximately 130,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing one million ties annually, a maintenance facility and offices for production and wood procurement personnel. Additionally, the facility has a pre-plate line capable of pre-plating approximately 200,000 ties annually.

For the year ended December 31, 2019, capital expenditures at the Fulton facility totalled approximately US\$575,000, mainly for the purchase of a new cross tie trimmer, drip pad resurfacing and sealing, and the purchase of a water truck.

Alexandria, Louisiana

Operating on approximately 25 hectares of land, the Alexandria plant specializes in the treating of railway ties. The facilities include four pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 260,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing 1.5 million ties annually, a maintenance facility and offices for production and wood procurement personnel.

For the year ended December 31, 2019, capital expenditures at the Alexandria plant amounted to approximately US\$180,000, devoted mostly to upgrades to the railway tie unloader and incisor.

Converse, Louisiana

Situated on a 57-hectare parcel of land, the site operations include pole peeling, kiln drying, pressure treating, storage and shipment of utility poles treated with CCA. Treatment is conducted in one treatment cylinder and the current operation has an annual treating capacity of approximately 90,000 cubic metres.

Capital improvements totalling US\$110,000 were made during the year to complete a boiler rebuild at the facility.

Pineville, Louisiana

This treating facility is located in Pineville, Rapides Parish, Louisiana on a 19-hectare site and specializes in the treatment of utility poles. Operations include peeling for processing, kiln drying, pressure treating, storage and shipment of utility poles treated with oil-borne preservatives. Treatment is conducted in three treating cylinders and the operation has a total production of approximately 100,000 cubic metres of poles per year.

Capital expenditures of approximately US\$1.4 million were made during 2019, primarily to purchase adjacent land, for treating plant and kiln upgrades, for kiln trams, a security camera system and drip pad sump pumps.

Scooba, Mississippi

Located in Scooba, Kemper County, Mississippi, USA, on 20.8 hectares of land, this plant specializes in the production and treatment of utility poles. The site includes two steam-drying cylinders and one pressure treating cylinder, providing an annual treating capacity of 85,000 cubic metres. It is also equipped with an inline framing system, a pole peeler and offices to support its wood procurement activities.

For the year ended December 31, 2019, capital improvements amounted to approximately US\$400,000 and were directed towards a roof replacement and the purchase of a surplus fuel oil boiler.

Silver Springs, Nevada

This facility is located on approximately 33 hectares of land in Silver Springs, Nevada. The operations consist of three treating cylinders capable of treating with oil-borne preservatives. Total capacity reaches 48,000 cubic metres annually. Treated and white wood storage areas also exist at the site.

For the year ended December 31, 2019, capital expenditures approximated US\$495,000 for tank, condensed vacuum pump and vacuum line replacements and the purchase of a boom lift and loader forks.

Eugene, Oregon

Located in Eugene, Oregon, USA, on a 10-hectare site, the plant specializes in the production and treatment of utility poles and wood drying. The facilities include four pressure treating cylinders for oil-borne preservatives, providing a total annual treating capacity of approximately 80,000 cubic metres. The plant is also equipped with two incisors and administrative offices.

For the year ending December 31, 2019, capital expenditures totalling \$301,000 were made to purchase of a vacuum pump and condenser.

Sheridan, Oregon

Located in Sheridan, Oregon, this pole facility is comprised of approximately 14 hectares of land. Operations include five treating cylinders, peeling operations along with treated and white wood storage areas. The facility manufactures treated transmission poles and distribution poles, utilizing both PCP and copper naphthenate and has an annual capacity of approximately 57,000 cubic metres.

During the year ended December 31, 2019, capital expenditures amounted to approximately US\$1.4 million at the Sheridan facility, which included storage yard drainage improvements, a cooling tower replacement, hot well replacements and the purchase of high capacity trams and forks for the facility's loaders.

DuBois, Pennsylvania

Located in DuBois, Pennsylvania, USA, this facility operates on 13 hectares and specializes in the production and treating of railway ties and timbers. The facility includes three pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 100,000 cubic metres. This production facility also includes a prefabrication department which can produce flange, crossing and bridge timbers, a maintenance shop, and offices for production and wood procurement personnel.

For the year ended December 31, 2019, approximately US\$307,000 in capital expenditures were made towards improvements to the water treatment process and toward the purchase and installation of a back-up natural gas boiler.

McAlisterville, Pennsylvania

The McAlisterville, Pennsylvania, USA facility operates on approximately 16 hectares of land and specializes in the treating of railway ties. The facilities include two pressure treating cylinders for oil-borne preservatives, giving a combined annual treating capacity of approximately 30,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility and a pre-plating line capable of processing 300,000 ties annually and offices for production and wood procurement personnel.

For the year ended December 31, 2019, capital expenditures of approximately US\$96,000 were devoted primarily to upgrading the electrical service to the facility's trimmer.

Whitmire, South Carolina

This facility is located on a 20-hectare site in Whitmire, Union County South Carolina and specializes in the production of treated wood poles. It is equipped with two treating cylinders, a peeler and four dry kilns. The facility uses water-borne preservatives in the treating process and has an annual capacity of about 85,000 cubic metres of poles per year.

Capital expenditures of approximately US\$837,000 were dedicated to complete the installation of a new peeler as well as boiler and improvements to the preservative mix process during the year ended December 31, 2019.

Lufkin, Texas

Located in Lufkin, Angelina County, Texas on a 14-hectare site, the operation specializes in the treatment and production of utility poles and includes three cylinders for pressure treatment. The facility has a total throughput of approximately 95,000 cubic metres of poles per year.

Capital expenditures in 2019 totalled approximately US\$2.2 million, devoted mainly to a treating plant upgrade, the purchase of adjacent land and work tank replacements.

Memphis, Tennessee – Coal Tar Distillation

Located in Memphis, Tennessee, USA, and operating on approximately 2 hectares of land, the plant specializes in coal tar distillation. The coal tar distillation facilities include two batch distillation units with an annual capacity of seventeen million litres of coal tar. The plant also includes a maintenance facility, a product testing lab, a barge unloading dock, and offices for production and clerical personnel.

For the year ended December 31, 2019, capital expenditures of approximately US\$190,000 were devoted primarily to storage tank replacements.

Goshen, Virginia

Located in Goshen, Virginia, USA, and operating on approximately 11 hectares of land, the plant specializes in the production and treating of railway ties and timbers. The facility includes five pressure treating cylinders for oil-borne preservatives, providing a combined annual treating capacity of approximately 155,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing one million ties annually, a prefabrication department which can produce flange, crossing and bridge timbers, a maintenance and machine shop facility and offices for production and wood procurement personnel.

For the year ended December 31, 2019, capital expenditures totalled approximately US\$1.8 million at the Goshen plant, mainly for the addition of a crosstie borate dip tank and the purchase and installation of a new wood grinder, as well as the purchase and installation of preservative storage tanks.

Warsaw, Virginia

Situated on approximately 57 hectares in Warsaw, Virginia, this plant produces foundation and marine pilings and treated dimension wood products. The facilities include five treatment cylinders and four dry kilns, providing a total annual treating capacity of 250,000 cubic metres.

For the year ended December 31, 2019, there were capital expenditures of approximately US\$1.2 million at the Warsaw plant, primarily for a lumber building storage upgrade, concrete floors for the storage shed and racking for lumber, a piling and pole yard upgrade and a boiler control upgrade.

Arlington, Washington

The Arlington, Washington, USA facility operates on approximately 21 hectares and specializes in the treating of utility poles. The facilities include two pressure treating cylinders for oil-borne preservatives and one butt tank providing a combined annual treating capacity of approximately 50,000 cubic metres. In addition, the plant incorporates a pole peeler and framing yard, and offices for production and wood procurement personnel.

Capital expenditures of approximately US\$178,000 were carried out at the facility during the year ended December 31, 2019, devoted mainly to begin the conversion of a treating cylinder to the preservative DCOI, extend the rail spur and the purchase of a water truck.

Tacoma, Washington

Located in Tacoma, Washington, USA, on approximately 17 hectares of land, the plant manufactures utility poles, pilings and dimensional lumber for decking and fencing. Operations include framing, incising, staining, treating and distributing. Equipped with four oil-based cylinders and one water-based cylinder, wood is pressure treated or thermally treated (non-pressure) with water or oil-based preservative formulations. Total annual treating capacity is 330,000 cubic metres.

For the year ended December 31, 2019, capital improvements of approximately US\$792,000 included the upgrade to the stormwater system and a treating plant piping, purchase of a boom lift, replacement of lab testing equipment, upgrades to the cooling tower and the stormwater management system as well as the replacement of the treating plant roof.

Bangor, Wisconsin

Located in Bangor, Wisconsin, USA, and operating on approximately 45 hectares of land, the plant specializes in the treating of railway ties. The facilities include three pressure treating cylinders for oil-borne preservatives, providing a combined annual treating capacity of approximately 200,000 cubic metres. The plant also includes a crosstie and switch tie inspection facility capable of processing 1.5 million ties annually, a maintenance facility and offices for production, sales and wood procurement personnel.

For the year ended December 31, 2019, capital expenditures at the Bangor plant approximated US\$362,000, devoted mainly to the purchase and installation of a new automated pre-plating machine and overall treating plant upgrades.

Cameron, Wisconsin

Built in 2016 and situated on approximately 27 hectares of land, the Cameron facility is a state-of-the-art wood preservation facility that commenced production of PCP treated utility poles in February of 2017. The facility includes two pressure treating cylinders for oil-borne preservatives, providing an annual treating capacity of approximately 50,000 cubic metres. Close in proximity to the red pine resource, red pine is the primary species of utility poles treated at the facility. The plant also has the ability to treat Coastal Douglas Fir and Western Red Cedar utility poles. The facility produces primarily for the North American market and is located close to the Union Pacific rail system. It includes a pole

peeler, kiln, framing yard, a maintenance facility and offices for production, sales and wood procurement personnel.

In 2019, approximately US\$7.0 million was dedicated to the purchase of a second treating cylinder and additional equipment to enhance overall efficiencies at the treating plant.

4.5 WOOD SUPPLY

One of the Company’s important advantages is its strong wood supply position in key regions of Canada and the United States. During the financial year ended December 31, 2019, the Company obtained its raw material requirements for utility poles from its own timber harvesting licenses (forest licenses and/or timber quotas), state and timber sales, private woodland owners and through purchases of timber on the open market. Wood supply for railway ties and timbers as well as residential lumber are purchased from hundreds of sawmills in various regions throughout Canada and the United States. The Company’s strong procurement team has built well established relationships to help ensure a sufficient and competitively priced supply of all of Stella-Jones’s raw material.

Forest Tenures

Forest tenures are used primarily by the Company for the procurement of utility poles and other roundwood products.

In British Columbia, the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (“FLNRORD”) is responsible for issuing and monitoring tenures which grant the licensee the right to harvest a specific volume of timber on crown lands administered by the FLNRORD. A forest license generally has a term of 15 years and is renewable every 5 years, subject to the licensee satisfactorily performing its administrative, planning, harvesting, silviculture and environmental stewardship operations. Non-renewable forest licenses for a fixed volume to be cut in a specified time may also be granted.

In the Province of Manitoba, the Forestry and Peatlands Management Branch of the Department of Sustainable Development is responsible for the planning and management of Crown land and forests, and determining sustainable limits on when, where and how trees on Crown land in Manitoba are harvested. Cutting authority quota allocations are granted by either Timber Sales Agreements, which are five-year renewable agreements issued for annual quota volumes greater than 300 m³, or Timber Permits, which are one-year permits issued for annual quota volumes of less than or equal to 300 m³.

In Québec, timber allocation agreements are referred to as *Garanties d’approvisionnement* (“GA”). In 2016, the Company returned its GA to the *Ministère des Ressources Naturelles* (“Ministère”), as it determined that it was purchasing sufficient volumes of wood supply at reasonable rates through an auction system on public land via the Ministère’s timber marketing board, known as the *Bureau de Mise en Marché des Bois*.

The Company currently holds the following forest licenses:

COMPANY’S FOREST LICENSES		
Province	Allowable Annual Cut (Cubic metres)	Term
British Columbia	138,913	15 years
Manitoba	15,567 ¹	2 years and 5 years

¹ Acquired with the purchase of the operating assets of PFP in 2018. This comprises two 5-year renewable Quota Timber Sales Agreements with a total combined annual cut of 3,067 m³ per year and a 2-year renewable Special Allocation Timber Agreement having an annual cut of 12,500 m³.

Purchased Timber

In addition to the forest licenses listed above, the Company has several exclusive supply agreements with major licensees and private woodlands owners who hold cutting licenses in British Columbia, Ontario and Québec. The Company is also very active in the state timber sale program in the states of Washington, Oregon and Idaho in the United States. This program makes available to qualified bidders, pole quality raw material located on specific tracts of land. The Company also purchases raw material from hundreds of private landowners within its operating jurisdictions, and in the case of untreated railway ties and residential lumber, through its dealings with hundreds of sawmills in the United States and Canada.

Timber Harvesting

The selection and harvesting of wood poles is a process that allows the Company to harvest selectively individual trees of a quality suitable for poles. In order to have access to as many areas of timberland as possible, the Company has entered into trade agreements with a number of sawmilling and forest products companies in British Columbia and in Québec.

4.6 SALES, MARKETING AND COMPETITIVE CONDITIONS

By the end of the year 2019, there were approximately 53 wood preserving plants operating in Canada and approximately 360 wood preserving plants operating in the United States. The following describes the competitive conditions in which the Company operates as well as its sales and marketing initiatives.

Overview

The Company markets its treated wood products through a network of regional sales representatives throughout Canada and the United States.

The following table sets out the Company's sales by major product group for the financial years ended December 31, 2019 and 2018:

COMPANY'S SALES BY PRODUCT GROUP FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018				
	2019		2018	
	(millions of dollars)	%	(millions of dollars)	%
Utility poles	779.6	35.9	725.0	34.1
Railway ties	678.2	31.3	662.4	31.2
Residential lumber	471.6	21.7	474.7	22.4
Industrial products	128.2	5.9	109.0	5.1
Logs and lumber	111.8	5.2	152.8	7.2
TOTAL	2,169.0	100.0	2,123.9	100.0

* Numbers may not add exactly due to rounding.

Utility Poles

Most of the Company's sales of utility poles are through multi-year contracts and in response to public tenders issued by customers, primarily regional electrical and telecommunication companies. The key criteria in successfully obtaining orders are high quality, consistent on-time delivery, customer service and competitive prices. The Company's ability to offer a variety of species and preservatives, combined with its multiple plant locations and large inventories, creates a competitive advantage.

Railway Ties

SJI's multiple locations, wide product offering and reputation for quality and service are significant advantages. Through its long tradition of providing consistent high-quality services, the Company has developed close relationships with the major railways, short line and contractors, and is an important supplier of treated ties to this market in North America.

Residential Lumber

This product group is made up primarily of a major big box retailer and numerous other participants varying in size. Opportunities exist for high quality producers who can successfully differentiate their product and service. The Company provides treated residential lumber products to lumber retailers in Canada and the United States for outdoor applications.

Industrial Products

Sales primarily comprise various treated wood products used in construction projects, such as wharf, railway bridges and foundation and marine piling. Products are typically sold directly to end customers, such as railway or construction contractors as well as governmental authorities in response to tenders for a certain quantity and specification of preserved timber for a particular project. Piling sales comprise construction materials used mainly in work projects, including marine and foundation pilings. In addition, the Company sells railway bridge timbers and crossing planks as well as crane mats, which are custom manufactured to the specification of the customer. This category also includes coal tar-based products such as roof pitch and road tar and crosstie recycling services.

Logs and Lumber

In this segment, the log component represents logs harvested in the course of the Company's procurement process which are determined to be unsuitable for use as utility poles. Additionally, in the course of procuring sufficient competitively priced residential lumber volume, the Company engages in reselling excess lumber into local home-building markets.

Export

The Company's focus is primarily on North American markets. Nonetheless, the Company has had some success in penetrating markets outside North America for the sale of treated wood poles to national telephone and utility companies and railway ties to international mining companies as well as to foreign railway operators. These markets mainly include countries in Latin and South America. SJI's competitive strengths in such markets have included access to guaranteed raw material supply, strategic geographical locations of its treatment plants offering a variety of treating processes, access to shipping ports and extensive experience in international freighting and knowledge of international financing for export sales.

The Company continues to monitor markets outside of Canada and the U.S. and will continue to evaluate export opportunities at price levels that will provide adequate returns for the additional risks inherent in these markets.

COMPANY'S SALES BY REGION FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018				
<i>(audited)</i>	2019		2018	
	(millions of dollars)	%	(millions of dollars)	%
United States	1,514.6	69.8	1,444.3	68.0
Canada	654.4	30.2	679.6	32.0
TOTAL	2,169.0	100.0	2,123.9	100.0

4.7 EMPLOYEES

As at December 31, 2019, the Company had a total of 2,187 employees, of which 580 were salaried non-unionized, 394 were unionized and 1,213 were paid at an hourly rate and non-unionized.

Country	Salaried (Non-Unionized)	Unionized	Paid at hourly Rates (Non- Unionized)	Total
United States	356	100	1,032	1,488
Canada	224	294	181	699
TOTAL	580	394	1,213	2,187

4.8 ENVIRONMENT, HEALTH AND SAFETY POLICY

SJI is committed to sustainable development that requires the protection of human health and the natural environment with the need for economic growth. The Company recognizes the environmental implications of its activities as well as its responsibility to take all reasonable measures in order to conserve and protect the environment, including air, water, land and other natural resources.

Additionally, the Company is committed to the health and safety of its employees and to providing a safe and healthy working environment. To that end, the Company will focus on continuous improvement towards an accident-free workplace through effective administration, education, training and the proper maintenance of its facilities and equipment.

To implement its Environment, Health and Safety Policy, the Company is committed:

- to constructing and operating its facilities in compliance with all applicable rules and regulations, providing for the protection of the environment, employees and the public;
- to working pro-actively in training management and its employees to anticipate problems;
- to applying cost-effective best-management practices to advance environmental protection and employee health and safety;
- to ensuring every employee is properly trained and responsible and accountable within their sector of activity for conducting operations in compliance with SJI's environmental health and safety policy;
- to responding to legitimate concerns made known to it and to participate actively with interested parties in the understanding of environmental as well as health and safety issues and in the development of rational and effective environmental solutions;
- to encouraging research to expand knowledge of the environmental impact of the industry's activities and to improving treatment technologies; and
- to reporting regularly to the Board of Directors with respect to the execution of this policy, including a review of the Company's operations and facilities to ensure compliance.

Environmental Protection and the Promotion of Health and Safety

The Company's Vice-President, Environment and Technology and the Vice-President Environment Health and Safety, U.S. Operations, each lead a team of environmental health and safety professionals who, with the support of regional general managers, local plant managers and dedicated on site health and safety supervisors, manage environmental, health and safety matters to ensure that the Company's programs and policies are carried out efficiently and in compliance with applicable legislation, in order to ensure the protection of the environment, employees and the public.

At each site, trained personnel operate plant waste treatment and environmental protection facilities in such a way as to recover any preservatives for reuse in the manufacturing process. Any discharges are continually monitored and analyzed by qualified laboratory personnel. Complete reports on discharges are made regularly to the appropriate authorities at all locations.

Comprehensive health and safety and environmental protection programs exist at all locations. These programs are upgraded and updated on an ongoing basis to ensure that the best management practices are being used to protect the employees, the public and the environment. Contingency plans are in place to anticipate proper corrective and remedial measures prior to the occurrence of any problems.

The Vice-President, Environmental and Technology, the Vice-President Environment Health and Safety, U.S. Operations, as well as the Vice-President and General Counsel, U.S. Operations report to the Company's Environmental, Health and Safety Committee of the Board of Directors ("EH&S Committee") regarding the Company's activities in relation to environmental protection, risk management and health and safety at each EH&S Committee meeting (the "Environmental Report"). The EH&S Committee communicates the key elements of each Environmental Report to the Board of Directors in all instances.

Under the WPI Purchase Agreement, the seller has agreed, for specific durations, to provide the Company with specified indemnities up to a certain maximum dollar amount arising from its breach of representations or warranties (together, "Breaches") which exceed a minimum dollar threshold. The Company is entitled to set off its claims against a retained purchase price holdback amount for losses arising out of such Breaches and for certain environmental claims in relation to seller's preclosing operations.

Under the PFP Purchase Agreement, the seller has agreed to indemnify the Company for certain losses due to breach of representations and for certain undisclosed environmental matters stemming from seller's operations preceding the closing of the transaction. Indemnities must exceed a certain minimum threshold to be claimed and are up to a maximum dollar amount specified. The Company is entitled to claim against a portion of the purchase price, which is being held in trust for a definitive period set out in the Agreement.

Under the WP Purchase Agreement, the sellers have agreed to provide indemnifications for stated applicable periods, up to specified amounts for certain liabilities arising out of their operations prior to closing, once total claims by the Company exceed a minimum threshold, in the aggregate.

Under the Shelburne purchase agreement, the seller has agreed to indemnify the Company for claims relating to certain environmental matters resulting from activities conducted during the period prior to the purchase by the Company. Indemnification shall be up to a maximum specified amount, for a specific duration and is triggered only once aggregate claims exceed a certain total dollar threshold.

4.9 RISK FACTORS

Economic Conditions

A negative change in economic conditions may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a substantial reduction in its results. For the year ended December 31, 2019, the Company's top ten customers accounted for approximately 45.1% of its sales. During this same period, the Company's largest customer accounted for approximately 15.8%, of its total sales and is associated with the residential lumber product category while the second largest customer accounted for approximately 8.0% of total sales and is associated with the railway tie product category.

Availability and Cost of Raw Materials

Management considers that the Company may be affected by potential fluctuations in wood prices and supply. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide sufficient timber to the Company. The effects of regional weather conditions could also reduce the availability of wood supply and adversely impact the Company's results.

There are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. Moreover, certain suppliers may elect to cease production of specific preservatives altogether, creating availability challenges and requiring the Company to evaluate the reasonableness of producing such preservatives internally versus sourcing safe and reliable substitute products that are reasonably priced, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching and identifying alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products.

Environmental Risk

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected or could change the availability or pricing of certain products such as preservatives purchased and used by the Company.

While the Company has been party to environmental litigation which has included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown, and its image strengthened, in large part by its consistent production and delivery of high-quality products, while maintaining as well, a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid and the Company is not found liable.

Risk Related to Acquisitions

As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could adversely impact the Company's business, financial position and operating results. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could adversely impact the Company's financial position, operating results, and cash flows.

Litigation Risk

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Although the final outcome cannot be predicted with any degree of certainty, the Company regularly assesses the status of these matters and establishes provisions based on the assessment of the probable outcome. If the assessment is not correct, the Company may not have recorded adequate provision for such losses and the Company's financial position, operating results and cash flows could be adversely impacted. Regardless of outcome, litigation could result in substantial costs to the Company and divert Management's attention and resources away from the day-to-day operations of the Company's business.

Insurance Coverage Risk

The Company maintains property, casualty, general liability and workers' compensation insurance that are in accordance with customary industry practice, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles and maximum liabilities covered. The Company may incur losses beyond the limits, or outside the coverage, of its insurance policies, including liabilities for environmental compliance and remediation. In addition, from time to time, various types of insurance coverage for companies in the Company's industry have not been available on commercially acceptable terms, or in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Currency Risk

The Company is exposed to currency risks due to its export of certain goods manufactured in Canada. The Company strives to mitigate such risks by purchases of raw materials denominated in U.S. dollars for use in its Canadian manufacturing process. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuation Risk

As at December 31, 2019, 76.2% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt, subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have an adverse effect on the Company's profitability, cash flows and financial position.

Availability of Credit Risk

The agreements governing the syndicated credit facilities and senior notes contain certain restrictive covenants that impose operating and financial restrictions and could limit the Company's ability to engage in activities that might be in its long-term best interests. In addition, a breach of the covenants under the Company's syndicated credit facilities and senior notes could result in an event of default, which could allow lenders to accelerate the repayment of the debt. In this event, the Company may seek to refinance its indebtedness, but be unable to do so on commercially reasonable terms. As a result, the Company could be limited in how it conducts its business, be unable to compete effectively or to take advantage of new business opportunities.

There is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, the Company may need to amend certain agreements and it cannot predict what alternative index would be negotiated with its counterparties. As a result, interest expense could increase and liquidity may be adversely affected. In the future, the Company may need to renegotiate its variable rate debt or incur other indebtedness, and the phase-out of LIBOR may negatively impact the terms of such indebtedness.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with Class 1 railroad operators, large retailers and large-scale utility providers, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Cyber and Information Technology Risk

The Company relies on information technology to process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the

Company's information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breach due to employee error, malfeasance or other disruptions. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation or an impact to customers or suppliers. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

Enterprise Resource Planning (“ERP”) Implementation Risk

The Company is in the process of implementing a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company expects to complete the development phase in 2020 and be fully operational across the organization by the end of 2021. During the implementation process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over financial reporting and disclosure controls and procedures. In addition, it is possible that the implementation process may exceed the expected time frame and budget and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased-in approach and believes it is taking the necessary steps, including deploying both internal and external resources, to mitigate the implementation risk.

Corporate Tax Risk

In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be accepted by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates and anticipated business in the various jurisdictions in which the Company operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that the Company may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have an adverse effect on net income or cash flows.

Coronavirus (COVID-19 virus) Risk

The Company is monitoring the outbreak of the COVID-19 virus. While the potential impact of the outbreak remains unknown, the spread of the COVID-19 virus could directly or indirectly disrupt the Company's operations and those of its suppliers and customers, which in turn could adversely impact the business, financial position, results of operations and cash flows of the Company.

ITEM 5 DIVIDENDS – THREE MOST RECENTLY COMPLETED FINANCIAL YEARS

5.1 DIVIDENDS – THREE MOST RECENTLY COMPLETED FINANCIAL YEARS

On March 16, 2017, May 3, 2017, August 8, 2017 and November 2, 2017, the Board of Directors declared quarterly dividends of \$0.11 per Common Share. On March 13, 2018, May 2, 2018, August 7, 2018 and November 1, 2018 the Board of Directors declared a quarterly dividend of \$0.12 per Common Share. On March 14, 2019, May 1, 2019, August 6, 2019 and November 6, 2019, the Board of Directors

declared a quarterly dividend of \$0.14 per Common Share. On March 10, 2020, the Board of Directors declared a quarterly dividend of \$0.15 per Common Share

5.2 POLICY AND RESTRICTIONS

The Company's dividend policy provides that the Company consider a dividend on a quarterly basis. All decisions by the Company's Board of Directors regarding the payment of dividends continue to be subject to its financial covenants as well as other factors such as the Company's financial performance and cash requirements. Although the Company has historically declared regular cash dividends on the Common Shares, there is no assurance that the Board of Directors of the Company will not reduce, defer or eliminate the dividend in the future.

ITEM 6 DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. As of March 10, 2020, there were 67,466,709 Common Shares issued and outstanding and no outstanding Preferred Shares.

The Common Shares provide for the right to receive notice of, attend and vote at all meetings of shareholders and receive dividends, subject to the prior rights of the Preferred Shares and any other shares ranking senior to the Common Shares. The Common Shares are subordinated to the Preferred Shares and any other shares ranking senior to the Common Shares in their entitlement to receive the property and assets of the Company in the event of a dissolution, liquidation, or winding up of the Company.

The Preferred Shares are non-voting. The Preferred Shares are entitled to priority over Common Shares of the Company and over any other shares of the Company ranking junior to the Preferred Shares with respect to priority in payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

ITEM 7 MARKET FOR SECURITIES

7.1 TRADING PRICE AND VOLUME

The Common Shares of the Company are listed on the Toronto Stock Exchange and are identified under the symbol "SJ". The following table sets forth the market price range, in Canadian dollars, and trading volumes of the Company's Common Shares on the Toronto Stock Exchange for each month of the most recently completed financial year.

FISCAL YEAR ENDED DECEMBER 31, 2019				
Month (2019)	High \$	Low \$	Close \$	Volume Traded
January	43.08	38.55	42.40	2,579,830
February	43.00	41.06	41.24	1,484,430
March	45.57	39.14	45.16	3,847,790
April	46.10	44.66	45.75	2,690,940
May	46.50	44.82	45.26	2,791,140
June	48.08	44.85	47.26	3,049,000
July	48.28	40.99	41.17	3,466,990
August	41.15	37.54	39.19	4,329,540
September	40.54	37.83	38.71	5,167,680
October	39.05	36.18	36.52	3,727,150
November	40.52	36.53	38.09	4,514,320
December	38.38	36.00	37.52	3,584,440

ITEM 8 DIRECTORS AND OFFICERS

The tables below set forth the name, place of residence and position held within the Company of the Company's directors and executive officers, the principal occupation(s) and term of office of each director, the period or periods during which each director has served, as well as the number of Common Shares beneficially held, directly or indirectly, or over which control or direction is exercised by each director of the Company as at March 10, 2020. Each director is elected at the annual meeting of the shareholders to serve until the next annual meeting or until a successor is elected or appointed. Officers are appointed annually and serve at the discretion of the Board of Directors. The Company has an audit committee, a remuneration committee, an environmental, health and safety committee and a governance and nomination committee. The Company does not have an executive committee.

8.1 NAME, ADDRESS, OCCUPATION AND SECURITY HOLDING

Name and Place of Residence	Office held with the Company	Director since	Principal Occupation(s)	Number of Common Shares Beneficially Owned, Directly or Indirectly, or over which Control or Direction is Exercised
Robert Coallier ⁽¹⁾⁽²⁾ Québec, Canada	Director	January 2020	Corporate Director	7,875
Karen Laflamme, FCPA, FCA, ASC ⁽¹⁾⁽²⁾ Québec, Canada	Director	December 2018	Corporate Director	4,000
Katherine A. Lehman ⁽¹⁾⁽²⁾ New York, U.S.A.	Director	October 2016	Managing Partner at Hilltop Private Capital LLC (private equity firm)	5,500
James A. Manzi, Jr. ⁽²⁾⁽³⁾ Florida, U.S.A.	Director	April 2015	Corporate Director	5,000
Douglas Muzyka ⁽³⁾⁽⁴⁾ Pennsylvania, U.S.A	Director	December 2019	Corporate Director	0
Simon Pelletier ⁽¹⁾⁽³⁾⁽⁴⁾ Québec, Canada	Director	May 2012	Senior Vice-President, North American Sales and Operations, Metso (manufacturer of minerals processing equipment and service provider to the mining and construction industries)	5,000
Eric Vachon, CPA, CA Québec, Canada	President, Chief Executive Officer and Director	October 2019	President and Chief Executive Officer, Stella-Jones Inc.	19,604
Mary Webster ⁽³⁾⁽⁴⁾ Minnesota, U.S.A.	Director	May 2007	Corporate Director	21,775

(1) Member of the Audit Committee.

(2) Member of the Remuneration Committee.

(3) Member of the Environmental, Health and Safety Committee

(4) Member of the Governance and Nomination Committee.

Within the five preceding years, James A. Manzi, Jr., Simon Pelletier and Mary Webster have held the same or similar principal occupations indicated. Robert Coallier served as Chief Executive Officer of Agropur Dairy Cooperative from 2012 to 2019, Karen Laflamme served as Executive Vice-President and Chief Financial Officer, Retail, of Ivanhoé Cambridge from 2019 to February 2020, Executive Vice-President, Corporate Management and Institutional Affairs at Ivanhoé Cambridge from 2012 to 2015 and managing director at Lincolnshire Management Inc. from 2009 to 2016. Douglas Muzyka served as Senior Vice-President and Chief Science and Technology Officer of E.I. DuPont de Nemours & Company from 2010 to 2017 and Eric Vachon served as Senior Vice-President and Chief Financial Officer of Stella-Jones from 2012 to 2019.

Executive Officers who are not Directors

Name and municipality of residence	Position within the Company
Jeff Brandt Schererville, Indiana	Vice-President, Transportation and Logistics, SJ Corporation
George Caric Irwin, Pennsylvania	Vice-President, Railway Tie Marketing, SJ Corporation
Kevin Comerford Edgewood, Washington	Vice-President, Utility Pole and Residential Lumber Sales, SJ Corporation ⁽¹⁾
Sylvain Couture Oakville, Ontario	Vice-President, Operations, Central Region, SJI
André Daigle East-Farnham, Québec	Vice-President, Central Region, SJI
W.G. Downey, Jr. Reedy, West Virginia	Vice-President, U.S. Railway Tie Procurement, SJ Corporation
Marcel Driessen Auburn, Washington	Vice-President, Human Resources, SJ Corporation
Marla Eichenbaum Hampstead, Québec	Vice-President, General Counsel and Secretary, SJI
Ian Jones Vernon, British Columbia	Senior Vice-President, SJI, Senior Vice-President, Utility Poles and Residential Lumber, SJ Corporation ⁽¹⁾
James Kenner Olathe, Kansas	Vice-President and General Counsel, U.S. Operations, SJ Corporation
Patrick Kirkham Aliquippa, Pennsylvania	Vice-President, Railway Tie Operations, SJ Corporation
Wayne Kusmierczyk Boyce, Louisiana	Vice-President, Utility Pole Operations (Southern Yellow Pine), SJ Corporation
Andy Morgan Gig Harbor, Washington	Vice-President, Utility Pole Operations (Western Species), SJ Corporation ⁽¹⁾
Gordon Murray North River, Nova Scotia	Vice-President, Environment and Technology and General Manager, Atlantic Region, SJI
Jim Raines Spencer, West Virginia	Vice-President, Railway Tie Sales, SJ Corporation
Patrick Stark Tarentum, Pennsylvania	Vice-President, Environmental, Health and Safety, U.S. Operations, SJ Corporation
Michael Sylvester Grenada, Mississippi	Senior Vice-President, Railway Ties SJ Corporation
Silvana Travaglini, CPA, CA Pierrefonds, Québec	Senior Vice-President and Chief Financial Officer, SJI
David Whitted Lufkin, Texas	Vice-President, Railway Tie Sales Operations, SJ Corporation
Jon Younce Stanwood, WA	Vice-President, Utility Pole and Lumber Procurement, SJ Corporation ⁽¹⁾
Ron Zeegers Carseland, Alberta	Vice-President, Operations, Western Canada, SJI

(1) Prior to December 31, 2019 this individual was Vice-President of McFarland. On December 31, 2019, McFarland merged into SJ Corporation and SJ Corporation was the surviving entity.

As of March 10, 2020, the directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over approximately 125,513 Common Shares, representing approximately 0.2% of all the issued and outstanding shares of the Company.

The principal occupations over the past five years of the Company's executive officers who have not served in their current principal capacities for over five years are given below:

Jeff Brandt has served as Vice-President, Transportation and Logistics of SJ Corporation since May of 2019. Prior thereto, he held the position of Vice-President, Transportation (2017-2019) and Director of Transportation (2015-2016) of Overhead Door Corporation.

Sylvain Couture has served as Vice-President, Operations, Central Region of SJI since January 1, 2020. From 2017 to 2019, he was Director of Operations, Central Region and worked as Project Engineer, based out of SJI's Carseland, Alberta facility from 2013-2017.

André Daigle has served as Vice-President, Central Region of SJI since October 2015 and was the Director of the Company's Central Region from July to October of 2014. From June of 2010 to July 2014, Mr. Daigle held the position of Assistant Corporate Controller of the Company.

Marcel Driessen has served as Vice-President, Human Resources since October 2016. Prior thereto, he held the position of Director of Human Resources for McFarland, beginning in December 2012.

Ian Jones has served as Senior Vice-President of the Company since 2016 and has headed the Utility Pole division of SJ Corporation, since it was acquired as McFarland in November of 2012.

Patrick Kirkman has served as Vice-President of Operations of SJ Corporation since January 2016 and was its Director of Operations from June 2014 through January 2016. From August 2010 through June 2014, Mr. Kirkman served as Senior Manager of Environmental, Health and Safety.

Wayne Kusmierczyk has served as Vice-President, Operations (Southern Yellow Pine) of SJ Corporation⁽¹⁾ since April of 2018. He held the position of Plant Manager at both the Alexandria, Louisiana and Fulton, Kentucky wood treating facilities between 2010 and 2018.

Andy Morgan was named Vice-President, Operations (Western Species) of SJ Corporation⁽¹⁾ in January 2019. From July of 2014 to January of 2016, he served as Plant Manager of the Company's Tacoma, Washington facility. In January 2016 he was promoted to Director of U.S. Western Operations and served in that capacity until January of 2019.

Jim Raines has served as Vice-President, Sales of SJ Corporation since January of 2016. Prior thereto, he was Director of Commercial Marketing from December 2014 until December 2015. Mr. Raines held the position of Railroad Sales Regional Manager of SJ Corporation from October 2010 until November 2014.

Patrick Stark has served as Vice-President, Environment, Health and Safety, U.S. Operations of SJ Corporation since April of 2018. From 2010 to early 2018, he held the position of Director, Environment, Health and Safety with SJ Corporation.

Silvana Travaglini has served as Senior Vice-President and Chief Financial Officer of SJI since January 13, 2020. Prior thereto, she held the position of Treasurer and Vice-President Investor Relations (2017-2019) and Vice-President and Chief Accounting Officer (2011-2017) at Resolute Forest Products Inc.

David Whitted has served as Vice-President, Sales Operations for SJ Corporation since December 2015. From December 2014 until November 2015, he held the position of Director, Production Planning and Sales Management and between October 2010 and November 2014, Mr. Whitted was SJ Corporation's Director of Marketing and Sales.

Jon Younce has served as Vice-President, U.S. Fibre & Transportation/Logistics of SJ Corporation⁽¹⁾ since January of 2018. Prior thereto, he served as Vice-President, U.S. Fibre & Pole Production of McFarland beginning May 2013.

⁽¹⁾ Formerly McFarland. McFarland merged into SJ Corporation on December 31, 2019 and SJ Corporation was the surviving entity.

ITEM 9 AUDIT COMMITTEE DISCLOSURE

9.1 COMPOSITION OF THE AUDIT COMMITTEE AND RELEVANT EDUCATION AND EXPERIENCE

The Company's Audit Committee is composed of Ms. Karen Laflamme (Chair), Mr. Robert Coallier, Ms. Katherine Lehman and Mr. Simon Pelletier. All members of the Committee are "independent" and "financially literate" within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

Ms. Karen Laflamme holds a Bachelor's Degree in Business Administration (BBA) from HEC Montreal and has been a member of the Quebec CPA order since 1986 (CA). She holds the designation of certified corporate director and was named fellow of the Quebec Order of Chartered Professional Accountants (FCPA) in 2012. From 2016 to February 2020, she served as Executive Vice-President and Chief Financial Officer, Retail, of Ivanhoé Cambridge ("Ivanhoé"), an investor and developer of superior quality real estate properties, projects and companies around the world. She joined Ivanhoé in 2012, where she served in various roles, including Executive Vice-President, Corporate Management & Institutional Affairs, where she was responsible for investor relations, internal audit and integrated risk management.

Mr. Robert Coallier holds a master's degree in Business Administration (M.B.A.) from Concordia University and a bachelor's degree (B.A.) in economics from McGill University. From 2012 to 2019, he served as Chief Executive Officer at Agropur Dairy Cooperative. He was Senior Vice-President and Chief Financial Officer of Dollarama L.P. between 2005 and 2010 and held various senior positions at Molson Coors Brewing between 2000 and 2005, including Global Chief Development Officer, Executive Vice-President, Corporate Strategy and International Operations, President and Chief Executive Officer, Brazilian Operations and Vice President and Chief Financial Officer. He served as Vice President and Chief Financial Officer of C-MAC Industries Inc. from 1996 to 2000.

Ms. Katherine A. Lehman holds an MBA from Columbia Business School and a B.S. in Economics from The Wharton School, University of Pennsylvania. Since April of 2016, she has served as Founder and Managing Partner at Hilltop Private Capital, a private equity firm based in New York, NY, which invests in middle market industrial and business services companies. Prior to Hilltop, she held numerous positions at Lincolnshire Management Inc., also a private equity firm, including that of Managing Director, between 2009 and 2016, where, among others, she was a participant in its Investment Committee, and led M&A and financing transaction execution and had oversight for portfolio companies. Ms. Lehman has served on more than a dozen boards and she has been or is an active member of several audit committees including prior service from 2016-2018 on Stella-Jones' Audit Committee. She is also currently an Independent Board member of Navient Corp (NASDAQ:NAVI), an approximately US\$2B revenue asset management and business processing company.

Mr. Simon Pelletier holds a Bachelor of Materials Engineering from the University of Windsor and is Senior Vice-President, North American Sales and Operations for Metso. With over 25 years of experience, Mr. Pelletier is responsible for 500 million Euro of equipment sales and services to the mining and aggregate industries. Mr. Pelletier's responsibilities also include the execution of service operations and detailed service contracts at mining and mineral processing sites. Listed on the Helsinki Stock Exchange, Metso is a global supplier of technology and services to the mining, construction, and oil & gas industry with annual sales of approximately 3.0 billion Euro and employs approximately 12,000 people globally.

9.2 MANDATE OF THE AUDIT COMMITTEE

The mandate of the Audit Committee is to advise and assist the Board of Directors of the Company on financial matters. As such, the Audit Committee is responsible, among others, to make recommendations to the Board of Directors with respect to the nomination and remuneration of external auditors, to review the financial reporting process, to review the internal control procedures of the Company, to assess the Company's compliance with International Financial Reporting Standards (IFRS) and to advise the Board of Directors thereon.

In performing its duties, the Audit Committee maintains effective working relationships with the Board of Directors, Management and the external auditors. The mandate of the Audit Committee is attached to this AIF at Appendix “I”.

9.3 PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee’s procedures for approval of audit and non-audit services by the external auditors (“Procedures”) state that the engagement for the annual audit of the Company’s consolidated financial statements is specifically approved on an annual basis by the execution of the audit engagement letter with the auditors.

Engagements of the audit firm involving services for any of the Company’s entities that fall into the following service definitions are pre-approved by the Audit Committee so long as the fees for each particular engagement are expected to be less or equal to a total of \$50,000.

- tax services such as tax compliance, tax consulting transfer pricing, customs and duties, expatriate tax services; and
- other services such as due diligence and forensic investigations.

In cases of pre-approval, the Chair of the Audit Committee is to be notified expeditiously of any such services commenced by the auditors.

In respect of services under the preceding paragraph, where the fees for a particular engagement are expected to exceed a total of \$50,000, SJI’s management and/or its auditors must seek specific pre-approval by the Audit Committee of the engagement of the auditors. Where particular pre-approval is required, the Audit Committee has delegated the authority to effect such pre-approval to the Chair of the Audit Committee.

9.4 EXTERNAL AUDITOR SERVICE FEES

The following table sets out the fees billed to the Company by PricewaterhouseCoopers LLP for the last two fiscal years for various professional services:

FEES	YEAR ENDED DECEMBER 31, 2019	YEAR ENDED DECEMBER 31, 2018
Audit Fees	\$702,975	\$872,813
Audit Related Fees	\$0	\$404,250
Tax Service Fees	\$325,024	\$173,611
Other Fees	\$19,215	\$212,245
TOTAL	\$1,047,214	\$1,662,919

Audit Fees

The services comprising these fees include the audit of consolidated financial statements and statutory audits, tax services and accounting consultations required to perform the audit in accordance with Canadian Generally Accepted Auditing Standards.

Audit Related Fees

These fees apply, among others, to financial due diligence in connection with acquisitions and consultations regarding financial reporting and accounting standards.

Tax Fees

These fees include professional services for tax compliance, such as the preparation and review of tax returns, filings and forms as well as consultations regarding required disclosures and elections, among others, and tax advice on mergers and acquisitions.

Other Fees

These fees represent the total fees billed to the Company for all services other than those presented under audit fees, audit related fees and tax fees.

ITEM 10 TRANSFER AGENT

The Company's transfer agent and registrar is Computershare Investor Services Inc. ("Computershare") The register of transfers of the Common Shares of SJI maintained by Computershare is located at its offices in Montréal, Québec.

ITEM 11 MATERIAL CONTRACTS

While not constituting material transactions, particulars of the April 2019 acquisition of substantially all of the assets of SWP is provided in this AIF at Item 3.1 "Three Year History".

ITEM 12 INTERESTS OF EXPERTS

12.1 NAMES OF EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Partnership of Chartered Professional Accountants, who have prepared the Independent Auditor's Report to the shareholders of SJI on page 48 of the Company's 2019 annual report. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Code of Ethics of the *Ordre des comptables professionnels agréés du Québec*.

ITEM 13 ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

Additional information, including information regarding directors' and officers' remuneration and indebtedness, principal holders of securities of the Company, and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information is provided in the Company's consolidated financial statements and Management's Discussion & Analysis for its most recently completed financial year.

APPENDIX “I”

STELLA-JONES INC. (“the Corporation”)

AUDIT COMMITTEE MANDATE

1. **Formation.** The Board of Directors may appoint annually from its members an Audit Committee consisting of such number of members as the Board of Directors may from time to time determine, but not less than three.

The Audit Committee shall determine its own organization and procedure, except as provided in the By-Laws of the Corporation or as may be otherwise determined by the Board of Directors.

2. **Tenure and office.** All members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove from office any member of the Audit Committee, with or without cause. Any vacancy in the membership of the Audit Committee may be filled by the Board of Directors. All members of the Audit Committee shall cease to be in office at the close of each annual meeting of shareholders.
3. **Powers.** The Audit Committee shall advise and assist the Board of Directors on financial matters, including, without limiting the generality of the foregoing, the following:
 - review the recommendations of the officers of the Corporation as to the appointment of external auditors, verify the independence of the external auditors and make recommendations to the Board of Directors with respect to the nomination and remuneration of external auditors to be appointed at each annual meeting of shareholders;
 - oversee the work of the external auditors engaged for the purpose of preparing or issuing an independent auditor’s report or performing other audit review or attest services for the Corporation, including the approval of the annual audit plan and the resolution of disagreements between management and the external auditors regarding financial reporting;
 - review with the external auditors the scope and timing of their audit services and any other services they are asked to perform, their report on the Corporation’s accounts following completion of the audit and the Corporation’s policies and procedures with respect to internal accounting and financial controls, discussion of quality and depth of staffing in the accounting and financial departments, discussion of implementation of new accounting systems (e.g. computers), discussion of recent prospective releases of the Canadian Institute of Chartered Accountants and their impact on the Corporation’s financial statements, discussion of the need to extend the audit examination into areas beyond those required under a normal statutory audit;
 - pre-approve all non-audit services in excess of \$50,000 to be provided to the Corporation or its subsidiary entities by the Corporation’s external auditors;
 - review the audited annual financial statements, the unaudited interim quarterly financial statements, the annual and interim management’s discussion and analysis, the interim and annual CEO and CFO certifications and the annual and interim earnings press releases of the Corporation and report thereon to the Board of Directors of the Corporation before approval thereof by the Board of Directors and prior to disclosure thereof to securities authorities, shareholders and the public;
 - see, to its satisfaction, that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from its financial statements and periodically assess the adequacy of those procedures;

- review the internal control procedures of the Corporation and advise the directors on auditing practices and procedures as part of the responsibility of directors to meet their moral and legal responsibilities to the Corporation;
 - review the Corporation's compliance with International Financial Reporting Standards and advise the Board of Directors thereon;
 - meet on a regular basis with the Corporation's Director, Internal Audit and provide internal audit stewardship;
 - review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
 - establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (ii) the confidential and anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
 - review the accuracy and reliability of data to be disclosed to interested parties;
 - review the relationship among external auditors, internal auditors, if any, and employees; and
 - review management plans regarding any requirements for revised accounting practices.
4. **Accountability of external auditors.** The external auditors are ultimately accountable to the Board of Directors and the Audit Committee as representatives of shareholders.
 5. **Signed resolution.** A resolution in writing signed by all the members of the Audit Committee entitled to vote on that resolution at a meeting of the Audit Committee is as valid as if it had been passed at a meeting of the Audit Committee. A copy of every resolution referred to in this paragraph shall be kept with the minutes of the meetings of the Audit Committee.
 6. **Chair, quorum and procedure.** The Audit Committee shall have the power to appoint a Chair and a Vice-Chair, to fix its quorum, which quorum shall consist of not less than a majority of its members, and to determine its procedure.
 7. **Meetings.** Meetings of the Audit Committee may be held at the registered office of the Corporation or at such other places within or without Canada as the Audit Committee may from time to time determine. Meetings of the Audit Committee may be called by or by the order of the President of the Corporation, the Chair of the Audit Committee, or any two (2) members thereof.

Reviewed and approved by the Board of Directors on November 6, 2019.