



## GOVERNANCE GUIDELINES

### **Introduction**

The Board of Directors believes that the principal objective of the Corporation is to generate economic returns to its shareholders through the conduct of business in compliance with applicable law and regulation and the Code of Conduct adopted by Essential. The Board believes that good corporate governance practices provide an important framework for a timely response by the Board to situations that may directly affect shareholder value.

The Board wishes to emphasize that the substance of good corporate governance is more important than its form; adoption of a set of guidelines or principles or any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.

The Board maintains an appropriate number of independent Directors to perform their duties and responsibilities and believes that the offices held and ownership status maintained by the Chair of the Board together enable the Board to act in the best interests of the Corporation.

### **Board Administrative Guidelines**

The mandate for the Board of Directors defines the role of the Board. The following outlines the key guidelines governing how the Board will operate to carry out its duties of stewardship and accountability.

### ***The Board-Management Relationship***

- (a) While the Board is called upon to oversee or to supervise the management of the business by law, this is done by proxy through the Chief Executive Officer of the Corporation, who is charged with the day-to-day leadership and management of the Corporation (which term, for purposes of these Governance Guidelines, includes all affiliated entities).
- (b) The Chief Executive Officer's prime responsibility is to lead the Corporation. The Chief Executive Officer formulates corporate policies and proposed actions and presents them to the Board for approval. The Board approves the plans of the business, the objectives and policies within which it is managed, and then steps back and evaluates management performance. Reciprocally, the Chief Executive Officer keeps the Board fully informed of the Corporation's progress towards the achievement of its goals and of all material deviations from the plans or objectives and policies established by the Board in a timely and candid manner.
- (c) Once the Board has approved the plans, strategies and policies it acts in a unified and cohesive manner in supporting and guiding the Chief Executive Officer subject to its duty to act in the best interests of the Corporation.

## ***Mandates***

The mandates of the Board and Committees, and the terms of reference for the Board Chair, the President and Chief Executive Officer, the Individual Directors and each of the Committee Chairs, are reviewed annually by the Compensation and Governance Committee. The Compensation and Governance Committee will propose any necessary changes to the Board for approval. Individual Committees may also review their own Mandates and will propose any necessary changes to the Compensation and Governance Committee and the Board for approval.

## ***Corporate Strategy***

Management is responsible for the development of an overall corporate strategy to be presented to the Board. The Board's role is to ensure there is a strategic planning process, and then review, question, validate, and ultimately approve the strategy and monitor its implementation.

## ***Business Risks***

The Board should have a continuing understanding of the principal risks associated with the business of Essential. It is the responsibility of management to ensure the Board and its Committees are kept well informed of changing risks. The principal mechanisms through which the Board reviews risks are:

- (a) ongoing reports by the Chief Executive Officer;
- (b) the strategic planning process; and
- (c) the work of the Audit Committee.

## ***Succession Planning***

The Board considers succession planning and management development to be an ongoing process, including annual reports to the Board by the Chief Executive Officer and the Compensation and Governance Committee.

## ***Board Communications Policy***

- (a) The Board approves the content of the Corporation's major communications to shareholders and the investing public, including quarterly and annual reports, management proxy circulars, annual information forms and any prospectuses that may be issued.
- (b) However, the Board believes that it is the function of senior management to speak for Essential in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that the Board Chair or other individual Directors may, from time to time, be requested by the Chief Executive Officer to assist with such communications.

- (c) It is expected that when communications from stakeholders are made to the Board Chair or to other individual Directors, the Chief Executive Officer will be informed and consulted to determine any appropriate response to be made by the Board Chair or other individual Directors, as the case may be, in accordance with Essential's existing disclosure guidelines.

### ***Evaluation of the President and Chief Executive Officer***

The Board is committed to an annual performance evaluation of the Chief Executive Officer. The Chief Executive Officer evaluation process is outlined in the Board Manual.

### ***Board Size and Composition***

- (a) The Board is committed to a minimum size of five (5) members, which the Board considers to be an appropriate minimum number for the size of the Corporation and sufficient to provide an appropriate mix of backgrounds and skills for the stewardship of Essential.
- (b) A majority of the Board will be "independent" Directors in accordance with the definition of "independent" Director from time to time under the requirements or guidelines for Board service under applicable securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading.
- (c) In the Board's view, being designated a non-independent Director is not to be construed to imply that a non-independent Director makes less of a contribution to the Corporation than an independent Director or that a non-independent Director cannot or does not act with independence or in the best interests of Essential.
- (d) Any Director who is an independent Director and whose circumstances change such that he or she might be considered to be a non-independent Director shall promptly advise the Board of the change in circumstances.
- (e) At or prior to its meeting to approve the Information Circular for each annual meeting of the shareholders of the Corporation, the Board will consider and determine whether a Director or nominee to be a Director is an independent Director.
- (f) The Board prefers to have not more than one (1) management member on the Board although there may be times when it is appropriate to have an additional management member on the Board.

### ***Criteria for Board Membership***

- (a) The Compensation and Governance Committee will review each year the general and specific criteria applicable to candidates to be considered for nomination to the Board.
- (b) The objective of this review will be to maintain the composition of the Board in a way that provides the best mix of skills and experience to guide the long term strategy and ongoing business operations of Essential.

- (c) This review will take into account the desirability of maintaining a reasonable diversity of background skills and experience and personal characteristics among the Directors, along with the key common characteristics required for effective Board participation.

### ***Selection of New Directors***

- (a) The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Corporation.
- (b) The Compensation and Governance Committee has the responsibility of gathering the names of potential nominees, screening their qualifications against the current skill and experience needs of the Board and making recommendations to the full Board.
- (c) All Directors are encouraged to identify potential candidates.
- (d) The Board Chair and the Chief Executive Officer provide additional direct input to the process.
- (e) An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Board Chair.

### ***Majority Voting Policy***

If a nominee for Director receives a greater number of “withhold” votes than “for” votes, the Director shall promptly, following the certification of the shareholder vote, submit his or her resignation to the Board. The Compensation and Governance Committee shall consider the offer of resignation and recommend to the Board whether it should accept such resignation. The Director will not participate in any deliberations on his or her resignation. The Board is required to act on the recommendation within ninety (90) days of the shareholder vote and will publicly disclose its decision. If such resignation is accepted by the Board, the Board may fill the vacancy created.

### ***Directors Who Change Their Present Job Responsibility***

- (a) A Director, including the Chief Executive Officer if he/she is serving on the Board, who has a major change in principal occupation shall advise the Board of such change.
- (b) There should be an opportunity for the Board to review, through the Compensation and Governance Committee, the continued appropriateness of Board membership under such circumstances.

### ***Term of Directors***

Each Director is elected annually by the shareholders of the Corporation, who vote in favour of those individuals nominated for Director. It is understood that each Director will annually undergo a review prior to his or her re-nomination and Directors fully

understand that nomination to the Board is not an automatic right and is reviewed on an ongoing basis.

### ***Director Retirement Age***

The Board does not have a mandatory retirement age. The Compensation and Governance Committee is responsible to ensure that the contributions made, qualifications and competencies held by each nominee Director and by each incumbent Director are appropriate. The Compensation and Governance Committee has oversight of nominations for Directors and of the annual Board performance evaluations. The Compensation and Governance Committee is able to assess the impact of age or any other criteria on the suitability of an individual Director for Board service.

### ***Board Independence***

- (a) Under NI 58-101 it is recommended, but not required, that the Board Chair or "Lead Director" shall be an independent Director. The Board will maintain an appropriate number of independent Directors to perform their duties and responsibilities. The Board Chair's role is to manage and provide leadership to the Board. Where the Board Chair or "Lead Director" is not an independent Director, the Board will annually assess the rationale for retaining the Board Chair as a non-independent individual.
- (b) At any time any Director may request that a meeting of the Board or any Committee thereof be held without representatives of management present or that all or some representatives of management absent themselves from any particular portion of any meeting of the Board or any Committee thereof.
- (c) The Board will allow time at the end of each Board meeting to meet without management, the CEO and any non-employee Directors. This provides an opportunity for Directors to raise any issues independently of management and scheduling this session on a regular basis ensures that such meetings are a matter of course for non-employee Board members and do not indicate any kind of crisis or emergency. The non-employee members of the Board may meet more frequently as they determine appropriate without the presence of any employee Directors or members of management.

### ***Board Meetings and Agendas***

- (a) The Board meets a minimum of four (4) times per year, usually every quarter.
- (b) The Board Chair and the Chief Executive Officer, in consultation with the Corporate Secretary, develop the agenda for each Board meeting. Under normal circumstances, the agenda and the material will be distributed to Directors not less than two business days before the meeting. All Directors are free to suggest additions to the agenda.

### ***Board Information***

- (a) Material distributed to the Directors in advance of Board meetings will be concise, complete, and prepared to focus attention on critical issues to be considered.
- (b) Reports may be presented during Board meetings by Directors, management or staff, or by invited outside advisors. Presentations on specific subjects at Board meetings will briefly summarize the material sent to Directors, so as to maximize the time available for discussion on questions regarding the material.
- (c) It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it would not be prudent or appropriate to distribute written material in advance.

### ***Non-Directors at Board Meetings***

- (a) The Board appreciates the value of having certain members of senior management attend each Board meeting to provide information and advice to assist the Directors in their deliberations.
- (b) The Board Chair and the Chief Executive Officer will determine who shall attend Board meetings and for which agenda items.

### ***Committees***

- (a) Committees analyze in depth policies and strategies developed by management, which are consistent with their mandates. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated to do so.
- (b) Each Committee operates according to Board approved written mandates which outline their duties and responsibilities. Guidelines regarding the general operation of Committees are outlined in the General Guidelines for Committees of the Board Manual.
- (c) The Committee structure may be subject to change as the Board considers from time-to-time which of its responsibilities can best be fulfilled through more detailed review of matters in Committee.
- (d) The current Committee structure includes the following Committees, with their respective roles and responsibilities described in:
  - (i) Mandate of the Audit Committee and Terms of Reference for Chair;
  - (ii) Mandate of the Compensation and Governance Committee and Terms of Reference for Chair; and

- (iii) Mandate of the Health, Safety and Environment Committee and Terms of Reference for Chair.
- (e) The Board favours a periodic rotation in Committee leadership and membership in a way that recognizes and balances the needs for new ideas, continuity and maintenance of functional expertise.
- (f) The Compensation and Governance Committee is responsible to the Board for proposing the leadership and membership of each Committee on an annual basis. In preparing its recommendations, the Compensation and Governance Committee will consult with the Board Chair and with the Chief Executive Officer and take into account the preferences of individual Directors.

### ***Board Contact with Senior Management***

- (a) All of the Directors have open access to the Corporation's senior management. It is expected that Directors will exercise judgement to ensure that their contacts will not distract from the Corporation's business operations.
- (b) Written communications from Directors to members of management will be copied to the Chief Executive Officer and to the Board Chair.
- (c) The Board also encourages individual Directors to make themselves available for consultation with management outside Board meetings in order to provide specific advice and counsel on subjects where such Directors have special knowledge and experience.

### ***Director Orientation and Continuing Education***

- (a) New Directors will be provided with an orientation and education program that will include written information about the duties and obligations of Directors, and the contribution individual Directors are expected to make (including, in particular, the commitment of time and resources that the Corporation expects from its Directors), the role and responsibilities of the Board and its Committees, the business and operations of Essential, documents from recent Board meetings and opportunities for meetings and discussion with senior management and other Directors. The details of the orientation of each new Director will be tailored to that Director's individual needs and areas of interest.
- (b) With the approval of the Compensation and Governance Committee or its designee, Directors may at the expense of the Corporation participate in continuing education programs that are designed to maintain or enhance their skills and abilities as Directors or to enhance their knowledge and understanding of Essential's business and operations.

### ***Assessing the Board's Performance***

- (a) The Board Chair and the Compensation and Governance Committee Chair are generally responsible for making a periodic assessment of the overall performance of the Board, its Committees and individual Directors. The Chief

Executive Officer evaluation is an annual duty of the Compensation and Governance Committee.

- (b) The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. It is expected that the results of such reviews will be to identify any areas where the Directors and/or management believe that the Board could make a better collective contribution to overseeing the affairs of Essential in such a way as to add shareholder value.

### ***Director Compensation***

The Compensation and Governance Committee will review and recommend the compensation of the Directors annually and at such other times when it believes changes in compensation are warranted. Director Compensation is outlined in the Management Information Circular annually.

### ***Share Ownership by Directors***

- (a) During their tenure, ownership of shares of the Corporation is expected from Directors as an incentive to align their interests with those of shareholders.
- (b) Within a three-year timeframe, starting from the latter of March 2012 or appointment to the Board, each non-employee Director is expected to own a minimum of three times the annual retainer received, based on the greater of the cost of shares when purchased or the fair market value of shares at the time of measure.

### ***Limits to Management Authority***

From time to time, the Board establishes limits on management's authority depending on the nature and size of proposed transactions. These limits permit some flexibility within approved budgets but otherwise must not be exceeded without Board approval.

### ***Outside Advisors for Individual Directors***

Individual Directors may need the services of an advisor to assist on matters involving their responsibilities as a Board member. The Board has determined that any Director who wishes to engage an outside advisor at the expense of the Corporation must obtain the prior authorization of the Board Chair or the Compensation and Governance Committee.

### **Board Guideline Review**

The Compensation and Governance Committee will review these Guidelines annually and any recommended changes will be submitted to the Board for approval.