



February 23, 2006

The board of directors of Stantec wishes to formalize the guidelines pursuant to which it governs the Company's business. These guidelines have been updated to reflect the fact that National Policy 58-201 has replaced the Toronto Stock Exchange Guidelines on corporate governance practice. These guidelines are intended to be flexible and to provide parameters and direction to the board in conjunction with its obligations and mandate to oversee and direct the affairs of the Company.

## **Board Responsibilities**

The board is responsible for the stewardship of the Company. In executing this role, the board shall oversee the conduct, direction, and results of the business. In turn, management is mandated to conduct the day-to-day business and affairs of the Company and is responsible for implementing the board's strategies, goals, and directions. The board and its members shall at all times act in the best interests of the Company, and the board's actions shall reflect its responsibility to establish the proper business practices and appropriate ethical standards expected of the Company.

In discharging its stewardship obligations, the board has the following six (6) specific principal responsibilities.

### **1. Integrity of the Chief Executive Officer and Other Executive Officers**

The board assesses the integrity of the chief executive officer and other executive officers through regular interaction at board and committee meetings and through ongoing interaction. In addition, the board satisfies itself that the chief executive officer and other executive officers are creating a culture of integrity throughout the Company by reviewing annually with the chief executive officer and executive officers what policies and procedures are in place to create a culture of integrity.

### **2. Adoption of a Corporate Strategic Planning Process**

It is the responsibility of the board to ensure that the Company has appropriate short- and long-term goals and has implemented a strategic planning process. In identifying and adopting short- and long-term goals and a strategic planning process, the board shall look to the management of the Company, particularly to the chief executive officer, for leadership. In addition to ensuring that a strategic planning process is in place, the board should assist in the process by maintaining open communication lines with management both directly and through the chief executive officer, providing objectivity to plans, and adding its collective experienced judgment to the process. Finally, the board must approve the Company's strategies as they evolve and as they may change. In this context, the board must be



responsible for monitoring management's success in implementing and modifying its strategies, as may be required.

### **3. Managing Risks and Protecting Shareholder Value**

The board shall be responsible for ensuring that proper procedures are established for the protection of shareholder value. The board is expected to adequately scrutinize material programs and approve material capital expenditures, acquisitions, and divestitures.

Members of the board are responsible for and must be expected to understand the principal risks associated with the Company's business. In this regard, the board must rely upon the management of the Company to identify and monitor risks on a day-to-day basis; however, the board must ensure that there are adequate systems in place that effectively monitor and manage the risks of the business to ensure the Company's long-term viability. It is acknowledged and understood that all business decisions involve balancing risks with reward and benefit, and, hence, any material business actions must balance the potential return against the potential damage to shareholders.

### **4. Appointing, Developing, and Monitoring Senior Management (Succession Planning)**

The board implements its corporate strategies and resolutions through delegation to management. In turn, management must inform and communicate properly with the board and in accordance with the board's stated goals and objectives. As a result, the board must ensure that it has retained a management of appropriate caliber, particularly in the role of chief executive officer. The board must implement systems to assess the performance of its senior management, particularly that of the chief executive officer, against objectives it has established. To the extent that there are mechanisms that may assist the appointment, development, and assessment of management, the board should be satisfied that such systems are in place and that an orderly succession of senior management can be facilitated.

### **5. Communications Policy**

The board shall ensure that the Company has a policy in place to enable it to communicate effectively with shareholders, other stakeholders, and the public generally, including the capital markets. The Company's communications policy must effectively relate its operations to shareholders and should facilitate open communication with shareholders. The chief executive officer will be directly responsible for approving the issuance of any material communications to shareholders.



## **6. Internal Corporate Controls and Management Information Systems**

The board shall ensure that there are control and information systems in place to ensure the effective discharge of its responsibilities hereunder and in law. In particular, the board will ensure that the Company has (a) an audit system and internal controls that verify the integrity of financial data and the compliance of financial information with appropriate accounting principles, (b) adequate environmental information, controls, and reporting systems, and (c) systems for monitoring and evaluating the implementation of corporate strategy and material corporate decisions.

The board at large is responsible for its approach to corporate governance issues. In considering these issues, and in assessing the effectiveness of the board and its committees and the contribution of each individual director, the board will seek the assistance and advice of the Corporate Governance and Compensation Committee.

## **Composition of the Board**

### **1. Criteria for Board of Directors**

The Corporate Governance and Compensation Committee will be responsible for considering and thereafter reviewing with the board, on an annual basis, the appropriate skills and characteristics required of directors in the context of the then current makeup of the board and the current affairs of the Company. This assessment will include issues of diversity, age, skills, judgment, integrity, gender, experience, profile, business prospects, and such other factors deemed appropriate, all in the context of an assessment of the perceived needs of the board and the Company at that time.

### **2. Independence**

The board shall be made up of a majority of independent directors. The board has adopted the definition of independent directors as set out in Multilateral Instrument 52-110 of the Canadian Securities Administrators, attached hereto as Appendix A. At the present time, it is the view of the board that five (5) of the present seven (7) directors are independent. A.P. Franceschini, president and chief executive officer of the Company, is not considered to be independent. Aram H. Keith is also not considered to be independent as a result of his many years as chief executive officer of The Keith Companies Inc.—a firm recently acquired by the Company.

### **3. Size of the Board**

The size of the board should enable its members to effectively and responsibly discharge their responsibilities to the Company. The board must recognize that the



Company's demands on its directors may evolve with the development of the Company and that the size of the board should be considered over time and within the context of the development of the Company and the directors' responsibilities.

The board presently has seven (7) members. It is the board's sense that a size of seven to nine (7–9) directors is appropriate and that it would be willing to go to a somewhat larger size in order to accommodate the availability of an outstanding candidate(s).

#### **4. Board Compensation Review**

It is appropriate for the staff of the Company to report once a year to the Corporate Governance and Compensation Committee on the status of board compensation in relation to other Canadian companies of the relative size and business of the Company. Changes in board compensation, if any, should come at the suggestion of the Corporate Governance and Compensation Committee, but with full discussion and concurrence by the board.

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

The Corporate Governance and Compensation Committee is responsible for annually reporting to the board an assessment of the board's performance. This will be discussed with the full board and should be done following the end of each fiscal year and at the same time as the report on board membership criteria.

This assessment should pertain to the board's contribution as a whole and should specifically review areas in which the board and/or management believe a better contribution could be made. Its purpose is to increase the effectiveness of the board, not to target individual board members.

#### **6. Age and Term Limits**

The board does not believe it should establish term limits. Although term limits could help ensure that there are fresh ideas and viewpoints available to the board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the board as a whole.

As an alternative to term limits, the Corporate Governance and Compensation Committee, in consultation with the chairman of the board and the chief executive officer of the Company, will review each director's continuation on the board at least every three (3) years. This will also allow each director the opportunity to conveniently confirm his/her desire to continue as a member of the board.



It is the sense of the board that an age limit of seventy-two (72) is appropriate at the present time. However, this matter will be reviewed from time to time by the Corporate Governance and Compensation Committee and the board.

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

It is the sense of the board that individual directors who change the responsibility they held when they were elected to the board should volunteer to resign from the board. It is not the sense of the board that directors who retire or change from the position they held when they came on the board should necessarily leave the board. There should, however, be an opportunity for the board, via the Corporate Governance and Compensation Committee, to review the continued appropriateness of board membership under these circumstances.

## **8. Position Descriptions**

The board has developed position descriptions for the chief executive officer, board chairman, vice chairman, chairman of the Corporate Governance and Compensation Committee, and chairman of the Audit Committee. Such position descriptions are as follows:

### **Chief Executive Officer Position Description**

#### *Appointment*

The board shall appoint the chief executive officer on terms and conditions that it considers appropriate.

#### *Reporting and Review*

The chief executive officer shall report to the board. The board shall review the chief executive officer's performance on an annual basis.

#### *Duties and Responsibilities*

The chief executive officer shall have full responsibility for the day-to-day operation of the Company's business in accordance with the Company's strategic plan and budgets as previously approved by the board. In discharging this responsibility, and subject always to the oversight of the board, the chief executive officer shall

- Foster a corporate culture that promotes ethical practices and encourages individual integrity



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- Work with the chairman of the board to ensure that the board is provided with all information and access to management necessary to allow it to fulfill its statutory, governance, and other obligations in a timely manner
- Fully apprise the board of all matters that are material to directors and alert the chairman in a timely manner of any material changes or events that may impact the risk profile, financial affairs, or performance of the Company
- Develop and recommend to the board a long-term strategy and vision for the Company that leads to enhancement of shareholder value
- Develop and recommend to the board annual business plans and budgets that support the Company's long-term strategy
- Consistently strive to achieve the Company's financial and operating goals and objectives
- Promote continuous improvement of the quality and value of the Company's services
- Seek to secure and maintain a competitive position for the Company within its industry
- Ensure that the Company has an effective management team below the level of chief executive officer as well as an active plan for management development and succession
- Implement policies and processes to ensure the integrity of the Company's internal controls, management information, and financial reporting
- Serve as the spokesperson for the Company and oversee communication between the Company and its shareholders, the investment community, media, governments and their agencies, employees, and the general public

## **Chairman**

The prime responsibility of the chairman of the board of directors is to provide leadership to the board to enhance board effectiveness. The board has ultimate accountability for the supervision of the management of the Company. Critical to meeting this accountability is the relationship between the board, management, shareholders, and other stakeholders. The chairman, as the presiding member, must oversee that these relationships are effective, efficient, and further the best interests of the Company.

The chairman shall



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- Chair all meetings of the board
- Oversee the board's discharge of the duties it is assigned by law in the articles and bylaws of the Company and the Corporate Governance Guidelines
- Together with the chief executive officer, represent the Company to employees, shareholders, and other stakeholders
- Develop a good working relationship between the office of the chairman, the chief executive officer, and the board to ensure open communications, cooperation, interdependence, mutual trust, respect, and commonality of purpose
- Take steps to foster the board's understanding of its responsibilities and boundaries with management
- Establish procedures for governing the effective and efficient conduct of the board's work
- Establish the agenda for and preside at all meetings of the board and annual and special meetings of shareholders
- Oversee the distribution of information to the board in a manageable form sufficiently in advance of the meeting
- Oversee the functions delegated to the committees, monitor the committees' work to ensure that these functions are carried out and results are reported to the board, and carry out other duties as requested by the board

### **Vice Chairman**

The prime responsibility of the vice chairman of the board of directors is to support the chairman of the board of directors in fulfilling his duties and acting as a spokesperson for the Company as requested by the chairman or the chief executive officer.

The vice chairman shall

- Attend all meetings of the board of directors
- Serve as a spokesperson for the Company as requested by the chairman of the board or the chief executive officer
- Carry out special assignments as requested by the chairman



- Participate as a vital part of the board leadership
- Perform other responsibilities as assigned by the board

### **Corporate Governance and Compensation Committee Chairman**

The prime responsibility of the chairman of the Corporate Governance and Compensation Committee is to provide leadership to the committee to ensure its effectiveness. Critical to meeting this accountability is ensuring that the Company has in place an appropriate and effective system of corporate governance.

The chairman of the Corporate Governance and Compensation Committee shall

- Set the tone for the Corporate Governance and Compensation Committee work
- Set the agenda and chair the Corporate Governance and Compensation Committee meetings and ensure the distribution of meeting minutes
- Oversee the logistics of the committee's operations and ensure compliance with the Corporate Governance and Compensation Committee Terms of Reference
- Report to the full board on the Corporate Governance and Compensation Committee's decisions and recommendations
- Chair the meetings of the board in the absence of the chairman of the board of directors

### **Audit Committee Chairman**

The prime responsibility of the Audit Committee chairman is to provide leadership to the Audit Committee to enhance its effectiveness. Critical to meeting this accountability is the relationship between the Audit Committee, management, and the external auditors. The chairman of the Audit Committee must oversee that these relationships are effective and efficient and further the best interests of the Company.

The chairman of the Audit Committee shall

- Set the tone for the committee's work
- Set the agenda and chair the Audit Committee meetings and ensure the distribution of meeting minutes



- Oversee the logistics of the committee's operations and ensure compliance with the Audit Committee Terms of Reference
- Report to the full board on the Audit Committee's decisions and recommendations

## **Board Committees**

The board shall have the following standing committees:

1. Audit Committee
2. Corporate Governance and Compensation Committee

The responsibilities of these committees shall be as set forth in the mandates for these committees as prescribed from time to time by the board. The board may create additional standing committees from time to time as it deems appropriate.

All committees of the board shall exclusively comprise independent directors.

Appointment of members to standing committees shall be the responsibility of the board, having received the recommendation of the Corporate Governance and Compensation Committee based upon consultations with other members of the board and the chief executive officer. In this regard, consideration should be given to rotating committee members from time to time and to the special skills of particular directors. Committee chairs will be selected by the board or, in the event of its failure to do so, by the committee's members. The committee chairs will be responsible for determining the agenda, frequency, and length of meetings.

The board may constitute additional standing committees or special committees with special mandates as may be required or appropriate from time to time. In appropriate circumstances, the committees of the board shall be authorized to engage independent advisors as may be necessary in the circumstances.

In discharging his or her obligations, an individual director may engage outside advisors, at the expense of the Corporation, in appropriate circumstances and subject to the approval of the Corporate Governance and Compensation Committee.

## **Selection of New Directors and the Chairman of the Board**

The board will ultimately be responsible for nominating new directors and for selecting the chairman of the board. The process of identifying and recommending new directors shall be the responsibility of the Corporate Governance and Compensation Committee following consultation with members of the board at large and the chief executive officer. Invitations to join the board should be extended by its chairman. New members of the board shall be provided with an orientation and education program as to the



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nature of the business of the Company, current issues, corporate strategies, and the responsibilities of directors.

At the present time and under the present circumstances, the board has adopted the policy whereby the office of the chief executive officer and the chairman of the board are held by different persons. The chairman of the board is elected annually by the board at the first directors' meeting after the annual general meeting of shareholders.

### **Board Meetings**

The chairman of the board, in conjunction with the chief executive officer and the secretary, shall be responsible for ensuring that all information and data material that is relevant or important to the board's understanding of the business it is to consider at any particular meeting is distributed to members on a timely basis in advance of meetings. The board and senior management shall be cognizant that its members are expected to make diligent and fully informed decisions after giving the subject matter due and thorough consideration. Accordingly, early dissemination of materials is encouraged wherever possible so that members of the board may have a full understanding of the issues to be considered and discussed. It should be a standard practice to deliver the agenda and materials for consideration at all meetings at least five (5) days prior to the meeting. In no event should such agenda and related materials be delivered any later than the day prior to the meeting, except in unusual circumstances. In addition, material should be as succinct and lucid as possible yet provide the necessary information. Information provided to the board should not be restricted to historical or financially oriented materials, but should also consider qualitative factors that may have an impact upon the decision to be made by the board.

Each board member is free to suggest the inclusion of items on the agenda.

The chairman of the board, in conjunction with the chief executive officer, will be responsible for setting the agenda for directors' meetings.

Wherever possible, and particularly with respect to regularly scheduled meetings of directors, personal attendance should be encouraged and telephone attendance should be restricted to urgent or special circumstances.

The outside directors of the board will meet in executive session at least two (2) times each year. The format of these meetings will include a discussion with the chief executive officer on each occasion.



## **Management Performance, Objectives, and Evaluations and Management development and succession**

The board should establish annual corporate objectives that management and the chief executive officer are responsible for meeting and should annually assess management performance, with a particular emphasis upon the performance of the chief executive officer. Results of this evaluation should be considered with the chief executive officer by the chairman of the board. This evaluation should be based upon objective criteria previously authorized by the board, including consideration of the performance of the business of the Company, accomplishment of short- and long-term strategic objectives, material business accomplishments, and development of management. The evaluation is to be used by the Corporate Governance and Compensation Committee as part of a formal process of considering the compensation of the chief executive officer and management with reference to performance in meeting corporate objectives.

The chief executive officer will also report to the board annually with respect to senior management succession issues and the status of the Corporation's ongoing program for management development. There should also be available, on a continuing basis, the chief executive officer's recommendation as to his/her successor should he/she be unexpectedly disabled.

## **Board Expectations of Senior Management and Access to Senior Management**

Senior management is responsible for the day-to-day operation of the Company. Operations are to be conducted in a manner that reflects the standards established by the board and with the goal of implementing and fulfilling the policies, strategies, and goals established by the board. The board shall determine the specific or general terms and levels of authority for senior management, particularly the chief executive officer, as it may consider advisable from time to time. The chief executive officer is encouraged to bring appropriate management members to board meetings in order to (a) expose directors to key members of management, (b) provide additional insight into matters being considered by the board, and (c) expose members of the management team to the board.

## **Code of Ethics**

The board has adopted a code of ethics that constitutes written standards that are designed to promote integrity and to deter wrongdoing. The code applies to all the Company's directors, officers, and employees.

The board is ultimately responsible for monitoring compliance with the code. No waiver of the requirements of the code will be granted to the Company's directors or executive officers without approval of the board's Corporate Governance and Compensation Committee.



## **Orientation and Continuing Education**

The board is to ensure that all new directors receive a comprehensive orientation so that they can understand the role of the board and its committees, their individual roles and expectations, and the nature of the Company's business. In fact, new directors are provided with an orientation and education program that includes materials from recent board and committee meetings as well as written information about the duties and obligations of directors. Meetings are scheduled with new directors and members of senior management. New directors also receive a comprehensive director's manual.

Each director assumes responsibility for keeping informed about the business of the Company and developments in the industry. Management assists directors by providing them with updates on developments in various geographic areas in which the Company is active, communication from the chief executive officer to employees, and such other information management considers of interest to the board.

When attending board meetings at different locations, directors take part in tours of the Company's assets.

## **Nomination of Directors**

The Corporate Governance and Compensation Committee, which is composed entirely of independent directors, is responsible for identifying and recommending to the board suitable director candidates. As part of the process, the committee considers the competencies and skills of the board as a whole, assesses the skill sets of current board members, and identifies any additional skill sets deemed to be beneficial when considering board candidates in light of the opportunities and risks facing the Company. The committee may engage outside advisors to assist in identifying qualified candidates. Potential candidates are screened to ensure that they have the attributes of integrity and accountability, the ability to think strategically, financial literacy, excellent communication skills, and the ability to work effectively as a team. These skills and attributes are necessary in order for directors to execute their duties and responsibilities. The committee also considers the positions prospective director candidates have held with other organizations and their other business and personal commitments to determine whether they would be able to fulfill the duties of a board member.

## **Compensation**

The Corporate Governance and Compensation Committee annually reviews directors' compensation to ensure that it is competitive and consistent with the responsibilities and risks involved in being an effective director.



The Corporate Governance and Compensation Committee is responsible for annually reviewing and recommending to the full board the compensation for the president and chief executive officer and other senior executives.

The Corporate Governance and Compensation Committee has the authority to retain consulting firms to assist in carrying out its responsibilities, including determining the compensation of the president and chief executive officer and other executives.

### **Assessments**

The Corporate Governance and Compensation Committee is responsible for reporting annually to the board an assessment of the board's performance. This assessment is discussed with the full board. This is done following the end of each fiscal year and at the same time as the report on board membership criteria.

This assessment is of the board's contribution as a whole and specifically reviews areas in which the board and/or management believes that a better contribution could be made. Its purpose is to increase the effectiveness of the board as a whole as well as the effectiveness of individual board members. In addition, the Corporate Governance and Compensation Committee is responsible for assessing, on a quarterly basis, the chief executive officer's performance against annual objectives.

### **Communication Policy**

The Company is committed to providing timely, accurate, and balanced disclosure of material information, consistent with legal and regulatory requirements. Materiality is determined by the importance of an event or information in influencing an investor's decision with respect to the purchase or sale of the Company's shares. The Company will disclose both positive and negative information on a timely basis, except when confidentiality issues require a delay in accordance with the rules of the Toronto Stock Exchange and the New York Stock Exchange and applicable securities commissions.

The Company has established a Disclosure Committee to support the chief executive officer and the chief financial officer in identifying material information and determining how and when to disclose that information and to ensure that all material disclosures comply with relevant securities legislation.

The Disclosure Committee will meet prior to the release of the Company's regular quarterly and annual disclosure documents. The committee will also meet as required to review and evaluate other disclosures and potential disclosures or upon request of the chief executive officer or chief financial officer.

## **Appendix A - Independence**

National Policy 58-201 provides that a director is independent if he or she would be independent for the purposes of National Instrument 58-101, "Disclosure of Corporate Governance Practices." In turn, 58-101 provides that a director is independent if he or she would be independent within the meaning of Section 1.4 of Multilateral Instrument 52-110, "Audit Committees." MI 52-110 was amended with effect from June 30, 2005, and the particular provision regarding independence is set out below. There are other provisions regarding controlled companies, US-listed issuers, etc., and reference should be made to the applicable instruments if required.

### **Section 1.4 Meaning of Independence**

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a "material relationship" is a relationship that could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) An individual who is, or has been within the last three (3) years, an employee or executive officer of the issuer
  - (b) An individual whose immediate family member is, or has been within the last three (3) years, an executive officer of the issuer
  - (c) An individual who
    - (i) Is a partner of a firm that is the issuer's internal or external auditor
    - (ii) Is an employee of that firm, or
    - (iii) Was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time
  - (d) An individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual
    - (i) Is a partner of a firm that is the issuer's internal or external auditor



- (ii) Is an employee of that firm and participates in its audit, assurance, or tax compliance (but not tax planning) practice, or
    - (iii) Was within the last three (3) years a partner or employee of that firm and personally worked on the issuer's audit within that time
  - (e) An individual who, or whose immediate family member, is or has been within the last three (3) years an executive officer of an entity if any of the issuer's current executive officers serves or served at that same time on the entity's compensation committee, and
  - (f) An individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any twelve (12) month period within the last three (3) years
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because
  - (a) He or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004, or
  - (b) He or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include
  - (a) Remuneration for acting as a member of the board of directors or of any board committee of the issuer
  - (b) Receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service
- (7) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual, or his or her immediate family member
  - (a) Has previously acted as an interim chief executive officer of the issuer, or



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- (b) Acts, or has previously acted, as a chairman or vice chairman of the board of directors or of any board committee of the issuer on a part-time basis
- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.