



**HEXO CORP.**

**BOARD MANDATE**

**AND**

**CORPORATE GOVERNANCE GUIDELINES**

*V1.4*

**HEXO CORP.**  
**(the “Corporation”)**

**BOARD MANDATE AND CORPORATE GOVERNANCE GUIDELINES**

**Effective June 12, 2019**

**Introduction**

The following Board Mandate and Corporate Governance Guidelines (the “**Guidelines**”) have been developed and adopted by the Board of Directors (the “**Board**”) of HEXO Corp. (the “**Corporation**”), acting on the recommendations of its Human Resource and Corporate Governance Committee (the “**HR&CG Committee**”), to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions. The Corporation defines corporate governance as the “mechanisms, relations and processes by which a corporation is controlled and directed.” These Guidelines should be read and applied in conjunction with the Code of Business Conduct and Ethics of the Corporation and the respective terms of reference of each of the committees of the Board.

These Guidelines are intended to serve as a flexible framework within which the Board may conduct its business, and not as a set of legally binding obligations, and are subject to modification from time to time by the Board as it considers appropriate in the best interests of the Corporation and as may be required by applicable laws and regulations.

**1. Board of Directors**

(a) Board Composition

The composition of the Board should balance the following goals:

- (i) The size of the Board should facilitate substantive discussions of the whole Board in which each director can participate meaningfully;
- (ii) The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, diversity of opinion and contacts relevant to the business of the Corporation; and
- (iii) The majority of the Board should consist of directors whom the Board has determined have no material relationship with the Corporation or its principal shareholders and who are otherwise considered independent as contemplated by all applicable securities laws and regulations and the rules of each stock exchange on which the Corporation’s securities are listed.

(b) Selection of Directors

- (i) Nominations. The HR&CG Committee is responsible for recommending to the Board, from time to time, a list of potential directors meeting the Corporation’s general criteria for Board membership, as well as suitable nominees to fill specific vacancies occurring between annual meetings of shareholders. The Board is responsible for selecting nominees for election to membership on the Board for presentation at annual meetings of shareholders.

- (ii) Criteria. Based on the recommendations of the HR&CG Committee, the Board selects director nominees considering criteria which include the following:
- A. what competencies and skills the Board has determined that it, as a whole, should possess taking into account the particular needs of the Corporation and its operations;
  - B. what competencies and skills the Board considers each existing director to possess;
  - C. the competencies and skills each new nominee will bring to the Board;
  - D. whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board member; and
  - E. any applicable diversity requirements or guidelines pursuant to applicable stock exchange policy or law.
- (iii) Invitation. The invitation to join the Board is extended by the Board itself by way of the Chairman of the Board and any other director as determined by the Board.
- (v) Orientation and Continuing Education. Management, working with the Board, provides an orientation process for new directors, including background material on the Corporation, its business plan and risk profile, and meetings with senior management, so that, among other things, all new directors fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources expected from directors). Periodically, management prepares additional educational sessions for directors on matters relevant to the Corporation and its business plan and risk profile, and to the statutory and other regulatory regimes having jurisdiction over the Corporation, its business and operations, its continuous disclosure compliance and its corporate governance structure, so that, among other things, individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the Corporation's business remains current.

(c) **Terms Limits and Retirement**

Directors are elected or re-elected annually by shareholders. There is an informal expectation by the Board that each director will commit to serving their term at least until the next annual shareholders' meeting. The Board does not believe that it should establish a limit on the number of times a director may stand for election. While such a limit could help in creating an environment where fresh ideas and viewpoints are available to the Board, on the other hand, a director term limit can also disadvantage the Corporation through losing the beneficial contribution of directors who have developed, over a period of time, increasing knowledge of, and insight into, the Corporation and its operations and who could therefore provide increasing contributions to the Board as a whole.

**2. Board Committees**

(a) **Committees**

Certain of the Board's responsibilities may be delegated to Board committees. The Corporation shall at least have the committees required by all applicable securities laws and regulations and the rules of any stock exchange on which the Corporation's securities

are listed. The Board may form additional committees and each of these committees shall have written terms of reference (acting as a form of committee charter).

All directors, whether members of a committee or not, are invited to make suggestions to a committee chair for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. Each committee chair will give a periodic report of his or her committee's activities to the Board.

(b) Assignment of Committee Members

The HR&CG Committee is responsible, after consultation with the Chairman of the Board and giving consideration to the suggestions of individual Board members, for recommending to the Board the assignment of Board members to various committees, including evaluating and selecting the chair of each Board committee. Consideration should be given to rotating committee members periodically at about a five year interval, but the Board does not have a firm policy mandating rotation of committee assignments since there may be reasons to maintain an individual director's committee membership for a longer period.

(c) Committee Member Qualifications

Each of the committees of the Board is comprised of a minimum of three directors. The required qualifications for the members of each committee are set out in the respective committees' terms of reference. A director may serve on more than one committee and may also chair more than one committee.

### 3. Chairman of the Board

(a) General Functions

The Chairman of the Board shall be an independent director tasked with providing leadership to the Board with respect to its functions as described in these Guidelines and as otherwise may be appropriate. The Chairman of the Board shall act as chair of meetings of the Board and, for such purpose, shall determine the agenda for each meeting of the Board in consultation with the Chief Executive Officer ("CEO") and the Corporate Secretary.

The Chairman of the Board shall oversee the preparation for and management of, and he or she shall preside over, meetings of the shareholders of the Corporation or delegate to a director or senior officer he or she sees fit and who is designated by the Board to preside over a meeting.

(b) Additional Responsibilities

The duties and responsibilities for the position of Chairman of the Board shall also include the following:

- (i) establishing procedures to govern the Board's work including establishing the location and time of meetings of the Board and the procedures to be followed with respect to the conduct of meetings of the Board, including determining who may be present at such meetings in addition to the directors, the CEO and Corporate Secretary (if those officers are not directors);

- (ii) ensuring the Board has adequate resources, especially by way of full, timely and relevant information to support its decision-making requirements;
- (iii) working with the chairs of the Board committees to coordinate the schedule of meetings for such committees;
- (iv) ensuring that delegated committee functions are carried out and reported to the Board;
- (v) attending, as required, as a non-voting participant at all meetings of Board committees (unless the Chairman is a voting member of such committee);
- (vi) acting as a liaison between the Board and management through the CEO;
- (vii) meeting periodically with the CEO and the Corporate Secretary to review governance issues including the level of communication between management and the Board; and
- (viii) carrying out such other duties as may be reasonably requested by the Board as a whole, depending on its evolving needs and circumstances.

(c) Appointment

The Chairman shall be appointed by the Board for a term as determined by the Board. If no term is specified, he or she shall hold office until his earlier replacement or replacement.

(d) Resources

The Chairman of the Board shall have sufficient resources to discharge the responsibilities of the Chair. The Chairman of the Board shall be empowered to engage advisers as may be appropriate from time to time to advise the Chairman of the Board with respect to duties and responsibilities.

#### 4. Board Meeting Procedures

(a) Frequency of Meetings

The Board shall have a minimum of four regularly scheduled meetings per year. In addition, special meetings may be called from time to time as determined by the needs of the Corporation's business.

(b) Selection of Agenda Items for Board Meetings

The Chairman of the Board and the Corporate Secretary, in consultation with the CEO, establish the agendas for Board meetings. Any Board member, however, may recommend the inclusion of specific agenda items. The agenda is distributed in advance of a meeting to each director.

(c) Board Materials Distributed in Advance

Information, data and presentation materials that are important to the Board's understanding of the business are distributed in writing to the Board before the Board

meets. Management should provide materials that are as concise as possible while giving directors sufficient information, and time for review (subject to availability of time sensitive materials), to make informed decisions. The Board acknowledges that, under certain circumstances, written materials may be unavailable to directors in advance of a meeting, and that certain items to be discussed at Board meetings may be of an extremely sensitive nature such that the distribution of materials on these matters prior to the Board meeting would not be appropriate.

The Board encourages senior management to bring into Board meetings, from time to time, those employees or consultants of the Corporation who (i) can provide additional insight into the various operations of the Corporation due to such person's personal involvement and substantial knowledge in those areas under periodic Board review and assessment, and/or (ii) are persons with future potential whom senior management believes should be given exposure to the Board.

## 5. Core Responsibilities

The mandate of the Board, as prescribed by law, is to manage or supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation and its Shareholders. The core responsibilities of the Board include stewardship and oversight in the following areas:

### (a) Strategic Plan

The Board meets annually, at the end of the year, and may also have special meetings as required, to review the Corporation's overall business strategies and its annual business plan, including opportunities and risks of the business, as well as major strategic initiatives, to allow for the Board to evaluate whether the Corporation's proposed actions generally accord with the objectives of the Corporation.

### (b) Identification of Principal Risks

The Board, directly and through the Audit Committee as well as the other committees of the Board, reviews the principal risks of the Corporation's business and the appropriateness of the systems management puts in place to manage these risks. A current report on risk management is presented to and reviewed by the Audit Committee each quarter.

### (c) Communication Policy

The Disclosure and Confidentiality Policy established by the Board summarizes practices regarding disclosure of material information to investors, analysts and the media. The Board, in consultation with the HR&CG Committee, monitors and advises on compliance with this Policy.

The Board is also responsible for approving the content of the Corporation's major communications to shareholders and the investing public, including the interim and annual reports, the management proxy circular, the annual information form, and any prospectuses that may be issued and significant press releases.

## (d) Internal Control and Management Information Systems

The Board, acting through the Audit Committee, monitors the implementation of appropriate internal control systems. The Audit Committee reports, at least quarterly, to the Board and periodically includes in its reports updates on the status of the Corporation's internal control systems.

## (e) Shareholder Feedback

The Board monitors management in its ongoing development of appropriate investor relations programs and procedures to receive and respond to shareholder feedback.

## (f) Approach to Corporate Governance

The Board, acting through the HR&CG Committee, develops the Corporation's approach to corporate governance, and reviews the corporate governance principles and guidelines applicable to the Corporation.

## (g) Code of Business Conduct and Ethics

The Board, acting through the HR&CG Committee, monitors compliance with the Code of Business Conduct and Ethics of the Corporation. Any waivers from the Code of Business Conduct and Ethics that are granted for the benefit of the Corporation's directors or officers shall be granted by the Board or the HR&CG Committee only.

**6. Expectations of Directors**

## (a) Commitment and Attendance

All directors should make every effort to attend all meetings of the Board and meetings of committees of which they are members. Members may attend by telephone to mitigate conflicts.

## (b) Participation in Meetings

Each director should be sufficiently familiar with the business of the Corporation, including its financial statements and capital structure and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management makes appropriate personnel available to answer any questions a director may have about any aspect of the Corporation's business. Directors should also review the materials provided by management and advisors in advance of meetings of the Board and its committees and should arrive prepared to discuss the issues presented.

## (c) Other Directorships

The Corporation values the experience directors bring from other boards on which they serve but recognizes that those boards may also present demands on a director's time and availability and may also present conflicts or legal issues. Directors should advise the Chair of the HR&CG Committee before accepting any new membership on other boards of directors or any other significant commitment involving an affiliation with other related businesses or governmental units.

## (d) Contact with Management

All directors are invited to contact the CEO at any time to discuss any aspect of the

Corporation's business. Directors also have complete access to other members of management. The Board expects that there will be frequent opportunities for directors to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings. The Board 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.

The Board is responsible for determining the extent of authority to be delegated to management and the limitations to be placed on the exercise of that authority. The Board determines the nature and size of transactions that will require the prior approval of the Board and which other limitations should be placed on management's responsibility or authority.

(e) Confidentiality

The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her services.

(f) Independent Director Sessions

To encourage free and open discussion and communication among the independent directors of the Board, the independent directors should typically meet during or at the end of each Board meeting with no non-independent directors or members of management present.

(g) Evaluating Board Performance

The Board, acting through the HR&CG Committee, and each of the committees of the Board conduct in each case a self-evaluation at least annually to assess their respective levels of effectiveness. In addition, the HR&CG Committee periodically considers the mix of skills and experience that directors bring to the Board to assess, on an ongoing basis, whether the Board has the necessary tools to perform its oversight function effectively.

## 7. Leadership Development

(a) Evaluating and Approving Salary for the CEO

The Board, acting through the HR&CG Committee, evaluates the performance of the CEO in conjunction with the Corporation's goals and objectives and, acting through the HR&CG Committee, approves the compensation level of the CEO.

(b) Evaluating and Approving the Compensation of Management

The Board, acting through the HR&CG Committee, evaluates and approves proposals for overall compensation policies applicable to senior management of the Corporation.

(c) Management Succession

At least annually, the Board reviews a succession plan, developed by management and reviewed by the HR&CG Committee, addressing the policies and principles for selecting a successor to the CEO and other senior members of management, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO currently in senior management of the Corporation.

(d) Culture of Integrity

The Board, acting through the HR&CG Committee, to the extent feasible, evaluates the integrity of the CEO and other senior management and that the CEO and other senior management create a culture of integrity throughout the Corporation.

**8. Board Compensation**

The Board conducts a review, through the HR&CG Committee, at least once every two years, of the components and amount of Board compensation in relation to other similarly situated companies. Board compensation should be consistent with market practices but should not be set at a level that would call into question the Board's objectivity.

**9. Reliance on Advisors**

In executing their responsibilities, each of the members of the Board, and specifically the Chairman on behalf of the independent directors, is entitled to rely on the advice, reports and opinions of management, counsel, accountants, auditors and other expert advisors, such advice to be provided at the expense of the Corporation. The Board, as well as each of the committees of the Board, shall accordingly have the authority to retain and approve the reasonable fees and retention terms of such outside advisors engaged for this purpose.