

## BOARD OPERATING GUIDELINES

### I. INTRODUCTION

- A. The Vermilion Energy Inc. (the "Corporation") Board of Directors believes that the principal objective of the Corporation is to generate economic returns to its owners. The Board believes that good corporate governance practices provide an important framework for a timely response by the Corporation's Board to situations that may directly affect shareholder value.
- B. 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.

### II. BOARD OPERATING GUIDELINES

The terms of reference for the Board of Directors define 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.

#### A. The Board-Management Relationship

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

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### **B. Terms of Reference**

The Governance and Human Resources Committee annually reviews and proposes changes to the Board for approval of the terms of reference for the Board (Tab 2), the Chairman of the Board (Tab 3), Committees (Tabs 8 through 12), and the President and Chief Executive Officer (Tab 4).

### **C. The Chairman of the Board**

- i) The Chairman of the Board has the responsibility to ensure the Board operates effectively and has the ability to act independently of management when necessary.
- ii) The Board has considered this division of responsibilities and is confident that this is the appropriate structure for the Corporation at this time.

### **D. Board Independence**

The Board must have the capacity, independently of management, to fulfill the Board's responsibilities. Independence is based upon the absence of relationships and interests that could compromise the ability of a director to exercise judgment with a view to the best interests of the Corporation. The Corporation must be able to make an objective assessment of management and assess the merits of management initiatives. Therefore, the Corporation is committed to the following practices:

- i) the appointment of an independent Chairman of the Board;
- ii) the recruitment of strong, independent directors;
- iii) that at least two-thirds of directors be independent;
- iv) the Governance and Human Resources Committee leads the director selection/evaluation process and the CEO evaluation process;
- v) all committees are constituted with only independent directors; and
- vi) the independent directors meet in camera at the end of every Board meeting under the leadership of the Chairman of the Board.

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### **E. 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.

### **F. Business Risks**

The Board should have a continuing understanding of the principal risks associated with the business; and 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:

- i) on-going reports by the CEO;
- ii) the strategic planning process;
- iii) the Audit Committee; and
- iv) external reports as appropriate.

### **G. Succession Planning**

The Board considers succession planning and management development to be an ongoing process, including annual reports to the Board by the CEO. The CEO's views as to a successor in the event of unexpected incapacity should be discussed regularly with the Governance and Human Resources Committee.

### **H. Board Communications Policy**

- i) The Board approves the content of the Corporation's major communications to shareholders and the investing public, including the Quarterly and annual press releases, the Annual Report, the Management Proxy Circular, the Annual Information Form and any prospectuses or circulars that may be issued.
- ii) However, the Board believes that it is the function of Management to speak for the Corporation in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood

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that individual directors may, from time to time, be requested by Management to assist with such communications.

- iii) It is expected that when communications from stakeholders are made to individual directors, Management will be informed and consulted to determine any appropriate response to be made by Management.

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

The CEO's performance is assessed annually by the Governance and Human Resources Committee.

### **J. Board Size and Composition**

- i) The Board is committed to reviewing its size regularly and currently considers seven directors to be an appropriate number for the size of the Corporation and sufficient to provide an appropriate mix of backgrounds and skills for the stewardship of the Corporation. In general, the Board believes smaller boards are more cohesive and work more effectively than larger Boards.
- ii) The Board is committed to maintaining and planning for a majority of independent directors.
- iii) Any director who is independent and whose circumstances change such that he or she might be considered to be no longer independent shall promptly advise the Board of the change in circumstances.
- iv) At its meeting to approve the Proxy Statement & Information Circular for the Annual General Meeting of the shareholders of the Corporation, the Board shall consider and determine whether or not a director or nominee to be a director is independent.

### **K. Criteria for Board Membership**

- i) The Governance and Human Resources Committee will annually review the general and specific criteria applicable to candidates to be considered for nomination to the Board.

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- ii) 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 the Corporation.
- iii) 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.

### **L. Selection of New Directors**

- i) The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders.
- ii) The Governance and Human Resources Committee has the responsibility to:
  - a) lead the Board in assessing what competencies and skills are necessary for the Board as a whole to possess;
  - b) assess the competencies and skills of the existing directors; and
  - c) assess the competencies and skills of any new nominee to the Board.
- iii) All directors are encouraged to identify potential candidates.
- iv) The CEO provides additional direct input to the process.
- v) An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the CEO.

### **M. Directors Who Change Their Present Job Responsibilities**

- i) A director, including any inside non-independent director serving on the Board, who has a major change in principal occupation shall offer his or her resignation to the Board for consideration. It is not intended that directors who retire or whose professional positions change should necessarily leave the Board.

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- ii) The sense of the Board is that there should be an opportunity for the Board to review, through the Governance and Human Resources Committee, the continued appropriateness of Board membership under such circumstances.

### **N. Director Retirement Age**

After age 70, a director may not stand for re-election unless the Board in its discretion determines otherwise.

### **O. Board Meetings and Agendas**

- i) The Board meets a minimum of four times per year, usually every quarter.
- ii) The CEO, in consultation with the Corporate Secretary and the Chairman of the Board, develops the agenda for each Board meeting.
- iii) Under normal circumstances, the agenda and the material will be distributed to directors not less than four business days before the meeting. All directors are free to suggest additions to the agenda.

### **P. Meetings of Independent Directors**

- i) At the end of each Board meeting, the independent directors shall meet briefly in camera under the leadership of the Chairman of the Board.
- ii) The purpose of the meeting will be to provide an opportunity for the independent directors to raise issues that they did not wish to discuss with management present.
- iii) The Chairman of the Board will meet with the CEO to discuss the results of the in camera meeting.

### **Q. Board Information**

- i) Material distributed to the directors in advance of Board meetings shall be concise, yet complete, and prepared in a way that focuses attention on critical issues to be considered.

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- ii) Reports may be presented during Board meetings by directors, management or staff, or by invited outside advisors. Presentations on specific subjects at Board meetings shall briefly summarize the material sent to directors, so as to maximize the time available for discussion on questions regarding the material.
- iii) 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.

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

- i) The Board appreciates the value of having certain members of Management attend each Board meeting to provide information and opinion to assist the directors in their deliberations.
- ii) The CEO, in consultation with the Chairman of the Board will determine who shall attend Board meetings and for which agenda items.

### **S. Committees**

- i) Committees analyze in depth policies and strategies developed by management, which are consistent with their terms of reference. 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.
- ii) Each committee operates according to a Board approved written mandate outlining its duties and responsibilities. Guidelines regarding the operation of Committees are outlined in Tab 8 of the Board Manual.
- iii) 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.
- iv) The current committee structure includes:
  - a) Audit Committee;

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- b) Governance and Human Resources Committee;
- c) Environment, Health and Safety Committee; and
- d) Independent Reserves Committee.
- v) 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.
- vi) The Governance and Human Resources Committee is responsible to the Board for proposing the leadership and membership of each committee on an annual basis. In preparing its recommendations, the Governance and Human Resources Committee will consult with the CEO, and take into account the preferences of the individual directors.

### **T. Board Contact with Senior management**

- i) All of the directors have open access to the Corporation's Management. It is expected that directors will exercise judgment to ensure that their contacts will not distract from the Corporation's business operations.
- ii) Written communications from directors to members of Management will be copied to the CEO.
- iii) 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.

### **U. Director Orientation and Education**

New directors will be provided with an orientation and education program which will include written information about the duties and obligations of directors, the business and operations of the Corporation, documents from recent Board meetings and opportunities for meetings and discussion with 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.

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The Board will provide continuing education opportunities for all directors so that individual directors 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.

Directors will be provided with opportunities to visit and inspect the Corporation's field operations.

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

- i) The Governance and Human Resources Committee is responsible for developing and implementing an annual assessment of the performance of the Board, its committees and individual directors, following the process outlined in Tab 14.
- ii) The objective of this review will be to contribute to a process of continuous improvement in the Board's execution of its responsibilities.
- iii) 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 the Corporation in such a way as to add shareholder value.

### **W. Director Compensation**

The Governance and Human Resources Committee will review director compensation annually. The Committee will make recommendations to the Board for consideration when it believes changes in compensation are warranted.

### **X. Limits to Management Authority**

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

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**Y. Outside Advisors for Individual Directors**

Occasionally, 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, obtain the authorization of the Chairman of the Board, in consultation with the CEO.

**Z. Board Guideline Review**

The Governance and Human Resources Committee shall review these Guidelines periodically and any recommended changes will be submitted to the Board for approval.

## APPENDIX: MEANING OF INDEPENDENCE

A director is deemed to be independent if he meets the requirements of an independent audit committee member as outlined in Section 1.4 of NI 52-110 set out below. An audit committee member is independent if he meets the requirements of an independent audit committee member as outlined in Sections 1.4 and 1.5 of NI 52-110 set out below.

### 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 which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment.
- 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 years, an employee or executive officer of the issuer;
  - b. an individual whose immediate family member is, or has been within the last three 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 years a partner or employee of that firm and personally worked on the issuer's audit within that time;

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- e. an individual who, or whose immediate family member, is or has been within the last three 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 12 month period within the last three 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, and
    - b. the 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
    - b. acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

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8. For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

Section 1.5 Additional Independence Requirements

1. Despite any determination made under section 1.4, an individual who
  - a. accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
  - b. is an affiliated entity of the issuer or any of its subsidiary entities, is considered to have a material relationship with the issuer.
2. For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
  - a. an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
  - b. an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
3. For the purposes of subsection (1), compensatory fees do not include the 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.