

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.

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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 "President and CEO"), who is charged with the day-to-day leadership and management of the Corporation.
- ii) The President and CEO's prime responsibility is to lead the Corporation. The President and 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 President and 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

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the President and CEO subject to its duty to act in the best interests of the Corporation.

B. Terms of Reference

The Governance and Human Resources Committee annually reviews and proposes changes to the Board for approval of Terms of Reference for the Board, Terms of Reference for Chairman of the Board, Terms of Reference for Lead Director, Guidelines for Committees, Terms of Reference for the Audit Committee, Terms of Reference for Governance and Human Resources Committee, Terms of Reference for the Health, Safety & Environment Committee, Terms of Reference for the Independent Reserves Committee, and Terms of Reference for the Chief Executive Officer.

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. Lead Director

- i) The Lead Director works closely with and in an advisory capacity to the Chairman of the Board. The Lead Director's primary focus is to provide the Board with an independent perspective pertaining to its oversight activities. The Lead Director aids and assists the Chairman in managing the affairs of the Board, including being satisfied that the Board is organized properly, functions effectively and operates independently of management.

E. 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

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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, or if the Chairman is not independent, an independent Lead Director;
- 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 President and CEO evaluation process;
- v) all committees are constituted with only independent directors, except as the Guidelines for Committees may otherwise allow; and
- vi) the independent directors meet in camera at the end of every Board meeting under the leadership of the Chairman of the Board, and if the Chairman is not independent the independent directors will also meet in camera under the leadership of the Lead Director without the Chairman present.

F. 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.

G. 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 President and CEO;

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- ii) the strategic planning process;
- iii) the Audit Committee; and
- iv) external reports as appropriate.

H. Succession Planning

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

I. 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 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.

J. Evaluation of the Chief Executive Officer

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

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K. Board Size and Composition

- i) The Board is committed to reviewing its size regularly and currently considers up to twelve 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 two thirds of its directors to be independent.
- 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) In connection with the approval of the Corporation's annual filing documents, the Board shall consider and determine whether or not a director or nominee to be a director is independent.

L. 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.
- 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.

M. Selection of New Directors

- i) The Board, in consultation with the Governance and Human Resources Committee, is responsible for identifying suitable

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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 President and 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 President and CEO.

N. 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.
- 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.

O. Director Retirement Age

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

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P. Board Meetings and Agendas

- i) The Board meets a minimum of four times per year, usually every quarter.
- ii) The President and 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.
- iv) At a meeting of directors, if there is a deadlock among the directors relating to a matter of business, then the matter is deemed to be defeated.

Q. 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, and if the Chairman is not independent, the independent directors will also meet in camera under the leadership of the Lead Director without the Chairman present.
- ii) The purpose of the meetings will be to provide an opportunity for the independent directors to raise issues that they did not wish to discuss with management or the Chairman, as applicable, present.
- iii) The Chairman of the Board and the Lead Director, as applicable, will separately meet with the President and CEO to discuss the results of the respective in camera meetings.

R. 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.
- ii) Reports may be presented during Board meetings by directors, management or staff, or by invited outside advisors. Presentations

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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.

S. 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 President and CEO, in consultation with the Chairman of the Board and the Lead Director, as applicable, will determine who shall attend Board meetings and for which agenda items.

T. 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 the Guidelines for Committees part 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 President and CEO, and take into account the preferences of the individual directors.

U. 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 President and 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.

V. 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

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new director will be tailored to that director's individual needs and areas of interest.

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.

W. 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 the Board Evaluation Process part of the Board Manual.
- 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.

X. 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.

Y. 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

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approved budgets but otherwise must not be exceeded without Board approval.

Z. 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 President and CEO.

AA. 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.

III. PARAMOUNTCY

In the event of conflict between this guideline and any terms of reference, the terms of reference shall be determinative. In the event of conflict between this guideline and the Guidelines for Committees, this guideline shall be determinative.

APPENDIX: MEANING OF INDEPENDENCE

The Corporate Governance Practices contained in National Policy 58-201- *Corporate Governance Guidelines* (“**NP 58-201**”) provide in Section 3.1 that “the board should have a majority of independent directors”. Section 2.1 of NP 58-201 states that “for the purposes of this Policy, a director is independent if he or she would be independent for the purposes of National Instrument 58-101 *Disclosure of Corporate Governance Practices*” (“**NI 58-101**”). NI 58-101 provides in Subsection 1.2(1) that a director is independent if he or she would be independent within the meaning of Section 1.4 of NI 52-110 *Audit Committees* (“**NI 52-110**”).

These Categorical Standards meet or exceed the director independence requirements set out in Section 1.4 of NI 52-110 and Section 303A.02 of the Listed Company Manual of the New York Stock Exchange (“**NYSE**”). In addition, these Categorical Standards meet or exceed the independence requirements for: (i) Audit Committee members set out in Section 1.5 of NI 52-110 and Section 303A.06 of the NYSE Listed Company Manual, and (ii) Governance and Human Resources Committee (“**G&HR Committee**”) members as set out in Section 303A.02(a)(ii) of the NYSE Listed Company Manual.

Definitions:

An “**Affiliate**” of a specified person (which includes a corporate entity or partnership) is a person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the specified person.¹

“**Immediate Family Member**” includes a person’s spouse, parents, children, step-children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees who are employees of the person or the person’s Immediate Family Member) who shares the person’s home.

“**Executive Officer**” means a chair, vice chair, president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice president in charge of a principal business unit, division or function (such as sales, administration or finance) of an entity, and any other officer or person who performs a policy-making function for such an entity. Officers of subsidiaries or parents of an entity will be deemed to be officers of the entity if they perform policy-making functions for the entity.

¹ While a facts-based analysis is required to determine whether a director is an Affiliate, a person who is a director or employee, but not also an Executive Officer, general partner, or managing member, of a shareholder owning 10% or more of any class of voting securities of Vermilion is independent for both board and Audit Committee purposes, absent any other indications of a material relationship with Vermilion.

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Meaning of Independence

1. To be considered independent, the board must affirmatively determine that a director does not have any direct or indirect material relationship with Vermilion. For purposes of NI 52-110, Section 1.4, a material relationship is a relationship which could, in the view of Vermilion's board, be reasonably expected to interfere with the exercise of a member's independent judgment. Under Section 303A.02 of the NYSE Listed Company Manual, boards making "independence" determinations must broadly consider all relevant facts and circumstances. Indirect relationships include those a director may have as a partner, shareholder or officer of an organization that has a relationship with Vermilion. In particular, when assessing the materiality of a director's relationship with Vermilion, the board should consider the issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others.
2. In addition, a director will not be independent if:
 - i. the director is, or has been within the last three years, an employee or Executive Officer of Vermilion, or an Immediate Family Member is, or has been within the last three years, an Executive Officer of Vermilion other than a chair or vice chair of the board of directors or any committee of the board who acts or acted as such on a part-time basis; or
 - ii. (a) the director or an Immediate Family Member is a current partner of a firm that is Vermilion's internal or external auditor; (b) the director is a current employee of such a firm; (c) the director has an Immediate Family Member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) the director or Immediate Family Member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on Vermilion's audit within that time; or
 - iii. the director or an Immediate Family Member is, or has been within the last three years, employed as an Executive Officer of another entity where any of Vermilion's present Executive Officers at the same time serves or served on that company's compensation committee (or its equivalent); or
 - iv. the director or an Immediate Family Member, received during any twelve-month period within the last three years more than Cdn. \$75,000 or U.S.

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\$120,000, whichever is less, in direct compensation from Vermilion, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); or

- v. the director is a current employee or an Immediate Family Member is a current Executive Officer of another company that has made payments to, or received payments from, Vermilion for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of U.S. \$1,000,000 or 2% of such other company's consolidated gross revenues.

(Contributions to tax exempt organizations shall not be considered "payments", provided however that Vermilion shall annually disclose in its management proxy circular, any such contributions made by Vermilion to any tax exempt organization in which any independent director of Vermilion serves as an Executive Officer, director or trustee if, within the preceding three years, contributions in any single fiscal year from Vermilion to the organization exceeded the greater of U.S. \$1,000,000 or 2% of the organization's consolidated gross revenues)

Audit Committee Members

In addition to satisfying the specific requirements set out above, directors who are members of Vermilion's Audit Committee will not be considered independent for purposes of membership on the Audit Committee if:

- the Audit Committee member is an Affiliate of Vermilion or any subsidiary of Vermilion, apart from his or her capacity as a member of the board or of any other committee of the board;
- the Audit Committee member or his or her spouse, minor child or step-child, or child or step-child sharing a home with the Audit Committee member accepts directly or indirectly any consulting, advisory or other compensatory fee from Vermilion or any subsidiary of Vermilion, apart from in his or her capacity as a member of the board or of any other committee of the board, and other fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service (provided such compensation is not contingent in any way on continued service); or

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- the Audit Committee member is a partner, member, managing director, Executive Officer or person occupying a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing the services) of a firm which provides consulting, legal, accounting, investment banking or financial advisory services to Vermilion or any subsidiary of Vermilion for fees, regardless of whether the Audit Committee member personally provided the services for which the fees are paid.

G&HR Committee Members

In addition to the criteria set out above under the heading "Meaning of Independence", in affirmatively determining the independence of any directors who are members of Vermilion's G&HR Committee the board shall consider all factors relevant to determining whether a director has a relationship with Vermilion that materially affects that director's independence in connection with the duties as a member of the G&HR Committee, including, but not limited to, whether:

- the G&HR Committee member is an Affiliate of Vermilion or any subsidiary of Vermilion or an Affiliate of a subsidiary of Vermilion, apart from his or her capacity as a member of the board or of any other committee of the board;
- the G&HR Committee member or his or her spouse, minor child or step-child, or child or step-child sharing a home with the G&HR Committee member accepts directly or indirectly any consulting, advisory or other compensatory fee from Vermilion or any subsidiary of Vermilion, apart from in his or her capacity as a member of the board or of any other committee of the board, and other fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service (provided such compensation is not contingent in any way on continued service); or
- the G&HR Committee member is a partner, member, managing director, Executive Officer or person occupying a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing the services) of a firm which provides consulting, legal, accounting, investment banking or financial advisory services to Vermilion or any subsidiary of Vermilion for fees, regardless of whether the G&HR Committee member personally provided the services for which the fees are paid.