

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.<sup>1</sup>

“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.

### **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.

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<sup>1</sup> 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.

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.

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. \$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
- 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.