

ADVANTAGE OIL & GAS LTD.
(the "Corporation")

COMPENSATION COMMITTEE

Terms of Reference

1. **Establishment of Compensation Committee:** The board of directors hereby establish a committee to be called the Compensation Committee (the "Committee").
2. **Membership:** The Committee shall be composed of three members or such greater number as the board of directors may from time to time determine, all of whom shall be "independent" as defined in National Instrument 52-110 – "Audit Committees". Members shall be appointed annually from among the members of the board of directors.
3. **Mandate:** The Committee shall, in addition to any other duties and responsibilities specifically delegated to it by the board of directors, generally assume responsibility for developing the approach of the Corporation to matters concerning compensation and, from time to time, shall review and make recommendations to the board of directors as to such matters. Specifically, the Committee will have the authority and responsibility for:
 - (a) reviewing and reporting to the board of directors concerning the overall compensation program and philosophy;
 - (b) reviewing and recommending to the board of directors the compensation program, remuneration levels and incentive plans and any changes therein for senior management, including the chief executive officer;
 - (c) reviewing and approving corporate goals and objectives relevant to Chief Executive Officer compensation, evaluate the Chief Executive Officer's performance in light of those goals and objectives, and either, as a Committee or together with the independent directors (as determined by the board) determine and approve the Chief Executive Officer's compensation based on this evaluation;
 - (d) making recommendations to the board of directors with respect to compensation of executive officers other than the Chief Executive Officer and incentive compensation and equity-based plans that are subject to board approval;
 - (e) reviewing the adequacy and form of compensation to the directors ensuring it realistically reflects their responsibilities and risk; make recommendations to the board of directors;
 - (f) reviewing annually and recommending for approval to the board of directors the executive compensation disclosure and "Statement of Executive Compensation" disclosure of the Corporation in its information circular;
 - (g) reviewing annually the Committee's Terms of Reference;
 - (h) administering any incentive plans implemented by the Corporation, in accordance with their respective terms; and

- (i) producing a report on executive officer compensation on an annual basis.

4. Administrative Matters: The following general provisions shall have application to the Committee:

- (a) Two members of the Committee shall constitute a quorum. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. Meetings may occur via telephone or teleconference.
- (b) Any members of the Committee may be removed or replaced at any time by the board of directors and shall cease to be a member of the Committee as soon as such member ceases to be a director. The board of directors may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Committee shall hold such office until the close of the next annual meeting of shareholders following appointment as a member of the Committee.
- (c) The Committee may invite such officers, directors and employees of the Corporation as it may see fit from time to time to attend at meetings of the Committee and assist therein in the discussion and consideration of the matters being considered by the Committee.
- (d) The time at which and place where the meetings of the Committee shall be held and the calling of meetings and the procedure in all respects at such meetings shall be determined by the Committee, unless otherwise determined by the by-laws of the Corporation or by resolution of the board of directors.
- (e) Unless otherwise designated by the board of directors, the members of the Committee shall elect a Chair from among the members and the Chair shall preside at all meetings of the Committee. The Chair of the Committee shall have a second and deciding vote in the event of a tie. In the absence of the Chair, the members of the Committee shall appoint one of their members to act as Chair. Notwithstanding the foregoing, in all circumstances the Chair must be an outside director, unrelated to the Corporation.
- (f) Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the board of directors.