



TERMS OF REFERENCE
COMPENSATION COMMITTEE

OBJECTIVES

The Compensation Committee (the "**Committee**") is appointed by the board of directors (the "**Board**") of Pengrowth Energy Corporation (the "**Corporation**") to assist the Board in fulfilling its oversight responsibilities with respect to the executive compensation and human resources policies of the Corporation. The Corporation, together with its subsidiaries and affiliates are collectively referred to herein as "**Pengrowth**".

The Committee acknowledges the corporate governance guidelines issued by the Canadian Securities Administrators in National Policy 58-201 *Corporate Governance Guidelines* ("**NP 58-201**"), the guidelines of the New York Stock Exchange and other regulatory provisions as they pertain to compensation matters. The objective of the Committee is to monitor the activities of the Corporation with respect to recruiting, retaining and motivating employees and ensuring conformity between compensation and other corporate objectives.

The Committee will continuously review and modify its terms of reference with regard to, and to reflect changes in, the business environment, industry standards, matters of corporate governance, additional standards which the Committee believes may be applicable to Pengrowth's business, the location of Pengrowth's business and its shareholders and the application of laws and policies.

COMPOSITION

The Committee shall consist of not less than three and not more than six directors, all of whom shall be "independent" as that term is defined in National Instrument 58-101 *Disclosure of Corporate Governance Practices* (as set out in Schedule "A" hereto) and Section 303A.02 of the New York Stock Exchange Listed Company Manual (as set out in Schedule "B" hereto).

The members of the Committee shall be appointed by the Board as members of the Committee and shall continue as such until their successors are appointed or until they cease to be directors of the Corporation. At any time, the Board may fill any vacancy in the membership of the Committee.

The members of the Committee shall appoint a chair (the "**Chair**") from among their number. The Corporate Secretary of the Corporation, or an alternative secretary designated by the Committee, shall act as Secretary of the Committee.

MEETINGS AND MINUTES

The Committee shall meet as often as necessary. Matters to be considered at the meetings may include:

- matters related to compensation in the annual budget, excluding the compensation of directors, which is addressed by the Corporate Governance Committee;
- matters related to annual bonus and advance bonus payments;

- matters relating to incentive payments and programs, including security-based compensation plans;
- compensation disclosure in the Corporation's management information circular and proxy statement; and
- other matters as appropriate.

A meeting may be called by any member of the Committee, the Chairman of the Board or the President and Chief Executive Officer ("CEO") of the Corporation. A notice of time and place of every meeting of the Committee shall be given in writing to each member of the Committee at least two business days prior to the time fixed for such meeting, unless notice of a meeting is waived by all members entitled to attend. Attendance of a member of the Committee at a meeting shall constitute waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

A quorum for meetings of the Committee shall require a majority of its members present in person or by telephone. If the Chair is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting will be chosen to preside by a majority of the members of the Committee present at that meeting.

The President and CEO of the Corporation shall be available to advise the Committee, shall receive notice of meetings and may attend meetings of the Committee at the invitation of the Chair. Other management representatives shall be invited to attend as necessary. Notwithstanding the foregoing, the Chair shall hold *in camera* sessions, without management present, at every meeting of the Committee.

Decisions of the Committee shall be determined by a majority of the votes cast.

The Committee shall appoint a member of the Committee, the Corporate Secretary or another officer of Pengrowth to act as secretary at each meeting for the purpose of recording the minutes of each meeting.

The Committee shall provide the Board with a summary of all meetings together with a copy of the minutes from such meetings. Where minutes have not yet been prepared, the Chair shall provide the Board with oral reports on the activities of the Committee. All information reviewed and discussed by the Committee at any meeting shall be referred to in the minutes and made available for examination by the Board upon request to the Chair.

SCOPE, DUTIES AND RESPONSIBILITIES

MANDATORY DUTIES

Pursuant to NP 58-201, the Committee is required to:

- act in an advisory capacity to the Board;
- review and recommend for approval to the Board the annual corporate goals and objectives for the CEO, evaluate the CEO's performance in light of those annual corporate goals and objectives and review and recommend for approval to the Board the CEO's annual compensation based upon this evaluation and advice received from the external consultant to the Committee.
- make recommendations to the Board with respect to non-CEO officer compensation, incentive-compensation plans and equity-based plans;
- in conjunction with the Corporate Governance and Nominating Committee, make recommendations to the Board with respect to director compensation;

- review and recommend to the Board that it approve, prior to public disclosure, all public disclosure on executive compensation and produce a report on executive officer compensation for inclusion in the Corporation's annual information circular and proxy statement;
- oversee the evaluation of, and report to the Board on, the performance of the management of the Corporation; and
- conduct an annual performance evaluation of the Committee.

DISCRETIONARY DUTIES

The Committee's responsibilities may, at the Board's discretion, also include the following (provided that some of the following functions, such as the function of determining compensation, might be assumed from time to time by other committees of the Board as Board priorities and resources permit):

- review and recommend to the Board that it approve the Corporation's corporate scorecard;
- review the Corporation's key human resources policies;
- review and recommend to the Board any significant changes to the overall compensation program and the Corporation's objectives related to executive compensation; or
- perform any other activities consistent with these Terms of Reference, the Corporation's By-Laws and applicable law as the Committee or the Board deems necessary or appropriate.

COMMUNICATION, AUTHORITY TO ENGAGE ADVISORS AND EXPENSES

The Committee shall have direct access to such officers and employees of Pengrowth and to any other consultants or advisors, and to such information respecting Pengrowth it considers necessary to perform its duties and responsibilities.

Any employee may bring before the Committee, on a confidential basis, any concerns relating to matters over which the Committee has oversight responsibilities.

The Committee has the authority to engage independent legal counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any such counsel and other advisors, such engagement to be at the Corporation's expense. The Corporation shall be responsible for all other expenses of the Committee that are deemed necessary or appropriate by the Committee in order to carry out its duties.

Adopted by the Board of the Corporation on November 4, 2011.

Schedule "A"

National Instrument 58-101

Standard of "Independence"

1. A committee member is independent if he or she has no direct or indirect material relationship with Pengrowth.
2. For the purposes of paragraph 1, a "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment.
3. Despite paragraph 2, the following individuals are considered to have a material relationship with Pengrowth:
 - (a) an individual who is, or has been within the last three years, an employee or executive officer of Pengrowth;
 - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of Pengrowth;
 - (c) an individual who:
 - (i) is a partner of a firm that is Pengrowth'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 Pengrowth'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 Pengrowth'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 Pengrowth's audit within that time;
 - (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 Pengrowth'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 Pengrowth received, more than \$75,000 in direct compensation from Pengrowth during any 12 month period within the last three years.
4. For the purposes of paragraphs 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 compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
5. For the purposes of paragraph 3(f), direct compensation does not include

- (a) remuneration for acting as a member of the Board or of any committee of the Board; and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Pengrowth if the compensation is not contingent in any way on continued service.
6. Despite paragraph 3, an individual will not be considered to have a material relationship with Pengrowth solely because the individual or his or her immediate family member:
- (a) has previously acted as an interim chief executive officer of Pengrowth, or
 - (b) acts, or has previously acted, as a chair or vice-chair of the Board or of any committee of the Board on a part-time basis.

Schedule "B"

Excerpts from Section 303A.00 of the New York Stock Exchange Listed Company Manual

303A.02 "Independence" Tests

The NYSE Listed Company Manual contains the following provisions regarding the independence requirements of members of the compensation committee:

- a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must identify which directors are independent and disclose the basis for that determination.
- b) In addition, a director is not independent if:
 - i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.
 - ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the listed company, 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).
 - iii) (A) The director is a current partner or employee of a firm that is the company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time.
 - iv) The director or an immediate family member is, or has been with the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.
 - v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

General Commentary to Section 303A.02(b):

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When applying the look-back provisions in Section 303A.02(b), listed companies need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

For the purposes of Section 303A, the term "executive officer" has the same meaning specified for the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934 as follows:

The term "officer" shall mean an issuer's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the issuer in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the issuer. Officers of the issuer's parent(s) or subsidiaries shall be deemed officers of the issuer if they perform such policy-making functions for the issuer. In addition, when the issuer is a limited partnership, officers or employees of the general partner(s) who perform policy-making functions for the limited partnership are deemed officers of the limited partnership.