



## NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

An annual general meeting (the "Meeting") of the shareholders of Paramount Resources Ltd. (the "Corporation" or "Paramount") will be held in the Conference Center at Centrium Place, 332-6th Avenue S.W., Calgary, Alberta, on Wednesday, May 18, 2011, at 10:30 a.m. (Calgary time). The purpose of the Meeting is to:

1. receive the audited consolidated financial statements of the Corporation for the fiscal year ended December 31, 2010, and the independent auditors' report thereon;
2. elect the directors of the Corporation;
3. appoint the auditors of the Corporation; and
4. transact any other business as may properly come before the Meeting and any adjournment(s) of the Meeting.

By order of the Board of Directors

"E. Mitchell Shier" (signed)  
Corporate Secretary

Calgary, Alberta, Canada  
March 16, 2011

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## GENERAL INFORMATION

### Annual Meeting Date

Paramount Resources Ltd. (the "Corporation" or "Paramount") will be holding an annual general meeting (the "Meeting") of its holders ("Shareholders") of Class A Common Shares ("Common Shares") on May 18, 2011 at 10:30 a.m. (Calgary time) at the Conference Center at Centrium Place, 332-6th Avenue S.W., Calgary, Alberta.

### Date of Information

Information in this circular is given as of March 16, 2011, unless otherwise noted.

### Voting Shares and Principal Holders

On March 16, 2011, Paramount had 75,388,924 issued and outstanding Common Shares. Paramount's Common Shares trade under the symbol POU on the Toronto Stock Exchange ("TSX").

As of March 16, 2011, to the knowledge of Paramount's directors and executive officers, approximately 36,714,297 (48.7%) of the Common Shares were beneficially owned or controlled, directly or indirectly, by Mr. Clayton Riddell, Paramount's Chairman and Chief Executive Officer ("CEO") and approximately 8,511,700 (11.3%) of the Common Shares were beneficially owned or controlled, directly or indirectly, by GMT Capital Corp.

### Additional Information

Additional information concerning Paramount, including Paramount's consolidated interim and annual financial statements and management's discussion and analysis thereon, as well as Paramount's latest annual information form dated March 3, 2011, is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which may be accessed at [www.sedar.com](http://www.sedar.com). This information may also be accessed on our website at [www.paramountres.com](http://www.paramountres.com). Financial information is provided in Paramount's comparative annual financial statements and management's discussion and analysis thereon for the most recently completed financial year.

Paramount will provide, without charge to a securityholder, a copy of Paramount's annual information form dated March 3, 2011, Paramount's 2010 annual report containing the consolidated financial statements for fiscal 2010 together with the independent auditors' report thereon and management's discussion and analysis, interim financial statements for subsequent periods, and this information circular upon request to the Corporate Secretary at the address below.

### Contact Information

Head Office: 4700 Bankers Hall West  
888 - 3rd Street SW  
Calgary, Alberta, Canada  
T2P 5C5

Attention: Corporate Secretary

Telephone: 403-290-3600  
Facsimile: 403-262-7994  
Website: [www.paramountres.com](http://www.paramountres.com)

## VOTING INFORMATION

### General Voting Information

#### **Proxy Solicitation**

Proxies are being solicited by management of Paramount to be used at the Meeting, or any adjournment(s) of the Meeting. Solicitations will be primarily by mail but may also be by newspaper publication, in person or by telephone, fax, electronic transmission or communication by directors, officers, employees or agents of Paramount. All costs of the solicitation will be paid by Paramount.

#### **Voting**

If you hold Common Shares at the close of business on April 1, 2011, you are entitled to receive notice of, and to attend and vote, at the Meeting. You will be entitled to vote your Common Shares at the Meeting except to the extent that:

- a. you have transferred the ownership of any such Common Shares after the record date; and
- b. the transferee of those Common Shares produces properly endorsed share certificates or otherwise establishes that they own the Common Shares and demands not later than ten days before the Meeting that their name be included on the list, in which case the transferee is entitled to vote those Common Shares at the Meeting.

When any Common Shares are held jointly by two or more persons, any one of such persons may vote such Common Shares or both of them shall vote such Common Shares as one at the Meeting, whether in person or by proxy.

Each Common Share is entitled to one vote. A simple majority of votes (50% plus one vote) is required to approve all of the known matters to come before the Meeting.

#### **Quorum**

A quorum for the transaction of business is two individuals present in person, each being a Shareholder or proxyholder entitled to vote at the Meeting who together own or represent at least 5% of the votes entitled to be cast at the Meeting.

#### **Proxy Voting**

You can indicate on your proxy how you want your proxyholder to vote your Common Shares or you can let your proxyholder decide for you. If you specify how you want your Common Shares voted, then your proxyholder must vote in accordance with your instructions. In the absence of specific instructions, your proxyholder can vote your Common Shares as he or she sees fit. **If you appoint Mr. Clayton H. Riddell of Calgary, Alberta, or failing him, Mr. James H.T. Riddell also of Calgary, Alberta and do not specify how you want your Common Shares to be voted, your Common Shares will be voted as follows:**

Election of management nominees as directors	FOR
Appointment of auditors	FOR

#### **Amendments or Other Matters**

At the time of printing this circular, management does not know of any amendment, variation or matter to come before the Meeting other than the matters referred to above. If other matters do properly come before the Meeting, your proxyholder will vote on them using his or her best judgment.

### Registered Shareholder Voting

If your Common Shares are held in your name and you have a share certificate, then you are a registered Shareholder. You may vote in person at the Meeting, by proxy, by telephone, or by internet. For further instructions, see the enclosed proxy.

#### **Voting in Person**

If you plan to attend the Meeting and vote your Common Shares in person, do not complete the enclosed proxy form. When you arrive at the Meeting, register with Paramount's transfer agent, Computershare Trust Company of Canada, and your vote at the Meeting will be counted.

### ***Voting by Proxy***

You may also vote your Common Shares by proxy. If you choose to vote by proxy, you may use the enclosed proxy or complete another proper instrument of proxy. The persons named in the enclosed proxy are directors of Paramount. **You may appoint some other person to be your proxyholder at the Meeting by inserting that person's name in the blank space provided in the enclosed form of proxy or by completing another proper instrument of proxy.** In either case, you must deliver the completed and executed proxy to either:

- a. the registered office of the Corporation at Suite 4700, 888 – 3rd Street S.W., Calgary, Alberta, T2P 5C5, 403-262-7994 (facsimile) Attention: Corporate Secretary; or
- b. the Corporation's transfer agent, Computershare Trust Company of Canada, Ninth Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, Attention: Proxy Department

no later than 10:30 a.m. (Calgary time) on May 16, 2011 or, if the Meeting is adjourned, at least 48 hours (excluding weekends and holidays) before the time set for the Meeting to resume. If you have voted by proxy, you may not vote in person at the Meeting unless you revoke your proxy.

### ***Revoking your Proxy***

You may revoke your proxy any time before it is acted upon by:

- a. signing a new proxy bearing a later date and delivering same to Paramount's registered office or to Paramount's transfer agent, Computershare Trust Company of Canada, at either of the above addresses at least 48 hours (excluding weekends and holidays) prior to the commencement of the Meeting or any adjournment of the Meeting, or
- b. depositing written notice of revocation at Paramount's registered office or to Paramount's transfer agent, Computershare Trust Company of Canada, at either of the above addresses at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof, or delivering it to the Chairman of the Meeting at the Meeting, or
- c. attending and voting at the Meeting.

### **Beneficial Shareholder Voting**

If your Common Shares are held in the name of a nominee (deposited with a bank, securities broker or other institution) then you are a beneficial Shareholder. You may vote in person at the Meeting as proxy for the registered holder of your Common Shares or by providing voting instructions to the registered holder of your Common Shares via mail, telephone or internet. For further instructions, see the enclosed voting instruction form.

### ***Voting in Person***

If you plan to attend the Meeting and vote your Common Shares in person as proxyholder for the registered holder of your Common Shares, insert your name on the voting instruction form and follow the applicable instructions on the voting instruction form. When you arrive at the Meeting, register with Paramount's transfer agent, Computershare Trust Company of Canada, and your vote at the Meeting will be counted.

### ***Voting Instructions***

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from beneficial Shareholders in advance of Shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to its clients. These instructions must be carefully followed by beneficial shareholders in order to ensure that their Common Shares are voted at the Meeting. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Services, Inc. ("Broadridge"). Broadridge typically mails a scannable voting instruction form in lieu of the form of proxy. The beneficial shareholder is requested to complete and return the voting instruction form to Broadridge by mail or facsimile, or alternatively, to vote via the internet or by calling a toll-free telephone number to convey his or her voting instructions. Broadridge then tabulates the results of all instructions received and provides appropriate instructions to Computershare Trust Company of Canada respecting the voting of Common Shares to be represented at the Meeting. **A beneficial Shareholder receiving a voting instruction form cannot use that voting instruction form to vote Common Shares directly at the Meeting as the voting instruction form must be returned as directed by Broadridge or the nominee well in advance of the Meeting in order to have the Common Shares voted.**

## BUSINESS OF THE MEETING

### Financial Statements

Paramount's consolidated financial statements as at and for the year ended December 31, 2010 and the auditors' report thereon are in the 2010 annual report mailed to registered Shareholders and will be placed before Shareholders at the Meeting.

### Election of Directors

Paramount's articles provide that the Board of Directors shall consist of a minimum of three and a maximum of 12 directors. The number of directors to be elected at the Meeting is eleven, each of whom will serve until the next annual meeting of Shareholders or until their respective successors are elected or appointed. The eleven nominees are:

Clayton Riddell	James Riddell	John Gorman
Dirk Jungé	David Knott	John Roy
Violet Riddell	Susan Riddell Rose	Thomas Claugus
Alistair Thomson	Bernhard Wylie	

All director nominees have consented to being named in this circular and to serve as directors if elected. Management does not contemplate that any of the director nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, your proxyholder has the right to use their discretion in voting for another nominee unless you have specified in the proxy that the proxy is without authority to vote on the election.

The directors named in the enclosed proxy will vote FOR the election of these nominees as directors of Paramount unless you indicate that authority to do so is withheld.

### Appointment of Auditors

Unless authority is withheld, the directors named in the enclosed proxy will vote FOR the reappointment of Ernst & Young LLP, Chartered Accountants, 1000 Ernst & Young Tower, 440 Second Avenue S.W., Calgary, Alberta T2P 5E9, as auditors of the Corporation to hold office until the next annual meeting of Shareholders. Ernst & Young LLP has been Paramount's auditors since Paramount's inception in 1978 and has no direct or indirect financial interest in Paramount.

The information regarding Paramount's audit committee as required by section 5.1 of National Instrument 52-110 is set forth in Paramount's annual information form dated March 3, 2011 for the 2010 fiscal year under the heading "Audit Committee Information" and in Appendix D to the annual information form.

### Other Matters to Be Acted Upon

Management knows of no matters to come before the Meeting other than the matters referred to in the enclosed Notice of Annual General Meeting of Shareholders to which this circular is attached. If any matters which are not known at the time of the circular should properly come before the Meeting, proxies will be voted on such matters in accordance with the best judgment of the person holding such proxy.

## NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

The following table provides information with respect to the director nominees.

### Clayton Riddell<sup>(1)</sup>

Calgary, Alberta, Canada  
Chairman and CEO  
Paramount Resources Ltd.  
Non-Independent Director  
Director Since: 1978

Mr. Riddell has been the Chairman of the Board, CEO, and a director of Paramount since 1978. Until June 2002 he was also the President. He is the Executive Chairman of the Board of Perpetual Energy Inc. (a public natural gas exploration and development company), the successor to Paramount Energy Trust. Mr. Riddell is the Chairman of the Board of Trilogy Energy Corp. (a public oil and gas exploration and development company), the successor to Trilogy Energy Trust. He is also a director and the CEO of MGM Energy Corp. (a public oil and gas exploration company). Finally, Mr. Riddell is a director of Alaris Royalty Corp. (a Canadian public company that provides alternative financing to private businesses) and a director of Tourmaline Oil Corp. (a public oil and gas exploration and production company).

Mr. Riddell graduated from the University of Manitoba with a Bachelor of Science (Honours) degree in Geology and is currently a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists. He received the J.C. Sproule Memorial Plaque from the Canadian Institute of Mining (1994), the Stanley Slipper Gold Medal from the Canadian Society of Petroleum Geologists (1999), an Honorary Doctor of Science degree from the University of Manitoba (2004), and Outstanding Explorer award from the American Association of Petroleum Geologists (2004). In 2006, Mr. Riddell was inducted to the Calgary Business Hall of Fame and in 2008 he was made an Officer of the Order of Canada.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	4/4	100%
Compensation Committee (Chair)	2/2	100%

#### **Paramount Holdings**

Common Shares: 36,714,297<sup>(2)</sup>  
Options: : 750,000

#### **Other Public Board Directorships**

Alaris Royalty Corp.  
MGM Energy Corp.  
Perpetual Energy Inc.  
Trilogy Energy Corp.  
Tourmaline Oil Corp.

### James Riddell<sup>(1)(3)</sup>

Calgary, Alberta, Canada  
President and Chief Operating  
Officer  
Paramount Resources Ltd.  
Non-Independent Director  
Director Since: 2000

Mr. Riddell has been the President and Chief Operating Officer ("President") of Paramount since June 2002, and a director since 2000. From May 1991 until June 2002, he held various positions at Paramount. Mr. Riddell is a director and the CEO of Trilogy Energy Corp. (a public oil and gas exploration and development company), the successor to Trilogy Energy Trust. Mr. Riddell is also a director of MGM Energy Corp. (a public oil and gas exploration company), Big Rock Brewery Inc. (a public company which produces and markets beer) and Sonde Resources Corp. (a public oil and gas exploration and development company).

Mr. Riddell graduated from Arizona State University with a Bachelor of Science degree in Geology and from the University of Alberta with a Master of Science degree in Geology and is currently a member of the Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	4/4	100%
Environmental Health and Safety Committee	1/2 <sup>(4)</sup>	50%

#### **Paramount Holdings**

Common Shares: 353,214  
Options: 1,130,000

#### **Other Public Board Directorships**

Big Rock Brewery Inc.  
Sonde Resources Corp.  
MGM Energy Corp.  
Trilogy Energy Corp.

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**Violet Riddell<sup>(1)</sup>**

Calgary, Alberta, Canada  
Business Executive  
Non-Independent Director  
Director Since: 1978

Ms. Riddell has been a director of Paramount since 1978.

**Paramount Board / Committee Participation**

Board of Directors

**Fiscal 2010 Meeting Attendance**

2/4                      50%

**Paramount Holdings**

Common Shares: 703,401  
Options: 31,000

**Other Public Board Directorships**

None

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**John Gorman**

Calgary, Alberta, Canada  
Retired  
Independent Director<sup>(5)</sup>  
Director Since: 2002

Mr. Gorman has been a director of Paramount since 2002. Prior to his retirement in 2000, he was the President and CEO of an energy trading, marketing and financial services company from 1996 to 2000 and a corporate banker with the Bank of Montreal (a Canadian chartered bank) from 1972 to 1996, retiring as Senior Vice President, Natural Resources Group.

Mr. Gorman obtained a Bachelor of Arts degree from the University of Ottawa and a Master of Business Administration degree from the University of Western Ontario.

**Paramount Board / Committee Participation**

Board of Directors

**Fiscal 2010 Meeting Attendance**

4/4                      100%

Audit Committee (Chair)

4/4                      100%

Corporate Governance Committee

2/2                      100%

Compensation Committee

1/2<sup>(6)</sup>                      50%

**Paramount Holdings**

Common Shares: 10,001  
Options: 19,500

**Other Public Board Directorships**

None

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**Dirk Jungé, CFA**

Bryn Athyn, Pennsylvania,  
U.S.A.  
Chairman and CEO  
Pitcairn Trust Company  
Independent Director<sup>(5)</sup>  
Director Since: 2000

Mr. Jungé has been a director of Paramount since 2000. He has been the Chairman of the Board of the Pitcairn Trust Company (a private trust company) since 1991 and its CEO from 1993 to 1996 and from 2006 to the present. He served as President of Pitcairn Trust Company from 2006 to 2008. Mr. Jungé also holds a number of director and trustee positions with philanthropic organizations.

Mr. Jungé obtained a Bachelor of Science degree in Economics and Finance from Lehigh University, was designated a Chartered Financial Analyst by the Institute of Chartered Financial Analysts in 1978 and is a member of the Financial Planning Association and the Association for Investment Management and Research.

**Paramount Board / Committee Participation**

Board of Directors

**Fiscal 2010 Meeting Attendance**

4/4                      100%

Corporate Governance Committee

1/2                      50%

Environmental Health and Safety Committee

N/A<sup>(4)</sup>

**Paramount Holdings**

Common Shares: 85,643<sup>(7)</sup>  
Options: 19,500

**Other Public Board Directorships**

None

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**David Knott<sup>(1)</sup>**

Syosset, New York, U.S.A.  
Managing General Partner  
Knott Partners, L.P.  
Independent Director<sup>(5)</sup>  
Director Since: 1998

Mr. Knott has been a director of Paramount since 1998. He has been the Managing General Partner of Knott Partners, L.P. (a private investment firm) and the CEO of Dorset Management Corp. (a private investment firm) since 1987. Mr. Knott is also a trustee of several philanthropic organizations.

Mr. Knott graduated from the University of Pennsylvania with a Bachelor of Arts degree in Political Science and a Master of Business Administration degree in finance from the University of Pennsylvania's Wharton School.

**Paramount Board / Committee Participation**

Board of Directors

**Fiscal 2010 Meeting Attendance**

4/4                      100%

Corporate Governance Committee

2/2                      100%

**Paramount Holdings**

Common Shares: 1,184,401  
Options: 31,000

**Other Public Board Directorships**

Ligand Pharmaceuticals Inc.

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**Susan Riddell Rose**<sup>(1)</sup>

Calgary, Alberta, Canada  
President and CEO  
Perpetual Energy Inc.  
Non-independent Director  
Director Since: 2000

Ms. Riddell Rose has been a director of Paramount since 2000. Since 2002 she has been a director and President and since 2005 the CEO of Perpetual Energy Inc. (a public natural gas exploration and development company) and its predecessor, Paramount Energy Trust. Prior thereto, Ms. Riddell Rose was a geologist and Corporate Operating Officer of Paramount and prior to that, a geological engineer with Shell Canada Limited (a public oil and gas exploration and development company). Ms. Riddell Rose is also a director of Newalta Corporation (a public industrial waste management and environmental services company).

Ms. Riddell Rose graduated from Queen's University with a Bachelor of Science degree in Geological Engineering. Ms. Riddell Rose is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists, and a past governor of the Canadian Association of Petroleum Producers.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	3/4	75%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 234,862 Options: 31,000	Newalta Corporation Perpetual Energy Inc.

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**John Roy**<sup>(1)</sup>

Calgary, Alberta, Canada  
Independent Businessman  
Independent Director<sup>(5)</sup>  
Director Since: 1981

Mr. Roy has been a director of Paramount since 1981 and is currently the Lead Director. He is an independent businessman. Prior to December 1, 2003, he served as the Vice-President and Director of a private investment banking firm. From 1970 to 1996, he held various positions also at a private investment banking firm.

Mr. Roy graduated from Queen's University with a Bachelor of Science degree in Mechanical Engineering and received a Diploma in Management from McGill University. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	4/4	100%
Audit Committee	4/4	100%
Compensation Committee	2/2	100%
Corporate Governance Committee (Chair)	2/2	100%
Environmental Health & Safety Committee	2/2	100%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 39,001 Options: 31,000	None

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**Alistair Thomson**<sup>(1)</sup>

Sidney, British Columbia,  
Canada  
Retired  
Independent Director<sup>(5)</sup>  
Director Since: 1992

Mr. Thomson has been a director of Paramount since 1992. He is a retired businessman. Prior to his retirement in 2006, Mr. Thomson was the President of Touche Thomson & Yeoman Investment Consultants Ltd. (a private investment firm), which primarily advised clients on investments in the Canadian oil and gas industry, a position he had held since 1975.

Mr. Thomson graduated from the University of St. Andrews, Scotland, with a Master of Arts (Honours) degree in Political Economy and Geography. He is a past President of both the Alberta Society of Financial Analysts and the Economics Society of Alberta.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	4/4	100%
Audit Committee	4/4	100%
Corporate Governance Committee	2/2	100%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 8,001 Options: 31,000	None

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**Bernhard Wylie<sup>(1)</sup>**

Calgary, Alberta, Canada  
Business Executive  
Non-independent Director  
Director Since: 1978

Mr. Wylie has been a director of Paramount since 1978 and was Executive Vice President and Vice President, Land until 1996. Since his retirement in 1996, he has provided certain consulting services to Paramount.

Mr. Wylie graduated from the University of California, Berkeley, with a Bachelor of Arts degree. Mr. Wylie is a member of the American Association of Professional Landmen and the Canadian Association of Professional Landmen.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	4/4	100%
Environmental Health & Safety Committee (Chair)	2/2	100%

**Paramount Holdings**

Common Shares: 10,389  
Options: 19,500

**Other Public Board Directorships**

None

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**Thomas Claugus**

Atlanta, Georgia, U.S.A.  
President  
GMT Capital  
Independent Director<sup>(5)</sup>  
Director Since: 2010

Mr. Claugus is the President and majority shareholder of GMT Capital Corp. (a private investment company) which he founded in 1990. Prior to 1990, he served 17 years in various managerial capacities with Rohm and Haas Company (a publicly traded specialty chemical manufacturer), culminating in his position as Manager for Europe of the Polymers Division of Rohm and Haas.

Mr. Claugus graduated with a Bachelor of Chemical Engineering degree, summa cum laude, from Ohio State University in 1973. In 1975, he entered Harvard Business School and graduated with a Master of Business Administration degree, with high distinction, in 1977.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2010 Meeting Attendance</b>	
Board of Directors	3/4 <sup>(8)</sup>	75%
Corporate Governance Committee	2/2	100%

**Paramount Holdings**

Common Shares: 8,511,700<sup>(9)</sup>  
Options: 24,000

**Other Public Board Directorships**

None

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**Notes:**

- (1) From 1992 to 2008, Paramount was the general partner of T.T.Y. Paramount Partnership No. 5 ("TTY"), a limited partnership, which was an unlisted reporting issuer in certain provinces of Canada. TTY was established in 1980 to conduct oil and gas exploration and development activities but had not carried on active operations since 1984 and had only nominal assets. A cease trade order against TTY was issued by the Quebec Securities Commission in 1999 for failing to file the June 30, 1998 interim financial statements in Quebec. The cease trade order was revoked on April 9, 2008. TTY was dissolved on July 21, 2008.
- (2) 24,160,100 Common Shares are held by Warner Investment Holdings Ltd., 9,308,270 are held by Dreamworks Investment Holdings Ltd., and 3,133,600 are held by Treherne Resources Ltd., in all of which Mr. Clayton Riddell is the controlling shareholder. Mr. Clayton Riddell holds 112,327 Common Shares directly. The Riddell Family Charitable Foundation holds 1,500,700 Common Shares. The Common Shares held by the Riddell Family Charitable Foundation have not been included in Mr. Clayton Riddell's holdings as they are not beneficially owned or controlled by him.
- (3) Mr. James Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year of such company becoming bankrupt.
- (4) Mr. James Riddell was appointed a member of the Environmental Health and Safety Committee after the committee held its first meeting of fiscal 2010 and accordingly was only eligible to attend one of the two committee meetings in 2010. Mr. Riddell was replaced by Mr. Jungé after the second Environmental Health and Safety Committee meeting of fiscal 2010. Consequently, Mr. Jungé was not eligible to attend either of the two Environmental Health and Safety Committees meetings in 2010.
- (5) Independence is based on the definitions contained in National Instrument 52-110, National Instrument 58-101 and National Policy 58-201. Each year, all independent directors complete an independence questionnaire to assess, or re-assess, their status as independent directors.
- (6) Mr. Gorman was appointed a member of the Compensation Committee after the committee held its first meeting in 2010 and accordingly was only eligible to attend one of the two Compensation Committee meetings in 2010.
- (7) Mr. Jungé is Chairman and CEO of Pitcairn Trust Company that owns, in a fiduciary capacity as trustee or investment advisor for clients, 139,577 Common Shares of Paramount. 22,453 Common Shares are owned by trusts for which Mr. Jungé serves as a co-trustee, and 85,643 are beneficially owned, directly or indirectly, by Mr. Jungé.
- (8) Mr. Claugus was elected to Paramount's Board in May 2010 and accordingly was only eligible to attend three of the four Board meetings in 2010.
- (9) Mr. Claugus is the President of GMT Capital Corp., a private investment company that owns 8,308,700 Common Shares through various partnerships and funds which Mr. Claugus controls. 203,000 Common Shares are beneficially owned, directly or indirectly, by Mr. Claugus.

The information as to Common Shares owned directly or indirectly by each nominee, not being within the knowledge of the Corporation, has been furnished by the nominee.

## COMPENSATION DISCUSSION AND ANALYSIS

Paramount's compensation philosophy is to be competitive with other Canadian oil and gas companies of similar size in order to attract, retain and motivate a highly qualified workforce and provide career opportunities within Paramount. The compensation program for named executive officers (hereinafter "NEOs"), being the Corporation's CEO, President, Chief Financial Officer and next two highest paid executive officers, is built around base salaries and reward systems that recognize Paramount's financial and operational results and individual performance. Currently, three primary components comprise the compensation program: base salary, bonuses (Stock Incentive Program ("SIP") awards and cash bonuses) and long-term incentives (in the form of periodic stock option grants). Each of these components is discussed in more detail below.

### **Base Salary**

The objective of a NEO's base salary is to provide a fixed level of cash compensation for performing day-to-day responsibilities. The base salary paid to NEOs is also designed to ensure that Paramount attracts and retains high-performing employees capable of achieving Paramount's strategic business objectives. These objectives include improving Paramount's overall asset and investment portfolio and increasing Shareholder returns. Paramount considers a base salary an important component of a NEO's compensation.

Paramount relies on the expertise and experience of its Compensation Committee as well as annual comparative compensation data received through participation in the Mercer Human Resource Consulting Ltd. compensation survey (the "Mercer Survey") in determining annual base salaries for NEOs. The Mercer Survey provides detailed comparative compensation information across the Canadian oil and gas industry. The survey shows salary ranges based on criteria such as education, areas of expertise, specific job descriptions, years of service, previous employment background and type and size of company. NEOs salaries are reviewed and compared to peers at similar-sized, Canadian oil and gas companies that participate in the Mercer Survey. In particular, Paramount uses the "E&P Integrated" group which is comprised of 186 participants, 43 of which are small to intermediate sized producers like Paramount with production in the range of 10,000 BOE/day to 100,000 BOE/day. The data in the Mercer Survey provides a general guide for the CEO, President, and Compensation Committee in setting the NEOs' base salaries.

In the case of the NEOs other than the CEO and President, Paramount's Manager of Human Resources provides the President with the relevant Mercer Survey data which the President utilizes, together with other information pertaining to the NEOs, including their individual job performance, to formulate annual base salary recommendations for the Compensation Committee to consider and approve. With respect to the base salary for the President, Paramount's Manager of Human Resources provides the CEO with the Mercer Survey information applicable to presidents of similarly-sized oil and gas companies which the CEO utilizes, together with other information pertaining to the President, including his job performance, to determine an annual salary recommendation which is presented to the Compensation Committee for their consideration and approval. The Compensation Committee recommends to the Board the annual base salary of the CEO using the information from the Mercer Survey applicable to CEOs, and having regard to such other factors as they consider relevant.

### **Bonuses**

#### ***SIP Awards***

The objective of the SIP is to reward NEOs who have met or exceeded their goals and contributed to the financial and operational success of Paramount and to encourage a long-term investment in Paramount's Common Shares. SIP grants are in the form of entitlements to Common Shares (referred to as share units) one-third of which vest immediately, one-third of which vest on the first anniversary of the grant and the final one-third of which vest on the second anniversary of the grant (with the exception of SIP grants to the CEO and President which vest immediately). As the value of the Common Shares increases, the value of the share units also increases, thereby aligning NEOs' interests with those of Paramount's Shareholders. The SIP awards are the primary annual incentives granted to NEOs. SIP awards, other than those granted to Messrs. Clayton Riddell and James Riddell, also serve a long-term retention purpose for NEOs, due to their vesting schedule.

SIP awards are made annually at the discretion of the CEO, subject to general corporate and individual performance targets being met. The monetary value of a NEO's annual SIP award is based on a specified percentage of the NEO's base salary (for NEOs other than the CEO and President, the percentage is approximately 30%). Corporate performance targets are established annually by the CEO and include a combination of annual production, production exit rates, operating costs, finding and development costs and capital spending targets, with an equal emphasis being placed on each of these components. Individual performance targets are based on factors such as job performance and individual contribution to Paramount's overall financial and operational success as assessed under an informal performance appraisal process. The amount of a NEO's SIP award granted in a given year is dependant on the extent to which corporate and/or individual goals have been met.

### Cash Bonuses

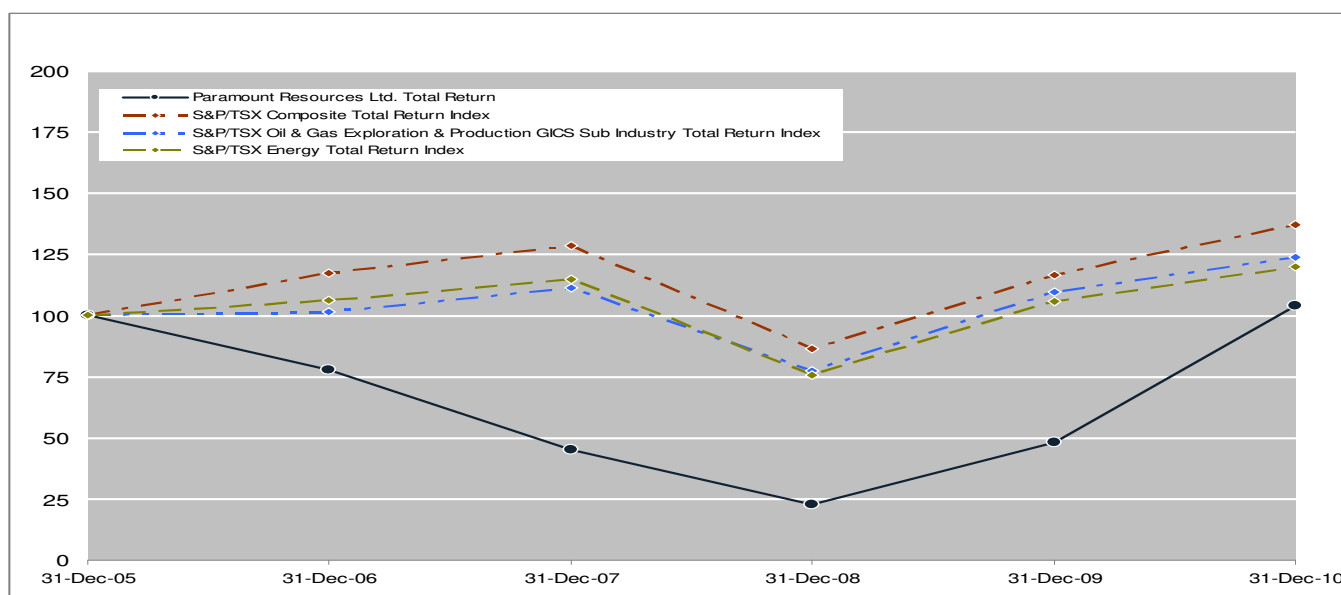
From time to time, Paramount rewards its top-performing NEOs with a cash bonus. A cash bonus, if paid, is determined by the CEO. A cash bonus is intended to reward short-term corporate financial and operational performance and individual performance. The cash bonus amount, when it is awarded, is based on exceptional individual and corporate performance in a given period, and is dependant on economic conditions. Cash bonuses are not awarded regularly and are not considered to be a primary component of Paramount’s compensation program.

### Stock Option Grants

The intent of Paramount’s Stock Option Plan (the “Option Plan”) is to recognize those NEOs who are responsible for Paramount’s management and growth and to directly align long-term NEO compensation with the creation of Shareholder value. Paramount believes that granting options with vesting periods between four and five years not only promotes the retention of valuable employees but also helps incentivize long-term corporate value creation, vision and stewardship. Option grants pursuant to the Option Plan comprise the primary long-term compensation strategy at Paramount.

NEOs are eligible for grants of options when they commence employment with Paramount and thereafter on an annual basis. Options vest in equal tranches each successive year for the duration of the option term, usually between four and five years. The Compensation Committee considers and approves option grants to the NEOs (other than to the President and CEO) based on recommendations from the President. The Compensation Committee also determines and approves the option grants to the President, and recommends to the Board, for its consideration and approval, the option grants that it believes should be made to the CEO. The factors that are taken into account in granting options to the NEOs include: experience, responsibilities, performance, size of prior option grants and other compensation received by the NEO and, in the case of the President and CEO, their management expertise and leadership qualities.

### Total Return Performance Graph



	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Paramount Resources Ltd. Total Return	100	78	45	23	48	104
S&P/TSX Composite Total Return Index	100	117	129	86	117	137
S&P/TSX Oil & Gas Exploration & Production GICS Sub Industry Total Return Index	100	101	112	77	110	124
S&P/TSX Energy Total Return Index	100	106	115	76	106	120

**Note:**

(1) For purposes of this graph, it has been assumed that the share and warrants of MGM Energy Corp. (“MGM”) received for each 25 Common Shares held by Shareholders in connection with the spinout of MGM were monetized as of January 22, 2007 (being the first trading day after all of the securities were held) for an aggregate amount of \$7.40 per 25 Common Shares, and the proceeds were used to buy Common Shares on that date.

Paramount's total return performance graph, as depicted above, reflects both operational and financial performance within its control as well as volatile commodity prices and economic and market conditions beyond its control. Paramount's Common Share price over the time period indicated in the above graph has been positively affected by increasing commodity prices and good economic and market conditions and negatively affected by decreasing commodity prices, poor economic and market conditions and, at times, increasing operational costs. Significant new events that have affected Paramount's Common Share price are the announcement of Alberta's New Royalty Framework, the turbulent global economic and market conditions experienced since the end of the second quarter of 2008 and the subsequent market recovery in 2010.

Base salaries for NEOs increased from 2005 to 2007; however, they remained relatively unchanged from 2007 to 2008, a period of declining share price. Base salaries increased only slightly for certain NEOs in 2009 from 2008 levels, a period during which Paramount's Common Share price also increased. Base salaries for NEOs were not increased for fiscal 2010 despite a continued increase in the Common Share trading price. Base salaries increased in 2011 coinciding with the increase in the Common Share trading price through 2010 and into 2011.

Mr. Clayton Riddell received a bonus of 150,000 Common Shares in fiscal 2007 under the SIP in relation to his negotiation of the sale of the Corporation's North American Oil Sands shares, the proceeds of which were used to fully pay down Paramount's Bank Credit Facility, its unsecured non-revolving facility and to repay the entire amount under a second loan facility. Thus, Paramount significantly strengthened its financial position. No other cash or share bonuses (other than the annual SIP awards) or other extraordinary bonuses have been paid during the period from December 31, 2006 to 2009. In December 2010, certain officers, including certain NEO's, were awarded a cash bonus in recognition of their performance during fiscal 2010. This cash bonus awarded performance some of which included completing a tender offer with respect to Paramount's outstanding US debt, issuing a redemption notice for the outstanding US debt after the close of the tender offer, closing a private placement equity offering and a public equity offering for "flow-through" Common Shares and issuing \$300 million of 8.25% senior unsecured notes due 2017. As a result of these transactions, Paramount improved its capital structure and raised funds for its 2011 capital expenditure program.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides a summary of compensation earned in fiscal 2008, 2009 and 2010 by NEOs.

Name and Principal Position  (a)	Year  (b)	Salary (\$)  (c)	Share-based awards <sup>(1)</sup> (\$)  (d)	Option-based awards <sup>(2)</sup> (\$)  (e)	Non-equity incentive plan compensation (\$)  (f1)	Total compensation <sup>(3)</sup> (\$)  (i)
<b>Clayton Riddell</b> CEO	2010	436,000	425,000	2,143,500	nil	3,004,500 <sup>(5)</sup>
	2009	415,959	250,800	668,411	nil	1,335,170 <sup>(5)</sup>
	2008	435,000	178,100	1,480,000 <sup>(4)</sup>	nil	2,093,099 <sup>(5)</sup>
<b>James Riddell</b> President	2010	457,250	446,250	2,858,000	\$150,000 <sup>(7)</sup>	3,911,500 <sup>(5)</sup>
	2009	436,232	250,800	1,002,617	nil	1,689,649 <sup>(5)</sup>
	2008	435,000	178,100	2,308,800 <sup>(4)</sup>	nil	2,921,899 <sup>(5)</sup>
<b>Bernard Lee</b> Chief Financial Officer	2010	274,793	64,800	714,500	\$75,000 <sup>(7)</sup>	1,129,093
	2009	268,086	37,708	167,103	nil	472,897
	2008	265,000	57,687	328,000	nil	650,687
<b>Mitchell Shier</b> Corporate Secretary	2010	267,000	61,200	535,875	\$75,000 <sup>(7)</sup>	939,075
	2009	253,776	nil	167,103	nil	420,879
	2008	nil	nil	556,500 <sup>(6)</sup>	nil	556,500
<b>Darrel Purdy</b> Corporate Operating Officer	2010	207,668	60,000	714,500	\$50,000 <sup>(7)</sup>	1,032,168
	2009	201,304	33,714	116,972	nil	351,990
	2008	200,000	40,927	196,800	nil	437,727

**Notes:**

- (1) The amounts included in the Share-based Awards column represent the value of the vested and unvested Paramount Common Shares granted to NEO's under Paramount's SIP during the respective year. NEO's receive a grant of the number of Common Shares obtained by dividing the dollar value of the bonus determined for them by the market value of a Common Share on the grant date (determined on a five day weighted average price). For Messrs. Clayton Riddell and James Riddell, the entire grant of Common Shares vest on the grant date. For Messrs. Lee, Shier and Purdy, one-third of the Common Shares granted vests immediately on the grant date, one-third vests on the first anniversary of the grant date and the final one-third vests on the second anniversary of the grant date.
- (2) The grant date fair value for the option-based awards is calculated using a Black-Scholes model (expected life 5.38 years, volatility 51.18% and interest rate 2.58%). Paramount uses the intrinsic value method of accounting for option-based awards in its financial statements.
- (3) Columns "g" (Pension value) and "h" (All other compensation), as defined in Form 51-102F6, have been omitted from the Summary Compensation Table above. Column "g" has been omitted because Paramount does not have a pension plan as defined in Form 51-102F6 and column "h" has been omitted because the amounts are less than \$50,000 and less than 10% of each NEO's total salary for 2008 through 2010. The "Total Compensation" column does not include any amounts from these omitted columns.
- (4) The 2008 Option-based Awards figures for each of Messrs. Clayton Riddell and James Riddell are in respect of Stock Appreciation Rights ("SARs") granted in November 2008 in connection with the surrender for cancellation at the same time of all their outstanding options. The SARs granted to Messrs. Clayton and James Riddell were subsequently voluntarily surrendered in their entirety on February 17, 2009 and replaced on such date with a grant of options on equivalent terms which had no incremental fair value.
- (5) Messrs. Clayton Riddell and James Riddell do not receive compensation in their capacity as directors of Paramount.
- (6) Mr. Shier was appointed General Counsel and Corporate Secretary, Manager, Land effective January 17, 2009. Prior to his appointment, he was an employee of Paramount but was not a NEO. Mr. Shier's option grant in 2008 is the grant he received upon commencement of employment with Paramount on November 21, 2008.
- (7) The cash bonuses listed were in respect of exceptional performance in 2010.

## Narrative Discussion Relating to the Summary Compensation Table

### Salary

The figures in the Salary column of the Summary Compensation Table represent the salary for NEOs in fiscal 2008, 2009 and 2010.

In the summer of 2010, in an effort to address market conditions and to reduce costs, Paramount instituted a voluntary Friday Off Program (without pay) for all employees and NEOs. This represented an overall salary reduction of 2.26% and 1.85% for Messrs. Lee and Purdy, respectively, over the year. The figures in the Salary column for 2010 reflect the reduced salary received by those NEOs during 2010. Messrs. Lee, Shier and Purdy received salary increases of 7.41%, 5.88% and 17.50%, respectively, for fiscal 2011.

### Share-based Awards

The figures in the Share-based Awards column of the Summary Compensation Table represent the grant date fair value of the annual SIP grants in fiscal 2008, 2009 and 2010. With respect to Messrs. Lee, Shier and Purdy, one-third of their award vested immediately, one-third will vest on the first anniversary of the grant date and one-third will vest on the second anniversary of the grant date. The Summary Compensation Table shows the grant date fair value of the total vested and unvested SIP award granted to Messrs. Lee, Shier and Purdy in each year. With respect to Messrs. Clayton Riddell and James Riddell, their entire SIP award vests on the grant date and the table above reflects the grant date fair value of their total SIP grant each year.

The 2010 SIP grant to all NEOs was based on the achievement of individual performance targets as well as corporate performance components.

### Option-based Awards

The figures in the Option-based Awards column of the Summary Compensation Table represent the grant date fair value of options or SARs granted to NEO's in fiscal 2008, 2009 and 2010 (with the December 2010 grant hereinafter being referred to as the "December 2010 grant"). The December 2010 grant vests in five equal annual tranches commencing on October 19, 2011 and ending on October 19, 2015. The December 2010 grant expires on April 30, 2016.

Messrs. Clayton Riddell and James Riddell received two Option-based Awards in 2009, one award in February 2009 (the "February 2009 grant") and one award in December 2009 as part of the regular annual option grant to NEOs. For Messrs. Clayton Riddell and James Riddell, the figure in the Option-based Awards column represents the grant date fair value of the December 2009 grant only as the February 2009 grant simply replaced SARs granted to each of them in November 2008 and had no incremental fair value. See Note 4 to the table above.

The following table summarizes the December 2010 grant to the NEOs.

Name	Total Option Grant	Option Exercise Price
Clayton Riddell	150,000	\$29.46
James Riddell	200,000	\$29.46
Bernard Lee	50,000	\$29.46
Mitchell Shier	37,500	\$29.46
Darrel Purdy	50,000	\$29.46

## Outstanding Share-based Awards and Option-based Awards

The following table summarizes the outstanding share-based awards and option-based awards for the NEOs at the end of the most recently completed financial year.

Name (a)	Option-based Awards				Share-based Awards	
	# of securities underlying unexercised options (#) (b)	Option exercise price (\$) (c)	Option expiration date (d)	Value of unexercised in-the-money options <sup>(1)</sup> (\$) (e)	Number of unvested shares (#) (f)	Market or payout value of unvested share-based awards (\$) <sup>(1)</sup> (g)
Clayton Riddell	150,000	29.46	April 30, 2016	333,000	nil	nil
	100,000	13.20	April 30, 2015	1,848,000		
	500,000	7.34	April 30, 2013	12,170,000		
James Riddell	200,000	29.46	April 30, 2016	444,000	nil	nil
	150,000	13.20	April 30, 2015	2,772,000		
	780,000	7.34	April 30, 2013	18,985,200		
Bernard Lee	50,000	29.46	April 30, 2016	111,000	4,650	147,312
	25,000	13.20	April 30, 2015	462,000		
	100,000	7.34	April 30, 2014	2,434,000		
Mitchell Shier	37,500	29.46	April 30, 2016	83,250	2,498	79,137
	25,000	13.20	April 30, 2015	462,000		
	110,000	7.36	May 31, 2014	2,675,200		
Darrel Purdy	50,000	29.46	April 30, 2016	111,000	4,242	134,387
	17,500	13.20	April 30, 2015	323,400		
	30,000	7.34	April 30, 2014	730,200		

**Note:**

- (1) Based on the closing trading price of Common Shares of \$31.68 as of December 31, 2010 and in respect of all vested and unvested options.

## Incentive Plan Awards – Value Vested or Earned During the Year

The following table shows the Paramount options and SIP grants for NEOs that vested during the most recently completed financial year.

Name (a)	Option-based awards – Value vested during the year (\$) (b)	Share-based Awards – Value vested during the year (\$) (c)	Non-equity incentive plan compensation – Value earned during the year (\$) (d)
Clayton Riddell	1,426,000 <sup>(1)</sup>	444,784 <sup>(3)</sup>	nil
James Riddell	2,216,160 <sup>(1)</sup>	467,036 <sup>(3)</sup>	\$150,000
Bernard Lee	249,338 <sup>(1)</sup>	75,316 <sup>(4)</sup>	\$75,000
Mitchell Shier	551,900 <sup>(1),(2)</sup>	21,363 <sup>(5)</sup>	\$75,000
Darrel Purdy	153,100 <sup>(1)</sup>	64,651 <sup>(4)</sup>	\$50,000

**Notes:**

- (1) On the vesting date of October 19, 2010, the closing trading price of Common Shares was \$20.20.  
(2) The figure under column “b” is in respect of two grants. The first grant has a vesting date of November 21, 2010, and the closing trading price of Common Shares on that date was \$24.59. The second grant has a vesting date of October 19, 2010, and the closing trading price of Common Shares on that date was \$20.20.  
(3) The entire SIP award to both Messrs. Clayton and James Riddell vested on the grant date of April 15, 2010. The closing trading price was \$17.09 on April 15, 2010.  
(4) The amounts for Messrs. Lee and Purdy are derived from SIP grants in 2010, 2009 and 2008. The figure includes one-third of the 2010 SIP grant, one-third of the 2009 SIP grant and one-third of the 2008 SIP grant. The closing trading price was \$17.09 on April 15, 2010, the date that the applicable portions of the 2010, 2009 and 2008 SIP grants vested.  
(5) Mr. Shier did not receive a SIP grant in 2009 because he only commenced employment with Paramount in November 2008 and the 2009 SIP grant was with respect to performance during fiscal 2008. The amount awarded to Mr. Shier is based on one third of his 2010 SIP grant. The closing trading price was \$17.09 on April 15, 2010, the date that the applicable portion of the 2010 SIP grant vested.



## INCENTIVE PLANS

### Equity Compensation Plan Information

The Option Plan is the only compensation plan under which equity securities of Paramount have been authorized for issuance from treasury. As of December 31, 2010, there was an aggregate of 5,006,300 options outstanding under the Option Plan, the details of which are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options as at December 31, 2010  (a)	Weighted-average exercise price of outstanding options  (b)	Number of securities remaining available for future issues under equity compensation plans (excluding securities reflected in the first column) as at December 31, 2010  (c)
Equity compensation plans approved by securityholders – Option Plan	5,006,300	\$13.90	2,512,042
Equity compensation plans not approved by securityholders	None	None	None
<b>Total</b>	5,006,300	\$13.90	2,512,042

### Option Plan

#### **General Information**

Paramount's Option Plan was approved by the Board at a meeting held on November 30, 2000, and by Shareholders at the annual and special meeting of Shareholders held on June 14, 2001. The Option Plan has been amended on several occasions since 2001 with the most recent occurring on November 10, 2010. The amendments in November 2010, were made to address certain changes to the *Income Tax Act* (Canada) made March 4, 2010 relating to companies' obligations to withhold and remit to the Canada Revenue Agency amounts in respect of income tax payable by optionholders on the exercise or surrender of options. At the same time, Paramount also made certain amendments of an administrative or clerical nature to the Option Plan. Shareholder approval was not required for any of the amendments made in 2010.

The Option Plan enables Paramount's Board or Compensation Committee to grant to key employees, officers and non-management directors options to acquire Common Shares. Under the terms of the Option Plan, the number of Common Shares reserved for issuance cannot exceed 10% of the issued and outstanding Common Shares from time to time. The maximum number of Common Shares that may be reserved for issuance to insiders pursuant to options granted under the Option Plan and any other share based compensation arrangement, in the aggregate and within any one-year period, is 10% of the outstanding Common Shares. The maximum number of Common Shares that may be issued to any one insider (and such insider's associates) under the Option Plan and any other share based compensation arrangement within a one-year period is 5% of the outstanding Common Shares.

#### **Exercise Provisions**

The exercise price of an option cannot be less than the closing market price of the Common Shares on the TSX on the trading day preceding the date of grant. To exercise, optionholders may either exercise their options for Common Shares or, if the Corporation concurs, surrender their options for a cash payment in an amount equal to the positive difference, if any, between the market price and the exercise price of the number of Common Shares in respect of which the options are surrendered. Upon the surrender of options, the right to the underlying Common Shares is forfeited. No financial assistance is provided by Paramount to optionholders to facilitate the exercise of options. Options may be exercised only by the optionholder and are not assignable, except on death.

#### **Option Vesting and Term**

The Option Plan provides that options grants can be made for a term not exceeding ten years from the date of the grant. All currently outstanding options terminate no later than 2016. All the options currently outstanding under the Option Plan have 5 or 6 year terms with the expiry date being the date which is the last day of the month 6 months after the final vesting date.

### ***Termination of Rights***

The Option Plan provides that in the event an optionholder ceases to be employed with, or ceases to be a director of, Paramount for any reason, other than death, the optionholder shall have sixty days from the date of such termination, or such shorter or longer period (not to exceed three years), as may be otherwise determined by the Board and specified in an option agreement to exercise his or her then remaining vested number of options.

### ***Adjustments***

Options may be adjusted in the sole discretion of the Board as a result of a reorganization, merger or dissolution of Paramount or a sale of all or substantially all of Paramount's assets or in the event of a subdivision or consolidation of the Common Shares.

### ***Change of Control, Sale or Takeover Bid***

A change of control is defined in the Option Plan as (i) Paramount entering into an agreement resulting in a person or persons acquiring more than 50% of the Paramount's then outstanding Common Shares; (ii) the passing of a resolution by the Board or Shareholders to substantially liquidate or wind up the business or significantly rearrange Paramount's affairs; or (iii) a change to the majority of the Board at a meeting in which the election of directors is contested. In the event of a change of control, a sale by the Corporation of all or substantially all of its assets or an offer being made for all of the Corporation's Common Shares, the Board, in their sole discretion, may accelerate the vesting of any outstanding options so that all unvested options vest and become exercisable.

### ***Amendment***

The Option Plan may be amended, suspended or discontinued by the Board at any time provided that no such amendment may adversely alter or impair any option previously granted without the consent of the holder thereof. Any amendment to the Option Plan is subject to any required approval of the TSX and Shareholders. However, amendments relating to the following matters may be approved by the Board without the approval of Shareholders, provided that such amendments do not contravene the requirements of the TSX or applicable securities law: (i) altering, extending or accelerating the terms of vesting applicable to any options or group of options; ii) changing the termination provisions of any options, provided that the change does not entail an extension beyond the original expiry date of such options; (iii) accelerating the expiry date of options; (iv) determining the adjustment provisions pursuant to the Option Plan; (v) amending the definitions in the Option Plan and other amendments of a "housekeeping" nature; and (vi) amending or modifying the mechanics of exercise of options.

As at March 16, 2011, there were options to acquire 4,773,800 Common Shares outstanding under the Option Plan, representing approximately 6.33% of the total number of outstanding Common Shares as at such date.

## **SIP**

### ***General Information***

Paramount's SIP awards grant to eligible employees rights to Common Shares, referred to as share units. The share units vest over time except for grants to the CEO and President which vest immediately. Any permanent, full-time employee or officer of Paramount who is designated in writing as an eligible employee by the CEO may participate in the SIP. The SIP awards are granted annually at the discretion of the CEO and subject to corporate and individual targets being met. Typically awards will be calculated in February or March following the completion of the previous fiscal year and are granted to eligible employees in April.

Common Shares used in the SIP are acquired through the facilities of the TSX by a third-party custodian. None of Paramount, the Board, the Compensation Committee nor the CEO has any direct or indirect control over the time, price, amount or manner of such purchases of Common Shares or the choice of broker through which purchases are to be made.

### ***Termination of Rights***

If an employee ceases to be an employee of Paramount for any other reason, other than death, all outstanding unvested share units held by that employee terminate, unless the CEO determines otherwise. In the event of a death of an employee, all outstanding unvested share units vest immediately.

### ***Change of Control or Sale***

The definition of a change of control under the SIP is the same as that under the Option Plan. In the event of a change of control or a sale by the Corporation of all or substantially all of its assets, the CEO may determine, in his sole discretion, to accelerate the vesting of all unvested share units held by employees.

### ***Adjustments***

In the event: (i) of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise, (ii) that any rights are granted to Shareholders to purchase Common Shares at prices substantially below fair market value; or (iii) of dividends or distributions, then the Board or the Compensation Committee may make such adjustments to the SIP and to any awards outstanding as they in their sole discretion consider appropriate.

**Amendment**

The SIP is administered by the CEO on behalf of the Board. The CEO has the sole and absolute discretion to interpret and administer the SIP, establish, amend and rescind any rules and regulations relating to the SIP and make any other determinations that the CEO deems necessary or desirable for the administration of the SIP, including correcting any defect, omission or inconsistency.

The Board and the Compensation Committee may from time to time revise or amend the terms of the SIP should business circumstances warrant. The Board and the Compensation Committee also have the discretion to terminate the SIP at any time. If the SIP is terminated, the provisions of the SIP in force at the time will continue in effect as long as any awards of share units remain unvested. Any amendment to the SIP take effect only with respect to awards granted after the date of such amendment, provided that the amendment may apply to any outstanding awards with the mutual consent of Paramount and the holders of such awards.

**TERMINATION AND CHANGE OF CONTROL BENEFITS**

Messrs. Clayton Riddell and James Riddell do not have written employment contracts. Messrs. Lee, Purdy and Shier have employment letter agreements; however, Messrs. Lee and Purdy's, letter agreements do not contain any provisions dealing with termination, retirement, resignation or a change of control. Accordingly, all rights or entitlements of Messrs. Clayton Riddell, James Riddell, Lee and Purdy with respect to termination, retirement, resignation or a change of control are, in the case of severance rights governed by the common law, and in the case of their SIP awards and option grants governed by the applicable provisions of the SIP and Option Plan. As discussed above, Paramount's SIP and Option Plan provide that upon a change of control, a sale by the Corporation of all or substantially all of its assets or an offer being made for all of the Corporation's Common Shares the vesting of all unvested SIP share rights and options may be accelerated in the sole discretion of the CEO (in the case of the SIP) or the Board (in the case of the Option Plan).

Mr. Shier's employment letter specifies that if his employment is terminated without cause, he is entitled to receive a severance amount equal to two times his annual salary plus all outstanding vacation pay to the date of termination. In addition, upon a termination without cause: (i) Mr. Shier's unvested options which are scheduled to vest during the 24 months following the date of termination immediately vest and become exercisable; and (ii) his unvested SIP awards also vest. Mr. Shier otherwise has the same rights and entitlements as Messrs. Clayton Riddell, James Riddell, Lee and Purdy. Based on Mr. Shier's 2010 base salary, bonus, and option award, the table below sets out an estimated aggregate amount that he would have been entitled to if he had been terminated without cause on December 31, 2010.

	<b>Severance</b>	<b>Option Benefits</b>	<b>SIP Benefits</b>	<b>Total</b>
Mitchell Shier	\$534,000	\$1,677,300	\$79,137	\$2,290,437

## DIRECTOR COMPENSATION

### Director Compensation Table

The following table provides a summary of compensation earned by the non-management directors of Paramount.

Name	Year	Fees earned (\$)	Option-based awards (\$) <sup>(1)</sup>	Total compensation <sup>(2)</sup> (\$)
(a)		(b)	(d)	(h)
John Gorman	2010	28,750	71,450	100,200
	2009	32,000	33,421	62,421
	2008	25,000	68,880	93,880
Dirk Jungé	2010	17,250	71,450	88,700
	2009	26,000	33,421	59,421
	2008	17,000	68,880	85,880
David Knott	2010	18,250	71,450	89,700
	2009	24,000	33,421	57,421
	2008	14,000	68,880	82,880
Violet Riddell	2010	12,750	71,450	84,200
	2009	20,000	33,421	53,421
	2008	14,000	68,880	82,880
Susan Riddell Rose	2010	14,750	71,450	86,200
	2009	19,000	33,421	52,421
	2008	14,000	68,880	82,880
John Roy	2010	43,000	71,450	114,450
	2009	50,000	33,421	83,421
	2008	42,000	68,880	110,880
Alistair Thomson	2010	22,750	71,450	94,200
	2009	27,000	33,421	60,421
	2008	19,000	68,880	87,880
Bernhard Wylie	2010	23,250	71,450	94,700
	2009	27,000	33,421	60,421
	2008	21,000	68,880	89,880
Thomas Claugus <sup>(3)</sup>	2010	5,250	227,250 <sup>(4)</sup>	232,500
	2009	N/A		
	2008	N/A		
Wallace MacInnes <sup>(5)</sup>	2010	18,000	N/A	18,000
	2009	34,000	33,421	67,421
	2008	28,000	68,880	96,880

#### Notes:

- (1) The grant date fair value for the 2010 option-based awards is calculated using a Black-Scholes model (expected life 5.38 years, volatility 51.18% and interest rate 2.58% for the December 2010 grant and expected life 4.97 years, volatility 52.12% and interest rate 2.96% for the May 2010 grant to Mr. Claugus. See footnote 4 below). Paramount uses the intrinsic value method of accounting for option-based awards in its financial statements.
- (2) Columns "c" (Share-based awards), "e" (Non-equity incentive plan compensation), "f" (Pension value) and "g" (All other compensation), as defined in Form 51-102F6, have been omitted from the Director Compensation Table above. Column "c" has been omitted because directors do not receive share-based awards. Column "e" has been omitted because Paramount did not award any non-equity incentive plan compensation to non-management directors in 2008, 2009 or 2010. Column "f" has been omitted because Paramount does not have a pension plan. Finally, column "g" has been omitted because no other amounts, as defined in 51-102F6, were paid or payable to Paramount's non-management directors in 2008, 2009 or in 2010.
- (3) Mr. Claugus was elected a director on May 12, 2010.
- (4) Mr. Claugus was granted options upon becoming a director in May, 2010 and received a grant of options as part of the December 2010 grant. The figure included under column "d" is the total grant date fair value of both grants to Mr. Claugus.
- (5) Mr. MacInnes retired as director on May 12, 2010 and was therefore not eligible to receive the December 2010 grant.

### Narrative Discussion Related to Director Compensation

#### Fees Earned

The figures in the column entitled "Fees earned" in the Director Compensation Table set out the fees earned by each non-management director. It includes an honorarium as well as meeting, chair and committee fees. At the May 12, 2010 Board of

Directors meeting, Paramount's Board reviewed the fees paid to directors and approved changes to the remuneration paid to directors.

Prior to May 12, 2010, each non-management director was entitled to a fee of \$1,000 for each meeting of the Board or committee of the Board attended, for each Shareholders' meeting attended and for attendance to sign resolutions from time to time. During the most recently completed financial year the cash compensation paid to each non-management director included an annual honorarium of \$10,000. Non-management committee chairs received an additional annual honorarium of \$5,000, and the Lead Director received an additional annual honorarium of \$10,000.

Subsequent to May 12, 2010, each non-management director became entitled to a fee of \$1,250 for each meeting of the Board or committee of the Board attended, including Shareholders' meetings. Each director is also entitled to a fee of \$500 for attendance to sign resolutions from time to time. In addition, the annual honorarium paid to each director was increased from \$10,000 to \$20,000. Non-management committee chairs of the Corporate Governance Committee, the Environmental Health and Safety Committee and the Compensation Committee receive an additional annual honorarium of \$5,000, with the chair of the Audit Committee receiving an annual honorarium of \$6,500. Finally, the Lead Director receives an additional annual honorarium of \$10,000.

The aggregate cash compensation paid to the non-management directors in the last completed fiscal year was \$204,000.

Messrs. Jungé and Knott are also directors of a United States subsidiary of Paramount and as a result, their compensation total includes amounts paid to them in that capacity. They are entitled to a fee of \$1,250 (\$1,000 prior to May 12, 2010) for each Board meeting or Shareholder meeting and \$500 (\$1,000 prior to May 12, 2010) for attendance to sign resolutions with respect to that subsidiary. In 2010, these fees amounted to \$1,000 for each of Messrs. Jungé and Knott. The fees for the remaining non-management directors are with respect to Paramount only.

***Option-based Awards***

Paramount granted options to its non-management directors in December 2010 at the same time as the grant to NEOs. The grant date fair value of the December 2010 grant has been included in the above table.

## Outstanding Share-based Awards and Option-based Awards

The following table summarizes the outstanding share-based awards and option-based awards for non-management directors at the end of the most recently completed financial year.

Name  (a)	Option-based Awards				Share-based Awards	
	# of securities underlying unexercised options (#) (b)	Option exercise price (\$) (c)	Option expiration date (d)	Value of unexercised in-the-money options <sup>(1)</sup> (\$) (e)	Number of unvested shares (#) (f)	Market or payout value of unvested share-based awards (\$) (g)
<b>John Gorman</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	4,000	13.20	April 30, 2015	73,920	N/A	N/A
	10,500	7.34	April 30, 2014	255,570	N/A	N/A
<b>Dirk Jungé</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	16,000	7.34	April 30, 2014	389,440	N/A	N/A
<b>David Knott</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	21,000	7.34	April 30, 2014	511,140	N/A	N/A
<b>Violet Riddell</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	21,000	7.34	April 30, 2014	511,140	N/A	N/A
<b>Susan Riddell Rose</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	21,000	7.34	April 30, 2014	511,140	N/A	N/A
<b>John Roy</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	21,000	7.34	April 30, 2014	511,140	N/A	N/A
<b>Alistair Thomson</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	21,000	7.34	April 30, 2014	511,140	N/A	N/A
<b>Bernhard Wylie</b>	5,000	29.46	April 30, 2016	11,100	N/A	N/A
	5,000	13.20	April 30, 2015	92,400	N/A	N/A
	14,000	7.34	April 30, 2014	340,760	N/A	N/A
<b>Thomas Claugus</b>	5,000 <sup>(2)</sup>	29.46	April 30, 2016	11,100	N/A	N/A
	19,000 <sup>(2)</sup>	17.11	April 30, 2015	276,830	N/A	N/A
<b>Wallace MacInnes<sup>(3)</sup></b>	N/A	N/A	N/A	N/A	N/A	N/A
	4,000	13.20	April 30, 2015	73,920	N/A	N/A
	10,500	7.34	April 30, 2014	255,570	N/A	N/A

### Notes:

- (1) Based on the closing trading price of Common Shares of \$31.68 as of December 31, 2010 and in respect of all vested and unvested options.
- (2) Mr. Claugus was elected to Paramount's Board on May 12, 2010. The option-based award included above is with respect to his initial grant of options upon becoming a director and the December 2010 grant.
- (3) Mr. MacInnes retired from Paramount's Board on May 12, 2010 and was not eligible for the December 2010 grant.

## Incentive Plan Awards – Value Vested or Earned During the Year

The following table shows Paramount options for non-management directors that vested during the most recently completed financial year.

<b>Name</b>  <b>(a)</b>	<b>Option-based awards – Value vested during the year<sup>(1)</sup></b> <b>(\$)</b> <b>(b)</b>	<b>Share-based Awards – Value vested during the year</b> <b>(\$)</b> <b>(c)</b>	<b>Non-equity incentive plan compensation – Value earned during the year</b> <b>(\$)</b> <b>(d)</b>
<b>John Gorman</b>	52,010	N/A	N/A
<b>Dirk Jungé</b>	52,010	N/A	N/A
<b>Dirk Knott</b>	52,010	N/A	N/A
<b>Violet Riddell</b>	52,010	N/A	N/A
<b>Susan Riddell Rose</b>	52,010	N/A	N/A
<b>John Roy</b>	52,010	N/A	N/A
<b>Alistair Thomson</b>	52,010	N/A	N/A
<b>Bernhard Wylie</b>	52,010	N/A	N/A
<b>Thomas Claugus</b>	13,905	N/A	N/A
<b>Wallace MacInnes</b>	52,010	N/A	N/A

**Note:**

(1) On the vesting date of October 19, 2010, the closing trading price of Common Shares was \$20.20.

## CORPORATE GOVERNANCE

The Corporate Governance Committee is presently comprised of John Roy (Chair and Lead Director), John Gorman, Dirk Jungé, Alistair Thomson, David Knott and Thomas Claugus. All members are unrelated, independent and non-management directors as defined by applicable securities laws.

In developing its approach to governance, the Committee has given consideration to applicable securities legislation and policies, Paramount's by-laws, Paramount's organization, structure and ownership as well as to existing policies reflecting Paramount's values.

The Committee has been diligent in its review of all current and proposed regulatory requirements and, in respect thereof, continues to monitor and update Paramount's corporate governance practices. In this regard, reference should be made to the disclosure below and to the Board's mandate which is set out in Schedule "A" to this Information Circular.

### Statement of Corporate Governance Practices

#### **Board of Directors**

a. *Disclose the identity of directors who are independent.*

John Gorman, Dirk Jungé, David Knott, John Roy, Alistair Thomson and Thomas Claugus are independent as that term is defined in section 1.4 and 1.5 of National Instrument 52-110 *Audit Committees* ("NI 52-110").

b. *Disclose the identity of directors who are not independent, and describe the basis for that determination.*

Clayton Riddell, James Riddell, Violet Riddell, Susan Riddell Rose and Bernhard Wylie are not independent. Clayton Riddell and James Riddell are not independent because they are also members of management. Bernhard Wylie provides consulting services to Paramount from time to time and accordingly there exists a material business relationship with the Corporation. Violet Riddell and Susan Riddell Rose have a familial relationship with the CEO and the President of the Corporation.

c. *Disclose whether or not a majority of directors is independent. If a majority of directors is not independent, describe what the Board of Directors does to facilitate its exercise of independent judgment in carrying out its responsibilities.*

A majority of the directors are independent.

d. *If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.*

Outside directorships are disclosed under the section "Nominees for Election to the Board of Directors."

e. *Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the Board does to facilitate open and candid discussion among its independent directors.*

The current Corporate Governance Committee is composed of all of the independent directors. The Corporate Governance Committee meets at least semi-annually. Non-independent directors and members of management are not in attendance at these meetings. The Corporate Governance Committee also meets on an ad hoc basis where circumstances warrant.

In the 2010 financial year there were two meetings of the independent directors at which non-independent directors and members of management were not in attendance.

f. *Disclose whether or not the chair of the Board is an independent director. If the Board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the Board has neither a chair that is independent nor a lead director that is independent, describe what the Board does to provide leadership for its independent directors.*

Clayton Riddell is the Chairman of the Board of Paramount and he is not an independent director. The Board has appointed Mr. John Roy, an independent director, as Lead Director. The responsibilities of the Lead Director include the following:



- Ensure that the Board has adequate resources, especially by way of full, timely and relevant information to support its decision-making requirements.
  - Assist and provide input to the Chairman on preparation of agendas for Board meetings as required.
  - Consult with the Chairman and the Board on the effectiveness of Board committees.
  - Ensure that independent directors have adequate opportunities to meet to discuss issues without Management present.
  - Chair Board meetings when the Chairman and President are not in attendance.
  - Ensure delegated committee functions are carried out and reported to the Board, for example, the CEO performance assessment, CEO and Board succession planning, and strategic planning.
  - Act as a liaison between the Board and Management.
- g. *Disclose the attendance record of each director for all Board meetings held since the beginning of the issuer's most recently completed financial year.*

The attendance of each director for all Board and Committee meetings is disclosed under the section "Nominees for Election to the Board of Directors."

#### **Board Mandate**

- a. *Disclose the text of the Board's written mandate. If the Board does not have a written mandate, describe how the Board delineates its role and responsibilities.*

The Board has the responsibility to understand the principal risks of the business in which the Corporation is engaged and to ensure that there are appropriate systems in place to monitor and manage these risks. This oversight function is performed by the Board both directly and through its Corporate Governance, Audit and Environmental, Health and Safety Committees.

The complete text of the mandate of the Board is attached as Schedule "A" to this circular.

#### **Position Descriptions**

- a. *Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee. If the Board has not developed written position descriptions for the chair and/or the chair of each Board committee, briefly describe how the Board delineates the role and responsibilities of each such position.*

Written position descriptions have been developed for the Chairman of the Board and for the Chair of each Board committee as well as for the CEO, President and Chief Financial Officer.

- b. *Disclose whether or not the Board and CEO have developed a written position description for the CEO. If the Board and CEO have not developed such a position description, briefly describe how the Board delineates the role and responsibilities of the CEO.*

A written position description has been developed for the CEO by the Corporate Governance Committee of the Board.

#### **Orientation and Continuing Education**

- a. *Briefly describe what measures the Board takes to orient new directors regarding the role of the Board, its committees and its directors, and the nature and operation of the issuer's business.*

A Corporate Governance Manual has been developed which provides for a directors' education program designed to assist new and existing Board members in understanding the role of the Board, its committees and the contribution individual Board members are expected to make. The Corporate Governance Manual contains a copy of all relevant policies, mandates and charters as well as reference material relating to the legal duties and obligations of a director in a publicly held company. New directors are made aware of the nature and operation of the business through interviews with the Chairman, other directors and Management during which they are briefed on Paramount and its business.

- b. *Briefly describe what measures, if any, the Board takes to provide continuing education for its directors. If the Board does not provide continuing education, describe how the Board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.*

Information on courses pertaining to corporate governance and significant legislative changes are circulated to Board members on an as needed basis or when requested by Board members. Additionally, the Corporate Governance Committee meets at least semi-annually and a portion of these meetings is dedicated to discussions of topical issues and to review and update the Corporate Governance Manual, if necessary. The Corporate Governance Committee then reports back to the Board and, where required, obtains Board approvals to revise corporate governance policies/mandates.

### **Ethical Business Conduct**

- a. *Disclose whether or not the Board has adopted a written code for the directors, officers and employees. If the Board has adopted a written code:*
- *disclose how a person or company may obtain a copy of the code;*
  - *describe how the Board monitors compliance with its code, or if the Board does not monitor compliance, explain whether and how the Board satisfies itself regarding compliance with its code; and*
  - *provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.*

The Board has adopted a written Code of Business Conduct for all directors, officers, employees and consultants. There is also a written Code of Ethics for the CEO, President, CFO and senior financial supervisors. In addition, each director has a copy of the Corporate Governance Manual which sets out a standard of conduct expected of directors as does the Disclosure and Insider Trading Policy. The Board has also adopted a Whistleblower Policy.

The Code of Business Conduct, the Disclosure and Insider Trading Policy and the Whistleblower Policy are available to officers, employees and consultants on Paramount's intranet site. Additionally, the Code of Ethics, the Code of Business Conduct and the Whistleblower Policy are available on the Corporation's website at <http://www.paramountres.com>. The Code of Ethics and the Code of Business Conduct are also filed on SEDAR. Lastly, should anyone wish a hard copy of any of these policies, they may be obtained on request from the Corporate Secretary at 4700 – 888 Third Street S.W., Calgary, Alberta T2P 5C5.

Compliance is monitored by the Audit Committee receiving, annually, certificates from Paramount's officers confirming their compliance with the Code of Business Conduct and where applicable, the Code of Ethics. The Audit Committee reviews the certifications and reports to the Board. In addition to the annual certification of the officers, each employee and consultant receives annually a memo from management or Human Resources reiterating the need to comply with the Code of Business Conduct and reminding them that the Whistleblower Policy facilitates anonymous disclosure of any breach.

No material change reports have been filed by Paramount during the 2010 financial year relating to a director's or executive officer's departure from the Code of Business Conduct or the Code of Ethics.

- b. *Describe any steps the Board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.*

Directors must disclose all interests and relationships of which the director is aware which may give rise to a conflict of interest. Directors are also required to disclose any actual or potential personal interest in a matter on which the Board is making a decision and withdraw from deliberations and voting on the matter.

- c. *Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.*

All directors, officers, employees and consultants are provided with a copy of the Code of Business Conduct which stresses that directors, officers, employees and consultants are expected and required to adhere to the highest ethical standards. Directors, officers, employees and consultants are reminded of their obligation to review and comply with the provisions of the Code of Business Conduct regularly. Officers certify that they understand the content and consequences of the Code of Business Conduct annually.

### **Nomination of Directors**

- a. *Describe the process by which the Board identifies new candidates for Board nomination.*

The Corporate Governance Committee is responsible for identifying new candidates for nomination to the Board and recommending them to the Board when appropriate. Upon there being a vacancy on the Board or a determination being made that the Board should be expanded, the Corporate Governance Committee meets to review whether there are particular competencies needed by the Board and to set forth criteria in the selection process. The Committee also determines whether any of the members are aware of individuals who might be considered and reviews the advisability of securing independent consultants to assist in the search. Once a suitable slate of candidates is identified, the Committee meets or discusses the potential nominee with the Chairman or other directors for input, after which time, the slate is presented to the Board.

The Corporate Governance Committee has implemented a flexible, phased-in director succession plan which contemplates the retirement of one director every two years for the next four years. The purpose of such plan is to allow the Board and Committees of the Board at the time, the opportunity to review their skills and competencies, determine the knowledge and expertise needed and to maximize the retention of experience and knowledge during a transition.

- b. *Disclose whether or not the Board has a nominating committee composed entirely of independent directors. If the Board does not have a nominating committee composed entirely of independent directors, describe what steps the Board takes to encourage an objective nomination process.*

The Corporate Governance Committee is composed entirely of independent directors and is charged with identifying new candidates for nomination to the Board.

- c. *If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.*

The Corporate Governance Committee is responsible for considering the appropriate size of the Board, establishing the criteria for Board membership, assessing the competencies and skills of each existing director and any new nominees with a view to achieving competencies and skills that the Board as a whole should possess, proposing candidates for election or re-election and ensuring there is an orientation program in place for new Board members and a continuing education program in place for all directors.

### **Compensation**

- a. *Describe the process by which the Board determines the compensation for the issuer's directors and officers.*

The Corporate Governance Committee periodically reviews the adequacy and form of compensation to directors to ensure that the level of compensation reflects the responsibilities and risks involved in being an effective director and reports and makes recommendations to the Board accordingly.

The Compensation Committee recommends to the Board the annual salary, bonus and other benefits, direct and indirect, of the CEO and approves the compensation for all other designated officers after considering the recommendations of the CEO, all within the compensation policies and general human resources policies and guidelines concerning employee compensation and benefits approved by the Board.

- b. *Disclose whether or not the Board has a compensation committee composed entirely of independent directors. If the Board does not have a compensation committee composed entirely of independent directors, describe what steps the Board takes to ensure an objective process for determining such compensation.*

The Board has a Compensation Committee which is composed of two independent members and one member who is not independent (Mr. Clayton Riddell is the majority shareholder and the CEO). John Roy, the Lead Director, and John Gorman are the other two members of the Compensation Committee. Paramount participates in the annual Mercer Survey conducted by independent consultants encompassing, among other things, executive compensation. The Mercer Survey examines the salary, benefits and other incentive programs in effect with other oil and gas companies operating in Canada. To ensure an objective process for determining the CEO's compensation, the CEO's compensation is approved by the Board.

- c. *If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.*

The Compensation Committee ensures that Paramount has programs in place to attract and develop management of the highest caliber and to ensure orderly succession of management; implements and administers compensation and general human resource policies and guidelines concerning executive compensation, contracts, stock option and other incentive plans, and proposed personnel changes involving officers reporting to the CEO; reviews the Corporation's policies and programs relating to benefits; receives the CEO's recommendations relating to annual compensation policies and budgets for all employees; reviews the Corporation's compensation policies and overall labour relations strategy; makes regular reports to the Board on the Committee's activities and findings; and develops a calendar of activities to be undertaken by the Committee for each ensuing year which is submitted to the Board.

- d. *If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.*

No compensation consultant or advisor has, at any time since the beginning of the 2010 financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, however, with respect to compensation matters, Paramount participates in and utilizes the Mercer Survey.

### **Other Board Committees**

- a. *If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.*

Paramount currently has four standing committees, namely, the Corporate Governance Committee, the Compensation Committee, the Audit Committee and the Environmental Health and Safety Committee.

The Corporate Governance Committee's mandate is to develop and monitor Paramount's overall approach to corporate governance, and subject to the approval of the Board, to implement and administer a system of corporate governance which reflects superior standards of corporate governance practices. The Corporate Governance Committee advises the Board and its committees of any corporate governance issues requiring their consideration. These include issues relating to risk management. The Corporate Governance Committee conducts a periodic review of the principal risks associated with the Corporation's business and reports its findings to the Board. In addition, the Corporate Governance Committee is responsible for the nomination of new candidates for directors as well as director orientation and continuing education.

The main functions of the Compensation Committee are described under the section titled "Compensation".

The Audit Committee's main functions are to assist the Board in the discharge of its responsibilities relating to accounting principles, reporting practices and internal controls as well as to oversee the work of the external auditors. In addition to these duties, the Audit Committee is responsible for, among other things, reviewing Paramount's procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the requirements of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The Audit Committee also reviews the appointment of the independent engineering firm responsible for evaluating reserves and reviews the reserves data and the report of the reserves evaluator prior to making recommendations to the Board with respect thereto. Finally, the Audit Committee is responsible for identifying and monitoring the principal risks that could impact the financial reporting of the Corporation.

The Environmental, Health and Safety Committee's mandate is to review and monitor the environmental, health and safety policies and activities of Paramount and its subsidiaries and to ensure that there are appropriate systems in place to manage the environmental, health and safety risks associated with the operations of the Corporation and its subsidiaries.

### **Assessments**

- a. *Disclose whether or not the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the Board satisfies itself that the Board, its committees, and its individual directors are performing effectively.*

The Board is responsible for making regular assessments of its effectiveness as well as the effectiveness and contribution of each Board committee and each individual director. The Corporate Governance Committee establishes and administers a process (including a review by the full Board and discussion with Management) for assessing the effectiveness of the Board as a whole and the Board committees. A Board assessment and evaluation questionnaire is included in the Corporate Governance Manual and each director, as part of the overall assessment process, will complete a questionnaire on an annual basis.

In addition, each Board committee conducts an annual review and assessment of its performance, including compliance with its charter and its role, duties and responsibilities and submits a report to the Board for consideration and recommendations.

## Schedule “A”

### Board of Directors’ Mandate

The Board of Directors’ Mandate was adopted by the Board on May 19, 2005. The Mandate is set out in its entirety below.

#### Introduction

The Board of Directors (the “Board”) has the responsibility for the overall stewardship of the conduct of the business of the Corporation and the activities of management, which is responsible for the day-to-day conduct of the business. The Board’s fundamental objectives are to enhance and preserve long-term Shareholder value, to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests its other stakeholders such as employees, customers and communities may have in the Corporation. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, shall set the standards of conduct for the Corporation.

#### Procedures and Organization

The Board operates by delegating certain of its powers to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chair, nominating candidates for election to the Board, constituting committees of the Board and determining Director compensation. Subject to the Articles and By-Laws of the Corporation and the Business Corporations Act, Alberta (the “Act”), the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

#### Duties and Responsibilities

The Board’s principal duties and responsibilities fall into a number of categories which are outlined below.

##### 1. Legal Requirements

- (a) The Board has the responsibility to ensure that legal requirements have been met and documents and records have been properly prepared, approved and maintained;
- (b) The Board has the statutory responsibility to:
  - (i) manage the business and affairs of the Corporation;
  - (ii) act honestly and in good faith with a view to the best interests of the Corporation;
  - (iii) exercise the care, diligence and skill that reasonable, prudent people would exercise in comparable circumstances; and
  - (iv) act in accordance with its obligations contained in the Business Corporations Act, Alberta and the regulations thereto, the Corporation’s Articles and By-Laws, securities legislation of each province and territory of Canada, and other relevant legislation and regulations;
- (c) The Board has the statutory responsibility for considering the following matters as a full Board which in law may not be delegated to management or to a committee of the Board:
  - (i) any submission to the shareholders of a question or matter requiring the approval of the shareholders;
  - (ii) the filling of a vacancy among the directors or in the office of auditor;
  - (iii) the issuance of securities;
  - (iv) the declaration of dividends;
  - (v) the purchase, redemption or any other form of acquisition of shares issued by the Corporation;
  - (vi) the payment of a commission to any person in consideration of his/her purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares;
  - (vii) the approval of management proxy circulars;
  - (viii) the approval of the annual financial statements of the Corporation, MD&A and AIF; and
  - (ix) the adoption, amendment or repeal of By-Laws of the Corporation.

##### 2. Independence

The Board has the responsibility to ensure that appropriate structures and procedures are in place to facilitate the Board to function independently of management. In this regard, the Board shall consist of a majority of “independent directors”<sup>1</sup>, as that term is defined in Section 1.4 of Multilateral Instrument 52-110, Audit Committee or such guidelines as may hereafter replace the same. The independent board members should hold separate, regularly scheduled meetings at which members of management are not in attendance. In as much as the chair of the Board of Paramount Resources Ltd. is not independent, an independent director has been appointed as “lead director.”

##### 3. Strategy Determination

The Board has the responsibility to ensure there are long-term goals and a strategic planning process in place for the Corporation and to participate with management directly or through its committees in developing and approving, as required, the mission of the business of the Corporation and the strategic plan by which it proposes to achieve its goals, which strategic plan takes into account, among other things, the opportunities and risks of the Corporation’s business.

##### 4. Managing Risk

The Board has the responsibility to understand the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and the potential return to shareholders, and to ensure that there are appropriate systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Corporation.

5. Division of Responsibilities

The Board has the responsibility to:

- (a) appoint and delegate responsibilities to committees where appropriate to do so; and
- (b) develop position descriptions for:
  - (i) the Chair of the Board;
  - (ii) the lead director;
  - (iii) the Chief Executive Officer;
  - (iv) the President and Chief Operating Officer; and
  - (v) the Chief Financial Officer.

6. Appointment, Training and Monitoring Senior Management

The Board has the responsibility to:

- (a) appoint the Chief Executive Officer, to monitor and assess the Chief Executive Officer's performance, to determine and approve the Chief Executive Officer's compensation, and to provide advice and counsel in the execution of the Chief Executive Officer's duties;
- (b) approve the appointment and remuneration of all other designated corporate officers, acting upon the advice of the Chief Executive Officer;
- (c) the extent feasible, to satisfy itself as to the integrity of the Chief Executive Officer and other corporate officers and that the Chief Executive Officer and other corporate officers create a culture of integrity throughout the organization;
- (d) ensure that adequate provision has been made to train and develop management and for the orderly succession of management; and
- (e) ensure that management is aware of the Board's expectations of management.

7. Policies, Procedures and Compliance

The Board has the responsibility to:

- (a) ensure that the Corporation operates at all times within applicable laws and regulations and to the highest ethical and moral standards;
- (b) approve and monitor compliance with significant policies and procedures by which the Corporation is operated;
- (c) ensure the Corporation sets high environmental standards in its operations and is in compliance with environmental laws and legislation; and
- (d) ensure the Corporation has in place appropriate programs and policies for the health and safety of its employees in the workplace.

8. Reporting and Communication

The Board has the responsibility to:

- (a) ensure the Corporation has in place policies and programs to enable the Corporation to communicate effectively with its shareholders, other stakeholders and the public generally;
- (b) ensure that the financial performance of the Corporation is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;
- (c) ensure that the financial results are reported fairly and in accordance with generally accepted accounting standards;
- (d) ensure the timely reporting of any other developments that have a significant and material impact on the value of the Corporation; and
- (e) report annually to shareholders on its stewardship of the affairs of the Corporation for the preceding year; and
- (f) develop appropriate measures for receiving shareholder feedback.

9. Monitoring and Acting

The Board has the responsibility to:

- (a) monitor the Corporation's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- (b) take action when performance falls short of its goals and objectives or when other special circumstances warrant;
- (c) ensure that the Corporation has implemented adequate internal control and management information systems which ensure the effective discharge of its responsibilities; and
- (d) make regular assessments of the Board's effectiveness, as well as the effectiveness and contribution of each Board Committee. This responsibility has been delegated to the Corporate Governance Committee working in conjunction with the Chairman of the Board.

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<sup>1</sup> Definitions have been omitted.