



## 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 8, 2013, 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, 2012, and the independent auditors' report thereon;
2. elect the directors of the Corporation;
3. appoint the auditors of the Corporation;
4. confirm the adoption of amended and restated by-laws for the Corporation, as described in the attached information circular; and
5. 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

(*signed*) "E. Mitchell Shier"  
Corporate Secretary

Calgary, Alberta, Canada  
March 8, 2013

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## MANAGEMENT INFORMATION CIRCULAR

### 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 8, 2013 at 10:30 a.m. (Calgary time) in 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 8, 2013, unless otherwise noted.

#### Voting Shares and Principal Holders

On March 8, 2013, Paramount had 90,116,374 issued and outstanding Common Shares. Paramount's Common Shares trade under the symbol POU on the Toronto Stock Exchange ("TSX").

To the knowledge of Paramount's directors and executive officers, the only person that held 10% or more of the Common Shares as at March 8, 2013 was Mr. Clayton Riddell, Paramount's Chairman and Chief Executive Officer ("CEO"), who beneficially owned or controlled, directly or indirectly, approximately forty-four percent (44%) of the outstanding Common Shares as of such date.

#### Additional Information

Additional information concerning Paramount, including Paramount's consolidated comparative interim and annual financial statements and management's discussion and analysis thereon, as well as Paramount's latest annual information form dated March 7, 2013, 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 the Corporation's 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 7, 2013, Paramount's 2012 annual report containing the consolidated comparative financial statements for fiscal 2012 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 are a registered holder of Common Shares at the close of business on March 22, 2013, you are entitled to receive notice of, and to attend and vote at the Meeting. You will be entitled to vote your Common Shares held on such date 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 25% 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 each management nominee as a director	FOR
Appointment of auditors	FOR
Confirmation of the adoption of amended and restated by-laws for the Corporation	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 form of 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 6, 2013 or, if the Meeting is adjourned, at least 48 hours (excluding weekends and holidays) before the time set for the Meeting to resume. **The time limit for deposit of proxies may be waived or extended by the chair of the Meeting at his or her discretion without notice.** 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 provide 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 enclosed voting instruction form and follow the applicable instructions on this 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, provided the proxy is in good order.

### ***Voting Instructions***

Applicable regulatory policy requires brokers to seek, or have an intermediary seek on their behalf, voting instructions from beneficial Shareholders in advance of Shareholders' meetings. Every broker and intermediary has its own mailing procedures and provides its own voting and return instructions. These instructions must be carefully followed by beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, 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 convey his or her voting instructions via the internet or by calling a toll-free telephone number. Broadridge then tabulates the results of all voting instructions received and provides appropriate instructions

to Computershare Trust Company of Canada respecting the voting of such 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 other intermediary or broker 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, 2012 and the auditors' report thereon are in the 2012 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. By resolution on March 7, 2013, the Board fixed the number of directors to be elected at the Meeting at ten, each of whom will serve until the next annual meeting of Shareholders or until their respective successors are elected or appointed. The ten nominees are:

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

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 his 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 Corporation's articles permit the Board, between annual meetings of the Shareholders, to appoint one or more additional directors (but no more than 1/3 of the number of directors who held office at the expiration of the last annual meeting of the Shareholders).

The directors named in the enclosed proxy will vote FOR the election of each of these nominees as a director of Paramount unless you indicate that authority to do so is withheld in respect of one or more of the nominees.

### 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 its inception in 1978.

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 7, 2013 for the 2012 fiscal year under the heading "Audit Committee Information" and in Appendix F to the annual information form.

### Confirmation of the Adoption of Amended & Restated By-Laws for the Corporation

#### **General**

Early in 2013 the Board reviewed the Corporation's by-laws, which were adopted by the Board and Shareholders several years ago, and determined that they should be updated to, among other things, reflect the current provisions of the *Business Corporations Act* (Alberta) (the "ABCA") and certain corporate governance best practices. Accordingly, at a meeting of the Board held on March 7, 2013, the Board adopted amended and restated by-laws of the Corporation (the "Amended & Restated By-Laws"). The Amended & Restated By-Laws are attached to this information circular as Schedule "A". Pursuant to the requirements of the ABCA, the adoption of the Amended & Restated By-Laws must be submitted to Shareholders for confirmation.

#### **Description of Key Differences Between the Previous By-Laws and the Amended & Restated By-Laws**

The following summarizes the key differences between the previous by-laws and the Amended & Restated By-Laws and is qualified in its entirety by the text of the provisions of the Amended & Restated By-Laws, which are attached to this information circular as Schedule "A".

- The Amended & Restated By-Laws recognize and permit electronic communications in accordance with the current provisions of the ABCA.
- The Amended & Restated By-Laws amend certain provisions relating to Board meetings to: (i) remove the Chairman's casting vote at Board meetings; and (ii) provide greater flexibility regarding the location of Board meetings.
- The Amended & Restated By-Laws also amend certain provisions relating to Shareholders' meetings to: (i) increase quorum requirements for Shareholders' meetings from 5% to 25%; (ii) remove the chair's casting vote at a Shareholders' meeting; (iii) expand the list of persons who can chair a Shareholders' meeting, to provide additional flexibility; (iv) allow the chair of a Shareholders' meeting to adjourn a Shareholders' meeting; and (v) provide the chair of a Shareholders' meeting with certain other powers to help ensure an orderly Shareholders' meeting.
- The Amended & Restated By-Laws also include an advance notice requirement (the "Advance Notice Requirement") for Shareholders who wish to nominate their own directors at an annual or special Shareholders' meeting. The Advance Notice Requirement was added to the Corporation's by-laws to facilitate an orderly and efficient director nomination process by ensuring that all Shareholders receive adequate notice of director nominations and sufficient information in respect of all nominees so that the proposed nominees' qualifications and suitability as directors can be evaluated and an informed vote cast for the election of directors. The Advance Notice Requirement fixes deadlines for submitting director nominations to the Corporation prior to any annual or special meeting of Shareholders where directors are to be elected, and sets forth the information that a Shareholder must include in their nomination in order for it to be valid. In the case of an annual Shareholders' meeting, the deadlines for notice of a Shareholders' director nominations are not less than 30 days and not more than 65 days prior to the meeting; provided, however, if the first public notice of an annual Shareholders' meeting is given less than 50 days prior to the meeting date, Shareholders must provide notice of their nominations by close of business on the 10th day following the announcement of the meeting. In the case of a special meeting (which is not also an annual meeting) called for the purpose of electing directors, Shareholders must provide notice of their nominations by close of business on the 15th day following first public announcement of the special Shareholders' meeting. The deadlines in the Advance Notice Requirement are supported by Institutional Shareholder Services Inc.

### ***Shareholder Approval***

At the Meeting, Shareholders will be asked to consider the following ordinary resolution confirming the adoption of the Amended & Restated By-Laws:

"BE IT RESOLVED AS AN ORDINARY RESOLUTION THAT:

1. The adoption by the board of directors of the Corporation of General By-Law Number 1 of the Corporation, in substantially the form set out in Schedule "A" to the information circular of the Corporation dated March 8, 2013, as amended and restated by-laws of the Corporation is hereby ratified, confirmed and approved.
2. Any one officer or director of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation to execute and deliver or file such documents and instruments, and to do all such other acts and things as are required or as such officer or director, in such officer's or director's sole discretion, may deem necessary to give full effect to or carry out the provisions of the foregoing resolution."

This resolution must be passed by a majority of the votes cast by the Shareholders present in person or by proxy at the Meeting. The directors named in the enclosed proxy will vote FOR this resolution unless you indicate to vote against it.

### **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.

Shareholders are entitled to vote for or withhold their vote for each nominee on an individual basis, and the Board has adopted a policy whereby if a director receives more "withhold" votes than "for" votes in any uncontested election of directors the remaining directors will be required to promptly determine whether such director should be asked to tender his or her resignation from the Board. Factors to be considered in making such determination would include the Board's understanding of the rationale for the withhold votes, whether the director in question possesses particular skills or experience that would be difficult to replace within a reasonable period of time, any management positions held by such director and such director's equity holdings in Paramount. The policy also provides that even if all directors do receive a majority of "for" votes the Board will nonetheless, as part of its annual process of assessing director nominees, consider the "for" and withhold" votes that each director received (and the circumstances relating to such voting results) in determining whether to nominate those individuals for re-election at the next annual general meeting of Shareholders.

As the Corporation's directors and officers own or control, directly or indirectly, more than 50% of the Common Shares, the Board feels that this policy is appropriate. When the securities regulatory authorities provide further guidance and rules on director voting policies, and in particular their application to corporations with major shareholders (which is anticipated to occur sometime in 2013), the Board will promptly make any changes to its current policy that may be required to fully comply with these rules.

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

Calgary, Alberta, Canada  
Chairman and CEO  
Paramount Resources Ltd.  
Non-Independent Director  
Director Since: 1978  
Age: 75

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., the Chairman of the Board of Trilogy Energy Corp., a director and the CEO of MGM Energy Corp. and a director of Tourmaline Oil Corp., all of which are public oil and gas exploration and production companies. He is also currently a director of Alaris Royalty Corp. (a Canadian public company that provides alternative financing to private businesses), but will be stepping down from that board on April 18, 2013.

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 and Geoscientists 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 an Outstanding Explorer award from the American Association of Petroleum Geologists (2004). In 2006, Mr. Riddell was inducted into the Calgary Business Hall of Fame and in 2008 he was made an Officer of the Order of Canada.

#### Paramount Board / Committee Participation

Participation	Fiscal 2012 Meeting Attendance
Board of Directors	4/4 100%
Compensation Committee (Chair)*	1/1 100%

\* Mr. Riddell was replaced by Mr. James Bell on the Compensation Committee on March 7, 2013

#### Paramount Holdings

Common Shares: 39,397,498<sup>(2)</sup>

Options: 1,050,000

Minimum Share Ownership<sup>(3)</sup>:  
Attained

#### Cavalier Energy Inc. Holdings\*

Options: 400,000

\* Cavalier Energy Inc. is a private wholly-owned subsidiary of the Corporation

#### Other Public Board Directorships\*

Alaris Royalty Corp.\*\*

MGM Energy Corp.

Perpetual Energy Inc.

Tourmaline Oil Corp.

Trilogy Energy Corp.

\* MGM, Perpetual and Trilogy were all spun-out from Paramount, and Paramount retains a significant equity interest in both MGM and Trilogy

\*\* Mr. Riddell is not standing for re-election as a director of Alaris

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**James Riddell**<sup>(1)(4)</sup>

Calgary, Alberta, Canada  
President and Chief Operating  
Officer  
Paramount Resources Ltd.  
Non-Independent Director  
Director Since: 2000  
Age: 46

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. and a director of MGM Energy Corp., Sonde Resources Corp. and Strategic Oil & Gas Ltd. (all four of which are public oil and gas exploration and production companies). Mr. Riddell is also a director of Big Rock Brewery Inc. (a public company which produces and markets beer) and DevCorp Capital Inc. (a capital pool 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.

**Paramount Board / Committee Participation**

Board of Directors 4/4 100%

**Paramount Holdings**

Common Shares: 178,214

Options: 1,430,000

Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Cavalier Energy Inc. Holdings\***

Options: 500,000

\* Cavalier Energy Inc. is a private wholly-owned subsidiary of the Corporation

**Other Public Board Directorships\***

Big Rock Brewery Inc.

DevCorp Capital Inc.

MGM Energy Corp.

Sonde Resources Corp.

Strategic Oil & Gas Ltd.

Trilogy Energy Corp.

\* MGM and Trilogy were both spun-out from Paramount, and Paramount retains a significant equity interest in both of these companies

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**James Bell**

Calgary, Alberta, Canada  
General Counsel  
Olympia Trust Company  
Independent Director<sup>(5)</sup>  
Director Since: 2011  
Age: 38

Mr. Bell has been a director of Paramount since November, 2011. Mr. Bell is currently General Counsel for Olympia Financial Group Inc. (a public company) and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company). Prior thereto, Mr. Bell practiced securities and corporate commercial law as a partner at Davis LLP (an international law firm) until December 31, 2009. Mr. Bell has acted as legal counsel in connection with private placements, prospectus offerings, take-over bids, plans of arrangement and general securities and corporate finance matters.

Mr. Bell graduated from the University of Saskatchewan with a Bachelor of Laws degree in 1999.

**Paramount Board / Committee Participation\***

Board of Directors 4/4 100%

Corporate Governance Committee 2/2 100%

Audit Committee 4/4 100%

\* Mr. Bell replaced Mr. Clayton Riddell on the Compensation Committee on March 7, 2013

**Paramount Holdings**

Common Shares: 5,000

Options: 36,000

Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Other Public Board Directorships**

None

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**Thomas Claugus**

Atlanta, Georgia, U.S.A.  
President  
GMT Capital Corp.  
Independent Director<sup>(5)</sup>  
Director Since: 2010  
Age: 61

Mr. Claugus has been a director of Paramount since 2010. He 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 2012 Meeting Attendance</b>
Board of Directors	4/4 100%
Corporate Governance Committee	2/2 100%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 6,455,900 <sup>(6)</sup>	Strategic Oil & Gas Ltd.
Options: 44,000	
Minimum Share Ownership <sup>(3)</sup> : Attained	

## **John Gorman**

Calgary, Alberta, Canada  
Retired  
Independent Director<sup>(5)</sup>  
Director Since: 2002  
Age: 67

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.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2012 Meeting Attendance</b>
Board of Directors	4/4 100%
Audit Committee (Chair)	4/4 100%
Corporate Governance Committee	2/2 100%
Compensation Committee	1/1 100%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 10,001	None
Options: 39,500	
Minimum Share Ownership <sup>(3)</sup> : Attained	

## **Dirk Jungé, CFA**

Bryn Athyn, Pennsylvania, U.S.A.  
Chairman and CEO  
Pitcairn Trust Company  
Independent Director<sup>(5)</sup>  
Director Since: 2000  
Age: 64

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 2012. 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.

<b>Paramount Board / Committee Participation</b>	<b>Fiscal 2012 Meeting Attendance</b>
Board of Directors	4/4 100%
Corporate Governance Committee	2/2 100%
Environmental Health & Safety Committee	2/2 100%

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 39,473	None
Options: 39,500	
Minimum Share Ownership <sup>(3)</sup> : Attained	

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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  
Age: 68

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**

	Fiscal 2012 Meeting Attendance	
Board of Directors	4/4	100%
Corporate Governance Committee	2/2	100%

**Paramount Holdings**

Common Shares: 1,193,501<sup>(7)</sup>  
Options: 51,000  
Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Other Public Board Directorships**

Ligand Pharmaceuticals Inc.  
Rubicon Limited

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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  
Age: 48

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 oil and gas exploration and development company) and its predecessor, Paramount Energy Trust. Prior thereto, Ms. Riddell Rose was a geological engineer and Corporate Operating Officer of Paramount and prior to that, a geological engineer with Shell Canada Limited. 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 and Geoscientists of Alberta, the Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists, and a governor of the Canadian Association of Petroleum Producers.

**Paramount Board / Committee Participation**

	Fiscal 2012 Meeting Attendance	
Board of Directors	4/4	100%

**Paramount Holdings**

Common Shares: 169,012  
Options: 51,000  
Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Other Public Board Directorships**

Newalta Corporation  
Perpetual Energy Inc.

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

Calgary, Alberta, Canada  
Independent Businessman  
Independent and Lead Director<sup>(5)</sup>  
Director Since: 1981  
Age: 72

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 and Geoscientists of Alberta.

**Paramount Board / Committee Participation**

	Fiscal 2012 Meeting Attendance	
Board of Directors	4/4	100%
Audit Committee	4/4	100%
Compensation Committee	1/1	100%
Corporate Governance Committee (Chair)	2/2	100%

Environmental Health & Safety 2/2 100%  
Committee

**Paramount Holdings**

Common Shares: 38,901

Options: 51,000

Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Other Public Board Directorships**

None

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

Calgary, Alberta, Canada  
Business Executive  
Non-independent Director  
Director Since: 1978  
Age: 81

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.

**Paramount Board / Committee Participation**

Board of Directors

**Fiscal 2012 Meeting Attendance**

4/4 100%

Environmental Health & Safety  
Committee (Chair)

2/2 100%

**Paramount Holdings**

Common Shares: 10,389

Options: 28,500

Minimum Share Ownership<sup>(3)</sup>:  
Attained

**Other Public Board Directorships**

None

**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) 24,537,200 Common Shares are held by Warner Investment Holdings Ltd., 12,189,470 are held by Dreamworks Investment Holdings Ltd., and 1,890,400 are held by Treherne Resources Ltd., in all of which Mr. Clayton Riddell is the controlling shareholder. Mr. Clayton Riddell holds 46,027 Common Shares directly. The Riddell Family Charitable Foundation holds 1,711,900 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) The Corporation adopted a share ownership policy in March 2013 requiring each of its directors to acquire, within three years of the date of (i) becoming a director; or (ii) the date of the policy, whichever is later, Common Shares having a value equal to at least three times such director's annual base retainer, and to hold such Common Shares during his or her tenure.
- (4) Mr. James Riddell was a director of Jurassic Oil and Gas Ltd., a private oil and gas company, within one year of such company becoming bankrupt.
- (5) Independence is based on the definitions contained in National Instrument 52-110, National Instrument 58-101 and National Policy 58-201. Each year and upon appointment all independent directors complete an independence questionnaire to assess, or re-assess, their status as independent directors.
- (6) Mr. Claugus is the President of GMT Capital Corp., a private investment company, and in that capacity exercises direction and control over 6,455,900 Common Shares which are held in various partnerships and funds that are managed by GMT Capital Corp. 153,200 of these Common Shares are beneficially owned, directly or indirectly, by Mr. Claugus.
- (7) Mr. Knott exercises direction and control over 1,193,501 Common Shares which are held in various partnerships and funds that he manages. 55,701 of such Common Shares are beneficially owned, directly or indirectly, by Mr. Knott

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.

**Competency Matrix for Director Nominees**

The Board, through the Corporate Governance Committee, has developed a competency matrix to ensure that the members of the Board, through their skills, business expertise and experience, meet the needs of the Board. The following table sets out some of the skills, expertise and experience of Paramount's directors:

	Clayton Riddell	James Riddell	James Bell	Thomas Claugus	John Gorman	Dirk Jungé	David Knott	Susan Riddell-Rose	John Roy	Bernhard Wylie
Board Experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
CEO Experience	✓	✓		✓	✓	✓	✓	✓		
Strategic Planning	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operations	✓	✓		✓				✓		✓

	Clayton Riddell	James Riddell	James Bell	Thomas Claugus	John Gorman	Dirk Jungé	David Knott	Susan Riddell-Rose	John Roy	Bernhard Wylie
Project Management	✓	✓		✓	✓	✓		✓	✓	✓
Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Accounting/ Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Executive Compensation	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Government/ Public Policy	✓	✓	✓					✓		✓
Human Resources	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Legal			✓							

### Independence of Director Nominees

A majority of the members of the Board are independent, and all members of the Audit Committee, Corporate Governance Committee and Compensation Committee are independent.

Director Nominee	Independent	Non-Independent	Reason for Non-Independence
Clayton Riddell		✓	Also the Chief Executive Officer
James Riddell		✓	Also the President and Chief Operating Officer
James Bell	✓		
Thomas Claugus	✓		
John Gorman	✓		
Dirk Jungé	✓		
David Knott	✓		
Susan Riddell-Rose		✓	Familial relationship with Chief Executive Officer and President and Chief Operating Officer
John Roy	✓		
Bernhard Wylie		✓	Consultant receiving fees from the Corporation

Mr. John Roy, an independent director, is the Board's Lead Director. His duties include, among other things, ensuring that differences between the responsibilities of the Board and Management are understood by all, ensuring that independent directors have adequate opportunities to meet to discuss issues without management present, and acting as a liaison between the independent directors and management.

*In camera* sessions of independent directors are currently held in connection with most meetings of the Board of Directors and its committees, and the Board has recently adopted a policy making it a requirement that an *in camera* meeting of independent directors be held in connection with all future Board and committee meetings.

### Board Interlocks

The following table sets out interlocking board memberships of the Corporation's directors. Paramount spun-out each of the companies listed below with the exception of Strategic Oil & Gas Ltd.

Company	Director	Committee Membership
Trilogy Energy Corp.	Clayton Riddell James Riddell	None None
MGM Energy Inc.	Clayton Riddell James Riddell	Corporate Governance Committee None
Perpetual Energy Inc.	Clayton Riddell Susan Riddell-Rose	None Environmental, Health & Safety Committee
Strategic Oil & Gas Ltd.	Thomas Claugus James Riddell	Compensation Committee None

## 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. Paramount does not currently anticipate making any significant changes to its compensation policies and practices in the next financial year.

### Base Salary

Paramount considers a base salary an important component of a NEO's compensation. 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 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's philosophy with respect to base salaries is to be competitive within the industry but not to be tied to a particular industry average or percentile. As a result, Paramount is able to be flexible in fixing base salaries to attract and retain NEOs of the highest caliber.

Paramount relies on the expertise and experience of its Compensation Committee as well as annual comparative compensation data received through its 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. In particular, Paramount uses the "Energy Sector" and "Exploration & Production" industry segment. The Energy Sector is comprised of approximately 1,000 participants and the Exploration & Production segment is comprised of approximately 600 participants. 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.

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, expertise, education, years of service, among others, 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.

Other than subscribing to the Mercer Survey, Paramount has not engaged compensation consultants or advisors.

While Paramount's base salary program for its executive officers is competitive, Paramount intends for the majority of such officers' compensation to be derived from variable or "at risk" compensation -- compensation which is aligned most closely with Shareholders' investments as reflected in the trading price of Paramount's shares on the market. This is accomplished mainly through the SIP and Stock Option Plan, both of which are described below. See also "Compensation Mix" below.

## **Stock and Cash 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 them to have a long term investment in Paramount's Common Shares. SIP grants are in the form of entitlements to Common Shares ("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, with their delayed vesting schedule, serve to ensure that employees do not undertake actions which would provide short term gain at the expense of longer term Shareholder interests.

SIP awards are made annually at the discretion of the CEO, subject to corporate and individual performance targets being met. The SIP target for NEOs, other than the CEO and President, is approximately 30% of the NEOs base salary, approximately two-thirds of which is based on individual performance targets being met and approximately one-third of which is based on corporate performance targets being met. Corporate performance targets are established annually by the CEO and include a combination of annual production, production exit rate, operating cost, finding and development cost and capital spending targets for each operating area, 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 dependent on the extent to which corporate and/or individual targets have been met. The SIP awards granted to the President and CEO are at the discretion of the Compensation Committee and Board of Directors, respectively.

### ***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 (except for cash bonuses for the CEO and President which are determined and/or approved by the Compensation Committee or Board).

Cash bonuses are intended to reward individuals who have made a material contribution to projects and transactions that further Paramount's goal of long term value creation for its Shareholders. Cash bonuses are extraordinary awards and are not considered to be a primary component of Paramount's compensation program.

The only cash bonuses that have been awarded to NEO's in the past six years are as follows: Mr. James Riddell was awarded a cash bonus of \$150,000 in respect of fiscal 2010, Mr. Purdy was awarded a cash bonus of \$50,000 in respect of fiscal 2010 and a cash bonus of \$75,000 in respect of fiscal 2011 and Messrs. Lee and Shier were awarded cash bonuses of \$75,000 for each of fiscal 2010 and 2011. These bonuses ranged between approximately 25% and 33% of these NEO's base salaries in the years they were granted.

Messrs. Riddell's and Purdy's bonuses were paid to them in recognition of their leadership roles in formulating and successfully implementing the first stages of the Corporation's Deep Basin liquids rich gas development strategy. Messrs Lee and Shier were awarded their cash bonuses for their work on a series of important debt and equity financings and corporate acquisitions and re-organizations in fiscal 2010 and 2011.

As shown in the Total Return Performance Graph on page 18 below, Paramount's total return during the five year period from 2008 through 2012 was 134% versus 4% for the S&P/TSX Composite Index.

## **Stock Option Grants**

The intent of 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 schedules of five years 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 over a five year vesting schedule and expire six months after the last vesting date. 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, individual and corporate performance, size of prior option grants and other compensation received by the NEO and, in the case of the President and CEO, also their management expertise and leadership qualities.

In November 2011, Paramount reorganized all of its oil sands and bitumen interests into a new wholly-owned subsidiary, Cavalier Energy Inc. ("Cavalier"). The reorganization was undertaken to create a self-funding oil sands entity. Certain NEOs are also officers of Cavalier and have been granted options to acquire Cavalier shares under Cavalier's option plan (the "Cavalier Option Plan"). Such NEOs receive no other compensation from Cavalier. The Cavalier Option Plan is substantively similar to Paramount's Option Plan. The Cavalier Option Plan, like Paramount's Option Plan, is designed to recognize those who are responsible for Cavalier's management and growth and to directly align long term compensation with value creation. To date, options granted under the Cavalier Option Plan vest in equal tranches over four or five year vesting schedules and have a seven year term. Options were granted to certain NEOs under the Cavalier Option Plan in fiscal 2011, but no options were granted to any NEOs under the Cavalier Option Plan in fiscal 2012.

### Compensation Mix

When awarding or recommending grants of compensation to its NEOs and directors, the Compensation Committee considers all other forms of compensation granted to such officers and directors to attain an appropriate pay mix.

The following table depicts the mix of fixed and variable, or "at risk", compensation of the NEOs for fiscal 2012.

NEO	Percentage of fiscal 2012 Compensation Fixed (comprised of base salary)	Percentage of fiscal 2012 Compensation at Risk (comprised of SIP grants and stock options)
Clayton Riddell	15%	85%
James Riddell	10%	90%
Bernard Lee	27%	73%
Mitchell Shier	27%	73%
Darrell Purdy	24%	76%

### Risk Oversight in Relation to Compensation Policies and Practices

The Compensation Committee has discussed and assessed the risks related to Paramount's compensation policies and practices and is of the view that, when considered in their totality, Paramount's compensation policies and practices do not incentivize excessive risk taking.

#### Base Salary

Paramount's Compensation Committee has determined that Paramount's salary program does not encourage NEOs to take inappropriate or excessive risks for the following reasons:

- Base salaries provide a steady income regardless of share price performance. This allows executives and employees to focus on both Paramount's near term business plans and long term goals and objectives without undue reliance on share price performance or short term market fluctuations.
- Base salaries are competitive to attract high performing employees, but are not excessive.
- Increases to base salaries are generally moderate, with the Compensation Committee, or the Board in the case of the CEO, having the discretion to grant more significant increases based on exceptional performance.
- In most cases, severance is based on common law principles and no excessive severance or change of control arrangements are in place. Accordingly, management is focused on long term value creation versus short term growth with a view to a corporate sale that would trigger payout arrangements.

#### SIP Awards

The Compensation Committee considered the SIP and believes that the SIP and SIP awards should not encourage inappropriate or excessive risk taking for the following reasons:

- Paramount's SIP awards are variable at-risk components of compensation and unlike traditional annual cash bonuses, SIP awards are share awards. This encourages an ownership mentality among all employees.
- The SIP's delayed vesting provisions (three tranches over two years), which have no counterpart in the annual cash bonus programs used by many of Paramount's peers, encourage a focus on long term value creation. These delayed vesting provisions apply to all eligible employees other than the CEO and President (who are excluded because of their significant equity positions in Paramount, which achieves the same result).

### Cash Bonuses

The Compensation Committee has concluded that Paramount's discretionary cash bonuses should not encourage excessive risk taking by NEOs for the reasons below:

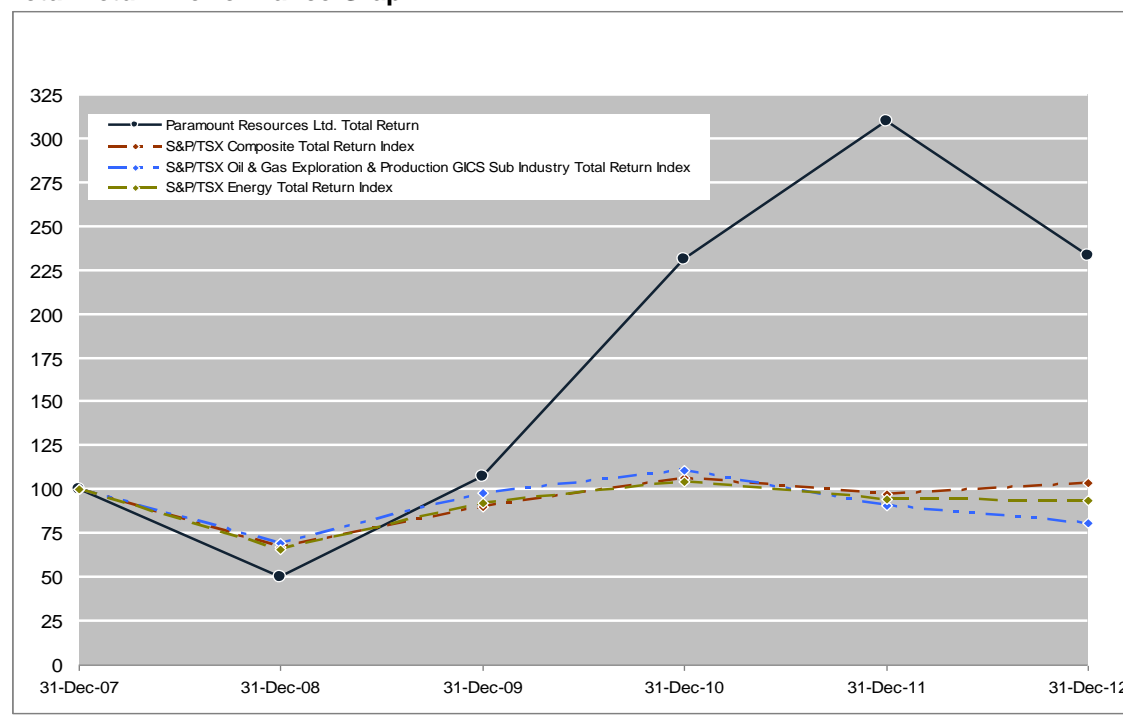
- Cash bonuses, when awarded, are modest and typically range from \$50,000 to \$150,000 per individual.
- Cash bonuses reward exceptional results that have a long term positive impact on Paramount. They are linked to strategic achievements and the successful completion of major projects and transactions that will have a meaningful impact on Paramount's goal of long term value creation.
- Cash bonuses are awarded infrequently. No cash bonuses were awarded in respect of fiscal 2007, 2008 or 2009. Cash bonuses were awarded to certain NEOs in respect of fiscal 2010 and 2011, but no cash bonuses were awarded in respect of fiscal 2012.

### Stock Option Grants

Paramount's Compensation Committee believes that the Option Plan is not designed to encourage excessive risk taking for the reasons set out below:

- The quantum of an option grant is tied to past performance as well as perceived future value to Paramount. Grants of options generally vest over 5 years with the first tranche only vesting after the first year. This motivates the achievement of long term sustainable objectives and aligns interests with Shareholders.
- Paramount does not award off cycle grants of options except in the case of new employees.
- There is no automatic vesting upon a change of control and, with limited exceptions, upon resignation or termination all unvested options terminate.

### Total Return Performance Graph



	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12
Paramount Resources Ltd. Total Return	100	50	107	231	310	234
S&P/TSX Composite Total Return Index	100	67	90	106	97	104
S&P/TSX Oil & Gas Exploration & Production GICS Sub Industry Total Return Index	100	69	98	111	91	81
S&P/TSX Energy Total Return Index	100	66	92	105	94	94

Paramount's total return performance graph, as depicted above, reflects both operational and financial performance within Paramount's control as well as the impact of factors beyond Paramount's control, including fluctuations in commodity prices and economic and market conditions. The price of Paramount's Common Shares over the time period indicated in the above graph has been positively affected by production and reserves growth (notably in the Kaybob Corporate Operating Unit), increases in the value of Paramount's portfolio of investments in other oil and gas entities, furthering the development of Paramount's bitumen resources within the Grand Rapids formation at its Hoole oil sands property and the reorganization of those interests into Cavalier, as well as good economic and market conditions. The price of Paramount's Common Shares over the time period indicated in the above graph has been negatively affected by decreasing commodity prices, poor economic and market conditions and, at times, operational difficulties and delays and increasing operational costs. The decline in the Common Share price in fiscal 2012 was due, to a large degree, to the exceptionally warm 2011-2012 winter and resulting decrease in natural gas prices. The price of Paramount's Common Shares was also impacted by turbulent and volatile global economic and market conditions over the five year period shown in the total return performance graph.

Other than a 5% salary increase for the President for fiscal 2009 over fiscal 2008, neither the CEO nor the President has had any salary increase during the period covered by the Total Return Performance Graph -- a period during which the total return on the Common Shares was 134% (compared to a total return on the S&P/TSX composite index of 4%). During this same five year period the CFO and Corporate Secretary were awarded annual salary increases in the 5-7.5% range which was consistent with the salary increases awarded to people in similar positions in other oil and gas companies (with the exception being fiscal 2010 when neither the CFO nor the General Counsel received any salary increase over fiscal 2009 as part of a company wide salary freeze that was instituted in response to a sharp decrease in natural gas prices). The other NEO, Mr. Purdy, has received salary increases in the 6-15.5% range over this five year period, with the higher increases being awarded in the last three years in recognition of his increased responsibilities in overseeing the development of the Corporation's liquids rich Deep Basin natural gas properties.

For bonuses paid to the NEOs during the period covered by the Total Return Performance Graph, other than annual SIP grants, see "Compensation Discussion and Analysis - Stock and Cash Bonuses - Cash Bonuses".

## **Compensation Governance**

In 2005, Paramount's Board of Directors approved the current Compensation Committee Charter. The Compensation Committee Charter sets out the Compensation Committee's composition, procedure and organization as well as its primary duties and responsibilities, some of which are as follows:

- a. to recommend to the Board compensation policies and general human resources policies and guidelines concerning employee compensation and benefits;
- b. to ensure that the Corporation has in place programs to attract and develop management of the highest caliber and a process to provide for the orderly succession of management;
- c. to make recommendations to the Board with respect to the annual salary, bonus and other benefits, direct and indirect, of the CEO and to approve compensation for all other designated officers in the Corporation 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 such compensation to realistically reflect the responsibilities and risks of such positions;
- d. to implement and administer compensation policies and general human resources policies and guidelines relating to employee compensation and benefits relating to the following:
  - i. executive compensation, contracts, stock plans or other incentive plans; and
  - ii. proposed personnel changes involving officers reporting to the CEO;
- e. from time to time, to review the Corporation's broad policies and programs in relation to benefits;
- f. to annually receive from the CEO recommendations concerning annual compensation policies and budgets for all employees;
- g. from time to time, to review with the CEO the Corporation's broad policies on compensation for all employees and overall labour relations strategy for employees; and
- h. to report regularly to the Board on all of the Committee's activities and findings during that year.

Mr. Clayton Riddell, who was on the Compensation Committee for fiscal 2012, was replaced by Mr. James Bell on March 7, 2013. Accordingly, the Compensation Committee is composed of the following directors: Mr. John Gorman, Mr. John Roy and Mr. James Bell. Messrs. Gorman, Roy and Bell are all independent directors. Messrs Gorman and Roy have extensive managerial and executive experience dealing with employee performance and compensation (see the brief biography for each member below). Each of Messrs Gorman and Roy has worked in excess of 25 years in the oil and gas industry or in businesses related thereto, in a number of different roles and has

extensive knowledge of relevant compensation industry practices and trends. Mr. Bell has been involved in the negotiation and preparation of various executive compensation packages in his role as General Counsel for his current employer, and in his previous role as a private practitioner Mr. Bell advised numerous clients with respect to executive compensation matters. When making decisions with respect to compensation, the Committee also has the benefit of information obtained from the Mercer Survey and Paramount's Human Resources department. Given their wealth of experience and the resources available to them, the members of the Compensation Committee are well positioned to make decisions with respect to Paramount's compensation policies and practices.

*John Gorman*

Mr. Gorman was the President and CEO of an energy trading, marketing and financial services company from 1996 to 2000 and prior to that worked for 25 years for the Bank of Montreal, where the final position he held was Senior Vice President, Natural Resources Group. Over his career, Mr. Gorman has held a number of senior management positions in Canada as well as internationally in London, Mexico and Singapore. Throughout his executive career, Mr. Gorman was directly involved in compensation matters, including salary and bonus administration, for executives and senior managers reporting to him, as well as oversight responsibility for compensation matters relating to more junior staff. Mr. Gorman has a Bachelor of Arts degree from the University of Ottawa and a Master of Business Administration degree from the University of Western Ontario.

*John Roy*

Mr. Roy was the Vice-President and Director, Investment Banking of Jennings Capital Inc. (a private investment banking firm), from 1997 to 2003, and prior to that he held various positions at Greenshields Incorporated and its successor, Richardson Greenshields of Canada Ltd. (a private investment banking firm). At Jennings Capital Inc. Mr. Roy was responsible for designing a compensation policy for all professional employees. In his various roles at Greenshields Incorporated and its successor, Richardson Greenshields of Canada Ltd., Mr. Roy was responsible for compensation matters for employees under his supervision. 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.

*James Bell*

Mr. Bell is currently General Counsel for Olympia Financial Group Inc. (a public company) and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company). Prior thereto, Mr. Bell practiced securities and corporate commercial law as a partner at Davis LLP (an international law firm) until December 31, 2009. Mr. Bell has acted as legal counsel in connection with private placements, prospectus offerings, take-over bids, plans of arrangement and general securities and corporate finance matters. Mr. Bell has been involved in the negotiation and preparation of various executive compensation packages in his role as General Counsel for Olympia Financial Group Inc. and acts as secretary and advisor for its compensation committee. As Mr. Bell's employer is a financial institution, he has worked with the compensation principles set out for financial institutions and has experience with assessing risk factors relating to executive compensation. Further, in his previous role as a private practitioner, Mr. Bell advised numerous clients with respect to executive compensation matters.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides a summary of compensation earned in fiscal 2010, 2011 and 2012 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> <sup>(4)</sup> CEO	2012	436,485	252,140	2,280,000	nil	2,968,625
	2011	436,225	321,000	3,929,422 <sup>(5)</sup>	nil	4,686,647
	2010	436,000	425,000	2,143,500	nil	3,004,500
<b>James Riddell</b> <sup>(4)</sup> President	2012	457,735	882,490	3,040,000	nil	4,380,225
	2011	457,475	802,500	5,136,896 <sup>(5)</sup>	nil	6,396,871
	2010	457,250	446,250	2,858,000	150,000 <sup>(6)</sup>	3,911,500
<b>Bernard Lee</b> Chief Financial Officer	2012	309,607	66,716	760,000	nil	1,136,323
	2011	293,447	64,800	1,023,274 <sup>(5)</sup>	75,000 <sup>(7)</sup>	1,456,521
	2010	274,793	64,800	714,500	75,000 <sup>(6)</sup>	1,129,093
<b>Mitchell Shier</b> Corporate Secretary	2012	296,485	62,102	760,000	nil	1,118,587
	2011	281,225	61,200	1,023,274 <sup>(5)</sup>	75,000 <sup>(7)</sup>	1,440,699
	2010	267,000	61,200	535,875	75,000 <sup>(6)</sup>	939,075
<b>Darrel Purdy</b> Corporate Operating Officer	2012	255,738	63,464	760,000	nil	1,079,202
	2011	239,922	60,000	900,474	75,000 <sup>(7)</sup>	1,275,396
	2010	207,668	60,000	714,500	50,000 <sup>(6)</sup>	1,032,168

**Notes:**

- (1) The amounts included in the Share-based Awards column represent the monetary value of the vested and unvested Paramount Common Shares granted to NEOs under Paramount's SIP during the applicable year. The number of Common Shares comprising the SIP Award for each NEO is 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. For the grants under the Option Plan in fiscal 2012 the inputs were as follows: expected life 5.4 years, volatility 48% and interest rate 1.4%. For the grants under the Cavalier Option Plan to Messrs Clayton Riddell, James Riddell, Bernard Lee and Mitchell Shier in fiscal 2011 the inputs were as follows: expected life 6.9 years, volatility 63% and interest rate 1.6%. This methodology is consistent with the method used to estimate the fair value of options in Paramount's 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 2010 through 2012. The "Total Compensation" column does not include any amounts from these omitted columns.
- (4) Messrs. Clayton Riddell and James Riddell do not receive compensation in their capacity as directors of Paramount.
- (5) In fiscal 2011, Messrs. Clayton Riddell, James Riddell, Lee and Shier received option grants under the Option Plan and under the Cavalier Option Plan. The grant date fair value of both grants is included in the fiscal 2011 figures given above.
- (6) Cash bonus in respect of exceptional performance in 2010.
- (7) Cash bonus in respect of exceptional performance in 2011.

### Narrative Discussion Related to the Summary Compensation Table

#### Salary

The figures in the Salary column of the Summary Compensation Table represent the salary for NEOs in fiscal 2010, 2011 and 2012.

In the summer of 2012, Paramount instituted a voluntary Friday off program (without pay) for all employees and NEOs. Mr. Lee participated in this program, which resulted in him having an overall salary reduction of 3.84% for fiscal 2012. Mr. Lee's reduced salary is shown in the Salary column for 2012. Messrs. Lee, Shier and Purdy received salary increases of 4.84%, 5.26% and 10%, respectively, for fiscal 2013.

### **Share-based Awards**

The figures in the Share-based Awards column of the Summary Compensation Table represent the monetary value of the annual SIP grants in fiscal 2010, 2011 and 2012. The number of Common Shares comprising the SIP Award is 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). With respect to Messrs. Lee, Shier and Purdy, one-third of their award vested immediately, one-third vests on the first anniversary of the grant date and one-third vests 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 awards vest on the grant date and the table above reflects the grant date fair value of their SIP grant in each particular year.

### **Option-based Awards**

The figures in the Option-based Awards column of the Summary Compensation Table represent the grant date fair value of options granted to NEOs in fiscal 2010, 2011 and 2012 (with the December 2012 grant of Paramount's Options hereinafter being referred to as the "December 2012 grant").

The grant date fair value of stock option awards granted to NEOs shown in the summary compensation table above is calculated using the Black-Scholes model. The grant date fair values resulting from the use of this methodology is to a significant degree a function of the historical volatility in the trading price of the Common Shares. As previously indicated, all stock options granted to NEOs are granted at the current market price of the Common Shares and, accordingly, are not "in the money" when issued.

The December 2012 grant vests in five equal annual tranches commencing on October 19, 2013 and ending on October 19, 2017. The December 2012 grant expires on April 30, 2018. In November 2011, Messrs. Clayton Riddell, James Riddell, Lee and Shier also received grants of options to acquire 400,000, 500,000, 40,000 and 40,000 shares of Cavalier, respectively, under the Cavalier Option Plan. These grants vest in four equal tranches commencing October 1, 2012 and ending October 1, 2015. The grants to Messrs. Clayton Riddell, James Riddell, Lee and Shier pursuant to the Cavalier Option Plan expire September 30, 2018. No grants of Cavalier options were made to NEOs in fiscal 2012.

The following table summarizes the December 2012 grant to the NEOs. These grants represented 37.3% of the total option grants made by the Corporation in fiscal 2012 and 0.6% of the outstanding Common Shares as at December 31, 2012.

<b>Name</b>	<b>Total Option Grant</b>	<b>Option Exercise Price (\$)</b>
Clayton Riddell	150,000	34.12
James Riddell	200,000	34.12
Bernard Lee	50,000	34.12
Mitchell Shier	50,000	34.12
Darrel Purdy	50,000	34.12

## 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	Option-based Awards				Share-based Awards		
	# of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of unvested shares (#)	Market or payout value of unvested share-based awards (\$) <sup>(1)</sup>	Market or payout value of vested share-based awards not paid out or distributed (\$) <sup>(1)</sup>
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Clayton Riddell <sup>(2)</sup>	150,000	34.12	April 30, 2018	0	nil	nil	nil
	150,000	40.09	April 30, 2017	0			
	150,000	29.46	April 30, 2016	381,000			
	100,000	13.20	April 30, 2015	1,880,000			
	500,000	7.34	April 30, 2013	12,330,000			
James Riddell <sup>(2)</sup>	200,000	34.12	April 30, 2018	0	nil	nil	nil
	200,000	40.09	April 30, 2017	0			
	200,000	29.46	April 30, 2016	508,000			
	150,000	13.20	April 30, 2015	2,820,000			
	780,000	7.34	April 30, 2013	19,234,800			
Bernard Lee <sup>(2)</sup>	50,000	34.12	April 30, 2018	0	2,437	77,984	nil
	50,000	40.09	April 30, 2017	0			
	50,000	29.46	April 30, 2016	127,000			
	25,000	13.20	April 30, 2015	470,000			
	100,000	7.34	April 30, 2014	2,466,000			
Mitchell Shier <sup>(2)</sup>	50,000	34.12	April 30, 2018	0	2,277	72,864	nil
	50,000	40.09	April 30, 2017	0			
	37,500	29.46	April 30, 2016	95,250			
	20,000	13.20	April 30, 2015	376,000			
	60,000	7.36	May 31, 2014	1,478,400			
Darrel Purdy	50,000	34.12	April 30, 2018	0	2,301	73,632	nil
	50,000	40.09	April 30, 2017	0			
	50,000	29.46	April 30, 2016	127,000			
	17,500	13.20	April 30, 2015	329,000			
	20,000	7.34	April 30, 2014	493,200			

**Notes:**

- (1) Based on the closing trading price of Common Shares of \$32.00 as of December 31, 2012 and in respect of all vested and unvested options and SIP grants.  
(2) Under the Cavalier Option Plan, in fiscal 2011 Mr. Clayton Riddell received a grant of 400,000 options, Mr. James Riddell received a grant of 500,000 options and Messrs. Lee and Shier each received a grant of 40,000 options. All option grants under the Cavalier Option Plan expire on September 30, 2018. As there is no market for the common shares of Cavalier, the value of Cavalier's common shares as of December 31, 2012 is unknown. No grants of Cavalier options were made to the NEOs in fiscal 2012.

## 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	Option-based awards – Value vested during the year (\$)	Share-based Awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
(a)	(b)	(c)	(d)
Clayton Riddell	3,218,200 <sup>(1)</sup>	259,800 <sup>(3)</sup>	nil
James Riddell	4,964,560 <sup>(1)</sup>	909,300 <sup>(3)</sup>	nil
Bernard Lee	593,716 <sup>(1)</sup>	74,770 <sup>(4)</sup>	nil
Mitchell Shier	938,150 <sup>(1),(2)</sup>	70,302 <sup>(4)</sup>	nil
Darrel Purdy	384,800 <sup>(1)</sup>	69,808 <sup>(4)</sup>	nil

**Notes:**

- (1) On the vesting date of October 19, 2012, the closing trading price of Common Shares was \$34.00.  
(2) The figure under column "b" is in respect of four grants. The first grant has a vesting date of November 21, 2012. The closing trading price of Common Shares on November 21, 2012 was \$34.03. The other three grants have vesting dates of October 19, 2012.  
(3) The entire SIP award to both Messrs. Clayton and James Riddell vested on the grant date of April 15, 2012. The closing trading price of Common Shares was \$25.98 on April 13, 2012, the last trading day before vesting.  
(4) The amounts for Messrs. Lee and Purdy are derived from SIP grants in 2012, 2011 and 2010. The figure includes one-third of the 2012 SIP grant, one-third of the 2011 SIP grant and one-third of the 2010 SIP grant. The closing trading price of Common Shares was \$25.98 on April 13, 2012, the last trading day before the applicable portions of the 2012, 2011 and 2010 SIP grants 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, 2012, there was an aggregate of 6,667,850 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, 2012 (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, 2012 (c)
Equity compensation plans approved by securityholders – Option Plan	6,667,850	\$23.58	2,325,337
Equity compensation plans not approved by securityholders	None	None	None
<b>Total</b>	6,667,850	\$23.58	2,325,337

### 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 amendments 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. In order for Paramount to comply with applicable income tax and related withholding obligations with respect to stock option exercises, optionholders are required, when exercising options, to provide Paramount with the necessary funds to satisfy such obligations and Paramount has the irrevocable right to set off any amounts required to be withheld against amounts otherwise owed to optionholders or to make such other arrangements as are satisfactory to Paramount. 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 in which case the personal representative of the optionholder may exercise such options to the extent the holder was entitled at the date of 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 have expiry dates that are six months after their final vesting date, and terminate no later than 2018. All of the unvested options currently outstanding under the Option Plan have 5 year vesting schedules.

### ***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. If a change of control occurs, optionholders may be authorized, at the sole discretion of the Board, to exercise or surrender, in full or in part, any unexercised options (including all unvested options) during the term of the options or within 60 days after the date of their termination of employment with Paramount. In the event of 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 and conditions 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 8, 2013, there were options to acquire 6,573,350 Common Shares outstanding under the Option Plan, representing approximately 7.3% of the total number of outstanding Common Shares as at such date.

In fiscal 2012, options to acquire 1,340,000 Common Shares were granted under the Option Plan representing 1.5% of the Common Shares outstanding as at December 31, 2012.

## **SIP**

### ***General Information***

Under Paramount's SIP, eligible employees are entitled to receive awards of 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 awarded under 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 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.

### **SIP Administration**

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.

### **Amendment**

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 takes 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 employment 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 2012 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, 2012.

	<b>Severance</b>	<b>Option Benefits</b>	<b>SIP Benefits</b>	<b>Total</b>
Mitchell Shier	\$592,970 <sup>(1)</sup>	\$965,300 <sup>(2)</sup>	\$72,864 <sup>(3)</sup>	\$1,631,134

**Notes:**

- (1) Mr. Shier's severance is calculated using his base salary.
- (2) Mr. Shier's option benefit is the net dollar amount payable to Mr. Shier assuming the exercise of unvested options. Withholding taxes or other statutory payments have not been deducted from the total.
- (3) Mr. Shier's SIP benefit is the dollar amount payable to Mr. Shier assuming all his SIP awards scheduled to vest in the 24 months following December 31, 2012 vested and were sold on December 31, 2012. No taxes have been deducted from the total.

## DIRECTOR COMPENSATION

### Director Compensation Table

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

Name (a)	Year	Fees earned (\$) (b)	Option-based awards (\$) <sup>(1)</sup> (d)	Total compensation <sup>(2)</sup> (\$) (h)
James Bell <sup>(3)</sup>	2012	33,000	152,000	185,000
	2011	500	433,697 <sup>(4)</sup>	434,197
	2010	n/a	n/a	n/a
Thomas Claugus	2012	28,000	152,000	180,000
	2011	31,750	180,095	211,845
	2010	5,250	227,250	232,500
John Gorman	2012	43,750	152,000	195,750
	2011	52,000	180,095	232,095
	2010	28,750	71,450	100,200
Dirk Jungé	2012	33,000	152,000	185,000
	2011	37,000	180,095	217,095
	2010	17,250	71,450	88,700
David Knott	2012	30,500	152,000	182,500
	2011	30,750	180,095	210,845
	2010	18,250	71,450	89,700
Susan Riddell Rose	2012	25,500	152,000	177,500
	2011	30,500	180,095	210,595
	2010	14,750	71,450	86,200
John Roy	2012	54,750	152,000	206,750
	2011	63,000	180,095	243,095
	2010	43,000	71,450	114,450
Bernhard Wylie	2012	33,000	152,000	185,000
	2011	36,750	180,095	216,845
	2010	23,250	71,450	94,700

**Notes:**

- (1) The grant date fair value for the option-based awards is calculated using a Black-Scholes model (expected life 5.4 years, volatility 48% and interest rate 1.4% for the December 2012 grant and expected life 4.5 years, volatility 50% and interest rate 1.3% for the November 2011 grant to Mr. Bell. See footnote 4 below). This methodology is consistent with the method used to estimate the fair value of options in Paramount's 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 2010, 2011 or 2012. 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 2010, 2011 or in 2012.
- (3) Mr. Bell was appointed a director on November 9, 2011.
- (4) Mr. Bell was granted options on November 14, 2011 and received a grant of options as part of the December 2011 grant. The figure included under column "d" is the total grant date fair value of both grants to Mr. Bell.

### 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. Each non-management director is 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. The annual honorarium paid to each director is \$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 fiscal 2012 was \$327,500 (which included \$21,750 paid to Violet Riddell and \$24,750 paid to Alastair Thomson, each of whom were directors during the first portion of fiscal 2012).

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 for each Board meeting or Shareholder meeting and \$500 for attendance to sign resolutions with respect to that subsidiary. In

2012, these fees amounted to \$2,500 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 2012 at the same time as the grant to NEOs.

### 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			
	# 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)
James Bell	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	16,000 <sup>(3)</sup>	37.80	April 30, 2016	0
Thomas Claugus	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	19,000 <sup>(2)</sup>	17.11	April 30, 2015	282,910
John Gorman	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	4,000	13.20	April 30, 2015	75,200
	10,500	7.34	April 30, 2014	258,930
Dirk Jungé	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	4,000	13.20	April 30, 2015	75,200
	10,500	7.34	April 30, 2014	258,930
David Knott	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	5,000	13.20	April 30, 2015	94,000
	21,000	7.34	April 30, 2014	517,860
Susan Riddell Rose	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	5,000	13.20	April 30, 2015	94,000
	21,000	7.34	April 30, 2014	517,860
John Roy	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	5,000	29.46	April 30, 2016	12,700
	5,000	13.20	April 30, 2015	94,000
	21,000	7.34	April 30, 2014	517,860
Bernhard Wylie	10,000	34.12	April 30, 2018	0
	10,000	40.09	April 30, 2017	0
	4,000	29.46	April 30, 2016	10,160
	3,000	13.20	April 30, 2015	56,400
	7,000	7.34	April 30, 2014	172,620

**Notes:**

- (1) Based on the closing trading price of Common Shares of \$32.00 as of December 31, 2012 and in respect of all vested and unvested options.
- (2) Mr. Claugus was elected to Paramount's Board on May 12, 2010. The noted option-based award is with respect to his initial grant of options upon becoming a director.
- (3) Mr. Bell was appointed to Paramount's Board on November 9, 2011. The option-based award included above is with respect to his initial grant of options upon becoming a director.
- (4) Columns "f", "g", and "h" have been omitted because directors do not receive Share-based awards.

## 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.

Name (a)	Option-based awards – Value vested during the year <sup>(1)</sup> (\$) (b)
James Bell	0
Thomas Claugus	80,545
John Gorman	118,650
Dirk Jungé	118,650
David Knott	118,650
Susan Riddell Rose	118,650
John Roy	118,650
Bernhard Wylie	118,650

**Notes:**

(1) On the vesting date of October 19, 2012, the closing trading price of Common Shares was \$34.00.

(2) Columns "c" and "d" have been omitted because directors do not receive Share-based awards or Non-equity incentive plan compensation.

### SHARE OWNERSHIP / HOLD PERIOD REQUIREMENTS

Paramount's directors must acquire and hold Common Shares having a value equal to at least three times their annual base retainer, and hold such Common Shares during his or her tenure.

Each of Paramount's directors has acquired the requisite number of shares under this policy.

### INDEBTEDNESS OF DIRECTORS AND OFFICERS

The Corporation has a policy prohibiting it from making loans to its directors and officers.

### ANTI-HEDGING POLICY

The Corporation has a policy prohibiting its directors and officers from purchasing financial instruments including put and call options, prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in the market value of equity securities granted as compensation to them or held or controlled, directly or indirectly, by them.

### CORPORATE GOVERNANCE

The Corporate Governance Committee is presently comprised of John Roy (Chair and Lead Director), James Bell, Thomas Claugus, John Gorman, Dirk Jungé and David Knott. 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 "B" to this Information Circular.

## Statement of Corporate Governance Practices

### **Board of Directors**

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

James Bell, Thomas Claugus, John Gorman, Dirk Jungé, David Knott and John Roy 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, 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. Susan Riddell Rose has 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." As indicated in that section, a number of the additional boards that Messrs. Clayton and James Riddell sit on are of corporations that have been spun out by Paramount and in which Paramount has, in most cases, retained a significant equity interest.

- 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 camera* sessions of independent directors are currently held in connection with most meetings of the Board of Directors and its committees, and the Board has recently adopted a policy making it a requirement that an *in camera* meeting of independent directors be held in connection with all future Board and committee meetings.

- 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. As the Chairman is not an independent director, the Board has appointed Mr. John Roy, an independent director, as Lead Director. The Lead Director is responsible for:

- facilitating the functioning of the Board independent of management and ensuring that directors have an independent leadership contact;
- ensuring that the Board has adequate resources, especially by way of full, timely and relevant information to support its decision-making requirements;
- assisting and providing input to the Chairman on preparation of agendas for Board meetings as required;
- consulting with the Chairman and the Board on the effectiveness of Board committees;
- ensuring that independent directors have adequate opportunities to meet to discuss issues without Management present;
- chairing Board meetings when the Chairman and President are not in attendance;

- ensuring 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; and
- acting 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 "B" 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.*

The Board has delegated to the Corporate Governance Committee the responsibility of ensuring there is in place an education and comprehensive orientation program for new members of the Board and a continuing education program for all directors. Under the guidance of the Lead Director, the Corporate Governance Committee has developed and maintains a Corporate Governance Manual 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 historical profile of Paramount, a discussion on the nature and objectives of corporate governance, copies of all relevant corporate, board and committee 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 Paramount's business through interviews and meetings with the Chairman, President, other directors, officers and management personnel during which they are briefed on Paramount and its business. If requested, an experienced director will be assigned to mentor and coach any new Board member during their initial months of service. In May and November each year, a comprehensive review of Paramount's operations is presented to the Board.

*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.*

Directors are provided with any available information that will facilitate the maintenance of their industry knowledge and professional skills. Directors are continuously updated on the business operations of Paramount at Board meetings, particularly through the semi-annual sessions to review operations, and through regular communications from Management. These updates are conducted by senior management and other invited

Paramount employees and include discussions on strategic issues affecting Paramount and any other developments that could materially affect Paramount's business. Directors are also updated on developments in best corporate governance practices through reports from the Corporate Governance Committee. Significant developments in legislation, policy or case law are discussed at Board and applicable committee meetings. Directors are updated on changes to financial reporting requirements through presentations from Management and Paramount's auditors, either at regularly scheduled Audit Committee meetings or at special meetings arranged for the Board for that purpose. Directors are invited to suggest to the Corporation other means of maintaining the skills and knowledge necessary for them to fulfill their responsibilities and steps are taken to implement such suggestions when feasible.

### **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 2012 fiscal 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 President and the chair of the Corporate Governance Committee meet to review whether there are particular competencies needed by the Board and to set forth criteria in the selection process. Once a suitable candidate(s) is identified, the President and/or chair of the Committee meet with the nominee(s) to discuss his or her interest and ability to devote sufficient time and resources to the position. If the nominee agrees to the appointment or to stand for election, he or she is presented to the Corporate Governance Committee. If the proposed nominee is acceptable to the Corporate Governance Committee, the Corporate Governance Committee then makes a recommendation 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 recommending 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.*

Mr. Riddell was on the Compensation Committee in fiscal 2012 but has been replaced by Mr. James Bell. Accordingly, the Compensation Committee is now composed entirely of independent members. 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. The CEO's compensation must also be 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, including assessing such policies to ensure they do not encourage excessive risk taking; and makes regular reports to the Board on the Committee's activities and findings.

- 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 2012 fiscal 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. All are comprised entirely of independent directors other than the Environmental, Health and Safety Committee which has a majority of independent directors.

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 high 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 Governance".

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, each of the Board committees and individual directors. A

Board assessment and evaluation questionnaire is included in the Corporate Governance Manual and each director, as part of the overall assessment process, completes a confidential questionnaire on an annual basis. This questionnaire asks directors to evaluate, among other things, the size and structure of the Board and each of its committees, the knowledge, understanding and diversity of the directors, the effectiveness of the chair of the Board, the chair of each committee and the Lead Director, the effectiveness of each committee, preparation for meetings including the setting of agendas and the adequacy and timeliness of information provided to the Board and committees, overall Board operations, ability to function independently of Management, and includes a self- assessment. For 2013 a peer review component has been added whereby each director will be asked to answer a series of questions evaluating the skills, performance and contributions of the other Board members. The Corporate Governance Committee analyzes the directors' responses to these questionnaires and presents them to the full Board each year.

In addition to the detailed evaluation and assessment mentioned above, each Board committee conducts regular reviews and assessments 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"

### PARAMOUNT RESOURCES LTD.

#### GENERAL BY-LAW BY-LAW NO. 1

#### A BY-LAW RELATING GENERALLY TO THE CONDUCT OF THE AFFAIRS OF Paramount Resources Ltd. (hereinafter called "the Corporation")

#### PART 1 INTERPRETATION

- 1.01 In the By-laws of the Corporation, unless the context otherwise specifies or requires:
- (a) "**Act**" means the Business Corporations Act of Alberta, and every statute that may be substituted therefore, including the regulations thereunder, as from time to time amended;
  - (b) "**Articles**" means the Articles of the Corporation, as defined in the Act, as from time to time amended, supplemented or restated;
  - (c) "**Board**" means the board of directors of the Corporation;
  - (d) "**By-laws**" means this amended and restated By-law No. 1 and all other by-laws of the Corporation as from time to time amended;
  - (e) "**Meeting of Shareholders**" includes an annual or other general meeting of shareholders and a special meeting of shareholders; "special meeting of shareholders" includes a meeting of any class or classes of shareholders;
  - (f) "**Regulations**" means the Regulations under the Act as published or from time to time amended and every regulation that may be substituted therefor and, in the case of such substitution, any references in the By-laws of the Corporation to provisions of the Regulations shall be read as references to the substituted provisions therefor in the new regulations;
  - (g) "**Resident Canadian**" means an individual who is ordinarily resident in Canada or, if not ordinarily resident in Canada, is a member of a class of persons prescribed by Regulations and, in any case:
    - (i) is a Canadian citizen, or
    - (ii) has been lawfully admitted to Canada for permanent residence;
  - (h) "**Signing Officer**" means, in relation to any document and instrument in writing, any person authorized to sign the same on behalf of the Corporation by virtue of Section 2.01 or by a resolution passed pursuant thereto.
- 1.02 Save as aforesaid, all terms which are contained in the By-laws and which are defined in the Act or Regulations shall have the meanings given to such terms in the Act or Regulations. Words importing the singular number include the plural and vice versa; the masculine shall include the feminine; and the word "person" shall include an individual, partnership, association, body corporate, corporation, company, syndicate, trustee, executor, administrator, legal representative and any number or aggregate of persons.
- 1.03 Headings and Sections – The headings used throughout the By-laws are inserted for convenience of reference only and are not to be used as an aid in the interpretation of the By-laws. "Section" followed by a number means or refers to the specified section of the By-laws.
- 1.04 Invalidity of any Provision of the By-laws – The invalidity or unenforceability of any provision of the By-laws shall not affect the validity or enforceability of the remaining provisions of the By-laws.
- 1.05 Conflict – In the case of any conflict between the provisions of the By-laws and the provisions of the Act, the Articles or any unanimous shareholder agreement relating to the Corporation, whether such unanimous shareholder agreement exists at the coming into force of the By-laws or not, the provisions of the Act, the Articles or such unanimous shareholder agreement shall prevail.

**PART II**  
**GENERAL PROVISIONS RELATING TO THE OPERATION OF THE CORPORATION'S BUSINESS**

- 2.01 Signing of Documents and Instruments – The Board is authorized from time to time to appoint any officer or officers or any other individual or individuals on behalf of the Corporation either to sign and deliver documents and instruments in writing generally or to sign and deliver specific documents and instruments in writing. In the absence of any such appointment by the Board, the president, together with the secretary, shall have authority to sign and deliver in the name of the Corporation, whether under corporate seal or not, all documents and instruments in writing and any documents and instruments in writing so signed and delivered shall be binding upon the Corporation without any other formality.
- 2.02 Execution in Counterpart, By Facsimile and by Electronic Signature –
- (i) Subject to the Act, any instrument or document required or permitted to be executed by one or more persons on behalf of the Corporation may be signed by electronic means or by facsimile; and
  - (j) Any instrument or document required or permitted to be executed by one or more persons may be executed in separate counterparts, each of which when duly executed by one or more of such persons shall be an original and all such counterparts together shall constitute one and the same such instrument or document.
- 2.03 Banking Arrangements – The banking business of the Corporation or any part thereof, shall be transacted with such bank or trust company or other financial institution that the Board may designate, appoint or authorize from time to time by resolution and all such banking business, or any part thereof, shall be transacted on the Corporation's behalf by such one or more individuals as the Board may designate, direct or authorize from time to time by resolution and to the extent therein provided.
- 2.04 Borrowing – Without limiting the powers of the Corporation as set forth in the Act, the Board may from time to time on behalf of the Corporation, without authorization of the shareholders:
- (a) borrow money upon the credit of the Corporation;
  - (b) issue, re-issue, sell or pledge bonds, debentures, notes or other evidence of indebtedness of the Corporation, whether secured or unsecured;
  - (c) to the extent permitted by the Act, give a guarantee on behalf of the Corporation to secure performance of any present or future indebtedness, liability or obligation of any person; and
  - (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any such bonds, debentures, notes or other evidences of indebtedness or guarantees or any other present or future indebtedness, liability or obligation of the Corporation.
- Nothing in this Section 2.04 limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes, made, drawn, accepted or endorsed by or on behalf of the Corporation. The Board may from time to time delegate to a committee of the Board, a director or an officer of the Corporation or any other person as may be designated by the Board all or any of the powers conferred herein on the Board or by the Act to such extent and in such manner as the Board may determine at the time of such delegation.
- 2.05 Voting Rights in Other Bodies Corporate – All of the shares or other securities carrying voting rights of any other body corporate held from time to time by the Corporation, other than shares it beneficially owns in its holding body corporate, may be voted at any and all meetings of shareholders, bondholders, debentureholders or holders of other securities, as the case may be, of such body corporate and in such manner and by such person or persons as the Board shall from time to time determine. In the absence of any such determination by the Board, the Signing Officers may execute and deliver for and on behalf of the Corporation proxies and/or arrange for the issuance of voting certificates and/or other evidence of the right to vote in such names as they may determine and without the necessity of a resolution or other action by the Board.
- 2.06 Divisions – The Board may cause the business and operations of the Corporation or any part thereof to be divided into one or more divisions upon such basis, including without limitation, types of business or operations, geographical territories, product lines or goods or services, as the Board may consider appropriate in each case. From time to time the Board may authorize upon such basis as may be considered appropriate in each case:
- (a) the designation of any such division by, and the carrying on of the business and operations of any such division under, a name other than the name of the Corporation; provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation, and

- (b) the appointment of officers for any such division and the determination of their powers and duties, provided that any such officers shall not, as such, be officers of the Corporation.

### **PART III MEETINGS OF DIRECTORS**

- 3.01 First Meeting of New Board – Each newly elected Board may without notice hold its first meeting for the purposes of organization and the election and appointment of officers immediately following the meeting of shareholders at which such Board was elected provided a quorum of directors is present.
- 3.02 Calling and Notice of Meetings – Meetings of the Board shall be held at such time and on such day as the chairman of the Board, the president or any director may determine and the secretary shall call meetings when directed or authorized by the chairman of the Board, the president or any director. Notice of every meeting so called shall be given to each director not less than 24 hours before the time when the meeting is to be held, save that no notice of a meeting shall be necessary if all directors are present or if those absent waive notice of such meeting. Notice of a meeting of the Board may be given verbally or in writing or by electronic means, telephone or telegraph or any other means of communication. A notice of a meeting of the Board need not specify the purpose of or the business to be transacted at the meeting except where the Act requires such purpose or business to be specified.
- 3.03 Place of Meeting – Meetings of the Board shall be held at the registered office of the Corporation or at any other place within or outside of Alberta. Attendance by a director at any meeting of the Board shall constitute his consent to the place of holding such meeting.
- 3.04 Quorum – Subject to the requirements under the Act requiring Resident Canadians to be present at any meeting of the Board, a quorum for the transaction of business at any meeting of the Board shall consist of a majority of directors or such greater number of directors as the Board from time to time may determine, provided that, if the Board consists of only one director, the quorum for the transaction of business at any meeting of the Board shall consist of one director..
- 3.05 Chairman – The chairman of any meeting of the Board shall be the first mentioned of such of the following officers as have been appointed and who is a director and is present at the meeting: chairman of the board, managing director, president or a vice-president (in order of seniority). If no such officer is present, the directors present shall choose one of their number to be chairman.
- 3.06 Votes to Govern – At all meetings of the Board every question shall be decided by a majority of the votes cast on the question; and in the case of an equality of votes, the chairman of the meeting shall not be entitled to a second or casting vote in addition to his original vote.
- 3.07 Participation in Meetings by Telephone – A director may participate in a meeting of the Board or of a committee of directors by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other, and a director participating in a meeting by these means shall be deemed to be present at that meeting and shall be included in the quorum. A meeting shall be deemed to take place when a quorum of directors participate in a telephone conference, notice of which was given to all directors in accordance with Section 3.02, notwithstanding that no two of the directors participating in such telephone conference are present in the same room.
- 3.08 Resolution in Lieu of Meeting – A resolution in writing, signed in one or more counterparts by all of the directors entitled to vote on that resolution at a meeting of directors or committee of directors is as valid as if it had been passed at a meeting of directors or committee of directors and shall be effective as of the date stated in such resolution to be the effective date thereof.
- 3.09 Remuneration and Expenses – The directors shall be paid such remuneration for their services as the Board may from time to time determine. The directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the Board or any committee thereof. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.
- 3.10 Committees of the Board - Subject to the Act, the Board may appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board.

### **PART IV OFFICERS**

- 4.01 Appointment – The Board from time to time shall appoint a president and a secretary, and may appoint one or more vice-presidents (to which title may be added words indicating seniority or function), a treasurer, a controller and such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. The Board from time to time may also appoint a chairman of the Board, who must be a director, but otherwise the officers of the Corporation need not be directors of the Corporation. Two or more offices may be held by the same person.

- 4.02 Powers and Duties of Officers – The powers and duties of the officers of the Corporation shall be such as the terms of their engagement call for as prescribed by the Board. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board otherwise directs.
- 4.03 Variation of Powers and Duties – The Board may from time to time vary, add to or limit the powers and duties of any officer.
- 4.04 Vacancies – If the office of any officer of the Corporation shall be or become vacant by reason of death, resignation, disqualification or otherwise, the Board by resolution shall, in the case of the president or the secretary, and may, in the case of any other office, appoint a person to fill such vacancy.
- 4.05 Remuneration and Removal – Subject to the Act, the remuneration of all officers shall be determined from time to time by the Board or an authorized committee of the Board. The fact that any officer or employee is a director or shareholder of the Corporation shall not disqualify him from receiving such remuneration as may be determined. All officers, in the absence of any agreement to the contrary, shall be subject to removal by resolution of the Board at any time, with or without cause.
- 4.06 Agents and Attorneys – The Board shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers (including the power to sub-delegate) of management, administration or otherwise as may be thought fit.

#### **PART V PROTECTION OF DIRECTORS, OFFICERS AND OTHERS**

- 5.01 Conflict of Interest – A director or officer shall not be disqualified from his office, or be required to vacate his office, by reason only that he is a party to, or is a director or officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation or subsidiary thereof. Such a director or officer shall, however, disclose the nature and extent of his interest in the contract at the time and in the manner provided by the Act and shall be counted to determine the presence of a quorum at any meeting of the Board at which such a contract may be authorized or approved.
- 5.02 Indemnity – Except in respect of an action by or on behalf of the Corporation or body corporate to procure a judgment in its favour, the Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and legal representative, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or body corporate if:
- (a) he acted honestly and in good faith with a view to the best interests of the Corporation; and
  - (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

#### **PART VI MEETINGS OF SHAREHOLDERS**

- 6.01 Calling and Notice of Meetings – Except where otherwise provided in the Act, the Board alone shall have the power to call a Meeting of Shareholders at any time and at such place in Alberta as it determines. The manner of providing notice of a Meeting of Shareholders and the fixing of record dates for the determination of shareholders entitled to such notice shall be governed by the Act.
- 6.02 Quorum – A quorum for the transaction of business at any Meeting of Shareholders shall be at least two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxyholder or representative of a shareholder so entitled to vote thereat, who together own or represent issued shares of the Corporation having not less than twenty-five per cent (25%) of the votes entitled to be cast at such meeting; provided, however, that if the Corporation has only one shareholder or only one holder of any class or series of shares entitled to vote, such shareholder present in person or by proxy constitutes a meeting of the Corporation or of that class of shareholder, as the case may be.
- 6.03 Adjourned Meeting - The chair of the meeting may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place. The adjourned meeting shall be duly constituted if a quorum is present and if it is held in accordance with the terms of the adjournment. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have terminated forthwith after its adjournment.
- 6.04 Persons Entitled To Be Present – The only persons entitled to be present at a Meeting of Shareholders shall be those entitled to vote thereat, the directors and auditors of the Corporation and others who, although not entitled to vote, are

entitled or required under the provisions of the Act or the Articles or By-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

- 6.05 Chairman, Secretary and Scrutineers – The chairman of the Board, if such officer has been appointed and is present, otherwise the president, or in his absence, a vice-president (in order of seniority) shall be the chairman of any Meeting of Shareholders or such other persons as determined by a resolution of the Board. If the secretary of the Corporation is absent, the chairman shall appoint some person, who need not be a shareholder, to act as the secretary of the meeting. The chairman may appoint one or more persons (who may, but need not be shareholders, directors, officers or employees of the Corporation), to act as scrutineers at any Meeting of Shareholders.
- 6.06 Procedure – Subject to the By-laws, the chairman of any Meeting of Shareholders shall conduct the proceedings thereat in all respects and his decision in any matter or thing, including, but without in any way limiting the generality of the foregoing, any question regarding the validity or invalidity of any instruments of proxy, shall be conclusive and binding upon the shareholders.
- 6.07 Votes to Govern – At any Meeting of Shareholders every question shall, unless otherwise required by the Articles or By-laws or by law, be determined by a majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a ballot, the chairman of the meeting shall not be entitled to a second or casting vote.
- 6.08 Show of Hands – Subject to the Act, any question at a Meeting of Shareholders shall be decided by a show of hands, unless a ballot thereon is required or demanded as hereinafter provided. Upon a show of hands every person who is present and entitled to vote shall have one (1) vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number of votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the shareholders upon the said question.
- 6.09 Ballots – On any question proposed for consideration at a Meeting of Shareholders, a shareholder, proxyholder or other person entitled to vote may demand and the chairman may require that a ballot be taken either before or upon the declaration of the result of any vote by show of hands. If a ballot is demanded on the election of a chairman or on the question of adjournment it shall be taken forthwith without an adjournment. A ballot demanded or required on any other question shall be taken in such a manner as the chairman shall direct. A demand or requirement for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled, in respect to the shares that he is entitled to vote at the meeting upon the question, to the number of votes as provided for by the Articles or, in the absence of such provision in the Articles, to one vote for each share he is entitled to vote. The result of the ballot so taken shall be the decision of the shareholders upon the question. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed or demanded, conclusive evidence without proof of the number or proportion of votes recorded in favour of or against the resolution.
- 6.10 Chair must resolve dispute - In the case of any dispute as to the admission or rejection of a vote given on a poll, the chairman of the meeting must determine the dispute, and his or her determination made in good faith is final and conclusive.
- 6.11 Demand for Poll Not to Prevent Continuance of Meeting - The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.
- 6.12 Resolutions in Lieu of Meeting – A resolution in writing signed in one or more counterparts by all the shareholders entitled to vote on that resolution is as valid as if it had been passed at a meeting of the shareholders and shall be effective as of the date stated in such resolution to be the effective date thereof.
- 6.13 Nominations of Directors - Subject only to the Act and the Articles, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:
- (a) by or at the direction of the Board, including pursuant to a notice of meeting;
  - (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Act, or a requisition of the shareholders made in accordance with the provisions of the Act; or
  - (c) by any person (a **Nominating Shareholder**): (A) who, at the close of business on the date of the giving of the notice provided for below in this By-law and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who



beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth below in this By-law.

- 6.14 In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation at the principal executive offices of the Corporation.
- 6.15 To be timely, a Nominating Shareholder's notice to the Secretary of the Corporation must be made:
- (a) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the **Notice Date**) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10th) day following the Notice Date; and
  - (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made. In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.
- 6.16 To be in proper written form, a Nominating Shareholder's notice to the Secretary of the Corporation must set forth:
- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director: (A) the name, age, business address and residential address of the person; (B) the principal occupation or employment of the person; (C) the class or series and number of shares in the capital of the Corporation which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (D) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below); and
  - (b) as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Corporation and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below).

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

- 6.17 No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this By-law; provided, however, that nothing in this By-law shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Act. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.
- 6.18 For purposes of this By-law:
- (a) "**public announcement**" shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com); and
  - (b) "**Applicable Securities Laws**" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.
- 6.19 Notwithstanding any other provision of this By-law, notice given to the Secretary of the Corporation pursuant to this By-law may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the Secretary of the Corporation for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the aforesaid address) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the Secretary at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day

which is a not a business day or later than 5:00 p.m. (Calgary time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

- 6.20 Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in Sections 6.13 through 6.19 of this By-law.

#### **PART VII SHARE CERTIFICATES**

- 7.01 Form of Certificates – Every holder of one or more shares of the Corporation shall be entitled, at his or her option, to a share certificate, or to a non-transferable written acknowledgement of his right to obtain a share certificate, stating the number and class or series of shares held by him or her as shown on the securities register or registers. Share certificates and acknowledgements of a shareholder's right to a share certificate, respectively, shall, be in such form as the Board shall from time to time approve and shall comply with the provisions and requirements of the Act. Share certificates need not be under the corporate seal; provided that, unless the Board otherwise determines, certificates representing shares in respect of which a transfer agent and/or registrar has been appointed shall not be valid unless countersigned by or on behalf of such transfer agent or registrar, or both. The signature of one of the signing officers or, in the case of share certificates which are not valid unless countersigned by or on behalf of a transfer agent or registrar, or both, the signatures of two signing officers, may be printed or mechanically reproduced in facsimile upon share certificates and every such facsimile signature shall for all purposes be deemed to be the signature of the officer whose signature it reproduces and shall be binding upon the Corporation. A share certificate executed as aforesaid shall be valid notwithstanding that one or both of the officers whose facsimile signature appears thereon no longer holds office at the date of issue of the certificate.
- 7.02 Replacement of Share Certificates – The Board or any officer or agent designated by the Board may in its or his or her discretion direct the issue of a new share or other such certificate in lieu of and upon cancellation of a certificate that has been mutilated or in substitution for a certificate claimed to have been lost, destroyed or wrongfully taken, on payment of such reasonable fee and on such terms as to indemnity, reimbursement of expenses and evidence of loss and of title as the Secretary (or, in the absence of or failure to act by the Secretary, the Board) may from time to time prescribe, whether generally or in any particular case.
- 7.03 Joint Holders – If two or more persons are registered as joint holders of any share the Corporation shall not be bound to issue more than one certificate in respect thereof, and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.
- 7.04 Deceased Shareholders – In the event of the death of a holder, or of one or more of the joint holders, of any share, the Corporation shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by the Act or otherwise by law and upon compliance with the reasonable requirements of the Corporation and its transfer agents.

#### **PART VIII TRANSFER OF SECURITIES**

- 8.01 Registration of Transfer – Registration of share transfers shall be made as provided for in the Act, other applicable laws and the Articles and in accordance with such rules as the Board may from time to time prescribe in relation thereto.
- 8.02 Transfer Agents and Registrars – The Board may from time to time by resolution appoint or remove one or more transfer agents to maintain a central securities register or registers and one or more branch transfer agents to maintain branch securities register or registers. A transfer agent or branch transfer agent so appointed may be designated as such or may be designated as a registrar, according to his functions of both registrar and transfer or branch transfer agent. The Board may provide for the registration of transfers of securities by and in the offices of such transfer agent, or branch transfer agents or registrars.
- 8.03 Lien for Indebtedness – If the Articles provide that the Corporation shall have a lien on shares registered in the name of a shareholder indebted to the Corporation for any amount, including any unpaid amount owing on a share issued by the Corporation on the date the Corporation was continued under the Act, such lien may be enforced, subject to the Articles and to any unanimous shareholder agreement, by the sale of the shares thereby affected or by any other action, suit, remedy or proceeding authorized or permitted by law or by equity and, pending such enforcement, the Corporation may refuse to register a transfer of the whole or any part of such shares.

#### **PART IX DIVIDENDS AND RIGHTS**

- 9.01 Dividend Cheques – A dividend payable in cash shall be paid by cheque to the order of each registered holder of shares of the class or series in respect of which it has been declared, and mailed by prepaid ordinary mail to such registered holder at his address recorded in the Corporation's securities register or registers unless such holder otherwise directs. In the

case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all such joint holders and mailed to one of them at his recorded address. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold. Alternatively, dividends payable in money may be paid to shareholders by such form of electronic funds transfer as the Board considers appropriate.

- 9.02 Non-Receipt of Cheques – In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the Board may from time to time prescribe, whether generally or in any particular case. No dividend shall bear interest against the Corporation.
- 9.03 Unclaimed Dividends – Any dividend unclaimed after a period of six (6) years from the date of which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

#### **PART X INFORMATION AVAILABLE TO SHAREHOLDERS**

- 10.01 Except as provided by the Act, no shareholder shall be entitled to obtain information respecting any details or conduct of the Corporation's business which would not, in the opinion of the Board, be in the interests of the Corporation to communicate to the public.
- 10.02 The Board may from time to time, subject to rights conferred by the Act, determine whether and to what extent and at what time and place and under what conditions or regulations the documents, books, registers and accounting records of the Corporation or any of them shall be open to the inspection of shareholders and no shareholder shall have any right to inspect any document, book, register or accounting record of the Corporation except as conferred by statute or authorized by the Board or by a resolution of the shareholders.

#### **PART XI MISCELLANEOUS**

- 11.01 Omissions and Errors – The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.
- 11.02 Directors to Require Surrender of Share Certificates – If the Corporation is continued under the Act, the Board then in office is hereby authorized to require the shareholders of the Corporation to surrender their share certificates, or such of their share certificates as the directors may determine, for the purpose of cancelling the share certificates and replacing them with new share certificates that comply with the Act, and in particular, by replacing existing share certificates with share certificates that are not negotiable securities under the Act. The Board shall act by resolution under this Section 11.02 and shall in its discretion decide the manner in which it shall require the surrender of existing share certificates and the time within which the shareholders must comply with the requirement and the form or forms of the share certificates to be issued in place of the existing share certificates. The Board may take such proceedings as it deems necessary to compel any shareholder to comply with a requirement to surrender his share certificate or certificates pursuant to this Section 11.02. Notwithstanding any other provision of this By-law, but subject to the Act, the Board may refuse to register the transfer of shares represented by a share certificate that has not been surrendered pursuant to a requirement under this Section 11.02.
- 11.03 Effective Date – This By-law shall come into force when made by the Board in accordance with the Act.

## Schedule "B"

### 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.