



## 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 Centre at Centrium Place, 332-6th Avenue S.W., Calgary, Alberta, on Wednesday, May 4, 2016, 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, 2015, and the independent auditors' report thereon;
2. elect the directors of the Corporation;
3. appoint the auditors of the Corporation; and
4. transact any other business as may properly come before the Meeting and any adjournment(s) of the Meeting.

By order of the Board of  
Directors

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

Calgary, Alberta, Canada  
March 18, 2016

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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 4, 2016 at 10:30 a.m. (Calgary time) in the Conference Centre at Centrium Place, 332-6th Avenue S.W., Calgary, Alberta.

#### Date of Information

Information in this circular is given as of March 18, 2016 unless otherwise noted.

#### Voting Shares and Principal Holders

On March 18, 2016, Paramount had 106,233,995 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 18, 2016 was Mr. Clayton Riddell, Paramount's Executive Chairman, who beneficially owned or controlled, directly or indirectly, 41,696,480 Common Shares representing 39.25% 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 2015 annual information form, 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 in respect of Paramount's most recently completed financial year is contained in Paramount's comparative annual financial statements and management's discussion and analysis thereon.

Upon request by a securityholder to Paramount's Corporate Secretary at the address set out below, Paramount will provide to such securityholder, without charge, copies of Paramount's 2015 annual information form, Paramount's 2015 annual report (containing the consolidated comparative financial statements for fiscal 2015 together with the independent auditors' report and management's discussion and analysis thereon), interim financial statements for subsequent periods and this information circular.

#### 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 21, 2016 (the "Record Date"), you are entitled to receive notice of, and to attend and vote at the Meeting. You will be entitled to vote all of the Common Shares that you held on the Record Date at the Meeting except to the extent that:

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

When Common Shares are held jointly by two or more persons those shares may be voted at the Meeting (either in person or by proxy) by any one of those holders, or, alternatively, by all such holders jointly. 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 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

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

At the time of printing this information circular, Paramount's management does not know of any matter that may come before the Meeting other than the matters referred to above, (or of any potential amendment to, or variation of, these matters). If any other matters (or any amendments to, or variations of, the above 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 2, 2016 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 Chairman 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 it 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 (i.e. deposited with a securities broker, bank 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 voting instruction or proxy form provided to you with this information circular.

### ***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 or proxy form and follow the applicable instructions on that 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 policies require registered shareholders who hold their shares as nominees to seek (or have an intermediary seek on their behalf) voting instructions from their respective beneficial shareholders in advance of shareholders' meetings. Every nominee and intermediary has its own mailing procedures and provides its own voting and return instructions. The voting and return instructions for your applicable nominee or intermediary are set out in the voting instruction or proxy form that they have provided with this information circular. You must carefully follow the instructions on this form in order to ensure your Common Shares are voted at the Meeting. The vast majority of nominees now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge"). If your nominee has appointed Broadridge, this information circular contains a scannable voting instruction form from Broadridge, and you will need to either complete and return this form to Broadridge by mail or facsimile, or alternatively, convey your voting instructions to them via the internet or by calling a toll-free telephone number as set out in the form. Broadridge will tabulate the results of all instructions that it receives and provide appropriate voting instructions to Computershare Trust Company of Canada for use at the Meeting. **A beneficial Shareholder must comply with the instructions on the enclosed voting instruction or proxy form well in advance of the Meeting in order to ensure their Common Shares can be voted at the Meeting.**

## BUSINESS OF THE MEETING

### Financial Statements

Paramount's consolidated financial statements as at and for the year ended December 31, 2015 and the auditors' report thereon are in the 2015 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 (the "Board") shall consist of a minimum of three and a maximum of twelve directors. By resolution on March 16, 2016, the Board fixed the number of directors to be elected at the Meeting at nine, each of whom will serve until the next annual meeting of Shareholders or until their respective successors are elected or appointed. The nine nominees are:

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

All director nominees have consented to being named in this circular and to serve as directors if elected. Paramount's 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 or her discretion in voting for another nominee unless you have specified in your voting instruction or proxy form that he or she does not have such authority. The Corporation's articles permit the Board, between annual meetings of the Shareholders, to appoint one or more additional directors (up to a maximum of one-third of the number of directors who held office at the expiration of the last annual meeting of the Shareholders).

Your proxyholder will vote FOR the election of each of these nominees as a director of Paramount unless you indicate in your voting instruction or proxy form that authority to do so is withheld in respect of one or more of the nominees.

### Appointment of Auditors

Unless you indicate in the enclosed voting instruction or proxy form that authority to vote for the re-appointment of the Corporation's current auditors is withheld, your proxyholder will vote FOR the re-appointment 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 have 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 2015 annual information form under the heading "Audit Committee Information" and in Appendix D thereto.

### 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 information 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 majority voting policy which provides that if a director receives more "withhold" votes than "for" votes in an uncontested election of directors that director must immediately tender his or her resignation, and the remaining Board members must determine whether or not to accept such resignation within 90 days (and will be required to accept the resignation absent exceptional circumstances).

Any shareholder desirous of putting forth one or more other director nominees can do so by submitting to Paramount's Corporate Secretary such information as is required in Paramount's bylaws, including the nominee's name, background, qualifications, and experience. Paramount's by-laws also require that a shareholder give the Company advance notice of, and details about, any proposal to nominate directors for election to the Board when nominations are not made through the procedures set out in the *Business Corporations Act* (Alberta). If the nomination is to be presented at an annual meeting of shareholders, the notice must be given 30 to 65 days in advance of the meeting. If the annual meeting is to be held within 50 days after Paramount announces the meeting date, the notice must be given within 10 days of the meeting announcement. If the nomination is to be presented at a special meeting of shareholders (that is not also an annual meeting) in which one of the items of business is the election of directors, then the notice must be given within 15 days of the meeting announcement. All nominations received will be forwarded to the Chair of the Corporate Governance Committee who will present them to the committee for consideration.

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

Calgary, Alberta, Canada  
 Executive Chairman  
 Paramount Resources Ltd.  
 Non-Independent Director  
 Director Since: 1978  
 Age: 78

Mr. Riddell has been the Chairman of the Board and a director of Paramount since 1978. He was also the CEO until May 2015 and President until 2002. He is the Executive Chairman of the Board of Perpetual Energy Inc., and the Chairman of the Board of Trilogy Energy Corp., both of which are public oil and gas exploration and production companies.

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), an Honorary Doctor of Laws degree from Carleton University (2014), 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. Mr. Riddell received the Fraser Institute's T. Patrick Boyle Founder's Award in 2012, and in 2015 he was inducted into the Canadian Petroleum Hall of Fame.

<b>2015 AGM Voting Results:</b>	Votes For	86,907,335 (98.41%)
	Votes Withheld	1,408,235 (1.59%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)

**Paramount Holdings**  
 Common Shares: 41,696,480<sup>(2)</sup>  
 Options: 884,000  
 Minimum Share Ownership<sup>(3)</sup>: Attained

**Other Public Board Directorships\*\***  
 Perpetual Energy Inc.  
 Trilogy Energy Corp.

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

**Cavalier Energy Inc. Holdings\***  
 Options: 400,000

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

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

Calgary, Alberta, Canada  
President and Chief Executive  
Officer  
Paramount Resources Ltd.  
Non-Independent Director  
Director Since: 2000  
Age: 49

Mr. Riddell has been the President and Chief Executive Officer of Paramount since May 2015, and previously served as President and Chief Operating Officer since June 2002. He has been 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 Strategic Oil & Gas Ltd. and Marquee Energy Ltd. (both 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).

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.

**2015 AGM Voting Results:**

Votes For	86,032,552 (97.41%)
Votes Withheld	2,283,170 (2.59%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Environmental, Health and Safety Committee (joined May 6, 2015)	1/1 (100%)

**Paramount Holdings**

Common Shares: 857,807

Options: 1,200,000

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.

Marquee Energy Ltd.

Strategic Oil & Gas Ltd.

Trilogy Energy Corp.

\*\* Trilogy was spun-out from Paramount, and Paramount retains a significant equity interest. In addition, Paramount sold assets to each of Marquee Energy Ltd. and Strategic Oil & Gas Ltd. in exchange for shares of these companies and, as a result, also holds a significant equity interest in 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: 41

Mr. Bell has been a director of Paramount since November, 2011. Mr. Bell is currently General Counsel for Olympia Financial Group Inc. (a TSX listed 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 graduated from the University of Saskatchewan with a Bachelor of Laws degree in 1999. He completed the Canadian Securities Course in January 2014 and the Partners, Directors and Senior Officers course in February 2014.

**2015 AGM Voting Results:**

Votes For	83,481,660 (94.53%)
Votes Withheld	4,833,910 (5.47%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Audit Committee	4/4 (100%)
Corporate Governance Committee	2/2 (100%)
Compensation Committee (Chair)	2/2 (100%)

**Paramount Holdings**

Common Shares: 9,525

Options: 56,000

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

**Other Public Board Directorships**

FCF Capital Inc.

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## Thomas Claugus

Atlanta, Georgia, U.S.A.  
President  
GMT Capital Corp.  
Independent Director<sup>(5)</sup>  
Director Since: 2010  
Age: 64

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>2015 AGM Voting Results:</b>	Votes For	87,114,843 (98.64%)
	Votes Withheld	1,200,727 (1.36%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Corporate Governance Committee	2/2 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 1,841,247 <sup>(6)</sup>	Strategic Oil & Gas Ltd.
Options: 45,000	
Minimum Share Ownership <sup>(3)</sup> : Attained	

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## John Gorman

Calgary, Alberta, Canada  
Independent Businessman  
Independent and Lead Director<sup>(5)</sup>  
Director Since: 2002  
Age: 70

Mr. Gorman has been a director of Paramount since 2002 and is currently the Lead Director. 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>2015 AGM Voting Results:</b>	Votes For	83,384,018 (94.42%)
	Votes Withheld	4,931,552 (5.58%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Audit Committee (Chair)	4/4 (100%)
Corporate Governance Committee	2/2 (100%)
Compensation Committee	2/2 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 12,336	None
Options: 45,000	
Minimum Share Ownership <sup>(3)</sup> : Attained	

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**Dirk Jungé, CFA**

Bryn Athyn, Pennsylvania, U.S.A.  
Chairman  
Pitcairn Trust Company  
Independent Director<sup>(5)</sup>  
Director Since: 2000  
Age: 67

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, the Association for Investment Management and Research, and the National Association of Corporate Directors.

<b>2015 AGM Voting Results:</b>	Votes For	87,843,393 (99.47%)
	Votes Withheld	472,177 (0.53%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Corporate Governance Committee	2/2 (100%)
Environmental Health & Safety Committee (Appointed Chair May 7, 2015)	2/2 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 30,401 <sup>(7)</sup>	Freeman Company
Options: 45,000	L.B. Foster Co.
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: 71

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.

<b>2015 AGM Voting Results:</b>	Votes For	87,833,400(99.45%)
	Votes Withheld	482,170(0.55%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Corporate Governance Committee	2/2 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 2,272,501 <sup>(8)</sup>	Ligand Pharmaceuticals Inc.
Options: 45,000	Rubicon Limited
Minimum Share Ownership <sup>(3)</sup> : Attained	

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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: 51

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) and Brookfield Canada Office Properties.

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.

**2015 AGM Voting Results:**

Votes For	83,652,202 (94.72%)
Votes Withheld	4,663,368 (5.28%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 380,474	Brookfield Canada Office Properties
Options: 45,000	Newalta Corporation
Minimum Share Ownership <sup>(3)</sup> : Attained	Perpetual Energy Inc.

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

Calgary, Alberta, Canada  
Independent Businessman  
Independent Director<sup>(5)</sup>  
Director Since: 1981  
Age: 75

Mr. Roy has been a director of Paramount since 1981. 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.

**2015 AGM Voting Results:**

Votes For	83,023,046 (94.01%)
Votes Withheld	5,292,524 (5.99%)

<b>Paramount Board / Committee Participation</b>	<b>2015 Meeting Attendance</b>
Board of Directors	3/3 (100%)
Audit Committee	4/4 (100%)
Corporate Governance Committee (Chair)	2/2 (100%)
Compensation Committee	2/2 (100%)
Environmental Health & Safety Committee	2/2 (100%)

<b>Paramount Holdings</b>	<b>Other Public Board Directorships</b>
Common Shares: 53,305	None
Options: 45,000	
Minimum Share Ownership <sup>(3)</sup> : Attained	

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**Notes:**

- (1) From 1992 to 2008, Paramount was the general partner of T.T.Y. Paramount Partnership No. 5 ("TTY"), a limited partnership, which was an unlisted reporting issuer in certain provinces of Canada. TTY was established in 1980 to conduct oil and gas exploration and development activities but had not carried on active operations since 1984 and had only nominal assets. A cease trade order against TTY was issued by the Quebec Securities Commission in 1999 for failing to file the June 30, 1998 interim financial statements in Quebec. The cease trade order was revoked on April 9, 2008. TTY was dissolved on July 21, 2008.
- (2) Mr. Clayton Riddell's holdings are owned or controlled by him, directly or indirectly, through a number of entities.
- (3) The Corporation adopted a share ownership policy in March 2013 requiring each of its directors to acquire, within three years of: (i) the date they become a director; or (ii) the date of the share ownership policy (whichever is later), Common Shares having a value equal to at least three times their annual base retainer, and to continue to hold these Common Shares during their tenure.
- (4) Mr. James Riddell was a director of Sonde Resources Corp. ("Sonde") and Great Prairie Energy Services Inc. ("Great Prairie"), both public oil and gas companies, within one year of Sonde becoming bankrupt and Great Prairie having a receiver-manager appointed to manage its assets, undertakings and properties.
- (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 exercises direction and control over 1,841,247 Common Shares which are held by GMT Capital Corp., a private investment company of which Mr. Claugus is President. 62,628 of these Common Shares are beneficially owned, directly or indirectly, by Mr. Claugus.
- (7) Mr. Jungé exercises direction and control over 30,401 Common Shares the majority of which are held by trusts of which he and his family members are beneficiaries. 4,072 of such Common Shares are beneficially owned, directly or indirectly, by Mr. Jungé.
- (8) Mr. Knott exercises direction and control over 2,272,501 Common Shares which are held in various partnerships and funds that he manages. 61,001 of these Common Shares are beneficially owned, directly or indirectly, by Mr. Knott.

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

### 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 knowledge, business expertise and experience, meet the needs of the Board. The following table sets out some of the relevant knowledge, expertise and experience of the director nominees:

	Clayton Riddell	James Riddell	James Bell	Thomas Claugus	John Gorman	Dirk Jungé	David Knott	Susan Riddell Rose	John Roy
Board Experience	✓	✓	✓	✓	✓	✓	✓	✓	✓
CEO Experience	✓	✓		✓	✓	✓	✓	✓	
Strategic Planning	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operations	✓	✓		✓		✓		✓	
Project Management	✓	✓		✓	✓	✓		✓	✓
Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Accounting/ Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Executive Compensation	✓	✓	✓	✓	✓	✓	✓	✓	✓
Government/ Public Policy	✓	✓	✓					✓	
Human Resources	✓	✓	✓	✓	✓	✓	✓	✓	✓
Legal			✓					✓	

### Independence of Director Nominees

Two-thirds of the director nominees 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 Executive Chairman of the Corporation
James Riddell		✓	Also the President & CEO of the Corporation
James Bell	✓		
Thomas Claugus	✓		
John Gorman	✓		
Dirk Jungé	✓		
David Knott	✓		
Susan Riddell Rose		✓	Familial relationship with Executive Chairman and President & CEO of the Corporation
John Roy	✓		

Mr. John Gorman, 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.

The Board has a policy requiring that an *in camera* meeting of independent directors be held in connection with all Board and committee meetings.

### Board Interlocks

The following table sets out interlocking board memberships of the Corporation's directors. Paramount spun-out Trilogy Energy Corp. and Perpetual Energy Inc. Paramount sold certain non-core assets to Strategic Oil & Gas Ltd. in exchange for shares and, as a result, has a significant equity interest in this company.

Company	Director	Committee Membership
Trilogy Energy Corp.	Clayton Riddell James Riddell	None 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

### Executive Summary

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 Paramount's named executive officers ("NEOs"), being the Corporation's Executive Chairman, President & CEO, 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. This program is also designed to ensure that the interests of Paramount's executives are aligned with its Shareholders by making a majority of the compensation paid to the NEOs incentive-based, "at risk" pay. There are three primary components to Paramount's compensation program: base salary and two long-term incentive programs comprised of stock incentive program ("SIP") awards and stock option grants. The Corporation also on occasion pays discretionary cash bonuses to its NEOs where they have made material contributions in a particular fiscal year to the Corporation's achievement of important objectives. No such discretionary cash bonuses have been paid in the last three fiscal years.

In May 2015, Mr. James Riddell was appointed Chief Executive Officer of the Corporation in addition to his position as President, with Mr. Clayton Riddell taking on the role of Executive Chairman. Accordingly, for the year ended December 31, 2015 Paramount's NEOs and their titles were:

Clayton Riddell, Executive Chairman  
James Riddell, President and Chief Executive Officer  
Bernard Lee, Chief Financial Officer  
Mitchell Shier, General Counsel & Corporate Secretary, Manager, Land  
Darrel Purdy, Corporate Operating Officer (Kaybob Corporate Operating Unit)

2015 was a very difficult and challenging year for companies in the North American oil and gas industry, including Paramount. Global over-supply of hydrocarbons, the refusal of the Organization of Petroleum Exporting Countries to employ production quotas, a slowdown in the growth of the Chinese economy and various other factors led to a sharp decline in commodity prices that started in June 2014 and resulted in extremely low commodity prices and depressed industry conditions throughout all of 2015. The average monthly spot price for West Texas Intermediate crude plummeted from approximately US\$108 per barrel in June 2014 to approximately US\$36 per barrel by December 2015 with similar declines in related liquid hydrocarbons. These severely depressed commodity prices significantly affected Paramount's results in 2015 despite the Corporation's 2015 average sales volumes increasing to 44,130 Boe/d, an 80% increase over 2014.

In response to the extremely low commodity prices that persisted throughout 2015, management of the Corporation: (1) significantly reduced Paramount's 2015 capital spending from 2014 levels; (2) implemented a number of external (suppliers) and internal (personnel) cost cutting measures; and (3) focused on achieving capital and operational efficiencies and savings.

The cost cutting measures impacting the Corporation's officers, employees and directors include those listed below.

- An initial salary reduction of 5% for NEOs and other senior management was implemented in April 2015 followed by a further effective salary reduction of 20% during the summer months through 17 unpaid days of office closure.
- An effective salary reduction of 20% for all other employees during the summer months through 17 unpaid days of office closure.
- A reduction of Paramount's permanent workforce by approximately 15% and the elimination of most of its corporate consultant positions in 2015, with the remaining consultants being subject to fee reductions of 10% to 15%.
- No SIP awards were granted to any officers or other employees in 2015 (with the exception of those employees who are not eligible to receive stock options).
- Certain of the NEOs also agreed to restructure their 2015 compensation in April 2015 resulting in them receiving less salary and additional stock options.

In response to persistently low commodity prices, the following additional cost cutting measures were implemented effective January 1, 2016:

- An additional 5% salary reduction for all officers and employees; and
- The annual retainer and fees payable to the Corporation's directors were reduced by 15% for 2016.

Paramount's Compensation Committee believes that the compensation paid to Paramount's CEO and other NEOs in 2015 reflects the "at risk" nature of the Corporation's NEO compensation structure, and the resulting alignment that exists between Paramount's management and its Shareholders. The NEOs' aggregate reported compensation in fiscal 2015 was down by approximately 57% from 2014 levels (from \$10.8 million to \$4.6 million). In addition, since no SIP awards or cash bonuses were granted in 2015, and the stock options issued to NEOs in April 2015 were materially out of the money by the end of 2015, the NEOs' aggregate realizable compensation in respect of fiscal 2015 decreased to \$1.4 million, or about 29% of the NEOs' reported compensation for the year. The only realizable compensation that the NEOs received in respect of fiscal 2015 was their salaries, which were subject to the reductions described above.

The following list highlights some of the key features of Paramount's compensation program that seek to ensure that the actions of Paramount's executives are aligned with the interests of its Shareholders. These features are described in more detail elsewhere in this "Compensation Discussion and Analysis" or in other sections of this information circular:

- Compensation is performance based with an emphasis on long-term incentive awards. Approximately 87% of the Executive Chairman's 2015 compensation and 79% of the President & CEO's 2015 compensation was variable or "at risk" (with the variable or "at risk" portion of compensation for the other NEOs ranging from approximately 21% to 59% of their total compensation).
- Stock options generally (i) vest over five years (with the first vesting generally only occurring in the year following the grant date) and expire six months after the final vesting; (ii) do not automatically vest upon a change of control; and (iii) cannot be re-priced without shareholder approval (which has never been sought).
- There are generally no off-cycle grants of stock options or SIP awards.
- Cash bonuses are only occasionally awarded based on material contributions having been made to the achievement of major corporate objectives (none have been paid to the NEOs in the last three fiscal years).
- Paramount does not award any large perquisites, and does not have any pension plans or other post-retirement obligations.
- A policy is in place prohibiting the hedging of Paramount's securities by officers and directors.
- No loans can be made to Paramount's executives for any purpose (including the purchase of Paramount's securities).
- Paramount's compensation program is regularly reviewed by Paramount's Compensation Committee (which is comprised exclusively of independent directors) to ensure it is competitive and consistent with the executive compensation programs of Paramount's peer group, and does not encourage excessive risk taking by NEOs.

The alignment of interests between Paramount's executives and its Shareholders is further strengthened by the fact that Paramount's Executive Chairman and President & CEO collectively own or control, directly or indirectly, approximately 40% of Paramount's Common Shares.

### Components of Paramount's Compensation Program

In determining the compensation that is to be awarded to Paramount's NEOs, Paramount's Compensation Committee considers a range of factors including general industry and market conditions, the Corporation's total shareholder return ("TSR"), the compensation practices and performance of its peer group, and Paramount's corporate and operating results as well as its progress in advancing its overall corporate strategy. The individual performance of each of the NEOs is also assessed. As the only compensation awarded to the NEOs for fiscal 2015 was their salaries (which were determined in December 2014) and stock options grants that occurred in April 2015, the factors that Paramount's Compensation Committee focused on were primarily related to 2014 performance metrics and peer comparisons. During 2015, the majority of the Compensation Committee's focus was on the various cost cutting measures described above, that were implemented in response to the severe and prolonged slump in commodity prices that the industry was experiencing.

#### Base Salary

<b>Base Salaries and Percentage Change</b>			
	<b>Salary 2014</b>	<b>Salary 2015</b>	<b>Percentage Change</b>
Clayton Riddell	\$425,000	\$149,936	-65%
James Riddell	\$446,250	\$402,825	-10%
Bernard Lee	\$340,000	\$182,980	-46%
Mitchell Shier	\$315,000	\$293,374	-7%
Darrel Purdy	\$290,000	\$234,467	-19%

The objective of a NEO's base salary is to provide a fixed level of cash compensation for performing day-to-day responsibilities. It is designed to reward executives for providing the services within their job description in a competent, professional manner. Paramount strives to pay base salaries that are competitive with its peer group and the Canadian oil and gas industry generally as salary is believed to be an important factor in attracting and retaining high-caliber people capable of achieving the Corporation's business objectives. In December 2014 Paramount's Compensation Committee approved salary increases of 4.4%, 3.2% and 6.9% for Messrs. Lee, Shier and Purdy, respectively, following a review of the Corporation's overall 2014 performance and the individual performance of these three NEOs. As has been the case for the past several years, both Mr. Clayton Riddell and Mr. James Riddell elected not to accept any increase in their respective salaries. As discussed above, by April 2015 Paramount's senior management had determined that a number of cost cutting measures were necessary to address the continuing deterioration in industry conditions, which included a 5% base salary reduction for Paramount's officers and senior management. Subsequent to this, all officers and employees effectively had their salaries reduced by 20% during the summer months through 17 unpaid days of office closure. In addition, Messrs. Clayton Riddell, Lee and Purdy agreed to restructure their 2015 compensation, resulting in them taking a further reduction in their base salary for the year and receiving additional stock options.

Paramount relies on the expertise and experience of its Compensation Committee and considers annual comparative compensation data received through its participation in the Mercer (Canada) Ltd. compensation survey (the "Mercer Survey") in determining annual base salaries for its NEOs. The Mercer Survey provides detailed comparative compensation information for all sectors of the Canadian oil and gas industry including salary ranges and salary increase budgets for specific job positions in companies of different types and sizes based on criteria such as education, areas of expertise, years of service and previous employment background. Other than subscribing to the Mercer Survey, Paramount has not engaged compensation consultants or advisors to assist it in determining compensation amounts to be paid to its executives or other employees.

#### ***Stock Incentive Program***

As mentioned above, no SIP awards were made to the NEOs in 2015.

Generally, however, the objective of the SIP is to reward officers and employees of the Corporation who have met or exceeded their goals and contributed to the financial and operational success of Paramount. By encouraging Paramount's officers and employees to have an ongoing investment in the Corporation's Common Shares, the SIP is also intended to further align them with the goal of creating long-term Shareholder value. SIP grants are in the form of entitlements to Common Shares, 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 Executive Chairman and President & CEO which vest immediately). As the value of the Common Shares increases or decreases, the value of the SIP awards also increases or decreases, thereby aligning the interests of Paramount's officers and employees with those of Shareholders. Paramount believes the delayed vesting of SIP awards that are made to officers and employees who are responsible for managing the Corporation's assets and operations helps ensure that they do not undertake actions that achieve short-term results at the expense of long-term value creation for Shareholders. As the Executive Chairman and President & CEO are major shareholders, it is not necessary for there to be a delayed vesting feature in their SIP awards to ensure that their interests are aligned with Paramount's other Shareholders.

SIP awards to the NEOs are approved by Paramount's Compensation Committee following consultation with Paramount's other independent directors.

#### ***Stock Option Plan ("Option Plan")***

<b>Stock Options Granted in April 2015</b>	
Clayton Riddell	134,000
James Riddell	200,000
Bernard Lee	33,500
Mitchell Shier	10,500
Darrel Purdy	18,100

The intent of the Option Plan is to recognize the contributions of Paramount's officers and employees who are responsible for Paramount's management and growth, and to directly align their interests with those of Paramount's shareholders. Option grants under the Option Plan are the primary long-term compensation awarded to Paramount's executives.

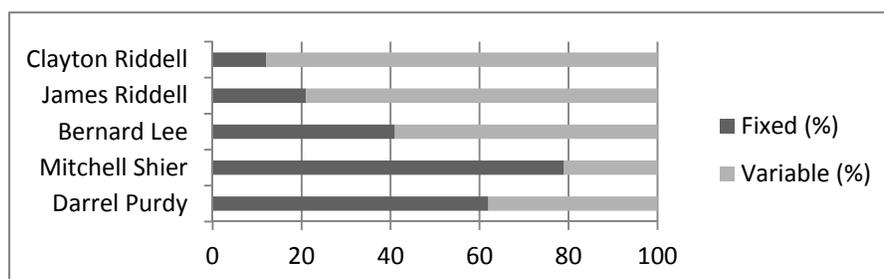
NEOs are eligible for grants of options when they commence employment with Paramount and thereafter on an annual basis. Options generally vest in equal tranches each successive year over a five-year period and expire six months after their last vesting date. Paramount believes that five-year vesting schedules help ensure that Paramount's NEOs, as well as its other officers and eligible employees, all feel a responsibility to manage Paramount's assets and operations with a view to the long-term health and growth of the Corporation. The stock option grants made to the NEOs in April 2015 were scheduled to vest over a two-year period as opposed to the usual five-year vesting schedule in order to provide the NEOs with some medium-term (as opposed to long-term) incentives since no SIP awards were made in 2015.

### Cash Bonuses

From time to time, Paramount rewards its top-performing NEOs with cash bonuses that are intended to reward them for making material contributions 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. No cash bonuses were awarded in 2015 or either of the two prior fiscal years.

### Compensation Mix

In determining compensation awards to be made to the Corporation's NEOs, consideration is given to all forms of compensation paid or payable to them so that an appropriate mix is attained between fixed and variable "at risk" pay (with the majority of such compensation intended to be incentive-based, "at risk" pay). The following graph shows the percentages of fixed and variable compensation that each of the NEOs received in 2015.



### Peer Group

Paramount competes for executive talent with a wide range of Canadian exploration and development companies, but in particular with other intermediate-sized entities. Each year Paramount's Compensation Committee conducts a review of Paramount's competitors to determine which companies it feels are most appropriate to benchmark the Corporation against for performance and compensation purposes. In 2015, this review resulted in no changes to Paramount's peer group as Paramount's Compensation Committee believes the ten companies previously selected (and listed below) are the companies that are most similar to Paramount at its current stage of development in terms of market capitalizations, enterprise values, asset bases and other attributes, and, accordingly, that Paramount is most directly competing with this peer group to hire and retain the highly skilled and motivated executive team it requires to advance its business strategy.

- |                               |                      |                                       |
|-------------------------------|----------------------|---------------------------------------|
| ARC Resources Corp.           | Baytex Energy Corp.  | Birchcliff Energy Ltd.                |
| Bonavista Energy Corp.        | Enerplus Corp.       | Peyto Exploration & Development Corp. |
| Seven Generations Energy Ltd. | Tourmaline Oil Corp. | Trilogy Energy Corp.                  |
| Whitecap Resources Inc.       |                      |                                       |

<b>Paramount's Market Capitalization and Enterprise Value vs. Peer Group</b>		
	<i>December 31, 2015 Market Capitalization (Millions)</i>	<i>December 31, 2015 Enterprise Value (Millions)</i>
Peer Group 25 <sup>th</sup> Percentile	\$697	\$1,781
Peer Group Median	\$1,846	\$3,100
Peer Group 75 <sup>th</sup> Percentile	\$3,813	\$4,743
Paramount	\$650	\$2,405
<b>Percentile Rank December 2015</b>	<b>23<sup>rd</sup> Percentile</b>	<b>38<sup>th</sup> Percentile</b>
Percentile Rank December 2014	46 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile

As part of its annual process of setting executive compensation, Paramount takes into account the compensation paid to the NEOs of this peer group as well as a range of other factors including general trends affecting executive compensation in the Canadian oil and gas industry, the relative complexity of Paramount's business versus this peer group and its growth prospects and performance as compared to them. The Corporation's 1-year, 3-year and 5-year annual average return as compared to this peer group's average were as follows:

<b>Paramount's Annual Average Return vs. Peer Group Average</b>		
	<i>Paramount</i>	<i>Peer Group</i>
1-Year	-78%	-44%
3-Year	-42%	-21%
5-Year	-28%	-13%

## Corporate Results

A summary of the Corporation's results for the years 2014 and 2015 follows:

### 2014

#### Production

- Paramount's sales volumes increased by 17% in 2014 to 24,524 Boe/d. Sales volumes in the fourth quarter of 2014 were 34,430 Boe/d which was 70% higher than the same quarter in 2013.

#### Operating Expenses

- Were \$7.96/Boe.

#### Reserves

- Proved reserves increased 159% to 226.8 MMBoe (which represented a replacement ratio of 17 times).
- Conventional proved and probable reserves increased 159% to 347.1 MMBoe (which represented a replacement ratio of 25 times), a record level for Paramount.

#### Finding and Development Costs

- Finding and development costs for proved and probable reserves (excluding major facilities and gathering system costs) were \$14.29/Boe.

#### Other

- Paramount successfully completed, commissioned and commenced operation of its 200 MMcf/d deep cut natural gas processing facility in its Musreau core area. This facility was constructed in-line with budget.

### 2015

#### Production

- Average sales volumes increased to 44,130 Boe/d in 2015, which is 80% higher than 2014 average volumes but was lower than previously announced guidance.
- Liquids sales volumes increased by 184% to 17,345 Boe/d.

#### Operating Expenses

- Operating expenses were \$5.59/Boe in 2015, which represents a 30% decrease from 2014 and a 40% decrease from 2013. The decreases in 2015 per-unit operating costs were primarily due to low-cost Kaybob area volumes becoming a greater proportion of the Company's overall production.

#### Reserves

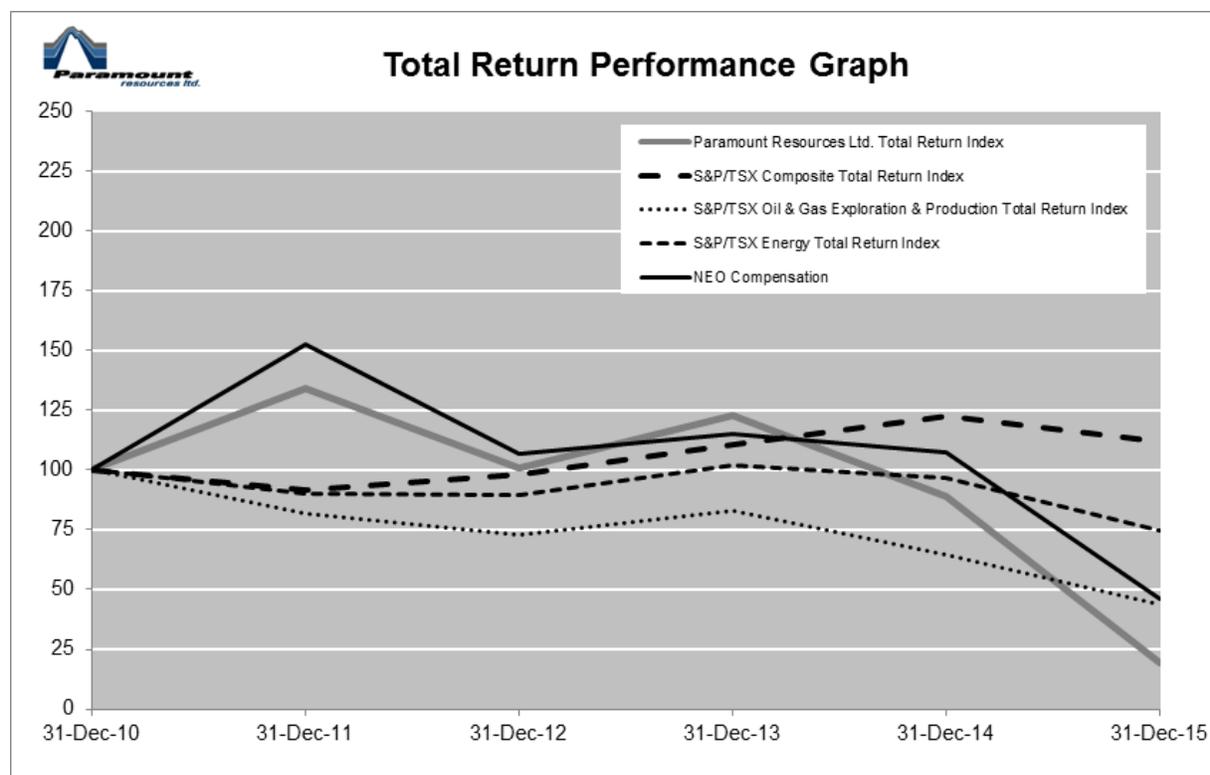
- Reserves volumes for year-end 2015 were about the same as for year-end 2014. Year-end principal properties proved reserves were 226.3 MMBoe and proved plus probable reserves were 337.6 MMBoe.

#### Finding and Development Costs

- Paramount's 3-year average finding and development costs for proved plus probable reserves (excluding major facilities and gathering system costs) were \$12.20/Boe.

## Total Return Performance Graph

The following graph compares the cumulative TSR for Paramount on the Toronto Stock Exchange of \$100 invested in Common Shares on December 31, 2010 with the total returns over the same five-year period of the S&P/TSX Composite Index, the S&P/TSX Oil & Gas Exploration & Production Total Return Index and the S&P/TSX Energy Index. It also shows the percentage change in the total reported compensation of Paramount's NEOs during this same five-year period.



	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15
Paramount Resources Ltd. Total Return	100	134	101	123	89	19
S&P/TSX Composite Total Return Index	100	91	98	111	122	112
S&P/TSX Oil & Gas Exploration & Production Total Return Index	100	82	73	83	64	44
S&P/TSX Energy Total Return Index	100	90	90	102	97	75
NEO Compensation	100	152	107	115	107	46

The Total Return Performance Graph and accompanying table demonstrate the very strong alignment that has existed between Paramount's TSR and NEO compensation during the past five years. Paramount's NEO compensation has increased during periods when the Corporation's TSR increased, and decreased in periods when Paramount's TSR decreased, although there is sometimes a lag between the two as the NEOs' annual SIP awards, if any, are made relatively early in the year and are in respect of individual and corporate performance in the preceding year.

Focusing on the last two fiscal years, it is notable that the NEOs' aggregate reported compensation in 2015 was approximately 57% less than the aggregate reported NEO compensation in 2014 and approximately 60% less than the aggregate reported NEO compensation in 2013. The significant decreases in aggregate NEO compensation for both fiscal 2014 and fiscal 2015 illustrate the very strong correlation of the Corporation's NEO compensation with its TSR. It should also be noted that the NEOs' realizable compensation in respect of these fiscal years as well as fiscal 2013 (that is, the amount of compensation they actually realized in respect of the applicable fiscal year versus what they were awarded for that year) was far less than their reported, or awarded, compensation due to their stock

options granted in these years being out-of-the-money at the end of 2015 as a result of the fall in the Corporation's share price. See the discussion and table below for further details.

## Reported vs. Realizable Compensation

The following table provides further information and context in respect of the trend in Paramount's NEO compensation versus its TSR by comparing the aggregate total reported compensation of the NEOs (as set out in the table on page 24 of this information circular and used in the Total Performance Return Graph above) for each of 2013, 2014 and 2015 with the NEOs' realizable compensation for each of those years. The NEOs' realizable compensation in respect of these years differs from their reported compensation in that it uses the December 31, 2015 "in the money" value of the stock options granted to them in 2013, 2014 and 2015 (as set out in the table on page 25 of this information circular) as opposed to the grant date fair value of those options (which was calculated using a Black-Scholes model).

Compensation Type	2015		2014		2013	
	Reported	Realizable	Reported	Realizable	Reported	Realizable
Options <sup>(1)</sup>	3,284,346	nil	6,258,000	nil	7,745,250	nil
SIP awards	nil	nil	2,627,365	2,647,564	1,965,531	1,933,234
Base Pay	1,263,582	1,263,582	1,816,250	1,816,250	1,771,250	1,771,250
All Other Compensation	89,487	89,487	60,675	60,675	57,425	57,425
<b>Total</b>	<b>4,637,415</b>	<b>1,353,069</b>	<b>10,762,290</b>	<b>4,524,489</b>	<b>11,539,456</b>	<b>3,761,909</b>
<b>Realizable as % of Reported Pay</b>		29%		42%		33%

**Notes:**

- (1) The closing price of a Common Share on the TSX on December 31, 2015 of \$6.12 was below the exercise price of all options granted to the NEOs in 2015 (\$34.48 and \$36.70), 2014 (\$29.89) and 2013 (\$37.96). None of the options granted in any of these years have been exercised by the NEOs.

As the table above shows, aggregate realizable NEO compensation in 2015, 2014 and 2013 was approximately \$1.4 million, \$4.5 million and \$3.8 million, respectively, due to all of the stock options granted to NEOs in respect of 2015, 2014 and 2013 being out of the money as at December 31, 2015. Of particular note is the fact that aggregate realizable NEO compensation in respect of 2015 was 29% of reported compensation for that year.

## Compensation Governance

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 consider and, after reasonable consultation by the Chair of the Committee with all other independent directors of the Corporation, approve the annual salary, bonus and other benefits, direct and indirect, of the Executive Chairman and President & CEO and to approve compensation for all other designated officers in the Corporation (in the latter case after considering the recommendations of the Executive Chairman and President & CEO), all in accordance with the Corporation's compensation policies and general human resources policies and guidelines concerning employee compensation and benefits, and with 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 President & 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 President & CEO recommendations concerning annual compensation policies and budgets for all employees;
- g) from time to time, to review with the President & 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.

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 TSX listed 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 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.

### **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.
- For four of the five NEOs severance is based on common law principles, and there are no excessive severance or change of control arrangements 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 believe the SIP awards do not encourage inappropriate or excessive risk taking for the following reasons. As previously noted, no SIP awards were made to the NEOs in 2015.

- 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 recipients.
- The SIP's delayed vesting provisions (three tranches over two years), encourage a focus on long-term value creation. These delayed vesting provisions apply to all eligible employees other than the Executive Chairman and President & CEO (who are excluded because of their significant equity positions in Paramount, which achieves the same result).

#### ***Stock Option Grants***

Paramount's Compensation Committee believes the Option Plan does not 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 five years with the first tranche only vesting after the first year. This motivates the achievement of long-term sustainable objectives and aligns recipient's interests with Shareholders.
- Paramount generally 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.

#### ***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 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 have been awarded in the last three fiscal years.

#### **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.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides a summary of compensation earned in 2013, 2014 and 2015 by Paramount's 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 (\$) (f)	All other Compensation <sup>(3)</sup> (\$) (h)	Total compensation <sup>(4)</sup> (\$) (i)
<b>Clayton Riddell</b> <sup>(5)</sup> Executive Chairman <sup>(6)</sup>	2015	149,936	nil	1,118,152	nil	11,245	1,279,333
	2014	425,000	532,610	1,564,500	nil	12,135	2,534,245
	2013	425,000	371,170	2,020,500	nil	11,910	2,828,580
<b>James Riddell</b> <sup>(5)</sup> President & CEO <sup>(6)</sup>	2015	402,825	nil	1,642,333	nil	24,930	2,070,088
	2014	446,250	1,864,135	2,086,000	nil	12,135	4,408,520
	2013	446,250	1,299,095	2,694,000	nil	11,910	4,451,255
<b>Bernard Lee</b> Chief Financial Officer	2015	182,980	nil	285,555	nil	13,724	482,259
	2014	340,000	81,276	1,043,000	nil	12,135	1,476,411
	2013	325,000	96,133	1,010,250	nil	11,910	1,427,105
<b>Mitchell Shier</b> Corporate Secretary	2015	293,374	nil	86,222	nil	22,003	401,599
	2014	315,000	75,045	782,250	nil	12,135	1,184,430
	2013	300,000	74,123	1,010,250	nil	11,910	1,396,283
<b>Darrel Purdy</b> Corporate Operating Officer	2015	234,467	nil	152,084	nil	17,585	404,136
	2014	290,000	74,299	782,250	nil	12,135	1,158,684
	2013	275,000	125,010	1,010,250	nil	11,910	1,412,687

**Notes:**

- (1) The amounts included in the Share-based awards column are the grant date fair values of the vested and unvested share units granted to the NEOs under Paramount's SIP during the applicable year. These values were calculated by multiplying the number of share units comprised in each NEO's SIP award by the weighted average price of the Common Shares over the five trading days preceding the grant date of the award. For Messrs. Clayton Riddell and James Riddell, the entire grant of share units vests on the grant date. For Messrs. Lee, Shier and Purdy, one-third of their share units vest immediately on the grant date, one-third vest on the first anniversary of the grant date and the final one-third vest on the second anniversary of the grant date.
- (2) The grant date fair value in the Option-based awards column was calculated using a Black-Scholes model. This methodology is consistent with the method used to estimate the fair value of options in Paramount's financial statements, and the inputs were: expected life 2.0 years, volatility 41.6% and interest rate 0.6%.
- (3) These amounts are contributions made by the Corporation in respect of RRSPs.
- (4) Column "g" (Pension value), as defined in Form 51-102F6, has been omitted from the Summary Compensation Table because Paramount does not have a pension plan as defined in Form 51-102F6. Column "h" does not include perquisites such as parking because the amounts were less than \$50,000 and less than 10% of each NEO's total salary in 2013 through 2015. Column "i", the "Total Compensation" column, also does not include any amounts for perquisites that are not required to be included in the table. The total compensation for Messrs. Lee and Purdy shown in column "i" for 2013 and 2014 reflects the fact that they participated in a voluntary unpaid Friday off program that was implemented by Paramount during the summer months in each of these years, and the total compensation for all NEOs in 2015 reflects the fact that Paramount's offices were closed for 17 unpaid days during the summer months.
- (5) Messrs. Clayton Riddell and James Riddell do not receive compensation in their capacity as directors of Paramount.
- (6) Messrs. Clayton Riddell and James Riddell accepted new positions at the May 7, 2015 Board meeting. Prior thereto, Mr. Clayton Riddell held the office of Chairman and CEO, and Mr. James Riddell held the office of President and Chief Operating Officer.

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

The following table summarizes the outstanding share-based awards and option-based awards for the NEOs as at December 31, 2015.

Name	Option-based Awards				Share-based Awards		
	Number 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 (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Clayton Riddell	150,000	29.89	April 30, 2020	nil	nil	nil	nil
	150,000	37.95	April 30, 2019	nil			
	150,000	34.12	April 30, 2018	nil			
	34,000	36.70	April 30, 2017	nil			
	100,000	34.48	April 30, 2017	nil			
	150,000	40.09	April 30, 2017	nil			
150,000	29.46	April 30, 2016	nil				
James Riddell	200,000	29.89	April 30, 2020	nil	nil	nil	nil
	200,000	37.95	April 30, 2019	nil			
	200,000	34.12	April 30, 2018	nil			
	200,000	34.48	April 30, 2017	nil			
	200,000	40.09	April 30, 2017	nil			
	200,000	29.46	April 30, 2016	nil			
Bernard Lee	100,000	29.89	April 30, 2020	nil	508	3,109	nil
	75,000	37.95	April 30, 2019	nil			
	50,000	34.12	April 30, 2018	nil			
	20,000	36.70	April 30, 2017	nil			
	13,500	34.48	April 30, 2017	nil			
	50,000	40.09	April 30, 2017	nil			
50,000	29.46	April 30, 2016	nil				
Mitchell Shier	75,000	29.89	April 30, 2020	nil	469	2,870	nil
	75,000	37.95	April 30, 2019	nil			
	50,000	34.12	April 30, 2018	nil			
	10,500	34.48	April 30, 2017	nil			
	50,000	40.09	April 30, 2017	nil			
	37,500	29.46	April 30, 2016	nil			
Darrel Purdy	75,000	29.89	April 30, 2020	nil	465	2,846	nil
	75,000	37.95	April 30, 2019	nil			
	50,000	34.12	April 30, 2018	nil			
	6,600	36.70	April 30, 2017	nil			
	11,500	34.48	April 30, 2017	nil			
	50,000	40.09	April 30, 2017	nil			
50,000	29.46	April 30, 2016	nil				

**Note:**

(1) The amounts set out in the "Value of unexercised in-the-money options" and "Market or payout value of unvested share-based awards" columns are in respect of all vested and unvested options, and all unvested SIP awards, respectively, held by the NEOs as at December 31, 2015. These amounts were calculated using the \$6.12 closing trading price of the Common Shares on December 31, 2015.

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

The following table shows the options and SIP grants for NEOs that vested during 2015.

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	nil	nil <sup>(1)</sup>	nil
James Riddell	nil	nil <sup>(1)</sup>	nil
Bernard Lee	nil	50,599 <sup>(2)</sup>	nil
Mitchell Shier	nil	41,859 <sup>(2)</sup>	nil
Darrel Purdy	nil	58,529 <sup>(2)</sup>	nil

**Notes:**

- (1) No share units were awarded in 2015 and, as all share units awarded to Messrs. Clayton Riddell and James Riddell vest immediately, they had none vesting in 2015 from previous years.
- (2) The values shown for Messrs. Lee, Shier, and Purdy were calculated by taking the number of Common Shares comprised in their 2013 and 2014 SIP awards that vested in 2015 and multiplying those numbers by the closing trading price of the Common Shares on the vesting date. The vesting date was April 15, 2015, and the closing trading price of the Common Shares on that date was \$36.88.

## INCENTIVE PLANS

### SIP

#### **General Information**

Under Paramount's SIP, officers and other permanent 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 Executive Chairman and President & CEO which vest immediately. The SIP awards are granted annually at the discretion of Paramount's Compensation Committee and are 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. Neither management nor the Board (either directly or through the Compensation Committee) have 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 employment with Paramount ceases for any reason, other than retirement (at age 65 and after five years of service), long-term disability or death, all outstanding unvested share units held by the employee terminate, unless the Compensation Committee determines otherwise. In the event of death, all outstanding unvested share units vest immediately. Unvested share units held by retiring employees or employees on long-term disability continue to vest in accordance with their existing original vesting schedule.

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

The definition of a change of control under the SIP is substantially the same as that under the Option Plan (see below). In the event of a change of control or a sale by the Corporation of all or substantially all of its assets, the Compensation Committee may determine, in its sole discretion, to accelerate the vesting of unvested share units.

#### **Adjustments**

In the event of any: (i) change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise; (ii) rights granted to Shareholders to purchase Common Shares at prices substantially below fair market value; or (iii) dividends or distributions, 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 Paramount's Compensation Committee on behalf of the Board. The Compensation Committee 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 Compensation Committee deems necessary or desirable for the administration of the SIP.

#### **Amendment**

The Compensation Committee may revise or amend the terms of the SIP from time to time, 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 that 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.

### Option Plan

#### **General Information**

The Option Plan enables Paramount's Board (or the Compensation Committee on behalf of the Board) 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 10 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 2020. All of the unvested options currently outstanding under the Option Plan have five-year vesting schedules except those granted in April 2015 which have two-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 60 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. In the event of the death of an optionholder, his or her options may be exercised or surrendered, to the extent that the optionholder was entitled to exercise his or her options at the date of death, by his or her personal representative at any time up to and including one year after death, unless specified otherwise in the optionholder's option agreement.

#### ***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 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 18, 2016, there were options to acquire 7,204,550 Common Shares outstanding under the Option Plan, representing approximately 6.78% of the total number of outstanding Common Shares as at such date.

In 2015, options to acquire 694,000 Common Shares were granted under the Option Plan representing 0.7% of the Common Shares outstanding as at December 31, 2015.

### 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, 2015, there was an aggregate of 7,238,650 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, 2015	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issues under equity compensation plans (excluding securities reflected in the first column) as at December 31, 2015
Equity compensation plans approved by securityholders – Option Plan	7,238,650	\$34.66	924,512
Equity compensation plans not approved by securityholders	None	None	None
<b>Total</b>	7,238,650	\$34.66	924,512

## 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 Compensation Committee (in the case of the SIP) or the Board (in the case of the Option Plan).

Mr. Shier's employment agreement 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 2015 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, 2015.

	<b>Severance</b>	<b>Option Benefits</b>	<b>SIP Benefits</b>	<b>Total</b>
Mitchell Shier	\$673,459 <sup>(1)</sup>	\$N/A <sup>(2)</sup>	\$2,870 <sup>(3)</sup>	\$676,329

**Notes:**

- (1) Mr. Shier's severance is calculated using his annual cash compensation.
- (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, 2015 vested and were sold on December 31, 2015. 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 in 2015. Directors' fees for 2016 have been reduced by 15%.

Name (a)	Year	Fees earned (\$) (b)	Option-based Awards (\$) <sup>(1)</sup> (d)	Total Compensation (\$) <sup>(2)</sup> (h)
James Bell	2015	40,500	nil	40,500
	2014	41,750	104,300	146,050
	2013	46,000	134,700	180,700
Thomas Claugus	2015	27,500	nil	27,500
	2014	28,750	104,300	133,050
	2013	30,500	134,700	165,200
John Gorman	2015	42,000	nil	42,000
	2014	43,250	104,300	147,550
	2013	49,000	134,700	183,700
Dirk Jungé	2015	30,000	nil	30,000
	2014	34,500	104,300	138,800
	2013	33,250	134,700	167,950
David Knott	2015	27,500	nil	27,500
	2014	32,000	104,300	136,300
	2013	32,000	134,700	166,700
Susan Riddell Rose	2015	23,750	nil	23,750
	2014	27,500	104,300	131,800
	2013	26,750	134,700	161,450
John Roy	2015	53,000	nil	53,000
	2014	54,250	104,300	158,550
	2013	60,000	134,700	194,700

**Notes:**

- (1) The grant date fair value for the option-based awards was calculated using a Black-Scholes model. This methodology is consistent with the method used to estimate the fair value of options in Paramount's financial statements. There were no grants to non-management directors under the Option Plan in 2015.
- (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 2013, 2014 or 2015. 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 2013, 2014 or in 2015.

### Narrative Discussion Related to Director Compensation

#### **Fees Earned**

The column entitled "Fees earned" in the Director Compensation Table sets out the fees earned by each non-management director in 2015. These fees were set at the December 2014 meeting of the Compensation Committee (after consultation with all independent directors) in advance of the 2015 fiscal year and, in accordance with the Corporation's cost saving measures, have been reduced by 15% effective January 1, 2016. Non-management directors were paid a \$20,000 annual honorarium and additional fees for chairing committees, attending meetings and signing written resolutions. The chair of the Audit Committee was paid an additional annual honorarium of \$6,500, and the chairs of the Corporate Governance Committee, Environmental Health and Safety Committee and Compensation Committee each received an additional annual honorarium of \$5,000. Each non-management director was also paid a \$1,250 fee for each Board, committee or Shareholders' meeting he or she attended, and \$500 for each written Board or committee resolution they signed. Finally, the Lead Director received an additional annual honorarium of \$10,000. The aggregate cash compensation paid to the non-management directors in 2015 was \$273,000 (which included \$28,750 paid to Bernhard Wylie who was a director during the first portion of fiscal 2015).

#### **Option-based Awards**

Paramount did not grant any options to its non-management directors in 2015.

## 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 as at December 31, 2015.

Name (a)	Option-based Awards			
	Number 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	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	16,000 <sup>(2)</sup>	37.80	April 30, 2016	nil
Thomas Claugus	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil
John Gorman	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil
Dirk Jungé	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil
David Knott	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil
Susan Riddell Rose	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil
John Roy	10,000	29.89	April 30, 2020	nil
	10,000	37.95	April 30, 2019	nil
	10,000	34.12	April 30, 2018	nil
	10,000	40.09	April 30, 2017	nil
	5,000	29.46	April 30, 2016	nil

**Notes:**

- (1) Based on the \$6.12 closing trading price of the Common Shares on December 31, 2015 and in respect of all vested and unvested options.
- (2) Mr. Bell was appointed to Paramount's Board on November 9, 2011. His option-based award that expires on April 30, 2016 is the initial grant of options that was made to him when he became a director.
- (3) 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 the options for non-management directors that vested during 2015.

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

**Notes:**

- (1) No options were "in the money" at the time of vesting.
- (2) Columns "c" and "d" have been omitted because directors do not receive Share-based awards or Non-equity incentive plan compensation.

### **Share Ownership and 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. See the Nominees for Election to the Board of Directors Table for the multiple of the annual base retainer held by each nominee director.

### **INDEBTEDNESS OF DIRECTORS AND OFFICERS**

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

## CORPORATE GOVERNANCE

The Corporate Governance Committee is presently comprised of John Gorman (Lead Director), John Roy (Chair), James Bell, Thomas Claugus, 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 "A" 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, and Susan Riddell Rose are the members of Paramount's current Board who are not independent. Clayton Riddell and James Riddell are not independent because they are also members of management. Susan Riddell Rose has a familial relationship with the Executive Chairman and President & CEO 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 (6 of the 9 directors – i.e. 2/3<sup>ds</sup> – 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, certain additional boards that Clayton Riddell 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.

The Board has a policy requiring that an *in camera* meeting of independent directors be held in connection with all 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 Executive Chairman of Paramount and he is not an independent director. As the Executive Chairman is not an independent director, the Board has appointed John Gorman, 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 Executive Chairman on preparation of agendas for Board meetings as required;
  - consulting with the Executive Chairman 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 Executive Chairman and President & CEO are not in attendance;
  - ensuring delegated committee functions are carried out and reported to the Board, for example, the President & CEO performance assessment, President & 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.*

All directors had perfect attendance records. Further detail 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 Compensation, Corporate Governance, Audit and Environmental, Health and Safety Committees.

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

#### **Position Descriptions**

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

Written position descriptions have been developed for the Executive Chairman, the Lead Director and for the Chair of each Board committee as well as for the President & CEO 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 President & 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 Executive Chairman, President & CEO, 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.

In 2013 the Corporation began using a secure board portal to distribute information to the Board of Directors. Information on the board portal includes both current and historic board and committee meeting materials, minutes and resolutions, and the Corporate Governance Manual. All existing board members have received, and all new board members will receive, training on the use of the board portal.

James Bell completed the Canadian Securities Course in January 2014 and the Partners, Directors and Senior Officers course in February 2014.

In November 2014, Paramount's board members made a site visit to the Musreau Deep Cut Facility and adjacent operating locations in the Kaybob COU so they could acquire a more direct and detailed understanding of Paramount's operations.

Dirk Jungé attended the Kellogg Corporate Governance Conference (exclusively for experienced corporate directors) at Northwestern University in May 2015.

### **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 President & CEO, CFO, Controller and any person performing similar functions. 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 and senior management 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 communication 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 were filed by Paramount during 2015 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 & CEO 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 & CEO 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.

In 2009 the Corporate Governance Committee developed a flexible, phased-in director succession plan with the intent of replacing certain long-term directors who wished to retire. The plan has been implemented, regularly reviewed and adapted to address changing circumstances by the Corporate Governance Committee. Since 2010 the size of the Board has been reduced from 11 to nine members, two independent and two non independent directors have left the Board and two new independent directors have been appointed.

- 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 considers and, after reasonable consultation by the Chair of the Committee with all other independent directors of the Corporation, approves the annual salary, bonus and other benefits, direct and indirect, of the Executive Chairman and the President & CEO and all other designated officers in the Corporation (in the latter case after considering the recommendations of the Executive Chairman and President & CEO), all in accordance with the Corporation's compensation policies and general human resources policies and guidelines concerning employee compensation and benefits, and with such compensation to realistically reflect the responsibilities and risks of such positions.

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

The Compensation Committee is composed entirely of independent members. John Gorman, the Lead Director, James Bell and John Roy are the 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 Executive Chairman's and President & CEO's compensation must also be approved by the Compensation Committee, after consultation with all other independent directors.

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

In addition to the function described in section (a) above, 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 President & CEO; reviews the Corporation's policies and programs relating to benefits; receives the President & 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.

### **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 Executive Chairman, 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 peer-assessment. Since 2013 the Corporation has had a peer review component whereby each director is 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.

### **Director Term Limits and Other Mechanisms of Board Renewal**

- a. *Disclose whether or not the issuer has adopted term limits for the directors on its board or other mechanisms of board renewal and, if so, include a description of those director term limits or other mechanisms of board renewal. If the issuer has not adopted director term limits or other mechanisms of board renewal, disclose why it has not done so.*

Paramount has not adopted formal term limits or a formal retirement policy for its directors. However, in 2009 the Corporate Governance Committee developed a flexible, phased-in director succession plan with the intent of replacing certain long-term directors who wished to retire. The plan has been implemented, regularly reviewed and adapted to address changing circumstances by the Corporate Governance Committee. Since 2010 the size of the Board has been reduced from 11 to nine members, two independent and two non-independent directors have left the Board and two new independent directors have been appointed.

The purpose of this succession planning has been to ensure that Paramount's Board at all times has the appropriate mix of skills, expertise and knowledge, and that ample time is available to identify qualified replacements for departing Board members. The Board feels that this plan has been a very effective mechanism for facilitating board renewal, and it is not currently contemplating imposing any formal director term limits. In fact, Paramount feels that the imposition of such limits could be counter-productive as it has been Paramount's experience that its directors become increasingly more effective, and better able to provide fresh insights and

perspectives and to function independently from management, as they gain experience and a deeper understanding of Paramount's business and its strategic and operational objectives,

Board renewal is also facilitated through the previously discussed annual assessments of the Board, its committees, committee chairs and individual directors in which Board members evaluate each other and the Board as a whole in order to determine whether there are areas where the Board requires improvement.

***Policies Regarding the Representation of Women on the Board***

- a. *Disclose whether the issuer has adopted a written policy relating to the identification and nomination of women directors. If the issuer has not adopted such a policy, disclose why it has not done so.*

The Board has not adopted a written policy relating to the identification and nomination of women directors, as it believes that the interests of Paramount and its shareholders are best served by ensuring that new directors are identified and selected from the widest possible group of potential candidates, without any restrictions or preferences relating to gender. The Board feels that having written policies governing the selection of Board nominees could unduly restrict the Board's ability to select the most capable candidates. Paramount is committed to ensuring that its Board at all times has the required range of skills, knowledge, experience and perspectives to provide the strategic direction and leadership necessary for Paramount to achieve its business objectives.

- b. *If an issuer has adopted a policy referred to in (a), disclose the following in respect of the policy:*
- i. *A short summary of its objectives and key provisions,*
  - ii. *The measures taken to ensure that the policy has been effectively implemented,*
  - iii. *Annual and cumulative progress by the issuer in achieving the objectives of the policy, and*
  - iv. *Whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.*

See above.

***Consideration of the Representation of Women in the Director Identification and Selection Process***

- a. *Disclose whether, and, if so, how the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. If the issuer does not consider the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board, disclose the issuer's reasons for not doing so.*

Given Paramount's belief that candidates for directors should be identified and selected from the widest possible group of qualified individuals, the level of representation of women on the Board is not considered in identifying and nominating candidates for election or re-election to the Board.

***Consideration Given to the Representation of Women in Executive Officer Appointments***

- a. *Disclose whether and, if so, how the issuer considers the level of representation of women in executive officer positions when making executive officer appointments. If the issuer does not consider the level of representation of women in executive officer positions when making executive officer appointments, disclose the issuer's reasons for not doing so.*

Paramount's position with respect to the representation of women in executive officer positions is the same as its position with respect to the representation of women on the Board. It believes that people should be hired and promoted based on their professional qualifications, accomplishments and merit. Accordingly the level of representation of women in executive officer positions is not considered in making executive officer appointments.

***Issuer's Targets Regarding the Representation of Women on the Board and in Executive Officer Positions***

- a. *For purposes of this Item, a "target" means a number or percentage, or a range of numbers or percentages, adopted by the issuer of women on the issuer's board or in executive officer positions of the issuer by a specific date.*
- b. *Disclose whether the issuer has adopted a target regarding women on the issuer's board. If the issuer has not adopted a target, disclose why it has not done so.*

The Board has not adopted a target regarding women on the Board or in executive officer positions for the reasons set out above. The Board feels that adopting such a target could unduly restrict Paramount's ability to identify and select the most qualified people.

- c. *Disclose whether the issuer has adopted a target regarding women in executive officer positions of the issuer. If the issuer has not adopted a target, disclose why it has not done so.*

See above.

- d. *If the issuer has adopted a target referred to in either (b) or (c), disclose:*
- i. *The target, and*
  - ii. *The annual and cumulative progress of the issuer in achieving the target.*

See above.

**Number of Women on the Board and in Executive Officer Positions**

- a. *Disclose the number and proportion (in percentage terms) of directors on the issuer's board who are women.*

Paramount has one female Board member. This represents 11% of Paramount's current Board.

- b. *Disclose the number and proportion (in percentage terms) of executive officers of the issuer, including all major subsidiaries of the issuer, who are women.*

Paramount does not currently have any executive officers who are women. However, two senior officers of the Corporation and its subsidiaries are women.

## **Schedule "A"**

### **Board of Directors' Mandate**

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

#### **A. 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 Executive Chairman and the President & Chief Executive Officer, shall set the standards of conduct for the Corporation.

#### **B. 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.

#### **C. 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 Executive Chairman;
  - (ii) the lead director;
  - (iii) the President and Chief Executive Officer; and
  - (iv) 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 securityholders 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;
- (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 Executive Chairman.

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