

*A copy of this preliminary prospectus supplement has been filed with the securities regulatory authority in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus supplement may not be complete and may have to be amended.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus supplement, together with the accompanying short form base shelf prospectus dated October 29, 2010 to which it relates (the "Prospectus"), and each document incorporated by reference into this prospectus supplement and the Prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and, except as expressly provided in the Underwriting Agreement (as defined below), will not be offered or sold in the United States. This prospectus supplement, together with the Prospectus, does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States of America. See "Plan of Distribution".*

*Information has been incorporated by reference in this prospectus supplement and in the Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein and therein by reference may be obtained on request without charge from the Corporate Secretary of Paramount Resources Ltd. at 4700, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, phone (403) 290-3600 and are also available electronically at [www.sedar.com](http://www.sedar.com).*

**Preliminary Prospectus Supplement to the Short Form Base Shelf Prospectus Dated October 29, 2010**

**New Issue**

**November 22, 2010**



**\$•**

**•% Senior Unsecured Notes Due 2017**

The •% Senior Unsecured Notes due 2017 (the "Notes") of Paramount Resources Ltd. ("Paramount" or the "Company") will bear interest at a rate of •% per annum, payable semi-annually in arrears on • and • in each year, commencing •, 2011. The Notes will mature on •, 2017. The Notes will be direct senior unsecured obligations of Paramount and will rank equally with all other senior unsecured indebtedness of Paramount. The Notes will be unconditionally guaranteed by certain of the Company's direct and indirect wholly-owned partnerships and subsidiaries. For a description of the Notes, the guarantees and the indenture pursuant to which the Notes will be issued, see "Description of the Notes".

Investing in the Notes is subject to certain risks that should be considered by prospective investors. See the "Risk Factors" section in the Prospectus on page 10 and the "Risk Factors" section of this prospectus supplement.

	<u>Price to the Public<sup>(1)</sup></u>	<u>Underwriters' Fee</u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>
Per \$1,000 principal amount of Notes.....	\$•	\$•	\$•
Total.....	\$•	\$•	\$•

**Notes:**

- (1) Plus accrued interest, if any, from •, 2010 to the date of delivery.
- (2) Before deducting the expenses of the offering estimated to be approximately \$•.

Scotia Capital Inc., BMO Nesbitt Burns Inc. and • (collectively, the "Underwriters"), as principals, conditionally offer the Notes, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Macleod Dixon LLP and on behalf of the Underwriters by Burnet, Duckworth & Palmer LLP. Paramount has been advised by the Underwriters that, in connection with this offering and subject to applicable laws, the Underwriters may effect transactions intended to stabilize or maintain the market price of the Notes at levels other than those that otherwise might prevail on the open market in accordance with market stabilization rules. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

**The actual and pro forma earnings coverage ratios for each of the year ended December 31, 2009 and the twelve month period ended September 30, 2010 are less than one to one and, since the Company had a loss for each such period, the earnings coverage ratios are negative. See "Earnings Coverage Ratios".**

Subscriptions for the Notes will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on or about • or on such other date as Paramount and the Underwriters may agree but, in any event, not later than • and that Notes will be available for delivery in book-entry form only through the facilities of CDS Clearing and Depository Services Inc. on or about the date of closing of the offering. Purchasers of Notes will not have the right to receive physical certificates evidencing their ownership of Notes. **There is no market through which the Notes may be sold and purchasers may not be able to resell Notes purchased under this prospectus supplement. This may affect the pricing of the Notes in the secondary market, the transparency and availability of trading prices, the liquidity of the Notes and the extent of issuer regulation.**

Each of Scotia Capital Inc., BMO Nesbitt Burns Inc. and • are direct or indirect wholly owned subsidiaries of Canadian chartered banks that are lenders to Paramount. Consequently, the Company may be considered to be a "connected issuer" of these Underwriters for the purposes of securities regulations in certain provinces. See "Relationship Between the Company and Certain Underwriters".

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**IMPORTANT NOTICE ABOUT INFORMATION IN THIS  
PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS**

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Notes the Company is offering and also adds to and updates certain information contained in the Prospectus and the documents incorporated by reference therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Notes offered hereunder.

**Prospective investors should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the Prospectus. The Company has not authorized any other person to provide prospective investors with additional or different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. Prospective investors should assume that the information appearing in this prospectus supplement and the Prospectus, as well as information the Company has previously filed with the securities regulatory authorities in Canada that is incorporated herein and in the Prospectus by reference, is accurate as of their respective dates only. The Company's business, financial condition, results of operations and prospects may have changed since those dates.**

**The Company is not, and the Underwriters are not, making an offer to sell these Notes in any jurisdiction where the offer or sale is not permitted.**

In this prospectus supplement, unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Information has been incorporated by reference in this prospectus supplement and the Prospectus from documents filed with securities commissions or similar regulatory authorities in certain of the provinces of Canada.** Copies of the documents incorporated herein and therein by reference may be obtained on request without charge from the Corporate Secretary of Paramount Resources Ltd. at 4700, 888 Third Street S.W., Calgary, Alberta, T2P 5C5 (telephone (403) 290-3600). These documents are also available through the internet on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at [www.sedar.com](http://www.sedar.com).

This prospectus supplement is deemed to be incorporated by reference into the Prospectus solely for the purpose of the offering of the Notes described in this prospectus supplement. Other documents are also incorporated or deemed to be incorporated by reference into the Prospectus. The following documents of the Company, filed with the securities commission or similar authority in certain of the provinces of Canada, are also specifically incorporated by reference in, and form an integral part of, this prospectus supplement and the Prospectus:

- (a) the Company's Annual Information Form dated March 10, 2010 for the year ended December 31, 2009;
- (b) the Company's audited comparative consolidated financial statements, including the notes thereto, as at and for the year ended December 31, 2009, together with the auditors' report thereon;
- (c) the Company's Management's Discussion and Analysis for the year ended December 31, 2009;
- (d) the Company's Management Proxy Circular dated March 6, 2009 relating to the annual and special meeting of shareholders of the Company held on May 13, 2009;
- (e) the Company's Management Proxy Circular dated March 10, 2010 relating to the annual meeting of shareholders of the Company held on May 12, 2010;
- (f) the press release of the Company dated May 26, 2010 in relation to the updated evaluation of its Hoole oil sands resources;
- (g) the Company's interim unaudited comparative consolidated financial statements, including the notes thereto, as at September 30, 2010 and for the three and nine months ended September 30, 2010; and

- (h) the Company's Management's Discussion and Analysis for the three and nine months ended September 30, 2010.

Any documents of the type referred to above, any material change reports (excluding confidential material change reports) and any business acquisition reports filed by the Company with a securities commission or similar regulatory authority in Canada after the date of the Prospectus and prior to termination of any offering thereunder shall be deemed to be incorporated by reference into the Prospectus.

**Any statement contained in this prospectus supplement, the Prospectus or in a document incorporated or deemed to be incorporated by reference in the Prospectus shall be deemed to be modified or superseded, for purposes of the Prospectus, to the extent that a statement contained in the Prospectus or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference in the Prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus supplement.**

#### NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this prospectus supplement and the Prospectus and the documents incorporated by reference herein and therein constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or an outlook. Forward-looking information in this prospectus supplement and the Prospectus and the documents incorporated by reference herein and therein includes, but is not limited to: expected production volumes; planned exploration and development expenditures and the timing thereof; exploration and development plans and strategies; budget allocations and capital spending flexibility; the outcome of any audits, assessments or other regulatory matters or proceedings; adequacy of facilities to process natural gas production; estimated reserves and resources and the undiscounted and discounted present value of future net revenues from such reserves and resources (including the forecast prices and costs and the timing of expected production volumes and future development capital); ability to fulfill future pipeline transportation commitments; undeveloped land lease expiries; the timing and cost of future abandonment and reclamation; business strategies and objectives; financing plans; acquisition and disposition plans; operating and other costs and royalty rates; expected accounting policies under International Financial Reporting Standards and the related impact on the Company's financial statement balances; expected drilling programs, well tie-ins, facility construction and expansions, completions and the timing thereof; the terms and timing of the Tender Offer (as hereinafter defined) and any subsequent redemption; and the use of proceeds, and timing of closing, of this offering of Notes.

Such forward-looking information is based on a number of assumptions which may prove to be incorrect. The following assumptions have been made, in addition to any other assumptions identified in this prospectus supplement and the Prospectus and the documents incorporated by reference herein and therein:

- future oil and gas prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to secure adequate product transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;

- the timely receipt of required regulatory approvals; and
- currency exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on such forward-looking information as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. These risks and uncertainties include, but are not limited to:

- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations;
- changes to the status or interpretation of laws, regulations or policies;
- the timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this prospectus supplement and the Prospectus and in the documents incorporated by reference therein or in Paramount's other filings with Canadian securities authorities.

The forward-looking information contained in this prospectus supplement and the Prospectus and the documents incorporated by reference herein and therein is made as of the date hereof and, except as required by law, Paramount undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## SUMMARY OF THE OFFERING

*The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the Notes, see "Description of the Notes" in this prospectus supplement and "Description of Debt Securities" in the Prospectus. References to "Paramount" or the "Company" in this summary refer only to Paramount Resources Ltd. and its successors, and not to its consolidated subsidiaries or partnerships. Certain capitalized terms not otherwise defined in this summary have the meanings given thereto in "Description of the Notes - Certain definitions".*

<b>Issuer:</b>	Paramount Resources Ltd.
<b>Notes Offered:</b>	\$• million aggregate principal amount of •% Senior Unsecured Notes due 2017.
<b>Interest:</b>	•% per annum, calculated and payable semi-annually in arrears.
<b>Interest Payment Dates:</b>	• and • of each year, commencing on •, 2011.
<b>Maturity:</b>	•, 2017
<b>Guarantees:</b>	The Notes will be unconditionally guaranteed by the Company's Restricted Subsidiaries which provide guarantees under the Company's secured credit facility, which currently consist of Summit Resources Corp. ("SRC"), Summit Resources, Inc. and Paramount Resources, a general partnership the partners of which are the Company and SRC.
<b>Ranking:</b>	The Notes will be direct senior unsecured obligations of the Company and will rank equal in right of payment to all existing and future senior indebtedness of the Company. The Guarantees will be senior unsecured obligations of each Guarantor and will rank equal in right of payment with all of the other present and future senior indebtedness of the Guarantors.
<b>Credit Ratings:</b>	Standard and Poor's Rating Services, a division of McGraw-Hill Companies (Canada) Corporation ("S&P") has assigned a rating of • for the Notes and Moody's Investors Service, Inc. ("Moody's") has assigned a rating of • for the Notes. See "Credit Ratings".
<b>Optional Redemption:</b>	<p>At any time and from time to time prior to •, 2013, upon not less than 30 nor more than 60 days' notice, the Company may redeem up to 35% of the aggregate principal amount of the Notes (including any additional Notes) at a redemption price of •% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds received by the Company from one or more Equity Offerings. The Company may only do this, however, if:</p> <ul style="list-style-type: none"><li>(a) at least 65% of the aggregate principal amount of Notes (including any additional Notes) the Company initially issued would remain outstanding immediately after the proposed redemption (excluding Notes held by the Company and its subsidiaries); and</li><li>(b) the redemption occurs within 90 days after the closing of the related Equity Offering.</li></ul> <p>At any time prior to •, 2013, the Company may on any one or more occasions redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus the Applicable Premium, and accrued and unpaid interest, if any, to the date of redemption.</p> <p>Except pursuant to the preceding paragraphs, the Notes will not be redeemable at Paramount's option prior to •, 2013.</p>

After ●, 2013, Paramount may, on any one or more occasions, redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on ● of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2013	●%
2014	●%
2015	●%
2016 and thereafter	100%

<b>Required Prepayment:</b>	The Company is not required to prepay any amount on the Notes prior to Maturity.
<b>Change of Control:</b>	The Company will be required to make an offer to repurchase the Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase upon the occurrence of a Change of Control.
<b>Certain Covenants:</b>	<p>The indenture governing the Notes will contain covenants that, among other things, limit the ability of the Company and the Restricted Subsidiaries to:</p> <ul style="list-style-type: none"> <li>• declare or pay dividends or make certain payments;</li> <li>• make certain Investments;</li> <li>• incur certain Indebtedness;</li> <li>• grant certain Liens;</li> <li>• enter into certain transactions with Affiliates;</li> <li>• consolidate, merge or transfer all or substantially all of the assets of the Company and the Restricted Subsidiaries on a consolidated basis; and</li> <li>• make certain Asset Sales.</li> </ul>
<b>Open Market Purchases:</b>	Paramount or any of its subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.
<b>Use of Proceeds:</b>	The net proceeds from the sale of the Notes are estimated to be \$● million after payment of the Underwriters' fees and the estimated expenses of the offering. The net proceeds will be used for the purchase and/or redemption of the Company's outstanding 8½% senior notes due 2013 (the "US Notes") not held by a wholly-owned subsidiary of the Company, for the non-permanent repayment of indebtedness under the Company's secured credit facility and for capital expenditures and general corporate purposes. See "Recent Developments", "Use of Proceeds" and "Consolidated Capitalization".
<b>Risk Factors:</b>	Investing in the Notes involves certain risks. You should carefully consider the information in the "Risk Factors" sections of the Prospectus and this prospectus supplement.
<b>Governing Law:</b>	The Notes and the Indenture will be governed by the laws of the Province of Alberta.

## RECENT DEVELOPMENTS

### Tender Offer for US Notes

1339351 Alberta Ltd. ("NoteCo"), a wholly owned subsidiary of Paramount, made an offer on November 10, 2010 to purchase all or any portion of Paramount's outstanding US Notes not held by NoteCo at a price of US\$1,002.50 per US\$1,000 principal amount outstanding (the "Tender Offer"). US\$90,191,000 principal amount of US Notes are held by holders other than NoteCo. The Tender Offer is subject to financing, but not specifically to the completion of this offering. The Company may, pursuant to the indenture governing the US Notes and the terms of the US Notes, elect to redeem any and all US Notes that remain outstanding following consummation of the Tender Offer.

### Flow-Through Share Offerings

On November 18, 2010, Paramount completed: (i) a public offering, through a syndicate of underwriters, of 1,100,000 Class A Common Shares ("Common Shares") issued on a "flow-through" basis in respect of Canadian exploration expense at a price of \$27.25 per share for net proceeds of approximately \$28,475,000; and (ii) a private placement of 1,020,000 Common Shares issued on a "flow-through" basis in respect of Canadian development expense at a price of \$24.50 per share and 150,000 Common Shares issued on a "flow-through" basis in respect of Canadian exploration expense at a price of \$27.25 per share for total proceeds of \$29,077,500 (collectively, the "Flow-Through Share Offerings").

## USE OF PROCEEDS

The net proceeds from the sale of the Notes are estimated to be \$● million after payment of the Underwriters' fees and the estimated expenses of the offering. The net proceeds will be used for the purchase and/or redemption of the Company's outstanding US Notes not held by NoteCo, for the non-permanent repayment of indebtedness under the Company's secured credit facility and for capital expenditures and general corporate purposes.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the Company's cash and cash equivalents and consolidated capitalization as at December 31, 2009 and September 30, 2010, both before and after giving effect to: (i) the completion of the Flow-Through Share Offerings; (ii) the sale of the Notes; and (iii) the purchase and/or redemption of all US Notes not held by NoteCo (collectively, the "Transactions").

	As at December 31, 2009	As at September 30, 2010 before giving effect to the Transactions	As at September 30, 2010 after giving effect to the Transactions <sup>(1)</sup>
Cash and Cash Equivalents	\$93,238,000	\$22,721,000	\$●
Debt:			
Secured Credit Facility <sup>(2)</sup>	Nil	\$111,266,000	\$●
Notes	Nil	Nil	\$●
US Notes <sup>(3)</sup>	\$94,394,000	\$92,878,000	Nil
Drilling Rig Loan <sup>(4)</sup>	\$29,380,000	\$28,380,000	\$28,380,000
Shareholders' Equity:	\$772,910,000	\$758,402,000	\$816,329,250

#### Notes:

- (1) Assumes the estimated net proceeds from the offering of Notes of \$● million, after payment of the Underwriters' fees and the estimated expenses of the offering, are used to purchase and/or redeem all US Notes not held by NoteCo for \$● (based on an exchange rate of ●), all outstanding indebtedness under the Company's secured credit facility is repaid, and the remaining net proceeds are temporarily held as cash and cash equivalents.
- (2) In April 2010, Paramount renewed its \$125 million credit facility with a syndicate of Canadian chartered banks. The facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding 12.8 million common shares of Trilog Energy Corp. (see note 3), assets securing the drilling rig loan (see note 4) and certain oil and gas resource properties. The facility bears interest at the lenders' prime lending rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin on any amount outstanding, depending upon Paramount's debt-to-cash flow ratio and the type of

borrowings selected under the facility. The facility is available on a revolving basis to April 30, 2011 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. In July 2010, the borrowing base and lender commitments under the credit facility were increased from \$125 million to \$160 million. The amount available to be drawn under the facility is reduced by undrawn letters of credit, which were approximately \$16.7 million on October 31, 2010.

- (3) Based on the Canadian/United States dollar exchange rate as reported by the Bank of Canada as the noon spot rate as at such dates. The outstanding principal amount of US Notes held by NoteCo is not included. The US Notes are secured by 12.8 million common shares of Trilogy Energy Corp. owned by the Company.
- (4) Unless demanded by the bank, the remaining annual scheduled principal repayments on the drilling rig loan are as follows: December 2010 - \$1.5 million; 2011 - \$4.0 million; 2012 - \$5.1 million; 2013 - \$5.1 million and 2014 - \$12.7 million.

## CREDIT RATINGS

The Notes have been assigned ratings of • by S&P and • by Moody's. Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities.

S&P and Moody's provide credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. S&P has assigned Paramount a corporate credit rating of • and a credit rating of • on the Notes. The ratings from AA to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standing within the major rating categories. In addition, S&P may add a rating outlook of "positive", "negative" or "stable" which assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. Moody's has assigned Paramount a corporate family credit rating of • and a credit rating of • on the Notes. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from AA through C. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its generic rating category.

**The credit ratings accorded to the Notes by S&P and Moody's are not recommendations to purchase, hold or sell the Notes in as much as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.**

## DESCRIPTION OF THE NOTES

The terms of the •% Senior Unsecured Notes due 2017, which are referred to as the "Notes", are described below. You can find the definitions of certain terms used in this Description of the Notes under the subheading "—Certain definitions". In this section, the word "Paramount" refers only to Paramount Resources Ltd. and not to any of its subsidiaries or partnerships.

Paramount will issue the Notes under a trust indenture (the "indenture") to be dated as of •, 2010 and to be entered into between Paramount, •, as trustee, and Paramount Resources, SRC and Summit Resources, Inc. (the "Guarantors"). The following description is a summary of the material provisions to be contained in the indenture.

### Brief description of the Notes

The Notes:

- are direct unsecured, senior obligations of Paramount;

- are equal in right of payment to all existing and future senior Indebtedness of Paramount;
- are senior in right of payment to any permitted future subordinated Indebtedness of Paramount;
- are guaranteed by each Guarantor on a senior unsecured basis; and
- are effectively subordinated to all secured Indebtedness of Paramount and the Guarantors, including the Credit Agreement, to the extent of the value of the assets securing such secured Indebtedness.

### **Principal, maturity and interest**

Paramount may issue an unlimited principal amount of Notes under the indenture and an aggregate principal amount of \$• million will be issued in this offering. Paramount may issue additional Notes under the indenture from time to time after this offering. Any offering of additional Notes is subject to the covenant described below under the caption "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock". The Notes and any additional Notes subsequently issued under the indenture will be treated as a single series for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. For purposes of this section, except for the covenant described under "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock," references to the Notes include such additional Notes, if any. Paramount will issue Notes in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The Notes will mature on •, 2017.

Interest on the Notes will accrue at the rate of •% per annum and will be payable semi-annually in arrears on • and •, commencing on •, 2011. Paramount will make each interest payment to the Holders of record on the immediately preceding • and •. For purposes of disclosure under the *Interest Act* (Canada), the yearly rate of interest to which interest is calculated under a Note for any period in any calendar year (the "Calculation Period") is equivalent to the rate payable under a Note in respect of the Calculation Period multiplied by a fraction the numerator of which is the actual number of days in such calendar year and the denominator of which is the actual number of days in the Calculation Period.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 365-day year.

### **Optional redemption**

At any time prior to •, 2013, Paramount may on any one or more occasions redeem up to an aggregate of 35% of the aggregate principal amount of Notes (including any additional Notes) originally issued prior to the redemption date under the indenture, upon not less than 30 nor more than 60 days' notice, at a redemption price of •% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; *provided* that:

- (1) at least 65% of the aggregate principal amount of Notes (including any additional Notes) originally issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding Notes held by Paramount and its Subsidiaries); and
- (2) each such redemption occurs within 90 days of the date of the closing of the related Equity Offering.

At any time prior to •, 2013, Paramount may on any one or more occasions redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus the Applicable Premium, and accrued and unpaid interest, if any, to the date of redemption.

Except pursuant to the preceding paragraphs, the Notes will not be redeemable at Paramount's option prior to •, 2013.

After ●, 2013, Paramount may, on any one or more occasions, redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on ● of the years indicated below:

<b>Year</b>	<b>Percentage</b>
2013.....	●%
2014.....	●%
2015.....	●%
2016 and thereafter.....	100%

**Mandatory redemption; offers to purchase; open market purchases**

Paramount is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, Paramount may be required to offer to purchase Notes as described under the captions "Offer to repurchase—Change of control" and —"Asset sales." Paramount or any of its subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

**Offer to repurchase**

*Change of control*

If a Change of Control occurs, each Holder will have the right to require Paramount to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of each Holder's Notes pursuant to the offer described below (the "Change of Control Offer"). In the Change of Control Offer, Paramount will offer a payment (the "Change of Control Payment") in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of purchase (the "Change of Control Payment Date"). Within 30 days following any Change of Control, Paramount will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. Paramount will comply with the requirements of Applicable Securities Legislation to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any Applicable Securities Legislation conflict with the Change of Control provisions of the indenture, Paramount will comply with the Applicable Securities Legislation and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such conflict.

On the Change of Control Payment Date, Paramount or its designated agent will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Notes accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by Paramount.

On the Change of Control Payment Date, the paying agent will promptly mail to each Holder of Notes properly tendered and not withdrawn the Change of Control Payment for such tendered Notes, with such payment to be made through the facilities of the Depository for all Notes in global form, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each new note will be in a principal amount of \$2,000 or an integral multiple of \$1,000 in excess thereof.

If the Change of Control Payment Date is on or after an interest payment record date and on or before the related Interest Payment Date, any accrued and unpaid interest will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no other interest will be payable to Holders who tender pursuant to the Change of Control Offer.

Paramount will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require Paramount to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the Holders of the Notes to require that Paramount repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Credit Agreement provides that the occurrence of certain change of control events with respect to Paramount would constitute a default thereunder. In the event a Change of Control occurs at a time when Paramount is prohibited from purchasing Notes, Paramount may seek the consent of its lenders to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If Paramount does not obtain such a consent or repay such borrowings, it will remain prohibited from purchasing Notes. In such case, Paramount's failure to offer to purchase Notes would constitute a Default under the indenture, which would, in turn, constitute a default under the Credit Agreement.

Future Indebtedness that Paramount may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such Indebtedness upon a Change of Control. Moreover, the exercise by the Holders of their right to require Paramount to repurchase their Notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on Paramount. Finally, Paramount's ability to pay cash to the Holders of Notes following the occurrence of a Change of Control may be limited by its then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

Notwithstanding the preceding paragraphs of this covenant, Paramount will not be required to make a Change of Control Offer upon a Change of Control and a Holder will not have the right to require Paramount to repurchase any Notes pursuant to a Change of Control Offer if (a) a third party makes an offer to purchase the Notes in the manner, at the times and otherwise in substantial compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by Paramount and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer, or (b) a notice of redemption has been given pursuant to the indenture as described above under "—Optional redemption", unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer by Paramount or a third party may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

Notwithstanding the foregoing, Paramount shall not be required to make a Change of Control Offer, as provided above, if, in connection with or in contemplation of any Change of Control, it has made an offer to purchase (an "Alternate Offer") any and all Notes validly tendered at a cash price equal to or higher than the Change of Control Payment and has purchased all Notes properly tendered in accordance with the terms of such Alternate Offer.

In the event that Holders of not less than 90% of the aggregate principal amount of the outstanding Notes accept a Change of Control Offer and Paramount purchases all of the Notes held by such Holders, Paramount will have the right, upon not less than 30 nor more than 60 days' prior notice, given not more than 30 days following the purchase pursuant to the Change of Control Offer described above, to redeem all of the Notes that remain outstanding following such purchase at a redemption price equal to the Change of Control Payment *plus*, to the extent not included in the Change of Control Payment, accrued and unpaid interest on the Notes that remain outstanding, to the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the redemption date).

The definition of Change of Control includes a reference to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of Paramount and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the reference under applicable law. Accordingly, whether or not Paramount is required to offer to repurchase Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Paramount and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

### ***Changes in GAAP***

If there occurs a material change in GAAP, including as a result of a conversion to or adoption of International Financial Reporting Standards, and such change would require disclosure under GAAP in the financial statements of Paramount and would cause an amount required to be determined for the purposes of any of the financial calculations or financial terms under the indenture (each a "Financial Term") to be materially different than the amount that would be determined without giving effects to such change, Paramount shall notify the trustee of such change (an "Accounting Change"). Such notice (an "Accounting Change Notice") shall describe the nature of the Accounting Change, its effect on Paramount's current and immediately prior year's financial statements in accordance with GAAP and state whether Paramount desires to revise the method of calculating the applicable Financial Term (including the revision of any of the defined terms used in the determination of such Financial Term) in order that amounts determined after giving effect to such Accounting Change and the revised method of calculating such Financial Term will approximate the amount that would be determined without giving effect to such Accounting Change and without giving effect to the revised method of calculating such Financial Term. The Accounting Change Notice shall be delivered to the trustee within 90 days of the end of the fiscal quarter in which the Accounting Change is implemented or, if such Accounting Change is implemented in the fourth fiscal quarter or in respect of an entire fiscal year, within 120 days of the end of such period. Promptly after receipt from Paramount of an Accounting Change Notice the trustee shall deliver to each Holder a copy of such notice.

If Paramount so indicates that it wishes to revise the method of calculating the Financial Term, Paramount shall in good faith provide to the trustee the revised method of calculating the Financial Term within 90 days of the Accounting Change Notice and such revised method shall take effect from the date of the Accounting Change Notice. For certainty, if no notice of a desire to revise the method of calculating the Financial Term in respect of an Accounting Change is given by Paramount within the applicable time period described above, the method of calculating the Financial Term shall not be revised in response to such Accounting Change and all amounts to be determined pursuant to the Financial Term shall be determined after giving effect to such Accounting Change.

### ***Asset sales***

Paramount will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) Paramount (or the Restricted Subsidiary, as the case may be) receives consideration (including by way of relief from, or by any Person assuming responsibilities for, any liabilities, contingent or otherwise) at the time of the Asset Sale at least equal to the fair market value (including as to the value of all non-cash consideration) of the assets, properties or Equity Interests issued or sold or otherwise disposed of;
- (2) the fair market value is set forth in an officers' certificate delivered to the trustee; and
- (3) either at least (x) 75% of the consideration received in the Asset Sale by Paramount or such Restricted Subsidiary is in the form of cash, Cash Equivalents, Liquid Securities or Permitted Assets or (y) the aggregate fair market value of any Designated Non-cash Consideration received by Paramount or any of its Restricted Subsidiaries in such Asset Sale, taken together with the fair market value at the time of receipt of all other Designated Non-cash Consideration received pursuant to this clause less the amount of net proceeds previously realized in cash from prior Designated Non-cash Consideration does not exceed 10% of Adjusted Consolidated Net Tangible Assets measured at the time the determination is made. For purposes of this provision, each of the following will be deemed to be cash:

- (a) any liabilities, as shown on Paramount's or such Restricted Subsidiary's most recent balance sheet, of Paramount or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation agreement or similar agreement that releases Paramount or such Restricted Subsidiary from further liability;
- (b) any securities, notes or other obligations received by Paramount or any such Restricted Subsidiary from such transferee that are converted within 180 days by Paramount or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and
- (c) accounts receivable of a business retained by Paramount or any Restricted Subsidiary, as the case may be, following the sale of such business, provided that such accounts receivable are not (i) past due more than 90 days and (ii) are collected within 120 days from the date of the invoice creating such accounts receivable.

Within 365 days after the receipt of any Net Cash Proceeds from an Asset Sale, Paramount or the applicable Restricted Subsidiary may apply those Net Cash Proceeds for any combination of the following purposes:

- (1) to repay, prepay, redeem, purchase or repurchase (in any case on a permanent basis) Indebtedness of Paramount or a Restricted Subsidiary that is not subordinated to the Notes or any Subsidiary Guarantee;
- (2) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Oil and Gas Business that, in the case of the acquisition of Voting Stock, becomes a Restricted Subsidiary as a result of such acquisition or to acquire additional Capital Stock in any Person that at such time is a Restricted Subsidiary;
- (3) to make a capital expenditure; or
- (4) to acquire other assets or properties that are used or useful in the Oil and Gas Business.

Pending the final application of any Net Cash Proceeds, Paramount may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash Proceeds in any manner that is not prohibited by the indenture.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute "Excess Proceeds". On the 366<sup>th</sup> day after the Asset Sale (or, at Paramount's option, any earlier date), if the aggregate amount of Excess Proceeds exceeds \$20 million, Paramount will make a pro rata offer (an "Asset Sale Offer") to all Holders of Notes and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount (or accreted value in the case of any such other *pari passu* Indebtedness issued with a significant original issue discount) plus accrued and unpaid interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Paramount may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds allocated for repurchases of Notes pursuant to the Asset Sale Offer for Notes, the trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis, on the basis of the aggregate principal amounts (or accreted values) tendered in round denominations (which in the case of the Notes will be minimum denominations of \$2,000 principal amount or multiples of \$1,000 in excess thereof). Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

If the Asset Sale Offer purchase date is on or after an interest payment record date and on or before the related interest payment date, any accrued and unpaid interest will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no other interest will be payable to Holders who tender Notes pursuant to the Asset Sale Offer.

Paramount will comply with the requirements of Applicable Securities Legislation to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any Applicable Securities Legislation conflict with the Asset Sale provisions of the indenture, Paramount will comply with the Applicable Securities Legislation and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such conflict.

### **Selection and notice**

If less than all of the Notes are to be redeemed at any time, the trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

Notes or portions of Notes the trustee selects for redemption shall be in minimum amounts of \$• or a multiple of \$• in excess thereof. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that optional redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the indenture. Notices of redemption, including without limitation, upon an Equity Offering, may, at Paramount's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

### **Certain covenants**

Set forth below are certain covenants to be contained in the indenture.

#### ***Restricted payments***

Paramount will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

- (1) declare or pay any dividend or make any other payment or distribution on account of Paramount's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment on account of such Equity Interests in connection with any merger or consolidation involving Paramount or any of its Restricted Subsidiaries) or to the direct or indirect holders of Paramount's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Paramount or any Restricted Subsidiary of Paramount);
- (2) purchase, retract, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Paramount), in whole or in part, any Equity Interests of Paramount (other than any such Equity Interests owned by Paramount or a Restricted Subsidiary);
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the Notes or any Subsidiary Guarantee, except for (i) a payment of interest at the Stated Maturity thereof or of principal not earlier than one year prior to the Stated Maturity thereof and (ii) any such Indebtedness owed to Paramount or a Restricted Subsidiary; or

- (4) make any Restricted Investment;

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "Restricted Payments") unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (2) Paramount would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "—Incurrence of indebtedness and issuance of disqualified stock"; and
- (3) such Restricted Payment, together with the aggregate amount of (i) all other Restricted Payments made by Paramount and its Restricted Subsidiaries after the Issue Date pursuant to this paragraph and (ii) all other Restricted Payments made by Paramount and its Restricted Subsidiaries after the Issue Date to Paramount's stockholders or holders of Subordinated Indebtedness which are permitted by clause (1), (7), (8), (10) or (14) of the next succeeding paragraph, is less than the sum, without duplication, of:
  - (a) 50% of the Consolidated Net Income of Paramount for the period (taken as one accounting period) from the beginning of the fiscal quarter commencing on October 1, 2010 and ending at the end of Paramount's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a loss, less 100% of such loss), *plus*
  - (b) 100% of the aggregate net cash proceeds and 100% of the fair market value of securities or property other than cash received by Paramount since October 1, 2010 as a contribution to its common equity capital or from the issue or sale of Equity Interests of Paramount (other than Disqualified Stock and other than sales of Equity Interests to a Restricted Subsidiary) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of Paramount that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of Paramount) plus the aggregate Net Cash Proceeds received by Paramount at the time of such conversion or exchange, *plus*
  - (c) the net reduction in any Restricted Investment that was made after the Issue Date resulting from repurchases, repayments or redemptions, proceeds realized upon the sale, liquidation, repurchase, redemption or repayment and proceeds representing the return of capital (except, in each case, to the extent that any such payments or proceeds are included in the calculation of Consolidated Net Income), not to exceed the original aggregate amount of such Restricted Investment, *plus*
  - (d) upon a redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of Paramount's proportionate interest in such Subsidiary immediately following such redesignation, *plus*
  - (e) the unutilized capacity of Paramount to make "Restricted Payments" (as defined in the Prior Note Indenture) pursuant to Section 4.03(a) of the Prior Note Indenture, expressed in Canadian dollars and determined as of September 30, 2010, in an aggregate amount not to exceed \$418 million.

The preceding provisions will not prohibit:

- (1) the payment by Paramount or any Restricted Subsidiary of any dividend or the consummation of any redemption of any Subordinated Indebtedness within 60 days after the date of the declaration of the dividend or giving of the notice of redemption, as the case may be, if at the date of declaration or notice the

- dividend payment or redemption of such Subordinated Indebtedness would have complied with the provisions of the indenture (and such payment shall be deemed to be paid on the date of payment for purposes of any calculation required by this covenant);
- (2) the redemption, purchase, repurchase, retirement, defeasance or other acquisition of any Subordinated Indebtedness of Paramount or any Guarantor or of any Equity Interests of Paramount in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of Paramount) of, Equity Interests of Paramount (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, purchase, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3)(b) of the preceding paragraph;
  - (3) the defeasance, redemption, repurchase, retirement or other acquisition of Subordinated Indebtedness of Paramount or any Guarantor with the net cash proceeds from an incurrence of, or in exchange for, any Permitted Refinancing Indebtedness;
  - (4) the payment of any dividend or other distribution by a Restricted Subsidiary to Paramount or another Restricted Subsidiary or, if such Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, to the holders of its Equity Interests (other than Disqualified Stock) on a pro rata basis;
  - (5) provided no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Paramount or any Restricted Subsidiary of Paramount held by any member of Paramount's, or any of its Restricted Subsidiaries', management, directors or employees pursuant to any management equity subscription agreement, stock option agreement or similar agreement or upon the death, disability or termination of employment of such directors, officers or employees; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$2.5 million in any calendar year (with up to an additional \$2.5 million of unused amounts from any calendar year available to be used in the following calendar year only); *provided further*, that such amount in any calendar year may be increased by an amount not to exceed the sum of:
    - (a) the cash proceeds received by Paramount and its Restricted Subsidiaries from the sale of Capital Stock of Paramount to members of management or directors of Paramount or any of its Restricted Subsidiaries that occurs after the Issue Date (to the extent the cash proceeds from the sale of such Capital Stock have not otherwise been applied to the payment of Restricted Payments by virtue of clause (b) of the preceding paragraph), *plus*
    - (b) the cash proceeds of key man life insurance policies received by Paramount and its Restricted Subsidiaries after the Issue Date; *provided further, however*, that the proceeds received from any such sale will be excluded from clause (b) of the preceding paragraph;
  - (6) the purchase, repurchase, redemption or other acquisition or retirement for value of Equity Interests deemed to occur upon the exercise or exchange of stock options, warrants or other convertible securities if the Equity Interests represent a portion of the exercise or exchange price thereof and repurchases or other acquisitions or retirement for value of Equity Interests deemed to occur upon the withholding of a portion of the Equity Interests granted or awarded to an employee to pay for the taxes payable by such employee either upon such grant or award or in connection with any such exercise or exchange of stock options, warrants or other convertible securities;
  - (7) the payment of dividends on Disqualified Stock issued after the Issue Date pursuant to the terms thereof as in effect on the date of issuance; *provided* that such Disqualified Stock was issued in accordance with the covenant described below under the caption "—Incurrence of indebtedness and issuance of disqualified stock";
  - (8) the purchase, redemption, acquisition, cancellation or other retirement for nominal value per right of any rights granted to all the holders of common stock of Paramount pursuant to any shareholders' rights plan adopted for the purpose of protecting stockholders from unfair takeover tactics;

- (9) payments by Paramount or any Restricted Subsidiary in respect of Indebtedness of Paramount or any Restricted Subsidiary owed to Paramount or another Restricted Subsidiary;
- (10) provided no Default or Event of Default has occurred and is continuing, the payment, purchase, repurchase, redemption, defeasance, acquisition or other retirement for value of Subordinated Indebtedness of Paramount or any of its Restricted Subsidiaries at a purchase or redemption price no greater than 101% of the principal amount of such Subordinated Indebtedness, plus any accrued but unpaid interest thereon, in the event of a Change of Control or Asset Sale, in each case, in accordance with provisions similar to the covenants described under "—Offer to repurchase—Change of control" or "—Asset sales," as applicable; *provided, however*, that, prior to or simultaneously with such payment, purchase, repurchase, redemption, defeasance, acquisition or retirement, Paramount has made the Change of Control Offer or Asset Sale Offer, if required, with respect to the Notes and has repurchased all Notes validly tendered for payment and not withdrawn in connection with such Change of Control Offer or Asset Sale Offer;
- (11) the repurchase, redemption or other acquisition or retirement for value of Equity Interests of Paramount or any Restricted Subsidiary of Paramount held by the estate of any Person who had a "key man" life insurance policy maintained by Paramount or any Restricted Subsidiary out of the proceeds received by Paramount or such Restricted Subsidiary under such policy;
- (12) cash payments in lieu of the issuance by Paramount of fractional shares in connection with stock dividends, splits or business combinations or the exercise of warrants, options or other securities convertible or exchangeable for Equity Interests that are not derivative securities;
- (13) payments to dissenting stockholders (a) pursuant to applicable law or (b) in connection with the settlement or other satisfaction of legal claims made pursuant to or in connection with a consolidation, merger or transfer of assets in connection with a transaction that is not prohibited by the indenture;
- (14) the transfer or other disposition of any direct or indirect interests in oil and natural gas properties which do not have any proved reserves associated with them; and
- (15) provided no Default or Event of Default has occurred and be continuing or would be caused thereby, Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this clause (15), do not exceed the greater of (a) \$25 million and (b) 2.5% of Adjusted Consolidated Net Tangible Assets.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Paramount or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

For purposes of determining compliance with this covenant, if a Restricted Payment meets the criteria of more than one of the types of Restricted Payments described in clauses (1) through (15) above, Paramount, in its sole discretion, may divide or classify (or later divide, classify or reclassify in whole or in part in its sole discretion) such Restricted Payment in any manner that complies with this covenant.

#### ***Incurrence of indebtedness and issuance of disqualified stock***

Paramount will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (in any such case, "incur") any Indebtedness, and Paramount will not, and will not permit any of its Restricted Subsidiaries to, issue any Disqualified Stock; *provided, however*, that Paramount and any of its Restricted Subsidiaries may incur Indebtedness or issue Disqualified Stock if the Fixed Charge Coverage Ratio for Paramount's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.25 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds

therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness or the issuance of any Disqualified Stock described in clause (9) below (collectively, "Permitted Debt"):

- (1) the incurrence by Paramount and its Restricted Subsidiaries of Indebtedness, letters of guarantee, tender cheques and letters of credit under Credit Facilities and the Guarantees thereof; *provided* that the aggregate principal amount of all Indebtedness of Paramount and its Restricted Subsidiaries at any one time outstanding under this clause (1) (with letters of guarantee, tender cheques and letters of credit being deemed to have a principal amount equal to the maximum potential liability of Paramount and its Restricted Subsidiaries thereunder) not to exceed the greater of (a) \$160 million, (b) the Borrowing Base and (c) 30% of Adjusted Consolidated Net Tangible Assets, and in the case of (b) and (c) above, determined as of the date on which such additional Indebtedness is incurred, and after giving effect to the incurrence of such Indebtedness (and including any assets acquired with such Indebtedness);
- (2) Existing Indebtedness;
- (3) the incurrence by Paramount and the Guarantors of Indebtedness represented by the Notes to be issued on the Issue Date;
- (4) the incurrence by Paramount or any Guarantor of Indebtedness and Obligations represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation, development or improvement of property, plant or equipment, including Facilities, used in the business of Paramount or such Guarantor, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed \$25 million;
- (5) the incurrence by Paramount or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance, renew, defease, discharge or replace any Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3) (with respect to the Notes only) or (5) of this paragraph;
- (6) the incurrence by Paramount or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Paramount and any of its Restricted Subsidiaries; *provided, however*, that
  - (a) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Paramount or a Restricted Subsidiary of Paramount; and
  - (b) any sale or other transfer of any such Indebtedness to a Person that is not either Paramount or a Restricted Subsidiary of Paramount;will be deemed, in each case, to constitute an incurrence of such Indebtedness by Paramount or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the incurrence by Paramount or any Guarantor of Hedging Obligations, *provided* that such Hedging Obligations were incurred in the ordinary course of business and not for speculative purposes;
- (8) the Guarantee by Paramount or any Guarantor of Indebtedness of Paramount or a Restricted Subsidiary of Paramount that was permitted to be incurred by another provision of this covenant or required to be incurred by the indenture;

- (9) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount thereof is included in Fixed Charges of Paramount as accrued;
- (10) one or more standby letters of credit, Guarantees, completion bonds, performance bonds, bid bonds, appeal bonds or surety bonds or other reimbursement obligations, in each case, issued in the ordinary course of business and not in connection with the borrowing of money or the obtaining of an advance or credit (other than advances or credit for goods and services in the ordinary course of business and on terms and conditions that are customary in the Oil and Gas Business, and other than the extension of credit represented by such letter of credit, Guarantee or completion, performance, bid, appeal or surety bond itself);
- (11) the incurrence by Paramount or any Guarantor of Non-Recourse Purchase Money Debt;
- (12) the incurrence by Paramount or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (12), not to exceed the greater of (a) \$25 million and (b) 2.5% of Adjusted Consolidated Net Tangible Assets, determined as of the date of incurrence of such Indebtedness and after giving effect to such incurrence (including any assets acquired with such Indebtedness);
- (13) Indebtedness of Paramount, any Restricted Subsidiary or any Guarantor arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business;
- (14) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;
- (15) Indebtedness of Paramount or any Restricted Subsidiary (including letters of credit), for the account of Paramount or any such Restricted Subsidiary incurred in order to provide security for environmental reclamation obligations to governmental agencies, bankers' acceptances, workers' compensation claims, payment obligations in connection with self-insurance or similar statutory and other requirements in the ordinary course of business;
- (16) Permitted Acquisition Indebtedness;
- (17) customary indemnification, adjustment of purchase price or similar obligations, including title insurance, of Paramount or any Restricted Subsidiary, in each case, incurred in connection with the acquisition or disposition of any assets of Paramount or any such Restricted Subsidiary (other than Guarantees incurred by any Person acquiring all or any portion of such assets for the purpose of financing such acquisition); and
- (18) a Guarantee by Paramount or any Restricted Subsidiary in favour of lenders to an Unrestricted Subsidiary provided recourse on such Guarantee is limited to the pledge of Equity Interests in such Unrestricted Subsidiary.

For purposes of determining compliance with this "Incurrence of indebtedness and issuance of disqualified stock" covenant:

- (1) in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (18) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, Paramount will be permitted to divide and classify (or later redivide, classify or

reclassify) such item of Indebtedness in whole or in part in any manner that complies with this covenant, including by allocation to more than one other type of Indebtedness;

- (2) Guarantees of, or obligations in respect of letters of credit relating to, Indebtedness which are otherwise included in the determination of a particular amount of Indebtedness shall not be included;
- (3) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with GAAP; and
- (4) Indebtedness of any Person existing at the time such Person becomes a Restricted Subsidiary shall be deemed to have been incurred by Paramount and the Restricted Subsidiary at the time such Person becomes a Restricted Subsidiary.

For purposes of determining compliance with any Canadian dollar-denominated restriction on the incurrence of Indebtedness, the Canadian dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable Canadian dollar-dominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Canadian dollar-dominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Paramount may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Permitted Refinancing Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Neither Paramount nor any Guarantor will incur any additional Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of such Person unless such additional Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, as the case may be, on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness solely by virtue of being unsecured.

### ***Liens***

Paramount will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien (other than Permitted Liens) securing Indebtedness or trade payables upon or with respect to any of their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the Notes are secured on an equal and ratable basis with (or prior to) the obligations so secured until such time as such obligations are no longer secured by a Lien.

### ***Dividend and other payment restrictions affecting restricted subsidiaries***

Paramount will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to Paramount or any of its Restricted Subsidiaries or pay any Indebtedness owed to Paramount or any of its Restricted Subsidiaries; *provided* that the priority of any preferred stock over common stock in receiving dividends or liquidating distributions shall not be deemed a restriction on the ability to make distributions on Capital Stock;
- (2) make loans or advances to Paramount or any of its Restricted Subsidiaries; or

- (3) transfer any of its properties or assets to Paramount or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness or Credit Facilities as in effect or which come into effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of those agreements, *provided* that the amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are not materially less favourable to Holders of Notes;
- (2) the indenture, the Notes and the Subsidiary Guarantees;
- (3) applicable law, rule, regulation, order, approval, license, permit or similar restriction;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by Paramount or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;
- (5) customary non-assignment provisions in contracts and leases entered into in the ordinary course of business;
- (6) purchase money obligations or other similar mortgage financings, in each case, for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement (a) for the sale or other disposition of Capital Stock or assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition or (b) for the sale of a particular asset or line of business of a Restricted Subsidiary that imposes restrictions on property subject to an agreement of the nature described in clause (3) of the preceding paragraph;
- (8) Permitted Refinancing Indebtedness, including any encumbrances or restrictions imposed by any amendments or refinancings of the contracts, instruments and obligations referred to in this covenant, *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially less favourable to Holders of Notes;
- (9) agreements existing on the Issue Date;
- (10) Permitted Liens that limit the right of the debtor to dispose of the assets subject to such Liens;
- (11) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, partnership agreements, asset sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business;
- (12) restrictions on cash, Cash Equivalents or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;
- (13) encumbrances and restrictions contained in contracts entered into in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of, or from the ability of Paramount and any of its Restricted Subsidiaries to realize the value of, property or assets of Paramount or any Restricted Subsidiary in any manner material to Paramount or any Restricted Subsidiary; and

- (14) any encumbrance or restriction with respect to an Unrestricted Subsidiary pursuant to or by reason of an agreement that the Unrestricted Subsidiary is a party to entered into before the date on which such Unrestricted Subsidiary became a Restricted Subsidiary; *provided* that such agreement was not entered into in anticipation of the Unrestricted Subsidiary becoming a Restricted Subsidiary and any such encumbrance or restriction shall not extend to any assets or property of Paramount or any other Restricted Subsidiary other than the assets and property so acquired.

***Amalgamation, merger, consolidation or sale of assets***

Paramount may not, in any transaction or series of transactions: (1) amalgamate, consolidate or merge with or into another Person (whether or not Paramount is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of Paramount and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:

- (1) either (a) Paramount is the surviving corporation; or (b) the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a Person organized or existing under the laws of Canada or any province thereof or the United States, any state of the United States or the District of Columbia;
- (2) the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Paramount under the Notes and the indenture either by operation of law or pursuant to agreements reasonably satisfactory to the trustee;
- (3) immediately after such transaction no Default or Event of Default exists;
- (4) Paramount or the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount), or to which such sale, assignment, transfer, conveyance or other disposition has been made will on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period:
  - (a) either (x) be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Incurrence of indebtedness and issuance of disqualified stock" or (y) the Fixed Charge Coverage Ratio of Paramount or the Person formed by or surviving any such consolidation or merger (if other than Paramount), or to which such sale, assignment, transfer, conveyance or other disposition has been made, will be equal to or greater than the Fixed Charge Coverage Ratio of Paramount immediately before such transactions; and
  - (b) the Consolidated Net Worth of the successor entity shall not be less than the Consolidated Net Worth of Paramount immediately prior to such transaction; provided that this clause (4) shall be terminated during any period in which Paramount and its Restricted Subsidiaries are not subject to the Suspended Covenants;
- (5) the transactions will not result in Paramount or the surviving corporation being required to make any deduction or withholding on account of taxes as described below under the caption "—Payment of additional amounts" that Paramount would not have been required to make had such transactions or series of transactions not occurred; and
- (6) in case Paramount shall consolidate, amalgamate or merge with or into any other Person or, except for conveyances or transfers to one or more Wholly Owned Restricted Subsidiaries, convey or transfer its properties and assets substantially as an entirety to any Person, Paramount has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger, conveyance or transfer and, if a supplemental indenture is required in connection with such transaction,

such supplemental indenture, complies with this covenant and that all conditions precedent contained in the indenture relating to such transaction have been complied with.

In addition, Paramount may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

Clauses (4) and (6) of this "Amalgamation, merger, consolidation or sale of assets" covenant will not apply to a sale, assignment, transfer, lease, conveyance or other disposition of assets between or among Paramount and any Wholly Owned Restricted Subsidiaries.

Subject to the following paragraph, a Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate, amalgamate or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than Paramount or a Restricted Subsidiary, unless:

- (1) immediately after giving effect to that transaction, no Default or Event of Default exists; and
- (2) either:
  - (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such amalgamation, consolidation or merger assumes all the obligations of that Guarantor under the indenture or Subsidiary Guarantee, as the case may be, either by operation of law or pursuant to a supplemental indenture reasonably satisfactory to the trustee; or
  - (b) the Net Cash Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture; and
- (3) in case any Guarantor shall consolidate, amalgamate or merge with or into any other Person (other than Paramount or a Wholly Owned Restricted Subsidiary) or, except for conveyances, transfers or leases to one or more Wholly Owned Restricted Subsidiaries, convey, transfer or lease its properties and assets substantially as an entirety to any Person, Paramount has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with this covenant and that all conditions precedent contained in the indenture relating to such transaction have been complied with.

The Subsidiary Guarantee of a Guarantor will be released:

- (1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of Paramount, if the sale or other disposition complies with the "Asset Sales" provisions of the indenture;
- (2) in connection with any sale of all of the Capital Stock of a Subsidiary to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of Paramount, if the sale complies with the "Asset Sales" provisions of the indenture; or
- (3) if Paramount designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture.

### ***Transactions with affiliates***

Paramount will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate involving aggregate consideration in excess of \$1 million (each, an "Affiliate

Transaction"), unless the Affiliate Transaction is on terms that are no less favourable to Paramount or the relevant Restricted Subsidiary than those that could have reasonably been expected to have been obtained in a comparable transaction at such time by Paramount or such Restricted Subsidiary in an arm's-length dealing with a Person who is not an Affiliate.

The following items will be deemed not to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment agreement or other employee compensation plan or arrangement existing on the Issue Date or thereafter entered into by Paramount or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of Paramount or such Restricted Subsidiary or approved by a majority of the disinterested members of the Board of Directors of Paramount (or a committee comprised solely of disinterested directors);
- (2) transactions between or among Paramount and/or its Restricted Subsidiaries;
- (3) transactions with a Person that is an Affiliate of Paramount solely because Paramount owns an Equity Interest in, or controls, such Person;
- (4) payment of reasonable and customary compensation or fees to, or the execution of customary expense reimbursement, indemnification or similar arrangements with, Paramount or any of its Restricted Subsidiaries or any of their respective directors and officers in the ordinary course of business;
- (5) the issuance or sale of Equity Interests (other than Disqualified Stock) of Paramount to, or the receipt by Paramount of any capital contribution from, its stockholders or Affiliates;
- (6) Restricted Payments and Permitted Investments that are permitted by the provisions of the indenture described above under the caption "—Restricted payments";
- (7) the performance of obligations of Paramount or any of its Restricted Subsidiaries under the terms of any agreement to which Paramount or any of its Restricted Subsidiaries is a party as of or on the Issue Date, as these agreements may be amended, modified, supplemented, extended or renewed from time to time; provided, however, that any future amendment, modification, supplement, extension or renewal entered into after the Issue Date will be permitted to the extent that its terms are not materially more disadvantageous, taken as a whole, to the Holders of the Notes than the terms of the agreements in effect on the Issue Date;
- (8) transactions between Paramount or any Restricted Subsidiary and any Person, a director of which is also a director of Paramount or any direct or indirect parent company of Paramount and such director is the sole cause for such Person to be deemed an Affiliate of Paramount or any Restricted Subsidiary; provided, however, that such director shall abstain from voting as a director of Paramount or such direct or indirect parent company, as the case may be, on any matter involving such other Person; and
- (9) (a) guarantees of performance by Paramount and its Restricted Subsidiaries of Paramount's Unrestricted Subsidiaries in the ordinary course of business, except for guarantees of Indebtedness, and (b) pledges of Equity Interests in Paramount's Unrestricted Subsidiaries for the benefit of lenders to Unrestricted Subsidiaries.

#### ***Issuance of subsidiary guarantees***

If any Restricted Subsidiary that is not a Guarantor incurs or guarantees any Indebtedness (other than Indebtedness owing to Paramount or a Restricted Subsidiary), in each case, in excess of \$2 million, then Paramount shall:

- (1) cause such Restricted Subsidiary to execute and deliver to the trustee a supplemental indenture substantially in the form contemplated by the indenture pursuant to which such Restricted Subsidiary shall

unconditionally guarantee (each, a "Subsidiary Guarantee") all of Paramount's obligations under the Notes and the indenture on the terms set forth in the indenture; and

- (2) deliver to the trustee an opinion of counsel (which may contain customary exceptions) that such supplemental indenture has been duly authorized, executed and delivered by such Restricted Subsidiary and constitutes a legal, valid, binding and enforceable obligation of such Restricted Subsidiary;

*provided*, that the foregoing shall not apply to any Restricted Subsidiary acquired or formed by Paramount for so long as it is not a Wholly Owned Restricted Subsidiary.

Thereafter, such Restricted Subsidiary shall be a Guarantor for all purposes of the indenture. Paramount may cause any other Restricted Subsidiary of Paramount to issue a Subsidiary Guarantee and become a Guarantor. At any time the Indebtedness or Guarantee of Indebtedness referred to above is repaid or released without further obligation by such Restricted Subsidiary, such Restricted Subsidiary need no longer be required to be a Guarantor for purposes of this covenant, and the trustee shall promptly execute such documents and instruments, as Paramount or such Restricted Subsidiary may request to evidence the termination of the applicable Subsidiary Guarantee.

#### ***Designation of restricted and unrestricted subsidiaries***

The Board of Directors of Paramount may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by Paramount and its Restricted Subsidiaries in the Subsidiary so designated will be deemed to be an Investment made as of the time of the designation. Any such designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of Paramount may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Paramount of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "*—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock*", calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; (2) no Default or Event of Default would be in existence following such designation; and (3) if required pursuant to the covenant described under "*—Certain covenants— Issuance of subsidiary guarantees*", such Unrestricted Subsidiary becomes a Guarantor pursuant to such covenant within 10 Business Days of the date on which it is so designated.

#### ***Additional amounts***

Paramount will not be required to pay any additional amounts on the Notes with respect to any withholding or deduction for any Taxes imposed by any Taxing Authority in respect to the Notes.

#### ***Covenants suspension***

During any period that the Notes have a rating equal to or higher than BBB- by S&P, Baa3 by Moody's or BBB (low) by DBRS by any two of such three rating agencies ("Investment Grade Ratings") and no Default has occurred and is continuing, Paramount and its Restricted Subsidiaries will not be subject to the provisions of the indenture described above under the caption "*—Offer to repurchase—Asset sales*" and under the following headings under the caption "*—Certain covenants*":

- "*—Restricted payments*,"
- "*—Incurrence of indebtedness and issuance of disqualified stock*,"
- "*—Dividend and other payment restrictions affecting restricted subsidiaries*,"
- clause (4) of the covenant described under "*—Amalgamation, merger, consolidation or sale of assets*", and

- "—Transactions with affiliates",

(collectively, the "Suspended Covenants"); *provided, however*, that Paramount and its Restricted Subsidiaries will remain subject to the provisions of the indenture described above under the caption "—Offer to repurchase—Change of control," and described above under the caption "—Certain covenants—Liens."

In the event that Paramount and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the preceding sentence, and subsequently one or both of the two applicable rating agencies downgrades the rating assigned to the Notes below the ratings set forth above, then Paramount and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants (subject to subsequent suspension if the Notes again receive Investment Grade Ratings).

### **Events of default and remedies**

Each of the following is an Event of Default:

- (1) default for 30 days in the payment when due of interest on the Notes;
- (2) default for 3 days in payment when due of the principal of, or premium, if any, on the Notes;
- (3) failure by Paramount or any of its Restricted Subsidiaries to comply with the provisions described under the caption "—Offer to repurchase—Change of Control", "—Offer to repurchase—Asset Sales" or "—Certain covenants—Amalgamation, merger, consolidation or sale of assets";
- (4) failure by Paramount or any of its Restricted Subsidiaries to comply with any of the other agreements in the indenture for 60 days after written notice has been given to Paramount by the trustee or to Paramount and the trustee by Holders of at least 25% of the outstanding principal amount of the Notes;
- (5) default under any other mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness (except Non-Recourse Purchase Money Debt) by Paramount or any of its Restricted Subsidiaries (or the payment of which is guaranteed by Paramount or any of its Restricted Subsidiaries) whether such Indebtedness or Guarantee now exists, or is created after the date of the indenture, if that default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the applicable grace or cure period provided in such Indebtedness on the date of such default (a "Payment Default"); or
  - (b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default, which remains outstanding or the maturity of which has been so accelerated, aggregates an amount greater than \$25 million, *provided* that if any such Payment Default is cured or waived or any such acceleration is rescinded, or such Indebtedness is repaid, within a period of 30 days from the continuation of such Payment Default beyond the applicable grace or cure period or the occurrence of such acceleration, as the case may be, such Event of Default under the indenture and any consequential acceleration of the Notes shall be automatically rescinded, so long as such rescission does not conflict with any judgment or decree;

- (6) failure by Paramount or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of an amount greater than \$25 million in cash (net of amounts covered by insurance or bonded), which judgments are not paid, discharged or stayed for a period of 60 days after such judgments becomes final and non-appealable or, in the event such judgments have been bonded to the extent required pending appeal, after the date such judgments become non-appealable;

- (7) except as permitted by the indenture, any Subsidiary Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect and such failure shall not be cured within 10 days or any Guarantor or any Person acting on behalf of any such Guarantor, shall deny or disaffirm its obligations under its Subsidiary Guarantee (other than by reason of release of such Guarantor from its Subsidiary Guarantee in accordance with the indenture); and
- (8) certain events of bankruptcy or insolvency described in the indenture with respect to Paramount or any Restricted Subsidiary which, in the case of involuntary proceedings, continues for 60 consecutive days.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Paramount or any Restricted Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately by notice in writing to Paramount and (if given by the Holders) to the trustee in accordance with the indenture.

Holder of the Notes may not enforce the indenture or the Notes except as provided in the indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal or interest.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Notes. Under certain circumstances, the Holders of a majority in principal amount of the then outstanding Notes may rescind an acceleration with respect to the Notes and its consequences.

Paramount is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, Paramount is required to deliver promptly to the trustee a statement specifying such Default or Event of Default.

### **Defeasance**

The indenture will contain provisions requiring the trustee to release Paramount from its obligations under the indenture and any supplemental indenture provided that, among other things, Paramount satisfies the trustee that it has deposited funds or made due provision for the payment of: (i) the expenses of the trustee; and (ii) all principal, premium (if any), interest and other amounts due or to become due in respect of the Notes.

### **Amendment, supplement and waiver**

Except as provided below, the indenture, the Notes or the Subsidiary Guarantees may each be amended or supplemented with the consent of, or a resolution passed by the affirmative votes of or signed by, the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or lack of compliance with any provision of the indenture, the Notes or the Subsidiary Guarantees may be waived with the consent, or a resolution passed by the affirmative votes of or signed by, the Holders of at least a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Without the consent of, or a resolution passed by the affirmative votes of or signed by, each Holder affected, an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the time for payment of any Note;

- (3) reduce the rate of or change the time for payment of interest on any Note;
- (4) make any Note payable in a currency other than that stated in the Notes; or
- (5) modify or change any provision of the indenture or the related definitions affecting the ranking of the Notes or any Subsidiary Guarantee in any manner adverse to the Holders of the Notes.

Without the consent of, or a resolution passed by the affirmative votes of or signed by, the Holders of at least 66 $\frac{2}{3}$ % in principal amount of the Notes then outstanding, an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting Holder):

- (1) alter or waive the provisions with respect to the redemption or repurchase of the Notes (other than provisions relating to the covenants described above under the caption "—Offer to repurchase");
- (2) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);
- (3) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of, or interest or premium, if any, on the Notes;
- (4) waive a redemption or repurchase payment with respect to any Note;
- (5) amend, change or modify in any material respect the obligation of Paramount to make and consummate a Change of Control Offer after the occurrence of a Change of Control or to make or consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;
- (6) release any Guarantor from any of its obligations under its Subsidiary Guarantee or the indenture otherwise than in accordance with the terms of the indenture; or
- (7) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any Holder of Notes, Paramount and the Guarantors, as applicable, and the trustee may amend or supplement the indenture, the Notes and the Subsidiary Guarantees:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of Paramount's or a Guarantor's obligations to Holders of Notes in the case of a merger or consolidation or sale of all or substantially all of Paramount's or a Guarantor's assets or to comply with the provisions of "—Certain covenants—Issuance of subsidiary guarantees";
- (4) to add any additional Guarantors or to evidence the release of any Guarantor from its obligations under its Subsidiary Guarantee (to the extent permitted by the indenture);
- (5) to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not adversely affect the legal rights under the indenture of any such Holder;
- (6) to secure the Notes or the Subsidiary Guarantees, including pursuant to the requirements of the covenant described above under the caption "—Certain covenants—Liens;" or
- (7) to evidence or provide for the acceptance of appointment under the indenture of a successor trustee.

## **Governing law**

The indenture, the Notes and the Subsidiary Guarantees will be governed by and construed in accordance with the laws of the Province of Alberta.

## **Depository services**

Except as otherwise provided below, the Notes will be issued in "book-entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. or a successor ("CDS"), which include securities brokers and dealers, banks and trust companies. On the closing date of the offering, Paramount will cause a global certificate or certificates representing the aggregate principal amount of Notes (each, a "Global Note") to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of a Note will be entitled to a certificate or other instrument from Paramount or CDS evidencing that Holder's ownership thereof, and no Holder will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such Holder. Each Holder will receive a customer confirmation of purchase from the registered dealer from which the Note is purchased in accordance with the practices and procedures of that registered dealer. Practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Notes.

Notes will be issued in fully registered form to holders or their nominees other than CDS or its nominee if: (i) Paramount determines that CDS is no longer willing or able to discharge properly its responsibilities as depository and Paramount is unable to locate a qualified successor; (ii) Paramount at its option elects, or is required by law, to terminate the book-entry system through CDS or such book-entry system ceases to exist; or (iii) after the occurrence of an Event of Default which is continuing, Holders of Notes representing beneficial interests aggregating over 50% of the outstanding principal amount of Notes determine that the continuation of the book-entry system is no longer in their best interests.

## **Transfers**

Transfers of ownership in the Notes will be effected only through records maintained by CDS or its nominee for such Notes with respect to interests of Participants and on the records of Participants with respect to interests of persons other than Participants. Holders who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of or other interest in the Notes, may do so only through Participants.

The ability of a Holder to pledge a Note or otherwise take action with respect to such Holder's interest in a Note (other than through a Participant) may be limited due to the lack of a physical certificate.

## **Payment of interest and principal**

Except in the case of payment on maturity, in which case payment may be made on surrender of the Global Note, payments of interest and principal on each Global Note will be made to CDS as registered holder of the Global Note. Interest payments on the Global Note will be made by cheque dated the date interest is payable and delivered to CDS two days before the date interest is payable. Payments of interest may also be made by electronic funds transferred to CDS at the option of Paramount. Principal payments on the Global Note will be made by cheque dated the maturity date delivered to CDS at maturity against receipt of the Global Note. As long as CDS is the registered holder of the Global Note, CDS will be considered the sole owner of the Global Note for the purpose of receiving payment on the Notes and for all other purposes under the indenture and the Notes.

Paramount expects that CDS, upon receipt of any payment of principal or interest in respect of a Global Note, will credit Participants' accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of CDS. Paramount also expects that payments of principal and interest by Participants to the owners of beneficial interests in such Global Note held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and

will be the responsibility of such Participants. The responsibility and liability of Paramount and the trustee in respect of Notes represented by the Global Note is limited to making payment of any principal and interest due on such Global Note to CDS.

If the date for payment of any amount of principal or interest on any Note is not a business day at the place of payment, then payment will be made on the next business day and the Holder of the Note will not be entitled to any further interest or other payment in respect of the delay.

### **Certain definitions**

Set forth below are certain defined terms to be included in the indenture.

"*Additional Amounts*" has the meaning assigned to that term under the caption "—Payment of additional amounts".

"*Adjusted Consolidated Net Tangible Assets*" means, without duplication, as of the date of determination; the sum of

- (1) discounted future net revenues from proved oil and natural gas reserves of Paramount and its Restricted Subsidiaries calculated in accordance with Applicable Securities Legislation (before any provincial, state or federal income taxes), as estimated by a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd.) in a reserve report prepared as of the end of Paramount's most recently completed fiscal year using a discount rate of 10% and based on the forecast prices and costs utilized in such year-end reserve report, as *increased by*, as of the date of determination, the discounted future net revenues of (a) estimated proved oil and natural gas reserves acquired since the date of such year-end reserve report, and (b) estimated oil and natural gas reserves attributable to extensions, discoveries and other additions and upward revisions of estimates of proved oil and natural gas reserves since the date of such year-end reserve report due to exploration, development or exploitation activities, in each case, calculated in accordance with Applicable Securities Legislation (using a discount rate of 10% and based on the forecast prices and costs utilized in such year-end reserve report), and *decreased by*, as of the date of determination, the estimated discounted future net revenues of (c) estimated proved oil and natural gas reserves produced or disposed of since the date of such year-end reserve report and (d) reductions in estimated proved oil and natural gas reserves attributable to downward revisions of estimates of proved oil and natural gas reserves since the date of such year-end reserve report due to changes in geological conditions or other factors that would, in accordance with standard industry practice, cause such revisions, in each case calculated in accordance with Applicable Securities Legislation (using a discount rate of 10% and based on the forecast prices and costs utilized in such year-end reserve report), *provided* that, in the case of each of the determinations made pursuant to clauses (a) through (d), such increases and decreases shall be as estimated by Paramount's petroleum engineers, except that in the event there is a Material Change as a result of such acquisitions, dispositions or revisions, then the discounted future net cash flows utilized for the purposes of clauses (a) through (d) shall be confirmed in writing by a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd.),
- (2) the capitalized costs that are attributable to oil and natural gas properties of Paramount and its Restricted Subsidiaries to which no proved oil and natural gas reserves are attributable, based on Paramount's books and records as of a date no earlier than the date of Paramount's most recent available internal annual or quarterly financial statements,
- (3) the Consolidated Net Working Capital of Paramount on a date no earlier than the date of Paramount's most recently available internal annual or quarterly financial statements, and
- (4) the greater of (a) the net book value of other tangible assets of Paramount on a date no earlier than the date of Paramount's most recently available internal annual or quarterly financial statements or (b) the appraised value, as estimated by independent appraisers of other tangible assets, or the market value of Liquid Securities, of Paramount and its Restricted Subsidiaries, in each case, as of the date of Paramount's most recently available internal annual or quarterly financial statements,

*minus*, to the extent included in clauses (1) through (4) above, the sum of:

- (1) minority interests,
- (2) any net gas or other balancing liabilities of Paramount and its Restricted Subsidiaries reflected in Paramount's most recently available internal annual or quarterly financial statements,
- (3) the discounted future net revenues, calculated in accordance with Applicable Securities Legislation utilizing the prices utilized in Paramount's year-end reserve report, attributable to reserves that are required to be delivered to third parties to fully satisfy the obligations of Paramount and its Restricted Subsidiaries with respect to Volumetric Production Payments on the schedules specified with respect thereto, and
- (4) the discounted future net revenues, calculated in accordance with Applicable Securities Legislation, attributable to reserves subject to Dollar-Denominated Production Payments that, based on the estimates of production and price assumptions included in determining the discounted future net revenues specified in the first clause (1) above, would be necessary to fully satisfy the payment obligations of Paramount and its Restricted Subsidiaries with respect to Dollar-Denominated Production Payments on the schedules specified with respect thereto.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; For purposes of this definition, the terms "controlling", "controlled by" and "under common control with" have correlative meanings. Notwithstanding the preceding, the term "Affiliate" shall not include a Restricted Subsidiary of any specified Person.

"*Applicable Premium*" means, with respect to any Note on any redemption date, the greater of:

- (1) 1.0% of the Called Principal of the Note; and
- (2) the excess of:
  - (a) the Discounted Value at such redemption date of the Remaining Scheduled Payments of the Note, computed using a discount rate equal to the Reinvestment Yield as of such redemption date; over
  - (b) the principal amount of the Note.

"*Applicable Securities Legislation*" means applicable securities laws (including rules, regulations, policies and instruments) in each of the Provinces of Canada in which Paramount is a reporting issuer.

"*Asset Sale*" means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights, other than the granting of a Lien in accordance with the indenture; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Paramount and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "—Offer to repurchase—Change of control" and/or the provisions described above under the caption "—Certain covenants—Amalgamation, merger, consolidation or sale of assets" and not by the provisions of the indenture described above under the caption "—Offer to repurchase—Asset sales"; and
- (2) the issuance of Equity Interests by any of Paramount's Restricted Subsidiaries or the sale by Paramount or any of its Restricted Subsidiaries of Equity Interests in any of its Subsidiaries (other than directors' qualifying shares or shares required to be owned by other Persons pursuant to applicable law).

Notwithstanding the preceding, the following items will be deemed not to be an Asset Sale:

- (1) any single transaction or series of related transactions that (a) involves assets having a fair market value of less than \$5 million or (b) results in net proceeds to Paramount and its Restricted Subsidiaries of less than \$5 million;
- (2) a transfer of assets between or among Paramount and its Restricted Subsidiaries;
- (3) an issuance or sale of Equity Interests by a Restricted Subsidiary to Paramount or to another Restricted Subsidiary;
- (4) any disposition of worn-out, obsolete, retired or otherwise unsuitable or excess assets or equipment or facilities or of assets or equipment no longer used or useful, in each case, in the ordinary course of business;
- (5) the sale or lease of equipment, inventory (including current production), accounts receivable or other assets in the ordinary course of business;
- (6) the sale or other disposition of cash or Cash Equivalents, Hedging Obligations or other financial instruments in the ordinary course of business;
- (7) any transfer of properties or assets (including Capital Stock) that is governed by the provisions of the indenture described under "—Certain covenants—Amalgamation, merger, consolidation or sale of assets"; or that is a Restricted Payment that is permitted by the covenant described above under the caption "—Certain covenants—Restricted payments";
- (8) the sale or transfer (whether or not in the ordinary course of business) of direct or indirect interests in oil and natural gas properties or other real property, *provided* that at the time of such sale or transfer such oil and natural gas properties do not have associated with them any proved reserves and such other real property is not, directly or indirectly, utilized in conjunction with the production of proved reserves;
- (9) the abandonment, relinquishment, farm-in, farm-out, lease or sublease of developed or undeveloped oil and natural gas properties in the ordinary course of business or resulting from any pooling, unit or farm-out agreement entered into in the ordinary course of business;
- (10) the trade or exchange by Paramount or any Restricted Subsidiary of any direct or indirect interest in any oil or natural gas property or other assets used or useful in the Oil and Gas Business and owned or held by Paramount or such Restricted Subsidiary for any direct or indirect interest in any oil or natural gas property or other asset used or useful in the Oil and Gas Business and owned or held by another Person;
- (11) the sale or transfer of oil, natural gas or other hydrocarbons or other mineral products in the ordinary course of business;
- (12) any Permitted Investment (but excluding, for certainty, any sale or other disposition of a Permitted Investment unless such sale or disposition would constitute a Permitted Investment);
- (13) the creation or perfection of a Lien (but not the sale or other disposition of any asset subject to such Lien);
- (14) the surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (15) any assignment of an overriding royalty or net profits interest to an employee or consultant of Paramount or any of its Restricted Subsidiaries in the ordinary course of business in connection with the generation of prospects or the development of oil and natural gas projects to which no proved reserves are attributed;

- (16) dispositions of receivables owing to Paramount or any of its Restricted Subsidiaries in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings of the account debtor and exclusive of factoring or similar arrangements;
- (17) the licensing or sublicensing of intellectual property (including, without limitation, the licensing of seismic data) or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business which do not materially interfere with the business of Paramount and its Restricted Subsidiaries;
- (18) any sale of assets received by Paramount or any of its Restricted Subsidiaries upon foreclosure of a Lien; and
- (19) any sale, issuance or other disposition of Equity Interests in, or Indebtedness or other securities of, an Unrestricted Subsidiary.

"*Board of Directors*" means:

- (1) with respect to a corporation, the board of directors of the corporation (or any duly authorized committee thereof);
- (2) with respect to a partnership, the board of directors of the corporation that is the general partner or managing partner of the partnership; and
- (3) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Book Entry Only Notes*" means notes of a series which, in accordance with the terms applicable to such series, are to be held only by or on behalf of the Depository.

"*Borrowing Base*" means the borrowing base under the Credit Agreement, which may include any other covenant in such Credit Agreement which limits the amount of Indebtedness that Paramount and its Subsidiaries may incur or have outstanding.

"*Business Day*" means a day other than a Saturday, Sunday or other day on which banking institutions in the Province of Alberta are authorized or required by law to close.

"*Called Principal*" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to an optional redemption.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be classified and accounted for as a capitalized lease obligation on a balance sheet in accordance with GAAP.

"*Capital Stock*" means:

- (1) in the case of a corporation, association or other business entity, any and all shares, interests, participations, rights or other equivalents (however designated and whether or not voting) of corporate stock;
- (2) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (3) any other interest or participation that confers on a Person rights in, or other equivalents of or interests in, the equity of the issuing Person or otherwise confers the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means:

- (1) Canadian or United States dollars;
- (2) securities issued by or directly and fully guaranteed or insured by the federal governments of Canada or the United States of America or any agency or instrumentality thereof (*provided* that the full faith and credit of the federal governments of Canada or the United States is pledged in support of those securities) having maturities of not more than one year from the date of acquisition;
- (3) demand accounts, time deposit accounts, bearer deposit notes, certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year, demand and overnight bank deposits and other similar types of investments routinely offered by commercial banks, in each case, with any lender party to the Credit Agreement or with any United States commercial bank or any Canadian chartered bank having capital and surplus in excess of \$500 million or the equivalent in U.S. dollars;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above; and
- (5) commercial paper having one of the two highest ratings obtainable by Moody's or S&P or DBRS Limited and in each case maturing within 270 days after the date of acquisition;
- (6) deposits and certificates of deposit with any commercial bank not meeting the qualifications specified in clause (3) above, provided all such deposits do not exceed \$1 million in the aggregate at any one time;
- (7) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"*Change of Control*" means the occurrence of any of the following events:

- (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets (including Equity Interests of the Restricted Subsidiaries) of Paramount and its Restricted Subsidiaries, taken as a whole, to any Person who is not an Affiliate of Paramount; or
- (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "Person" (other than a Permitted Holder or any combination of Permitted Holders) beneficially owns, directly or indirectly, more than 50% of the Voting Stock of Paramount, measured by voting power rather than number of shares.

"*Consolidated EBITDA*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person and its Restricted Subsidiaries for such period *plus* (without duplication):

- (1) an amount equal to any extraordinary, unusual or non-recurring loss plus any net loss realized in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*
- (2) provision for taxes based on income or profits for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (3) the Fixed Charges for such period, to the extent that any such charges and expenses were deducted in computing such Consolidated Net Income; *plus*
- (4) exploration expenses for such period, to the extent that any such exploration expenses were deducted in computing such Consolidated Net Income; *plus*

- (5) depreciation, depletion, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) for such period to the extent that such depreciation, depletion and amortization were deducted in computing such Consolidated Net Income; *minus*
- (6) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business; and *minus*
- (7) to the extent included in determining Consolidated Net Income, the sum of:
  - (a) the amount of deferred revenues that are amortized during such period and that are attributable to reserves that are subject to Volumetric Production Payments; and
  - (b) amounts recorded in accordance with GAAP as repayments of principal and interest pursuant to Dollar-Denominated Production Payments,

in each case, on a consolidated basis and determined in accordance with GAAP.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided that*

- (1) the Net Income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be excluded and instead dividends and other equity distributions received in cash or Cash Equivalents from a Person other than Paramount or a Restricted Subsidiary will be included;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders;
- (3) the cumulative effect of a change in accounting principles on initial adoption of such principles will be excluded; and
- (4) to the extent deducted in the calculation of Net Income, any non-cash charges (other than depreciation, depletion and amortization) will be excluded, including, without limitation:
  - (a) any non-cash charges related to an impairment test write-down under GAAP or Applicable Securities Legislation;
  - (b) unrealized losses and gains under Currency Agreements, Interest Rate Agreements and Oil and Gas Hedging Contracts;
  - (c) any non-cash or non-recurring charges relating to any premium or penalty paid, write off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity; and
  - (d) any non-cash compensation charge relating to stock options or other equity-based awards.

"*Consolidated Net Working Capital*" of any Person as of any date of determination means the difference (shown on the balance sheet of such Person and its Restricted Subsidiaries determined on a consolidated basis in accordance with GAAP as of the end of the most recent fiscal quarter of such Person for which internal financial statements are available) between (i) all current assets of such Person and its Restricted Subsidiaries except unrealized gains

relating to Hedging Obligations and future income taxes and (ii) all current liabilities of such Person and its Restricted Subsidiaries except the current portion of Indebtedness, unrealized losses relating to Hedging Obligations, stock-based compensation and future income taxes.

"*Consolidated Net Worth*" means, with respect to any specified Person as of any date, the consolidated shareholders' equity of such Person and its consolidated Subsidiaries as of such date determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Stock of such Person.

"*Credit Agreement*" means the credit agreement in effect on the Issue Date after the initial issuance of Notes under the indenture among Paramount, as borrower, the lenders named therein, Bank of Montreal, as administrative agent, and the other agents named therein including any related notes, debentures, pledges, Guarantees, security documents, instruments and agreements executed from time to time in connection therewith, and in each case as amended, modified, restated, renewed, replaced or refinanced from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring or adding Subsidiaries as additional borrowers or guarantors thereunder, and all or any portion of the Indebtedness and other Obligations under such agreement or agreements or any successor or replacement agreement or any agreements, and whether by the same or any other agent, lender or group of lenders. For greater certainty, it is acknowledged that Interest Rate Agreements, Currency Agreements and Oil and Gas Hedging Contracts entered into with a Person that at that time is a lender (or an Affiliate thereof) under the Credit Agreement are separate from, are not included within and do not form part of any above inclusions of the Credit Agreement.

"*Credit Facilities*" means, with respect to Paramount or any Guarantor, one or more credit or debt facilities (including, without limitation, under the Credit Agreement), commercial paper facilities or Debt Issuances, in each case with banks, investment banks, insurance companies, mutual or other institutional lenders or investors providing for, among other things, revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit or letter of credit guarantees or Debt Issuances, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"*Currency Agreement*" means any financial arrangement entered into between a Person (or its Restricted Subsidiaries) and a counterparty on a case by case basis in connection with a foreign exchange futures contract, currency swap agreement, currency option or currency exchange or other similar currency related transactions, the purpose of which is to mitigate or eliminate its exposure to fluctuations in exchange rates and currency values.

"*DBRS*" means DBRS Ltd. or any successor to the rating agency business thereof.

"*Debt Issuances*" means, with respect to Paramount or any Restricted Subsidiary, one or more issuances after the Issue Date of Indebtedness evidenced by notes, debentures, bonds or other similar securities or instruments.

"*Default*" means the occurrence of any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default under the indenture.

"*Depository*" means CDS and such other Person as is designated in writing by Paramount and acceptable to the trustee to act as depository in respect of any series of Book Entry Only Notes.

"*Designated Non-cash Consideration*" means the fair market value of non-cash consideration received by Paramount or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as "Designated Non-cash Consideration" pursuant to an officer's certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"*Discounted Value*" means, with respect to the Called Principal of any Note, the amount obtained by discounting, on a semi-annual basis, all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the date of calculation of the redemption price with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable for any consideration other than Capital Stock pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, prior to the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require Paramount to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Sale will not constitute Disqualified Stock if the provisions applicable to such Capital Stock either (i) are no more favourable to the holders of such Capital Stock than the provisions contained in the covenants described under "—Offer to repurchase—Asset sales" and "—Offer to repurchase—Change of control" and such Capital Stock specifically provides that the issuer will not repurchase or redeem any of such Capital Stock pursuant to such provisions prior to Paramount's repurchase of such of the Notes as are required to be repurchased pursuant to the covenants described under "—Offer to repurchase—Asset sales" and "—Offer to repurchase—Change of control", or (ii) provide that Paramount may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Certain covenants—Restricted payments".

"*Dollar-Denominated Production Payments*" means production payment obligations recorded as liabilities in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Equity Offerings*" means any public or private sale of Equity Interests of Paramount (other than Disqualified Stock).

"*Existing Indebtedness*" means the aggregate principal amount of Indebtedness of Paramount and its Restricted Subsidiaries (other than Indebtedness under the Credit Agreement) in existence on the Issue Date.

"*Facilities*" means any drilling equipment, production equipment and platforms or mining equipment; pipelines, pumping stations and other pipeline facilities; terminals, warehouses and storage facilities; bulk plants; production, separation, dehydration, extraction, treating and processing facilities; gasification or natural gas liquefying facilities; flares, stacks and burning towers; floatation mills, crushers and ore handling facilities; tank cars, tankers, barges, ships, trucks, automobiles, airplanes and other marine, automotive, aeronautical and other similar moveable facilities or equipment; computer systems and associated programs or office equipment; roads, airports, docks (including drydocks); reservoirs and waste disposal facilities; sewers; generating plants (including power plants) and electric lines; telephone and telegraph lines, radio and other communications facilities; townsites, housing facilities, recreation halls, stores and other related facilities; and similar facilities and equipment of or associated with any of the foregoing.

"*fair market value*" means the value that would be paid by a willing buyer to a willing seller that is not an Affiliate of the willing buyer in a transaction not involving distress or necessity of either party.

"*Fixed Charges*" means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized, excluding any interest attributable to Dollar-Denominated Production Payments but including, without limitation, original issue discount, non-cash interest payments (other than amortization of debt issuance costs), the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Interest Rate Agreements; *plus*

- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest expense on Indebtedness of another Person that is guaranteed by such Person (other than such Person or its Restricted Subsidiaries) or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (other than a non-recourse pledge of Equity Interests of any Unrestricted Subsidiary for the benefit of lenders to such Unrestricted Subsidiary), to the extent the primary obligor is currently in default under such Indebtedness, whether or not such Guarantee or Lien is called upon; *plus*
- (4) all dividends, whether paid or accrued and whether or not paid in cash, on any series of Disqualified Stock of such Person or any of its Restricted Subsidiaries, other than (i) dividends on Equity Interests payable solely in Equity Interests of Paramount (other than Disqualified Stock) or any of its Restricted Subsidiaries or (ii) dividends payable to Paramount or a Restricted Subsidiary.

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person for any four-quarter reference period, the ratio of the Consolidated EBITDA of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person and its Restricted Subsidiaries for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) acquisitions or divestitures that have been made by the specified Person or any of its Restricted Subsidiaries, including, in the case of acquisitions, through amalgamations, mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated EBITDA for such reference period will be calculated on a pro forma basis;
- (2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded;
- (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (4) any Person that is a Restricted Subsidiary of the specified Person on the Calculation Date will be deemed to have been a Restricted Subsidiary of the specified Person at all times during such four-quarter period;
- (5) any Person that is not a Restricted Subsidiary of the specified Person on the Calculation Date will be deemed not to have been a Restricted Subsidiary of the specified Person at any time during such four-quarter period; and
- (6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any obligations arising under any Interest Rate Agreements applicable to such

Indebtedness if such Interest Rate Agreement has a remaining term as of the Calculation Date in excess of 12 months).

"GAAP" means generally accepted accounting principles, consistently applied, which are in effect in Canada from time to time.

"Global Notes" means notes representing the aggregate principal amount of a series of notes and held by, or on behalf of, a Depository.

"Government Securities" means direct non-callable obligations of, or obligations guaranteed by, the federal government of Canada for the payment of which guarantee or obligations the full faith and credit of the federal government of Canada is pledged.

"Guarantee" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"Guarantor" means each Restricted Subsidiary that executes a Subsidiary Guarantee pursuant to the covenant described under "—Certain covenants—Issuance of subsidiary guarantees" or otherwise; *provided* that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its Subsidiary Guarantee is released in accordance with the terms of the indenture.

"Hedging Obligations" means, with respect to any specified Person, the outstanding amount of all obligations of such Person and its Restricted Subsidiaries under all Currency Agreements, all Interest Rate Agreements and all Oil and Gas Hedging Contracts, together with all interest, fees and other amounts payable thereon or in connection therewith.

"Holder" means a Person in whose name a Note is registered.

"Indebtedness" means, with respect to any specified Person at any date, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit, letters of guarantee or tender cheques (or reimbursement agreements in respect thereof);
- (3) in respect of banker's acceptances;
- (4) representing Capital Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable;
- (6) representing any Hedging Obligations;
- (7) in respect of Production Payments; and
- (8) in respect of all conditional sale obligations and all obligations under title retention agreements, but excluding a title retention agreement to the extent it constitutes an operating lease under GAAP.

In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness.

For the avoidance of doubt, "Indebtedness" of any Person shall not include:

- (1) trade payables and accrued liabilities incurred in the ordinary course of business and payable in accordance with customary practice;
- (2) deferred tax obligations;
- (3) minority interests;
- (4) uncapitalized interest;
- (5) non-interest bearing installment obligations and accrued liabilities incurred in the ordinary course of business; and
- (6) in connection with the purchase by Paramount or any Restricted Subsidiary of any business or assets, post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business or assets after the closing; provided, however, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 45 days thereafter.

"*Interest Payment Date*" means • and • of each year that the Notes are outstanding, commencing on •.

"*Interest Period*" means the period commencing on the later of (i) the date of issue of the Notes and (ii) the immediately preceding Interest Payment Date on which interest has been paid, and ending on the date immediately preceding the Interest Payment Date in respect of which interest is payable.

"*Interest Rate Agreement*" means any financial arrangement entered into between a Person (or its Restricted Subsidiaries) and a counterparty on a case by case basis in connection with interest rate swap transactions, interest rate options, cap transactions, floor transactions, collar transactions and other similar interest rate protection related transactions, the purpose of which is to mitigate or eliminate its exposure to fluctuations in interest rates.

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the form of direct or indirect loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. "Investments" shall exclude extensions of trade credit in the ordinary course of business on commercially reasonable terms in accordance with normal trade practices of such Person. If Paramount or any Restricted Subsidiary of Paramount sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of Paramount such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of Paramount, Paramount will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of Paramount's Investments in such Restricted Subsidiary that were not sold or disposed of. The acquisition by Paramount or any Restricted Subsidiary of Paramount of a Person that holds an Investment in a third Person will be deemed to be an Investment by Paramount or such Restricted Subsidiary in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person.

"Issue Date" means •, 2010.

"Lien" means, with respect to any asset, any mortgage, lien (statutory or otherwise), pledge, charge, security interest or encumbrance upon or with respect to any property of any kind, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement but excluding a title retention agreement to the extent it would constitute an operating lease in accordance with GAAP, as in effect on the Issue Date.

"Liquid Securities" means securities that are publicly traded on the Toronto Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Stock Market, the London Stock Exchange or the TSX Venture Exchange, or their successors.

For purposes of the covenant described under the caption "Asset sales", securities meeting the requirements of the preceding sentence shall be treated as Liquid Securities from the date of receipt thereof until and only until the earlier of:

- (1) the date on which such securities, or securities exchangeable for, or convertible into, such securities, are sold or exchanged for cash or Cash Equivalents, and
- (2) 180 days following the date of receipt of such securities.

"Material Change" means an increase or decrease, excluding changes that result solely from changes in prices, of more than 30% during a fiscal quarter in the estimated discounted future net cash flows from proved oil and gas reserves of Paramount and its Restricted Subsidiaries, calculated in accordance with clause (1) of the definition of Adjusted Consolidated Net Tangible Assets; provided, however, that the following will be excluded from the calculation of Material Change:

- (1) any acquisitions during the quarter of oil and gas reserves that have been estimated by a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd.) and on which a report or reports exist; and
- (2) any disposition of properties held at the beginning of such quarter that have been disposed of as provided under the caption "Asset Sales".

"Moody's" means Moody's Investors Services, Inc. or any successor to the rating agency business thereof.

"Net Cash Proceeds" means, with respect to any Asset Sale, the proceeds therefrom in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents, or stock or other assets when disposed of for cash or Cash Equivalents, received by Paramount or any of the Restricted Subsidiaries from such Asset Sale, net of:

- (1) all legal, title, engineering and environmental fees and expenses (including fees and expenses of legal counsel, advisors, accountants, consultants and investment banks, sales commissions and relocation expenses) related to such Asset Sale;
- (2) provisions for all cash taxes payable or required to be accrued in accordance with GAAP as a result of such Asset Sale;
- (3) payments made to retire Indebtedness where payment of such Indebtedness is secured by a Lien on the assets or properties that are the subject of such Asset Sale;
- (4) amounts required to be paid to any Person owning a beneficial interest in the assets or properties that are subject to the Asset Sale; and

- (5) appropriate amounts to be provided by Paramount or any Restricted Subsidiary, as the case may be, as a reserve required in accordance with GAAP against any liabilities associated with such Asset Sale and retained by the seller after such Asset Sale, including pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale;

*provided* that cash and/or Cash Equivalents in which Paramount or a Restricted Subsidiary has an individual beneficial ownership shall not be deemed to be received by Paramount or a Restricted Subsidiary until such time as such cash and/or Cash Equivalents are free from any restrictions under agreements with the other beneficial owners of such cash and/or Cash Equivalents which prevent Paramount or a Restricted Subsidiary from applying such cash and/or Cash Equivalents to any use permitted by the covenant described under "—Offer to repurchase—Asset sales" or to purchase Notes.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:

- (1) any gain (or loss), together with any related provision for taxes on such gain (or loss), realized in connection with sales of assets outside of the ordinary course of business; and
- (2) any extraordinary gain (or loss), together with any related provision for taxes on such extraordinary gain (or loss).

"*Non-Recourse Debt*" means Indebtedness:

- (1) as to which neither Paramount nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; and
- (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Notes) of Paramount or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its stated maturity.

"*Non-Recourse Purchase Money Debt*" means Indebtedness incurred in connection with the acquisition by Paramount or any Restricted Subsidiary of assets used in the Oil and Gas Business (including office buildings and other real property used by Paramount or such Restricted Subsidiary in conducting its operations), and renewals and refinancing of such Indebtedness but only to the extent that the lenders with respect to such Indebtedness or such renewals and refinancings have a claim solely against the assets acquired with such Indebtedness and any improvements thereon and not against Paramount or any Restricted Subsidiary (subject to customary exceptions such as indemnifications for misrepresentation, environmental, title, fraud and other matters).

"*Obligations*" means, with respect to any Indebtedness, all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, costs, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Oil and Gas Business*" means:

- (1) the acquisition, exploration, exploitation, development and operation of, and disposition of interests in, or obtaining production from, oil, natural gas and other hydrocarbon properties;
- (2) the gathering, marketing, treating, processing, storage, selling and transporting of any production from such interests or properties and the marketing of oil, natural gas, other hydrocarbons and minerals obtained from unrelated Persons;

- (3) any business relating to or arising from the exploration for or exploitation, development, extraction, production, treatment, processing, storage, transportation, refining, gathering or marketing and sale of oil, gas and other minerals and products produced in association therewith;
- (4) any power generation and electrical transmission business in a jurisdiction within North America where fuel requirements of such business are supplied, directly or indirectly, from production reserves substantially from blocks in which Paramount or its Restricted Subsidiaries participate;
- (5) the evaluation, participation in or pursuit of any other activity or opportunity that is primarily related to clauses (1) through (4) above; and
- (6) any activity that is ancillary to, necessary or appropriate for or incidental to the activities described in clauses (1) through (5) of this definition.

"*Oil and Gas Hedging Contracts*" means any transaction, arrangement or agreement entered into between a Person (or any of its Restricted Subsidiaries) and a counterparty on a case by case basis, including any futures contract, a commodity option, a swap, a forward sale or otherwise, the purpose of which is to mitigate, manage or eliminate its exposure to fluctuations in commodity prices, transportation or basis costs or differentials or other similar financial factors including contracts settled by physical delivery of the commodity not settled within 60 days of the date of any such contract; *provided* that Production Payments will not be treated as Oil and Gas Hedging Contracts for the purposes of the indenture.

"*Oil and Gas Investments*" means any Investments made in the ordinary course of, and of a nature that is or shall have become customary in, the Oil and Gas Business as a means of actively exploiting, exploring for, acquiring, developing, producing, processing, gathering, marketing or transporting oil and gas through agreements, transactions, interests or arrangements which permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of the Oil and Gas Business jointly with third parties (which, for certainty, may include Unrestricted Subsidiaries whether wholly owned by Paramount or otherwise), including, without limitation:

- (1) ownership interests in oil and natural gas properties, processing facilities or gathering systems or ancillary real property interests (including acquisitions and dispositions thereof); and
- (2) Investments in the form of or pursuant to operating agreements, processing agreements, farm-in agreements, farm-out agreements, working interests, royalty interests, mineral leases, contracts for sale, transportation or exchange of oil and natural gas and related hydrocarbons and minerals, development agreements, area of mutual interest agreements, unitization agreements, pooling agreements, joint bidding agreements, service contracts, joint venture agreements, partnership agreements (whether general or limited), limited liability company agreements, subscription agreements, stock purchase agreements and other similar agreements with third parties (which, for certainty, may include Unrestricted Subsidiaries whether wholly owned by Paramount or otherwise).

"*Permitted Acquisition Indebtedness*" means Indebtedness or Disqualified Stock of Paramount or any of its Restricted Subsidiaries to the extent such Indebtedness or Disqualified Stock was Indebtedness or Disqualified Stock of (1) a Subsidiary prior to the date on which such Subsidiary became a Restricted Subsidiary or (2) a Person that was merged or amalgamated into Paramount or a Restricted Subsidiary, provided that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged and amalgamated into Paramount or a Restricted Subsidiary, as applicable, after giving pro forma effect thereto (a) the Restricted Subsidiary or Paramount, as applicable, would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Cover Ratio test described under "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock" or (b) the Fixed Charge Coverage Ratio for the Restricted Subsidiary or Paramount, as applicable, would be greater than the Fixed Charge Coverage Ratio for such Restricted Subsidiary or Paramount immediately prior to such transaction.

"*Permitted Assets*" means any and all properties or assets that are used or useful in an Oil and Gas Business.

"*Permitted Holder*" means (i) any of Clayton H. Riddell, his spouse, ancestors, siblings, descendants (including children or grandchildren by adoption) and the descendants of any of his siblings; (ii) in the event of the incompetence or death of any of the Persons described in clause (i), such Person's estate, executor, administrator, committee or other personal representative (iii) any trust created for the benefit of any of the Persons described in clause (i), (ii) or (iv) or any trust created for the benefit of any such trust; or (iv) any other Person controlled by any of the Persons described in clause (i), (ii) or (iii). For purposes of this definition, "control," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities by partnership agreement, by voting agreement or otherwise and "Permitted Holders" mean all such Persons.

"*Permitted Investments*" means, without duplication:

- (1) any Investment in Paramount or in a Restricted Subsidiary of Paramount;
- (2) any Investment in cash and/or Cash Equivalents;
- (3) any Investment by Paramount or any Restricted Subsidiary of Paramount in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary of Paramount; or
  - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Paramount or a Restricted Subsidiary of Paramount;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Offer to repurchase—Asset sales";
- (5) any acquisition of assets or other Investments in a Person solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Paramount or a Restricted Subsidiary;
- (6) Investments resulting from repurchases of the Notes;
- (7) any Investments received in compromise of obligations of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer;
- (8) Hedging Obligations;
- (9) Oil and Gas Investments;
- (10) Investments (a) existing on the Issue Date, (b) made pursuant to binding commitments in effect on the Issue Date or (c) that are an extension, modification or renewal of any such Investments described under either of the immediately preceding clauses (a) and (b), but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay-in-kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date), and Investments made with the proceeds, including, without limitation, from sales or other dispositions, of such Investments and any other Investments made pursuant to this clause (10);
- (11) (a) loans or advances made to any officer, director or employee of Paramount or any of its Restricted Subsidiaries in the ordinary course of business that are approved by the Board of Directors of Paramount or a duly authorized officer, and (b) loans or advances made to refinance loans, together with accrued interest

thereon, made pursuant to this clause (11); *provided* such loans do not exceed \$5 million at any one time outstanding;

- (12) any transaction to the extent it constitutes an Investment that is permitted by and made in accordance with the provisions of the second paragraph of the covenant described under "—Transactions with affiliates;"
- (13) Guarantees issued in accordance with the covenant described under "—Incurrence of indebtedness and issuance of disqualified stock";
- (14) Guarantees of performance or other obligations (other than Indebtedness) arising in the ordinary course in the Oil and Gas Business, including obligations under oil and natural gas exploration, development, joint operating and related agreements and licenses or concessions related to the Oil and Gas Business;
- (15) other Investments in any Person having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (15) that are at the time outstanding not to exceed the greater of (a) \$25 million and (b) 2.5% of Adjusted Consolidated Net Tangible Assets (with the fair market value of such Investment being measured at the time such Investment is made and without giving effect to subsequent changes in value);

*provided, however*, that with respect to any Investment, Paramount may, in its sole discretion, allocate all or any portion of any Investment and later re-allocate all or any portion of any Investment, to one or more of the above clauses (1) through (15) so that the entire Investment would be a Permitted Investment.

"*Permitted Liens*" means, as of any date:

- (1) Liens on assets of Paramount and any Subsidiary securing Indebtedness under Credit Facilities and Obligations in respect of such Indebtedness in an aggregate principal amount not to exceed the greater of the amounts set forth in subclauses (a), (b) and (c) of clause (1) under "Certain covenants— Incurrence of indebtedness and issuance of disqualified stock,";
- (2) Liens in favor of Paramount or any of the Guarantors;
- (3) Liens on property of a Person existing at the time such Person is amalgamated or merged with or into or consolidated with Paramount or any Restricted Subsidiary of Paramount; provided that such Liens were in existence prior to, and were not created in contemplation of, such amalgamation, merger or consolidation and do not extend to any assets other than those of the Person amalgamated or merged into or consolidated with Paramount or the Restricted Subsidiary;
- (4) Liens securing Hedging Obligations;
- (5) Liens securing the assets purchased by purchase money indebtedness (including Non-Recourse Purchase Money Debt);
- (6) Liens to secure payment of royalties, revenue interests, net profits interests, reversionary interests, working interests and preferential rights of purchase incurred in the ordinary course of business to the extent of the security interest in those underlying assets;
- (7) Liens for any judgments rendered that do not constitute an Event of Default;
- (8) Liens for any judgment rendered, or claim filed, against Paramount or any Restricted Subsidiary which are being contested in good faith by appropriate proceedings that do not constitute an Event of Default if during such contestation a stay of enforcement of such judgment or claim is in effect;

- (9) Liens on property existing at the time of acquisition of the property by Paramount or any Restricted Subsidiary of Paramount, *provided* that such Liens were in existence prior to, and were not created in contemplation of, such acquisition;
- (10) Liens incurred or deposits made to secure the performance of or otherwise in connection with statutory obligations, environmental reclamation obligations, bids, leases, government contracts, surety or appeal bonds, performance or return-of-money bonds or other obligations of a like nature incurred in the ordinary course of business;
- (11) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock" covering only the assets acquired with such Indebtedness;
- (12) Liens existing on the Issue Date;
- (13) Liens for taxes, workers' compensation, unemployment insurance and other types of social security, assessments or other governmental charges or claims that are not yet due and payable or, if due and payable and delinquent, that are being contested by Paramount or a Restricted Subsidiary in good faith by appropriate proceedings promptly instituted and diligently concluded, *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;
- (14) Liens in pipelines or pipeline facilities that arise by operation of law;
- (15) Liens arising under partnership agreements, oil and natural gas leases, overriding royalty agreements, net profits agreements, incentive compensation programs that are on terms reasonably customary in the Oil and Gas Business for geologists, geophysicists and other providers of technical services to Paramount or a Restricted Subsidiary, royalty trust agreements, master limited partnership agreements, farm-in agreements, farm-out agreements, division orders, contracts for the sale, purchase, exchange, transportation, gathering or processing of oil, natural gas or other hydrocarbons, utilization and pooling designations, declarations, orders and agreements, joint venture agreements, development agreements, operating agreements, production sales contracts (including security in respect of take or pay or similar obligations thereunder), area of mutual interest and other agreements, natural gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements and other similar agreements, or arising by operation of law, which in each of the foregoing cases are customary in the Oil and Gas Business, and easements, rights of way or other similar rights in land, *provided* that such Liens are not given in connection with Indebtedness;
- (16) Liens in oil, gas or other mineral property or products derived from such property to secure obligations incurred or Guarantees of obligations incurred in connection with or necessarily incidental to commitments of purchase or sale of, or the transportation, storage or distribution of, such property or the products derived from such property, *provided* that such obligations do not constitute Indebtedness;
- (17) Liens in respect of any oil, natural gas or mineral property acquired after the Issue Date or which do not have any proved reserves associated with them on the Issue Date (i) securing the costs and expenses incurred after the Issue Date in connection with surveying, exploration, drilling, development, extraction, operation or production relating to or arising in connection with any such oil, natural gas or other mineral property or with the acquisition thereof, including costs incurred for the acquisition, construction, development, alteration, repair, improvement or operation of any and all Facilities relating to such property, or to projects, ventures or other arrangements of which such property forms a part or which relate to such property, whether or not such Facilities are in whole or in part located (or from time to time located) at or on such property, and all related costs of abandonment, or (ii) securing Indebtedness created, issued, incurred or assumed by Paramount or any of its Restricted Subsidiaries to provide funds for, or otherwise finance (directly or indirectly), the activities set forth above, if such Indebtedness is incurred prior to, during or within two years after the acquisition or completion of construction, development or other relevant activities referred to in clause (i) above and does not exceed the cost of such acquisition, construction, development or other activities, as applicable; *provided* that any such Lien shall be limited to

the property that is the subject of the acquisition, construction, development or other relevant activities referred to above;

- (18) Liens in favor of any federal government or any province, state or territory thereof or any municipality therein or any political subdivision, department, agency or instrumentality of any of them to secure the performance of any covenant or obligation to or in favor of or entered into at the request of such authorities where such security is required pursuant to any contract, statute or regulation or with respect to any franchise, grant, license or permit (including related to periodic payments in connection therewith) or arises by operation of law and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands held by Paramount, any of its Restricted Subsidiaries or any Guarantor under government permits, leases or grants, *provided* that such Lien is not given in connection with Indebtedness;
- (19) Liens imposed by law that are incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, mechanics', landlords', materialmen's, employees', laborers', employers', suppliers', banks', builders', repairmen's and other like Liens;
- (20) easements, rights-of-way, zoning restrictions and other similar charges, restrictions or encumbrances in respect of real property or immaterial imperfections of title that do not, in the aggregate, impair in any material respect the ordinary conduct of the business of Paramount and its Restricted Subsidiaries taken as a whole;
- (21) Liens in connection with any Production Payments; *provided* that (i) such Liens are limited to the property that is the subject of such Production Payment; and (ii) either (x) such Production Payments were in existence on the Issue Date; (y) such Production Payments are entered into in connection with the acquisition of any property after the Issue Date and such Lien is created, incurred, issued or assumed in connection with the financing of, or within 90 days after the acquisition of, such property; or (z) such Production Payments do not exceed in the aggregate \$5 million at any time outstanding;
- (22) Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases;
- (23) Liens securing Permitted Refinancing Indebtedness in respect of Indebtedness that was secured by Permitted Liens and securing similar property;
- (24) Liens on any intercompany Indebtedness of a Restricted Subsidiary of Paramount (which Indebtedness shall be unsecured except by a pledge of any note or other evidence of intercompany Indebtedness of another Restricted Subsidiary of Paramount) granted as security for debt securities issued by Paramount; provided that the principal amount and interest rate of such intercompany Indebtedness subject to such Liens shall not exceed the principal amount and interest rate, respectively, of the debt securities issued by Paramount so secured;
- (25) Liens securing the obligations of Paramount under the Notes and the indenture and of the Guarantors under the Subsidiary Guarantees;
- (26) Liens arising from precautionary Personal Property Security Act or Uniform Commercial Code financing statement filings regarding operating leases entered into by Paramount and its Restricted Subsidiaries in the ordinary course of business;
- (27) Liens over debt service reserve accounts which are wholly funded by Indebtedness secured by such Liens;
- (28) Liens against any Capital Stock of MEG Energy Corp. or Trilogy Energy Corp. which was owned by Paramount or any Subsidiary on the Issue Date; and

- (29) Liens securing Indebtedness in an aggregate principal amount outstanding at any one time, added together with all other Indebtedness secured by Liens incurred pursuant to this clause (29), not to exceed \$25 million.

In the event that a Lien meets the criteria of more than one of the categories of Permitted Liens described in clauses (1) through (29) above, Paramount may classify, or later reclassify, such Lien in whole or in part in any manner that complies with this definition, including by allocation to more than one other type of Permitted Lien.

*"Permitted Refinancing Indebtedness"* means any Indebtedness of Paramount or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of Paramount or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all reasonable fees and expenses and premiums incurred in connection therewith);
- (2)
  - (a) if the final maturity date of the Indebtedness being extended, refinanced, renewed, replaced, deferred or refunded is earlier than the final maturity date of the Notes, the Permitted Refinancing Indebtedness has a final maturity date no earlier than the final maturity date of the Indebtedness being extended, refinanced, renewed, replaced, deferred or refunded; or
  - (b) if the final maturity date of the Indebtedness being extended, refinanced, renewed, replaced, deferred or refunded is later than the final maturity date of the Notes, the Permitted Refinancing Indebtedness has a final maturity date at least 91 days later than the final maturity date of the Notes;
- (3) the Permitted Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Permitted Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, refinanced, renewed, replaced, deferred or refunded; and
- (4) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of the Notes and is subordinated in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, on terms at least as favourable, taken as a whole, to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

Notwithstanding the foregoing, any Indebtedness incurred under the Credit Agreement pursuant to the covenant "Incurrence of indebtedness and issuance of disqualified stock" shall be subject only to the refinancing provision in the definition of Credit Agreement and not pursuant to the requirements set forth in this definition of Permitted Refinancing Indebtedness

*"Person"* means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government, government body or agency or other entity.

*"Prior Note Indenture"* means the second supplemental indenture dated as of February 7, 2005 between Paramount, each "Subsidiary Guarantor" party thereto and The Bank of Nova Scotia Trust Company of New York which relates to Paramount's 8½% senior notes due 2013.

*"Production Payments"* means Dollar-Denominated Production Payments and Volumetric Production Payments, collectively.

"*Record Date*" means the date specified for determining holders entitled to receive interest on the Notes on any Interest Payment Date.

"*Reinvestment Yield*" means, with respect to the Called Principal of any Note, the sum of (i) 1.00% per annum plus (ii) the yield to maturity implied by the yields reported, as of 10:00 a.m. (Toronto time) on the third Business Day preceding the date of calculation of the redemption price with respect to such Called Principal, on the display designated as "SCCA 1" of the Bloomberg Financial Markets Services Screen (or such other display as may replace the aforementioned screen) for actively traded Government of Canada securities having a maturity equal to such Called Principal as of such date of calculation of the redemption price.

"*Remaining Scheduled Payments*" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the date of calculation of the redemption price with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such date of calculation of the redemption price is not a date on which interest payments are due to be made under the terms of such Notes, then the amount of the next succeeding interest payment will be reduced by the amount of interest accrued to such date of calculation of the redemption price and required to be paid on such date.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of such Person that is not an Unrestricted Subsidiary.

"*S&P*" means Standard and Poor's Ratings Services, a division of McGraw-Hill Companies (Canada) Corporation, or any successor to the rating agency business thereof.

"*Stated Maturity*" means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Indebtedness*" means Indebtedness of Paramount or a Guarantor that is subordinated in right of payment to the Notes or the Subsidiary Guarantee issued by such Guarantor (if any), as the case may be.

"*Subsidiary*" means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"*Taxes*" means any present or future tax, levy, impost, assessment or other government charge (including penalties, interest and any other liabilities related thereto) imposed or levied by or on behalf of a Taxing Authority.

"*Taxing Authority*" means any government or any political subdivision or territory or possession of any government or any authority or agency therein or thereof having power to tax.

"*Unrestricted Subsidiary*" means each of (i) Paramount Drilling US LLC, Fox Drilling Inc., 1482233 Alberta Ltd. and 1482254 Alberta Ltd. (unless designated as a Restricted Subsidiary following the Issue Date in accordance with the terms of the indenture), (ii) any Subsidiary of an Unrestricted Subsidiary and (iii) any other Subsidiary of

Paramount that is designated by the Board of Directors of Paramount as an Unrestricted Subsidiary pursuant to a resolution of such Board of Directors, but only to the extent that such other Subsidiary:

- (1) at the time of such designation, has no Indebtedness other than (i) Non-Recourse Debt and (ii) Indebtedness that could be guaranteed by Paramount in compliance with the covenant set forth under the caption "—Certain covenants—Restricted payments" (and the amount of such indebtedness under this clause (ii) shall be deemed to be an Investment by Paramount for purposes of such covenant);
- (2) is not party to any agreement, contract, arrangement or understanding with Paramount or any Restricted Subsidiary of Paramount unless the terms of any such agreement, contract, arrangement or understanding are no less favourable to Paramount or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Paramount; and
- (3) is a Person with respect to which neither Paramount nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

Any designation of a Subsidiary of Paramount as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of the resolutions of the Board of Directors of Paramount giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Certain covenants—Designation of restricted and unrestricted subsidiaries". If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Paramount as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock", Paramount will be in default of such covenant.

"*Volumetric Production Payments*" means production payment obligations recorded as deferred revenue in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

"*Wholly Owned Restricted Subsidiary*" of Paramount means any Restricted Subsidiary of which all of the outstanding Voting Stock (other than directors' qualifying shares or shares required to be owned by other Persons pursuant to applicable law) is owned directly or indirectly by Paramount or any other Wholly Owned Restricted Subsidiary.

## **CONSOLIDATING SUMMARY FINANCIAL INFORMATION**

The tables below contain consolidating summary financial information for the years ended December 31, 2009 and 2008 and the nine months ended September 30, 2010 and 2009 for (i) the Company, (ii) the Guarantors on a combined basis, (iii) the Company's subsidiaries, other than the Guarantors, on a combined basis, and (iv) the Company and all of its subsidiaries on a consolidated basis. Such summary financial information for the Company,

the Guarantors and all other subsidiaries is intended to provide investors with meaningful and comparable financial information about the Company and its subsidiaries. This summary financial information is derived from and should be read in conjunction with the audited consolidated financial statements of the Company as at and for the years ended December 31, 2009 and 2008 and the unaudited consolidated financial statements of the Company as at and for the nine months ended September 30, 2010 and 2009 which are incorporated by reference in the Prospectus and this prospectus supplement.

**As at and for the year ended December 31, 2009 and 2008<sup>(1)</sup>**

(thousands of dollars)	Company <sup>(2)</sup>		Guarantors (combined)		Subsidiaries of the Company other than the Guarantors		Consolidating Adjustments <sup>(3)</sup>		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Revenues	-	-	146,289	304,401	-	-	-	-	146,289	304,401
Net earnings (loss)	(97,884)	(116,623)	21,805	130,213	14,052	11,038	(35,857)	(141,251)	(97,884)	(116,623)
Current assets	77,845	42,732	47,331	73,715	9,865	12,505	(13,827)	(12,151)	121,214	116,801
Non-current assets	3,208,122	3,165,012	2,924,713	2,911,080	443,177	501,769	(5,595,251)	(5,550,105)	980,761	1,027,756
Current liabilities	30,379	14,276	38,902	78,021	29,947	1,757	(12,245)	(9,843)	86,983	84,211
Non-current liabilities	2,482,678	2,414,981	325,714	348,251	408,714	476,925	(2,975,024)	(2,958,298)	242,082	281,859

**As at and for the nine months ended September 30, 2010 and 2009<sup>(1)</sup>**

(thousands of dollars)	Company <sup>(2)</sup>		Guarantors (combined)		Subsidiaries of the Company other than the Guarantors		Consolidating Adjustments <sup>(3)</sup>		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues	-	-	132,293	104,466	-	-	-	-	132,293	104,466
Net earnings (loss)	(46,942)	(51,426)	41,907	36,756	2,054	9,049	(43,961)	(45,805)	(46,942)	(51,426)
Current assets	3,014		47,371		13,219		(6,949)		56,655	
Non-current assets	3,414,739		3,028,165		437,960		(5,754,509)		1,126,355	
Current liabilities	39,129		30,286		28,846		(5,368)		92,893	
Non-current liabilities	2,620,222		343,927		403,251		(3,035,685)		331,715	

**Notes:**

- (1) The information in this table has been prepared in accordance with securities regulatory requirements and has not been audited or the subject of a review by the Company's auditor.
- (2) This column accounts for investments in all subsidiaries of the Company under the equity method.
- (3) This column includes the necessary amounts to eliminate the intercompany balances between the Company, the Guarantors and other subsidiaries to arrive at the information for the Company on a consolidated basis.
- (4) The Company had no discontinued operations for the periods indicated. Accordingly, its net earnings (loss) were the same as its income from continuing operations.

## MARKET FOR SECURITIES

There is no market through which the Notes may be sold and purchasers may not be able to resell Notes purchased under this prospectus supplement. This may affect the pricing of the Notes in the secondary market, the transparency and availability of trading prices, the liquidity of the Notes and the extent of issuer regulation.

Paramount's outstanding Common Shares are traded on the Toronto Stock Exchange (the "TSX") under the trading symbol "POU". For the month of October, 2010, the Common Shares traded at a high of \$20.89, a low of \$19.62 and had a trading volume of 901,758. For the period of November 1, 2010 to November 19, 2010, the Common Shares traded at a high of \$24.60, a low of \$20.07 and had a trading volume of 977,721. Trading information for the latter part of 2009 and the rest of 2010 is in the Prospectus under the heading "Price Range and Trading Volume".

## RISK FACTORS

An investment in Notes involves certain risks, not all of which are described in the Prospectus and this prospectus supplement. A potential purchaser should also carefully consider the risks described under "Risk Factors" in the current Annual Information Form of the Company, any current annual or interim financial statements and associated Management's Discussion and Analysis of the Company, and any other documents incorporated by reference in the Prospectus or this prospectus supplement (which risk factors are incorporated by reference herein), as well as the other information contained or incorporated by reference in the Prospectus and this prospectus supplement. In addition, a potential purchaser should consult their own financial and legal advisors, and should carefully consider, among other matters, the following discussion of risks before deciding whether to purchase Notes. Capitalized

terms used below that are not defined below have the meanings given to them elsewhere in the prospectus supplement including the "Description of the Notes" section.

***There are risks relating to the unsecured nature of the Notes.***

The Notes will be unsecured obligations of the Company and will rank equally in right of payment (except as to sinking funds and as to claims preferred by operation of law) with all other existing and future unsecured obligations of the Company. The Notes will be effectively subordinated to all existing and future secured obligations of the Company to the extent of the assets securing such obligations. If the Company is involved in any bankruptcy, dissolution, liquidation or reorganization, the secured debt holders would, to the extent of the value of the assets securing the secured debt, be paid before the holders of the Notes. In that event, a holder of Notes may not be able to recover any principal or interest due to it under the Notes.

***The Notes will be effectively junior in right of payment to certain obligations of Paramount's partnerships and subsidiaries.***

Paramount is predominantly a holding company and the majority of its operations are conducted by its directly and indirectly wholly-owned subsidiaries and partnerships. Paramount must rely upon partnership distributions, dividends and other payments from its subsidiaries to generate the funds necessary to pay the principal of and interest on the Notes. The ability of Paramount's directly and indirectly wholly-owned subsidiaries and partnerships to pay partnership distributions, dividends and other payments to Paramount may be restricted by, among other things, the availability of cash flows from operations, contractual restrictions in Paramount's debt instruments, including Paramount's secured credit facility, applicable corporate and other laws and other agreements of Paramount's subsidiaries. In the event of a bankruptcy, liquidation or reorganization of the Company, holders of the Company's indebtedness (including holders of Notes) may become subordinate to lenders to the Company's subsidiaries, except to the extent that guarantees are provided and enforced.

Only the directly and indirectly wholly-owned subsidiaries and partnerships of Paramount identified as Guarantors under "Description of the Notes" will provide a Guarantee pursuant to which holders of Notes will be entitled to seek redress from such subsidiaries and partnerships. These Guarantees are intended to eliminate structural subordination which arises as a consequence of a significant portion of the Company's consolidated operating assets being held in various subsidiaries and partnerships. Although the Guarantors will provide a Guarantee, not all of the Company's subsidiaries and partnerships will provide such a guarantee. In addition, there can be no assurance that holders of Notes will be able to effectively enforce the Guarantee. See "Description of the Notes".

***Paramount's Coverage Ratios.***

See "Earnings Coverage Ratios" which is relevant to an assessment of the risk that Paramount will be unable to pay interest on the Notes when due.

***Market value of the Notes will fluctuate as prevailing interest rates change.***

Prevailing interest rates will affect the market value of the Notes, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value of the Notes, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

***Lack of a trading market for the Notes.***

There is no market through which the Notes may be sold and purchasers may not be able to resell Notes purchased under this prospectus supplement. This may affect the pricing of the Notes in the secondary market, the transparency and availability of trading prices, the liquidity of the Notes and the extent of issuer regulation.

If the Notes are traded after their initial issuance, they may trade at a discount from their initial public offering price depending on prevailing interest rates, the market for similar securities, Paramount's performance and other factors. No assurance can be given as to whether an active trading market will develop or be maintained for the Notes. To

the extent that an active trading market for the Notes does not develop, the liquidity and trading prices for the Notes may be adversely affected.

***Paramount may not be able to finance an offer to purchase the Notes following a Change of Control as required by the Indenture because Paramount may not have sufficient funds at the time of the Change of Control.***

If Paramount experiences a Change of Control, Paramount may be required to make an offer to repurchase all of the Notes prior to their maturity. Paramount may not have sufficient funds or be able to arrange for additional financing at the time of the Change of Control to make the required repurchase of the Notes. There is no sinking fund with respect to the Notes.

***The Guarantors may be released upon the occurrence of certain events.***

A Guarantor will be automatically released from its Guarantee upon the occurrence of certain events, including the following:

- the designation of such Guarantor as an Unrestricted Subsidiary;
- the release or discharge of all guarantees of the Indebtedness of the Company or another Restricted Subsidiary granted by such Guarantor, including the release or discharge of any guarantee of Indebtedness that resulted in the creation of the Guarantee; or
- the sale or other disposition, including the sale of all or substantially all of the assets, of such Guarantor or the sale or issuance of a majority of the shares of such Guarantor to a third party.

If any such Guarantee is released, no holder of Notes will have a claim as a creditor against any such former Guarantor and the indebtedness and other liabilities, including trade payables and preferred stock, if any, whether secured or unsecured, of such former Guarantor will be effectively senior to the claim of any holders of the Notes. See "Description of the Notes".

***Credit ratings may not reflect all risks of an investment in the Notes and may change.***

Credit ratings may not reflect all risks associated with an investment in the Notes. Any credit ratings applied to the Notes are an assessment of the Company's ability to pay its obligations. Consequently, real or anticipated changes in the credit ratings will generally affect the market value of the Notes. The credit ratings, however, may not reflect the potential impact on the value of the Notes of risks related to structure, market or other factors discussed in this prospectus supplement, the Prospectus or the documents incorporated by reference in the Prospectus. The Company is under no obligation to maintain any credit rating with credit rating agencies and there is no assurance that any credit rating assigned to the Notes will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering, withdrawal or failure to maintain any credit ratings applied to the Notes may have an adverse effect on the market price or value and the liquidity of the Notes.

***Canadian bankruptcy and insolvency laws may impair the Trustee's ability to enforce remedies under the Notes.***

The rights of the Trustee to enforce remedies could be delayed by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to Paramount. For example, both the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada) contain provisions enabling an insolvent person to obtain a stay of proceedings against its creditors and to file a proposal to be voted on by the various classes of its affected creditors. A restructuring proposal, if accepted by the requisite majorities of each affected class of creditors, and if approved by the relevant Canadian court, would be binding on all creditors within each affected class, including those creditors that did not vote to accept the proposal. Moreover, this legislation, in certain instances, permits the insolvent debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place. The powers of the court under the *Bankruptcy and Insolvency Act* (Canada), and particularly under the *Companies' Creditors Arrangement Act* (Canada), have been interpreted and exercised broadly so as to protect a

restructuring entity from actions taken by creditors and other parties. Accordingly, Paramount cannot predict whether payments under the Notes would be made during any proceedings in bankruptcy, insolvency or other restructuring, whether or when the Trustee could exercise its rights under the Indenture or whether and to what extent holders of the Notes would be compensated for any delays in payment, if any, of principal, interest and costs, including the fees and disbursements of the respective trustees.

***Applicable statutes allow courts, under specific circumstances, to void the Guarantees of certain of the Guarantors.***

Paramount's creditors or the creditors of one or more Guarantors could challenge the Guarantees as a fraudulent transfer, conveyance or preference or on other grounds under applicable Canadian federal or provincial law or United States federal or state law, as applicable. While the relevant laws vary from one jurisdiction to another, the entering into of the Guarantees by certain Guarantors could be found to be a fraudulent transfer, conveyance or preference or otherwise void if a court were to determine that:

- the Guarantor delivered its Guarantee with the intent to defeat, hinder, delay or defraud its existing or further creditors;
- the Guarantor did not receive fair consideration for the delivery of the Guarantee; or
- the Guarantor was insolvent at the time it delivered the Guarantee.

To the extent a court voids a Guarantee as a fraudulent transfer, preference or conveyance or holds it unenforceable for any other reason, holders of Notes would cease to have any direct claim against the Guarantor. If a court were to take this action, the Guarantor's assets would be applied first to satisfy the Guarantor's liabilities, including trade payables and preferred stock claims, if any, before any portion of its assets could be distributed to Paramount to be applied to the payment of the Notes. If a court were to conclude that the Guarantee should be subordinated for equitable reasons to claims of other creditors of a Guarantor, then those other creditors must be satisfied before any portion of the assets of that Guarantor would be available to satisfy the Guarantee. Paramount cannot assure you that a Guarantor's remaining assets would be sufficient to satisfy the claims of the holders of the Notes relating to any voided portions or subordinated portions of the Guarantees.

In addition, the corporate statutes or other instruments governing the Guarantors may also have provisions that serve to protect each Guarantor's creditors from impairment of its capital from financial assistance given to its corporate insiders where there are reasonable grounds to believe that, as a consequence of this financial assistance, the Guarantor would be insolvent or the book value, or in some cases the realizable value, of its assets would be less than the sum of its liabilities and its issued and paid-up share capital. While the applicable corporate laws may not prohibit financial assistance transactions and a corporation is generally permitted flexibility in its financial dealings, the applicable corporate laws may place restrictions on each Guarantor's ability to give financial assistance in certain circumstances. A court may also, in certain circumstances, hold that the Guarantees should be subordinated for equitable reasons to claims of other creditors of a Guarantor.

#### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Macleod Dixon LLP, counsel to Paramount, and Burnet, Duckworth & Palmer LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "Tax Act") generally applicable to a purchaser who acquires Notes offered hereby (a "holder") and who, at all relevant times for purposes of the Tax Act deals at arm's length with, and is not affiliated with, Paramount and holds Notes as capital property.

The Notes will generally be considered to be capital property for this purpose to a holder unless either the holder holds such securities in the course of carrying on a business, or the holder has held or acquired such Notes in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain holders who are resident in Canada for the purposes of the Tax Act and whose Notes might not otherwise be capital property, may, in certain circumstances, be entitled to have the Notes and all other "Canadian securities", as defined in the Tax Act,

owned by such holder in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a holder (i) that is a "financial institution" for purposes of the "mark-to-market" rules, (ii) an interest in which is a "tax shelter investment", or (iii) that has elected to report its "Canadian tax results" in a currency other than the Canadian currency, all as defined under the Tax Act. Such holders should consult with their own tax advisors.

This summary is based upon the current provisions of the Tax Act, the regulations promulgated thereunder (the "Regulations") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary also takes into account all specific proposals to amend the Tax Act and the Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Tax Proposals"), and assumes that all such Tax Proposals will be enacted in the form proposed. No assurance can be given that the Tax Proposals will be enacted as proposed or at all. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in law or administrative policy or assessing practice, whether by way of legislative, judicial, regulatory or administrative action or interpretation, nor does it address any provincial or territorial tax considerations.

**The following summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor and no representation with respect to the tax consequences to any particular investor is made. Accordingly, prospective investors should consult with their own tax advisors for advice with respect to the income tax consequences to them of purchasing, holding or disposing of the Notes having regard to their own particular circumstances.**

#### **Residents of Canada**

This portion of the summary is applicable to a holder that, at all relevant times for purposes of the Tax Act, is (or is deemed to be) resident in Canada (a "Resident Holder").

#### ***Taxation of Interest on the Notes***

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will generally be required to include in computing its income for a taxation year the amount of interest that accrues or is deemed to accrue on the Notes to the end of the taxation year or that becomes receivable or is received by it before the end of that year, to the extent such amounts have not otherwise been included in such Resident Holder's income for the year or a preceding taxation year.

Any other Resident Holder, including an individual or a trust (other than trusts described in the preceding paragraph), will be required to include in income for a taxation year any interest on the Notes received or receivable by such Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income) except to the extent that such amount was otherwise included in the Resident Holder's income for the year or a preceding taxation year.

Any premium paid by Paramount to a Resident Holder on the redemption of a Note, or a purchase for cancellation (other than in the open market in the manner any such obligation would normally be purchased in the open market by any member of the public), will generally be deemed to be received by such Resident Holder as interest on the Note and will be required to be included in computing the Resident Holder's income, as described above, at the time of the redemption or purchase for cancellation to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of the redemption or purchase for cancellation of, the interest that, but for the redemption or purchase for cancellation, would have been paid or payable by Paramount on the Note for a period ending after the redemption or purchase for cancellation.

### ***Sale, Redemption or Repayment of the Notes***

In general, a disposition or a deemed disposition of a Note, including a redemption, purchase for cancellation or payment on maturity, will give rise to a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Notes to the Resident Holder immediately before the disposition or deemed disposition. For this purpose, a Resident Holder's proceeds of disposition in respect of a Note will exclude any amount of interest that accrued (or is deemed to have accrued) to the Resident Holder to the time of disposition, but that is not payable until after the time of disposition, or other amount that is required to be so included in income as interest, all as described above under "Taxation of Interest on the Notes", unless such amount was otherwise already included in computing the Resident Holder's income for the year or a preceding taxation year. Any such capital gain (or capital loss) will be subject to the treatment described under the heading "Taxation of Capital Gains and Capital Losses" below.

On a disposition or deemed disposition of a Note, including a payment on maturity, redemption or purchase for cancellation of a Note, a Resident Holder generally will be required to include in computing income the amount of interest accrued on the Note from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in computing the Resident Holder's income for the taxation year or a previous taxation year.

### ***Taxation of Capital Gains and Capital Losses***

In general, one-half of any capital gain (a "taxable capital gain") realized by a holder in a taxation year will be included in such holder's income in the year. One-half of the amount of any capital loss ("allowable capital loss") realized by a holder in a taxation year will be deducted from taxable capital gains realized by the holder in the year and allowable capital losses in excess of taxable capital gains may be deducted in any of the three preceding taxation years or in any subsequent year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

### ***Refundable Tax***

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 62/3% on certain investment income, including amounts in respect of interest and taxable capital gains.

### ***Alternative Minimum Tax***

A capital gain realized by an individual or trust (other than certain specified trusts) may be relevant for the purposes of calculating liability for alternative minimum tax.

### ***Non-Residents of Canada***

The following discussion summarizes the principal Canadian federal income tax considerations applicable to a holder that: (i) at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, is neither resident nor deemed to be resident in Canada; (ii) does not and is not deemed to use or hold the Notes in carrying on business in Canada; and (iii) does not carry on an insurance business in Canada and elsewhere (a "Non-Resident holder").

Special rules, which are not discussed below, may apply to a Non-Resident holder who is an insurer that carries on business in Canada and elsewhere. In addition, this summary may not apply to a Non-Resident Holder in respect of a disposition of a Note to a holder resident or deemed to be resident in Canada for the purposes of the Tax Act with whom the Non-Resident Holder does not deal with at arm's length. Non-Resident holders to whom this paragraph may apply should consult their own tax advisors.

### *Taxation of Interest on Notes*

A Non-Resident holder will not be subject to Canadian withholding tax in respect of amounts paid or credited by the Company as, on account or in lieu of payment of, or in satisfaction of, interest, principal or premium on the Notes.

### *Disposition of Notes*

A Non-Resident holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident holder on a disposition or deemed disposition of a Note.

## **PLAN OF DISTRIBUTION**

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated •, 2010 between Paramount and the Underwriters, Paramount has agreed to sell, and the Underwriters have severally agreed to purchase, \$• principal amount of Notes at par plus accrued interest, if any, from •, 2010 to the date of closing. The Underwriting Agreement provides that Paramount will pay the Underwriters a fee equal to 2% of the gross proceeds from the sale of the Notes for the services of the Underwriters in connection with the offering and sale of the Notes. The terms and price of the Notes were established through negotiation between Paramount and Scotia Capital Inc., on behalf of the Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint or joint and several and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated on the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Notes if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that Paramount will indemnify the Underwriters and their directors, officers, agents, shareholders, employees and affiliates against certain liabilities and expenses.

Paramount has agreed with the Underwriters that it will not issue or sell Notes or any other senior unsecured notes (or agree to do so or publicly announce any intention to do so) other than pursuant to the Underwriting Agreement at any time prior to 60 days after the issuance of the Notes offered pursuant to this prospectus supplement, unless Paramount has obtained the prior written consent of Scotia Capital Inc., on behalf of the Underwriters.

Pursuant to applicable securities legislation, the Underwriters may not, throughout the period of distribution under this prospectus supplement, bid for or purchase any Notes. The foregoing restriction is subject to exceptions, provided the bid or purchase is not engaged in for the purpose of creating actual or apparent trading in, or raising the price of, the Notes. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to, among other things, market stabilization and passive market-making activities. In connection with the offering of Notes hereunder, and subject to the foregoing, the Underwriters may effect transactions which stabilize or maintain the market price of the Notes at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Subscriptions for the Notes will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on or about • or on such other date as Paramount and the Underwriters may agree but, in any event, not later than • and that Notes will be available for delivery in book-entry form only through the facilities of CDS Clearing and Depository Services Inc. on or about the date of closing of the offering. Purchasers of Notes will not have the right to receive physical certificates evidencing their ownership of Notes.

There is currently no public market for the Notes. The Company does not intend to apply for listing of the Notes on any national securities exchange or for quotation of the Notes on any automated dealer quotation system. The Company has been advised by the Underwriters that they presently intend to make a market in the Notes after the completion of the offering. However, they are under no obligation to do so and may discontinue market making activities at any time without notice. The Company cannot assure the liquidity of any trading market for the Notes

or that an active public market for the Notes will develop. If any active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

The Notes offered under this prospectus supplement have not been and will not be registered under the U.S. Securities Act or any state securities laws. Accordingly, the Notes may not be offered or sold within the United States (as such term is defined in Regulation S to the U.S. Securities Act), except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriters have agreed in the Underwriting Agreement that they will not offer for purchase or sale, sell or otherwise transfer or dispose of any of the Notes (or any right thereto or interest therein) into the United States, except in transactions pursuant to Rule 144A of the U.S. Securities Act and otherwise exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements under the U.S. Securities Act.

### **EARNINGS COVERAGE RATIOS**

The following earnings coverage ratios have been calculated on a consolidated basis and are derived from audited financial information in the case of the year ended December 31, 2009 and unaudited financial information in the case of the twelve month period ended September 30, 2010.

Interest on the Company's long-term debt and total debt for the twelve month period ended September 30, 2010 was \$10.5 million and \$11.9 million, respectively. The Company's earnings (loss), before deduction of interest and income tax, for the twelve month period ended September 30, 2010 was \$(147.4) million. The Company's earnings (loss) would not have been sufficient to cover interest charges on the Company's long-term debt for the twelve month period ended September 30, 2010 by \$157.9 million. The Company's earnings (loss) would not have been sufficient to cover interest charges on the Company's total debt for the twelve month period ended September 30, 2010 by \$159.3 million.

The following earnings coverage ratios: (i) give effect to the issuance of the Notes pursuant to this prospectus supplement and the purchase and/or redemption of all US Notes not held by NoteCo; (ii) do not purport to be indicative of earnings coverage ratios for any future periods; and (iii) have been calculated based on financial information prepared in accordance with Canadian GAAP.

After giving pro forma effect to the events described above, interest on the Company's long-term debt and total debt for (i) the year ended December 31, 2009 would have been \$• million and \$• million, respectively, and (ii) the twelve month period ended September 30, 2010 would have been \$• million and \$• million, respectively. The Company's earnings (loss), before deduction of interest and income tax, for the year ended December 31, 2009 was \$(141.3) million and for the twelve month period ended September 30, 2010 was \$(147.4) million. The Company's earnings (loss) would not have been sufficient to cover interest charges on the Company's long-term debt for the year ended December 31, 2009 by \$• million and for the twelve month period ended September 30, 2010 by \$• million. The Company's earnings (loss) would not have been sufficient to cover interest charges on the Company's total debt for the year ended December 31, 2009 by \$• million and for the twelve month period ended September 30, 2010 by \$• million.

Since the Company had a loss for each of the year ended December 31, 2009 and the twelve month period ended September 30, 2010, the actual and pro forma earnings coverage ratios would be negative and therefore are not provided.

### **RELATIONSHIP BETWEEN THE COMPANY AND CERTAIN UNDERWRITERS**

Each of Scotia Capital Inc., BMO Nesbitt Burns Inc. and • are direct or indirect wholly owned subsidiaries of Canadian chartered banks that are lenders to the Company (the "Lenders") and to which Paramount is indebted

pursuant to its secured credit facility. See note 2 under "Consolidated Capitalization" for a description of the secured credit facility. The Company's indebtedness under its secured credit facility totalled approximately \$111.3 million as at September 30, 2010. The Company may be considered to be a "connected issuer" of such Underwriters for the purposes of securities regulations in certain provinces. Paramount is in compliance with all material terms of the agreement governing such credit facility and has not been in default or otherwise in breach of such agreement since its execution. The credit facility is secured by security interests over Paramount's assets. Neither Paramount's financial position nor the value of the security under the credit facility has changed substantially since the indebtedness under the credit facility was incurred. The decision to distribute the Notes hereby and the determination of the terms of the distribution were made through negotiations between Paramount and Scotia Capital Inc., on its own behalf and on behalf of the other Underwriters. The Lenders did not have any involvement in such decision or determination; however, the Lenders have been advised of the issuance and terms thereof. As a consequence of this offering, such Underwriters will receive their respective share of the Underwriters' fee payable by the Company to the Underwriters. Some of the proceeds of this offering will be applied to amounts owing under the secured credit facility. See "Use of Proceeds".

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Macleod Dixon LLP and Burnet Duckworth & Palmer LLP, provided the shares of Paramount are listed on a designated stock exchange (which currently includes the Toronto Stock Exchange) on the date of closing, the Notes offered hereby will, on the date of closing, be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (other than deferred profit sharing plans to which Paramount or a person with whom Paramount does not deal at arm's length within the meaning of the Tax Act made contributions), registered education savings plans, registered disability savings plans and tax free savings accounts.

Notwithstanding the foregoing, a holder of Notes will be subject to a penalty tax if the Notes are held in a tax-free savings account and are a "prohibited investment" for the tax-free savings account under the Tax Act. However, the Notes will not be prohibited investments for a tax-free savings account held by a particular holder provided the holder deals at arm's length with Paramount for the purposes of the Tax Act, and does not have a "significant interest" (as defined in the Tax Act) in either Paramount or a person or partnership that does not deal at arm's length with Paramount for purposes of the Tax Act. Holders should consult their own tax advisors as to whether the Notes will be a prohibited investment in their particular circumstances.

### **LEGAL MATTERS**

Certain legal matters in connection with the Notes offered hereby will be passed upon on behalf of the Company by Macleod Dixon LLP, Calgary, Alberta and on behalf of the Underwriters by Burnet, Duckworth & Palmer LLP, Calgary, Alberta. As of the date hereof, the partners and associates of each of Macleod Dixon LLP and Burnet, Duckworth & Palmer LLP beneficially own, directly or indirectly, less than 1% of the securities of Paramount, respectively.

### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus, the accompanying prospectus supplement relating to securities purchased by a purchaser and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, or revision of the price or damages are exercised by the purchaser within the time limit prescribed by the applicable provisions of the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

**CERTIFICATE OF THE GUARANTORS**

Dated: •, 2010

The short form prospectus of the Company dated October 29, 2010, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and this supplement as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia.

**PARAMOUNT RESOURCES, by its Managing Partner  
PARAMOUNT RESOURCES LTD.**

Chief Executive Officer

Chief Financial Officer

On behalf of the Board of Directors

Director

Director

**SUMMIT RESOURCES CORP.**

Chief Executive Officer

Chief Financial Officer

On behalf of the Board of Directors

Director

Director

**SUMMIT RESOURCES, INC.**

Chief Executive Officer

Chief Financial Officer

On behalf of the Board of Directors

Director

Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: •, 2010

To the best of our knowledge, information and belief, the short form prospectus of the Company dated October 29, 2010, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia.

**Scotia Capital Inc.**

**BMO Nesbitt Burns Inc.**

By:

By:

•

By: