Paramount resources ltd.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2011

March 6, 2012

TABLE OF CONTENTS

Page

INTRODUCTORY INFORMATION

In this annual information form, unless otherwise specified or the context otherwise requires, reference to "Paramount" or to the "Company" includes reference to subsidiaries and partnerships directly and indirectly owned by Paramount Resources Ltd.

Unless otherwise indicated, all financial information included in this annual information form is determined using International Financial Reporting Standards ("IFRS"). Paramount's audited consolidated financial statements as at and for the year ended December 31, 2011 can be found under the Company's profile on the SEDAR website at www.sedar.com.

This annual information form contains disclosure expressed as "Boe" (barrels of oil equivalent), "MBoe" (thousands of barrels of oil equivalent), "MMBoe" (millions of barrels of oil equivalent), "Boe/d" (barrels of oil equivalent per day), "Bbl" (barrels), "MBbl" (thousands of barrels), "Bbl/d" (barrels per day), "Mcfe" (thousands of cubic feet equivalent), "Mcf" (thousands of cubic feet), "MMcf" (millions of cubic feet), "Bcf" (billions of cubic feet), "MMcf/d" (millions of cubic feet per day), and "MMBtu" (millions of British thermal units). The term "liquids" is used to represent oil, natural gas liquids ("NGLs") and condensate. The term "liquids rich" is used to represent natural gas streams with associated liquids volumes. All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For fiscal 2011, the value ratio between crude oil and natural gas was approximately 23:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars and all references to "dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars.

NOTE REGARDING FORWARD-LOOKING STATEMENTS AND ADVISORIES

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "expect", "plan", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward looking information in this document includes, but is not limited to:

- expected production volumes and the timing thereof;
- planned exploration and development expenditures and the timing thereof;
- exploration and development plans and strategies and the anticipated costs and results thereof;
- budget allocations and capital spending flexibility;
- adequacy of facilities to process natural gas and liquids production;
- the scope and timing of proposed new facilities and expansions to existing facilities and the expected capacity and utilization of such facilities;
- 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);
- planned repayment of debt;
- the timing of the anticipated development of Paramount's oilsands, carbonate, and shale gas assets;
- ability to fulfill natural gas production and pipeline transportation commitments;
- future taxes payable or owing;
- the potential outcome of any legal claims, audits, assessments or other regulatory matters or proceedings;
- undeveloped land lease expiries;
- timing and cost of future abandonment and reclamation;
- business strategies and objectives;
- sources of and plans for financing;
- acquisition and disposition plans;
- operating and other costs and royalty rates;
- regulatory applications and the anticipated timing, results and scope thereof; and
- expected drilling programs well tie-ins, facility construction and expansions, completions and the timing thereof.

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 document:

- future oil and gas prices and general economic, business, and market 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 processing, transportation, and storage capacity;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- currency exchange and interest rates; and
- well economics relative to other projects.

Although Paramount believes that the expectations reflected in such forward looking information is reasonable, undue reliance should not be placed on it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on 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. The material risks and uncertainties include, but are not limited to:

- fluctuations in crude oil, natural gas, and natural gas liquids 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 capacity;
- 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;
- changes in environmental laws including emission reduction obligations;
- the timing of governmental or regulatory approvals;
- potential title defects affecting Paramount's properties;
- 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;
- cleanup costs or business interruptions due to environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions;
- general economic, business and market conditions; and
- other risks and uncertainties described elsewhere in this document.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "RISK FACTORS" in this annual information form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

CORPORATE STRUCTURE

Paramount was incorporated under the *Business Corporations Act* (Alberta). Paramount's head and registered office is located at Suite 4700, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5. Paramount's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "POU".

Paramount has two main operating subsidiaries, Paramount Resources and Summit Resources, Inc. ("Summit"). Paramount Resources is an Alberta general partnership directly and indirectly wholly-owned by Paramount. Summit is a wholly-owned subsidiary incorporated under the laws of Montana, through which Paramount operates its United States assets. Paramount's remaining subsidiaries and partnerships did not have assets or sales and operating revenues which, in the aggregate, exceeded 20 percent of the total consolidated assets or total consolidated sales and operating revenues of Paramount as at and for the year ended December 31, 2011.

GENERAL DEVELOPMENT OF THE BUSINESS

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas, crude oil and natural gas liquids. The Company commenced operations as a public company on December 18, 1978, with an initial public offering that raised $4.7 million and a share exchange with a private company, Paramount Oil & Gas Ltd., for certain crude oil and natural gas assets with a book value of $341,000. Paramount has adapted to a multitude of operating climates over the years, and has grown into a company with a market capitalization of approximately $3.1 billion as of March 5, 2012. In addition, Paramount has spun-out three public entities: (i) Paramount Energy Trust in February, 2003 (Paramount Energy Trust subsequently converted to Perpetual Energy Inc.); (ii) Trilogy Energy Trust in April, 2005 (Trilogy Energy Trust subsequently converted to Trilogy Energy Corp.); and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. A reference herein to "Trilogy" refers to either Trilogy Energy Trust before the conversion or Trilogy Energy Corp. after the conversion, as the context requires.

Paramount has divided its operations into three business segments established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount's Principal Properties are divided into four Corporate Operating Units ("COUs") as follows:

- the Kaybob COU (or "Kaybob"), which includes properties in West Central Alberta;
- the Grande Prairie COU (or "Grande Prairie"), which includes properties in the Peace River Arch area of Alberta;
- the Southern COU (or "Southern"), which includes properties in Southern Alberta, Saskatchewan, Montana and North Dakota; and
- the Northern COU (or "Northern"), which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.

Strategic Investments include: (i) investments in other entities, including affiliates; (ii) investments in exploration and development stage assets where there is no near-term expectation of production or revenue, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation, including oil sands and carbonate resources held by Paramount's wholly-owned subsidiary, Cavalier Energy Inc. and prospective shale gas acreage; and (iii) drilling rigs owned by Paramount's wholly-owned subsidiaries Fox Drilling Inc. ("Fox Drilling") in Canada and Paramount Drilling U.S., LLC ("Paramount Drilling") in the United States.

The Corporate segment is comprised of income and expense items, including general and administrative expense and interest expense, which have not been specifically allocated to Principal Properties or Strategic Investments.

Set forth below is a brief description of the events that have influenced the general development of Paramount's business over the past three fiscal years.

2009

In 2009, Paramount purchased for cancellation 1,623,900 Common Shares pursuant to a normal course issuer bid that was approved by the TSX in November 2008. The total consideration for these purchases was approximately $11.4 million.

During the third quarter of 2009, Paramount's drilling related subsidiaries jointly entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $7.5 million have been made to December 2011. Unless demanded by the bank, annual scheduled principal repayments are $5.1 million in each of 2012 and 2013, with the remaining outstanding balance of $12.6 million payable in 2014. See “2012 UPDATE” below for a description of Drilling Rig Loan II.

During the fourth quarter of 2009, Paramount issued i) 1,000,000 flow-through Common Shares, in respect of Canadian Development Expense, at a price of $16.87 per share for gross proceeds of $16.9 million to a company controlled by Paramount’s Chairman and Chief Executive Officer; ii) 500,000 flow-through Common Shares, in respect of Canadian Exploration Expense, at a price of $18.75 per share for gross proceeds of $9.4 million through a private placement; and iii) 4,500,000 Common Shares at a price of $15.00 per share for gross proceeds of $67.5 million through a public offering. Certain directors, officers and employees of the Company purchased an aggregate 16,500 of the 500,000 Canadian Exploration Expense flow-through Common Shares issued.

2010

On February 5, 2010, Trilogy converted from an income trust structure to a corporate structure, under the name Trilogy Energy Corp., through a business combination with a private company pursuant to an arrangement under the *Business Corporations Act* (Alberta) and related transactions (the “Conversion”). Pursuant to the Conversion, Paramount received, in exchange for its 24,144,335 Trilogy Energy Trust units, 12,755,845 common shares of Trilogy Energy Corp. and 11,388,490 non-voting shares of Trilogy Energy Corp. The non-voting shares are convertible to common shares on a one-for-one basis if: i) beneficial ownership of the non-voting shares are transferred to any person that is not related to or affiliated with Paramount; or ii) Trilogy Energy Corp. exercises its right to convert the non-voting shares to common shares. See “2011” below regarding Paramount’s sale of a portion of its non-voting shares in 2012 pursuant to a secondary offering.

In April 2010, Summit entered into a joint development agreement with a United States exploration and development company in which the US company would carry out a multiple well Bakken horizontal drilling program in order to earn an undivided interest in certain of Summit’s undeveloped Bakken lands in North Dakota. In the fourth quarter of 2011, the US company completed the final well of the program and earned an undivided 50 percent interest in the lands subject to the agreement.

During 2009 and 2010, Paramount purchased 22.9 million Class A shares and 57,444 Class B shares of Redcliffe Exploration Inc. (“Redcliffe”), a public oil and gas company, for approximately $6.4 million. On June 29, 2010, Paramount acquired the remaining 109.9 million issued and outstanding Class A shares of Redcliffe not already owned by Paramount, including 340,000 Class A shares owned by certain officers of Paramount, for cash consideration of $46.2 million. Prior to the acquisition, all of the outstanding Redcliffe Class B shares had been converted into Redcliffe Class A shares at a ratio of 10-to-1, in accordance with the terms of the Redcliffe Class B shares.

During the summer of 2010 MEG Energy Corp. (“MEG”) completed an initial public offering pursuant to which its shares were listed for trading on the TSX. Paramount continues to hold 3.7 million common shares of MEG which were acquired by Paramount in 2007 on the disposition to MEG of certain of its oil sands leases and shut-in and producing natural gas rights in the Surmont area of Alberta.

In November 2010, Paramount completed: (i) a public offering, through a syndicate of underwriters, of 1,100,000 Common Shares issued on a "flow-through" basis, in respect of Canadian Exploration Expense, at a price of $27.25 per share for gross proceeds of $30.0 million; 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 gross proceeds of $29.1 million. The Common Shares issued through the private placement were sold to insiders of Paramount, including companies controlled by Paramount's Chairman and Chief Executive Officer.

On November 10, 2010, Paramount made an offer to purchase all or any portion of the US$90.2 million of 8 ½% senior notes (the "US Notes") not held by Paramount at a price of US$1,002.50 per US$1,000 principal amount outstanding, plus accrued interest (the "Tender Offer"). The Tender Offer closed on December 13, 2010, under which US$64.2 million of the US Notes were purchased. Subsequent to the completion of the Tender Offer, to discharge the indenture governing the US Notes, Paramount cancelled the US$187.6 million principal amount of US Notes held by it, issued a redemption notice in respect of the US$26.0 million principal amount of US Notes not tendered to the Tender Offer, and irrevocably deposited US$26.0 million plus accrued interest with the trustee for the redemption on January 31, 2011 of the remaining US Notes.

On December 13, 2010, Paramount completed a public offering in Canada of $300 million principal amount of 8.25% senior unsecured notes due 2017 (the "2017 Notes") at par. Certain directors and associates, officers, and management of the Company purchased an aggregate of $11.4 million principal amount of the 2017 Notes. The net proceeds were used for the Tender Offer and redemption of the US Notes (described above), the non-permanent repayment of indebtedness under Paramount's credit facility, capital expenditures, and general corporate purposes. The Trust Indenture for the 2017 Notes is available on the SEDAR website.

2011

On February 4, 2011, Paramount sold an additional $70 million principal amount of its 2017 Notes at a premium price of $1,030 per $1,000 principal amount pursuant to a further public offering in Canada. The net proceeds of this offering were used for capital expenditures and general corporate purposes. An entity that is an associate of the Chairman and Chief Executive Officer of the Company purchased an aggregate $1.4 million principal amount of the 2017 Notes. Following this additional issuance, a total of $370 million principal amount of 2017 Notes are outstanding. The First Supplemental Trust Indenture for the additional 2017 Notes sold is available on the SEDAR website.

In April 2011, Paramount completed: (i) a public offering, through a syndicate of underwriters, of 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million; and (ii) a private placement of 150,000 Common Shares issued on a "flow-through" basis, in respect of Canadian Development Expense, at a price of $36.50 per share for gross proceeds of $5.5 million. The Common Shares issued through the private placement were sold to a company controlled by Paramount's Chairman and Chief Executive Officer.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding common shares of ProspEx Resources Ltd. ("ProspEx") not already owned by it for consideration of $64.8 million cash and the issuance by Paramount of 2.0 million Common Shares. Immediately prior to the acquisition, Paramount owned 5.6 million shares of ProspEx.

In June 2011, Paramount renewed its bank credit facility (the "Credit Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The

Credit Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing Drilling Rig Loan I and II (collectively, the “Drilling Rig Loans”) and the Oil Sands Demand Loan (see below). Balances drawn under Tranche B are secured by the pledge of certain of the Company’s equity investments. The maximum amount that Paramount may borrow under the Credit Facility is subject to periodic review, and is dependent upon the Company’s reserves, lenders’ projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors.

In October 2011, Paramount completed a public offering, through a syndicate of underwriters, of 1,450,000 Common Shares and a private placement of 100,000 Common Shares, both on a "flow-through" basis in respect of Canadian Exploration Expense, at a price of $40.50 per share for gross proceeds of $62.8 million. The Common Shares issued through the private placement were sold to companies controlled by Paramount’s Chairman and Chief Executive Officer.

In November 2011, Paramount completed a public offering, through a syndicate of underwriters, of 4,500,000 Common Shares at a price of $34.75 per share for gross proceeds of $156.4 million.

In December 2011, Paramount reorganized its bitumen assets into a new wholly-owned subsidiary, which is now named Cavalier Energy Inc. (“Cavalier”) (see “RESOURCES AND RELATED INFORMATION”). In addition, Cavalier entered into a $21 million demand loan facility in January 2012 with a syndicate of Canadian chartered banks (the "Oil Sands Demand Loan"). The Oil Sands Demand Loan is non-recourse to Paramount and is secured by all the assets of Cavalier, including the oil sands and carbonate bitumen lands.

On December 8, 2011, Paramount entered into an agreement with a syndicate of underwriters, on a bought deal basis, for a secondary offering by Paramount of 5,000,000 non-voting shares of Trilogy at $37.90 per share (“Trilogy Secondary Offering”) for gross proceeds to Paramount of $189.5 million. The offering closed January 5, 2012. Following this transaction, Paramount held approximately 12.8 million common shares and 6.4 million non-voting shares of Trilogy, representing a 16% equity interest in Trilogy.

2012 Update

In January 2012, Paramount’s drilling related subsidiaries entered into a new $30.0 million non-revolving demand loan facility to partially fund the construction of two new triple-sized walking rigs (“Drilling Rig Loan II”). Loan advances on Drilling Rig Loan II are available during the year long construction period (currently undrawn), and unless demanded by the bank and assuming fully drawn by the end of 2012, annual scheduled principal repayments are $3.5 million in 2013, $6.3 million in 2014 to 2016, and the remaining $7.6 in 2017. Interest is payable at the bank’s prime rate or bankers acceptance rate, as selected at the discretion of the Company, plus an applicable margin. Recourse and security for the Drilling Rig Loans is limited to the three existing drilling rigs, the two rigs to be constructed, and take-or-pay drilling contracts guaranteed by Paramount. Certain of Paramount’s subsidiaries are counter parties to the take-or-pay drilling contracts.

During the first quarter of 2012, Summit and Paramount initiated a sales process related to Summit and its United States properties. As at December 31, 2011, Summit accounted for seven percent of Paramount’s proved plus probable reserves and six percent of 2011 production.

NARRATIVE DESCRIPTION OF THE BUSINESS

OVERVIEW

Paramount's Principal Properties are located primarily in Alberta, the Northwest Territories and British Columbia in Canada, and in North Dakota and Montana in the United States. In 2011, approximately 78 percent of the Company's production was natural gas.

The Company's ongoing exploration, development and production activities are designed to establish new reserves of oil and natural gas and increase the productive capacity of existing fields. In order to optimize its capacity and control costs, the Company increases ownership and throughput in existing assets as economic opportunities arise. Paramount strives to maintain a balanced portfolio of opportunities, increasing its working interest in low to medium risk projects and entering into joint venture arrangements on select higher risk/higher return exploration prospects. From time to time, Paramount enhances its exploration, development and production operations through focused acquisitions of petroleum and natural gas assets and companies within established core areas and dispositions of assets in non-core areas.

At December 31, 2011, approximately 91 percent of Paramount's proved and probable natural gas reserves and approximately 58 percent of its proved and probable crude oil and NGLs reserves were located in Alberta, with the balance in Paramount's other operating areas.

PRINCIPAL PROPERTIES

Paramount retained independent qualified reserves evaluators to evaluate and prepare a report on 100 percent of its natural gas, crude oil and NGLs reserves as at December 31, 2011. McDaniel & Associates Consultants Ltd. ("McDaniel") evaluated Paramount's reserves and reported on them in their report (the "McDaniel Report") dated March 6, 2012. Reserves data is discussed below within Paramount's four COUs. The reserves information is disclosed as at December 31, 2011 and is derived from the McDaniel Report. Estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

Kaybob, Alberta

The Kaybob COU operates in West Central Alberta, where its core properties are in the Deep Basin at Musreau, Smoky and Resthaven. The Company has assembled an extensive land holding of 792 (441 net) sections with varying rights to multiple formations from the Cretaceous to the Montney. With well densities of up to eight wells per section per formation forecast to be required to recover these resources, Paramount's Deep Basin land position represents a multi-decade inventory of drilling locations. Paramount is executing a large-scale development on these lands that is expected to significantly increase the Kaybob COU's production volumes. The Company's drilling activities over the past few years have substantially de-risked portions of the Cretaceous Dunvegan and Falher formations on Paramount's lands, which are high pressure, liquids rich, tight gas formations with large reserves potential. With the high liquids content in these formations, these plays continue to be economic despite the current low natural gas price environment. Paramount has also continued the evaluation of its Montney holdings, a deeper horizon in which the Company's initial wells have exhibited higher liquids yields than the Cretaceous zones and are expected to provide higher rates of return despite higher drilling costs related to increased depths. A combination of Cretaceous and Montney opportunities will support the Company's development plans and the construction of deep-cut processing facilities.

Kaybob accounted for approximately 48 percent of Paramount's production for the year ended December 31, 2011. Production in this area averaged 8,361 Boe/d in 2011, comprised of 44.5 MMcf/d of natural gas, 868 Bbl/d of NGLs and 72 Bbl/d of oil. Paramount operates approximately 75 percent of its production in the Kaybob COU. The

Kaybob COU drilled 28 (18.3 net) wells in 2011. As of December 31, 2011, reported reserves in this COU were 17.5 MMBoe of proved reserves that were approximately 86 percent natural gas weighted and 6.5 MMBoe of probable reserves that were approximately 87 percent natural gas weighted.

During the year, the Kaybob COU reached the limit of its available owned capacity, contracted firm service capacity and interruptible processing capacity, which resulted in the temporary shut-in of a number of wells. In mid-December the Company completed construction of its new 45 MMcf/d processing facility at Musreau. A key electrical component within the facility failed shortly after start-up, resulting in the plant having to be shut-down for repairs. Commissioning of the facility is underway, and gas sales are expected to recommence in mid-March.

The Company has assembled a total of 209 (176 net) sections of Montney rights, and has drilled and completed 5 (4.5 net) horizontal wells to date. The first Montney well (0.5 net) was tied-in during 2011 and the company anticipates 2 (2.0 net) Montney wells will be brought on production in the third quarter of 2012.

The Kaybob COU is currently operating four drilling rigs on its Deep Basin properties, and the Company has commissioned the construction of an additional two triple-sized walking rigs to be owned and operated by Paramount's wholly owned subsidiary Fox Drilling, that are expected to drill on the Kaybob lands during the 2012/2013 winter drilling season. The Company plans to drill and complete additional wells throughout 2012 and 2013 in preparation for new processing capacity that will be added during the second half of 2013, and in the interim will produce volumes held behind pipe on interruptible service to maximize value. The Kaybob COU currently anticipates drilling up to 27 (18 net) wells in 2012, including up to 5 (4 net) Montney wells.

Design and procurement of long lead-time equipment has commenced for phase two of the Musreau processing facility, an incremental 200 MMcf/d deep cut liquids extraction facility. Construction is anticipated to begin this fall once regulatory approvals have been obtained. The incremental capacity will be used to process Paramount's natural gas as well as third-party natural gas for a fee. It is anticipated that construction of this second phase will be completed during the second half of 2013 at an estimated cost of $180 million. The addition of deep cut facilities will add significant value to Paramount's natural gas production due to the price premium realized from the extraction and sale of additional NGLs volumes that would otherwise be sold as slightly higher heat content natural gas.

At Smoky, procurement activities relating to the expansion of a non-operated processing plant have also commenced, with orders being placed for long lead-time components. The existing 100 MMcf/d (10 MMcf/d net) facility is being expanded to 300 MMcf/d (60 MMcf/d net) and upgraded to operate as a deep cut liquids extraction facility. Initially, compression capacity for 200 MMcf/d will be installed, with an additional 100 MMcf/d of compression to be added when production volumes warrant the investment, thereby deferring a portion of the capital costs. The expansion is expected to be completed in late-2013.

With the start-up of the first phase of the Musreau plant, Paramount will have 49 MMcf/d of Company owned capacity and 10 MMcf/d of firm-service third-party processing capacity in Musreau-Kakwa. Paramount also has 20 MMcf/d of Company-owned processing capacity in the Resthaven-Smoky area. Throughout 2012 and into 2013, the Company expects to have an aggregate of 79 MMcf/d of Company-owned and third-party firm service capacity and will utilize interruptible service where available until the expansions of the Musreau and Smoky plants are completed. Paramount currently has access to an additional 10 to 12 MMcf/d of interruptible capacity at Musreau-Cutbank.

The Kaybob COU's current and expected future Company-owned and firm-service third-party processing capacity in the Deep Basin is as follows:

Current Capacity	Gross Raw Gas Plant Capacity (MMcf/d)	Net Paramount Raw Gas Plant Capacity (1) (MMcf/d)
Musreau – Operated	45	45
Kakwa – Non-operated	40	4
Musreau-Cutbank – Contracted firm service	10	10
Resthaven – Non-operated	20	10
Smoky Plant – Non-operated	100	10
	215	**79**
Future Additional Capacity		
Musreau Phase II Deep-Cut – Operated	200	200
Smoky-Resthaven Deep-Cut – Non-operated	200	30
	400	**230**
Projected Total Capacity - Year-end 2013	**615**	**309**

(1) Net sales plant capacity will be lower due to shrinkage of natural gas during processing.

Paramount also operates 6 compressor facilities in the Musreau field with working interests ranging from 12 percent to 100 percent. These field compressor facilities transport gas for processing at Paramount's recently constructed Musreau plant and the third-party processing plant where the Company has a firm service processing agreement.

Grande Prairie, Alberta

The Grande Prairie COU operates in the Peace River Arch area of Alberta. Core natural gas producing areas include Valhalla, Karr-Gold Creek and Mirage. The COU's primary crude oil producing property is at Crooked Creek.

Grande Prairie accounted for approximately 20 percent of Paramount's production for the year ended December 31, 2011. Production in this area averaged 3,568 Boe/d in 2011, comprised of 16.0 MMcf/d of natural gas, 505 Bbl/d of NGLs, and 393 Bbl/d of crude oil. The Company operates approximately 72 percent of its production in the Grande Prairie COU. Paramount drilled 22 (15.4 net) wells in Grande Prairie in 2011. As of December 31, 2011, reported reserves in this COU were 5.3 MMBoe of proved reserves that were approximately 77 percent natural gas weighted and 2.7 MMBoe of probable reserves that were approximately 77 percent natural gas weighted.

Valhalla is located approximately 70 km northwest of Grande Prairie. Paramount owns approximately 67 (47 net) sections of land in this area which has multi-zone potential, including in the Montney and Lower Doig formations. The Company's activities at Valhalla accelerated in 2011, with the drilling of 8 (5.7 net) wells and 7 (5.3 net) wells being brought on production. The wells drilled in 2011, which primarily target the Montney formation, have yielded promising results, with significant liquids yields.

A new 10 MMcf/d compression and gathering system was commissioned at Valhalla in the second quarter of 2011. Construction of an expansion to this system to bring total capacity to 28 MMcf/d is near completion and expected to be operational in the second quarter of 2012. Due to capacity constraints 4 (2.2 net) wells have been temporarily shut-in and will be re-started when the expanded compression capacity is available. The Grande Prairie COU plans to drill up to 9 (5 net) operated and non-operated wells at Valhalla in 2012.

At Karr-Gold Creek, located 50 km southwest of Grande Prairie, Paramount has assembled a land position of approximately 180 (148 net) sections. Exploration activities continued on the play during 2011, as the Company worked to optimize recovery systems and increase production from existing wells. Since commencing exploration of Karr-Gold Creek in 2008, the Company has brought 10 (9.7 net) lower Montney horizontal wells on production. To date, the performance of these wells has been below expectations, with current aggregate production averaging approximately 6 MMcf/d. A number of operational challenges in 2011 impacted the Company’s effort to improve well performance, including inconsistent production resulting from multiple unplanned third-party processing interruptions totaling 77 days and delays in the delivery of surface equipment. During 2012, Paramount plans to bring three (3.0 net) lower Montney horizontal wells that were drilled during 2011 onto production and complete a previously drilled horizontal well in a Middle Montney reservoir.

The Company completed expansions to gathering and compression systems at Karr-Gold Creek during the year, with sour gas capacity being increased to 40 MMcf/d and sweet gas capacity of 8 MMcf/d. The sweet development at Karr-Gold Creek has targeted various Deep Basin Cretaceous formations and the Triassic Nikanassin formation, with ten (6.0 net) wells being drilled in 2011 and 9 (6.1 net) wells being placed on production. The sweet compression facility is operating near capacity, with 5 (3.5 net) wells awaiting tie-in. Two (1.5 net) sweet wells are planned to be drilled in 2012.

At Ante Creek, 3 (2.0 net) wells were drilled in 2011 targeting oil from the Montney formation. The first well is producing at approximately 200 Bbl/d (100 Bbl/d net), the maximum currently permitted under regulation, a second well was dry and abandoned and a third well was completed during the first quarter of 2012. The exploration program at Ante Creek has experienced delays due to regulatory issues, production equipment failures and midstream service interruptions. Paramount anticipates developing plans for further activities at Ante Creek once the performance of the latest well is known and the regulatory matters have been successfully resolved.

In addition to the above facilities, Paramount operates five compressor sites at Mirage with an average working interest of 85 percent, two compressors at Wapiti with an average working interest of 30 percent, and a compressor at Goose River. The Company also operates two oil batteries at Mirage, in which Paramount has a 100 percent interest. Paramount's Crooked Creek production is processed at a non-operated facility in which Paramount has an 18 percent interest.

Southern Alberta and USA

The Southern COU operates in Southern Alberta, Saskatchewan, North Dakota and Montana. Core areas in Southern Alberta include the natural gas producing Chain-Craigmyle and Harmattan properties and the oil producing property at Enchant. In the United States the Company’s core oil producing area is in North Dakota, near Medora.

The Southern COU accounted for approximately 20 percent of Paramount's production for the year ended December 31, 2011. Total production in the Southern COU averaged 3,424 Boe/d in 2011, comprised of 10.8 MMcf/d of natural gas, 150 Bbl/d of NGLs, and 1,483 Bbl/d of crude oil. The Company operates approximately 88 percent of its production in Southern. In 2011, the Company drilled 22 (12.0 net) wells in the Southern COU. As of December 31, 2011, reported reserves in this COU were 9.5 MMBoe of proved reserves that were approximately 55 percent natural gas weighted and 3.9 MMBoe of probable reserves that were approximately 64 percent natural gas weighted.

The Company owns and operates one gas plant at Chain-Craigmyle plus several compressors that flow to the plant, two oil batteries in the Enchant area with an average working interest of 60%, and a compression facility in the Ricinus Harmattan area. At the Chain property, 13 (13.0 net) wells were brought on production in 2011 which offset natural declines. The Company does not plan to carry out any natural gas drilling at Chain in 2012 due to the current low natural gas price environment. At Southern’s other Canadian properties, the Company plans to drill up to 9 (7.5 net) oil wells in Harmattan, Enchant, Delia and Pembina in 2012.

During the first quarter of 2012, Paramount closed dispositions of non-core properties at West Pembina, Alberta and Kindersley, Saskatchewan for total proceeds of approximately $50 million. These properties did not have significant production volumes.

During the first quarter of 2012, Summit and Paramount initiated a sales process related to Summit and its United States properties. Of Southern's 3,424 Boe/d of production in 2011, 1,070 Boe/d related to its United States properties, comprised of 997 Bbl/d of oil, 30 Bbl/d of NGLs, and 0.3 MMcf/d of natural gas.

Northern Alberta/Northwest Territories/Northeast British Columbia

The Northern COU's significant properties are located in the Northwest Territories at Cameron Hills and Liard, in Alberta at Bistcho, and in Northeast British Columbia at Birch and Clarke Lake.

Northern accounted for approximately 12 percent of Paramount's production for the year ended December 31, 2011. Production in this area averaged 2,073 Boe/d in 2011, comprised of 10.3 MMcf/d of natural gas, 19 Bbl/d of NGLs, and 343 Bbl/d of crude oil. The Company operates approximately 78 percent of its production in Northern. In 2011, Northern drilled 2 (2.0 net) wells in the Cameron Hills area. As of December 31, 2011, reported reserves in this COU were 4.1 MMBoe of proved reserves that were approximately 79 percent natural gas weighted and 4.4 MMBoe of probable reserves that were approximately 82 percent natural gas weighted.

Paramount owns 60 (60 net) sections of land at Birch that are prospective for liquids-rich natural gas from the Montney formation. The Birch acreage was acquired in 2011 as part of the ProspEx acquisition and through crown land sale purchases. During the third quarter of 2011, Paramount completed its initial exploratory well with promising results, indicating significant liquid yields. The Company has secured limited access to a gathering system and the well will be brought on production in 2012. Two (2.0 net) additional wells were drilled and completed in the first quarter of 2012 and are expected to be tied-in later in the year.

The Northern COU operates one sour gas plant at Bistcho, in which Paramount has a 59 percent interest, which processes gas from both Bistcho and from Cameron Hills in the Northwest Territories, and also operates an oil battery at Cameron Hills, in which Paramount has an 88 percent interest. Natural gas from the Haro property is processed at an approximately 50 percent owned third-party operated compressor station. Natural gas is also compressed and dehydrated at a third-party operated facility in Clarke Lake, British Columbia, in which Paramount has a 25 to 30 percent interest.

STRATEGIC INVESTMENTS

Paramount's Strategic Investments constitute an important component of the value of the Company. As of December 31, 2011, the Company's Strategic Investments included:

i) investments in Trilogy (see below) and MEG and investments in other public and private companies, including MGM Energy;

ii) triple sized drilling rigs which operate under Fox Drilling in Canada and Paramount Drilling in the United States (Fox Drilling and Paramount Drilling are wholly-owned direct and indirect subsidiaries of Paramount);

iii) oil sands leases which are prospective for production from the oil sands or carbonate bitumen reservoirs and are held by Cavalier (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2011" and "RESOURCES AND RELATED INFORMATION"); and

iv) approximately 150,000 (127,000 net) acres which has potential for production from the Besa River shale gas formation in the Horn River and Liard Basins. The Company is in the early stages of evaluating the potential of its acreage in this emerging shale play and has been actively monitoring industry activity. In January 2012, Paramount commenced drilling an initial vertical shale gas evaluation well in the Liard Basin. Once drilling is completed, the Company will evaluate the results and assess future shale gas activity.

Trilogy Energy Corp.

Trilogy is a public Canadian energy company with producing oil and natural gas assets primarily in the Kaybob area of Alberta. As at December 31, 2011 and adjusted for the Trilogy Secondary Offering (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2011"), Paramount owned approximately 12.8 million common shares of Trilogy and 6.4 million non-voting shares of Trilogy, representing approximately 16 percent of Trilogy's equity and approximately 14 percent of the common shares as at such date. Adjusted for the Trilogy Secondary Offering, the market value of Paramount's investment in Trilogy was approximately $719 million as of December 31, 2011, based on the closing market price of Trilogy's shares on the TSX as of that date.

For the year ended December 31, 2011, Paramount accounted for its investment in Trilogy using the equity method. Pursuant to National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), Paramount is required to separately disclose information concerning Trilogy's oil and gas reserves and future net revenue as at December 31, 2011 and certain costs incurred by Trilogy during 2011, based on the Company's equity interest in Trilogy. This information is set out in APPENDIX C – NATIONAL INSTRUMENT 51-101 EQUITY INVESTMENTS DISCLOSURE.

Readers are cautioned that Paramount does not have any direct or indirect interest in, or right to, the reserves or future net revenue of Trilogy disclosed in APPENDIX C nor does Paramount have any direct or indirect obligation in respect of, or liability for, the costs incurred by Trilogy disclosed in APPENDIX C. The Company is a shareholder of Trilogy just like any other shareholder of Trilogy, and, accordingly, the value of the Company's investment in Trilogy is based on the trading price of Trilogy's shares on the TSX.

The attached APPENDIX C has been prepared based solely on publicly disclosed information contained in Trilogy's annual information form dated March 5, 2012. For additional information regarding Trilogy's reserves, properties and costs incurred on such properties, reference should be made to Trilogy's annual information form which is posted on SEDAR (www.sedar.com) and is not incorporated by reference in this annual information form.

RESERVES AND OTHER OIL AND GAS INFORMATION

The reserves information provided below is derived from the McDaniel Report. The evaluation by McDaniel was prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and the reserves definitions contained in NI 51-101.

The following tables set forth information relating to Paramount's working interest share of reserves, net reserves after royalties, and net present values as at December 31, 2011. The reserves are reported using forecast prices and costs. Columns and rows may not add in the following tables due to rounding.

All evaluations of future net revenue are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net revenue shown below is representative of the fair market value of Paramount's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas, crude oil and natural gas liquids reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas, crude oil and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Paramount's Audit Committee, comprised of independent board members, reviews the qualifications and appointment of McDaniel, Paramount's independent qualified reserves evaluator. The Audit Committee also reviews the procedures for providing information to the evaluator. All booked reserves are based upon the McDaniel Report.

Reserves Information

Reserves Data – Forecast Prices and Costs

The following table summarizes Paramount's reserves at December 31, 2011.

	Natural Gas		Light & Medium Crude Oil		Natural Gas Liquids		Total	
Reserves Category	**Gross (Bcf)**	**Net (Bcf)**	**Gross (MBbl)**	**Net (MBbl)**	**Gross (MBbl)**	**Net (MBbl)**	**Gross (MBoe)**	**Net (MBoe)**
Canada								
Proved								
Developed Producing	120.4	112.7	1,930	1,739	2,381	1,712	24,375	22,231
Developed Non-producing	30.6	27.4	241	241	1,128	903	6,469	5,712
Undeveloped	10.5	9.7	-	-	216	183	1,964	1,792
Total Proved	161.5	149.7	2,171	1,980	3,725	2,798	32,808	29,734
Total Probable	82.0	70.5	981	868	1,941	1,352	16,588	13,962
Total Proved plus Probable Canada	243.5	220.2	3,152	2,848	5,665	4,150	49,395	43,697
United States								
Proved								
Developed Producing	0.5	0.4	2,702	2,281	75	63	2,858	2,413
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	0.5	0.4	2,702	2,281	75	63	2,858	2,413
Total Probable	0.1	0.1	719	607	20	17	762	644
Total Proved plus Probable USA	0.6	0.5	3,421	2,888	95	81	3,620	3,057
Total Company								
Total Proved	162.0	150.2	4,874	4,261	3,799	2,861	35,665	32,148
Total Probable	82.1	70.6	1,699	1,475	1,961	1,369	17,349	14,606
Total Proved plus Probable Reserves	244.1	220.7	6,573	5,736	5,760	4,230	53,015	46,754

Net Present Value of Future Net Revenue – Forecast Prices and Costs

The following table summarizes the net present values of future net revenue attributable to Paramount's reserves evaluated at December 31, 2011. The net present values are reported before income tax and after income tax and have been discounted using rates of 0 percent, 5 percent, 10 percent, 15 percent and 20 percent as well as on a net unit value basis at a discount rate of 10 percent before income taxes. Future Net Revenue does not represent fair market value.

	Net Present Value of Future Net Revenues ($ millions)										Unit Value Before Tax Discounted at 10%
	Before Income Tax (discounted at)					After Income Tax [2] (discounted at)					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/Boe**
Canada											
Proved											
Developed Producing	565.3	481.1	420.4	374.8	339.5	565.3	481.1	420.4	374.8	339.5	18.91
Developed Non-producing	147.9	119.5	101.3	88.6	79.4	147.9	119.5	101.3	88.6	79.4	17.73
Undeveloped	33.1	26.7	21.8	18.2	15.2	33.1	26.7	21.8	18.2	15.2	12.19
Total Proved	746.3	627.3	543.5	481.6	434.1	746.3	627.3	543.5	481.6	434.1	18.28
Total Probable	428.7	284.4	204.2	155.3	123.1	428.7	284.4	204.2	155.3	123.1	14.63
Total Proved plus Probable Canada	1,175.1	911.7	747.7	636.9	557.2	1,175.1	911.7	747.7	636.9	557.2	17.11
United States											
Proved											
Developed Producing	109.1	83.6	68.3	58.2	51.0	90.3	72.0	60.2	52.2	46.2	28.31
Developed Non-producing [1]	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	-
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	108.7	83.2	68.0	57.9	50.7	90.1	71.7	60.0	51.9	46.0	28.16
Total Probable	41.9	24.4	16.5	12.3	9.8	24.6	15.0	10.6	8.3	6.9	25.66
Total Proved plus Probable USA	150.5	107.7	84.5	70.2	60.5	114.7	86.7	70.6	60.3	53.0	27.64
Total Company											
Total Proved	855.0	710.5	611.4	539.5	484.9	836.4	699.0	603.5	533.5	480.1	19.02
Total Probable	470.6	308.8	220.7	167.6	132.9	453.4	299.4	214.8	163.6	130.1	15.11
Total Proved plus Probable Reserves	**1,325.6**	**1,019.3**	**832.2**	**707.0**	**617.8**	**1,289.8**	**998.4**	**818.3**	**697.1**	**610.2**	**17.80**

(1) The Company has properties with nil or negligible reserve volumes that have subsurface abandonment costs. In accordance with NI 51-101 and the COGE Handbook, the subsurface abandonment costs have been included in the calculation of the net present value of future net revenues which has resulted in a negative value.

(2) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon. The after income tax value has been prepared on a consolidated basis and considers the business entity level tax situation. The Company's consolidated financial statements for the year ended December 31, 2011 should be consulted for additional information regarding the Company's taxes.

Future Net Revenue – Forecast Prices and Costs

The following table summarizes the total undiscounted future net revenue attributable to Paramount's reserves evaluated at December 31, 2011.

	Reserves Category	
($ millions)	**Proved**	**Proved plus Probable**
Canada		
Revenue	1,392.0	2,205.1
Royalties [1]	164.1	295.4
Operating Costs	402.0	614.6
Development Costs	38.0	75.2
Well Abandonment Costs	41.6	44.9
Future Net Revenue Before Income Tax	746.3	1,175.1
Income Taxes [3]	-	-
Future Net Revenue After Income Tax	746.3	1,175.1
United States		
Revenue	257.7	336.9
Royalties [1]	40.4	52.7
Operating Costs [2]	105.2	129.9
Development Costs	-	-
Well Abandonment Costs	3.5	3.7
Future Net Revenue Before Income Tax	108.7	150.5
Income Taxes [3]	18.6	35.8
Future Net Revenue After Income Tax	90.1	114.7
Total Company		
Revenue	1,649.7	2,542.0
Royalties [1]	204.5	348.1
Operating Costs [2]	507.2	744.5
Development Costs	38.0	75.2
Well Abandonment Costs	45.0	48.6
Future Net Revenue Before Income Tax	855.0	1,325.6
Income Taxes [3]	18.6	35.8
Future Net Revenue After Income Tax	836.4	1,289.8

(1) Royalties include crown royalties, freehold royalties, overriding royalties, mineral taxes, Saskatchewan Capital Surcharge, and net profit interest payments.
(2) United States operating costs include production taxes.
(3) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon. The after income tax value has been prepared on a consolidated basis and considers the business entity level tax situation. The Company's consolidated financial statements for the year ended December 31, 2011 should be consulted for additional information regarding the Company's taxes.

The following table summarizes the net present value of future net revenue by production group and on a unit value basis before income tax attributable to Paramount's net reserves evaluated at December 31, 2011, discounted at 10 percent.

Reserves Category	Production Group	Future Net Revenue Before Income Tax (discounted at 10%) ($ millions)	Unit Value Before Income Tax (discounted at 10%) ($/unit)
Proved	Natural Gas (including by-products but excluding solution gas from oil wells)	456.1	$3.22 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	155.4	$37.15 / Bbl
Total Proved		**611.4**	
Proved plus Probable	Natural Gas (including by-products but excluding solution gas from oil wells)	632.4	$3.02 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	199.8	$35.42 / Bbl
Total Proved plus Probable		**832.2**	

The following definitions and assumptions form the basis of classification for reserves presented in the McDaniel Report:

(a) Reserves are classified according to the degree of certainty associated with the estimates:

i. **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

ii. **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

(b) Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories:

i. **Developed Reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

ii. **Developed Producing Reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

iii. **Developed Non-producing Reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

iv. **Undeveloped Reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

(c) **Gross Reserves** are defined as the Company's working interest reserves before deduction of any royalties and without including royalty interests.

(d) **Net Reserves** are defined as the Company's working interest reserves after deduction of royalties and including royalty interests.

Summary of Pricing and Inflation Rate Assumptions

Summaries of the December 31, 2011 pricing and inflation rate assumptions used in the McDaniel Report in calculating the net present value of future net revenue attributable to Paramount's reserves are as follows:

Forecast Prices and Costs		**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
U.S. Henry Hub Gas	(US$/MMBtu)	3.75	4.50	5.05	5.50	5.95	6.35	+1 to 6% / year
Alberta Aggregator Plantgate	(Cdn$/MMBtu)	3.30	4.00	4.50	4.90	5.35	5.70	+1 to 5% / year
WTI Crude Oil	(US$/Bbl)	97.50	97.50	100.00	100.80	101.70	102.70	+1 to 2% / year
Edmonton Light Crude Oil	(Cdn$/Bbl)	99.00	99.00	101.50	102.30	103.20	104.20	+1 to 2% / year
Edmonton Cond. & Natural Gasolines	(Cdn$/Bbl)	106.00	104.10	104.60	105.50	106.40	107.50	+1 to 2% / year
Edmonton Propane	(Cdn$/Bbl)	54.60	56.40	58.90	60.40	62.00	63.40	+1 to 2% / year
Edmonton Butane	(Cdn$/Bbl)	76.20	79.80	81.80	82.40	83.20	84.00	+1 to 2% / year
Inflation Rate	(%/year)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	+2% / year
Exchange Rate	(US$/Cdn$)	0.975	0.975	0.975	0.975	0.975	0.975	0.975

Paramount's 2011 weighted average realized prices before settlement of financial commodity contracts were $4.10/Mcf for natural gas, $87.81/Bbl for oil and $82.24/Bbl for NGLs.

Paramount's realized natural gas price is based on prices received at the various markets in which it sells natural gas and is sold in a combination of daily and monthly contracts. The Company's natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, Eastern Canadian markets, and California markets.

Oil producers negotiate sales contracts directly with purchasers, with the result that the market determines the price of oil. The price of natural gas and NGLs are also determined by negotiations between buyers and sellers. The sales price received depends on quality, prices of competing fuels, distance to market, the value of refined products, supply/demand balance, and contract terms. The export of oil and natural gas is subject to rules and regulations set by the National Energy Board of Canada and the government of Alberta.

Paramount's Canadian oil and NGLs sales portfolio primarily consist of sales priced relative to Edmonton Par and United States market hubs, adjusted for transportation and quality differentials. The Company's United States oil and NGLs sales portfolio is sold at the well head with differentials negotiated relative to West Texas Intermediate crude oil prices.

Reserves Reconciliation

The following table sets forth the reconciliation of Paramount's gross reserves by principal product type for the year ended December 31, 2011.

	Natural Gas (Bcf)			Light & Medium Crude Oil (MBbl)			Natural Gas Liquids (MBbl)			Total (MBoe)		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
Canada												
Jan 1, 2011	111.5	69.6	181.2	2,281	1,050	3,331	1,848	1,025	2,873	22,719	13,677	36,396
Extensions and Improved Recoveries	53.2	25.9	79.2	321	151	471	1,930	1,166	3,096	11,123	5,636	16,759
Technical Revisions	9.4	(12.9)	(3.5)	(37)	(235)	(272)	(231)	(478)	(709)	1,306	(2,870)	(1,564)
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(8.5)	(9.8)	(18.3)	(21)	(14)	(35)	(92)	(34)	(126)	(1,529)	(1,685)	(3,215)
Acquisitions	25.6	9.2	34.9	102	30	132	827	263	1,090	5,199	1,833	7,032
Dispositions	(0.2)	-	(0.2)	(2)	-	(3)	(5)	-	(5)	(40)	(3)	(43)
Production	(29.7)	-	(29.7)	(472)	-	(472)	(552)	-	(552)	(5,970)	-	(5,970)
Dec 31, 2011	161.5	82.0	243.5	2,171	981	3,152	3,725	1,941	5,665	32,808	16,587	49,395
United States												
Jan 1, 2011	0.5	0.2	0.7	2,703	777	3,480	73	26	99	2,857	834	3,691
Extensions and Improved Recoveries	-	-	-	113	57	170	-	-	-	114	57	171
Technical Revisions	0.1	-	0.1	241	(113)	128	12	(5)	7	270	(124)	146
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	9	(1)	8	-	-	-	7	(5)	2
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	(1)	(1)	-	-	-	-	(1)	(1)
Production	(0.1)	-	(0.1)	(363)	-	(363)	(11)	-	(11)	(390)	-	(390)
Dec 31, 2011	0.5	0.1	0.6	2,702	719	3,421	75	20	95	2,858	762	3,620
Total Company												
Jan 1, 2011	112.0	69.8	181.8	4,984	1,826	6,810	1,922	1,050	2,972	25,576	14,511	40,087
Extensions and Improved Recoveries	53.2	25.9	79.2	434	208	642	1,930	1,166	3,096	11,237	5,693	16,930
Technical Revisions	9.5	(13.0)	(3.4)	204	(348)	(144)	(219)	(483)	(702)	1,576	(2,994)	(1,418)
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(8.5)	(9.8)	(18.4)	(12)	(15)	(27)	(92)	(34)	(126)	(1,522)	(1,690)	(3,212)
Acquisitions	25.6	9.2	34.9	102	30	132	827	263	1,090	5,199	1,833	7,032
Dispositions	(0.2)	-	(0.2)	(3)	(1)	(4)	(5)	-	(5)	(40)	(4)	(44)
Production	(29.8)	-	(29.8)	(836)	-	(836)	(563)	-	(563)	(6,360)	-	(6,360)
Dec 31, 2011	162.0	82.1	244.1	4,874	1,699	6,573	3,799	1,961	5,760	35,666	17,349	53,015

Additional Information Relating to Reserves Data

Undeveloped Reserves

Proved

The following table summarizes the Company's gross proved undeveloped reserves for the three most recent financial years.

Product Type	2009	2010	2011
Natural Gas (Bcf)	3.7	8.2	10.5
Light and Medium Crude Oil (MBbl)	-	18	-
Natural Gas Liquids (MBbl)	-	119	216

Reserves are classified as proved undeveloped if they meet the requirements prescribed by the COGE Handbook, and if they are expected to be recovered from known accumulations on previously undrilled acreage or they are reserves from existing wells where significant expenditure is required to render them capable of production. In Kaybob, there were several wells in the Smoky and Resthaven areas that were in the process of being drilled over year end or are scheduled to be drilled and/or completed during the first quarter of 2012, which represent 7.1 Bcf, plus associated liquids, of the proved undeveloped reserves. Similarly, the remaining 3.4 Bcf, plus associated liquids, relate to two wells in the Grande Prairie COU that were in the process or scheduled to be drilled and/or completed during the first quarter of 2012.

Probable

The following table summarizes the Company's gross probable undeveloped reserves for the three most recent financial years.

Product Type	2009	2010	2011
Natural Gas (Bcf)	17.2	19.6	22.6
Light and Medium Crude Oil (MBbl)	-	107	99
Natural Gas Liquids (MBbl)	-	246	581

Reserves are classified as probable undeveloped when they are less certain to be recovered than proved undeveloped reserves as prescribed by the COGE Handbook. The Kaybob COU recognized 3.7 Bcf and the Grande Prairie COU recognized 1.4 Bcf, plus associate liquids, of probable undeveloped reserves, related to the winter 2011/12 drilling and completion activities described above. The Southern COU recognized 4.3 Bcf related to the Chain-Delia natural gas development and 99 MBbl of undeveloped oil reserves related to two wells to be drilled in the Pembina/Medicine River areas over the next 2 years. Paramount currently does not have plans to develop 7.2 Bcf of probable undeveloped natural gas reserves recognized at Peerless Lake in the next two years due to the higher risk profile, well locations, and/or well economics relative to other projects.

Future Development Costs

The following table provides the undiscounted estimated future development costs deducted in the estimation of future net revenue.

	Future Development Costs (undiscounted, $ millions)						
Reserve Category	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**Remainder**	**Total**
Canada							
Proved	30.8	4.8	-	-	0.1	2.4	38.0
Proved plus Probable	49.4	18.8	3.6	-	0.1	3.2	75.2
USA							
Proved	-	-	-	-	-	-	-
Proved plus Probable	-	-	-	-	-	-	-

Paramount expects that funding for future development costs will come from the Company's working capital, cash flow, credit facilities, and, in some cases, equity or debt issues and the sale of non-core assets. Paramount does not anticipate that the costs of funding referred to above will materially affect the disclosed reserves and future net revenues of the Company or will make the development of any of the Company's properties uneconomic.

Other Oil and Gas Information

Oil and Gas Properties and Wells

For a description of Paramount's important properties, plants and facilities, see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES". As at December 31, 2011, Paramount had an interest in 1,850 gross (1,001.7 net) producing and non-producing[(1)] oil and natural gas wells as follows:

	Producing		Non-producing [(1)]	
	Gross [(2)]	**Net [(3)]**	**Gross [(2)]**	**Net [(3)]**
Crude oil wells				
Alberta	182	97.2	54	23.3
Northwest Territories	7	6.5	21	18.8
Montana	31	18.5	11	3.7
North Dakota	58	37.5	7	2.5
Subtotal	278	159.7	93	48.3
Natural gas wells				
Alberta	924	490.3	389	234.7
British Columbia	32	7.8	33	23.9
Saskatchewan	4	-	5	4.0
Northwest Territories	11	9.7	34	20.2
Montana	32	1.7	15	1.4
Subtotal	1,003	509.5	476	284.2
Total	1,281	669.2	569	332.5

(1) "Non-producing" wells are wells which Paramount considers capable of production but which, for a variety of reasons including but not limited to a lack of markets and lack of development, cannot be placed on production at the present time.
(2) "Gross" wells means the number of wells in which Paramount has an interest.
(3) "Net" wells means Paramount's gross wells multiplied by Paramount's percentage working interest therein.

Properties With and Without Attributed Reserves

The following table sets forth Paramount's land position at December 31, 2011. The Company's holdings at December 31, 2011 totalled approximately 2,310,369 (1,559,222 net) acres. Gross acreage is calculated only once per lease or licence of petroleum and natural gas rights ("Lease") regardless of whether or not Paramount holds a working and/or royalty interest, or whether or not the Lease includes multiple prospective formations. If Paramount holds more than one Lease under the same geographical area, Paramount then records acreage for both Leases.

	Acreage Assigned Reserves		**Acreage Assigned Contingent Resources**		**Undeveloped Acreage [4]**	
	Gross [1]	**Net [2]**	**Gross [1]**	**Net [2]**	**Gross [1]**	**Net [2]**
Canada						
Alberta						
Paramount	479,019	267,412	-	-	1,071,373	696,358
Cavalier [3]	-	-	28,640	28,640	150,880	148,320
British Columbia	15,741	3,631	-	-	280,615	235,178
Saskatchewan	2,321	647	-	-	9,260	5,133
Northwest Territories	28,120	22,313	-	-	142,097	82,929
USA						
North Dakota	12,411	7,989	-	-	63,352	47,263
Montana	8,187	3,815	-	-	18,353	9,594
Total	**545,799**	**305,807**	**28,640**	**28,640**	**1,735,930**	**1,224,775**

(1) "Gross" acres means the total acreage in which Paramount has an interest.
(2) "Net" acres means Paramount's gross working interest acres multiplied by Paramount's working interest therein.
(3) See "GENERAL DEVELOPMENT OF THE BUSINESS – 2011" and "RESOURCES AND RELATED INFORMATION" regarding the reorganization of Paramount's bitumen assets into a new wholly-owned subsidiary, Cavalier Energy Inc., general information regarding oil sands resources, and for a definition of Contingent Resources.
(4) Contingent Resources (Technology Under Development) acreage is included in undeveloped acreage. See "RESOURCES AND RELATED INFORMATION" for a definition of Contingent Resources (Technology Under Development).

As of December 31, 2011, Paramount had approximately 225,000 (175,000 net) acres of undeveloped land due to expire in 2012. Approximately 213,000 (166,000 net) acres are in Canada, with the remainder in the United States. In respect of such acreage, actual acreage that will expire may be less than these amounts to the extent Paramount is able to continue the leases through drilling or farm outs prior to expiry.

Paramount also has 150,000 (127,000 net) acres which has potential for production from the Besa River shale gas formation in the Horn River and Liard Basins in British Columbia.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

As part of Alberta's New Royalty Framework announced on October 25, 2007, Alberta Energy declared that, commencing April, 2011, it would begin issuing Shallow Rights Reversion ("SRR") notices for Crown petroleum and natural gas agreements that were continued for an indefinite term prior to January, 2009. Three years following receipt of an SRR notice, all zones above the shallowest producing zone in the affected agreements will revert to the Crown unless the lessee proves productivity in a shallower zone. Subject to certain exceptions, notices are to be served according to the year of grant of the agreement with respect to petroleum and natural gas agreements granted from 1953 to 1958. On April 14, 2011, Alberta Energy announced that it is deferring serving SSR notices. This decision is to be revisited in the Spring of 2012.

Paramount is unable to predict the final decision of Alberta Energy, however if and when it is implemented, Paramount and other holders impacted by SRR will need to incur additional costs in an effort to prove the productivity of prospective shallow zones in undeveloped acreage, or the shallower zones will revert.

Forward Contracts

The nature of Paramount's operations results in exposure to fluctuations in commodity prices, currency exchange rates and interest rates. Paramount monitors and, when appropriate, utilizes derivative financial instruments and/or physical forward delivery contracts to hedge its exposure to these risks. Paramount's derivative contracts and/or future commitments are disclosed in its audited consolidated financial statements as at and for the year ended December 31, 2011 which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Pipeline Transportation Commitments

As part of normal business operations, Paramount has entered into a number of short-term and long-term pipeline transportation commitments. At December 31, 2011, Paramount had long-term natural gas transportation commitments of up to 248 MMcf/d until 2023 to delivery points at Malin, Iroquois and Western Canada. The tariff rates for these commitments are adjusted annually and as at December 31, 2011 they ranged from $0.09/Mcf to US$1.91/Mcf. Starting in 2013, these long-term transportation commitments exceed Paramount's expected future natural gas production of its proved reserves, based on the December 31, 2011 McDaniel Report, by 17 MMcf/d, increasing to 206 MMcf/d by 2015. The Company has increased its pipeline commitments in the near term due to the planned facility expansions at Kaybob (see "NARRATIVE DESCRIPTION OF THE BUSINESS"). Paramount expects to fulfill its pipeline commitments through its ongoing exploration and development activities; however, the Company could experience a financial loss and operations could be adversely affected if Paramount is unable to fulfill its long-term natural gas transportation commitments. Additional disclosure related to such transportation commitments can be found in the Company's audited consolidated financial statements as at and for the year ended December 31, 2011, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Abandonment and Reclamation Costs

Abandonment and reclamation costs for Paramount's wells, facilities, pipelines, and associated surface leases and roads are estimated by Paramount based on consideration for the costs of remediation, decommissioning, abandonment and reclamation, as well as the salvage values of existing equipment. These costs are adjusted to reflect working interests held, and are time discounted in accordance with the requirements of NI 51-101. Costs and salvage values are calculated for individual assets and aggregated to determine the total net liability. In estimating these costs and salvage values, reference is made to historical costs and values, internal estimates, third-party environmental reports, and publications including the Energy Resources Conservation Board (Alberta) Directives 006 and 011, as well as the Material Price Catalogue (published annually by the Petroleum Accountants Society of Canada). If these third-party estimates are believed to be low, higher internally generated estimates are used, based on previous Company experience.

During 2011, Paramount spent approximately $7.5 million on environmental remediation, reclamation and regulatory compliance activities.

As at December 31, 2011, the Company had approximately 1,377 net wells, including service wells, for which abandonment and reclamation costs are expected to be incurred.

The Company's estimates of abandonment and reclamation costs, net of estimated salvage value, for surface leases, wells, facilities, pipelines, and roads undiscounted and discounted at 10 percent, are $236.3 million and $119.2 million, respectively. The future net revenue disclosed in this annual information form does not contain an allowance for abandonment and reclamation costs for surface leases, facilities and pipelines. The McDaniel Report deducted $48.6 million (undiscounted) and $19.5 million (10 percent discount) for downhole abandonment costs for wells only, on a total proved plus probable basis.

It is not expected that any material amounts with respect to abandonment and reclamation costs will be incurred in the next three years. For fiscal 2012, the Company has budgeted approximately $7 million for abandonment and reclamation activities.

Tax Horizon

Based on the current tax regime, and the Company's available tax pools and anticipated level of operations, Paramount does not expect to be cash taxable in the near future (see "RISK FACTORS – GOVERNMENTAL REGULATION").

Costs Incurred

The following table summarizes the costs incurred by Paramount for property acquisitions and exploration and development costs, net of Alberta drilling royalty credits.

Cost Type [(1)] **($ millions)**	**2011**	**Q4**	**Q3**	**Q2**	**Q1**
Acquisitions (corporate and property)					
Proved properties	114.1	2.3	4.3	107.5	-
Unproved properties	113.9	10.4	1.7	91.0	10.8
Exploration	178.5	65.8	42.1	26.7	43.9
Development (including facilities)	288.8	79.2	66.1	28.1	115.4
Oil sands and carbonate bitumen	19.0	1.7	0.8	1.2	15.3
Total [(2)]	714.3	159.4	115.0	254.5	185.4

(1) Excludes corporate asset capital expenditures (e.g. computer hardware, furniture and fixtures, etc.), and drilling rig capital expenditures.
(2) Of the annual cost incurred, $3.1 million was spent in the Company's United States operations ($0.6 million on unproved properties, $0.1 million on exploration, and $2.4 million on development (including facilities)).

Exploration and Development Activities

The following table summarizes the results of Paramount's drilling activity for the year ended December 31, 2011. The working interest in certain of these wells may change after payout.

	Gross [(1)]	**Net [(2)]**
Development Wells [(3)]		
Gas	35	23.6
Oil	20	11.6
Service	1	1.0
Subtotal	56	36.2
Exploratory Wells [(4)]		
Gas	13	9.1
Oil	5	2.4
Oil - Dry	1	1.0
Subtotal	19	12.5
Oil Sands Evaluation Wells	28	26.5
Total Wells	103	75.2

(1) "Gross" is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) "Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.
(3) "Development Well" is a well drilled within or in close proximity to a discovered pool of petroleum or natural gas. The Company's United States operations drilled 5 (1.7 net) oil development wells.
(4) "Exploratory Well" is a well drilled either in search of a new and as yet undiscovered pool of petroleum or natural gas or with the expectation of significantly extending the limit of a pool that is partly discovered.

Paramount plans to invest $475 million in its Principal Properties in 2012 (excluding land acquisitions and capitalized interest), primarily focused in the Kaybob COU's Deep Basin development. Construction of the Musreau and Smoky deep-cut facilities will commence during the year, and drilling and completion activities will continue in preparation for start-up in the second half of 2013. Planned 2012 activities also include drilling at Valhalla in the Grande Prairie COU and at Birch in the Northern COU.

The Company also plans to invest approximately $60 million in its Strategic Investments in 2012 to complete construction of two new triple-sized walking drilling rigs within Fox Drilling; to continue pre-development activities for oil sands projects within Cavalier Energy; and to drill a shale gas well in the Liard Basin.

Production during the first quarter of 2012 has been impacted by capacity constraints in the Kaybob COU as a result of the failure of a key electrical component at the Musreau 45 MMcf/d facility and the expiry of certain firm processing contracts in November 2011; and in the Grande Prairie COU due to delays in the delivery of surface equipment. First quarter 2012 sales volumes are expected to average approximately 18,000 Boe/d.

The Musreau facility is currently being commissioned, with gas sales expected to recommence in mid-March, and the Valhalla gas gathering system expansion and installation of surface equipment at Karr-Gold Creek are scheduled to be completed by the end of March. Sales volumes for the remainder of 2012 are forecast to range between 26,000 and 28,000 Boe/d. The Company expects its sales volumes will continue to be in this range until facility expansions at Musreau and Smoky are completed and brought on-stream in the second half of 2013.

Production Estimates

The following table summarizes the total estimated gross production for 2012 based on the McDaniel Report.

	Estimated Production (Gross)	
	Proved	**Probable**
Canada		
Natural Gas (MMcf)	41,835	4,226
Light and Medium Crude Oil (MBbl)	468	41
Natural Gas Liquids (MBbl)	1,000	151
Total Canada (MBoe)	8,441	897
USA		
Natural Gas (MMcf)	88	3
Light and Medium Crude Oil (MBbl)	355	19
Natural Gas Liquids (MBbl)	13	-
Total USA (MBoe)	382	20
Total Production (MBoe)	8,823	916

The Company continues to grow its production and expand its gathering and processing capacity at the Musreau field in the Kaybob COU (see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES"). During 2011, actual production at Musreau was 1,583 MBoe comprised of 8.5 Bcf of natural gas, 161 MBbl of NGLs and 2 MBbl of oil. McDaniel's estimated gross production in 2012 from the Musreau field is 3,051 MBoe (Proved) and 3,229 MBoe (Proved plus Probable), or approximately 34% and 33% of total production for the Company, respectively.

Production History

The following table summarizes daily sales volume results for Paramount before the deduction of royalties on a quarterly and annual basis for 2011[1].

	2011	Q4	Q3	Q2	Q1
SALES - Canada					
Natural Gas (MMcf/d)	81.3	91.2	97.5	77.5	58.4
Light and Medium Crude Oil (Bbl/d)	1,294	1,323	1,391	1,051	1,412
Natural Gas Liquids (Bbl/d)	1,512	1,595	2,024	1,478	938
SALES - United States					
Natural Gas (MMcf/d)	0.3	0.3	0.3	0.2	0.3
Light and Medium Crude Oil (Bbl/d)	997	1,033	953	1,059	941
Natural Gas Liquids (Bbl/d)	30	25	38	26	30
SALES - Total					
Natural Gas (MMcf/d)	81.6	91.5	97.8	77.7	58.7
Light and Medium Crude Oil (Bbl/d)	2,291	2,356	2,344	2,110	2,353
Natural Gas Liquids (Bbl/d)	1,542	1,620	2,062	1,504	968

(1) As required by NI 51-101, natural gas production volumes are measured in marketable quantities, with adjustments for heat content and transportation reflected in the reported natural gas price.

The following table summarizes Paramount's average netbacks, by product, on a quarterly and annual basis for 2011.

	Netback – 2011				
	2011	Q4	Q3	Q2	Q1
Natural gas (including by-products) ($/Mcfe)					
Revenue [2]	**5.28**	4.80	5.36	5.68	5.36
Royalties	**(0.37)**	(0.32)	(0.43)	(0.31)	(0.41)
Operating expense [3]	**(1.63)**	(1.79)	(1.42)	(1.51)	(1.87)
Transportation	**(0.57)**	(0.51)	(0.54)	(0.64)	(0.64)
Netback	**2.71**	2.18	2.97	3.22	2.44
Conventional oil (including by-products) ($/Boe) [1]					
Revenue	**82.38**	88.51	76.05	89.39	76.41
Royalties	**(12.37)**	(12.28)	(10.31)	(15.70)	(11.69)
Operating expense [3]	**(18.04)**	(17.48)	(17.79)	(16.77)	(20.38)
Production tax	**(3.36)**	(3.97)	(3.14)	(3.85)	(2.54)
Transportation	**(1.77)**	(1.40)	(2.62)	(1.28)	(1.74)
Netback	**46.84**	53.38	42.19	51.79	40.06
Settlements of financial commodity contracts	**0.25**	1.38	4.11	(3.68)	(1.26)
Netback including settlements of financial commodity contracts	**47.09**	54.76	46.30	48.11	38.80

(1) United States operations included in the above table were:

($/Boe)	**2011**	Q4	Q3	Q2	Q1
Revenue	**79.98**	84.23	74.11	83.93	76.91
Royalties	**(13.00)**	(13.49)	(12.05)	(13.68)	(12.66)
Operating expense	**(16.99)**	(13.18)	(21.28)	(16.11)	(17.75)
Production tax	**(6.82)**	(8.10)	(6.92)	(6.55)	(5.60)
Netback	**43.17**	49.46	33.86	47.59	40.90

(2) As required by NI 51-101, natural gas production volumes are measured in marketable quantities, with adjustments for heat content and transportation reflected in the reported natural gas price.

(3) Operating costs include all costs related to the operation of wells, facilities and gathering systems. Processing revenue has been deducted from these costs.

The following table summarizes sales volumes by Corporate Operating Unit for the year ended December 31, 2011.

	Natural Gas (MMcf)	**Light and Medium Crude Oil (MBbl)**	**Natural Gas Liquids (MBbl)**
Kaybob	16,253	26	317
Grande Prairie	5,847	143	184
Northern	3,745	126	7
Southern	3,924	541	55
Total	**29,769**	**836**	**563**

RESOURCES AND RELATED INFORMATION

General

During the year, Paramount reorganized all of the Company's oil sands and carbonate bitumen interests into a new wholly-owned subsidiary, Cavalier Energy Inc., and assembled its executive leadership team (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2011"). The reorganization was undertaken to create a focused, self-funding oil sands entity in order to accelerate the development of Paramount's bitumen interests.

Cavalier owns approximately 275 sections of Crown oil sands leases in the western Athabasca region of Alberta, of which 267 sections are 100 percent owned and 8 sections are 50 percent owned. These leases are prospective in multiple formations, primarily for thermal in-situ development, but also have potential for cold production. Cavalier's properties include 56 sections of land at Hoole ("Hoole"), which are primarily prospective for bitumen in the Grand Rapids formation, and 201 sections of carbonate properties, which are primarily prospective for bitumen in the Grosmont formation. The carbonate properties include 15 sections of land at Saleski ("Saleski") and 186 sections of land in other areas (the "Other Carbonate Leases"), including leases at Orchid, Granor and House. Cavalier also owns 18 additional sections of land in the Athabasca oil sands region of northeastern Alberta which are also prospective for bitumen.

Cavalier's near-term plans are expected to focus on the development of its 100 percent owned oil sands leases at Hoole and the further delineation of its carbonate bitumen leases at Saleski.

The majority of the field work necessary to submit the required regulatory applications for commercial development at the Hoole oil sands property has been completed, together with preliminary front-end engineering and design and reservoir modeling and simulation (which has been verified by core flood experiments). Preparatory work for project development is continuing, including field activities focused on optimizing water source and disposal options.

Delineation drilling and seismic surveys continue for the Saleski and Other Carbonate Leases. The Company has not prepared a development plan or project timeline for the carbonate leases, and is monitoring industry activity towards the successful commercial development and production from the carbonate reservoirs.

Below is a summary of certain of Cavalier's resources as estimated by McDaniel. There is no certainty that it will be commercially viable to produce any portion of the resources and there is no guarantee that the estimated resources or any resources will be recovered. The size of the resource estimate could be positively or negatively impacted if the size, quality, and/or thickness of the reservoir is different than what is currently estimated. Actual resources may be greater than or less than the estimates provided herein. See "RISK FACTORS – EXPLORATION AND DEVELOPMENT OF OIL SANDS AND CARBONATE BITUMEN ASSETS".

Hoole Oil Sands Resources and Related Information

McDaniel was retained to evaluate and prepare reports on the oil sands resources within the Grand Rapids formation in the Hoole oil sands leases. At the time of the evaluation, 74 oil sands evaluation wells had been drilled, including 39 with cores cut in the Grand Rapids formation, to evaluate the Wabiskaw and Grand Rapids formations. The McDaniel evaluation was prepared with an effective date of April 30, 2011, in accordance with NI 51-101 and the standards for resource definitions contained in the COGE Handbook, and was based on McDaniel's forecast prices and costs as of April 1, 2011.

All evaluations of, and analyses related to, future net revenue were stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures. It should not be assumed that the estimated future net revenues shown below are representative of the fair market value of Cavalier's

Hoole oil sands leases. There is no assurance that such price and cost assumptions will be attained and variances could be material. The bitumen recovery and resource estimates provided below are estimates only and such estimates are as at April 30, 2011 and may not reflect current estimates.

April 30, 2011 Resources Information- Hoole Oil Sands

The following table summarizes Cavalier's Hoole oil sands resources within the Grand Rapids formation as evaluated by McDaniel with an effective date of April 30, 2011, based on McDaniel's forecast prices and costs as of April 1, 2011, and the estimated initial and fully developed production from the such resources.

Category / Level of Certainty(1)	**Discovered Exploitable Bitumen In Place(2) (MBbl)**	**Economic Contingent Resources (3)(4) (MBbl)**	**Initial Production(5) (Bbl/d)**	**Fully Developed Production(5) (Bbl/d)**
High Estimate	1,821,614	952,544	27,000	105,000
Best Estimate	1,631,742	762,661	26,000	80,000
Low Estimate	1,320,406	552,094	25,000	60,000

See notes below

The reclassification of the Economic Contingent Resources at Hoole as reserves is contingent upon, among other things, the following non-technical factors: finalization of plans for the initial development of the Hoole oil sands, regulatory application submission with no major issues raised, access to capital markets and other sources of funding, and intent to proceed by Cavalier evidenced by a development plan with major capital expenditures.

April 30, 2011 Net Present Value of Future Net Revenue – Forecast Prices and Costs – Hoole Oil Sands

The following table summarizes the net present value of future net revenue attributable to Cavalier's Hoole oil sands resources within the Grand Rapids formation evaluated by McDaniel effective April 30, 2011 using April 1, 2011 forecast prices and costs. The net present values are reported before income tax and have been discounted using rates of 0 percent, 5 percent, 10 percent, and 15 percent as well as on a net unit value basis at a discount rate of 10 percent before income taxes. Future net revenue does not represent fair market value.

	Net Present Value (NPV) of Future Net Revenue(6) ($millions)				**NPV(6) Discounted at 10% ($/Bbl)**
	Before Income Tax (discounted at)				
Category / Level of Certainty (1)	**0%**	**5%**	**10%**	**15%**	
High Estimate	22,884	9,452	4,336	2,120	4.55
Best Estimate	16,522	6,549	2,834	1,258	3.72
Low Estimate	10,454	4,026	1,602	576	2.90

See notes below

April 1, 2011 Summary of Pricing and Inflation Rate Assumptions- Hoole Oil Sands

The following table is a summary of the April 1, 2011 pricing and inflation rate assumptions used by McDaniel in calculating the net present value of future net revenue attributable to Cavalier's Hoole oil sands resources. McDaniel's evaluation assumes that production will commence in 2015 and fully developed production will be reached in 2016 for the low estimate, 2017 for the best estimate and 2018 for the high estimate.

Forecast Prices and Costs		2015	2016	2017	2018	2019	2020	2021	Thereafter
Natural Gas at Fieldgate	(Cdn$/MMBtu)	5.90	6.25	6.50	6.80	7.15	7.30	7.40	2%/year
Edmonton Diluent	(Cdn$/Bbl)	106.51	108.62	110.83	112.94	115.16	117.58	119.79	2%/year
Netback Bitumen at Fieldgate	(Cdn$/Bbl)	61.42	62.69	63.91	65.18	66.54	67.81	69.16	2%/year
Inflation Rate	(%/year)	2%	2%	2%	2%	2%	2%	2%	2%/year
Exchange Rate	(US$/Cdn$)	0.975	0.975	0.975	0.975	0.975	0.975	0.975	0.975

Saleski Oil Sands Resources and Related Information

McDaniel was retained to evaluate and prepare reports on the carbonate bitumen resources associated with Cavalier's Saleski oil sands leases. At the time of the evaluation, ten oil sands evaluation wells had been drilled. The McDaniel evaluation was prepared with an effective date of October 31, 2011, in accordance with NI 51-101 and the standards for resources definitions contained in the COGE Handbook. McDaniel's evaluation was limited to the Grosmont formation and is based on the resource being exploited using SAGD. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and pilot projects by others in the industry are ongoing. Currently, there is insufficient economic data available for McDaniel to apply economic cutoffs or estimate future net revenue.

Category / Level of Certainty(1)	Discovered Exploitable Bitumen In Place(2)	Undiscovered Exploitable Bitumen In Place(7)	Contingent Resources (Technology Under Development)(8)	Prospective Resources(9)
	(MBbl)	(MBbl)	(MBbl)	(MBbl)
High Estimate	1,184,641	133,904	566,795	62,754
Best Estimate	1,184,641	109,332	380,493	34,006
Low Estimate	1,184,641	89,269	-	-

See notes below

Other Carbonate Leases Resources and Related Information

The table below summarizes the estimated volumes attributable to the carbonate bitumen resources associated with Cavalier's Other Carbonate Leases as evaluated by McDaniel as of October 31, 2011, in accordance with NI 51-101 and the standards for resource definitions contained in the COGE Handbook. McDaniel's evaluation was limited to the Grosmont formation and is based on these resources being exploited using SAGD. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and pilot projects by others in the industry are ongoing. Currently there is insufficient economic data available for McDaniel to apply economic cutoffs or estimate future net revenue.

Category / Level of Certainty(1)	Discovered Exploitable Bitumen In Place (2)	Undiscovered Exploitable Bitumen In Place (7)	Contingent Resources (Technology Under Development)(8)	Prospective Resources(9)
	(MBbl)	(MBbl)	(MBbl)	(MBbl)
Best Estimate	430,586	4,418,573	111,118	1,073,439

See notes below

Notes:

(1) **High Estimate** is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end of the estimate range have a lower degree of certainty (a 10 percent confidence level) that the actual quantities recovered will equal or exceed the estimate. **Best Estimate** is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those

resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate. **Low Estimate** is considered to be a conservative estimate of the quantity of resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources at the low end of the estimate range have the highest degree of certainty (a 90 percent confidence level) that the actual quantities recovered will equal or exceed the estimate.

(2) **Discovered Exploitable Bitumen In Place ("DEBIP")** is the estimated volume of bitumen, as of a given date, which is contained in a subsurface stratigraphic interval of a known accumulation that meets or exceeds certain reservoir characteristics, such as minimum continuous net pay, porosity and mass bitumen content. For the Hoole oil sands property, the presence of these characteristics is considered necessary for the commercial application of known recovery technologies. For the Saleski property and the Other Carbonate Leases, these volumes have been constrained to areas that have a minimum thickness of 10 meters of substantially clean, continuous predominantly bitumen-saturated carbonate with log porosity meeting a minimum of 10 percent and bitumen saturation greater than 50 percent and with both competent top and lateral reservoir containment. These carbonate bitumen resources are constrained to one mile in area around known data points that penetrate the zone and possess definitive geophysical log data. DEBIP for the Saleski property and the Other Carbonate Leases may be assigned outside of the one mile area if reservoir continuity between offsetting delineation is expected. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and has not been proven on a commercial scale. There is no certainty that it will be commercially viable to produce any portion of the resources from the Hoole oil sands property, the Saleski property or the Other Carbonate Leases.

(3) **Contingent Resources** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans. There is no certainty that it will be commercially viable to produce any portion of the contingent resources. **Economic Contingent Resources** are those contingent resources that are economically recoverable based on specific forecasts of commodity prices and costs.

(4) Represents the Company's share of recoverable volumes before deduction of royalties. In the assessment of contingent resources, McDaniel used a minimum net pay cut-off of 10 meters in the best estimate case.

(5) **Initial Production** means the average daily production rate during the first year of production. Estimates of production rates assume that production will commence in 2015 and **Fully Developed Production** will be reached in 2016 for the low estimate, 2017 for the best estimate and 2018 for the high estimate.

(6) **NPV** means net present value and represents the Company's share of future net revenue, before the deduction of income tax from the Economic Contingent Resources in the Grand Rapids formation within the Hoole oil sands property. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. Royalties have been calculated based on Alberta's Royalty Framework applicable to oil sands projects in Alberta. The calculation does not consider financing costs and general and administrative costs. NPVs were calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of April 1, 2011. The estimated net present values disclosed do not represent fair market value

(7) **Undiscovered Exploitable Bitumen In Place ("UDEBIP")** is the volume of petroleum estimated, as of a given date, to be contained in accumulations yet to be discovered. These resources are mapped using known data points penetrating the zone and possess definitive geophysical log data along with seismic data and regional mapping. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

(8) **Contingent Resources (Technology Under Development)** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. For the Saleski property and the Other Carbonate Leases, because of the lack of demonstrated commercial SAGD production within carbonate reservoirs, the recoverable resources assigned are contingent upon successful application of SAGD to the subject reservoir or a reasonable analog. The successful implementation of SAGD

technology in carbonate reservoirs is a significant contingency associated with these assignments that separate them from typical McMurray clastic SAGD contingent and prospective resources, where the technology has been proven effective. In addition to the technical contingency, additional contingencies applicable to the carbonate resources include being in the early evaluation stage, the economic viability of development and the absence of regulatory approvals. The economic status of these resources are undetermined.

(9) **Prospective Resources** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

GENERAL

Competitive Conditions, Seasonality, and Trends

Competitive conditions affecting Paramount are described under the "RISK FACTORS" section of this annual information form.

The development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances. The seasonal accessibility of certain locations increases competition for equipment and personnel during those periods.

The oil and gas industry continues to develop new technology that improves or enhances recoverable reserves. In particular, multi-stage fractured horizontal wells have changed the productivity and economic returns of wells. Reservoirs floods, polymer injection and Carbon Dioxide ("CO2") injection techniques have also been used to increase recoverable reserves.

Employees

At December 31, 2011, Paramount had 140 full-time head office employees and 104 full-time employees at field locations. The Company also engages a number of contractors and service providers. Paramount's compensation of full-time employees includes a combination of salary, cash and/or stock bonuses, benefits and participation in either a stock-based compensation plan or a Company-assisted share purchase savings plan. Amounts contributed by Paramount under its stock bonus and share purchase plans are utilized to make open market purchases of the Company's shares and held by an independent trustee until the completion of the vesting period.

Environmental Protection and Policies

Paramount's oil and gas operations are governed by environmental requirements under Canadian federal, provincial and municipal and United States federal, state and county laws that, among other things, restrict and/or prohibit the release of emissions or pollutants, regulate the storage, handling, transportation and disposal of various substances produced or utilized in association with oil and gas industry operations and require Paramount to remedy the effect of its activities on the environment at current and former operating sites (including through the proper abandonment and decommissioning of wells and facilities and remediation and reclamation of associated lands). See "OTHER OIL AND GAS INFORMATION – ABANDONMENT AND RECLAMATION COSTS". Paramount has implemented monitoring and reporting programs to address environmental, health and safety issues in its day-to-day operations, as well as ongoing inspections and assessments, to provide assurance that applicable regulatory standards are met. In addition, contingency and response plans are in place to deal with environmental incidents and other emergency situations.

Greenhouse Gas Reporting and Reduction Obligations

Paramount is required under Canadian federal legislation to report its emissions of greenhouse gases and certain other substances for the purposes of the National Pollutant Release Inventory. Both the *Canadian Environmental Protection Act* and the Alberta *Specified Gas Reporting Regulation* impose an additional obligation to report greenhouse gas emissions from facilities that emit more than 50,000 tonnes of carbon dioxide equivalent ("CO2e") per year, however, none of Paramount's facilities currently have emissions that exceed that threshold. Paramount's largest facility at Bistcho Lake, Alberta currently emits approximately 32,300 tonnes CO2e per year (“CO2e/yr”).

In 2009, British Columbia imposed greenhouse gas reporting obligations pursuant to regulations under its Greenhouse Gas Reduction (Cap and Trade) Act that are applicable to facilities that emit more than 10,000 tonnes CO2e/yr. Paramount does not have an interest in any oil and gas facilities in British Columbia whose emissions exceed this amount so currently has no reporting obligations under this legislation.

Under Alberta ERCB Directive 60 and Bulletin 2009-44 "Reminder of the January 1, 2010 Fugitive Emissions Program Effective Date", Paramount developed and implemented on January 1, 2010 a program to detect and repair fugitive leaks of methane and other hydrocarbons from 38 of the Company's facilities. The cost of this program in 2011 was approximately $100,000 and Paramount has budgeted a similar amount for this program in 2012.

Paramount currently has no other greenhouse gas emission reduction obligations. In the case of Alberta, this is by virtue of the fact that none of its facilities have greenhouse gas emissions in excess of 100,000 tonnes of CO2e/yr, the current threshold under the Alberta *Specified Gas Emitters Regulation*. However, the Company could become subject to reduction obligations under this legislation if this emissions threshold were to be reduced, or under federal or other provincial legislation if and when such legislation is enacted. The federal government's most recent policy statement on greenhouse gas emission reduction targets was released on February 1, 2010 and indicated that it intends to reduce Canadian greenhouse gas emissions by 17% from 2005 levels by 2020, in line with the United States' stated emission reduction target. The government has yet to release details of how this emission reduction commitment will be achieved and what compliance obligations different industrial sectors, including the oil and gas sector, will be subject to.

Environmental Policies

Paramount has an Environmental Protection Policy (the “Policy”). The Policy affirms the Company’s commitment to achieving a high standard of environmental stewardship and to taking all reasonable care to maintain public health and safety during all phases of its operations. The Policy emphasizes Paramount’s responsibility to make environmental protection a consistent component of the decision-making process by acknowledging and being sensitive to the potential environmental impacts associated with its operations and to take prudent actions to minimize these impacts. This responsibility is shared by everyone employed at Paramount. Paramount’s managers and supervisors are expected to assess the potential effects of their projects and to integrate protective measures to prevent or reduce impacts and on environmentally hazardous situations and occurrences, repair any environmental damage which occurs as a result of Paramount’s business activities. Managers and supervisors also are expected to provide training and to be prepared to respond safely and effectively to emergencies in order to minimize the consequences of emergency events and to monitor and audit the Company’s Environmental Protection Program.

Paramount’s environmental, health and safety policies and programs are monitored and guided by a committee of the Board of Directors, the Environmental Health and Safety Committee, comprised of three non-management directors of the Company. The duties and responsibilities of the committee are to:

- review and monitor the environmental policies and activities of Paramount on behalf of the Board of Directors;

- recommend actions for developing policies, programs and procedures to ensure that the principles contained in the Policy are being adhered to and achieved;

- review environmental compliance issues and environmentally sensitive issues to determine on behalf of the Board of Directors, that Paramount is taking all necessary steps and is being diligent in carrying out its responsibilities; and

- review and report to the Board of Directors on the sufficiency of resources available for carrying out the activities and actions recommended.

The Environmental Health and Safety Committee meets at least semi-annually and receives reports from management with respect to the above matters and in particular relative to Paramount's compliance with health, safety, environmental laws and regulations, the Company's annual compliance budget, and ongoing training programs for employees and contractors.

In addition, Paramount conducts, from time to time, internal assessments of its properties and facilities in order to determine the environmental risks and liabilities associated with them so that Paramount can properly manage and minimize such risks and liabilities in a proactive, efficient and timely manner.

DIRECTORS AND OFFICERS

The following information is provided for each director and executive officer of Paramount as at the date of this annual information form:

Directors

Name and Municipality of Residence	Director Since	Principal Occupation for Past Five Years
Clayton H. Riddell(1)(2)(7) Calgary, Alberta, Canada	1978	Chairman of the Board and Chief Executive Officer, Paramount
James H.T. Riddell(1)(3)(7) Calgary, Alberta, Canada	2000	President and Chief Operating Officer, Paramount
James G.M. Bell (4)(5) Calgary, Alberta, Canada	2011	General Counsel, Olympia Financial Group Inc. and Olympia Trust Company (a public company and a non-deposit taking trust company, respectively). Previously, a partner at Davis LLP, an international law firm.
Thomas E. Claugus(5) Atlanta, Georgia, United States	2010	President, GMT Capital Corp. (a private investment company)
John C. Gorman(2)(4)(5) Calgary, Alberta, Canada	2002	Retired
Dirk Jungé, CFA(5)(6) Bryn Athyn, Pennsylvania, United States	2000	Chairman and Chief Executive Officer, Pitcairn Trust Company (a private trust company)
David M. Knott(1)(5) Syosset, New York, United States	1998	Managing General Partner, Knott Partners, L.P. (a private investment firm)
Violet S.A. Riddell(1) Calgary, Alberta, Canada	1978	Business Executive
Susan L. Riddell Rose(1) Calgary, Alberta, Canada	2000	President and Chief Executive Officer, Perpetual Energy Inc. (a public natural gas exploration and development company) and its predecessor Paramount Energy Trust
John B. Roy(1)(2)(4)(5)(6) Calgary, Alberta, Canada	1981	Independent Businessman
Alistair S. Thomson(1)(4)(5) Sidney, British Columbia, Canada	1992	Retired. Previously, President, Touche Thomson & Yeoman Investment Consultants Ltd. (a private investment firm)
Bernhard M. Wylie(1)(6) Calgary, Alberta, Canada	1978	Business Executive

Notes:

(1) From 1992 to 2008, Paramount was the general partner of T.T.Y. Paramount Partnership No. 5 ("TTY"), a limited partnership which was an unlisted reporting issuer in certain provinces of Canada. TTY was established in 1980 to conduct oil and gas exploration and development activities, but had not carried on operations since 1984 and had only nominal assets. A cease trade order against TTY was issued by the Quebec Securities Commission in 1999 for failing to file its June 30, 1998 financial statements in Quebec. The cease trade order was revoked on April 9, 2008. TTY was dissolved on July 21, 2008.

(2) Member of the Compensation Committee.

(3) Mr. J. H. T. Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year of such company becoming bankrupt. Jurassic's bankruptcy was subsequently annulled.

(4) Member of the Audit Committee.

(5) Member of the Corporate Governance Committee.

(6) Member of the Environmental, Health and Safety Committee.

(7) Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with Trilogy and with MGM Energy. Substantial time is devoted to their offices in Trilogy and MGM Energy, however, they are not paid a salary by Trilogy or MGM Energy therefore such offices are not considered their principal occupation.

Executive Officers

Name and Municipality of Residence	Office	Principal Occupation for Past Five Years
Clayton H. Riddell[1] Calgary, Alberta, Canada	Chief Executive Officer	Chairman of the Board and Chief Executive Officer of Paramount
James H.T. Riddell[1] Calgary, Alberta, Canada	President and Chief Operating Officer	President and Chief Operating Officer of Paramount
Bernard K. Lee Calgary, Alberta, Canada	Chief Financial Officer	Chief Financial Officer of Paramount
E. Mitchell Shier Calgary, Alberta, Canada	General Counsel and Corporate Secretary, Manager, Land	General Counsel and Corporate Secretary, Manager, Land of Paramount since January 2009. From 2002 until January 2009, Mr. Shier practiced oil and gas and commercial law as a partner with Heenan Blaikie LLP (a national law firm) and remains counsel to that firm

Note:
(1) Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with Trilogy and with MGM Energy. Substantial time is devoted to their offices in Trilogy and MGM Energy, however, they are not paid a salary by Trilogy or MGM Energy therefore such offices are not considered their principal occupation.

As at December 31, 2011, the directors and executive officers of the Company as a group beneficially owned or controlled, directly or indirectly, 48,086,649 Common Shares, representing approximately 56 percent of the 85,499,674 Common Shares outstanding at such date. This calculation excludes 1,500,700 Common Shares held by the Riddell Family Charitable Foundation.

Certain directors and officers of Paramount are also directors and/or officers and/or significant shareholders of other companies or entities engaged in the oil and gas business generally and which, in certain cases, own interests in oil and gas properties in which Paramount holds, or may in the future, hold an interest. As a result, situations may arise where such individuals have a conflict of interest. Such conflicts of interest will be resolved in accordance with Paramount's governing corporate statute, the *Business Corporations Act* (Alberta), and Paramount's internal policies respecting conflicts of interest. The *Business Corporations Act* (Alberta) requires that a director or officer of a corporation who is party to a material contract or proposed material contract with the corporation, or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the corporation, disclose in writing to the corporation or request to have entered into the minutes of meetings of directors the nature and extent of the director's or officer's interest; and, if a director, that he or she not vote on any resolution to approve the contract, except in certain circumstances. The *Business Corporations Act* (Alberta) also requires that a corporation's directors and officers act honestly and in good faith with a view to the best interest of the corporation. Paramount's internal policies respecting conflicts of interest require that directors and officers of Paramount avoid putting themselves in a conflict of interest position and, if such a position arises, that disclosure of such position be made so that Paramount can approve or disapprove such position, with disapproved conflict of interest positions requiring immediate cessation by the director or officer.

AUDIT COMMITTEE INFORMATION

The full text of the audit committee's charter is included in APPENDIX D of this annual information form.

Composition of the Audit Committee

The audit committee consists of four members, all of whom are independent and financially literate. The relevant education and experience of each audit committee member is outlined below:

J. C. Gorman

Mr. Gorman has been a director of the Company since 2002. Prior to his retirement in 2000, he was the President and CEO of an energy trading, marketing and financial services company from 1996 to 2000 and a corporate banker with the Bank of Montreal (a Canadian chartered bank) from 1972 to 1996, retiring as Senior Vice President, Natural Resources Group. Mr. Gorman obtained a Bachelor of Arts degree from the University of Ottawa and a Master of Business Administration degree from the University of Western Ontario.

J. G. M. Bell

Mr. Bell has been a director of the Company since 2011. Mr. Bell is currently General Counsel for Olympia Financial Group Inc. (a public company) and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company). Prior thereto, Mr. Bell practiced securities and corporate commercial law as a partner at Davis LLP (an international law firm) until December 31, 2009. Mr. Bell has acted as legal counsel in connection with private placements, prospectus offerings, take-over bids, plans of arrangement and general securities and corporate finance matters. Mr. Bell graduated from the University of Saskatchewan with a Bachelor of Laws degree in 1999.

J. B. Roy

Mr. Roy has been a director of the Company since 1981. He is an independent businessman. Prior to December 1, 2003, he served as the Vice-President and Director, Investment Banking of Jennings Capital Inc. (a private investment banking firm). From 1970 to 1996, he held various positions at Greenshields Incorporated and its successor, Richardson Greenshields of Canada Ltd. (a private investment banking firm). Mr. Roy graduated from Queen's University with a Bachelor of Science degree in Mechanical Engineering and received a Diploma in Management from McGill University. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

A. S. Thomson

Mr. Thomson has been a director of the Company since 1992. He is a retired businessman. Prior to his retirement, Mr. Thomson was the President of Touche Thomson & Yeoman Investment Consultants Ltd. (a private investment firm), which primarily advised clients on investments in the Canadian oil and gas industry, a position he held since 1975. Mr. Thomson graduated from the University of St. Andrews, Scotland, with a Master of Arts (Honours) degree in Political Economy and Geography. He is a past President of both the Alberta Society of Financial Analysts and the Economics Society of Alberta.

Pre-Approval Policies and Procedures

The Company's audit committee has adopted a policy with respect to the pre-approval of audit and permitted non-audit services to be provided by its independent auditor (the "Policy"). Pursuant to the Policy, the audit committee has identified certain services that have been granted pre-approval and which the independent auditors may provide.

The Policy also establishes procedures by which permitted audit and permitted non-audit services proposed to be performed by the Company's independent auditors may be pre-approved.

The audit committee has delegated authority to the Chairman of the audit committee to pre-approve permitted audit and permitted non-audit services to be provided by the independent auditor that have not otherwise been pre-approved by the full audit committee, including the fees and terms of the proposed services (the "Delegated Authority"). All pre-approvals granted pursuant to the Delegated Authority must be presented by the Chairman of the audit committee to the full audit committee at its next meeting.

All fees payable in connection with services provided by the independent auditor must be pre-approved by either the full audit committee or the Chairman of the audit committee pursuant to his Delegated Authority.

External Auditor Service Fees

The following table provides information about the fees billed to the Company for professional services rendered by Ernst & Young LLP in respect of the financial years ended December 31, 2011 and December 31, 2010:

($ thousands)	**2011**	**2010**
Audit Fees (1)	215	365
Audit-Related Fees (2)	232	212
Tax Fees	-	10
All Other Fees (3)	20	5
Total	467	592

(1) Represents the aggregate fees of the Company's auditors for audit services in respect of the financial year.

(2) Represents the aggregate fees billed for assurance and related services by the Company's auditors that are reasonably related to the performance of the audit or review of the Company's financial statements and are not included under "Audit Fees" and are primarily composed of services related to the Company's debt and equity offerings, and adoption of International Financial Reporting Standards.

(3) Represents the aggregate fees billed for products and services provided by the Company's auditors other than those services reported under "Audit Fees", "Audit Related Fees" and "Tax Fees".

DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital as of the date hereof consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As of December 31, 2011, 85,499,674 Common Shares were issued and outstanding and no preferred shares were issued and outstanding.

Common Shares

The holders of the Common Shares are entitled to receive dividends if, as and when declared by the board of directors of the Company. The holders of the Common Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company. Holders of the Common Shares are entitled to one (1) vote in respect of each Common Share held at all meetings of the shareholders of the Company (except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series at such meeting) provided that if the Company fails to pay the full amount of any dividend declared by the board of directors of the Company on the Common Shares on the date specified for payment of such dividend, then, for so long as any dividends remain in arrears on the Common Shares, the holders of the Common Shares shall be entitled to two (2) votes in respect of each Common Share held at all meetings of the shareholders of the Company. In the event of liquidation, dissolution or winding up of the Company or other distributions of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will be entitled, subject to preferences accorded to holders of any class or series of preferred shares, to participate ratably in any distribution of the assets of the Company.

Preferred Shares, Issuable in Series

Preferred shares are non-voting and may be issued in one or more series. The board of directors may determine the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares before the issue of such series. As of December 31, 2011, no preferred shares were issued and outstanding.

CREDIT RATINGS

The following table outlines the ratings of the Company and its 2017 Notes as of December 31, 2011.

	Standard & Poor's Ratings Services ("S&P")	**Moody's Investors Service ("Moody's")**
Company Rating	B	B3
Outlook	Stable	Negative
2017 Notes	B+	Caa1

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 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 B, stable outlook, and a credit rating of B+ on the 2017 Notes. According to S&P's rating system, an obligation rated "B" is more vulnerable to non-payment than those rated BB, but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. 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 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 B3, negative outlook, and a credit rating of Caa1 on the 2017 Notes. According to Moody's rating system, securities rated "B" are considered speculative and are subject to high credit risk and securities rated "Caa1" are judged to be of poor standing and are subject to very high credit risk. 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. In addition, Moody's may add a rating outlook of "positive", "negative" or "stable", which assess the likely direction of an issuer's rating over the medium term.

The credit ratings accorded by S&P and Moody's are not recommendations to purchase, hold or sell securities and 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.

MARKET FOR SECURITIES

The Common Shares are listed on the TSX under the trading symbol “POU”. The following table outlines the trading price range and volume of the Common Shares traded by month in 2011.

	Price Range ($ per share)		
2011	**High**	**Low**	**Trading Volume**
January	31.75	29.86	2,965,842
February	36.25	30.00	1,867,770
March	38.00	30.80	3,332,579
April	33.76	29.19	1,747,246
May	29.62	27.30	1,578,034
June	29.69	26.43	4,904,114
July	33.50	27.49	3,031,927
August	35.78	29.45	2,454,915
September	33.73	29.35	1,959,770
October	37.45	27.82	3,529,457
November	40.93	35.39	3,188,097
December	42.91	39.02	2,554,389

DIVIDENDS

Paramount has not paid a cash dividend in the last three fiscal years. Paramount currently has no plans to pay a dividend in the future. Any future payments will be dependent upon the financial requirements of the Company to reinvest earnings, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate.

LEGAL PROCEEDINGS

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Paramount's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings, or the amounts which the Company may be required to pay by reason thereof, would have a material adverse impact on its financial position, results of operations or liquidity.

RISK FACTORS

Set forth below are the most significant risk factors related to Paramount which you should carefully consider. If any event arising from these risk factors occurs, the Company’s business, prospects, financial condition, results of operation or cash flows could be materially adversely affected.

Volatility of oil and natural gas prices.

Fluctuations in the prices of oil, natural gas, and NGLs will affect Paramount’s operational results and financial condition.

Oil, natural gas, and NGLs prices have fluctuated widely during recent years and are likely to continue to be volatile in the future. Oil, natural gas, and NGLs prices may fluctuate in response to a variety of factors beyond Paramount's control, including, but not limited to, worldwide and regional supply and demand factors, weather, and general economic and market conditions.

Paramount's operations are highly focused on natural gas. Any material decline in natural gas prices could result in a significant reduction in Paramount's production revenue and overall value. Any material decline in oil and NGLs prices could also result in a reduction in Paramount's production revenue and overall value.

The economics of producing from some oil and natural gas wells could change as a result of lower prices. As a result, Paramount could elect not to produce from certain wells. Any material decline in oil, natural gas, and/or NGLs prices could also result in a reduction in Paramount's oil and natural gas acquisition and development activities.

Any substantial and extended weakness in the price of oil, natural gas, and/or NGLs would have an adverse effect, possibly significant, on Paramount's operating results and Paramount's borrowing capacity because borrowings under Paramount's senior credit facility are limited to a borrowing base amount that is established periodically by the lenders. This borrowing base amount is based on the lenders' estimate of the present value of the future net revenue of Paramount's oil and natural gas properties.

Development and/or acquisition of oil and natural gas properties.

Paramount's future success depends upon its ability to develop and/or acquire additional oil and natural gas reserves that are economically recoverable. If Paramount is unable to increase its reserves, the Company's business will be adversely affected because it will eventually deplete its reserves.

The cost of drilling, completing and operating wells is often uncertain. The Company may experience unexpected cost increases, overruns, delays or cancellations of projects in their entirety as a result of numerous factors, many of which are beyond its control, including, but not limited to, weather conditions, required compliance with governmental laws and regulations, the ability to obtain stakeholder support and approvals, and shortages or delays in the delivery of equipment and services. There is the risk that no commercially productive reservoirs will be encountered, that Paramount will not recover all or any portion of its investment, and that Paramount's reserves, revenues and cash flow will decline. Paramount cannot assure you that it will be able to find and develop additional reserves at an acceptable cost or at all.

The successful acquisition and development of oil and natural gas properties requires an assessment of recoverable reserves, future oil, natural gas and NGLs prices and operating and capital costs, potential environmental and other liabilities, and productivity of new wells drilled. These assessments are inexact and, if Paramount makes them inaccurately, it might not recover the purchase price of a property from the sale of production from the property or might not recognize an acceptable return from properties it acquires.

Dependence on certain senior officers.

Paramount is highly dependent on its Chief Executive Officer and its President and Chief Operating Officer. The loss of either of these officers could impede the achievement of Paramount's objectives and could adversely affect Paramount's business and results of operations.

Reserve and resource estimates.

Estimates of oil, natural gas and NGLs reserves and resources involve a great deal of uncertainty because they depend in large part upon the reliability of available geologic and engineering data, which is inherently imprecise. Geologic and engineering data are used to determine the probability of the existence and recoverability of reserves and resources. Probabilities are not certainties and actual recoveries of reserves usually differ from estimates.

Estimates of oil, natural gas and NGLs reserves and resources also require numerous assumptions relating to operating conditions and economic factors, including, but not limited to, the price at which recovered oil, natural gas, and NGLs can be sold, the availability and costs associated with recovering, selling and transporting oil, natural gas and NGLs, the prevailing environmental conditions associated with drilling and production sites, the availability of enhanced recovery techniques, the successful application of in-situ bitumen recovery technologies, and governmental and other regulatory factors, such as taxes and environmental laws.

A change in one or more of these factors could result in known quantities of oil, natural gas and NGLs previously estimated as reserves becoming unrecoverable. For example, a decline in the market price of oil, natural gas, or NGLs to an amount that is less than the cost of recovery of such oil, natural gas and NGLs in a particular location could make production of that oil, natural gas and NGLs commercially uneconomical. Each of these factors, by having an impact on the cost of recovery and the rate of production, will also reduce the present value of future net cash flows from estimated reserves and resources.

In addition, if estimates of reserves and resources and future net cash flows expected from them are prepared by different independent engineers, or by the same engineers at different times, the results may vary substantially.

Furthermore, in accordance with IFRS, Paramount could be required to write-down the carrying value of its oil and natural gas properties if future oil and natural gas prices become depressed, or if there are substantial downward revisions to Paramount's quantities of reserves. A write-down would result in a charge to earnings and a reduction of shareholders' equity. For the year ended December 31, 2011, the carrying value of Paramount’s oil and natural gas properties was written down by approximately $215 million.

Ability to market.

Paramount's ability to market its oil, natural gas and NGLs depends upon numerous factors beyond its control. These factors include, but are not limited to, the availability and proximity of processing and pipeline capacity, supply and demand factors, the effects of weather conditions, and regulatory requirements. Because of these factors, Paramount could be unable to market all of the oil, natural gas and NGLs it produces which could adversely affect Paramount’s business. In addition, Paramount may be unable to obtain favorable prices for the oil, natural gas and NGLs it produces.

Paramount sells its production to a variety of purchasers under normal industry sale and payment terms. As a result, Paramount is also exposed to counterparty credit risk.

As part of normal business operations, Paramount has entered into a number of short-term and long-term pipeline transportation commitments. Paramount generally enters into firm pipeline capacity commitments for its natural gas production as opposed to interruptible service. The Company closely monitors the daily production from all of its plants to ensure that contractual obligations are met. After balancing contractual obligations, natural gas sales are directed to the highest netback market.

Industry competition.

The petroleum and natural gas industry is highly competitive. Paramount competes with numerous other participants in the search for and acquisition of crude oil and natural gas properties and in the marketing of these commodities. Many of Paramount’s competitors have greater financial and human resources and/or greater access to capital than Paramount. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and reserves. Paramount's competitive position depends upon its geological, geophysical and engineering expertise and its financial resources. In addition, successful reserve replacement in the future will depend not only on the further development of present properties, but also on the ability to select and acquire suitable prospects for exploratory drilling and development.

Funding of exploration, development and operational activities.

Paramount may not have, or be able to obtain, through operations, financings, asset dispositions or otherwise, on terms acceptable to the Company or at all, the necessary capital required to fund its exploration and development activities and other operations. Failure to have or obtain necessary capital when required could result in Paramount being unable to develop its existing reserves and resources, discover new reserves and make acquisitions or could result in the termination or reduction of Paramount's property interests, any of which may have a material adverse effect on the Company's assets, results of operations and ability to execute its business plan.

Inability to repay, refinance, or comply with covenants related to its indebtedness.

The Company's indebtedness includes a Credit Facility with a syndicate of Canadian chartered banks, the Drilling Rig Loans, the Oil Sands Demand Loan with a syndicate of Canadian chartered banks, and its 2017 Notes (maturing December 2017). There is a risk that the Credit Facility will not be extended or renewed for the same principal amount or on similar terms and that principal amounts outstanding under the Company's demand facilities may be demanded by lenders. There is a risk that the Company will not be able to meet the covenants associated with its indebtedness, repay all or part of the indebtedness, or refinance all or part of the indebtedness on commercially reasonable terms. In addition, certain amounts, if drawn, under Tranche B of the Credit Facility will be secured by the pledge of certain of the Company's equity investments. A decrease in the market value of these equity investments may result in the Company having to either increase the number of shares pledged or repay the amounts drawn under Tranche B of the Credit Facility. The occurrence of any one of these events may have a material adverse effect on the Company's assets and ability to execute its business plan.

Investment risk.

Paramount's investments include both public and private entities. Any material adverse effect on the financial position, business or operations of the entities in which Paramount has invested, may have a material adverse affect on the value of such investments and the returns on such investments (including the decrease, suspension, or termination of dividends). There is also no assurance as to the ability of Paramount to liquidate certain of its investments and the price Paramount would receive if it chose to liquidate these investments. Decreases in the value of Paramount's investments or the inability to liquidate investments could have a material adverse effect on the Company.

Paramount's short-term investments of excess cash are mainly in Bankers' Acceptance notes and Bearer Deposit Notes.

Governmental Regulation.

Paramount's operations are governed by numerous Canadian and United States laws and regulations at the municipal, provincial, state and federal levels. These laws and regulations include, but are not limited to, such matters as royalties, taxes (including income taxes), land tenure, production rates, export of petroleum and natural gas, the development and abandonment of oil and gas fields, drilling obligations, government fees, mineral rights, and environmental protection. In addition, regulatory approval processes can involve numerous stakeholders. Changes to laws and regulations, governmental intervention, failure to obtain stakeholder support, delays in obtaining regulatory approvals, or failure to comply with laws and regulations could have a material adverse affect on the Company's assets, results of operations, and its ability to execute its business plan.

Paramount's historic income tax and royalty filings are subject to reassessment by government entities. The reassessment of historic filings could result in additional income tax, royalties, interest and penalties which could adversely affect Paramount's cash flows and financial position.

In October 2010, the Company received reassessments from the Canada Revenue Agency (the "CRA") and provincial tax authorities of its income taxes relating to a prior year transaction (the "Reassessments"). Paramount disagrees with the Reassessments and has filed notices of objection with the CRA and provincial tax authorities. Despite its disagreement, and as a condition of its right to proceed with its objection to the Reassessments, the Company was required to deposit approximately $20 million with the CRA, which amount will remain on account until the dispute is resolved.

Royalty rates and regulations.

The royalty rates and regulations in jurisdictions that the Company operates may be subject to change which could have a material adverse affect on the Company's assets, results of operations and its ability to execute its business plan. Royalties relating to Paramount's production have been accrued based on the Company's interpretation of the relevant legislation and regulations.

Potential Environmental Risks Associated with Hydraulic Fracturing

The Company utilizes horizontal drilling, multi-stage hydraulic fracturing, specially formulated completion fluids and other technologies in connection with its drilling and completion activities. Public concern over the hydraulic fracturing process has raised questions regarding the completion fluids used in the fracturing process, their effect on fresh water aquifers, the use of water in connection with completion operations and the ability of such water to be recycled. Recently, the Canadian Association of Petroleum Producers, an industry group, issued guidelines to address hydraulic fracing in shale gas and tight gas reservoirs. Certain government and regulatory agencies in Canada and the United States have been investigating the potential risks associated with the hydraulic fracturing process. The Company is unable to predict the impact of any potential regulations upon the oil and gas industry and the impact on the Company's business. The implementation of any new regulations with respect to water usage or hydraulic fracturing generally could increase the Company's costs of compliance, operating costs, the risk of litigation and environmental liability, or negatively impact the Company's prospects, any of which may have a material adverse effect on our business, financial condition and results of operations.

Operating risks and Insurance.

There are many operating hazards in exploring for and producing oil and natural gas, including, but not limited to, unexpected formations, blowouts, accidents, equipment failures, spills, releases, environmental damage or other unexpected or dangerous conditions that could result in damage to Paramount, injury or death of employees or contractors, damage to equipment and facilities, environmental contamination and potential liability to third parties (including government bodies). Also, a significant event may result in lost revenue and/or profit.

The Company cannot fully protect all of these risks, nor are all of these risks insurable. The Company may become liable for damages arising from these events against which it cannot insure or against which it may elect not to insure due to high premium costs or other reasons.

The occurrence of a significant event against which Paramount is not fully insured or indemnified could seriously harm Paramount's financial condition, operating results and ability to carry on its business.

Paramount does not control all of its operations.

The exploration and development of, and production from oil and gas properties, are largely dependent on the operator of the property. Paramount does not operate all of its properties. To the extent an operator fails to conduct operations properly or in a manner that Paramount prefers, Paramount's financial condition, operating results and ability to carry on its business could be adversely affected.

Risk management activities.

The nature of Paramount's operations results in exposure to fluctuations in commodity prices, currency exchange rates and interest rates. Paramount monitors and, when appropriate, utilizes derivative and/or physical forward delivery contracts to manage its exposure to these risks.

If commodity prices change, or the value of the Canadian dollar versus the U.S. dollar changes, or interest rates change from that provided in Paramount's various derivative contracts, Paramount could be required to make cash payments to counterparties, or lose the cost of an option. Conversely, a ceiling or fixed price could limit Paramount from receiving the full benefit of commodity price increases, changes in the value of the Canadian dollar or changes in interest rates.

By entering into these hedging activities, Paramount may suffer financial loss if it is unable to produce oil or natural gas to fulfill its obligations, could be required to pay a margin call on a derivative contract, or could be required to pay royalties based on a market or reference price that is higher than its fixed or ceiling price.

In addition, Paramount may be exposed to credit related losses in the event of non-performance by counterparties to these financial instruments and physical delivery contracts.

Surface conditions.

The exploration for and development of oil and natural gas reserves depends upon access to areas where operations are to be conducted. Oil and gas industry operations are affected by road bans imposed from time to time during the access period in the spring. Road bans are also imposed due to snow, mud and rock slides and periods of high water which can restrict access to Paramount's well sites and production facility sites. Access to Paramount’s operations may also be restricted due to environmental regulations.

Paramount conducts a portion of its operations in Northern Alberta, Northeast British Columbia and the Northwest Territories of Canada, which Paramount is able to do on a seasonal basis only. Unseasonably warmer or colder weather can significantly affect Paramount’s operations in these areas.

Unforeseen title defects, expiration of licenses and leases, and land claims.

Unforeseen title defects may result in the loss of entitlement to production and reserves. Title reviews are conducted in accordance with industry practice, however such reviews do not guarantee that an unforeseen defect in the chain of title will not arise and defeat the Company’s title to the assets. If such a defect were to occur, the Company’s entitlement to the production from such assets could be at risk.

The Company’s properties are held in the form of licences and leases and working interest in licences and leases. Failure to meet requirements of the licence or lease may result in their termination or expiry. Paramount has processes in place to manage the termination and expiry of licenses and leases, however if Paramount was unable to continue licenses or leases it may have a material adverse effect on Paramount's financial condition, operating results and ability to carry on its business.

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of western and northern Canada, including some of the properties on which Paramount conducts its operations. Claims asserting aboriginal title or rights to the lands on which any of Paramount's properties are located, if successful, could have an adverse effect on Paramount's assets, results of operations and ability to execute its business plan.

Changes to future exploration, exploitation and development projects.

Whether Paramount ultimately undertakes an exploration, exploitation or development project will depend upon numerous factors such as market conditions, prices, access to and cost of capital, supply and demand factors and new information. Paramount continuously gathers data about its projects and it is possible that additional information will cause Paramount to alter its schedule or determine that a project should not be pursued.

Compliance with and changes to environmental laws and regulations.

Paramount's operations are subject to extensive and stringent federal, provincial, state and local laws and regulations associated with environmental matters governing exploration, development and production of oil and gas, occupational health and safety, waste generation, storage transfer and disposal, protection and remediation of the environment, protection of endangered and protected species and lands, operational safety, toxic substances and other matters. Compliance with these laws and regulations may impose substantial costs on Paramount and may subject Paramount to significant potential liabilities, and future changes in environmental legislation could result in stricter standards and enforcement, larger fines and increased costs of compliance, remediation and restoration, all of which could have a material adverse effect on Paramount's financial condition or results of operations. In this regard, it is difficult to predict at this point in time what impact federal and provincial greenhouse gas legislation, or other environmental legislation, could have on the Canadian oil and gas industry. Nonetheless, it can be anticipated that when regulations are implemented, Paramount will face increased costs in order to comply with that legislation. If these increases are significant, they may have a material adverse effect on Paramount’s financial condition or results of operations.

Environmental laws may require parties to undertake or pay for remedial action or to pay damages regardless of fault. Environmental laws may also impose liability with respect to divested or terminated operations, even if the operations were terminated or divested many years ago.

Paramount's operations may also result in civil liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. Paramount may be liable for environmental damage caused by previous owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on Paramount's financial condition and results of operations. The release of harmful substances in the environment or other environmental damage caused by Paramount's activities may result in loss of operating and environmental permits. Paramount currently has insurance covering certain environmental damages; however, the scope and coverage under such insurance is limited and environmental damage which may be caused by Paramount may not be covered under such insurance or, if covered, may not cover all of Paramount’s costs and liabilities. Accordingly, Paramount may be subject to significant liability in the event of environmental damages.

Exploration and development of oil sands and carbonate bitumen assets.

During the year, Paramount transferred all of its oil sands and carbonate bitumen assets into Cavalier (see “RESOURCES AND RELATED INFORMATION”). These assets are prospective for in-situ bitumen recovery projects but, are at the early stages of their evaluation and development. Cavalier currently has no bitumen production and there are no assurances that any of its properties will commence production, generate earnings, operate profitably or provide a return on investment in the future.

Cavalier’s Hoole oil sands leases are prospective for bitumen recovery from clastic reservoirs, whereas its Saleski and Other Carbonate Leases are prospective for bitumen recovery from carbonate reservoirs. Currently, there are numerous commercial projects which produce from clastic reservoirs using SAGD and other recovery processes. The successful development of Cavalier’s carbonate reservoirs depends on, among other things, the successful development and application of SAGD or other processes for bitumen recovery from these reservoirs. Currently, there are several pilot projects underway in Alberta for bitumen recovery from carbonate reservoirs. The main risks associated with SAGD recovery in carbonate reservoirs include the possibility of unexpected steam channeling or operating problems due to wellbore plugging. These risks could result in increased operating costs, lower production rates, and reduced economically recoverable bitumen volumes, resulting in an uneconomic project.

There can be no assurance that the regulatory approvals needed for the development of the Hoole oil sands project or possible future development of the Saleski oil sands leases or Other Carbonate Leases will be obtained on schedule or on the desired terms or at all. If the regulatory approvals are not received, these projects will be unable to proceed and the potential benefits of the projects will be lost. Even if these regulatory approvals are obtained, there is a risk that sufficient capital cannot be raised or that these projects will not be completed on time or within the capital cost estimate or at all. Additionally, there is a risk that these projects may have delays, interruption of operations or increased costs due to many factors, including, without limitation: breakdown or failure of equipment or processes; construction performance falling below expected levels of output or efficiency; design errors; contractor or operator errors; non-performance by third-party contractors; labour disputes, disruptions or declines in productivity; increases in materials or labour costs; inability to attract and retain sufficient numbers of qualified management, technical and operational personnel; infrastructure constraints and/or delays; fluctuations in commodity prices, foreign exchange rates, and interest rates; delays in obtaining, or conditions imposed by, regulatory approvals; changes in the scope of the project; the performance of new technologies that may be used; violation of permit requirements; land claims; disruption in the supply of energy; catastrophic events such as fires, earthquakes, storms or explosions; shortages of equipment, materials and labour; fluctuations in the prices of building materials; delays in delivery of equipment and materials; political events; local, native and political opposition, blockades or embargoes; litigation; weather conditions; unanticipated increases in costs; unforeseen engineering, design, environmental or geological problems; uncertainties associated with resource volumes; availability and cost of bitumen upgrading; and other unforeseen circumstances. These risks could adversely impact the value of Cavalier's oil sands and carbonate bitumen assets, the amount of capital available to further evaluate and develop these assets, and the timing and progress of and production from any projects.

In the event that the Hoole oil sands project, the Saleski oil sands leases or the Other Carbonate Leases are developed and become operational, there can be no assurance that bitumen will be produced or, if produced, will be produced in the quantities or at the costs anticipated and will continue producing. Because operating costs to produce bitumen from oil sands or carbonate may be substantially higher than operating costs to produce conventional crude oil, an increase in such costs may render extraction of bitumen resources from these projects uneconomic. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws and regulations and enforcement policies thereunder and claims for damages to property or persons resulting from a project's operations, could result in substantial costs and liabilities, delays or an inability to complete these projects or the abandonment of these projects.

The marketability of the bitumen associated with the oil sands and carbonate bitumen assets will be affected by numerous factors beyond the Company's control. These factors include, but are not limited to, market fluctuations of prices, proximity and capacity of pipelines and processing equipment, equipment availability and government regulations (including, without limitation, regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and gas and environmental protection). The extent of these factors cannot be accurately predicted, but the combination of these factors may result in there not being an adequate return on invested capital.

Essential equipment and personnel.

Oil and natural gas exploration and development activities depend upon the availability of qualified personnel and drilling and related equipment in the areas. Shortage of qualified personnel or equipment may delay Paramount's exploration and development activities.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Trust Company of Canada located at 600, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8.

INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants, are the Company's auditors and such firm has prepared an opinion with respect to the Company's consolidated financial statements as at and for the fiscal year ended December 31, 2011. Information relating to Paramount's reserves in this annual information form was prepared by McDaniel as an independent qualified reserves evaluator. Information relating to Paramount's resources in this annual information form was also prepared by McDaniel as an independent qualified resources evaluator. Information relating to Trilogy's reserves in APPENDIX C of this annual information form was prepared by InSite Petroleum Consultants Ltd. ("InSite") as an independent qualified reserves evaluator.

Ernst & Young LLP has confirmed it is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

The principals of McDaniel and InSite own beneficially, directly or indirectly, less than 1 percent of any class of Paramount's securities.

ADDITIONAL INFORMATION

Additional information relating to Paramount is available via the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Additional information, including directors' and officers' remuneration, principal holders of Paramount's securities, and options to purchase securities, is contained in the information circular for Paramount's most recent annual meeting of shareholders that involves the election of directors. Additional financial information is contained in Paramount's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2011.

APPENDIX A
Report on Reserves Data by Independent Qualified Reserves Evaluator

To the board of directors of Paramount Resources Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2011. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011 estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2011, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

		Net Present Value of Future Net Revenue - $ thousands (before income taxes, 10% discount rate)			
Preparation Date of Evaluation Report	Location of Reserves	Audited	Evaluated	Reviewed	Total
February 15, 2012	Canada/United States	–	$832,173	–	$832,173

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

/s/ P.A. Welch, P. Eng.
President & Managing Director
Calgary, Alberta
March 6, 2012

APPENDIX B
Report of Management and Directors on Reserves Data and Other Information

Management of Paramount Resources Ltd. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Audit Committee of the board of directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Audit Committee of the board of directors of the Company has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Audit Committee, approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information contained in the Company's annual information form accompanying this report;

(b) the filing of the report of the independent qualified reserves evaluators on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

/s/ Clayton H. Riddell
Chief Executive Officer

/s/ Bernard K. Lee
Chief Financial Officer

/s/ John B. Roy
Director

/s/ John C. Gorman
Director

March 6, 2012

APPENDIX C
National Instrument 51-101 Equity Investments Disclosure

As at December 31, 2011 and adjusted for the Trilogy Secondary Offering (see “GENERAL DEVELOPMENT OF THE BUSINESS – 2011”), Paramount owned approximately 12.8 million common shares of Trilogy and 6.4 million non-voting shares of Trilogy, representing approximately 16 percent of Trilogy’s equity and approximately 14 percent of the common shares.

The following is a summary of Trilogy’s reserves and future net revenue as at December 31, 2011 and the costs incurred by Trilogy during the year ended December 31, 2011, each multiplied by 16 percent, being Paramount’s equity interest in Trilogy as of December 31, 2011 adjusted for the Trilogy Secondary Offering. InSite evaluated Trilogy’s natural gas, natural gas liquids, and crude oil reserves as at December 31, 2011. The evaluation by InSite was prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101. Trilogy’s reserves are mainly located in Alberta. Columns and rows may not add in the following tables due to rounding.

The information contained within this APPENDIX C has been derived solely from Trilogy’s annual information form dated March 5, 2012 which is posted on SEDAR (www.sedar.com) and is not incorporated by reference into this annual information form.

For the year ended December 31, 2011, Paramount accounted for its investment in Trilogy using the equity method. Pursuant to NI 51-101, Paramount is required to disclose the following information separately from its own reserves data and other oil and gas information. **Readers are cautioned that Paramount does not have any direct or indirect interest in or right to the reserves or future net revenue of Trilogy disclosed within this APPENDIX C nor does Paramount have any direct or indirect obligation in respect of or liability for the costs incurred by Trilogy disclosed within this APPENDIX C. The Company is a shareholder of Trilogy, just like any other shareholder of Trilogy, and, accordingly, the value of the Company’s investment in Trilogy is based on the trading price of Trilogy’s shares on the TSX.**

Reserves Data – Forecast Prices and Costs[1]

The following table summarizes Trilogy’s reserves evaluated at December 31, 2011 multiplied by 16 percent using forecast prices and costs.

	Natural Gas		Light & Medium Crude Oil		Natural Gas Liquids		Total	
Reserves Category	**Gross (Bcf)**	**Net (Bcf)**	**Gross (MBbl)**	**Net (MBbl)**	**Gross (MBbl)**	**Net (MBbl)**	**Gross (MBoe)**	**Net (MBoe)**
Proved								
Developed Producing	38.7	35.3	1,512	1,100	1,376	1,072	9,336	8,054
Developed Non-producing	3.9	3.7	217	163	141	112	1,009	883
Undeveloped	0.3	0.4	87	65	15	14	160	147
Total Proved	42.9	39.4	1,816	1,327	1,533	1,197	10,505	9,084
Total Probable	16.9	15.1	796	553	495	352	4,111	3,417
Total Proved plus Probable	59.9	54.4	2,612	1,881	2,028	1,549	14,615	12,501

(1) Same terminology as earlier defined in this annual information form.

Net Present Value of Future Net Revenue – Forecast Prices and Costs[1]

The following table summarizes the net present values of future net revenue attributable to Trilogy's reserves evaluated at December 31, 2011 multiplied by 16 percent, except per unit information. The net present values are reported before income taxes and after income taxes at discount rates of 0%, 5%, 10%, 15%, and 20% as well as on a unit value basis at a discount rate of 10% before income taxes. Future net revenue does not represent fair market value.

	Net Present Value of Future Net Revenues ($ millions)										Unit Value Before Tax Discounted at 10%
	Before Income Tax (discounted at)					After Income Tax [2] (discounted at)					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/boe**
Proved											
Developed Producing	294.8	213.1	168.5	140.7	121.7	269.0	200.0	161.2	136.3	119.0	20.92
Developed Non-producing	32.1	24.8	20.4	17.5	15.5	24.1	19.5	16.7	14.9	13.5	23.12
Undeveloped	7.2	5.1	3.9	3.2	2.7	5.4	3.9	3.1	2.6	2.2	26.83
Total Proved	334.0	243	192.9	161.4	139.9	298.5	223.4	181.1	153.8	134.8	21.23
Total Probable	160.0	75.3	44.3	29.8	21.9	119.8	56.8	33.8	23.1	17.2	12.98
Total Proved plus Probable	494.0	318.3	237.2	191.3	161.7	418.2	280.2	214.8	176.9	151.9	18.98

(1) Same terminology as earlier defined in this annual information form.
(2) Estimates of the after-tax value of future net revenue have been prepared based on pre-tax reserves information and include assumptions and estimates of Trilogy's tax pools and the sequences of claims and claim rates thereon. After tax value has been prepared on a consolidated basis and does not consider the business entity level tax situation or additional tax planning which may occur. Trilogy's financial statements and MD&A for the year ended December 31, 2011 should be consulted for additional information regarding income taxes.

Future Net Revenue – Forecast Prices and Costs[1]

The following table summarizes the total undiscounted future net revenue before income taxes and after income taxes attributable to Trilogy's reserves evaluated at December 31, 2011 multiplied by 16 percent.

Reserves Category ($ millions)	**Proved**	**Proved plus Probable**
Revenue	564.9	862.5
Royalties[2]	88.2	147.1
Operating Costs	133.6	207.9
Development Costs	4.1	7.2
Well Abandonment Costs	4.9	6.2
Future Net Revenue Before Income Tax	334.0	494.0
Income Taxes [3]	35.6	75.8
Future Net Revenue After Income Tax	298.5	418.2

(1) Same terminology as earlier defined in this annual information form.
(2) Royalties include crown royalties, freehold royalties, overriding royalties and mineral taxes.
(3) Estimates of the after-tax value of future net revenue have been prepared based on pre-tax reserves information and include assumptions and estimates of Trilogy's tax pools and the sequences of claims and claim rates thereon. After tax value has been prepared on a consolidated basis and does not consider the business entity level tax situation or additional tax planning which may occur. Trilogy's financial statements and MD&A for the year ended December 31, 2011 should be consulted for additional information regarding income taxes.

Future Net Revenue by Production Group – Forecast Prices and Costs[1]

The following table summarizes the net present value of future net revenue by production group and on a unit value basis before income taxes attributable to Trilogy's net reserves evaluated at December 31, 2011 multiplied by 16 percent, except unit values.

Reserves Category	**Production Group** [4]	**Future Net Revenue Before Income Tax (discounted at 10%) ($ millions)**	**Unit Value Before Income Taxes (discounted at 10%/year using net reserves) ($/unit)**
Proved	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	107.5	$ 2.58/Mcf
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	83.2	$ 38.74/Bbl
Proved plus Probable	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	135.5	$ 2.39/Mcf
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	99.1	$ 32.59/Bbl

(1) Same terminology as earlier defined in this annual information form.
(2) Natural gas includes coalbed methane and associated and non-associated gas (including by-products).
(3) Light and medium crude oil includes solution gas and other by-products.
(4) Does not include revenue from heavy oil or other minor sources of revenue.

Summary of Pricing and Inflation Rate Assumptions[1]

The following table summarizes the prices used by InSite in calculating the net present value of future net revenue attributable to reserves.

Forecast Prices and Costs		**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
U.S. Henry Hub Gas Price	(US$/MMBtu)	3.90	4.50	5.00	5.50	6.00	6.50	7.00
Alberta Gas Reference Price	(Cdn$/MMBtu)	3.16	3.74	4.23	4.72	5.20	5.69	6.17
AECO Gas Price	(Cdn$/MMBtu)	3.45	4.04	4.53	5.02	5.51	6.00	6.49
WTI @ Cushing	(US$/Bbl)	100.00	101.00	102.00	103.00	104.00	106.00	108.12
Edmonton Reference Price	(Cdn$/Bbl)	98.00	99.00	99.96	100.92	101.88	103.84	105.91
Condensate Edmonton	(Cdn$/Bbl)	102.90	101.97	102.96	103.95	104.93	106.95	109.09
Butane	(Cdn$/Bbl)	73.50	74.25	74.97	75.69	76.41	77.88	79.43
Propane	(Cdn$/Bbl)	58.80	59.40	59.98	60.55	61.13	62.30	63.55
Ethane	(Cdn$/Bbl)	10.26	12.16	13.75	15.33	16.91	18.49	20.06
Inflation Rate [2]	(%/year)	0%	2%	2%	2%	2%	2%	2%
Exchange Rate [3]	(US$/Cdn$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(1) Same terminology as earlier defined in this annual information form.
(2) Inflation rates for forecasting prices and costs subsequent to 2018 were 2% per year.
(3) Exchange rates used to generate the benchmark reference prices in this table.

Costs Incurred

The following table summarizes the costs incurred by Trilogy for exploration and development costs, prior to the application of any drilling incentives available to Trilogy, multiplied by 16 percent.

Cost Type **($ millions)**	**2011**	**Q4**	**Q3**	**Q2**	**Q1**
Non-corporate acquisitions and dispositions					
Proved properties	-	-	-	-	-
Unproved properties (including undeveloped land)	5.9	-	0.1	0.4	5.4
Exploration	5.8	2.0	0.9	0.3	2.6
Development (including facilities)	45.9	14.7	10.8	6.5	13.9
Total	**57.6**	**16.7**	**11.8**	**7.2**	**21.9**

APPENDIX D
Paramount Resources Ltd.
Audit Committee Charter

(Adopted by the Board of Directors on May 19, 2005 and amended on November 14, 2007)

A. PURPOSE

The overall purpose of the Audit Committee (the "Committee") is to ensure that the Corporation's management has designed and implemented an effective system of internal financial controls and disclosure controls and procedures, to review and report on the integrity of the consolidated financial statements of the Corporation, to review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts and to review the Corporation's externally disclosed oil and gas reserves estimates including reviewing the qualifications of, and procedures used by, the independent engineering firm responsible for evaluating the Corporation's reserves.

B. COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the Board of Directors (the "Board"), all of whom shall be "independent", as that term is defined in Sections 1.4 and 1.5 of Multilateral Instrument 52-110, Audit Committees[1] and who meet the requirements of Section 3.5(1) of National Instrument 51-101[1] - Standards of Disclosure *for Oil and Gas Activities.*

2. All of the members of the Committee shall be "financially literate" (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issuer that can be reasonably expected to be raised by the issuer's financial statements).

3. The Audit Committee shall be responsible for assessing, on a periodic basic, whether any member of the Committee meets the criteria for being a "financial expert" pursuant to Section 407 of the Sarbanes-Oxley Act[1].

4. The Board shall appoint the members of the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

5. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their members.

6. The Corporate Secretary of the Corporation shall be the secretary of the Committee, unless otherwise determined by the Committee.

7. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

8. The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors, and to such information respecting the Corporation, as it considers necessary or advisable in order to perform its duties and responsibilities.

9. Meetings of the Committee shall be conducted as follows:

   (a) The Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;

(b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee; and

(c) the following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

President and Chief Operating Officer
Chief Financial Officer
Controller
Corporate Secretary

(d) other management representatives shall be invited to attend as necessary.

10. The external auditors shall report directly to the Committee and the external auditors and internal auditors (if any) shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

11. The Committee may retain, at the Corporation's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties and may set and pay the compensation for any advisor engaged. The Committee will notify the Chairman of the Corporate Governance Committee whenever independent consultants are engaged.

C. ROLES AND RESPONSIBILITIES

1. The overall duties and responsibilities of the Committee shall be as follows:

(a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements and management's discussion and analysis;

(b) to establish and maintain a direct line of communication with the Corporation's internal (if any) and external auditors and assess their performance;

(c) to ensure that the management of the Corporation has designed, implemented and is maintaining an effective system of internal financial controls and disclosure controls and procedures;

(d) to periodically review the audit and non-audit services pre-approval policy and recommend to the Board any changes which the Committee deems appropriate;

(e) to periodically consider whether there is a need to outsource internal audit functions or create an internal audit department;

(f) to assist the Board in the discharge of its responsibilities relating to the evaluation and disclosure of its oil and gas reserves and oil and gas activities and the approval and filing of all necessary statements and reports related thereto;

(g) to receive and review complaints received pursuant to the Corporation's Whistleblower Policy and oversee and provide direction on the investigation and resolution of such concerns and to periodically review the said policy and recommend to the Board changes which the Committee may deem appropriate;

(h) to report regularly to the Board on the fulfillment of its duties and responsibilities;

(i) to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation; and

(j) to review and approve the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:

(a) to be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(b) to recommend to the Board a firm of external auditors to be nominated for appointment by the shareholders of the Corporation, and to monitor and verify the independence of such external auditors;

(c) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;

(d) review the audit plan of the external auditors prior to the commencement of the audit;

(e) to review with the external auditors, upon completion of their audit:

i contents of their report;

ii scope and quality of the audit work performed;

iii adequacy of the Corporation's financial and auditing personnel;

iv co-operation received from the Corporation's personnel during the audit;

v internal resources used;

vi significant transactions outside of the normal business of the Corporation;

vii significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and

viii the non-audit services provided by the external auditors, as pre-approved pursuant to the audit and non-audit services pre-approval policy;

(f) to discuss with the external auditors the quality and not just the acceptability of the Corporation’s accounting principles;

(g) to review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and

(h) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.

3. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:

   (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management;

   (b) review compliance under the Corporation's Code of Business Conduct Policy with those matters addressed in the policy which affect the financial integrity of the Corporation and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate; and

   (c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal accounting staff or by the external auditors have been implemented.

4. The Committee is also charged with the responsibility to:

   (a) review and recommend to the Board for its approval, the Corporation’s and its subsidiaries, partnerships and joint venturers, as applicable, annual financial statements, management’s discussion and analysis, annual information form and annual earnings press releases before the Corporation publicly discloses this information;

   (b) review and approve the Corporation’s and its subsidiaries, partnerships and joint venturers, as applicable, interim financial statements, interim management’s discussion and analysis including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto and interim earnings press releases before the Corporation publicly discloses this information;

   (c) review and approve the financial sections of:

      i the annual report to shareholders;

      ii the annual information form;

      iii prospectuses;

      iv other public reports requiring approval by the Board; and

      v press releases related there to, and report to the Board with respect thereto;

   (d) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;

   (e) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;

   (f) review and report on the integrity of the Corporation’s consolidated financial statements;

   (g) review the minutes of any audit committee meeting of subsidiary companies;

(h) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;

(i) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts; and

(j) develop a calendar of activities to be undertaken by the Committee for each ensuing year related to the Committee's duties and responsibilities as set forth in this Charter and to submit the calendar in the appropriate format to the Board of Directors within a reasonable period of time following each annual general meeting of shareholders.

5. The duties and responsibilities of the Committee as they relate to the Corporation's oil and gas reserves estimates are to:

(a) review, with reasonable frequency, the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the disclosure requirements and restrictions of all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto;

(b) review the appointment of the independent engineering firm responsible for evaluating the Corporation's reserves, and in the case of any proposed change in such appointment, determine the reasons for the proposal and whether there have been disputes between the appointed reserves evaluator and Management of the Corporation;

(c) review, with reasonable frequency, the Corporation's procedures for providing information to the reserves evaluator;

(d) before approving the filing of reserves data and the report of the reserves evaluator as required under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto, meet with Management and the reserves evaluator to:

i determine whether any restrictions affect the ability of the reserves evaluator to report on reserves data without reservation, and

ii review the reserves data and the report of the reserves evaluator;

(e) review, discuss with and make recommendations to the Board with respect to:

i approving the content and filing of the reserves statement;

ii the filing of the report of the reserves evaluator; and

iii the content and filing of the report of Management and Directors;

as required or specified under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto.

D. ANNUAL REVIEW AND ASSESSMENT

The Committee shall conduct an annual review and assessment of its performance, including compliance with this Charter and its role, duties and responsibilities, and submit such report to the Board of Directors.

[1] Definitions from National Instrument 52-110, National Instrument 51-101, and the Sarbanes-Oxley Act have been omitted.