Paramount resources ltd.

ANNUAL INFORMATION FORM
For the Year Ended December 31, 2010

March 3, 2011

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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 Canadian generally accepted accounting principles ("Canadian GAAP"). Paramount's audited consolidated financial statements as at and for the year ended December 31, 2010 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). 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. 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.

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;
- budget allocations and capital spending flexibility;
- the outcome of any legal claims, audits, assessments or other regulatory matters or proceedings;
- adequacy of facilities to process natural gas production;
- estimated reserves and resources and the undiscounted and discounted present value of future net revenues from such reserves and resources (including the forecast prices and costs and the timing of expected production volumes and future development capital);
- ability to fulfill future pipeline transportation commitments;
- undeveloped land lease expiries;
- 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;
- timing of regulatory applications; 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 and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to secure adequate product transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals; and
- currency exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward looking information is reasonable, undue reliance should not be placed on 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 NGLs prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations;
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission reduction obligations;
- the timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; 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. Paramount Resources is an Alberta general partnership directly and indirectly wholly-owned by Paramount. Summit Resources, Inc. is incorporated under the laws of Montana and is a direct, wholly-owned subsidiary of Paramount. 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, 2010.

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 $2.7 billion as of February 28, 2011. 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, which includes properties in West Central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in Southern Alberta, Saskatchewan, Montana and North Dakota; and
- the Northern COU, 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 development stage assets where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation; and (iii) three drilling rigs owned by Fox Drilling Inc. ("Fox Drilling") and Paramount Drilling U.S. L.L.C. ("Paramount Drilling").

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.

2008

In February 2008, Paramount purchased 3.5 million common shares of Paxton Corporation ("Paxton") for $4.8 million. Paxton is a private company involved in the development of technology used for enhanced hydrocarbon recovery and power generation and the sequestration of carbon dioxide. During the second quarter of 2008, Paxton's common shares were consolidated on a two-for-one basis. As at December 31, 2010, Paramount owned approximately 10 percent of the outstanding common shares of Paxton.

On March 12, 2008, MEG Energy Corp. ("MEG"), repaid the entire amount of its $75 million note due to Paramount. During 2007, Paramount sold to MEG its oil sands leases and shut-in and producing natural gas rights in the Surmont area of Alberta for $301.7 million, consisting of $75 million in cash, a $75 million note receivable, and 3.7 million MEG common shares then valued at $151.7 million.

On July 15, 2008, Paramount invested a further $12.3 million in MGM Energy by purchasing approximately 22.4 million MGM common shares under MGM Energy's third public offering. As at December 31, 2010, Paramount owned approximately 14 percent (2009 – 15 percent; 2008 – 17 percent) of the outstanding MGM common shares.

In August 2008, Paramount Drilling US an indirectly wholly-owned United States subsidiary of Paramount, entered into a contract with a supplier for the construction of a third drilling rig. The supplier had constructed Paramount Drilling's first two rigs in 2006. An individual who has an indirect ownership interest in the supplier of the rigs is also a director of a company affiliated with Paramount. Throughout 2008, Paramount Drilling provided drilling services to Summit Resources, Inc. on a take-or-pay basis.

On November 18, 2008, Paramount received approval from the TSX for a normal course issuer bid (the "2008 NCIB") to purchase for cancellation up to 3,387,456 Common Shares from November 20, 2008 to November 19, 2009. Between November 20, 2008 and December 31, 2008, Paramount purchased and cancelled 1,008,300 Common Shares under the 2008 NCIB for total consideration of approximately $7.2 million.

During 2008, the Company purchased an aggregate of US$48.0 million (2007 – US$75.4 million) principal amount of its outstanding 8 ½ percent senior notes due 2013 (the "2013 Notes") in open market transactions, reducing the aggregate principal amount owed to US$90.2 million. A total of US$213.6 million of 2013 Notes were originally issued in 2005.

During 2008, Paramount purchased 1.9 million Trilogy units for approximately $13.7 million through open market purchases and acquired a further 2.7 million units under Trilogy's distribution reinvestment plan. As at December 31, 2008, Paramount held approximately 22.3 million Trilogy units representing approximately 23 percent of the outstanding units as at that date.

2009

During 2009, Paramount purchased 615,600 Common Shares for total consideration of approximately $4.2 million under the 2008 NCIB. In total, 1,623,900 Common Shares were purchased and cancelled pursuant to the 2008 NCIB for total consideration of approximately $11.4 million.

During the third quarter of 2009, three of Paramount's subsidiaries jointly entered into a $30.4 million demand loan facility with a Canadian bank (the "Drilling Rig Loan"). The Drilling Rig Loan is non-recourse to Paramount and is secured by three drilling rigs owned by such subsidiaries and take-or-pay drilling contracts guaranteed by Paramount. Certain of Paramount's subsidiaries are counter parties to the take-or-pay drilling contracts. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the borrowing subsidiary, plus an applicable margin. The loan was drawn in full at closing and aggregate principal payments of $3.5 million have been made to December 2010. Unless demanded by the bank, annual scheduled principal repayments escalate from $4.0 million in 2011 to $5.1 million in each of 2012 and 2013, with the remaining outstanding balance of $12.7 million payable in 2014. Proceeds from the Drilling Rig Loan were primarily used to repay amounts drawn under Paramount's senior credit facilities.

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.

During 2009, Paramount acquired 19.6 million Class A shares and 57,444 Class B shares of Redcliffe Exploration Inc. ("Redcliffe"), a public oil and gas company until June 2010 (see below), for approximately $5.0 million. As at December 31, 2009, Paramount owned approximately 17 percent of the outstanding Class A shares and 4 percent of the outstanding Class B shares of Redcliffe.

During 2009, Paramount acquired 1.7 million Trilogy units under Trilogy's distribution reinvestment plan. As at December 31, 2009, Paramount held approximately 24.0 million Trilogy units representing approximately 22 percent of Trilogy's outstanding units at that date.

2010

Between January 1, 2010 and February 5, 2010, Paramount acquired 0.1 million Trilogy units under Trilogy's distribution reinvestment plan.

In January 2010, Paramount purchased 3.3 million Class A shares of Redcliffe for $1.4 million.

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., which were pledged as security for Paramount's 2013 Notes, and 11,388,490 non-voting shares of Trilogy Energy Corp. The non-voting shares will be converted 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. Following the Conversion and as at December 31, 2010, Paramount owned approximately 21 percent of Trilogy Energy Corp.'s equity and approximately 15 percent of the common shares.

In April 2010, Summit Resources, Inc. (Paramount's wholly-owned US subsidiary), entered into a joint development agreement with a United States exploration and development company that has significant operations and experience in the Bakken play in North Dakota. Under the agreement, which covers approximately 39,900 net acres of Summit's undeveloped Bakken lands in North Dakota, the US company is carrying out a multiple well Bakken horizontal drilling program using multi-stage fracture technology in order to earn an undivided 50 percent of Summit's interest in these lands (19,950 net acres).

On June 29, 2010, Paramount acquired all 109.9 million of the 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 were converted, in accordance with the terms of the Redcliffe Class B shares, into Redcliffe Class A shares at a ratio of ten Redcliffe Class A shares for each one Redcliffe Class B share. Following this conversion and prior to the acquisition, Paramount owned 23.5 million Class A shares of Redcliffe. The acquired assets include approximately 115,000 (65,000 net) acres of undeveloped land.

During the summer of 2010, MEG completed an initial public offering of 20 million common shares, pursuant to which its shares were listed for trading on the TSX. As at December 31, 2010, Paramount continues to hold 3.7 million common shares of MEG, which were acquired in 2008 (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2008"), representing 2% of the outstanding shares of MEG as at that date.

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.

In 2005, Paramount's then outstanding 7 7/8% and 8 7/8% Senior Notes were exchanged for US$213.6 million principal amount of 2013 Notes. During 2007 and 2008, the Company made open market purchases of US$123.4 million principal amount of 2013 Notes (see "GENERAL DEVELOPMENT OF THE BUSINESS - 2008"). On November 10, 2010, Paramount made an offer to purchase all or any portion of the remaining US$90.2 million outstanding 2013 Notes not held by it 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 2013 Notes were purchased. Subsequent to the completion of the Tender Offer, to discharge the indenture governing the 2013 Notes, Paramount cancelled US$187.6 million principal amount of 2013 Notes acquired by it through open market purchases and the Tender Offer, issued a redemption notice in respect of the US$26.0 million principal amount of 2013 Notes not tendered to the offer (the "Redemption Notes"), and irrevocably deposited US$26.0 million plus accrued interest with the trustee for the redemption on January 31, 2011 of the Redemption Notes. Paramount has been released from all further obligations in respect of the 2013 Notes and the 12,755,845 common shares of Trilogy are no longer pledged as security for the 2013 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 ("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 2013 Notes (described above), the non-permanent repayment of indebtedness under Paramount's credit facility, and will be used for capital expenditures and general corporate purposes. The Trust Indenture for the 2017 Notes is available on the SEDAR website.

2011 Update

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 will be 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 of 2017 Notes are outstanding. The First Supplemental Trust Indenture for the additional 2017 Notes sold is available on the SEDAR website.

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 2010, approximately 74 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 high risk/high 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, 2010, approximately 83 percent of Paramount's proved and probable natural gas reserves and approximately 53 percent of its proved and probable crude oil and natural gas liquids ("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, 2010. McDaniel & Associates Consultants Ltd. ("McDaniel") evaluated Paramount's reserves and reported on them in their report (the "McDaniel Report") dated February 15, 2011. Reserves data is discussed below within Paramount's four COUs. The reserves information is disclosed as at December 31, 2010 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, or "Kaybob", operates in West Central Alberta, where significant liquids rich natural gas producing areas include Musreau, Smoky and Resthaven. The Kaybob COU pursues multiple Deep Basin gas horizons, primarily focusing on the Fahler, Dunvegan and Cadotte, which are high pressure, liquids rich, tight gas formations with large reserves potential. To access these deep formations, the Company is drilling mostly horizontal wells to measured depths of 2,500 to 4,600 meters, and completing them with 13 to 18 fracture stages. Four wells per pool per section are permitted and productive zones are being commingled in a single wellbore to enhance recoveries. The Company believes greater well density will be required in order to fully recover the gas resource. Regulatory approval has been obtained to increase well density to eight wells per pool per section for an initial seven sections, and the Company has submitted applications to increase well density for an additional 13 sections. The Kaybob COU has identified in excess of 100 additional drilling locations targeting formations where the Company has had success, and additional formations are actively being explored.

This COU accounted for approximately 35 percent of Paramount's production for the year ended December 31, 2010. Production in this area averaged 4,495 Boe/d in 2010, comprised of 23.5 MMcf/d of natural gas and 573 Bbl/d of crude oil and NGLs. Paramount drilled 16 (6.5 net) wells in 2010. As of December 31, 2010, reported reserves in the Kaybob COU totaled 7.5 MMBoe of proved reserves that were 88 percent natural gas weighted and 3.7 MMBoe of probable reserves that were 89 percent natural gas weighted. Paramount operates approximately 60 percent of its production in the Kaybob COU.

Kaybob achieved promising drilling results with its horizontal wells in the 2009/2010 winter drilling program, and in the fourth quarter of 2010 the Company accelerated its Deep Basin development activities. A total of 13 (8.2 net) wells were drilled between November 2010 and February 2011, of which four (1.7 net) wells have been put on production at rates consistent with the range of results from horizontal wells the Company has drilled previously in the area. Of the remaining nine (6.5 net) wells, five (3.8 net) wells are expected to be completed and put on production prior to spring break-up and four (2.7 net) wells are expected to be completed and tied-in during the third quarter of 2011.

In June 2010, Kaybob recompleted an existing upper Montney formation vertical wellbore at Musreau with encouraging results. Since then, the Company has been actively acquiring additional Montney mineral rights underlying and offsetting much of its core lands in the Musreau, Smoky and Resthaven areas, and currently holds approximately 105,000 (100,000 net) acres of Montney rights. The Kaybob COU recently spudded its first horizontal well targeting the upper Montney formation at Musreau, and expects to drill an additional three horizontal wells in 2011, assuming drilling results continue to meet expectations.

The Kaybob COU plans to drill a total of up to 28 (16.8 net) wells in 2011. The majority of the wells will be drilled from existing leases or new multiple-well pads, reducing per-well drilling costs by minimizing mobilization and demobilization activities and allowing surface equipment and pipelines to be shared. Where two or more wells are drilled from a single lease, the Company is striving to drill and complete wells back-to-back, increasing equipment and personnel efficiencies and reducing per-well completion costs.

Paramount has commenced a facility expansion program to assure adequate gathering and processing capacity are available for the new production. The Company has commenced the construction of a 100 percent owned, $38 million processing plant at Musreau, with a design capacity of 50 MMcf/d of raw gas, anticipated to be operational in the third quarter of 2011. The Company has also nominated for 50 MMcf/d of new capacity as part of an expansion of the non-operated Smoky processing plant, at an expected cost to Paramount of between $47 million and $57 million. The expansion is anticipated to be operational in late 2012. Once completed, the Kaybob COU will own 60 MMcf/d of the total 300 MMcf/d processing capability at the expanded Smoky processing plant.

Expenditures on facilities and gathering systems in 2010 primarily related to engineering costs and payments on long lead time equipment for the new Musreau and Smoky plants. Other costs were incurred to begin construction of 48 km of pipelines for major gathering system expansions and natural gas and NGLs sales pipelines for the new Musreau plant. Major infrastructure plans for 2011 include completing the construction of the new Musreau plant, the new Smoky plant expansion and construction of the associated gathering systems, sales pipelines and additional field compression.

Kaybob’s existing facilities include a 50 percent working interest in a 25 MMcf/d plant in Resthaven, a 10 percent working interest in a 40 MMcf/d plant in Kakwa, and a firm service processing agreement at a third-party gas processing plant in Musreau.

Grande Prairie, Alberta

The Grande Prairie COU, or “Grande Prairie”, operates in the Peace River Arch area of Alberta. Core natural gas producing areas include Karr-Gold Creek, Mirage and Valhalla. The COU’s primary crude oil producing property is in the deep, light, sweet oil trend at Crooked Creek. The Grande Prairie COU’s most significant development projects are at Karr-Gold Creek and at Valhalla.

Grande Prairie accounted for approximately 23 percent of Paramount's production for the year ended December 31, 2010. Production in this area averaged 3,012 Boe/d in 2010, comprised of 12.4 MMcf/d of natural gas and 951 Bbl/d of crude oil and NGLs. Paramount drilled 16 (13.7 net) wells in Grande Prairie in 2010. As of December 31, 2010, reported reserves in the Grande Prairie COU consisted of 5.3 MMBoe of proved reserves that were 70 percent natural gas weighted and 2.8 MMBoe of probable reserves that were 70 percent natural gas weighted. Paramount operates approximately 75 percent of its production in the Grande Prairie COU.

Karr-Gold Creek is located 50 km southwest of Grande Prairie, where Paramount has assembled a land position of approximately 115,000 (95,000 net) acres, including 48,000 (24,000 net) acres of land added through the acquisition of Redcliffe in June 2010 (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2010"). Paramount currently has regulatory approval to drill two wells per section in this area, and plans to seek approval for greater well density should well performance demonstrate that it is required to optimize reserve recoveries. The Company estimates that up to ten wells per year can be drilled at Karr-Gold Creek over the next five years.

Paramount began its development at Karr-Gold Creek in 2008 and 2009, drilling six (6.0 net) horizontal wells prior to having sufficient infrastructure in place to process and transport production from the wells. During the drilling of these initial wells, the Company focused on developing effective drilling and completion techniques, including the length of the horizontal section of the wellbore, fracturing density and the quantity of fracturing fluids. At the conclusion of the production tests, these wells were shut-in pending the installation of a gathering system and adequate dehydration and compression facilities. Based on encouraging drilling results, the Company accelerated its drilling program, drilling nine (8.2 net) wells in 2010.

In early 2010, Paramount acquired and upgraded a small compression facility at Karr-Gold Creek, which is capable of processing 8 MMcf/d of raw gas. Wells were alternately placed on production at the new facility and then shut-in because of capacity constraints. The Company also commenced the construction of a large compression and dehydration facility capable of processing 40 MMcf/d of raw gas, which is being built in two phases. The initial 20 MMcf/d phase went on-stream in late December 2010, and the second 20 MMcf/d phase is expected to commence operations in mid-2011. In addition, Paramount is expanding sweet infrastructure in the area to accommodate both sweet sales gas and fuel gas required in facilities operations. Paramount expects to have processing capacity for 8 MMcf/d of raw sweet gas by mid-2011, which can be expanded as the area develops.

Weather conditions in the fall of 2010 were extremely wet in the Karr-Gold Creek area, and although the first 20 MMcf/d phase of the processing facility went on-stream in late December, it was not operating at full capacity as commissioning was still underway. The conditions also delayed well completions and tie-ins. Of the 15 (14.2 net) wells drilled at Karr-Gold Creek to date, three are currently producing, four are in the process of being restarted after being shut-in, five are scheduled to be tied-in during the first quarter of 2011 and three are expected to be completed and tied-in by the second quarter of 2011.

The Company has been working to restore production from the shut-in wells, as operational challenges have been encountered in achieving previous production levels. Paramount believes these challenges are not atypical in the start-up phase of a new development and they will be overcome, however, the reserves assigned to Karr-Gold Creek at December 31, 2010 were negatively impacted.

The 2011 capital budget for Karr-Gold Creek includes drilling up to 10 wells and the completion of the second phase of the new facility, which will bring total dehydration and processing capacity for the area to 48 MMcf/d. Paramount expects that all of the wells drilled and completed to March 31, 2011 will be tied-in and brought on production in 2011 as sufficient processing and transmission capacity will be available.

The Valhalla development is located approximately 120 km northwest of Karr-Gold Creek. Paramount has acquired approximately 43,000 (30,000 net) acres of land in this area which has multi-zone potential, including the Montney and Lower Doig formations. The Company has drilled a number of exploratory horizontal wells on the lands to date, with progressively better results. Paramount's development plan in Valhalla includes drilling up to four horizontal wells per section in each prospective Montney zone, for a total of twelve laterals in every fully developed section. The Company is also evaluating opportunities to target other formations in Valhalla to increase liquids recoveries and enhance returns.

The Company’s 2010 development activities at Valhalla included drilling and completing four (3.0 net) wells. Construction of a gas gathering system with capacity for up to 15 MMcf/d of raw gas is progressing with the system expected to be operational in mid-2011. As with Karr-Gold Creek, construction has been delayed by wet weather. The wells drilled and completed at Valhalla in 2010 will be tied-in and placed on production when the new facility enters service.

In addition to the above facility expansions, Paramount operates seven compressor sites in the Grande Prairie COU at Mirage and Goose River, with an average working interest of approximately 85 percent. The Company also operates three oil batteries in Grande Prairie: two at Mirage (in which Paramount has a 100 percent interest), and one at Ante Creek (in which Paramount has a 57.5 percent interest). Paramount's Crooked Creek production is processed at a non-operated facility in which Paramount has an 18 percent interest.

In early 2011, Paramount and its partner drilled and completed an exploratory horizontal Montney oil well at the Company’s non-operated West Ante Creek property, believed to be a significant light oil discovery. Follow-up wells are planned for later in the year to further delineate this discovery. Paramount holds a 50 percent working interest in 6,400 gross acres at West Ante Creek prospective for Montney oil development, with the potential for 42 wells on a fully developed basis.

Southern Alberta and USA

The Southern COU, or “Southern”, operates in Southern Alberta, Saskatchewan, North Dakota and Montana. Core areas comprise the natural gas producing Chain/Craigmyle field near Drumheller, Alberta and the oil producing area near Medora, North Dakota.

The Southern COU accounted for approximately 23 percent of Paramount's production for the year ended December 31, 2010. Total production in the Southern COU averaged 2,973 Boe/d in 2010, comprised of 9.3 MMcf/d of natural gas and 1,422 Bbl/d of crude oil and NGLs. In 2010, the Company drilled 27 (17.5 net) wells in the Southern COU. As of December 31, 2010, reported reserves in this COU were 8.3 MMBoe of proved reserves that were approximately 57 percent natural gas weighted and 3.0 MMBoe of probable reserves that were approximately 57 percent natural gas weighted. The Company operates approximately 90 percent of its production in Southern.

At Chain/Craigmyle, development of natural gas production from the Horseshoe Canyon coals and Edmonton sands in Southern Alberta continues. A total of 13 (10.1 net) wells were drilled during 2010 with the majority of the wells to be tied into existing facilities by the second quarter of 2011. A new Mannville formation oil well was also brought on production at Chain, and this trend will be explored further with an additional well late in 2011.

Paramount entered into a joint development agreement in southern Saskatchewan in 2010 with a Canadian exploration and development company. Under the agreement, the partner has committed to carry out a multiple well Viking formation drilling program in order to earn a post-payout interest of 55 percent in certain properties. Three oil wells have been drilled to date under this agreement. Additional drilling is planned for this play in 2011.

At Enchant, a new Arcs formation oil well was brought on production in the fourth quarter. This discovery will be explored further in the first half of 2011 with three additional wells. Further development opportunities will be evaluated based on the results of the 2011 drilling program.

Of Southern’s 2,973 Boe/d of production in 2010, 1,119 Boe/d related to its United States properties, comprised of 1,058 Bbl/d of crude oil and NGLs and 0.4 MMcf/d of natural gas. After delaying the North Dakota drilling program in 2009, in April 2010, the Company entered into a joint development agreement with a United States exploration and development company (see “GENERAL DEVELOPMENT OF THE BUSINESS – 2010”). The

North Dakota joint development partner has drilled and completed three horizontal wells to date. The wells have not performed as expected, with the first two producing at nominal rates.

Subsequent to December 31, 2010, Paramount sold approximately 6,000 net acres of undeveloped land in North Dakota, unrelated to the joint development agreement lands, for cash proceeds of US$40 million.

The Company owns and operates one gas plant at Chain/Craigmyle. Approximately 85 percent of the natural gas produced in the Southern COU is processed at this plant. Approximately 85 percent of the total oil production in Southern utilizes Company-operated batteries, in which Paramount has working interests ranging from 39 to 100 percent.

Northern Alberta/Northwest Territories/Northeast British Columbia

The Northern COU, or "Northern", operates in Northern Alberta, Northeast British Columbia and the Cameron Hills and Fort Liard areas of the Northwest Territories. Northern's primary focus is at Cameron Hills, other significant properties are located at Clarke Lake in Northeast British Columbia.

The Northern COU accounted for approximately 19 percent of Paramount's production for the year ended December 31, 2010. Production in this area averaged 2,549 Boe/d in 2010, comprised of 12.5 MMcf/d of natural gas and 471 Bbl/d of crude oil and NGLs. In 2010, Paramount drilled five (4.9 net) wells in the Cameron Hills area. One of the wells from the 2010 program is expected to be brought on production early in 2011, while the remaining wells were suspended. As of December 31, 2010, Paramount's reported reserves in the Northern COU totaled 4.5 MMBoe of proved reserves that were 83 percent natural gas weighted and 5.0 MMBoe of probable reserves that were 94 percent natural gas weighted. Paramount operates approximately 75 percent of its production in the Northern COU.

In the Northern COU, the Company operates one sour gas plant at Bistcho Lake, in which Paramount has a 59 percent interest, which processes gas from both Bistcho and from Cameron Hills in the Northwest Territories, and one sweet gas plant at East Negus, in which Paramount has an 85 percent interest. Paramount 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 gas plant. Natural gas is also processed at third-party operated facility in Clarke Lake, British Columbia.

During the first quarter of 2011, Northern plans to drill and complete three (2.6 net) oil wells in the Cameron Hills area. Production and follow-up development drilling associated with these wells will take place in subsequent years, pending an evaluation of the 2011 drilling results.

STRATEGIC INVESTMENTS

Paramount's Strategic Investments constitute an important component of the value of the Company. As of December 31, 2010, the Company's Strategic Investments included:

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

ii) three 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) approximately 180,000 (177,000 net) acres of oil sands leases which are prospective for production from the oil sands or carbonate bitumen trends. In 2010, Paramount drilled 45 oil sands evaluation wells and retained McDaniel to evaluate the oil sands resources in the Hoole area of Alberta (see "2010 HOOLE OIL SANDS RESOURCES AND RELATED INFORMATION"); and

iv) approximately 175,000 (147,000 net) acres which has potential for production from shale gas formations 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. Paramount plans to drill its first shale gas well in the Liard Basin in the first quarter of 2012.

Trilogy Energy Corp.

Trilogy is a public Canadian energy company with producing oil and natural gas assets primarily in the Kaybob area of Alberta. For the year ended December 31, 2010, Trilogy's reported average production was 22,788 Boe/d, 80 percent of which was natural gas.

On December 31, 2010, Paramount owned approximately 12.8 million common shares of Trilogy and 11.3 million non-voting shares of Trilogy, representing approximately 21 percent of Trilogy's equity and approximately 15 percent of the common shares as at such date. The market value of Paramount's investment in Trilogy was approximately $297 million as of December 31, 2010, based on the closing market price of Trilogy's shares on the TSX as of that date.

For the year ended December 31, 2010, 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, 2010 and certain costs incurred by Trilogy during 2010, 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 1, 2011. 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.

MEG Energy Corp.

MEG is a public energy company based in Calgary, Alberta that is focused on oil sands development in the Athabasca region of Alberta, Canada. MEG has identified two commercial SAGD projects, the Christina Lake Project and the Surmont Project. MEG's public disclosure indicates that Phase 1 and 2 of the Christina Lake Project is on-stream with production exceeding 25,000 Bbl/d. MEG's public disclosure further indicates that Phase 2B, designed to add 35,000 Bbl/d, is planned to be on-steam in 2013 and Phase 3, designed to add 150,000 Bbl/d, is at the regulatory approval stage. For additional information regarding MEG, reference should be made to MEG's documents posted on SEDAR (www.sedar.com). MEG's documents are not incorporated by reference in this annual information form.

As of December 31, 2010, Paramount owned 3.7 million common shares of MEG which represents approximately 2 percent of MEG's outstanding common shares as at such date. The market value of Paramount's investment in MEG was approximately $168.3 million as of December 31, 2010, based on the closing market price of MEG's shares on the TSX as of that date.

For information regarding how Paramount came to own its MEG common shares, see "GENERAL DEVELOPMENT OF THE BUSINESS – 2008".

Paramount does not use the equity method to account for its investment in MEG. As a result, Paramount is not required by NI 51-101 to disclose information concerning MEG's oil and gas reserves, future net revenues and costs incurred.

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, 2010. 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 annual evaluation by McDaniel.

Reserves Information

Reserves Data – Forecast Prices and Costs

The following table summarizes Paramount's reserves at December 31, 2010.

	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	84.7	78.4	2,186	1,801	1,441	1,051	17,750	15,923
Developed Non-producing	18.6	17.0	77	63	288	237	3,472	3,130
Undeveloped	8.2	7.4	18	14	119	103	1,497	1,349
Total Proved	111.5	102.8	2,281	1,878	1,848	1,391	22,719	20,402
Total Probable	69.6	60.2	1,050	842	1,025	706	13,677	11,585
Total Proved plus Probable Canada	181.2	163.0	3,331	2,720	2,873	2,096	36,396	31,987
United States								
Proved								
Developed Producing	0.5	0.4	2,703	2,282	73	62	2,856	2,412
Developed Non-producing	-	-	-	-	-	-	1	1
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	0.5	0.4	2,703	2,282	73	62	2,857	2,413
Total Probable	0.2	0.2	777	657	26	22	834	706
Total Proved plus Probable USA	0.7	0.6	3,480	2,939	99	84	3,691	3,119
Total Company								
Total Proved	112.0	103.2	4,984	4,160	1,922	1,453	25,576	22,815
Total Probable	69.8	60.4	1,826	1,498	1,050	727	14,511	12,290
Total Proved plus Probable Reserves	181.8	163.6	6,810	5,659	2,972	2,180	40,087	35,105

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, 2010. 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 (discounted at)**					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/Boe**
Canada											
Proved											
Developed Producing	407.5	343.2	296.6	261.7	234.8	407.5	343.2	296.6	261.7	234.8	18.63
Developed Non-producing	48.4	34.8	28.1	24.0	21.2	48.4	34.8	28.1	24.0	21.2	8.96
Undeveloped	26.9	21.2	17.0	13.8	11.4	26.9	21.2	17.0	13.8	11.4	12.59
Total Proved	482.8	399.1	341.6	299.5	267.5	482.8	399.1	341.6	299.5	267.5	16.74
Total Probable	287.1	196.6	142.9	108.6	85.3	287.1	196.6	142.9	108.6	85.3	12.34
Total Proved plus Probable Canada	769.9	595.7	484.5	408.1	352.8	769.9	595.7	484.5	408.1	352.8	15.15
United States											
Proved											
Developed Producing	96.9	71.3	56.6	47.2	40.8	92.1	68.5	54.7	46.0	39.9	23.46
Developed Non-producing [(1)]	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(313.91)
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	96.5	70.9	56.2	46.9	40.6	91.7	68.1	54.4	45.7	39.7	23.31
Total Probable	41.9	23.2	15.2	11.1	8.7	38.2	21.2	13.9	10.2	8.0	21.55
Total Proved plus Probable USA	138.4	94.1	71.4	58.0	49.2	129.9	89.3	68.3	55.9	47.7	22.91
Total Company											
Total Proved	579.3	470.0	397.8	346.5	308.1	574.5	467.2	396.0	345.2	307.2	17.44
Total Probable	329.0	219.8	158.1	119.7	93.9	325.3	217.8	156.8	118.7	93.3	12.87
Total Proved plus Probable Reserves	**908.3**	**689.9**	**556.0**	**466.1**	**402.0**	**899.8**	**685.0**	**552.8**	**464.0**	**400.4**	**15.84**

(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.

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, 2010.

	Reserves Category	
($ millions)	**Proved**	**Proved plus Probable**
Canada		
Revenue	1,024.7	1,660.7
Royalties [1]	127.2	222.8
Operating Costs	340.7	538.9
Development Costs	34.4	86.8
Abandonment and Reclamation Costs	39.6	42.3
Future Net Revenue Before Income Tax	482.8	769.9
Income Taxes	-	-
Future Net Revenue After Income Tax	482.8	769.9
United States		
Revenue	231.6	311.3
Royalties [1]	36.2	48.6
Operating Costs	95.5	120.7
Development Costs	-	-
Abandonment and Reclamation Costs	3.4	3.6
Future Net Revenue Before Income Tax	96.5	138.4
Income Taxes	4.8	8.5
Future Net Revenue After Income Tax	91.7	129.9
Total Company		
Revenue	1,256.3	1,972.0
Royalties [1]	163.4	271.4
Operating Costs	436.2	659.6
Development Costs	34.4	86.8
Abandonment and Reclamation Costs	43.0	45.9
Future Net Revenue Before Income Tax	579.3	908.3
Income Taxes	4.8	8.5
Future Net Revenue After Income Tax	574.5	899.8

(1) Royalties includes crown royalties, freehold royalties, overriding royalties, mineral taxes, Saskatchewan Capital Surcharge, and net profit interest payments.

Future Net Revenue by Production Group – Forecast Prices and Costs

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, 2010, 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)	257.9	$2.72 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	139.9	$34.21 / Bbl
Total Proved		**397.8**	
Proved plus Probable	Natural Gas (including by-products but excluding solution gas from oil wells)	372.9	$2.44 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	183.1	$32.86 / Bbl
Total Proved plus Probable		**556.0**	

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, 2010 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		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
U.S. Henry Hub Gas	(US$/MMBtu)	4.55	5.30	5.75	6.30	6.80	7.35	+2 to 5% / year
Alberta Aggregator Plantgate	(Cdn$/MMBtu)	4.05	4.70	5.20	5.70	6.15	6.55	+1 to 5% / year
WTI Crude Oil	(US$/Bbl)	85.00	87.70	90.50	93.40	96.30	99.40	+2% / year
Edmonton Light Crude Oil	(Cdn$/Bbl)	84.20	88.40	91.80	94.80	97.70	100.90	+2% / year
Edmonton Cond. & Natural Gasolines	(Cdn$/Bbl)	88.20	90.40	93.90	96.90	99.90	103.10	+2% / year
Inflation Rate	(%/year)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	+2% / year
Exchange Rate (1)	(US$/Cdn$)	0.975	0.975	0.975	0.975	0.975	0.975	0.975

(1) Exchange rates used to generate the benchmark reference prices in this table.

Paramount's 2010 weighted average realized prices before settlement of financial commodity contracts were $4.50/Mcf for natural gas, $72.30/Bbl for oil and $70.58/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, adjusted for transportation and quality differentials. The Company's United States oil sales portfolio is sold at the lease 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, 2010.

	Natural Gas (Bcf)			Light & Medium Crude Oil (MBbl)			Natural Gas Liquids (MBbl)		
	Proved	**Probable**	**Total**	**Proved**	**Probable**	**Total**	**Proved**	**Probable**	**Total**
Canada									
January 1, 2010	90.0	64.2	154.2	2,293	1,037	3,330	1,146	556	1,702
Extensions and Improved Recoveries	28.3	14.1	42.4	122	84	205	845	437	1,282
Technical Revisions	8.9	(6.0)	2.9	132	(308)	(176)	(162)	(213)	(375)
Discoveries	-	-	-	-	-	-	-	-	-
Economic Factors	(1.1)	(6.2)	(7.3)	-	-	-	(31)	14	(17)
Acquisitions	6.5	3.4	9.9	272	238	510	375	231	605
Dispositions	-	-	-	-	-	-	-	-	-
Production	(20.9)	-	(20.9)	(537)	-	(537)	(324)	-	(324)
December 31, 2010	111.5	69.6	181.2	2,281	1,050	3,331	1,848	1,025	2,873
United States									
January 1, 2010	0.5	0.2	0.8	2,728	800	3,528	80	29	108
Extensions and Improved Recoveries	-	-	-	36	26	61	-	-	-
Technical Revisions	0.1	-	0.1	310	(49)	261	10	(3)	7
Discoveries	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Production	(0.1)	-	(0.1)	(370)	-	(370)	(16)	-	(16)
December 31, 2010	0.5	0.2	0.7	2,703	777	3,480	73	26	99
Total Company									
January 1, 2010	90.5	64.5	155.0	5,020	1,837	6,857	1,225	585	1,810
Extensions and Improved Recoveries	28.3	14.1	42.4	157	109	266	845	437	1,282
Technical Revisions	8.9	(6.0)	2.9	441	(357)	84	(152)	(216)	(368)
Discoveries	-	-	-	-	-	-	-	-	-
Economic Factors	(1.1)	(6.2)	(7.3)	-	-	-	(31)	14	(17)
Acquisitions	6.5	3.4	9.9	272	238	510	375	231	605
Dispositions	-	-	-	-	-	-	-	-	-
Production	(21.1)	-	(21.1)	(907)	-	(907)	(340)	-	(340)
December 31, 2010	112.0	69.8	181.8	4,984	1,826	6,810	1,922	1,050	2,972

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	2008	2009	2010
Natural Gas (Bcf)	3.9	3.7	8.2
Light and Medium Crude Oil (MBbl)	10	-	18
Natural Gas Liquids (MBbl)	-	-	119

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 Musreau and Resthaven areas that were in the process of being drilled over year end or are scheduled to be drilled during the first quarter of 2011, which represent 5.8 Bcf, plus associated liquids, of the proved undeveloped reserves. In Southern, 2.4 Bcf of the proved undeveloped reserves relate to the Chain-Delia area where the Company plans to develop the reserves during 2011. In addition, Southern has classified one (0.3 net) horizontal Cardium oil drilling location in the Pembina area as proved undeveloped reserves.

Probable

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

Product Type	2008	2009	2010
Natural Gas (Bcf)	21.7	17.2	19.6
Light and Medium Crude Oil (MBbl)	5	-	107
Natural Gas Liquids (MBbl)	-	-	246

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 3.6 Bcf, plus associate liquids, of probable undeveloped reserves, mostly related to the winter 2010/11 drilling described above. The Grande Prairie COU recognized 2.4 Bcf, plus associated liquids, of probable undeveloped reserves relating to two wells that were drilled in 2010 but are awaiting completion. The Southern COU recognized 1.8 Bcf related to the Chain-Delia natural gas development described above and 107 MBbl of undeveloped oil reserves relates to three wells to be drilled in the Pembina/Medicine River areas over the next 2 years. Paramount currently does not have plans to develop 11.7 Bcf of probable undeveloped natural gas reserves recognized at Peerless Lake and Liard West 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	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**Remainder**	**Total**
Canada							
Proved	21.5	1.4	7.3	-	0.1	4.1	34.4
Proved plus Probable	48.1	25.7	7.3	-	0.1	5.6	86.8
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, 2010, Paramount had an interest in 1,740 gross (921.8 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	160	85.3	54	22.2
Saskatchewan	2	-	-	-
Northwest Territories	6	5.4	19	16.8
Montana	31	18.5	11	3.7
North Dakota	53	35.8	6	3.4
Other	-	-	1	0.8
Subtotal	252	145.0	91	46.9
Natural gas wells				
Alberta	845	439.1	371	216.6
British Columbia	33	7.8	36	25.5
Saskatchewan	4	-	4	4.0
Northwest Territories	12	10.7	35	21.1
Montana	32	1.7	16	1.4
North Dakota	1	0.6	1	0.4
Other	-	-	7	1
Subtotal	927	459.9	470	270.0
Total	1,179	604.9	561	316.9

(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, 2010. The Company's holdings at December 31, 2010 totalled approximately 2,261,657 (1,508,681 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		Undeveloped Acreage	
	Gross [(1)]	**Net [(2)]**	**Gross [(1)]**	**Net [(2)]**
Canada				
Alberta	489,286	258,092	1,201,304	829,380
British Columbia	37,212	14,067	228,366	191,422
Saskatchewan	4,478	-	14,394	11,350
Northwest Territories	33,078	26,555	137,139	78,590
USA				
North Dakota[(3)]	9,166	8,252	78,576	76,307
Montana	6,438	3,726	22,220	10,940
Total	**579,658**	**310,692**	**1,681,999**	**1,197,989**

(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 – 2010" regarding the joint development agreement in North Dakota. As at December 31, 2010, the US joint development partner had not completed its multiple well commitment to earn an undivided 50 percent interest in certain lands.

As of December 31, 2010, Paramount had approximately 320,360 (228,029 net) acres of undeveloped land due to expire in 2011. Approximately 310,272 (219,336 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's land position includes approximately 179,520 acres (176,960 net acres) of oil sands leases. In addition, Paramount has oil sands royalty acreage of 49,120 acres. See "RESOURCES AND RELATED INFORMATION".

Paramount also has 174,452 (147,168 net) acres which has potential for production from shale gas formations in the Horn River and Liard Basins in British Columbia. No exploration wells have been drilled on this acreage as of the end of 2010.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

In 2011, Alberta Energy will implement a Shallow Rights Reversion program for shallow non productive geological formations at the conclusion of the primary term of Alberta Crown petroleum and natural gas leases and the intermediate term for licenses ("Agreements"). The Agreement holders will have three years from the notice to prove productivity above the shallowest producing zone, or the shallow rights will revert to the Crown. In 2011, Alberta Energy will begin issuing notices for Agreements granted between 1953 and 1958.

In the near term this will not have any significant affect on Paramount's undeveloped acreage, and as the program progresses, Paramount, and all holders of Agreements will need to consider additional costs and efforts to prove productivity of prospective shallow zones in undeveloped acreage.

Paramount retained McDaniel to evaluate and prepare reports on its oil sands resources at Hoole. See "RESOURCES AND RELATED INFORMATION".

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, 2010 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, 2010, Paramount had long-term natural gas transportation commitments ranging from approximately 26 MMcf/d to 103 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, 2010 they ranged from $0.10/Mcf to US$1.71/Mcf. Starting in 2014, these long-term transportation commitments exceed Paramount's expected future natural gas production of its proved reserves, based on the December 31, 2010 McDaniel Report, by 72 MMcf/d, increasing to 101 MMcf/d by 2024. 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, 2010, 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 2010, Paramount spent approximately $3.2 million on environmental remediation, reclamation and regulatory compliance activities.

As at December 31, 2010, the Company had approximately 1,237 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 $246.6 million and $92.2 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 $45.9 million (undiscounted) and $18.2 million (10 percent discount) for downhole abandonment costs for wells only.

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 2011, the Company has budgeted approximately $5 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)**	**2010**	**Q4**	**Q3**	**Q2**	**Q1**
Acquisitions (corporate and property)					
Proved properties	30.9	6.2	0.6	16.0	8.1
Unproved properties	99.8	34.7	20.7	39.5	4.9
Exploration	105.9	25.2	26.1	12.2	42.4
Development (including facilities)	96.3	53.2	11.3	6.5	25.3
Development (oil sands)	10.0	0.6	-	(1.6)	11.0
Total [2]	**342.9**	**119.9**	**58.7**	**72.6**	**91.7**

(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, $10.0 million was spent in the Company's United States operations ($9.2 million on unproved properties, $nil million on exploration, and $0.8 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, 2010. The working interest in certain of these wells may change after payout.

	Gross [1]	**Net [2]**
Development Wells [3]		
Gas	40	27.2
Oil	11	4.7
Subtotal	51	31.9
Exploratory Wells [4]		
Gas	7	5.8
Oil	2	1.0
Gas - Dry	1	0.9
Oil - Dry	3	3.0
Subtotal	13	10.7
Oil Sands Evaluation Wells	45	45.0
Total Wells	109	87.6

(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 1 (0.6 net) gas and 2 (1.2 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. The Company's United States operations drilled 3 (2.0 net) oil exploration wells.

Based on encouraging drilling and completion results, Paramount accelerated 2010 development plans in the Kaybob and Grande Prairie COUs, increasing total exploration and development spending to $199.0 million. Paramount expects to invest $425 million in its Principal Properties in 2011, excluding land acquisitions. The 2011 Principal Properties capital program will focus on drilling and facility construction at Musreau, Smoky and Resthaven in the Kaybob COU and at Karr-Gold Creek and Valhalla in the Grande Prairie COU. The Company plans to invest an additional $25 million in the Hoole oil sands and Saleski carbonate bitumen areas. Paramount has flexibility within its current capital plan to increase or decrease spending, depending upon future economic conditions, among other factors. Based on current production levels, market conditions, and the current exploration and development budget, 2011 annual average production is expected to be approximately 20,000 Boe/d, with an anticipated exit 2011 rate of 25,000 Boe/d.

Production Estimates

The following table summarizes the total estimated gross production for 2011 based on the McDaniel Report.

	Estimated Production (Gross)	
	Proved	**Probable**
Canada		
Natural Gas (MMcf)	25,281	4,405
Light and Medium Crude Oil (MBbl)	498	31
Natural Gas Liquids (MBbl)	518	124
Total Canada (MBoe)	5,230	889
USA		
Natural Gas (MMcf)	95	5
Light and Medium Crude Oil (MBbl)	334	12
Natural Gas Liquids (MBbl)	14	1
Total USA (MBoe)	364	14
Total Production (MBoe)	5,593	903

Production History

The following table summarizes daily sales volume results for Paramount before the deduction of royalties on a quarterly and annual basis for 2010 [(1)].

	2010	**Q4**	**Q3**	**Q2**	**Q1**
SALES - Canada					
Natural Gas (MMcf/d)	57.3	60.1	62.5	56.6	49.8
Light and Medium Crude Oil (Bbl/d)	1,471	1,387	1,361	1,441	1,699
Natural Gas Liquids (Bbl/d)	888	995	1,045	772	737
SALES - United States					
Natural Gas (MMcf/d)	0.4	0.3	0.4	0.4	0.4
Light and Medium Crude Oil (Bbl/d)	1,014	970	1,020	1,025	1,040
Natural Gas Liquids (Bbl/d)	44	35	54	49	38
SALES - Total					
Natural Gas (MMcf/d)	57.7	60.4	62.9	57.0	50.2
Light and Medium Crude Oil (Bbl/d)	2,485	2,357	2,381	2,466	2,739
Natural Gas Liquids (Bbl/d)	932	1,030	1,099	821	775

(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 2010.

	Netback – 2010 (1)				
	2010	Q4	Q3	Q2	Q1
Natural gas (including by-products) ($/Mcfe)					
Revenue (2)	**5.11**	4.80	4.63	5.12	6.10
Royalties	**(0.42)**	(0.24)	(0.30)	(0.60)	(0.56)
Operating expense (3)	**(1.50)**	(1.49)	(1.36)	(1.23)	(2.02)
Transportation	**(0.63)**	(0.59)	(0.58)	(0.67)	(0.69)
Netback	**2.56**	2.48	2.39	2.62	2.83
Settlements of financial commodity contracts	**0.61**	0.32	0.88	0.93	0.27
Netback including settlements of financial commodity contracts	**3.17**	2.80	3.27	3.55	3.10
Conventional oil (including by-products) ($/Boe)					
Revenue	**71.80**	74.81	67.88	68.74	74.93
Royalties	**(12.29)**	(12.83)	(10.81)	(9.36)	(16.49)
Operating expense (3)	**(15.20)**	(14.64)	(16.00)	(15.25)	(14.40)
Production tax	**(2.47)**	(2.37)	(2.40)	(2.78)	(2.29)
Transportation	**(3.05)**	(3.08)	(2.85)	(3.28)	(2.87)
Netback	**38.79**	41.89	35.82	38.07	38.88

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

($/Boe)	**2010**	Q4	Q3	Q2	Q1
Revenue	**66.10**	69.35	61.93	65.79	67.61
Royalties	**(10.91)**	(11.93)	(10.03)	(10.55)	(11.22)
Operating expense	**(15.68)**	(14.26)	(16.31)	(16.59)	(15.42)
Production tax	**(5.66)**	(5.49)	(5.27)	(6.20)	(5.68)
Netback	**33.85**	37.67	30.32	32.45	35.29

(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, 2010.

	Natural Gas (MMcf)	**Light and Medium Crude Oil (MBbl)**	**Natural Gas Liquids (MBbl)**
Kaybob	8,589	29	180
Grande Prairie	4,514	212	134
Northern	4,551	168	4
Southern	3,397	498	22
Total	**21,051**	**907**	**340**

RESOURCES AND RELATED INFORMATION

General

The Company has significant non-producing oil sands leases that are prospective for in situ bitumen recovery projects.

During 2010, Paramount drilled 45 oil sands evaluation wells in the Hoole area of Alberta ("Hoole Oil Sands" or "Hoole" - *see below*), to further delineate the reservoir and bitumen resources. As at December 31, 2010, Paramount had 38,720 oil sands acres in the Hoole area. Subsequent to the drilling, Paramount retained McDaniel to update its evaluation of and prepare reports on Paramount's oil sands resources at Hoole.

The Company currently plans to drill 15 additional oil sands evaluation wells at Hoole. In addition, Paramount has commenced design work which will lead to a regulatory application for a commercial project to be submitted in 2011. Other activities include reservoir modeling to select a depletion strategy, surface design to create drilling, surface templates and water treatment analysis to assess the most effective way to re-use produced water, and preparation of an environmental impact assessment for the area.

In addition to the Hoole area, Paramount owns an additional 140,800 (138,240 net) acres of oil sands leases within the Athabasca Oil Sands region, the majority of which are prospective for bitumen from the Grosmont formation in the Carbonate Bitumen Trend. Paramount intends to spend approximately $7 million on up to 15 evaluation wells in the Saleski Grosmont area. These leases have not been independently evaluated.

There is no certainty that it will be commercially viable to produce any portion of bitumen from Paramount's oil sands leases nor is there any guarantee that any bitumen will be recovered. See "RISK FACTORS".

2010 Hoole Oil Sands Resources and Related Information – McDaniel's Updated Evaluation

Paramount retained McDaniel to evaluate and prepare reports on its oil sands resources within the Grand Rapids formation in its Hoole Oil Sands leases which cover approximately 48 continuous sections situated in the Hoole area in the western part of the Athabasca Oil Sands region of Alberta. At the time of the evaluation, Paramount had drilled 59 oil sands evaluation wells at Hoole, including 30 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, 2010, in accordance with the standards contained in the COGE Handbook and the resource definitions contained in NI 51-101, and was based on McDaniel's forecast prices and costs as of April 1, 2010.

All evaluations of and sensitivity analysis related to 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. It should not be assumed that the estimated future net revenues shown below are representative of the fair market value of Paramount's Hoole Oil Sands. 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 herein are estimates only and such estimates are as at April 30, 2010 and may not reflect current estimates. 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.

April 30, 2010 Resources Information- Hoole Oil Sands

The following table summarizes Paramount's Hoole Oil Sands resources evaluated by McDaniel with an effective date of April 30, 2010, based on McDaniel's forecast prices and costs as of April 1, 2010, and the estimated initial and fully developed production from the Hoole Oil Sands.

Category / Level of Certainty[5]	**EBIP [1] (MBbl)**	**Contingent Resources [2][3] (MBbl)**	**First Year Production[4] (Bbl/d)**	**Fully Developed Production[4] (Bbl/d)**
High Estimate	1,519,846	786,394	22,320	85,000
Best Estimate	1,369,378	634,102	21,120	70,000
Low Estimate	1,110,217	458,893	20,700	50,000

(1) Discovered Bitumen Initially-In-Place is that quantity of bitumen that is estimated to exist originally in naturally occurring accumulations and has been confirmed by one or more evaluation wells penetrating the bitumen accumulation. It includes that quantity of bitumen that is estimated, as of a given date, to be contained in know accumulations, prior to production. Much of the Discovered Bitumen Initially-In-Place deposits are unrecoverable with current technologies, such as Steam-Assisted Gravity-Drainage ("SAGD"), because they are too thin, have too low a bitumen concentration or possess other unfavourable geological or production characteristics. Discovered Bitumen Initially-In-Place that can be developed with current technologies fit into a category created by the evaluator called Exploitable Bitumen In-Place ("EBIP"). Exploitable bitumen initially-in-place is the estimated volume of bitumen, as of a given date, which is contained in a subsurface stratigraphic interval that meets or exceeds certain reservoir characteristics, such as minimum continuous net pay, porosity, and mass bitumen content, considered necessary for the commercial application of known recovery technologies, such as SAGD. In the assessment of Contingent Resources within the Hoole area, McDaniel used a minimum net pay cut-off of 10 meters in the best estimate case. There is no certainty that it will be commercially viable to produce any portion of the resources.

(2) Represents the Company's share of recoverable volumes before deduction of royalties.

(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. Contingent bitumen resources were determined based on exploitation using a conventional SAGD development scenario.

(4) These estimates assume that initial 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.

(5) It should be noted that there may be significant risk that Contingent Resources will not achieve commercial production, however a range of potentially recoverable quantities is presented independent of such risk. A low estimate indicates a conservative estimate. It is likely that the actual remaining quantities recovered will exceed the low estimate (P_{90}). A best estimate indicates a most likely estimate (P_{50}). It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. A high estimate indicates an optimistic estimate (P_{10}). It is unlikely that the actual remaining quantities recovered will exceed the high estimate.

The reclassification of these Contingent Resources as reserves is contingent upon, among other things, further reservoir studies, delineation drilling, facility design, preparation of firm development plans, regulatory applications approval, Company approvals, and the ability to raise sufficient capital. See "RISK FACTORS" for additional risks related to the development of the Hoole Oil Sands resources.

April 30, 2010 Net Present Value of Future Net Revenue – Forecast Prices and Costs – Hoole Oil Sands

The following table summarizes the net present values of future net revenue attributable to Paramount's Hoole Oil Sands resources evaluated by McDaniel effective April 30, 2010 using April 1, 2010 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 of Future Net Revenue(1) ($millions)				**NPV(1) Discounted at 10% ($/Bbl)**
	Before Income Tax (discounted at)				
Category / Level of Certainty (2)	**0%**	**5%**	**10%**	**15%**	
High Estimate	17,771	6,841	2,934	1,345	3.73
Best Estimate	12,532	4,718	1,908	776	3.01
Low Estimate	7,771	2,741	967	275	2.11

(1) NPV means net present value and represents the Company's share of future net revenue, before the deduction of income tax. 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. All NPVs are calculated assuming natural gas is used as a fuel for steam generation.

(2) It should be noted that there may be significant risk that Contingent Resources will not achieve commercial production, however a range of potentially recoverable quantities and net present values of future net revenue are presented independent of such risk. A low estimate indicates a conservative estimate. It is likely that the actual remaining quantities recovered will exceed the low estimate (P_{90}). A best estimate indicates a most likely estimate (P_{50}). It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. A high estimate indicates an optimistic estimate (P_{10}). It is unlikely that the actual remaining quantities recovered will exceed the high estimate.

April 1, 2010 Summary of Pricing and Inflation Rate Assumptions- Hoole Oil Sands

The Net Present Values of Future Net Revenue presented in the table above are based on the assumption that initial 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. Below is a summary of the April 1, 2010 pricing and inflation rate assumptions used by McDaniel in calculating the net present value of future net revenue attributable to Paramount's Hoole Oil Sands resources:

Forecast Prices and Costs		**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Natural Gas at Fieldgate	(Cdn$/MMBtu)	7.30	7.55	7.90	8.05	8.25	8.45	2%/year
Edmonton Diluent	(Cdn$/Bbl)	111.22	113.53	115.74	117.96	120.48	122.79	2%/year
Netback Bitumen at Fieldgate	(Cdn$/Bbl)	61.58	62.76	63.98	65.34	66.71	68.02	2%/year
Inflation Rate	(%/year)	2%	2%	2%	2%	2%	2%	2%/year
Exchange Rate (1)	(US$/Cdn$)	0.95	0.95	0.95	0.95	0.95	0.95	0.95

(1) Exchange rates used to generate the benchmark reference prices in this table.

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, 2010, Paramount had 132 full-time head office employees and 83 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 41,000 tonnes CO2 equivalent 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 26 of the Company's facilities. The cost of this program in 2010 was approximately $200,000 and Paramount has budgeted a similar amount for this program in 2011.

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 our 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 comprehensive reports from management with respect to the above matters and in particular relative to Paramount's compliance with health safety and environmental matters, the annual compliance budget, in-house training programs, and any non-compliance issues.

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
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. (an 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, 2010, the directors and executive officers of the Company as a group beneficially owned or controlled, directly or indirectly, 49,084,150 Common Shares, representing approximately 65 percent of the 75,183,424 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 three 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. 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, 2010 and December 31, 2009:

($ thousands)	**2010**	**2009**
Audit Fees [(1)]	365	393
Audit-Related Fees [(2)]	212	92
Tax Fees	10	-
All Other Fees [(3)]	5	5
Total	592	490

(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, adoption of International Financial Reporting Standards, and adoption of new accounting standards under United States GAAP (2009).

(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, 2010, 75,183,424 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, 2010, 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, 2010.

	Standard & Poor’s Ratings Services (“S&P”)	**Moody’s Investors Service (“Moody’s”)**
Company Rating	B	B3
Outlook	Stable	Negative
2017 Notes	B+	Caa1 (since January 28, 2011)

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. 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. As at December 31, 2010, Moody's had assigned Paramount a corporate family credit rating of B3, negative outlook, and a credit rating of Caa2 on the 2017 Notes. On January 28, 2011, the credit rating on the 2017 Notes was upgraded to Caa1. According to the 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 2010.

	Price Range ($ per share)		
2010	**High**	**Low**	**Trading Volume**
January	17.48	14.67	3,551,490
February	18.73	14.31	2,823,969
March	18.75	15.45	1,790,876
April	18.45	15.83	1,295,325
May	19.72	15.06	1,510,615
June	20.59	17.65	1,506,748
July	21.72	17.67	1,331,317
August	21.99	17.79	1,112,679
September	20.79	18.66	1,466,451
October	20.89	19.62	901,758
November	26.39	20.07	1,792,216
December	31.79	26.05	3,297,363

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 of Paramount's production revenue and overall value. Any material decline in oil and NGLs prices could also result in a reduction of 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 and natural gas 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 and natural gas 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 and natural gas 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 and natural gas can be sold, the availability and costs associated with recovering, selling and transporting oil and natural gas, 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 and natural gas previously estimated as reserves becoming unrecoverable. For example, a decline in the market price of oil or natural gas to an amount that is less than the cost of recovery of such oil and natural gas in a particular location could make production of that oil or natural gas 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 Canadian GAAP, 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, 2010, the carrying value of Paramount’s oil and natural gas properties was written down by approximately $25.3 million and dry hole charges of approximately $9.5 million were recorded in respect of the costs of drilling unsuccessful exploratory wells.

Ability to market.

Paramount's ability to market its oil and natural gas 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 and natural gas it produces which could adversely affect Paramount’s business. In addition, Paramount may be unable to obtain favorable prices for the oil and natural gas 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 senior credit facility with a syndicate of Canadian chartered banks, a Drilling Rig Loan with a Canadian bank, 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. 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. 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 $19.8 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.

Crown royalties for Paramount's production in the Northwest Territories have been accrued based on the Company's interpretation of the relevant legislation and regulations. To date, Paramount has not received assessments from the Government of Canada of its liability under such legislation and regulations for its past filings. Although Paramount believes that its interpretations of the relevant legislation and regulations have merit, Paramount is unable to predict the ultimate outcome of audits and/or assessments by the Government of Canada. Additional material amounts could potentially become payable.

Operating risks.

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).

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 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.

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 Paramount’s Oil Sands assets.

Paramount has extensive non-producing oil sands leases that are prospective for in-situ bitumen recovery projects. The oil sands assets are at the early stages of their evaluation and development. The development of oil sands assets are subject to numerous risks including, but not limited to, the ability to raise sufficient capital, low commodity prices, cost overruns, changes to project economics, ability to obtain required regulatory approvals, changes to and compliance with environmental regulations, and project delays. These risks could adversely impact the value of Paramount’s oil sands assets and the amount of capital it can or chooses to allocate to further evaluate and develop these assets.

There can be no assurance that the regulatory approvals Paramount needs to develop its Hoole oil sands project will be obtained within the planned schedule or on the desired terms or at all. If the regulatory approvals are not received, this project will be unable to proceed and Paramount will lose the potential benefits of the project. Even if the regulatory approvals are obtained, there is a risk that the Company will be unable to raise sufficient capital or that this project will not be completed on time or within the capital cost estimate or at all. Additionally, there is a risk that this project 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 sufficient numbers of qualified workers; delays in obtaining or conditions imposed by, regulatory approvals; changes in scope of the project; violation of permit requirements; 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 and other unforeseen circumstances.

In the event that Paramount’s Hoole Oil Sands is developed and becomes 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 may be substantially higher than operating costs to produce conventional crude oil, an increase in such costs may render extraction of bitumen resources from this project uneconomic. Paramount’s estimates of operating costs have been based on current project concepts. The Company’s actual operating costs may differ materially from such current estimates. 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 this project's operations, could result in substantial costs and liabilities, delays or an inability to complete this project or the abandonment of this project.

Furthermore, the marketability of the bitumen associated with Paramount's oil sands interests 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 Paramount not receiving 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 the following address:

6th Floor, Watermark Tower, 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, 2010. 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, 2010.

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, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010 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, 2010, 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, 2011	Canada/United States	–	555,960	–	555,960

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
February 15, 2011

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, 2010, 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/ James H. T. Riddell Director	/s/ John C. Gorman Director

March 3, 2011

APPENDIX C
National Instrument 51-101 Equity Investments Disclosure

As at December 31, 2010, Paramount owned approximately 12.8 million common shares of Trilogy and 11.3 million non-voting shares of Trilogy, representing representing approximately 21 percent of Trilogy's equity and approximately 15 percent of the common shares (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2010").

The following is a summary of Trilogy's reserves and future net revenue as at December 31, 2010 and the costs incurred by Trilogy during the year ended December 31, 2010, each multiplied by 21 percent, being Paramount's equity interest in Trilogy as of December 31, 2010. InSite evaluated Trilogy's natural gas, natural gas liquids, and crude oil reserves as at December 31, 2010. 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.

Reserves and future net revenue disclosed herein and reported in the InSite Report incorporate recovery of natural gas liquids extracted from the natural gas delivered and to be delivered by Trilogy pursuant to the NGL Volumes Recovery Agreement dated effective January 1, 2011 between Trilogy and Aux Sable Canada LP (the "NGL Agreement"), assuming a renewal of the initial five year term of the NGL Agreement for an additional five year term, as contemplated by such agreement.

The information contained within this APPENDIX C has been derived solely from Trilogy's annual information form dated March 1, 2011 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, 2010, 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, 2010 multiplied by 21 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	43.4	38.9	1,350	969	1,816	1,376	10,396	8,834
Developed Non-producing	4.6	3.9	48	41	153	112	967	806
Undeveloped	0.4	0.4	-	-	9	7	83	79
Total Proved	48.4	43.3	1,398	1,011	1,978	1,495	11,445	9,720
Total Probable	21.2	18.4	699	488	742	521	4,976	4,081
Total Proved plus Probable	69.6	61.7	2,097	1,498	2,720	2,016	16,421	13,800

(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, 2010 multiplied by 21 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 (discounted at)					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/boe**
Proved											
Developed Producing	317.5	233.0	185.2	154.7	133.6	293.1	220.8	178.5	150.8	131.2	20.96
Developed Non-producing	23.2	16.5	12.5	10.0	8.2	17.5	12.9	10.1	8.4	7.1	15.50
Undeveloped	2.2	1.0	0.5	0.3	0.1	1.7	0.8	0.4	0.2	0.1	6.36
Total Proved	342.9	250.5	198.2	164.9	141.9	312.2	234.4	189.0	159.3	138.3	20.39
Total Probable	174.6	86.6	52.8	36.5	27.2	130.8	65.8	40.8	28.8	22.0	12.93
Total Proved plus Probable	517.6	337.1	250.9	201.3	169.1	443.0	300.2	229.8	188.1	160.4	18.18

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

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, 2010 multiplied by 21 percent.

Reserves Category ($ millions)	**Proved**	**Proved plus Probable**
Revenue	607.6	953.3
Royalties[(2)]	101.5	169.7
Operating Costs	153.6	250.2
Development Costs	3.3	8.1
Well Abandonment Costs	6.3	7.7
Future Net Revenue Before Income Tax	342.9	517.6
Income Taxes	30.7	74.6
Future Net Revenue After Income Tax	312.2	443.0

(1) Same terminology as earlier defined in this annual information form.
(2) Royalties include crown royalties, freehold royalties, overriding royalties and mineral 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, 2010 multiplied by 21 percent, except unit values.

Reserves Category	**Production Group**	**Future Net Revenue Before Income Tax (discounted at 10%) ($ millions)**	**Unit Value**
Proved	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	143.9	$ 2.99/Mcf
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	52.2	$ 30.87/Bbl
Proved plus Probable	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	183.4	$ 2.71/Mcf
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	64.9	$ 25.91/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.

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		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
U.S. Henry Hub Gas Price	(US$/MMBtu)	4.50	5.20	5.75	6.25	6.75	7.25	7.50
Alberta Gas Reference Price	(Cdn$/MMBtu)	3.85	4.41	4.99	5.45	5.96	6.46	6.70
WTI @ Cushing	(US$/Bbl)	88.00	90.00	92.00	94.00	96.00	97.92	99.88
Edmonton Reference Price	(Cdn$/Bbl)	87.30	90.28	93.83	95.88	97.92	99.88	101.88
Condensate	(Cdn$/Bbl)	91.66	92.99	96.65	98.75	100.86	102.87	104.93
Butane	(Cdn$/Bbl)	69.84	72.23	75.07	76.70	78.34	79.90	81.50
Propane	(Cdn$/Bbl)	52.38	54.17	56.30	57.53	58.75	59.93	61.13
Ethane	(Cdn$/Bbl)	12.51	14.34	16.21	17.73	19.36	20.98	21.76
Inflation Rate **[2]**	(%/year)	0%	2%	2%	2%	2%	2%	2%
Exchange Rate **[3]**	(US$/Cdn$)	0.98	0.97	0.96	0.96	0.96	0.96	0.96

(1) Same terminology as earlier defined in this annual information form.
(2) Inflation rates for forecasting prices and costs subsequent to 2017 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 21 percent.

Cost Type **($ millions)**	**2010**	**Q4**	**Q3**	**Q2**	**Q1**
Non-corporate acquisitions and dispositions					
Proved properties	0.1	-	0.1	-	-
Unproved properties (including undeveloped land)	0.8	0.3	0.3	0.1	0.1
Exploration	1.6	0.9	0.5	-	0.2
Development (including facilities)	32.3	8.5	8.2	4.9	10.7
Total	**34.8**	**9.7**	**9.1**	**5.0**	**11.0**

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 fulfilment 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 Boards.

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