ANNUAL INFORMATION FORM
For the Year Ended December 31, 2005

March 12, 2006

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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 of and partnership interests held by Paramount Resources Ltd. and its subsidiaries.

Unless otherwise indicated, all financial information included in this annual information form is determined using Canadian generally accepted accounting principles ("Canadian GAAP"), which differ in some respects from generally accepted accounting principles in the United States ("U.S. GAAP"). The effect of significant differences between Canadian GAAP and US GAAP on Paramount's audited consolidated financial statements as at and for the year ended December 31, 2005 is disclosed in Note 19 of such financial statements.

This annual information form contains disclosure expressed as "Boe", "MBoe", "Boe/d", "MMcfe", MMcfe/d" and "Bcfe". 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 "U.S. $" are to United States dollars.

The financial, production and other operating data in this annual information form as at dates prior to, or for periods entirely or partly prior to, the Trust Spinout (as defined and described herein under "GENERAL DEVELOPMENT OF THE BUSINESS - 2004) have not been adjusted to remove the results associated with those oil and gas assets which were spun out by the Company to Trilogy Energy Trust under the Trust Spinout.

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this annual information form constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this annual information form include, but are not limited to: capital expenditures, estimated resources and the net present values of such estimated resources, business strategies and objectives, reserve quantities and the discounted present value of future net cash flows from such reserves, net revenue, anticipated tax liabilities, future production levels, exploration plans, development plans, abandonment and reclamation plans, acquisition and disposition plans and the timing thereof, operating and other costs and royalty rates.

Such forward-looking statements or information are 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 annual information form:

- the ability of Paramount to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Paramount to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timing and costs to bring Paramount's oil sands project on production;

- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- the ability of Paramount to obtain financing on acceptable terms;
- currency, exchange and interest rates; and
- future oil and gas prices.

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

- the ability of management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving the geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of resource estimates and resource life;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Paramount's ability to enter into or renew leases;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- Paramount's ability to secure adequate product transportation;
- imprecision in estimates of product sales;
- uncertainties as to the availability and cost of financing;
- the ability of Paramount to add production and reserves through development and exploration activities;

– weather;

– the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;

– uncertainty in amounts and timing of royalty payments;

– changes in taxation laws and regulations and the interpretation thereof;

– changes in environmental and other regulations and the interpretation thereof;

– the ability to obtain necessary regulatory approvals;

– risks associated with existing and potential future law suits and regulatory actions against Paramount;

– general economic and business conditions; and

– other risks and uncertainties described elsewhere in this annual information form or in Paramount's other filings with Canadian securities authorities and the United States Securities and Exchange Commission.

The forward-looking statements or information contained in this annual information form are made as of the date hereof and 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, unless so required by applicable securities laws.

NOTE REGARDING NON-GAAP MEASURES

In this annual information form, Paramount uses the terms "Funds flow from continuing operations", "Funds Flow from discontinued operations", "Funds flow from operations", "Funds flow from operations per share – basic" and "Funds flow from operations per share – diluted" (collectively, the "Non-GAAP Measures") as indicators of Paramount's financial performance. The Non-GAAP Measures do not have standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures presented by other issuers.

Funds flow from operations refers to the cash flows from operating activities before net changes in operating working capital. Funds flow from operations includes distributions and dividends received on securities held by Paramount and other income. Management of Paramount believes that "Funds flow from operations" provides useful information to investors as an indicative measure of performance. The most directly comparable measure to "Funds flow from operations" calculated in accordance with Canadian GAAP is cash flows from operating activities. "Funds flow from operations" can be reconciled to cash flows from operating activities by adding (deducting) the net change in operating working capital as shown in the Company's audited consolidated financial statements as at and for the year ended December 31, 2005.

Investors are cautioned that the Non-GAAP Measures should not be considered in isolation or construed as alternatives to their mostly directly comparable measure calculated in accordance with Canadian GAAP, as set forth above, or other measures of financial performance calculated in accordance with Canadian GAAP.

CORPORATE STRUCTURE

Paramount was incorporated under the laws of the Province of Alberta on February 14, 1978. Paramount amalgamated with Paramount Acquisition Ltd. on January 1, 1992 and continued as Paramount Resources Ltd. Paramount's shares were split on a three for one basis in 1989 and again in 1997 on the same basis. In conjunction with the Trust Spinout (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2005"), Paramount's articles were amended to: change the designation of Paramount's common shares to Class A Common Shares and to add certain rights to such shares and to add Class X Preferred Shares and Class Z Preferred Shares. Further information on the Company's share capital is disclosed under "DESCRIPTION OF SHARE CAPITAL".

Paramount's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange and Paramount is currently part of the S&P/TSX Composite Index (Oil & Gas Producers sub index).

The head and principal office of the Company is located at Suite 4700, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

The following table presents the name, the percentage of voting securities owned and the jurisdiction of incorporation or formation of Paramount's principal subsidiaries and partnerships. The following table does not include all subsidiaries and partnerships of Paramount. The subsidiaries and partnerships listed in the following table held, in aggregate, greater than 95 percent of Paramount's consolidated assets as at December 31, 2005 which accounted for greater than 95 percent of Paramount's consolidated revenues for the year ended December 31, 2005.

Subsidiaries and Partnerships	**Percentage Owned(1)**	**Jurisdiction of Incorporation or Formation**
Summit Resources Limited	100	Alberta
Paramount Resources (general partnership)	100	Alberta
1152807 Alberta Ltd.	100	Alberta
Summit Resources, Inc.	100	Montana
Summit Operating Partnership (2)	100	Alberta

Notes:
(1) Includes indirect ownership.
(2) Summit Operating Partnership became indirectly wholly-owned by Trilogy Energy Trust under the Trust Spinout on April 1, 2005. Revenues of this partnership were reported in Paramount's consolidated revenues prior to this date.

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 and its byproducts and crude oil. 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.

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.

2003

During the first quarter of 2003, Paramount completed the disposition of its Northeast Alberta natural gas assets, which had average natural gas production during 2002 of 97 MMcf/d, to Paramount Energy Trust ("PET"). PET was formed by Paramount for the purpose of completing the disposition of such assets to PET for cash and units of

PET and the subsequent dividend of such units by Paramount to its shareholders and the rights offering by PET to its unitholders to subscribe for additional units of PET (collectively, the "PET Transaction").

The PET Transaction was completed through the following transactions:

– On February 3, 2003, Paramount transferred to PET assets in the Legend area of Northeast Alberta for net proceeds of $28 million and 9,907,767 units of PET.

– On February 3, 2003, Paramount declared a dividend-in-kind, payable to shareholders of record at the close of business on February 11, 2003, of the 9,907,767 units of PET received from the asset disposition.

– On March 11, 2003, in conjunction with the closing of the rights offering by PET to its unitholders to acquire additional units of PET, Paramount disposed of additional assets in Northeast Alberta to PET for net proceeds of $167 million, after adjustments.

On October 1, 2003, the Company sold its Sturgeon Lake properties in the Grande Prairie area, including the associated oil batteries and gas plant, to an unrelated third party for proceeds of $54 million.

On October 27, 2003, the Company completed a public offering in the United States of U.S. $175 million principal amount of 7 7/8 percent senior notes due 2010 (the "2010 Notes").

During 2003, the Company also successfully completed a disposition program consisting of minor, non-core producing and non-producing properties for total consideration of $71.2 million.

2004

On June 29, 2004, the Company completed a public offering in the United States of U.S. $125 million principal amount of 8 7/8 percent senior notes due 2014 (the "2014 Notes").

On June 30, 2004, Paramount completed the acquisition of oil and natural gas assets in the Kaybob area in central Alberta and in the Fort Liard area in the Northwest Territories and northeast British Columbia for $185.1 million, after adjustments

On August 16, 2004, Paramount completed the acquisition of assets in the Marten Creek area in Grande Prairie for $86.9 million, after adjustments. The assets acquired were producing approximately 14 MMcf/d of natural gas or 2,300 Boe/d at the date of acquisition. The reserves attributable to the properties as of July 1, 2004 consisted of proved reserves of approximately 17.4 Bcf of natural gas or 2.9 million Boe and proved plus probable reserves of approximately 22.2 Bcf of natural gas or 3.7 million Boe.

On October 15, 2004, Paramount completed the private placement of 2,000,000 common shares issued on a "flow-through" basis at $29.50 per share for gross proceeds of $59 million. On October 26, 2004, Paramount completed a public offering of 2,500,000 common shares at $23.00 per share for gross proceeds of $57.5 million.

On December 6, 2004, Paramount completed the acquisition of certain natural gas and crude oil properties in the Fort Liard Area of the Northwest Territories and Northeast British Columbia for consideration of approximately $50 million, subject to adjustments. Paramount also acquired 45,133 net acres of land in the acquisition. The acquired assets were producing approximately 14 MMcfe/d at the date of acquisition.

At a meeting of Paramount's board held on December 13, 2004, after considering the recommendation of management and after receiving legal and financial advice from Paramount's advisors, Paramount's board approved a proposed reorganization of Paramount (the "Trust Spinout") which would result in Paramount's shareholders and

Paramount receiving units of a new public energy trust which would indirectly own existing assets of Paramount in the Kaybob and Marten Creek areas of Alberta.

On December 15, 2004, Paramount initiated an offer to exchange the 2010 Notes and 2014 Notes outstanding following the redemption of such notes (described below) for an equal principal amount of new notes and cash and solicited consents from the holders of such notes to certain amendments to the indentures governing such notes to permit the Trust Spinout (the "Notes Offer").

On December 30, 2004, Paramount redeemed approximately U.S. $41.7 million aggregate principal amount of its 2010 Notes and approximately U.S. $43.8 million aggregate principal amount of its 2014 Notes. The redemption price was U.S. $1,078.75 per U.S. $1,000 principal amount of the 2010 Notes and U.S. $1,088.75 per U.S. $1,000 principal amount of the 2014 Notes.

2005

Paramount obtained the consent of the holders of the 2010 Notes and 2014 Notes to the Trust Spinout through the completion of the Notes Offer, as amended, on February 7, 2005. Paramount issued U.S. $213,593,000 principal amount of 8 1/2 percent senior notes due 2013 (the "2013 Notes") and paid aggregate cash consideration of approximately U.S. $36.2 million in exchange for approximately 99.31 percent of the outstanding 2010 Notes and 100 percent of the outstanding 2014 Notes under the amended Notes Offer. Paramount subsequently purchased the residual 2010 Notes through open market purchases in 2005.

On March 28, 2005, Paramount's shareholders and optionholders approved an arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement") in respect of the Trust Spinout, and on March 29, 2005 the Court of Queen's Bench of Alberta approved the Arrangement. The Trust Spinout was completed through the Arrangement and other transactions on April 1, 2005. Through the Trust Spinout, shareholders of Paramount received, for each of their shares, one Common Share and one trust unit ("Trust Unit") of Trilogy Energy Trust ("Trilogy"), and Paramount also received Trust Units. Upon completion of the Trust Spinout, shareholders of Paramount owned all of the issued and outstanding Common Shares and 81 percent of the issued and outstanding Trust Units, with the remaining 19 percent of the issued and outstanding Trust Units being held by Paramount. 12,755,845 of Paramount's total 15,035,345 Trust Units secure the 2013 Notes. To the extent Paramount sells or otherwise disposes of all or a portion of such Trust Units, it must offer to redeem the 2013 Notes with the net proceeds received at 104.25 percent of the principal amount of the 2014 Notes prior to January 31, 2007 with reducing premiums thereafter until January 31, 2011 at which time the 2013 Notes can be redeemed at par. Through the Trust Spinout, Trilogy became the indirect owner of Paramount's properties in the Kaybob and Marten Creek areas of Alberta with production of approximately 25,000 Boe/d or approximately 60 percent of Paramount's aggregate daily production as of the time of the Trust Spinout.

On July 14, 2005, Paramount completed a private placement of 1,900,000 "flow-through" Common Shares at a price of $21.25 per share for gross proceeds of approximately $40.4 million.

Throughout 2005, Paramount and North American Oil Sands Corporation ("NAOSC"), through a 50/50 owned joint venture (the "Paramount JV"), drilled and evaluated oil sands interests in the central portion of the Athabasca Oil Sands region of Alberta. Paramount also drilled and evaluated its 12 sections of in situ oil sands leases in the Surmont area of Alberta in which Paramount has a 100 percent interest during 2005.

As at December 31, 2005, Paramount's interest in Trilogy decreased from 19 percent to 17.7 percent as a result of a public offering of Trust Units by Trilogy on December 30, 2005. As at December 31, 2005, Paramount's Trust Units had a market value of approximately $357.8 million.

NARRATIVE DESCRIPTION OF THE BUSINESS

OVERVIEW

Paramount's principal properties are located primarily in Alberta, the Northwest Territories and British Columbia in Canada. Paramount also has properties offshore on the East Coast in Canada, and in Montana, North Dakota and California in the United States. In 2005, approximately 82 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 net capacity and control costs, the Company increases ownership and throughput in existing plants as economic opportunities arise and occasionally disposes of lower working interest properties. 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.

Paramount also participates in the petroleum and natural gas industry through the focused acquisition of petroleum and natural gas assets within established core areas. This acquisition strategy focuses on long-term value including assets which will increase Paramount's current working interest.

At December 31, 2005, approximately 61 percent of Paramount's proved and probable natural gas reserves and approximately 35 percent of its crude oil and natural gas liquids reserves were located in Alberta, with the balance in Paramount's other operating areas. In 2005, Paramount operated approximately 86 percent of its net producing natural gas wells and approximately 91 percent of its net producing crude oil and natural gas liquids wells.

Paramount has established areas of production in Kaybob, Grande Prairie, Northwest Alberta, Liard, Northwest Territories, Northeast British Columbia, Southern Alberta, Southeast Saskatchewan, Northeast Alberta, Montana and North Dakota. Paramount continues to explore actively for petroleum and natural gas reserves within and beyond these areas.

MAJOR PROPERTIES

The following is a summary of Paramount's major producing properties at December 31, 2005. Paramount's exploration efforts are primarily concentrated in Alberta, British Columbia, the Northwest Territories, Montana and North Dakota. The Company is focused on the six core operating areas described below.

Paramount retained independent qualified reserves evaluators to evaluate and prepare reports on 100 percent of its natural gas, crude oil and natural gas liquids reserves and oil sands resources as at December 31, 2005. McDaniel & Associates Consultants Ltd. (“McDaniel”) evaluated Paramount’s reserves and reported on them in their report (the “McDaniel Report”) dated February 6, 2006. McDaniel and GLJ Petroleum Consultants Ltd. (“GLJ”) evaluated Paramount’s oil sands resources and reported on them in their reports dated January 13, 2006 and February 21, 2006, respectively. Reserves data is discussed below within Paramount’s six core operating areas. The reserves information is disclosed as at December 31, 2005 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. References to reserves in the following property descriptions are based on forecast prices and costs contained in the McDaniel Report.

Kaybob

The Kaybob core area, located in central Alberta, accounted for approximately 32 percent of Paramount's production for the year ended December 31, 2005. Production in this area, including production from the assets spunout to Trilogy under the Trust Spinout (the “Spinout Assets”) for the first three months of the year, averaged 48.5 MMcfe/d or 8.1 MBoe/d in 2005, comprised of 38.2 MMcf/d of natural gas and 1,695 Bbl/d of crude oil and natural gas liquids. Kaybob contains 20.8 Bcfe of proved reserves that are 95 percent natural gas weighted and 14.5 Bcfe of probable reserves that are 97 percent natural gas weighted.

Grande Prairie

The Grande Prairie core area accounted for approximately 16 percent of Paramount's production for the year ended December 31, 2005. Production in this area, including production from the Spinout Assets for the first three months of the year, averaged 23.7 MMcfe/d or 3.9 MBoe/d in 2005, comprised of 21.4 MMcf/d of natural gas and 393 Bbl/d of crude oil and natural gas liquids. Grande Prairie contains 22.9 Bcfe of proved reserves that are 87 percent natural gas and 10.4 Bcfe of probable reserves that are 92 percent natural gas.

Paramount operates 98 percent of its production in this area, including the respective gathering facilities applicable to such production.

Northwest Alberta/Cameron Hills, NWT

The Northwest Alberta/Cameron Hills, NWT core area, located in the extreme northwest corner of Alberta and in the Northwest Territories accounted for approximately 20 percent of Paramount's production for the year ended December 31, 2005. Production in this area averaged 29.9 MMcfe/d or 5.0 MBoe/d in 2005, comprised of 24.7 MMcf/d of natural gas and 867 Bbl/d of crude oil and natural gas liquids. Paramount's Northwest Alberta area contains 52.2 Bcfe of proved reserves that are approximately 87 percent natural gas weighted and 16.7 Bcfe of probable reserves that are approximately 70 percent natural gas weighted.

The Company controls one sour gas plant at Bistcho Lake, which also processes gas from Cameron Hills in the Northwest Territories, and one sweet gas plant at East Negus, near Rainbow Lake in northern Alberta. Paramount also controls an oil battery at Cameron Hills in the Northwest Territories. Natural gas at the Haro property is produced from a nearly 50 percent-owned third-party operated gas plant. This controlled gas production accounts for approximately 90 percent of the total production from this core area.

Liard, NWT/Northeast British Columbia

The Liard, NWT/Northeast British Columbia core area, located in northern British Columbia and in the southwestern Northwest Territories, accounted for approximately 16 percent of Paramount's production for the year ended December 31, 2005. Production in this area averaged 23.4 MMcfe/d or 3.9 MBoe/d in 2005, comprised of 23.3 MMcf/d of natural gas and 14 Bbl/d of natural gas liquids. This core area contains 21.3 Bcfe of proved reserves that are approximately 100 percent natural gas weighted and 49.5 Bcfe of probable reserves that are approximately 100 percent natural gas weighted.

Paramount operates two gas plants in northeast British Columbia, at Tattoo and Maxhamish and two dehydration facilities at West Liard in the Northwest Territories. Natural gas is also produced from a third-party operated facility in Clarke Lake, British Columbia. The Company controlled 76 percent of its production from this core area in 2005.

Southern Alberta, Saskatchewan and USA

The Southern core area accounted for approximately 15 percent of Paramount's production for the year ended December 31, 2005. Contained in this core area are properties located in southern Alberta and southeast Saskatchewan in Canada and Montana and North Dakota in the United States. Production in this area averaged 21.7 MMcfe/d or 3.6 MBoe/d in 2005, comprised of 12.9 MMcf/d of natural gas and 1,469 Bbl/d of crude oil and natural gas liquids. This core area contains 47.3 Bcfe of proved reserves that are approximately 66 percent natural gas weighted and 14.5 Bcfe of probable reserves that are approximately 68 percent natural gas weighted.

The Company has working a interest in five gas plants, two of which are operated at Chain/Craigmyle, the others at Sylvan Lake, Brownfield and Long Coulee. Approximately 70 percent of the natural gas produced in the Southern core area is processed in these plants. Crude oil is produced from eight Company-operated oil batteries, five in Alberta, one in Montana and two in North Dakota. Approximately 76 percent of the total oil production came from Company-operated batteries. On a Boe basis, the Company controls 74 percent of the total production in this core area.

Northeast Alberta

The Northeast Alberta core areas accounted for approximately 2 percent of Paramount's production for the year ended December 31, 2005. Primary properties in this core area include Kettle River, Cold Lake and Elizabeth. Kettle River was brought on production in October of 2005. Production in this area averaged 3.1 MMcf/d of natural gas and 14 Bbl/d of crude oil and natural gas liquids. Conventional reserves in Northeast Alberta core area contain 3.4 Bcfe of proved reserves that are 100 percent natural gas and 29.9 Bcfe of probable reserves that are 100 percent natural gas. Northeast Alberta also has extensive non-producing oil sands leases that are prospective for in situ oil sands recovery projects (see "RESOURCES AND RELATED INFORMATION").

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 National Instrument 51-101 – Standards of Disclosure for Oil & Gas Activities ("NI 51-101").

The following tables set forth information relating to Paramount's working interest share of reserves, net reserves after royalties, and present worth values as at December 31, 2005. The reserves are reported using constant price and costs as well as forecast prices and costs. Columns and rows may not add in the following tables due to rounding.

All evaluations of future net cash flow 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 cash flow 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 crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas liquids and natural gas 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 the independent qualified reserves evaluators. The Audit Committee also reviews the procedures for providing information to the evaluator. All booked reserves are based upon annual evaluation by the independent qualified reserves evaluator.

Reserves Information

Reserves Data - Constant Price and Costs

The following table summarizes the reserves evaluated at December 31, 2005 using constant price and costs.

	Natural Gas		Light and 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	77.6	63.8	1,606	1,520	675	479	15,215	12,632
Developed Non-Producing	37.3	32.8	342	301	299	224	6,861	5,986
Undeveloped	18.5	17.7	308	308	50	50	3,437	3,315
Total Proved	133.4	114.3	2,256	2,129	1,024	753	25,513	21,933
Probable	120.8	99.6	1,220	1,180	485	347	21,834	18,121
Total Proved Plus Probable Canada	254.2	213.9	3,476	3,309	1,508	1,100	47,346	40,054
United States								
Proved								
Developed Producing	0.5	0.4	2,287	1,762	112	88	2,487	1,920
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	0.5	0.4	2,287	1,762	112	88	2,487	1,920
Probable	0.2	0.1	615	469	38	30	682	523
Total Proved Plus Probable USA	0.7	0.6	2,902	2,231	149	118	3,169	2,442
Total Company								
Total Proved	133.9	114.7	4,543	3,891	1,135	841	27,999	23,853
Total Probable	121.0	99.7	1,835	1,649	522	377	22,516	18,643
Total Reserves	**254.9**	**214.4**	**6,378**	**5,540**	**1,657**	**1,217**	**50,515**	**42,496**

Net Present Value of Future Net Revenue – Constant Price and Costs

The following table summarizes the net present values of future net revenue attributable to reserves evaluated at December 31, 2005 for the constant price and costs case. 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.

	Net Present Values of Future Net Revenue, $ Millions									
	Before Income Taxes Discounted at					After Income Taxes Discounted at				
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**
Canada										
Proved										
Developed Producing	581.1	504.3	451.2	411.2	379.5	581.1	504.3	451.2	411.2	379.5
Developed Non-Producing	238.0	190.0	158.0	135.4	118.7	238.0	190.0	158.0	135.4	118.7
Undeveloped	113.8	72.7	50.7	37.9	29.8	113.4	72.4	50.5	37.7	29.7
Total Proved	932.8	767.0	659.9	584.5	528.1	932.4	766.7	659.7	584.3	527.9
Probable	778.4	584.8	460.5	375.6	314.9	562.0	426.1	339.4	280.0	237.4
Total Proved Plus Probable Canada	1,711.2	1,351.7	1,120.4	960.1	842.9	1,494.4	1,192.8	999.1	864.3	765.3
United States										
Proved										
Developed Producing	58.7	48.9	42.1	37.2	33.5	58.7	48.9	42.1	37.2	33.5
Developed Non-Producing	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
Undeveloped	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Proved	58.3	48.6	41.9	37.0	33.3	58.3	48.6	41.9	37.0	33.3
Probable	17.8	12.5	9.5	7.7	6.4	17.8	12.5	9.5	7.7	6.4
Total Proved Plus Probable US	76.1	61.1	51.4	44.6	39.7	76.1	61.1	51.4	44.6	39.7
Total Company										
Total Proved	991.1	815.5	701.8	621.5	561.3	990.8	815.3	701.5	621.3	561.2
Total Probable	796.2	597.3	470.0	383.3	321.3	579.7	438.7	348.9	287.7	243.8
Total Reserves	**1,787.3**	**1,412.8**	**1,171.8**	**1,004.7**	**882.6**	**1,570.5**	**1,253.9**	**1,050.5**	**908.9**	**804.9**

Future Net Revenue – Constant Price and Costs

The following table summarizes the total undiscounted future net revenue evaluated at December 31, 2005 using constant price and costs.

Reserves Category ($ millions)	**Revenue**	**Royalties**[(1)]	**Operating Costs**	**Development Costs**	**Well Abandonment Costs**	**Future Net Revenue Before Income Taxes**	**Income Taxes**	**Future Net Revenue After Income Taxes**
Proved	1,613.5	355.8	209.3	32.1	25.2	991.1	0.3	990.8
Proved Plus Probable	2,900.4	671.0	354.1	62.1	26.0	1,787.2	216.7	1,570.5

(1) Royalties includes crown royalties, freehold royalties, overriding royalties, mineral taxes, Saskatchewan Capital Surcharge, net profit interest payments and are net of the Alberta Royalty Tax Credit and other income.

Future Net Revenue by Production Group - Constant Price and Costs

The following table summarizes the net present value of future net revenue by production group evaluated at December 31, 2005 using constant price and costs, discounted at 10 percent.

Reserves Category	**Production Group**	**Future Net Revenue Before Income Taxes** (discounted at 10%) ($ millions)
Proved	Associated and non-associated gas	596.4
	Light and medium crude oil	102.1
	Alberta Royalty tax credit and other income	3.2
Total Proved		**701.7**
Proved Plus Probable	Associated and non-associated gas	1,028.0
	Light and medium crude oil	139.6
	Alberta Royalty tax credit and other income	4.2
Total Proved Plus Probable		**1,171.8**

Reserves Data – Forecast Prices and Costs

The following table summarizes the reserves evaluated at December 31, 2005 using forecast prices and costs.

	Natural Gas		**Light and 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	77.6	63.8	1,606	1,520	675	480	15,215	12,632
Developed Non-Producing	37.3	32.8	342	301	299	224	6,861	5,987
Undeveloped	18.5	17.7	308	308	50	50	3,437	3,315
Total Proved	133.4	114.3	2,256	2,129	1,024	754	25,513	21,934
Probable	121.3	100.0	1,220	1,180	485	347	21,928	18,191
Total Proved Plus Probable Canada	254.7	214.3	3,476	3,310	1,508	1,100	47,441	40,126
United States								
Proved								
Developed Producing	0.5	0.4	2,272	1,750	112	88	2,471	1,908
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	0.5	0.4	2,272	1,750	112	88	2,471	1,908
Probable	0.2	0.1	611	466	38	30	678	519
Total Proved Plus Probable USA	0.7	0.6	2,883	2,216	149	118	3,149	2,427
Total Company								
Total Proved	133.9	114.7	4,528	3,879	1,135	841	27,984	23,842
Total Probable	121.5	100.1	1,831	1,646	522	377	22,606	18,711
Total Reserves	**255.4**	**214.9**	**6,359**	**5,526**	**1,657**	**1,218**	**50,590**	**42,553**

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 reserves evaluated at December 31, 2005 for the forecast prices and costs case. 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.

	Net Present Values of Future Net Revenue, $ Millions									
	Before Income Taxes Discounted at					After Income Taxes Discounted at				
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**
Canada										
Proved										
Developed Producing	525.4	464.4	422.5	390.6	365.1	525.4	464.4	422.5	390.6	365.1
Developed Non-Producing	190.4	156.2	133.1	116.6	104.2	190.4	156.2	133.1	116.6	104.2
Undeveloped	89.4	57.5	40.7	30.8	24.6	85.0	53.6	37.1	27.7	21.8
Total Proved	805.2	678.1	596.2	538.0	493.9	800.8	674.2	592.7	534.9	491.1
Probable	610.8	465.5	372.7	309.1	263.3	483.2	367.7	294.8	244.9	206.1
Total Proved Plus Probable Canada	1,416.0	1,143.7	969.0	847.1	757.2	1,284.0	1,042.0	887.5	779.8	697.2
United States										
Proved										
Developed Producing	57.1	48.7	42.6	38.1	34.6	57.1	48.7	42.6	38.1	34.6
Developed Non-Producing	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
Undeveloped	-	-	-	-	-	-	-	-	-	-
Total Proved	56.7	48.4	42.4	37.9	34.4	56.7	48.4	42.4	37.9	34.4
Probable	16.2	11.6	8.9	7.2	6.0	16.2	11.6	8.9	7.2	6.0
US	72.9	60.0	51.3	45.1	40.4	72.9	60.0	51.3	45.1	40.4
Total Company										
Total Proved	861.9	726.5	638.6	575.9	528.3	857.5	722.6	635.1	572.8	525.5
Total Probable	627.0	477.2	381.6	316.3	269.3	499.4	379.4	303.7	252.1	212.1
Total Reserves	**1,488.9**	**1,203.7**	**1,020.2**	**892.2**	**797.6**	**1,356.9**	**1,102.0**	**938.8**	**824.9**	**737.6**

Future Net Revenue - Forecast Prices and Costs

The following table summarizes the total undiscounted future net revenue evaluated at December 31, 2005 using forecast prices and costs.

Reserves Category ($ millions)	**Revenue**	**Royalties**[1]	**Operating Costs**	**Development Costs**	**Well Abandonment Costs**	**Net Revenue Before Income Taxes**	**Income Taxes**	**Net Revenue After Income Taxes**
Proved	1499.7	324.5	246.8	34.4	32.0	862.0	4.4	857.6
Proved Plus Probable	2599.6	583.5	426.2	65.7	35.3	1488.9	132.0	1356.9

[1] Royalties includes crown royalties, freehold royalties, overriding royalties, mineral taxes, Saskatchewan Capital Surcharge, net profit interest payments and are net of the Alberta Royalty Tax Credit.

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 evaluated at December 31, 2005 using forecast prices and costs, discounted at 10 percent.

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%) ($ millions)
Proved	Associated and non-associated gas	540.0
	Light and medium crude oil	95.5
	Alberta Royalty tax credit and other income	3.1
Total Proved		638.6
Proved Plus Probable	Associated and non-associated gas	888.3
	Light and medium crude oil	127.7
	Alberta Royalty tax credit and other income	4.2
Total Proved Plus Probable		**1,020.2**

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

a) **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.

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.

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.

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.

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, possible) 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.

b) **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.

c) **Gross Reserves** are defined as the reserves owned before deduction of any royalties.

d) **Net Reserves** are defined as the gross reserves of the properties in which an interest is held, less all royalties and interests owned by others.

Summary of Pricing and Inflation Rate Assumptions

Summaries of the pricing and inflation rate assumptions used in the evaluations by McDaniel are as follows:

Constant Price and Costs

	Segregated Condensate (Cdn$/Bbl)	**Edmonton Butane** (Cdn$/Bbl)	**Edmonton Propane** (Cdn$/Bbl)	**Edmonton Light Crude Oil** (Cdn$/Bbl)	**Bow River Medium Crude Oil** (Cdn$/Bbl)	**Estimated Corporate Average Plantgate** (Cdn$/Mcf)	**Exchange Rate**[1] (US$/Cdn$)
2005	70.48	56.50	49.75	68.46	36.71	9.55	0.85

[1] Exchange rates used to generate the benchmark reference prices in this table.

Forecast Prices and Costs

	U.S. Henry Hub Gas Price (US$/MMbtu)	**Average AGRP** (Cdn$/MMbtu)	**WTI** (US$/Bbl)	**Edmonton Reference Price** (Cdn$/Bbl)	**Condensate** (Cdn$/Bbl)	**Butane** (Cdn$/Bbl)	**Propane** (Cdn$/Bbl)	**Inflation Rates**[1] (%/year)	**Exchange Rate**[2] (US$/Cdn$)
2006	9.90	10.40	57.50	66.60	68.10	48.80	46.10	0.025	0.85
2007	9.05	9.35	55.40	64.20	65.70	47.00	43.00	0.025	0.85
2008	8.15	8.30	52.50	60.70	62.30	44.50	39.50	0.025	0.85
2009	7.25	7.20	49.50	57.20	58.80	41.90	35.90	0.025	0.85
2010	6.85	6.70	46.90	54.10	55.80	39.60	33.70	0.025	0.85

[1] Inflation rates for forecasting prices and costs.
[2] Exchange rates used to generate the benchmark reference prices in this table.

Reserves Reconciliation

Summary of Gross Reserves as at December 31, 2005 using Forecast Prices and Costs

	Production Group	
Reserve Category	**Natural Gas** (Bcf)	**Crude Oil & Natural Gas Liquids** (MBbl)
Proved	133.9	5,663
Probable	121.5	2,353
Total Gross Reserves	**255.4**	**8,016**

Reconciliation of Gross Reserves, by Principal Product Type using Forecast Prices and Costs

The following table sets forth the reconciliation of Paramount's gross reserves for the year ended December 31, 2005 using forecast prices and costs. Gross reserves include working interest reserves before royalties.

	Natural Gas (Bcf)			Light and Medium Crude Oil & Natural Gas Liquids (MBbl)		
	Proved	**Probable**	**Total**	**Proved**	**Probable**	**Total**
January 1, 2005	347.2	221.4	568.6	15,041	5,420	20,460
Extensions and discoveries	33.7	21.0	54.7	875	578	1,453
Technical revisions	(3.4)	(25.8)	(29.2)	566	(6)	560
Acquisitions	0.6	0.3	0.9	20	8	28
Dispositions (Trilogy - April 1 2005)	(199.4)	(95.4)	(294.8)	(9,213)	(3,648)	(12,861)
Production	(44.8)	-	(44.8)	(1,625)	-	(1,625)
December 31, 2005	**133.9**	**121.5**	**255.4**	**5,663**	**2,353**	**8,016**

Summary of Net Reserves as at December 31, 2005 using Forecast Prices and Costs

	Production Group	
Reserve Category	**Natural Gas** (Bcf)	**Crude Oil & Natural Gas Liquids** (MBbl)
Proved	114.7	4,720
Probable	100.1	2,023
Total Net Reserves	**214.9**	**6,743**

Reconciliation of Net Reserves, by Principal Product Type using Forecast Prices and Costs

The following table sets forth the reconciliation of Paramount's net reserves for the year ended December 31, 2005 using forecast prices and costs. Net reserves include working interest reserves after royalties.

	Natural Gas (Bcf)			Light and Medium Crude Oil & Natural Gas Liquids (MBbl)		
	Proved	**Probable**	**Total**	**Proved**	**Probable**	**Total**
January 1, 2005	284.6	179.1	463.7	11,749	4,353	16,102
Extensions and discoveries	27.0	12.9	39.9	695	380	1,075
Technical Revisions	(5.0)	(17.5)	(22.5)	409	35	444
Acquisitions	0.5	0.2	0.8	18	7	25
Dispositions (Trilogy - April 1, 2005)	(155.6)	(74.6)	(230.2)	(6,815)	(2,752)	(9,567)
Production	(36.8)	-	(36.8)	(1,336)	-	(1,336)
December 31, 2005	**114.7**	**100.1**	**214.9**	**4,720**	**2,023**	**6,743**

Reconciliation of Changes in Future Net Revenue

The following table sets forth the Company's reconciliation of after-tax future net revenue attributable to net proved reserves from January 1, 2005 to December 31, 2005 using constant price and costs, discounted at 10 percent.

Period/Factor		($ millions)
Present value of future net revenue at January 1, 2005	$	1,020.2
Sale of production, net of production costs and royalties		(236.7)
Net change in prices, production costs, and royalties related to future production		595.6
Revisions of estimates in development costs incurred		(43.8)
Changes in estimated future development costs		(19.0)
Extensions, improved recoveries and discoveries		167.3
Acquisitions of reserves		3.1
Dispositions of reserves (including Trilogy - April 1, 2005)		(1,105.1)
Accretion of discount		121.4
Net change in income taxes		198.5
Present value of future net revenue at December 31, 2005	**$**	**701.5**

Additional Information Relating to Reserves

Undeveloped Reserves

The following table summarizes the Company's gross proved undeveloped reserves for the most recent five financial years, using forecast prices and costs.

Product	**2005**	**2004**	**2003**	**2002**	**2001**
Natural Gas (Bcf)	18.5	39.9	18.6	26.7	24.7
Light and medium crude oil (MBbl)	308	308	437	845	328
Natural Gas Liquids (MBbl)	49	289	111	165	-

These reserves are classified as proved undeveloped if they are expected to be recovered from new wells on previously undrilled acreage with untested reservoir characteristics, or they are reserves from existing wells that require major capital expenditures to bring them on production.

The following table summarizes the Company's gross probable undeveloped reserves for the most recent five financial years, using forecast prices and costs.

Product	**2005**	**2004**	**2003**	**2002**	**2001**
Natural Gas (Bcf)	37.7	63.9	19.6	49.1	33.1
Light and medium crude oil (MBbl)	396.0	621	109	688	633
Natural Gas Liquids (MBbl)	-	299	47	101	5

(1) The amounts previously reported in Paramount's annual information form dated March 30, 2005 for natural gas (81.0 Bcf) and natural gas liquids (484 MBbl) for 2004 inadvertently included a portion of gross probable developed non-producing reserves attributable to secondary zones in already existing wells.

These reserves are classified as probable undeveloped when analysis of drilling, geological, geophysical and engineering data does not demonstrate them to be proved under current technology and existing economic conditions; however, this analysis does suggest that there is a likelihood of their existence and future recovery.

Future Development Costs

The following table describes the estimated future development costs deducted in the estimation of future net revenue. The costs are per reserve category and quoted for no discount and a discount rate of ten percent.

Reserve Category	**2006E**		**2007E**		**2008E**		**2009E**		**2010E**	
($millions)	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**
Proved:										
Constant Price Case	24.7	23.5	1.0	1.0	0.2	0.2	-	-	1.2	0.8
Forecast Price Case	25.3	24.1	1.1	1.1	0.2	0.2	-	-	1.4	0.9
Proved & Probable:										
Constant Price Case	43.4	41.4	4.9	4.1	7.0	5.1	-	-	1.8	1.2
Forecast Price Case	44.5	42.4	5.1	4.4	7.5	5.9	-	-	2.1	1.4

Paramount expects that funding for future development costs will come from the Company's cash flow, a properly managed debt funding program and, in some cases, equity issues.

Other Oil and Gas Information

Oil and Gas Properties and Wells

As at December 31, 2005, Paramount had an interest in 1643 gross (864.6 net) producing and non-producing oil and natural gas wells as follows:

	Producing		**Non-producing**[(1)]	
As at December 31, 2005	**Gross**[(2)]	**Net**[(3)]	**Gross**	**Net**
Crude oil wells				
Alberta	134	67.2	62	29.2
British Columbia	-	-	4	2.3
Saskatchewan	4	1.0	1	0.3
Northwest Territories	5	4.5	11	9.4
Montana	22	15.3	-	-
North Dakota	39	21.7	4	2.7
Subtotal	204	109.7	82	43.7
Natural gas wells				
Alberta	661	328.4	528	315.4
British Columbia	31	13.0	39	19.1
Saskatchewan	1	-	7	4.0
Northwest Territories	19	15.7	31	13.5
Montana	29	1.2	8	0.6
California	-		3	0.4
Subtotal	741.0	358.3	616	352.9
Total	**945**	**468.0**	**698**	**396.6**

(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 a working interest or a royalty interest that may be convertible to a working interest.
(3) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage working interest therein.

Properties with No Attributed Reserves

The following table sets forth Paramount's land position at December 31, 2005 and 2004. The Company's holdings at December 31, 2005 totaled 5,783,232 gross (3,412,340 net) acres. Approximately 87 percent of the Company's gross land holdings are considered undeveloped and approximately 36 percent of the undeveloped land is located in Alberta.

	2005		**2004**	
(thousands of acres)	**Gross**[(1)]	**Net**[(2)]	**Gross**[(1)]	**Net**[(2)]
Undeveloped Land				
Alberta	1,613	1,085	2,190	1,649
British Columbia	256	199	348	258
Saskatchewan	9	5	17	13
Northwest Territories	1,399	802	1,235	661
Montana, North Dakota	90	56	102	39
Other	1,664	832	1,644	822
Subtotal	5,031	2,979	5,536	3,442
Acreage Assigned Reserves				
Alberta	622	360	942	561
British Columbia	49	21	46	18
Saskatchewan	4	2	4	3
Northwest Territories	58	44	76	43
Montana, North Dakota	19	6	29	15
Subtotal	752	433	1,098	640
Total Acres	**5,783**	**3,412**	**6,634**	**4,082**

(1) "Gross" acres means the total acreage in which Paramount has a working interest, or a royalty interest that may be converted to a working interest.
(2) "Net" acres means the number of acres obtained by multiplying the gross acres by Paramount's working interest therein.

As of December 31, 2005, the Company had 922,342 (496,277 net) acres of undeveloped lands that were due to expire in 2006.

In the Colville Lake exploration area, Paramount had, at December 31, 2005, 744,492 net acres of undeveloped land that are subject to six separate work commitments totaling $25.1 million. These commitments are already partially fulfilled, and Paramount expects to meet or exceed these commitments within the allotted time period through its ongoing capital expenditure program. In the unlikely case that the commitments are not fulfilled, Paramount would be obligated to pay only the deposit amount of 25 percent of the commitment, or $6.3 million.

Forward Contracts

The Company's future commitments as at December 31, 2005 to sell natural gas and oil and natural gas liquids are set forth at Note 13 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2005 included in the Company's annual report, which information is incorporated by reference herein.

Abandonment & Reclamation Costs

As at December 31, 2005, the Company had 920 net wells capable of production for which it expected to incur abandonment and reclamation costs.

The Company's estimates of abandonment and reclamation costs, net of estimated salvage value, for surface leases, wells, facilities and pipelines, undiscounted and discounted at 10 percent, are $51.7 million and $33.7 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 $26.0 million (undiscounted) and $12.1 million (10 percent discount) for abandonment and reclamation costs for wells only.

The Company does not expect to pay any material amounts with respect to abandonment and reclamation costs in the next three financial years.

Tax Horizon

Based on the current tax regime, and the Company's available tax pools and anticipated level of operations, Paramount is not expected to be cash taxable in 2006, and does not expect to become cash taxable in the near future.

Costs Incurred

The following table summarizes, for the periods indicated, the costs incurred by Paramount for property acquisitions and exploration and development costs.

Cost Type [(1)] ($ millions)	**2005**	**Q4**	**Q3**	**Q2**	**Q1**
Acquisitions (corporate and property)					
Proved properties	12.3	11.7	-	0.6	-
Unproved properties	65.8	12.8	11.5	13.8	27.7
Exploration	113.4	26.1	15.6	17.8	53.9
Development (including facilities)	240.9	62.2	35.1	28.9	114.7
Total	**432.4**	**112.8**	**62.2**	**61.1**	**196.3**

(1) Excludes corporate general and administrative asset capital expenditures.

Exploration and Development Activities

The following table summarizes the results of Paramount's drilling activity for each of the last two fiscal years. The working interest in certain of these wells may change after payout.

	2005		**2004**	
	Gross[(1)]	**Net**[(2)]	**Gross**[(1)]	**Net**[(2)]
Development Wells[(3)]				
Gas	185	86.6	164	102.8
Oil	16	7.8	11	8.6
Dry	5	2.0	9	4.9
Oilsands evaluation	35	14.0	17	17.0
Subtotal	241	110.4	201	133.3
Exploratory Wells[(4)]				
Gas	88	51.7	65	42.8
Oil	2	1.0	1	0.9
Dry	10	8.4	4	3.3
Subtotal	100	61.1	70	47.0
Total Wells	**341**	**171.5**	**271**	**180.3**
Success Rate[(5)]	**95%**	**93%**	**95%**	**95%**

(1) "Gross" wells means 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" wells means the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage working interest therein.
(3) "Development" well is a well drilled within or in close proximity to a discovered pool of petroleum or natural gas.
(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.
(5) Success rate excludes Oil sand evaluation wells.

The total capital budget for 2006 is estimated between $420 and $470 million, excluding land purchases. Much of the activity in 2006 will occur in the Kaybob area, focusing on an aggressive drilling program in this growth area; the Southern Alberta area, focusing on drilling coal-bed methane wells and other drilling opportunities in the United States; and the Northeast Alberta area's oil sands evaluation wells.

The following table describes the estimated 2006 capital budget by operating area:

Area	**2006E** ($ millions)
Kaybob	$160 - $180
Grande Prairie	$45 - $55
Northwest Alberta/Cameron Hils, NWT	$40 - $45
Liard, NWT/Northeast British Columbia	$30 - $35
Southern Alberta, Saskatchewan and USA	$75 - $85
Northeast Alberta	$70
Total Range:	**$420 - 470**

(1) McDaniel has estimated Paramount's capital expenditures on proved and probable reserves to be $65.7 million in their evaluation.

Production Estimates

The following table summarizes the total estimated production for 2006 from the McDaniel Report using constant price and costs.

	Estimated Production – Constant Prices and Costs	
	Proved	**Proved Plus Probable**
Canada		
Natural gas (MMcf)	33,003	41,061
Light and medium crude oil (MBbls)	735	820
Natural gas liquids (MBbls)	224	271
Total Canada (MBoe)	**6,460**	**7,935**
USA		
Natural gas (MMcf)	177	195
Light and medium crude oil (MBbls)	360	379
Natural gas liquids (MBbls)	38	42
Total USA (MBoe)	**428**	**454**
Total Production (MBoe)	**6,888**	**8,389**

The following table summarizes the total estimated production for 2006 from the McDaniel Report using forecast prices and costs.

	Estimated Production – Forecast Prices and Costs	
	Proved	**Proved Plus Probable**
Canada		
Natural gas (MMcf)	33,002	41,094
Light and medium crude oil (MBbls)	734	820
Natural gas liquids (MBbls)	224	271
Total Canada (Mboe)	**6,458**	**7,940**
USA		
Natural gas (MMcf)	177	195
Light and medium crude oil (MBbls)	360	379
Natural gas liquids (MBbls)	38	42
Total USA (MBoe)	428	454
Total Production (MBoe)	**6,886**	**8,394**

Production History

The following tables summarize daily sales volume results for Paramount on a quarterly and annual basis for 2005 and 2004 respectively.

	2005	Q4	Q3	Q2	Q1
SALES - Canada					
Produced gas (MMcf/d)	122.4	92.4	98.7	97.5	202.5
Light and medium crude oil (Bbls/d)	2,234	1,743	1,635	1,607	3,983
Natural gas liquids (Bbls/d)	1,327	618	821	833	3,068
SALES - United States					
Produced gas (MMcf/d)	0.2	0.3	0.1	0.2	0.2
Light and medium crude oil (Bbls/d)	870	986	774	903	816
Natural gas liquids (Bbls/d)	21	36	16	19	13
SALES – Total					
Produced gas (MMcf/d)	122.6	92.7	98.8	97.7	202.7
Light and medium crude oil (Bbls/d)	3,104	2,729	2,409	2,510	4,799
Natural gas liquids (Bbls/d)	1,348	654	837	852	3,081

	2004	Q4	Q3	Q2	Q1
SALES - Canada					
Produced gas (MMcf/d)	172.9	197.6	195.6	156.9	140.5
Light and medium crude oil (Bbls/d)	3,803	4,549	4,561	3,593	2,491
Natural gas liquids (Bbls/d)	2,644	3,373	3,061	1,754	2,374
SALES - United States					
Produced gas (MMcf/d)	0.3	0.3	0.2	0.4	0.5
Light and medium crude oil (Bbls/d)	830	978	782	765	793
Natural gas liquids (Bbls/d)	21	2	42	22	17
SALES – Total					
Produced gas (MMcf/d)	173.2	197.9	195.8	157.3	141.0
Light and medium crude oil (Bbls/d)	4,633	5,527	5,343	4,358	3,284
Natural gas liquids (Bbls/d)	2,665	3,375	3,103	1,776	2,391

(1) NI 51-101 requires all reported petroleum and natural gas production to be measured in marketable quantities, with adjustments for heat content included in the commodity price reported. As such 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 tables summarize the average netbacks, by product, on a quarterly and annual basis for 2005 and 2004 respectively.

	Net Product Price Results – 2005				
	2005	**Q4**	**Q3**	**Q2**	**Q1**
Produced gas ($/Mcf)					
Price, before transportation	8.61	11.24	8.80	8.20	7.47
Transportation	(0.53)	(0.43)	(0.65)	(0.58)	(0.48)
Royalties	(1.64)	(2.56)	(2.01)	(0.45)	(1.61)
Operating costs(2)	(1.38)	(2.04)	(1.20)	(1.10)	(1.21)
Netback excluding realized financial instruments	5.06	6.21	4.94	6.07	4.17
Realized financial instruments	(0.16)	(1.65)	(0.09)	(0.33)	0.59
Netback including realized financial instruments	4.90	4.56	4.85	5.74	4.76
Total conventional oil ($/Bbl)					
Price, before transportation	62.39	62.45	65.99	63.05	60.16
Transportation	(0.82)	(0.79)	(0.90)	(0.93)	(0.75)
Royalties	(9.64)	(12.86)	(8.09)	(17.98)	(4.19)
Operating costs(2)	(9.23)	(11.08)	(8.11)	(14.78)	(9.02)
Netback excluding realized financial instruments	42.70	37.72	48.89	29.36	46.20
Realized financial instruments	(4.31)	(5.63)	(12.35)	(3.40)	0.07
Netback including realized financial instruments	38.39	32.09	36.54	25.96	46.27
Natural gas liquids ($/Bbl)					
Price, before transportation	54.51	59.34	65.85	55.44	50.32
Transportation					
Royalties	(14.09)	(10.11)	(15.33)	(14.44)	(14.71)
Operating costs(2)	(7.15)	(14.30)	(6.34)	(5.89)	(7.31)
Netback	33.27	34.93	44.18	35.11	28.30

	Net Product Price Results – 2004				
	2004	**Q4**	**Q3**	**Q2**	**Q1**
Produced gas ($/Mcf)					
Price, before transportation	7.18	7.38	6.77	7.52	7.08
Transportation	(0.46)	(0.41)	(0.41)	(0.51)	(0.54)
Royalties	(1.29)	(1.27)	(1.26)	(1.33)	(1.33)
Operating costs(2)	(1.13)	(1.23)	(1.16)	(1.03)	(1.08)
Netback excluding realized financial instruments	4.30	4.47	3.94	4.65	4.13
Realized financial instruments	0.14	0.57	(0.13)	(0.31)	0.42
Netback including realized financial instruments	4.44	5.04	3.81	4.34	4.55
Total conventional oil ($/Bbl)					
Price, before transportation	49.91	52.62	52.15	47.78	44.39
Transportation	(1.19)	(1.15)	(1.12)	(1.13)	(1.43)
Royalties	(8.21)	(8.38)	(10.13)	(6.79)	(6.64)
Operating costs(2)	(9.56)	(10.29)	(8.66)	(9.20)	(10.26)
Netback excluding realized financial instruments	30.95	32.80	32.24	30.66	26.06
Realized financial instruments	(4.20)	(5.70)	(0.27)	(5.46)	(6.42)
Netback including realized financial instruments	26.75	27.10	31.97	25.20	19.64
Natural gas liquids ($/Bbl)					
Price, before transportation	43.47	41.25	48.93	42.24	40.38
Transportation	-	-	-	-	-
Royalties	(9.44)	(9.55)	(9.82)	(9.52)	(8.73)
Operating costs(2)	(7.96)	(10.83)	(6.96)	(5.54)	(6.97)
Netback	26.07	20.87	32.15	27.18	24.68

(1) NI 51-101 requires all reported petroleum and natural gas production to be measured in marketable quantities, with adjustments for heat content included in the commodity price reported. Accordingly, natural gas production volumes are measured in marketable quantities, with adjustments for heat content and transportation reflected in the reported natural gas price.

(2) 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 from Paramount's major producing properties for 2005 and 2004.

Production Volume	**2005**	**2004**
Natural gas (MMcf)		
Kaybob	13,969	35,281
Grande Prairie	7,810	9,855
Northwest Alberta/Cameron Hills, NWT	8,999	7,397
Liard, NWT/Northeast British Columbia	8,491	5,926
Southern Alberta, Saskatchewan and USA	4,715	3,947
Northeast Alberta	761	598
Non-core	9	356
Total	**44,754**	**63,360**
Light and medium crude oil (MBbl)		
Kaybob	261	707
Grande Prairie	108	128
Northwest Alberta/Cameron Hills, NWT	294	275
Liard, NWT/Northeast British Columbia	-	-
Southern Alberta, Saskatchewan and USA	466	580
Northeast Alberta	5	-
Non-core	-	6
Total	**1,134**	**1,696**
Natural gas liquids (MBbl)		
Kaybob	358	540
Grande Prairie	35	114
Northwest Alberta/Cameron Hills, NWT	23	30
Liard, NWT/Northeast British Columbia	5	3
Southern Alberta, Saskatchewan and USA	71	72
Northeast Alberta	-	
Non-core		9
Total	**492**	**768**

RESOURCES AND RELATED INFORMATION

Paramount retained independent qualified reserves evaluators, McDaniel and GLJ, to evaluate and prepare reports on 100 percent of its oil sands resources as at December 31, 2005. McDaniel and GLJ reported on such evaluation in their reports (collectively, the "Resources Reports") dated January 13, 2006 and February 21, 2006, respectively. The resources information provided below is derived from the Resources Reports. The evaluations by McDaniel and GLJ were completed in accordance with the standards and procedures contained in the COGE Handbook and the resources definition in NI 51-101.

The tables below summarize the estimated volumes and net present values attributable to Paramount's share of the oil sands resources associated with its oil sands interests as evaluated by GLJ and McDaniel, as well as Paramount's current estimates of its initial and fully developed daily production from such interests.

	OBIP[1] (MMBbl)[3]	Resources[2] (MMBbl)			Initial Production (MBbl/d)[4]	Fully Developed Production (MBbl/d)
	High Estimate	Low	(Estimate)[5] Best	High		
Surmont	1,066	278	358	457	10	30
Paramount JV[6]	2,518	245	565	1,170	5	80
Total	3,584	523	923	1,627	15	110

Notes:

(1) OBIP means original bitumen in place. Original bitumen in place is the gross volume of bitumen estimated, at a particular time, to be initially contained in a reservoir before any volume has been produced and without regard for the extent to which volumes will be recovered.

(2) Resources refers to the sum of contingent resources and prospective resources. Contingent resources, as evaluated by GLJ and McDaniel, are those quantities of bitumen estimated to be potentially recoverable from known accumulations but are classified as a resource rather than a reserve primarily due to the absence of regulatory approvals, detailed design estimates and near term development plans. Prospective resources are those quantities of bitumen estimated to be potentially recoverable from undiscovered accumulations. The resources attributable to Surmont have been classified by McDaniel as contingent resources. The resources attributable to the Paramount JV have been classified by GLJ as entirely contingent resources for the low estimate and a combination of contingent resources and prospective resources for the best and high estimates.

(3) MMBbl means millions of barrels.

(4) MBbl/d means thousands of barrels per day.

(5) A low estimate means high certainty, a best estimate means most likely and a high estimate means low certainty.

(6) The OBIP and resources estimates in respect of the Paramount JV assume that Paramount will participate at a 50% level in a minor acquisition of oil sands interests by NAOSC.

	NPV[1] Discounted at 10% ($MM)[2]			NPV Discounted at 5% ($MM)
	Low	(Estimate) Best	High	Best Estimate
Surmont	429	511	586	1,378
Paramount JV	126	676	1,214	2,101
Total	555	1,187	1,800	3,479

Notes:

(1) NPV means net present value and has been calculated before tax. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. The calculation does not consider head office general and administrative costs and royalty credits under the Alberta Royalty Tax Credit plan. All NPVs are calculated assuming natural gas is used as a fuel for steam generation. Revenues were calculated based on forecast prices (GLJ used its price forecast as of October 1, 2005 and McDaniel used GLJ's price forecast as of September 1, 2005).

(2) $MM means millions of Canadian dollars.

The table below summarizes the estimated net present value per barrel of oil attributable to Paramount's oil sands resources associated with its oil sands interests calculated by Paramount using the estimates contained in the evaluations of GLJ and McDaniel.

	NPV Discounted at 10% ($/Bbl)[1]			NPV Discounted at 5% ($/Bbl)
	Low	(Estimate) Best	High	Best Estimate
Surmont	$1.54	$1.43	$1.28	$3.85
Paramount JV	$0.51	$1.20	$1.04	$3.72
Weighted Average	$1.06	$1.29	$1.11	$3.76

Note:
(1) $/Bbl means Canadian dollars per barrel.

The estimated net present values disclosed above do not represent fair market value.

Oil Sands Development - Northeast Alberta

In the Surmont area, Paramount has drilled 10 oil sands evaluation wells over the past two years to complement another 12 existing Paramount wells in the area. Paramount plans to drill 40 additional oil sands evaluation wells and acquire four square miles of 3D seismic in this area in 2006 and 2007. Paramount has also commenced front end engineering design of an initial 10 MBbl/d oil sands development project for this area, slated to commence steam injection in 2009 or 2010.

The Paramount JV drilled 24 oil sands evaluation wells over the past two years and plans to drill 150 oil sands evaluation wells in 2006. The Paramount JV also plans to shoot 25 square miles of 3D seismic and 132 miles of 2D seismic in 2006. Front-end engineering design has commenced on an initial 10 MBbl/d oil sands development project at Leismer, slated to commence steam injection in 2008.

Paramount has budgeted $70 million for oil sands delineation and development in 2006. Each of the oil sands development projects referred to above is expected to require a capital expenditure by Paramount (in the case of Surmont) and Paramount and NAOSC (in the case of the Paramount JV) of approximately $180 million to bring on production.

SELECTED CONSOLIDATED FINANCIAL AND OPERATIONAL INFORMATION

Year Ended December 31 *($ thousands, except per share amounts)* [1]	**2005**	**2004**	**2003**
Revenues, net of transportation, including realized gain (loss) on financial instruments, distributions from equity investments and other income	$ 491,047	$ 549,899	$ 379,835
Expenses			
Royalties, net of ARTC	91,227	105,046	82,512
Operating	75,858	95,767	81,193
Interest[2]	26,725	24,122	19,053
General and administrative [3]	30,828	25,247	19,051
Lease rentals	3,139	3,546	3,574
Bad debt expense (recovery)	-	(5,523)	5,977
Current income taxes and other	9,763	6,795	2,689
Asset retirement obligation expenditures	990	1,214	-
Funds flow from continuing operations	252,517	293,685	165,786
Funds flow from discontinued operations	-	667	1,490
Funds flow from operations	252,517	294,352	167,276
Per share – basic	3.89	4.93	2.78
Per share – diluted	3.89	4.82	2.77
Depreciation and depletion	179,413	191,578	165,098
Dry hole costs	44,895	24,676	36,600
Net earnings (loss)	(63,932)	41,174	1,151
Per share – basic	(0.99)	0.69	0.02
Per share – diluted	(0.99)	0.67	0.02
Balance Sheet Information			
Capital expenditures [4][5]	433,982	579,014	(144,978)
Proceeds from property sales[5]	10,643	61,806	371,601
Working capital/(deficiency), excluding bank and shareholder loans	(70,683)	8,098	(10,593)
Total assets	1,111,350	1,542,786	1,177,130
Long-term debt	353,888	459,141	287,237
Shareholders' equity	436,821	625,039	496,033
Share information			
Weighted average number of common shares outstanding - basic (*thousands)*	64,899	59,755	60,098
Market price [6]			
High	$ 35.25	$ 27.90	$ 16.95
Low	$ 13.00	$ 10.41	$ 8.51

Notes:

(1) All per share amounts are calculated using the weighted average number of shares outstanding, except dividends paid per share which are based upon actual shares outstanding at time of dividend declaration.

(2) Net of non-cash interest expense.

(3) Net of non-cash general and administrative expenses.

(4) Excludes capital expenditures of discontinued operations.

(5) 2003 disposition proceeds include the $51 million related to PET units.

(6) Trust Spinout occurred on April 1, 2005

GENERAL

Competitive Conditions

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. 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.

Paramount has firm service for most of its natural gas production as opposed to interruptible allocations on pipeline systems. The Company closely monitors the daily production from all of its plants to ensure that contractual obligations will be met. Balancing contractual commitments, natural gas sales are directed to those markets where the Company believes prices will be best.

Employees

At December 31, 2005 Paramount had 170 full-time head office employees and 62 full-time employees at field locations. The Company's compensation of full time employees includes a combination of salary, bonus program, benefits and participation in either a stock option plan or a Company-assisted share purchase savings plan. Amounts contributed by Paramount are utilized by the plan trustee to purchase shares of the Company under such the savings plan.

Environmental Protection

The oil and natural gas industry is governed by environmental requirements under both Canadian and United States federal, provincial, state and municipal laws, regulations and guidelines, which restrict and/or prohibit the release or emission of pollutants and regulate the storage, handling, transportation and disposal of various substances produced or utilized in association with oil and gas industry operations.

Paramount has in place an Environmental, Health and Safety Committee comprised of three directors of the Company. The tenet of the Company's Environmental Policy is as follows: *Paramount is committed to protecting the environment, to maintaining public health and safe workplaces, and to compliance with all applicable laws, regulations and standards. Paramount will do all that it reasonably can to ensure that sound environmental, health and safety practices are followed in all of its operations and activities.*

The Environmental, Health and Safety Committee is guided by a specific set of principles to ensure that this policy is supported. These principles apply to all employees of Paramount and are designed to make certain that all applicable environmental laws, regulations and standards are complied with. The Company monitors all activities and makes reasonable efforts to ensure that companies who provide services to Paramount will operate in a manner consistent with its environmental policy.

DIRECTORS AND OFFICERS

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

DIRECTORS

Names and Municipality of Residence	Director Since	Principal Occupation for Past Five Years
Clayton H. Riddell(1)(6) Calgary, Alberta, Canada	1978	Chairman of the Board and Chief Executive Officer of Paramount
James H.T. Riddell(2)(6) Calgary, Alberta, Canada	2000	President and Chief Operating Officer of Paramount since June 2002. Prior thereto, Mr. Riddell held various positions with Paramount
John C. Gorman(3)(4) Calgary, Alberta, Canada	2002	Retired
Dirk Jungé, C.F.A.(4) Bryn Athyn, Pennsylvania, United States	2000	Chairman, Pitcairn Trust Company (a trust company)
David M. Knott Mill Neck, New York, United States	1998	General Partner Knott Partners, L.P. (an investment management firm)
Wallace B. MacInnes, Q.C.(1)(3)(4)(5) Calgary, Alberta, Canada	1978	Retired
Violet S.A. Riddell Calgary, Alberta, Canada	1978	Business Executive
Susan L. Riddell Rose Calgary, Alberta, Canada	2000	President and Chief Executive Officer of Paramount Energy Operating Corp., a wholly-owned subsidiary of Paramount Energy Trust (a public energy trust) Geological engineer with Shell Canada Limited
John B. Roy(1)(3)(4)(5) Calgary, Alberta, Canada	1981	Independent Businessman
Alistair S. Thomson(3)(4) Sidney, British Columbia, Canada	1992	President, Touche Thomson & Yeoman Investment Consultants Ltd. (an investment consulting firm)
Bernhard M. Wylie(5) Calgary, Alberta, Canada	1978	Business Executive

Notes:

(1) Member of the Compensation Committee of Paramount's board.

(2) Mr. Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year prior to such company becoming bankrupt. Jurassic's bankruptcy was subsequently annulled.

(3) Member of the Audit Committee of Paramount's board.

(4) Member of the Corporate Governance Committee of Paramount's board.

(5) Member of the Environmental, Health and Safety Committee of Paramount's board.

(6) Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with the general partner and administrator of Trilogy. Substantial time is devoted to their offices in Trilogy; however, they are not paid a salary therefore such offices are not considered their principal occupation.

EXECUTIVE OFFICERS

Names 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. Mr. Riddell was also President of Paramount until June 2002.
James H.T. Riddell(1) Calgary, Alberta, Canada	President and Chief Operating Officer	President and Chief Operating Officer of Paramount since June 2002. Prior thereto, Mr. Riddell held various positions with Paramount
Bernard K. Lee(1) Calgary, Alberta, Canada	Chief Financial Officer	Chief Financial Officer of Paramount since May 2003. Prior thereto, Mr. Lee held a variety of senior positions with Alberta Energy Company Ltd. and its successor EnCana Corporation, the last senior position being Vice-President & Corporate Advisor, Business Ventures, Corporate Development
Charles E. Morin(1) Calgary, Alberta, Canada	Corporate Secretary	Corporate Secretary, General Counsel and Manager, Land, of Paramount.

Note:
(1) Messrs C. H. Riddell, J. H. T. Riddell, B. K. Lee and C. E. Morin all hold executive offices with Trilogy Energy Ltd., the general partner of Trilogy's partnership and administrator of Trilogy and Trilogy's trust subsidiary. Substantial time is devoted to their offices in Trilogy Energy Ltd., however they are not paid a salary therefore such offices are not considered their principal occupation. A portion of the salaries paid to Messrs. B K. Lee and C. E. by Paramount (as officers and employees of Paramount) is allocated to, and reimbursed by, Trilogy's general partner and administrator for services rendered by these individuals as officers of Trilogy Energy Ltd. pursuant to a services agreement.

As at December 31, 2005, the directors and officers of the Company as a group beneficially owned or controlled, directly or indirectly, 35,564,826 Common Shares, representing approximately 53.7 percent of the 66,221,675 Common Shares outstanding at such date.

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.

Additionally, certain conflicts of interest could arise as a result of the relationships between Paramount and Trilogy. Pursuant to a services agreement, Paramount's wholly owned partnership (Paramount Resources) provides certain operational, administrative and other services to a wholly owned subsidiary of Trilogy (Trilogy Energy Ltd.) to assist in performing its duties and obligations as general partner of Trilogy's oil and gas partnership and as administrator of Trilogy and Trilogy's trust subsidiary Trilogy Holding Trust. The directors and officers of Paramount and Trilogy Energy Ltd. have fiduciary duties to manage Paramount and Trilogy Energy Ltd., respectively, in a manner beneficial to Paramount and Trilogy Energy Ltd., respectively. Trilogy Energy Ltd., as administrator of Trilogy, has a duty to administer the affairs of Trilogy with a view to the best interests of Trilogy, and as the general partner of Trilogy's partnership, Trilogy Energy Ltd. has a fiduciary duty to manage the partnership in a manner beneficial to all the partners of the partnership, including Trilogy Holding Trust and indirectly, Trilogy. The duties of the directors and officers of Trilogy Energy Ltd. and Paramount to those entities may come into conflict with the interests of Paramount's shareholders. Under the services agreement, Paramount is reimbursed for all reasonable costs (including expenses of a general and administrative nature).

The following individuals hold director and/or officer positions in both Paramount and Trilogy:

Individual	Paramount	Trilogy
Clayton H. Riddell	Director, Chairman of the Board and Chief Executive Officer	Director and Chairman of the Board
James H.T. Riddell	Director, President and Chief Operating Officer	Director, President and Chief Executive Officer
Bernard K. Lee	Chief Financial Officer	Chief Financial Officer
Charles E. Morin	Corporate Secretary	Corporate Secretary

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

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 was Vice-President and Director, Investment Banking of Jennings Capital Inc. From 1970 to 1996, he held various positions at Greenshields Incorporated and its successor, Richardson Greenshields of Canada Ltd. 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.

W. B. MacInnes

Mr. MacInnes has been a director of the Corporation since 1978. From 2001 to 2004 he was counsel to Gowling Lafleur Henderson LLP. Prior thereto he was a partner with, and counsel to, Ballem MacInnes LLP. Mr. MacInnes graduated from the University of Manitoba with an honours Bachelor of Laws degree and is a member of the Canadian Bar Association.

J. C. Gorman

Mr. Gorman has been a director of the Company since 2002. He was employed with ECT Canada from 1996 to 2000, retiring as Chairman of the Board. Previously he was a corporate banker with Bank of Montreal 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.

A. S. Thomson

Mr. Thomson has been a director of the Company since 1992. He is the President of Touche Thomson & Yeoman Investment Consultants Ltd. Mr. Thomson graduated from the University of St. Andrews with a Master of Arts (Honours) degree in Political Economy and Geography. He is a former 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 the following policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by Ernst & Young LLP:

The audit committee has delegated authority to the Chairman of the audit committee to pre-approve the provision of non-prohibited audit and non-audit services by Ernst & Young LLP not otherwise pre-approved by the full audit committee, including the fees and terms of the proposed services ("Delegated Authority"). All pre-approvals granted pursuant to Delegated Authority must be presented by the Chairman to the full audit committee at its next meeting. All proposed services and the fees payable in connection with such services that have not already been pre-approved must be pre-approved by either the audit committee or pursuant to Delegated Authority.

Of the fees reported below under the heading "External Auditor Service Fees", none of the fees billed by Ernst & Young LLP were approved by the audit committee pursuant to an available *de minimis* exception.

External Auditor Service Fees

The following table provides information about the fees billed to the Company for professional services rendered by Ernst & Young LLP during fiscal 2005 and 2004:

($ thousands)	2005	2004
Audit fees	550	701
Audit - related fees	6	7
Tax fees	1	43
All other fees		
Total	**$557**	**$751**

Audit Fees. Audit fees consist of fees for the audit of the registrant's annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported as Audit Fees. During fiscal 2005 and 2004, the services provided in this category included the completion of an audit of a subsidiary of the Company.

Tax Fees. Tax fees consist of fees for tax compliance services, tax advice and tax planning. During fiscal 2005 and 2004, the services provided in this category included assistance and advice in relation to research and advice on certain tax matters.

DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Class A Common Shares, an unlimited number of Class X Preferred Shares, an unlimited number of Class Z Preferred Shares and an unlimited number of preferred shares, issuable in series. As of December 31, 2005, there were 66,221,675 Class A Common Shares issued and outstanding and 34,157,780 Class X Preferred Shares issued and outstanding, held by a wholly-owned subsidiary of Paramount. No Class Z Preferred Shares or series of preferred shares were outstanding as of December 31, 2005 or are outstanding as of the date hereof.

Class A Common Shares

The holders of the Class A Common Shares are entitled to receive dividends if, as and when declared by the board of directors of the Company. The holders of the Class A Common Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company. Holders are entitled to one (1) vote in respect of each Class A 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 Class A Common Shares on the date specified for payment of such dividend, then, for so long as any dividends remain in arrears on the Class A Common Shares, the holders of the Class A Common Shares shall be entitled to two (2) votes in respect of each Class A 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 Class A 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.

Class X Preferred Shares

The rights, privileges and restrictions attaching to these securities are set forth in Appendix 1 of the Plan of Arrangement attached to the Certificate of Registration of Restated Articles of the Company and filed on SEDAR on April 6, 2005 under the category "Security holders documents", which description is incorporated by reference herein.

Class Z Preferred Shares

The rights, privileges and restrictions attaching to these securities are set forth in Appendix 1 of the Plan of Arrangement attached to the Certificate of Registration of Restated Articles of the Company and filed on SEDAR on April 6, 2005 under the category "Security holders documents", which description is incorporated by reference herein.

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.

CREDIT RATINGS

The 2013 Notes have been assigned a rating of "B3" by Moody's Investor Services, Inc. Standard & Poor's Corporation has rated Paramount's long-term senior unsecured at "CCC+". A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, debt securities rated "B" generally lack the characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, debt securities rated "CC" are more vulnerable to nonpayment than obligations rated "CCC", but the obligor currently has the capacity to meet its financial commitment 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 minus (–) sign to show relative standing within the major rating categories.

MARKET FOR SECURITIES

The Common Shares of Paramount are listed on the Toronto Stock Exchange under the trading symbol "POU".

The following table outlines the share price trading range and volume of shares traded by month in 2005.

	Price Range ($)		
2005	**High**	**Low**	**Trading Volume**
January	28.50	25.69	5,770,329
February	31.25	27.80	5,307,932
March	32.45	28.26	4,435,051
April [(1)]	31.00	14.28	5,163,617
May	15.30	13.00	2,470,613
June	17.99	14.85	1,233,869
July	23.40	17.98	2,487,652
August	29.80	22.80	3,610,384
September	35.25	28.61	3,174,189
October	34.30	25.50	2,506,604
November	33.90	25.80	3,119,539
December	34.19	29.26	1,814,458

Note:
[(1)] On April 1, 2005, Paramount completed the Trust Spinout.

DIVIDENDS

Paramount has not paid a cash dividend in the last three fiscal years. 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.

On February 3, 2003, Paramount declared a dividend-in-kind of an aggregate of 9,907,767 units of PET. Paramount received these units, in addition to $28 million in net proceeds, as consideration for the transfer of certain assets in the Legend area of Alberta to PET. The units were deemed to have a total value of $51 million. See "GENERAL DEVELOPMENT OF THE BUSINESS - 2003".

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 related to these or other matters, 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

Below are certain risk factors related to Paramount which you should carefully consider.

Oil and natural gas prices are volatile and low prices will adversely affect Paramount's business.

Fluctuations in the prices of oil and natural gas will affect many aspects of Paramount's business, including:

– Paramount's revenues, cash flows and earnings;

– Paramount's ability to attract capital to finance its operations;

– Paramount's cost of capital;

– the amount Paramount is allowed to borrow under its senior credit facility; and

– the value of Paramount's oil and natural gas properties.

Both oil and natural gas prices are extremely volatile. Oil and natural gas prices have fluctuated widely during recent years and are likely to continue to be volatile in the future. Oil and natural gas prices may fluctuate in response to a variety of factors beyond Paramount's control, including:

– global energy policy, including the ability of the Organization of Petroleum Exporting Countries to set and maintain production levels and prices for oil;

– political conditions, including hostilities in the Middle East;

– global and domestic economic conditions;

– weather conditions;

– the supply and price of imported oil and liquefied natural gas;

- the production and storage levels of North American natural gas;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the proximity of reserves to, and capacity of, transportation facilities;
- the effect of world-wide energy conservation measures; and
- government regulations.

Paramount's operations are highly focused on natural gas. In recent years, oil and natural gas prices have been generally high on a historical basis. 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 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 and/or natural gas 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 or natural gas 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 by a borrowing base amount that is established periodically by the lenders. This borrowing base amount is the lenders' estimate of the present value of the future net cash flow from Paramount's oil and natural gas properties.

Paramount's actual reserves and resources could be lower than 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 that a reservoir of oil and natural gas exists at a particular location, and whether oil and natural gas are recoverable from a reservoir. The probability of the existence and recoverability of reserves and resources is less than 100 percent and actual recoveries of proved 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, among others:

- the price at which recovered oil and natural gas can be sold;
- the costs associated with recovering oil and natural gas;
- the prevailing environmental conditions associated with drilling and production sites;
- the availability of enhanced recovery techniques;
- the ability to transport oil and natural gas to markets; 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 proved 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 impracticable. 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, 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, and may vary substantially.

Furthermore, in accordance with Canadian GAAP and U.S. GAAP, Paramount could be required to write down the carrying value of its oil and natural gas properties if oil and natural gas prices become depressed for even a short period of time, or if there are substantial downward revisions to Paramount's quantities of proved reserves. A write down would result in a charge to earnings and a reduction of shareholders' equity.

If Paramount is unsuccessful in acquiring and developing oil and natural gas properties, it will be prevented from increasing its reserves and its business will be adversely affected because it will eventually deplete its reserves.

Paramount's future success depends upon its ability to find, develop and acquire additional oil and natural gas reserves that are economically recoverable. Without successful exploration, exploitation or acquisition activities, Paramount's reserves, revenues and cash flow may decline. Paramount cannot assure you that it will be able to find and develop or acquire additional reserves at an acceptable cost. 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 costs;

– potential environmental and other liabilities; and

– productivity of new wells drilled.

These assessments are inexact and, if Paramount makes them inaccurately, it may 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. In addition, the costs of exploitation and development could materially exceed Paramount's initial estimates.

Paramount will not be able to develop its reserves and resources or make acquisitions if it is unable to generate sufficient cash flow or raise capital. If Paramount is unable to increase its reserves, its business will be adversely affected because it will eventually deplete its reserves.

Paramount will be required to make substantial capital expenditures to develop its existing reserves and resources, to discover new oil and natural gas reserves and to make acquisitions. Paramount will be unable to accomplish these tasks if it is unable to generate sufficient cash flow or raise needed capital in the future. If Paramount is unable to increase its reserves, its business will be adversely affected because Paramount will eventually deplete its reserves. Paramount also makes offers to acquire oil and natural gas properties in the ordinary course of its business. If these offers are accepted, Paramount's capital needs may increase substantially.

Paramount's future exploration, exploitation and development projects are subject to change.

Whether Paramount ultimately undertakes an exploration, exploitation or development project will depend upon the following factors among others:

– the availability and cost of capital;

– the receipt of additional seismic data or the reprocessing of existing data;

– the current and projected oil or natural gas prices;

– the cost and availability of drilling rigs, other equipment supplies and personnel necessary to conduct operations;

– the success or failure of activities in similar areas;

– changes in the estimates of the costs to complete a project;

– Paramount's ability to attract other industry partners to acquire a portion of the working interest so as to reduce Paramount's costs and risk exposure; and

– the decisions of Paramount's joint working interest owners.

Paramount will continue to gather data about Paramount's projects and it is possible that additional information will cause Paramount to alter its schedule or determine that a project should not be pursued at all. You should understand that Paramount's plans regarding its projects might change.

Drilling activities are subject to many risks and any interruption or lack of success in Paramount's drilling activities will adversely affect Paramount's business.

Drilling activities are subject to many risks, including the risk that no commercially productive reservoirs will be encountered and that Paramount will not recover all or any portion of its investment. The cost of drilling, completing and operating wells is often uncertain. Paramount's drilling operations could be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond its control, including:

– adverse weather conditions;

– required compliance with governmental requirements; and

– shortages or delays in the delivery of equipment and services.

Paramount's operations are affected by operating hazards and uninsured risks, and a shutdown or slowdown of its operations will adversely affect Paramount's business.

There are many operating hazards in exploring for and producing oil and natural gas, including:

– Paramount's drilling operations could encounter unexpected formations or pressures that could cause damage to Paramount's employees or other persons, equipment and other property or the environment;

– Paramount could experience blowouts, accidents, oil spills, fires or incur other damage to a well that could require Paramount to re-drill the well or take other corrective action;

– Paramount could experience equipment failure that curtails or stops production; and

– Paramount's drilling and production operations, such as trucking of oil, are often interrupted by bad weather.

Any of these events could result in damage to, or destruction of, oil and natural gas wells, production facilities or other property. In addition, any of the above events could result in environmental damage or personal injury for which Paramount will be liable.

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.

If Paramount is unable to access its properties or conduct its operations due to surface conditions, Paramount's business will be adversely affected.

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 break-up and thaw 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.

Paramount conducts a portion of its operations in northern Alberta, northeastern British Columbia and the Northwest Territories of Canada, which Paramount is able to do only on a seasonal basis. Unless the surface is sufficiently frozen, Paramount is unable to access its properties, drill or otherwise conduct its operations as planned. In addition, if the surface thaws earlier than expected, Paramount must cease its operations for the season earlier than planned. In recent years, winters in Paramount's northern Alberta, northeastern British Columbia and Northwest Territories operating areas have been warmer than it has normally experienced, so its operating seasons have been shorter than in the past. Paramount's inability to access its properties or to conduct its operations as planned will result in a shutdown or slow down of its operations, which will adversely affect its business.

Aboriginal peoples may make claims regarding the lands on which Paramount's operations are conducted.

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of western Canada, including some of the properties on which Paramount conducts its operations. If any aboriginal peoples file a claim claiming aboriginal title or rights to the lands on which any of Paramount's properties are located, and if any such claim is successful, it could have an adverse effect on Paramount's operations.

Paramount's oil sands projects are at the early stages of their development and, as a result, are subject to numerous risks.

Paramount's oil sands projects are at the early stages of their planned development schedule and are moving into the feasibility phase and front-end engineering design. There is a risk that the projects will not be completed on time or within the capital cost estimate or at all. Additionally, there is a risk that the projects may have delays, interruption of operations or increased costs due to many factors, including, without limitation: breakdown or failure of equipment or processes; construction performance falling below expected levels of output or efficiency; design errors; contractor or operator errors; non-performance by third-party contractors; labour disputes, disruptions or declines in productivity; increases in materials or labour costs; inability to attract sufficient numbers of qualified workers; delays in obtaining or conditions imposed by, regulatory approvals; changes in scope of the projects; violation of permit requirements; disruption in the supply of energy; and catastrophic events such as fires, earthquakes, storms or explosions.

Given the stage of development of the projects, various changes are likely to be made prior to their completion. Based upon current scheduling, the project in the Surmont area is not expected to start steam injection until late

2009 or 2010 and the project at Leismer, Corner, Hangingstone and Thornsbury is not expected to commence steam injection until 2008. The information contained herein, including, without limitation, resource and economic evaluations is conditional upon receipt of all regulatory approvals and no material changes being made to the projects or their scope.

The projects' concepts are also subject to revision as Paramount (in the case of Surmont) and Paramount and NAOSC (in the case of the Paramount JV) continue through the later engineering stages and as specific enhancement opportunities are identified. Some changes to the projects' concept are virtually certain to occur and such changes may be material both in terms of design and cost.

Paramount may not be able to raise sufficient capital or achieve the required liquidity necessary to fund its costs to develop its oil sands projects.

Significant amounts of capital will be required to fund Paramount's costs to develop its oil sands projects. The only sources of future funds presently available to Paramount, other than cash flow, are equity and/or debt financings, borrowing of funds or the sale of a portion of Paramount's assets. There is no assurance that any equity and/or debt financings, borrowing of funds or sales of Paramount's assets will be obtainable on terms acceptable to Paramount or at all. Failure to obtain the necessary funds for development of Paramount's oil sands projects could result in delays or an inability by Paramount to develop its oil sands projects or default by Paramount under the joint venture agreement relating to its obligations to fund the Paramount JV. Additionally, equity financing, if available, may result in substantial dilution to existing shareholders.

Paramount may encounter cost overruns in developing its oil sands projects.

Historically oil sands projects have experienced capital cost overruns due to a variety of factors. While Paramount is in the initial stages of evaluating and developing its oil sands projects there is no assurance that the development will proceed or be met without delays or unforeseen and adverse effects upon the projects' budgets.

The costs to construct the projects have not been fixed and remain dependent upon completion of testing, final engineering and contracting. There is no assurance that the current construction and operations schedules will proceed as planned without any delays or cost overruns. Any delays may increase the costs of the projects, requiring additional capital, and there can be no assurance that such capital will be available in a timely and cost-effective fashion or at all.

Development of the projects may be adversely affected by one or more factors commonly associated with large industrial projects such as shortages of equipment, materials and labour, fluctuations in the prices of building materials, particularly steel, delays in delivery of equipment and materials, labour disputes, political events, local, native and political opposition, blockades or embargoes, litigation, adverse weather conditions, unanticipated increases in costs, natural disasters, accidents, unforeseen engineering, design, environmental or geological problems and other unforeseen circumstances. Any of these events or other unanticipated events could give rise to delays in development and completion of the projects and cost overruns.

Any delay in obtaining, or inability to obtain, the required regulatory approvals may jeopardize the development of Paramount's oil sands projects.

Paramount is committed to its proposed schedule for submitting the regulatory application and obtaining regulatory approval for the development of its oil sands projects. However, although Paramount intends to proactively take all reasonable steps to address possible issues in order to expedite the regulatory process, ultimately, there can be no assurance that the regulatory approvals will be obtained within the proposed schedule or on the desired terms or at all. If the regulatory approvals are not received, the projects cannot proceed.

Oil sands exploration and development is subject to many risks.

Oil sands exploration and development is very competitive and involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. As with any petroleum property, there can be no assurance that bitumen will be produced from Paramount's oil sands leases. Furthermore, the marketability of the bitumen associated with Paramount's oil sands interests will be affected by numerous factors beyond Paramount'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.

In the event that Paramount's oil sands projects are developed and become operational, there is no assurance that the projects will produce bitumen in quantities or at the costs anticipated, or that they will not cease producing entirely in certain circumstances. 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 mining of bitumen resources from the projects uneconomical. Paramount's estimates of operating costs have been based on current project concepts. Paramount's (in the case of Surmont) and Paramount's and NAOSC's (in the case of the Paramount JV) 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 the projects' operations, could result in substantial costs and liabilities, delays or an inability to complete the projects or the abandonment of the projects.

Paramount's hedging activities could result in losses.

The nature of Paramount's operations results in exposure to fluctuations in commodity prices and currency exchange rates. Paramount monitors and, when appropriate, utilizes derivative financial instruments and physical delivery contracts to hedge its exposure to these risks. Paramount is exposed to credit related losses in the event of non-performance by counter parties to these financial instruments and physical delivery contracts. From time to time, Paramount enters into hedging activities in an effort to mitigate the potential impact of declines in oil and natural gas prices or increases in the value of the Canadian dollar versus the U.S. dollar.

If product prices or the value of the Canadian dollar increase above those levels specified in Paramount's various hedging agreements, Paramount could lose the cost of floors, or a ceiling or fixed price could limit Paramount from receiving the full benefit of commodity price increases or decreases in the value of the Canadian dollar.

In addition, 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;

– it is required to pay a margin call on a hedge contract; or

– it is required to pay royalties based on a market or reference price that is higher than its fixed or ceiling price.

Complying with environmental and other government requirements could be costly and could negatively affect Paramount's business.

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 govern the operation and maintenance of Paramount's facilities, the discharge of materials into the environment, storage, treatment and disposal of wastes, remediation of contaminated sites, and other environmental protection issues. Paramount believes it is in material compliance with applicable requirements.

Under these laws and regulations, Paramount is currently conducting remediation projects at a variety of owned and operated locations. If environmental damage occurs, Paramount could be liable for personal injury, clean-up costs, remedial measures and other environmental and property damage, as well as administrative, civil and criminal penalties, and Paramount could also be required to cease production.

Changes in environmental requirements or newly discovered conditions could negatively affect Paramount's results of operations.

The costs of complying with new environmental laws, regulations or guidelines, or changes in enforcement policy, or newly discovered conditions, may have a material adverse effect on Paramount's financial condition or results of operations. Future changes in environmental legislation could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on Paramount's financial condition or results of operations.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol, which we refer to as the "Protocol", which requires, upon ratification, certain signatory nations to reduce their emissions of carbon dioxide and other greenhouse gases. In December 2002, the Canadian federal government ratified the Protocol. If certain conditions are met and the Protocol enters into force internationally, Canada will be required to reduce its greenhouse gas, or "GHG", emissions to 6 percent below 1990 levels by 2012. Currently, the Canadian upstream oil and gas sector is in discussions with various Canadian provincial and federal governments regarding the development of greenhouse gas reduction policies and regulations for the industry. It is premature to predict what impact these policies and regulations will have on our sector, but Paramount will face increases in operating costs in order to comply with GHG emissions target.

Other changes in environmental legislation may also require, among other things, reductions in emissions to the air from Paramount's operations, which would result in increased capital expenditures.

Factors beyond Paramount's control affect its ability to market production and could adversely affect Paramount's business.

Paramount's ability to market its oil and natural gas depends upon numerous factors beyond its control. These factors include:

– the availability of processing capacity;

– the availability and proximity of pipeline capacity;

– the supply of and demand for oil and natural gas;

– the availability of alternative fuel sources;

– the effects of inclement weather;

– regulation of oil and natural gas marketing; and

– regulation of oil and natural gas sold or transported outside of Canada.

Because of these factors, Paramount could be unable to market all of the oil or natural gas it produces. In addition, Paramount may be unable to obtain favorable prices for the oil and natural gas it produces.

Paramount does not control all of its operations.

Paramount does not operate all of its properties, so it has limited influence over the operations of some of its properties. Paramount's lack of control could result in the following:

- the operator might initiate exploration or development on a faster or slower pace than Paramount prefers;
- the operator might propose to drill more wells or build more facilities on a project than Paramount has funds for or that Paramount deems appropriate, which could mean that Paramount is unable to participate in the project or share in the revenues generated by the project even though Paramount paid its share of exploration costs; and
- if an operator refuses to initiate a project, Paramount might be unable to pursue the project.

Any of these events could materially reduce the value of Paramount's properties.

Essential equipment might not be available.

Oil and natural gas exploration and development activities depend upon the availability of drilling and related equipment in the particular areas in which those activities will be conducted. Demand for that equipment or access restrictions may affect the availability of that equipment and delay its exploration and development activities.

Paramount is a medium-sized company operating in a highly competitive industry. Companies and other entities in the industry with greater resources or greater access to capital markets can outbid it for acquisitions or secure acquisitions which it cannot.

The oil and natural gas industry is highly competitive. Paramount's competitors include companies and other entities, such as royalty trusts, in the industry that have greater financial and personnel resources and/or have greater access to capital markets than Paramount does. Paramount's ability to acquire additional properties and to discover reserves depends upon its ability to evaluate and select suitable properties and to complete transactions in a highly competitive and challenging environment.

Paramount's holdings of trust units of Trilogy is subject to a number of risks.

Paramount holds approximately 17.7 percent of the issued and outstanding trust units of Trilogy as at December 31, 2005. Decreases in the trading price of the trust units of Trilogy or reductions in, or cessation of, the monthly cash distributions on the trust units of Trilogy could have a material adverse effect on Paramount.

Paramount is highly dependent 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.

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 – Eighth Avenue SW
Calgary, Alberta T2P 3S8

INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants (E&Y), 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, 2005. Information relating to reserves in this annual information form was prepared by McDaniel as an independent qualified reserves evaluator. Information relating to resources in this annual information form was prepared by McDaniel and GLJ, as independent qualified resources evaluators.

The principals of each of McDaniel and GLJ, in each case as a group, 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 involved 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, 2005.

APPENDIX A

REPORT ON RESERVES DATA
BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

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, 2005. The reserves data consists of the following:

    (a) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs and the related estimated future net revenue; and

    (b) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs and the related estimated future net revenue.

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, 2005, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue $M (before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
McDaniel & Associates Consultants Ltd.	February 6, 2006	Canada/U.S.A.	-	$1,020,248	-	$1,020,248

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update our reports for events and circumstances occurring after their respective 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:

(signed) McDANIEL & ASSOCIATES CONSULTANTS LTD.
Calgary, Alberta, Canada
March 12, 2006

APPENDIX B

REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Management of Paramount Resources Ltd. (the "Company") is 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 consist of the following:

(a) i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and

ii) the related estimated future net revenue; and

(b) i) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and

ii) the related estimated future net revenue.

An Independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluators 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 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.

(signed) Clayton H. Riddell
Chief Executive Officer

(signed) Bernard K. Lee
Chief Financial Officer

(signed) James H. T. Riddell
Director

(signed) John C. Gorman
Director

March 12, 2006

APPENDIX C

AUDIT COMMITTEE CHARTER

PARAMOUNT RESOURCES LTD.
AUDIT COMMITTEE
CHARTER

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[2] - *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[3]..

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

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

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

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

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

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

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

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

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

President and Chief Operating Officer
Chief Financial Officer
Controller
Corporate Secretary

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

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

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

C. ROLES AND RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

(j) 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 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 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 thereto,

and report to the Board with respect thereto;

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) review the reserves data and the report of the reserves evaluator

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

(i) approving the content and filing of the reserves statement;

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

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

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

D. ANNUAL REVIEW AND ASSESSMENT

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

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[1] 1.4 **Meaning of Independence** --

(1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.

(2) For the purposes of subsection (1), a “material relationship” means a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.

(3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:

(a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer:

(b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;

(c) an individual who:

(i) is, a partner of a firm that is the issuer's internal or external auditor;

(ii) is an employee of that firm; or

(iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time.

(d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

(i) is a partner of the firm that is the issuer's internal or external auditor;

(ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice; or

(iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;

(e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at the same time on the entity's compensation committee; and

(f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than $75,000 in direct compensation from the issuer during any 12 month period within the last three years.

(4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because:

(a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or

(b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.

(5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

(6) For the purposes of clause (3)(f), direct compensation does not include:

(a) remuneration for acting as a member of the board of directors or of any board committee of the issuer; and

(b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

(7) Despite subsection (3) an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member: (a) has previously acted as an interim chief executive officer of the issuer; or (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

(8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

1.5 **Additional Independence Requirements --**

(1) Despite any determination made under section 1.4, an individual who

(a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or

(b) is an affiliated entity of the issuer or any of its subsidiary entities,

is considered to have a material relationship with the issuer.

(2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by

(a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

(b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.

(3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

[2] 3.5 Reserves Committee

(1) The board of directors of a reporting issuer may, subject to subsection (2), delegate the responsibilities set out in section 3.4 to a committee of the board of directors, provided that a majority of the members of the committee

(a) are individuals who are not and have not been, during the preceding 12 months:

(i) an officer or employee of the reporting issuer or of an affiliate of the reporting issuer;

(ii) a person who beneficially owns 10 percent or more of the outstanding voting securities of the reporting issuer; or

(iii) a relative of a person referred to in subparagraph (a)(i) or (ii), residing in the same home as that person; and

(b) are free from any business or other relationship which could reasonably be seen to interfere with the exercise of their independent judgement.)

(2) Despite subsection (1), a board of directors of a reporting issuer shall not delegate its responsibility under paragraph 3.4(e) to approve the content or the filing of the information.

3 SEC. 407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL EXPERT.

(a) RULES DEFINING "FINANCIAL EXPERT" - The Commission shall issue rules, as necessary or appropriate in the public interest and consistent with the protection of investors, to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefor, the audit committee of that issuer is comprised of at least 1 member who is a financial expert, as such term is defined by the Commission.

(b) CONSIDERATIONS. - In defining the term "financial expert" for purposes of subsection (a), the Commission shall consider whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions -

(1) an understanding of generally accepted accounting principles and financial statements;

(2) experience in -

(A) the preparation or auditing of financial statements of generally comparable issuers; and

(B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;

(3) experience with internal accounting controls; and

(4) an understanding of audit committee functions.

(c) DEADLINE FOR RULEMAKING. - The Commission shall -

(1) propose rules to implement this section, not later than 90 days after the date of enactment of this Act; and

(2) issue final rules to implement this section, not later than 180 days after that date of enactment.