Management's Discussion and Analysis
For the year ended December 31, 2011

This Management's Discussion and Analysis ("MD&A"), dated March 6, 2012, should be read in conjunction with the audited Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the year ended December 31, 2011.

This document contains forward-looking information, non-GAAP measures and disclosures of barrels of oil equivalent volumes. Readers are referred to the "Advisories" section at the end of this document concerning such matters. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants, were converted to International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company's audited Consolidated Financial Statements for the year ended December 31, 2011 have been prepared in accordance with IFRS 1 - First-time Adoption of IFRS. Paramount's IFRS accounting policies and significant accounting judgments, estimates, and assumptions are described in Note 1 and Note 2 to the Company's December 31, 2011 audited Consolidated Financial Statements. Note 24 to the Company's December 31, 2011 audited Consolidated Financial Statements contains reconciliations of IFRS amounts as at January 1, 2010 (the "Transition Date") and as at and for the twelve months ended December 31, 2010 to amounts previously published in accordance with Canadian GAAP in effect prior to January 1, 2011 ("Previous GAAP").

In order to prepare comparative information, the Company has applied IFRS as of the Transition Date and amounts included in this MD&A related to periods on or after the Transition Date have been adjusted to conform to the Company's IFRS accounting policies. Amounts related to periods prior to the Transition Date included in this MD&A have not been adjusted, and are denoted as being prepared in accordance with Previous GAAP.

About Paramount

Paramount Resources Ltd. is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in North Dakota and Montana in the United States.

Paramount has spun-out three public entities: (i) Paramount Energy Trust, now Perpetual Energy Inc., in February, 2003; (ii) Trilogy Energy Trust, now Trilogy Energy Corp. ("Trilogy"), in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy in its portfolio of Strategic Investments.

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

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

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

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

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

All amounts in Management's Discussion and Analysis are presented in millions of Canadian dollars unless otherwise noted.

HIGHLIGHTS[1]

	2011	2010	2009
FINANCIAL			
Petroleum and natural gas sales	**241.7**	184.4	161.7
Funds flow from operations[2]	**96.2**	94.0	68.3
per share – diluted ($/share)[2]	**1.23**	1.29	1.02
Net loss[4]	**(232.0)**	(90.0)	(97.9)
per share – basic and diluted ($/share)[4]	**(2.96)**	(1.24)	(1.46)
Exploration and development expenditures	**465.7**	199.0	93.4
Investments in other entities – market value[3]	**1,077.3**	502.9	342.9
Total assets[4]	**1,725.7**	1,391.3	1,102.0
Long-term debt	**427.2**	294.2	93.7
Net debt	**513.4**	295.2	50.9
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	**81.6**	57.7	51.8
NGLs (Bbl/d)	**1,542**	932	756
Oil (Bbl/d)	**2,291**	2,485	2,824
Total (Boe/d)	**17,426**	13,029	12,207
Net wells drilled (excluding oil sands evaluation)	**48**	43	14
Net oil sands evaluation wells drilled	**27**	45	7
FUNDS FLOW FROM OPERATIONS ($/Boe)[2]			
Petroleum and natural gas sales	**38.00**	38.77	36.29
Royalties	**(3.47)**	(4.46)	(4.64)
Operating expense and production tax	**(11.20)**	(10.70)	(12.72)
Transportation	**(3.23)**	(3.62)	(3.11)
Netback	**20.10**	19.99	15.82
Financial commodity contract settlements	**0.03**	2.72	2.89
Netback including financial commodity contract settlements	**20.13**	22.71	18.71
General and administrative	**(2.66)**	(3.19)	(3.86)
Interest	**(5.26)**	(2.79)	(2.52)
Dividends from investments	**1.79**	2.73	3.37
Acquisition transaction costs	**(0.16)**	(0.06)	–
Other	**1.28**	0.37	(0.38)
	15.12	19.77	15.32

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas measures and definitions in the "Advisories" section of this document.
(2) The Company has adjusted its funds flow from operations measure for all periods presented. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.
(3) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.
(4) 2009 amounts prepared in accordance with Previous GAAP.

2011 OVERVIEW

Principal Properties

- Average sales volumes for the year ended December 31, 2011 increased 34 percent to 17,426 Boe/d compared to 13,029 Boe/d for the year ended December 31, 2010.
- Netback increased 34 percent to $127.8 million for the year ended December 31, 2011 from $95.1 million for the year ended December 31, 2010.
- The Kaybob COU increased sales volumes by 86 percent to 8,361 Boe/d in 2011 compared to 4,495 Boe/d in 2010.
- Construction of phase one of the Musreau processing plant (45 MMcf/d raw gas capacity) was completed. The failure of a key electrical component resulted in the plant being shut down shortly after its December 2011 start-up. The plant is currently being re-commissioned. Work is commencing for phase two of the facility, an incremental 200 MMcf/d raw gas capacity deep cut liquids extraction facility to be built alongside the initial phase.
- The Smoky non-operated plant expansion has now been approved by the partners. The existing 100 MMcf/d (10 MMcf/d net) raw gas capacity facility will be expanded to 300 MMcf/d (60 MMcf/d net) and upgraded to operate as a deep cut liquids extraction facility. The expansion is expected to be complete in late-2013.
- In May 2011, Paramount completed its acquisition of ProspEx Resources Ltd. ("ProspEx"), adding significant land holdings and producing assets in the Deep Basin at Kakwa, Elmworth and Wapiti and land holdings at Pembina and Brazeau in Southern Alberta.
- The Grande Prairie COU commissioned a 10 MMcf/d raw gas capacity compression and gathering system at Valhalla in July 2011. Work has commenced to expand the system to 28 MMcf/d of raw gas capacity, which is expected to be brought onstream at the end of March 2012.
- In the first quarter of 2011, Paramount closed the sale of approximately 6,000 net acres of undeveloped 100 percent working interest land in North Dakota for cash proceeds of US$40 million.
- In January 2012, the Southern COU divested non-core properties at West Pembina, Alberta and Kindersley, Saskatchewan for total proceeds of approximately $50 million.
- In the first quarter of 2012, Paramount and its wholly owned subsidiary, Summit Resources, Inc. ("Summit"), initiated a process to sell Summit and all of its United States properties.

Strategic Investments

- The market value of Paramount's portfolio of investments in other oil and gas entities increased 114 percent to $1.1 billion at December 31, 2011, primarily due to an increase in the market price of Trilogy shares. In January 2012, Paramount received $189.5 million in gross proceeds from the sale of 5.0 million of its 24.1 million Trilogy shares
- In November, 2011 Paramount reorganized all of the Company's oil sands and carbonate bitumen interests into a new wholly-owned subsidiary, Cavalier Energy Inc. The reorganization was undertaken to create a focused, self-funding oil sands entity in order to accelerate the development of Paramount's bitumen interests.

Corporate

- Between January 2011 and November 2011, Paramount raised $343 million through debt and equity issuances, strengthening its balance sheet and providing financial flexibility to support the Company's plans for a large-scale Deep Basin liquids-rich natural gas drilling and infrastructure development.
- General and administrative costs per Boe decreased 17 percent in 2011 to $2.66 per Boe compared to $3.19 per Boe in 2010.

CONSOLIDATED RESULTS

Net Loss

Year ended December 31	2011	2010	2009[1]
Principal Properties	**(235.4)**	(102.1)	(106.9)
Strategic Investments	**5.1**	16.5	(18.0)
Corporate	**(63.5)**	(65.1)	(27.6)
Tax Recovery	**61.8**	60.7	54.6
Net Loss	**(232.0)**	(90.0)	(97.9)

(1) Prepared in accordance with Previous GAAP.

The 2011 net loss increased by $142.0 million compared to 2010, primarily as a result of:

- An increase of $167.7 million in write-downs of petroleum and natural gas properties and goodwill;
- An increase of $49.0 million in Principal Property depletion expense primarily due to higher production levels;
- A decrease of $34.8 million in income from equity-accounted investments, as the prior year included $36.8 million of earnings related to Trilogy's conversion from a trust structure to a corporate structure;
- An increase of $20.5 million in interest expense due to higher current year debt levels;
- An increase of $20.4 million in operating expense, primarily due to higher production levels; and
- A decrease of $11.7 million in income from financial commodity contracts;

Partially offset by:

- An increase of $57.3 million in petroleum and natural gas sales;
- An increase of $41.6 million in gains on the sale of property plant and equipment, primarily relating to the sale of approximately 6,000 net acres of undeveloped 100 percent working interest land in North Dakota;
- A decrease of $33.8 million in stock-based compensation expense: and
- An increase of $19.7 million in other income primarily due to the recognition of $11.1 million in gains on sale of investments in the shares of NuLoch and its successor, Magnum Hunter Resources Corporation ("Magnum Hunter").

2009 Results

Paramount's 2009 financial results were prepared in accordance with Previous GAAP. As the Company's IFRS transition date was January 1, 2010, comparative information for 2009 has not been restated, with the exception of the 2009 funds flow from operations measure.

Paramount's December 31, 2009 Previous GAAP consolidated financial results were as follows: total assets of $1,102.0 million; long-term debt of $93.7 million; annual revenues net of royalties and gains on financial commodity contracts of $146.3 million; a net loss of $97.9 million, with a basic and diluted loss per share of $1.46. The Company's 2009 Previous GAAP net loss was impacted by:

- Average commodity prices of $36.29/Boe and average sales volumes of 12,207 Boe/d.
- A dry hole charge of $24.3 million;
- A $14.9 million write-down of petroleum and natural gas properties;
- A loss from investments of $7.3 million;
- $17.6 million of stock-based compensation expense; and
- A tax recovery of $54.6 million.

Funds Flow From Operations[1]

The following is a reconciliation of funds flow from operations to the nearest GAAP measure:

Year ended December 31	2011	2010	2009
Cash from operating activities	**84.9**	59.2	76.0[2]
Change in non-cash working capital	**(3.0)**	23.5	(11.8)[2]
Geological and geophysical expenses	**6.8**	8.1	N/A
Asset retirement obligations settled	**7.5**	3.2	4.1
Funds flow from operations	**96.2**	94.0	68.3
Funds flow from operations ($/Boe)	**15.12**	19.77	15.32

(1) The Company has adjusted its funds flow from operations measure for all periods. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.
(2) Prepared in accordance with Previous GAAP.

- Funds flow from operations in 2011 increased $2.2 million compared to the prior year, primarily due to an increase in petroleum and natural gas sales, partially offset by a $20.4 million increase in operating expenses, a $20.1 million increase in interest expense and a $12.7 million decrease in commodity contract settlements received.
- Funds flow from operations in 2010 increased $25.7 million compared to 2009, primarily due to the impact of higher petroleum and natural gas sales and lower operating and general and administrative expenses, partially offset by higher transportation and interest expenses.

PRINCIPAL PROPERTIES

Netback and Segment Loss

Year ended December 31	**2011**		2010	
		($/Boe)		*($/Boe)*
Petroleum and natural gas sales	**241.7**	***38.00***	184.4	*38.77*
Royalties	**(22.1)**	***(3.47)***	(21.2)	*(4.46)*
Operating expense and production tax	**(71.3)**	***(11.20)***	(50.9)	*(10.70)*
Transportation	**(20.5)**	***(3.23)***	(17.2)	*(3.62)*
Netback	**127.8**	***20.10***	95.1	*19.99*
Financial commodity contract settlements	**0.2**	***0.03***	12.9	*2.72*
Netback including financial commodity contract settlements	**128.0**	***20.13***	108.0	*22.71*
Other principal property items (see below)	**(363.4)**		(210.1)	
Segment loss	**(235.4)**		(102.1)	

Petroleum and Natural Gas Sales

Year ended December 31	**2011**	2010	% Change
Natural gas	**122.0**	94.8	29
NGLs	**46.3**	24.0	93
Oil	**73.4**	65.6	12
	241.7	184.4	31

In 2011, petroleum and natural gas sales were $241.7 million, an increase of $57.3 million from the prior year, primarily due to the impact of higher natural gas and NGLs sales volumes and higher oil and NGLs prices, partially offset by lower natural gas prices and lower oil sales volumes.

The impact of changes in prices and sales volumes on petroleum and natural gas sales are as follows:

	Natural Gas	**NGLs**	**Oil**	**Total**
Year ended December 31, 2010	94.8	24.0	65.6	184.4
Effect of changes in prices	(12.1)	6.6	13.0	7.5
Effect of changes in sales volumes	39.3	15.7	(5.2)	49.8
Year ended December 31, 2011	**122.0**	**46.3**	**73.4**	**241.7**

Sales Volumes

	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**44.5**	23.5	89	**868**	495	75	**72**	79	(9)	**8,361**	4,495	86
Grande Prairie	**16.0**	12.4	29	**505**	367	38	**393**	583	(33)	**3,568**	3,012	18
Southern	**10.8**	9.3	16	**150**	59	154	**1,483**	1,363	9	**3,424**	2,973	15
Northern	**10.3**	12.5	(18)	**19**	11	73	**343**	460	(25)	**2,073**	2,549	(19)
	81.6	57.7	41	**1,542**	932	65	**2,291**	2,485	(8)	**17,426**	13,029	34

Natural gas sales volumes increased 23.9 MMcf/d or 41 percent to 81.6 MMcf/d in 2011 compared to 57.7 MMcf/d in 2010. NGLs sales volumes increased 65 percent to 1,542 Bbl/d in 2011 compared to 932 Bbl/d in the same period of the prior year. The increase in natural gas and NGLs sales volumes was primarily related to new well production at Musreau and Smoky within the Kaybob COU and at Valhalla and Karr-Gold Creek within the Grande Prairie COU from the Company's 2010/2011 drilling program and new well production from the acquisitions of ProspEx and Redcliffe Exploration Inc. ("Redcliffe"). Sales volume increases were partially offset by the impact of production declines.

Oil sales volumes decreased eight percent to 2,291 Bbl/d in 2011 compared to 2,485 Bbl/d in 2010, primarily due to declines at Crooked Creek in the Grande Prairie COU and at Cameron Hills in the Northern COU. These decreases were partially offset by increased sales volumes related to new well production from the acquisitions of ProspEx and Redcliffe and due to new well production in the Southern COU.

Total average sales volumes increased 4,397 Boe/d or 34 percent in 2011 to 17,426 Boe/d compared to 13,029 Boe/d in 2010. The Company did not achieve its expected average annual sales volumes for 2011 due to the impact of third party facility outages and capacity restrictions at Musreau, Smoky, Valhalla and Karr-Gold Creek, weaker than expected well performance at the Karr-Gold Creek property, and the delayed start-up of the Musreau plant.

Average Realized Prices

Year ended December 31	**2011**	2010	% Change
Natural gas ($/Mcf)	**4.10**	4.50	(9)
NGLs ($/Bbl)	**82.24**	70.58	17
Oil ($/Bbl)	**87.81**	72.30	21
Total ($/Boe)	**38.00**	38.77	(2)

Paramount's average realized natural gas price for 2011, before financial commodity contract impacts, was $4.10/Mcf compared to $4.50/Mcf in 2010. Paramount's natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, Eastern Canadian market, and California market and is sold in a combination of daily and monthly contracts.

The average realized NGLs price for 2011 increased to $82.24/Bbl compared to $70.58/Bbl in 2010. The average realized oil price, before financial commodity contract impacts, increased to $87.81/Bbl compared to $72.30/Bbl in 2010. Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to Edmonton Par and United States market hubs, adjusted for transportation and quality differentials. The Company's United States oil and NGLs sales portfolio is sold at the well head with negotiated differentials relative to West Texas Intermediate crude oil prices.

Commodity Prices

Key monthly average commodity price benchmarks and foreign exchange rates are as follows:

Year Ended December 31	2011	2010	% Change
Natural Gas			
AECO (Cdn$/GJ)	**3.48**	3.91	(11)
NYMEX (Henry Hub US$/MMbtu)	**4.07**	4.40	(7)
Crude Oil			
Edmonton par (Cdn$/Bbl)	**95.16**	76.80	24
West Texas Intermediate (US$/Bbl)	**95.00**	78.39	21
Foreign Exchange			
$Cdn / 1 $US	**0.99**	1.04	(5)

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility. Paramount has not designated any of its financial commodity contracts as hedges, and as a result, changes in the fair value of these contracts are recognized in earnings.

Receipts from the settlement of financial commodity contracts are as follows:

Year ended December 31	2011	2010
Natural gas contracts	–	12.9
Oil contracts	**0.2**	–
	0.2	12.9

At December 31, 2011, Paramount had the following financial commodity contracts outstanding:

Instruments	Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.01/Bbl	**$ 139**	January – May 2012
Oil – NYMEX WTI Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**45**	January – May 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.65 /Bbl	**223**	January – June 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $97.25/Bbl	**$ (288)**	January – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $91.50/Bbl	**(2,722)**	January – December 2012
			$ (2,603)	

Royalties

Year ended December 31	2011	*Royalty rate (%)*	2010	*Royalty rate (%)*
Royalties	**22.1**	***9.1%***	21.2	*11.5%*

Royalties increased by $0.9 million to $22.1 million in 2011 compared to $21.2 million in 2010. Natural gas and NGLs royalties increased to $11.1 million in 2011 from $9.8 million in 2010 due to production from new wells and higher NGLs prices, partially offset by a decrease in royalty rates from 8.3 percent to 6.6 percent as a result of a greater proportion of production qualifying for Alberta new well royalty incentive programs.

Oil royalties decreased to $11.0 million in 2011 from $11.4 million in 2010 due to a decrease in royalty rates from 17.3 percent to 15.0 percent, primarily as a result of a reduction in maximum Alberta oil royalty rates (50 percent in 2010 to 40 percent in 2011), partially offset by the impact of higher oil revenue.

Operating Expense and Production Tax

Year ended December 31	2011	2010	% Change
Operating Expense	**68.6**	48.6	41
Production Tax	**2.7**	2.3	17
Total	**71.3**	50.9	40

Operating expense and production taxes increased by $20.4 million in 2011 to $71.3 million compared to $50.9 million in 2010. The increases in 2011 primarily relate to new well production at Musreau and Smoky in the Kaybob COU and at Karr-Gold Creek and Valhalla in the Grande Prairie COU. Operating expenses also increased as a result of wells added through the acquisitions of ProspEx and Redcliffe and because of suspension and workover activity during 2011 in the Northern COU at remote locations.

Transportation Expense

Year ended December 31	2011	2010	% Change
Transportation Expense	**20.5**	17.2	19

Transportation costs increased to $20.5 million in 2011 compared to $17.2 million in 2010, primarily as a result of a 34 percent increase in sales volumes and a $0.7 million increase in trucking costs in the Northern COU during a liquids pipeline service interruption. Transportation costs decreased to $3.23 per Boe in 2011 compared to $3.62 per Boe in 2010, due primarily to lower per unit fixed transportation costs as a result of increased sales volumes, primarily in the Kaybob and Grande Prairie COUs.

Other Principal Property Items

Year ended December 31	2011	2010
Commodity contracts – net of settlements	**1.9**	2.9
Depletion and depreciation (excluding write-downs)	**150.0**	101.0
Write-down of petroleum and natural gas properties and goodwill	**225.7**	57.9
Exploration and evaluation	**25.7**	41.8
Gain on sale of property, plant and equipment	**(42.0)**	(0.4)
Accretion of asset retirement obligations	**7.3**	7.9
Other income	**(5.2)**	(1.0)
Total	**363.4**	210.1

During 2011, Paramount recorded a write-down of petroleum and natural gas properties and goodwill of $225.7 million compared to $57.9 million in the prior year. The 2011 write-down primarily related to properties in the Grande Prairie COU at Karr-Gold Creek and Valhalla, in the Southern COU at Chain and Delia and in the Northern COU at Cameron Hills and Bistcho. The impairment resulted from a combination of declines in reserves assigned due to well performance and the decline in forecast natural gas prices.

Depletion and depreciation expense (excluding the write-downs) increased to $150.0 million or $23.64 per Boe in 2011 compared to $101.0 million or $21.23 per Boe in the prior year. The increase in depletion and depreciation expense was primarily due to higher production.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Exploration and evaluation expense included expired lease costs of $18.2 million in 2011 compared to $24.2 million in 2010. Evaluation expense included $2.4 million of dry hole expense in 2011 compared to $8.3 million in 2010.

The gain on sale of property, plant and equipment recorded for the year ended December 31, 2011 is primarily related to the sale of approximately 6,000 net acres of undeveloped land in North Dakota, unrelated to the farm-out lands, for cash proceeds of US$40 million.

Other income in 2011 includes $4.4 million in respect of lower royalties related to prior years, primarily as a result of the resolution of audits and increased gas cost allowance claims.

STRATEGIC INVESTMENTS

Year ended December 31	2011	2010
Income from equity-accounted investments	**1.2**	36.0
Drilling rig revenue	**22.4**	13.4
Drilling rig expense	**(11.1)**	(8.0)
General and administrative	**(4.9)**	(3.6)
Stock-based compensation	**(5.8)**	(16.6)
Interest	**(1.2)**	(1.2)
Gain on investments	**15.7**	3.5
Other expense	**(11.2)**	(7.0)
Segment Earnings (Loss)	**5.1**	16.5

Income from equity-accounted investments in 2011 was $1.2 million compared to income of $36.0 million in the prior year. In 2010, the Company recorded $36.8 million of equity earnings related to Trilogy's conversion from a trust structure to a corporate structure.

Strategic Investments at December 31, 2011 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy, Paxton Corporation ("Paxton"), and other public and private corporations;
- oil sands and carbonate bitumen interests owned by Paramount's wholly owned subsidiary, Cavalier Energy, including oil sands resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta, including at Saleski;
- prospective shale gas acreage in the Horn River and Liard Basins in Northeast British Columbia and the Northwest Territories; and
- drilling rigs operated by Paramount's wholly-owned subsidiaries: Fox Drilling in Canada and Paramount Drilling in the United States.

In April 2011, Paramount sold 3.3 million of the 6.6 million NuLoch shares it held for cash proceeds of $8.1 million. In May 2011, Magnum Hunter acquired NuLoch and Paramount's remaining 3.3 million NuLoch shares were exchanged for 1.1 million Magnum Hunter shares, which the Company

subsequently sold in July 2011 for $7.7 million in cash. The Company recognized aggregate gains of $11.1 million in gain on investments on the dispositions, which previously had been recorded in reserves.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding shares of ProspEx not already owned in exchange for $64.8 million in cash and the issuance of 2.0 million Paramount Common Shares. ProspEx was a Calgary-based exploration and development company with interests in petroleum and natural gas properties in western Canada. The accumulated gain of $4.4 million to May 31, 2011 that had been recorded in reserves in respect of the Company's investment in the shares of ProspEx was recognized in gain on investments.

In January 2012, Paramount closed the sale of five million of its Trilogy non-voting shares for gross proceeds of $189.5 million.

The Company's investments in other entities are as follows:

	Carrying Value		Market Value[1]	
As at December 31	**2011**	2010	**2011**	2010
Trilogy[3]	**118.3**	125.7	**907.1**	297.0
MEG	**153.8**	168.3	**153.8**	168.3
MGM Energy	**1.7**	5.2	**10.6**	8.8
NuLoch Resources	**–**	13.7	**–**	13.7
ProspEx	**–**	7.4	**–**	7.4
Other[2]	**5.8**	7.7	**5.8**	7.7
Total	**279.6**	328.0	**1,077.3**	502.9

(1) Based on the period-end closing price of publicly-traded investments and book value of remaining investments.
(2) Includes investments in Paxton Corporation and other public and private corporations.
(3) Includes five million shares sold in January 2012 with a December 31, 2011 carrying value of $24.2 million and a December 31, 2011 market value of $187.9 million.

Cavalier Energy

In November 2011, Paramount reorganized of all of its oil sands and carbonate bitumen interests into a new wholly-owned subsidiary, Cavalier Energy and assembled its executive leadership team. The reorganization was undertaken to create a focused, self-funding oil sands entity in order to accelerate the development of Paramount's bitumen interests.

During 2011, Paramount received an updated independent evaluation of the bitumen resources within the Grand Rapids formation at the Hoole oil sands property and an initial independent evaluation of the bitumen resources within the Grosmont formation at Saleski and other properties. Details concerning these evaluations are contained in Paramount's Annual Information Form dated March 6, 2012.

Cavalier Energy's near-term plans are to focus on the development of its 100 percent owned oil sands leases at Hoole, including finalizing the scope and design of the initial phase of the development, submitting an application for commercial development and evaluating funding opportunities. Cavalier Energy will also continue to further delineate its carbonate bitumen leases at Saleski and its other carbonate leases.

Shale Gas

Paramount's shale gas land position encompasses 150,000 (127,000 net) acres which has potential for production from the Besa River shale gas formation in the Horn River and Liard Basins.

The Company has commenced drilling an initial vertical evaluation well in the Dunedin area of the Liard Basin. This well is expected to be drilled to 4,500 meters at a cost of approximately $15 million and will

be cored and logged for evaluation. Paramount continues to monitor industry activities in the Horn River and Liard Basins, where operators are applying multi-stage fracturing technology to maximize production rates and reserve recoveries. The Company is taking a conservative approach to de-risking its shale gas holdings in the current low natural gas price environment while taking steps to maintain its mineral rights.

Drilling Subsidiaries

Fox Drilling's two Canadian-based drilling rigs drilled on Company lands in Alberta for the duration of 2011. The Paramount Drilling US drilling rig was contracted to third parties throughout the year and is currently contracted to a third party until mid-2012.

During December 2011, Fox Drilling commenced the construction of two new "triple-sized" walking drilling rigs to be deployed on the Company's lands in Canada. These rigs are expected to be operational in late-2012 at an expected cost of $20 million each.

CORPORATE

Year ended December 31	**2011**	2010
General and administrative	**12.1**	11.5
Stock-based compensation	**15.6**	38.7
Depletion and depreciation	**0.5**	0.7
Interest	**32.9**	12.3
Debt extinguishment	**–**	1.7
Acquisition transaction costs	**1.0**	0.3
Foreign exchange	**1.4**	(0.2)
Other	**–**	0.1
	63.5	65.1

Corporate segment net costs decreased to $63.5 million in 2011 compared to $65.1 million in 2010.

Stock-based compensation decreased $23.1 million to $15.6 million in 2011 compared to $38.7 million in 2010 as a result of a significant prior year increase in the market price of the Company's Common Shares.

Interest expense increased $20.6 million to $32.9 million in 2011 compared to $12.3 million in 2010 due to the Senior Notes issuances in December 2010 and February 2011 and drawings throughout 2011 on the Company's credit facility.

EXPLORATION AND CAPITAL EXPENDITURES

Year ended December 31	2011	2010
Geological and geophysical	5.5	7.6
Drilling, completion and tie-ins	303.7	144.8
Facilities and gathering	156.5	46.6
Exploration and development expenditures	**465.7**	199.0
Land and property acquisitions	38.2	82.7
Principal Properties	**503.9**	281.7
Strategic Investments	**28.0**	16.3
Corporate	**0.1**	0.1
	532.0	298.1

Exploration and development expenditures in 2011 were $465.7 million compared to $199.0 million in 2010. Spending in 2011 focused on drilling and completing gas wells in the Kaybob COU's Deep Basin development, at Karr-Gold Creek and Valhalla in the Grande Prairie COU and at Birch in the Northern COU. Additions to property, plant and equipment include $3.2 million of capitalized interest in 2011 (2010 – nil) for qualifying assets in the construction phase.

Facilities and gathering expenditures in 2011 primarily related to the construction of new plants and gathering systems within the Kaybob COU in order to provide increased Company-owned capacity for planned production growth in the area, including phase one of the new Musreau plant, long lead-time equipment orders for phase two of the Musreau plant and for the non-operated Smoky plant expansion. In the Grande Prairie COU, facilities and gathering expenditures related to construction at Valhalla and Karr-Gold Creek.

Land and property acquisitions include purchases of Deep Basin undeveloped land in the Kaybob COU.

Strategic investments capital expenditures in 2011 include $19.9 million related to Saleski and Hoole, $5.0 million related to the construction of two triple-sized drilling rigs and $3.1 million related to the initial shale gas well being drilled in Dunedin in Northeast British Columbia.

In the fourth quarter of 2011, Paramount entered into agreements to sell certain oil and gas properties in the Southern COU and the Northern COU for aggregate gross proceeds of approximately $50 million. The transactions closed in early 2012.

During the fourth quarter of 2011, Summit's partner drilled and completed the final wells under the joint development agreement, earning an undivided 50 percent interest in Summit's Bakken/Three Forks lands in North Dakota.

In the first quarter of 2012, Paramount and its wholly owned subsidiary, Summit, initiated a process to sell Summit and all of its United States properties.

Wells drilled are as follows:

	Year ended December 31			
	2011		2010	
(wells drilled)	**Gross**[1]	**Net**[2]	Gross[1]	Net[2]
Gas	**47**	**32**	34	23
Coal bed methane	**–**	**–**	13	10
Oil	**26**	**15**	13	6
Oil sands evaluation	**28**	**27**	45	45
Dry and abandoned	**1**	**1**	4	4
Total	**102**	**75**	109	88

(1) Gross is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

OUTLOOK

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount may adjust its capital structure by issuing or repurchasing shares, altering debt levels, modifying capital programs, acquiring or disposing of assets and participating in joint ventures.

As at December 31	2011	2010	Change
Working capital deficit (surplus)[1]	**82.0**	(4.8)	86.8
Credit facility	**61.4**	–	61.4
Senior Notes[2]	**370.0**	300.0	70.0
Net debt[3]	**513.4**	295.2	218.2
Share capital	**810.8**	481.8	329.0
Accumulated (deficit) earnings	**(103.6)**	128.4	(231.5)
Reserves	**116.7**	72.0	44.7
Total Capital	**1,337.3**	977.4	359.9

(1) Excludes risk management assets and liabilities, stock-based compensation liabilities, assets and liabilities held for sale and accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2011 – $5.9 million, December 31, 2010 – $6.1 million).

(2) Excludes unamortized issue premiums and financing costs.

(3) Net debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Working Capital

Paramount's working capital deficit at December 31, 2011 was $82.0 million compared to a surplus of $4.8 million at December 31, 2010. The working capital deficit at December 31, 2011 included $130.9 million of accounts payable and accrued liabilities, $40.2 million of accounts receivable, $29.0 million of cash and cash equivalents, the $22.8 million drilling rig loan and $2.6 million of prepaid and other expenses. The decrease in working capital is primarily a result of the Company's 2011 capital program and the ProspEx acquisition, partially offset by equity issuances, funds flow from operations, proceeds from the Senior Notes offering, drawings on the Company's bank credit facility, and the undeveloped land sale in the United States. During 2011, aggregate principal payments of $4.0 million were made on the drilling rig loan.

Between December 2010 and November 2011, Paramount closed public offerings of an aggregate $370 million principal amount of senior notes and $263.9 million of Common Shares and flow-through Common Shares. Proceeds from these offerings were used to further the exploration and development of the Company's properties, including drilling and completion work and facilities construction at Musreau and Smoky in the Kaybob COU and at Karr-Gold Creek and Valhalla in the Grande Prairie COU. Approximately $92 million of the proceeds from the senior notes offering were used for the purchase and redemption of the remaining outstanding balance of the Company's 8½% U.S. senior notes. Proceeds from flow-through share offerings were used and are expected to be used to incur eligible Canadian exploration expenses. Proceeds were also used for the non-permanent repayment of indebtedness under the Company's credit facility and for general corporate purposes.

Paramount expects to fund its 2012 operations, obligations and capital expenditures with proceeds from the sale of the five million Trilogy shares, funds flow from operations, proceeds from the sale of the non-core properties, existing cash and cash equivalents, drawings on its bank credit facility, and by accessing the capital markets, if required.

Demand Facilities

Drilling Rig Loan

In 2009, Paramount entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $7.5 million have been made to December 31, 2011. Unless demanded by the bank, annual scheduled principal repayments are $5.1 million in each of 2012 and 2013, with the remaining outstanding balance of $12.6 million payable in 2014.

In January 2012, Paramount entered into a new $30.0 million non-revolving demand loan facility with the same Canadian bank to partially fund the construction of two new triple-sized walking rigs ("Drilling Rig Loan II"). Advances on Drilling Rig Loan II are available during the year long construction period with scheduled principal repayments to commence in 2013. Drilling Rig Loan II is currently undrawn.

Recourse and security for Drilling Rig Loan I and Drilling Rig Loan II (collectively, the "Drilling Rig Loans") is limited to the three existing drilling rigs, the two rigs to be constructed, and drilling contracts guaranteed by Paramount. The carrying value of the three existing rigs is $37.6 million (2010 - $38.0 million). Interest is payable at the bank's prime lending rate or bankers acceptance rate, as selected at the discretion of the Company, plus an applicable margin. The effective interest rate on Drilling Rig Loan I for the period ended December 31, 2011 was 4.7 percent (2010 - 4.2 percent).

Cavalier Facility

In January 2012, Cavalier entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). The Cavalier Facility bears interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of Paramount, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier, including oil sands and carbonate bitumen lands.

Bank Credit Facility

In June 2011, Paramount renewed its bank credit facility (the "Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Loans and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

The Facility bears interest at the lenders' prime lending rates, US base rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt to cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review, and is dependent upon the Company's reserves, lenders' projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. Increases in the borrowing base and lender commitments under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At December 31, 2011, $61.4 million (December 31, 2010 – nil) was drawn on Tranche A of the Facility. Paramount had undrawn letters of credit outstanding at December 31, 2011 totaling $26.3 million that reduce the amount available to the Company.

Senior Notes

In December 2010, Paramount completed a public offering of $300 million principal amount of senior unsecured notes ("Senior Notes") at par, of which $11.4 million principal amount was purchased by certain directors, associates, officers, and management of the Company.

In February 2011, Paramount completed a public offering of an additional $70 million principal amount of Senior Notes at a price of $1,030 per $1,000 principal amount, of which $1.4 million principal amount was purchased by an entity that is controlled by the Company's Chairman and Chief Executive Officer. The Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company.

The Company may redeem all or any portion of the Senior Notes at any time on or prior to December 13, 2013 at par, plus accrued and unpaid interest, plus a redemption premium equal to the greater of: (i) one percent; and (ii) a make-whole amount based on the then current yield of a Government of Canada bond with a similar maturity. Paramount may also redeem up to an aggregate of 35 percent of the Senior Notes with the net cash proceeds of an equity offering at any time prior to December 13, 2013, at par plus a redemption premium of 8.25 percent. On or after December 13, 2013, the Company may redeem some or all of the Senior Notes at par plus a redemption premium, if applicable, of up to 4.125 percent depending on when redeemed, plus accrued and unpaid interest.

US Senior Notes

During the fourth quarter of 2010, Paramount's obligations under the indenture governing its US$90.2 million principal amount of US senior notes ("US Senior Notes") were discharged as a result of Paramount: (i) purchasing US$64.2 million principal amount of US Senior Notes pursuant to a tender offer; (ii) delivering all US Senior Notes held by the Company to the trustee for cancellation; (iii) issuing a redemption notice for US$26.0 million principal amount of US Senior Notes not tendered under the tender offer (the "Redeemed Notes"); and (iv) irrevocably depositing sufficient cash with the trustee to pay all amounts due on the Redeemed Notes on the January 31, 2011 redemption date.

Share Capital

In April 2011, Paramount issued 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million pursuant to a public offering. In April 2011, Paramount also issued 150,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses at a price of $36.50 per share for gross proceeds of $5.5 million to a company controlled by the Company's Chairman and Chief Executive Officer. In May 2011, the Company issued 2,000,000 Common Shares in connection with the ProspEx acquisition. In October 2011, Paramount issued 1,450,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") pursuant to a public offering at a price of $40.50 per share for gross proceeds of $58.7 million. Also in October 2011, the Company issued 100,000 Common Shares on a "flow-through basis" in respect of CEE at a price of $40.50 per share for gross proceeds of $4.1 million to companies controlled by the Company's Chairman and Chief Executive Officer. In November 2011, Paramount issued 4,500,000 Common Shares at a price of $34.75 per share for gross proceeds of $156.4 million through a public offering.

The Company is committed to incur $62.8 million of qualifying expenditures related to the 2011 offering of CEE flow-through Common Shares by October 19, 2012. As of December 31, 2011, the Company had incurred $33.1 million of qualifying CEE.

Paramount has incurred sufficient qualifying expenditures to satisfy its commitments associated with flow-through shares issued in November 2010 and April 2011.

In April 2010, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a normal course issuer bid ("NCIB") commencing April 13, 2010 for a 12-month period. Under the NCIB, Paramount was permitted to purchase for cancellation up to 3,626,476 Common Shares. No shares were purchased under the NCIB, which expired on March 3, 2011.

At March 2, 2012, Paramount had 85.6 million Common Shares and 5.7 million Paramount Options outstanding (1.8 million exercisable).

QUARTERLY INFORMATION

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	**63.3**	70.5	61.1	46.8	46.0	44.9	44.6	48.9
Funds flow from operations	**26.1**	32.8	23.4	13.9	21.3	24.1	25.2	23.5
per share – diluted ($/share)	**0.33**	0.42	0.29	0.19	0.29	0.33	0.35	0.33
Net income (loss)	**(209.9)**	(22.4)	12.2	(11.9)	(106.3)	6.9	(17.5)	26.9
per share – basic ($/share)	**(2.54)**	(0.28)	0.16	(0.16)	(1.44)	0.09	(0.24)	0.37
per share – diluted ($/share)	**(2.54)**	(0.28)	(0.02)	(0.16)	(1.44)	0.09	(0.24)	0.37
Sales volumes								
Natural gas (MMcf/d)	**91.5**	97.8	77.7	58.7	60.4	62.9	57.0	50.2
NGLs (Bbl/d)	**1,620**	2,062	1,504	968	1,030	1,099	821	775
Oil (Bbl/d)	**2,356**	2,344	2,110	2,353	2,357	2,381	2,466	2,739
Total (Boe/d)	**19,223**	20,707	16,572	13,097	13,461	13,967	12,787	11,875
Average realized price								
Natural gas ($/Mcf)	**3.65**	4.16	4.43	4.26	4.04	4.12	4.49	5.59
NGLs ($/Bbl)	**81.27**	83.68	83.17	79.29	75.52	59.90	77.26	72.22
Oil ($/Bbl)	**94.33**	80.06	95.64	81.91	75.45	68.60	69.34	75.51

Significant Items Impacting Quarterly Results

Quarterly earnings variances include the impacts of changing production volumes and market prices.

- Fourth quarter 2011 earnings include a $225.7 million write-down of petroleum and natural gas properties and goodwill, and $7.6 million of losses on financial commodity contracts, partially offset by an $8.4 million decrease in stock-based compensation expense and a $3.1 million gain on the sale of property, plant and equipment.

- Third quarter 2011 earnings include $14.6 million of stock-based compensation expense, a decrease of $15.4 million in gains on the sale of securities and an increase of $8.3 million in depletion and depreciation.

- Second quarter 2011 earnings include the recognition of $15.4 million of gains on investments in securities and a $10.6 million stock-based compensation recovery, partially offset by higher depletion and depreciation and interest.

- First quarter 2011 earnings include gains of $39.6 million on the sale of property, plant and equipment, partially offset by $11.3 million of stock-based compensation charges.

- Fourth quarter 2010 earnings include $33.7 million of stock-based compensation charges, a $57.9 million write-down of petroleum and natural gas properties and goodwill and $11.9 million of expired lease costs.

- Third quarter 2010 earnings include a future income tax recovery of $33.0 million and $8.1 million of stock-based compensation charges.
- Second quarter 2010 earnings include increased depletion, depreciation and accretion expense and $6.8 million of stock-based compensation charges.
- First quarter 2010 earnings include $36.8 million of equity earnings related to Trilogy's conversion from a trust structure to a corporate structure, $8.2 million of dry hole expenses and $6.7 million of stock-based compensation charges.

Fourth Quarter Review

Net Loss

Three months ended December 31	**2011**	2010
Principal Properties	**(250.3)**	(84.6)
Strategic Investments	**(3.4)**	(10.9)
Corporate	**(16.3)**	(32.7)
Tax Recovery	**60.1**	21.9
Net Loss	**(209.9)**	(106.3)

Netback

Three months ended December 31	**2011**		2010	
		($/Boe)		*($/Boe)*
Petroleum and natural gas sales	**63.3**	**35.80**	46.0	37.11
Royalties	**(5.5)**	**(3.13)**	(4.4)	(3.51)
Operating expense and production tax	**(21.2)**	**(11.98)**	(12.8)	(10.37)
Transportation	**(5.1)**	**(2.88)**	(4.3)	(3.46)
Netback	**31.5**	**17.81**	24.5	19.77
Financial commodity contract settlements	**0.3**	**0.17**	1.8	1.44
Netback including financial commodity contract settlements	**31.8**	**17.98**	26.3	21.21

Funds Flow from Operations[1]

Three months ended December 31	**2011**	2010
Cash from operating activities	**7.2**	10.4
Change in non-cash working capital	**14.9**	8.8
Geological and geophysical expenses	**1.9**	1.5
Asset retirement obligations settled	**2.1**	0.6
Funds flow from operations	**26.1**	21.3
Funds flow from operations ($/Boe)	**19.77**	17.17

[1] The Company has adjusted its funds flow from operations measure for all periods. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.

Sales Volumes

	Three months ended December 31											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**50.8**	28.8	76	**901**	614	47	**62**	98	(37)	**9,437**	5,506	71
Grande Prairie	**19.4**	11.4	70	**480**	333	44	**333**	428	(22)	**4,048**	2,667	52
Southern	**11.4**	9.1	25	**216**	59	266	**1,551**	1,397	11	**3,670**	2,976	23
Northern	**9.9**	11.1	(11)	**23**	24	(4)	**410**	434	(6)	**2,068**	2,312	(11)
	91.5	60.4	51	**1,620**	1,030	57	**2,356**	2,357	0	**19,223**	13,461	43

Paramount's fourth quarter average sales volumes were 19,223 Boe/d, consisting of 91.5 MMcf/d of natural gas and 3,976 Bbl/d of oil and NGLs. Petroleum and natural gas sales were $63.3 million, an increase of $17.3 million from the fourth quarter of 2010 due to increased production volumes from new wells and acquisitions and higher oil and NGLs prices, partially offset by lower natural gas prices. Production levels in the Kaybob COU in the fourth quarter of 2011 were impacted by lower firm processing capacity in Musreau and equipment failures shortly after the start-up of the new Musreau plant resulting in some production being temporarily shut-in.

Fourth quarter 2011 royalties increased to $5.5 million in 2011 compared to $4.4 million in 2010, primarily as a result of increased revenue. The average royalty rate decreased from 9.3% to 8.7%, as a greater proportion of current production is subject to the Alberta new well and deep drilling royalty incentive programs. Operating expenses were $8.4 million higher in the fourth quarter of 2011 compared to the prior year primarily due to higher production volumes from new well production and acquisitions. Operating costs per Boe increased to $11.98 in the fourth quarter of 2011 compared to $10.37 in the fourth quarter of 2010. The per unit increase is due primarily to an equalization adjustment for processing fees at a third party midstream facility and higher 2011 costs related to winter ice roads and well work-overs.

Funds flow from operations in the fourth quarter of 2011 increased by $4.8 million to $26.1 million compared to $21.3 million in 2010, primarily due to the increase in petroleum and natural gas sales, partially offset by higher operating expenses and interest.

Fourth quarter exploration and development expenditures of $78.1 million were primarily related to the Deep Basin development in the Kaybob COU and spending at Karr-Gold Creek and Valhalla in the Grande Prairie COU.

OTHER INFORMATION

Related Party Transactions

Service Agreements

Paramount engages in transactions with Trilogy, MGM Energy, Paxton and Perpetual Energy Inc. in the normal course of business, including joint venture operations. Paramount is considered related to Trilogy, MGM Energy, Paxton and Perpetual Energy Inc. because of common significant influence. All transactions between Paramount and the entities are recorded at their exchange amounts.

During 2011, Paramount charged $0.9 million (2010 – $0.5 million) to Trilogy in respect of operational and administrative services. Also, Paramount received $10.1 million (2010: $10.5 million) in annual dividends from Trilogy. As of December 31, 2011, Paramount had a receivable balance due from Trilogy of $0.3 million (2010: $0.3 million).

Contractual Obligations

Paramount had the following contractual obligations at December 31, 2011:

($ millions)	2012	2013-2014	2015-2016	After 2016	Total
Senior notes[1]	30.5	61.1	61.1	399.3	552.0
Drilling rig loan[1]	6.1	5.3	13.0	–	24.4
Pipeline transportation commitments[2]	16.4	33.2	27.7	55.5	132.8
Operating leases	3.6	3.5	3.5	10.6	21.2
Capital spending commitments	54.2	–	–	–	54.2
Credit facility[1]	3.3	63.0	–	–	66.3
Total	**114.1**	**166.1**	**105.3**	**465.4**	**850.9**

(1) Including interest
(2) Certain of the pipeline transportation commitments are secured by outstanding letters of credit totaling $12.8 million at December 31, 2011 (2010 - $10.4 million).

Operating Lease Commitment

During the year, the Company renewed and extended its head office lease to 2022. The Company incurred office lease costs of $2.8 million in 2011 (2010 - $2.3 million).

Flow-Through Shares

As a result of flow through share issuances in the fourth quarter of 2011, Paramount is required to incur and renounce $29.7 million of Canadian Exploration Expense during 2012.

Contingencies

Paramount is a party to various legal claims associated with the ordinary conduct of business. Paramount does not anticipate that these claims will have a material impact on its financial position.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually changes. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax filings are subject to subsequent government audit and potential reassessments. Accordingly, the final liability may differ materially from amounts estimated and recorded.

CHANGE IN ACCOUNTING POLICIES

IFRS Transition

As noted previously, Canadian GAAP was converted to IFRS effective for fiscal years beginning on or after January 1, 2011. Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2011 have been prepared in accordance with IFRS 1 - First-time Adoption of IFRS ("IFRS 1"). The adoption of IFRS has not had a material impact on the Company's operations, cash flows, capital expenditures or strategic objectives.

The Company's IFRS accounting policies are provided in Note 1 to the audited Consolidated Financial Statements. In addition, Note 24 presents reconciliations between the Company's 2010 Previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheet as at January 1, 2010 and December 31, 2010, and Consolidated Statement of Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the twelve months ended December 31, 2010. Summary amounts from these reconciliations are included below.

As the IFRS accounting policies and processes were determined, corresponding changes to internal controls over financial reporting and disclosure controls procedures were made to ensure controls remained effective.

IFRS Transition Exemptions

The transition provisions of IFRS require changes in accounting policies to be applied on a retroactive basis, except for certain mandatory and optional exemptions. Paramount has elected to apply the following exemptions:

a) the exemption to measure certain assets at fair value on transition to IFRS and subsequently deem that fair value to be historical cost;

b) the exemption to deem cumulative foreign exchange translation differences related to foreign subsidiaries as of January 1, 2010 to be nil;

c) the exemption that permits amounts recorded in respect of options settled prior to January 1, 2010 not to be retrospectively restated;

d) the exemption that permits business combinations completed prior to January 1, 2010 not to be restated. Paramount's initial business combination recorded in accordance with IFRS 3 was the acquisition of Redcliffe in June 2010;

e) the exemption to measure asset retirement obligations at the Transition Date in accordance with IFRS 1;

f) the exemption to assess lease arrangements using the facts and circumstances as of the Transition Date under International Financial Reporting Interpretations Committee Interpretation 4, "Determining whether an Arrangement contains a Lease"; and

g) the exemption that permits borrowing costs directly attributable to the acquisition or construction of qualifying assets not to be capitalized on a retroactive basis prior to January 1, 2010.

Significant Accounting Policy Changes

Changes to the Company's accounting policies on conversion to IFRS and the related adjustments to the Company's financial statement balances are described below. Readers are referred to Notes 1 and 24 of the Company's December 31, 2011 audited Consolidated Financial Statements regarding Paramount's IFRS accounting policies and IFRS adjustments.

a) Property, Plant and Equipment

Under IFRS, the type and method of calculating petroleum and natural gas reserves used in determining depletion on a unit-of-production basis is not specifically prescribed. Under Previous GAAP, the Company was required to use a reserve estimate based on average commodity prices of the preceding year. On adoption of IFRS, Paramount amended its depletion policy to use a reserves estimate based on proved developed reserves and forecast commodity prices.

IFRS requires an impairment write down to be recorded when the carrying value of an asset exceeds its recoverable amount. The recoverable amount is defined as the greater of value in use and fair value less costs to sell. Under Previous GAAP, a two-step approach was used to determine impairment write-downs: (i) the carrying value of a property was compared to its expected undiscounted before-tax cash flows, and (ii) where the carrying value exceeded the expected undiscounted before-tax cash flows, an impairment write-down was calculated based on the difference between the property's carrying value and its expected discounted before-tax cash flows. The IFRS method of determining impairments resulted in the recognition of additional impairment write-downs of petroleum and natural gas properties of $65.4 million on the Transition Date. For the twelve months ended December 31, 2010, additional write-downs of $32.6 million were recognized, including a goodwill impairment charge of $3.6 million.

b) Asset Retirement Obligations

Under IFRS the Company's policy is to re-measure asset retirement obligations at each reporting date using the period-end risk-free rate. Under Previous GAAP, credit-adjusted risk-free rates were applied to each obligation when initially recognized, and that rate was not adjusted in future periods. On Transition Date, the Company recorded a $91.6 million increase in the asset retirement obligation liability due to a decrease in discount rates, from approximately eight percent under Previous GAAP to four percent under IFRS.

c) Foreign exchange translation

Under IFRS, assets and liabilities of subsidiaries with functional currencies that are not the presentation currency are translated at the exchange rate in effect at the end of the reporting period and the resulting exchange differences are recognized in other comprehensive income. Under Previous GAAP, the assets and liabilities of the Company's integrated foreign operations were translated into Canadian dollars using the temporal method, where non-monetary items were translated at historical exchange rates and monetary assets and liabilities were translated at the exchange rate in effect at the end of the reporting period, with resulting exchange differences recognized in income.

d) Stock-based compensation

Prior to October 1, 2011, Paramount accounted for Paramount Options as cash-settled awards, where a liability was recognized initially based on the grant date fair value of the options. The liability was subsequently adjusted each period for vesting and changes in the fair value of the options, until the options were exercised, surrendered or expired, with an offsetting entry to stock-based compensation expense. The fair value of the options were determined using the Black-Scholes-Merton model. When options were exercised for Common Shares, the consideration paid by the option holder and the

previously recognized liability associated with the options were recorded as an increase to share capital. When options were surrendered for cash, the cash settlement was applied against the liability and any difference was recognized as stock-based compensation expense.

As of October 1, 2011, the Company accounts for Paramount Options as equity-settled stock-based compensation transactions, where the grant date fair value of stock options awarded is recognized as stock-based compensation expense over the vesting period, with a corresponding increase in Contributed Surplus. The grant date fair value of stock options is estimated using the Black-Scholes-Merton model and such value is not adjusted in future periods. The amount of stock-based compensation expense recognized each period reflects the portion of the vesting term that elapsed and an estimate of the number of options that are expected to vest. That estimate is adjusted each period such that the cumulative amount recognized on the vesting date reflects the actual number of stock options that ultimately vest. Upon the exercise of a stock option, the Company transfers the cumulative amount recognized in respect of the award from Contributed Surplus to Share Capital.

Paramount previously accounted for Paramount Options as cash-settled awards due to its past practice of accepting requests to settle Paramount Options with a cash payment. In recent years, the Company has not been granting requests to settle Paramount Options in cash, and does not expect to do so in the future. As a result, Paramount has accounted for Paramount Options as equity-settled stock-based compensation transactions from of October 1, 2011. The change in accounting method resulted in the reclassification of the September 30, 2011 stock-based compensation liability of $68.7 million to Contributed Surplus.

e) Flow-through shares

Under IFRS, proceeds from the issuance of flow-through shares are allocated between the sale of the shares, which are recorded in share capital, and the sale of the tax benefits, which are initially recorded as an accrued liability. The allocation is made based on the difference between the issue price of flow-through shares and the market price of the Common Shares on the date the offering is priced. The liability related to the sale of the tax benefits is reversed as qualifying expenditures intended for renunciation to subscribers are incurred, and a deferred tax liability is recorded. The difference between the deferred tax liability recorded and the liability related to the sale of tax benefits is recognized as deferred tax expense. Under Previous GAAP, when flow-through shares were issued, they were recorded in share capital based on proceeds received. Upon filing the renunciation documents with the tax authorities, a future tax liability was recognized and share capital was reduced for the tax effect of expenditures renounced to subscribers. The IFRS adjustment on Transition Date associated with flow-through shares was to increase share capital by $25.1 million, reduce retained earnings by $30.4 million, increase deferred tax liabilities by $2.9 million, and increase accrued liabilities by $2.4 million.

f) Equity Accounted Investments

The equity method of accounting requires an investor to adjust the carrying value of its investment in an investee for the investor's proportionate share of changes in the investee's net assets. On Transition Date, the carrying value of Paramount's equity accounted investments was decreased by an aggregate of $7.6 million to reflect Paramount's proportionate share of the adjustments Trilogy and MGM Energy recorded in respect of their IFRS transitions. For the twelve months ended December 31, 2010, the carrying values of Paramount's equity accounted investments were increased by $30.3 million due to adjustments recorded by Trilogy and MGM Energy.

g) Deferred Income Tax

On Transition Date, the Company's deferred income tax asset balance was increased by $2.5 million, the deferred income tax liability balance was decreased by $34.0 million, and the equity accounted investments balance was increased by $1.9 million to reflect the tax impacts of the IFRS adjustments as described in the preceding discussion. For the twelve months ended December 31, 2010, the deferred income tax asset balance was decreased by $3.7 million, the equity accounted investments balance was decreased by $1.9 million and deferred income tax expense was increased by $6.2 million. Deferred income tax on foreign exchange differences on translation of the US subsidiaries was $0.6 million for the twelve months ended December 31, 2010.

h) Statement of Cash Flows

Under IFRS, cash from operating activities is reduced by geological and geophysical expenses and excludes cash outflows related to purchases of Paramount's Common Shares under the Company's stock incentive plan and the effect of changes in foreign exchange rates in respect of foreign currency cash and cash equivalent balances. Under Previous GAAP, geological and geophysical expenses were included in cash used in investing activities and cash outflows related to the purchase of Paramount's Common Shares under the Company's stock incentive plan and the effect of changes in foreign exchange rates in respect of foreign currency cash and cash equivalent balances were included in cash from operating activities.

Impacts of Accounting Policy Changes

Summarized reconciliations of Paramount's 2010 Previous GAAP amounts to IFRS amounts are as follows:

Balance Sheet

	December 31, 2010			**January 1, 2010**		
	Previous GAAP	IFRS Adjustments	**IFRS**	Previous GAAP	IFRS Adjustments	**IFRS**
Current assets	110.5	–	**110.5**	121.2	–	**121.2**
Long term assets	1,266.7	14.1	**1,280.8**	980.8	(65.1)	**915.7**
	1,377.2	14.1	**1,391.3**	1,102.0	(65.1)	**1,036.9**
Current liabilities	151.6	7.1	**158.7**	87.0	4.8	**91.8**
Long term liabilities	439.9	110.5	**550.4**	242.1	61.4	**303.5**
	591.5	117.6	**709.1**	329.1	66.2	**395.3**
Equity	785.7	(103.5)	**682.2**	772.9	(131.3)	**641.6**
	1,377.2	14.1	**1,391.3**	1,102.0	(65.1)	**1,036.9**

Comprehensive Income

	Twelve months ended December 31, 2010	Three months ended December 31, 2010
Comprehensive (Loss) – Previous GAAP	**$ (54.0)**	**$ (12.6)**
IFRS Adjustments:		
Adjustments to PP&E related to impairments and changes in depletion	9.2	12.7
Accretion of asset retirement obligations	1.8	0.5
Change in currency translation method related to foreign subsidiaries	(3.5)	(2.1)
Change in stock-based compensation	3.5	1.0
Change in method of accounting for flow-through shares	(5.3)	(1.4)
Change in income from equity accounted investments	30.4	31.9
Adjustment to deferred tax	(5.7)	(3.0)
Comprehensive (Loss) Income – IFRS	**$ (23.6)**	**$ 27.0**

Cash Flows

	Twelve months ended December 31, 2010	Three months ended December 31, 2010
Cash from operating activities under Previous GAAP	**$ 63.4**	$ 11.1
Adjustments under IFRS:		
Exploration costs	**(8.2)**	1.5
Common shares purchased under stock incentive plan	**2.9**	–
Foreign exchange on cash and cash equivalents	**1.1**	0.8
Cash from operating activities under IFRS	**$ 59.2**	$ 10.4
Cash from financing activities under Previous GAAP	**$ 251.9**	$ 149.3
Adjustment under IFRS:		
Common shares purchased under stock incentive plan	**(2.9)**	–
Cash from financing activities under IFRS	**$ 249.0**	$ 149.3
Cash used in investing activities under Previous GAAP	**$ (333.9)**	$ (108.5)
Adjustment under IFRS:		
Exploration costs	**8.2**	1.5
Cash used in investing activities under IFRS	**$ (325.7)**	$ (107.0)
Net decrease	**(17.5)**	52.7
Foreign exchange on cash and cash equivalents	**(1.0)**	0.8
Cash and cash equivalents, beginning of period	**$ 93.2**	$ 21.2
Cash and cash equivalents, end of year	**$ 74.7**	$ 74.7

Future Changes in Accounting Standards

As of January 1, 2013, Paramount will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB") as described below, for which the Company is currently assessing the impact on its Consolidated Financial Statements.

- **IFRS 10, "Consolidated Financial Statements"** is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- **IFRS 11, "Joint Arrangements"** is the result of the IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects its joint venture arrangements will continue to meet the definition of "joint operations" and that proportionate consolidation of such arrangements will continue under the new standard.

- **IFRS 12, "Disclosure of Interests in Other Entities"** outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

- **IFRS 13, "Fair Value Measurement"** provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

In December 2011 the IASB approved a proposal to move the effective date for the adoption of IFRS 9, "Financial Instruments: Classification and Measurement" to January 1, 2015. This new standard, which reflects the first phase of the IASB's work on the replacement of IAS 39, "Financial Instruments – Recognition and Measurement" applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The adoption of these standards and amendments are not expected to have a material impact on the company's business or result in changes in business practices.

DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2011, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined by the rules of the Canadian Securities Administrators, was performed by the Company's management with the oversight of the chief executive officer and chief financial officer. Based upon that evaluation, the Company's chief executive officer and chief financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's chief executive officer and chief financial officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, that the Company's assets are safeguarded, and that expenditures are made in accordance with appropriate authorization.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2011. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control – Integrated Framework to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedure may deteriorate.

Changes in Internal Controls Over Financial Reporting

During the fiscal year and quarter ended December 31, 2011, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements requires management to make certain judgments based on assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The following is a discussion of the accounting judgments, estimates and assumptions that are considered significant:

Exploration and Evaluation Assets

The accounting for exploration and evaluation assets requires management to make certain judgments based on assumptions and estimates as to future events and circumstances, including the designation of wells as being exploratory or development and whether exploratory wells have discovered economically recoverable quantities of reserves. Designations are sometimes revised as new information becomes available.

If an exploratory well encounters hydrocarbons, but further appraisal activity is required in order to conclude whether the hydrocarbons are economically recoverable, the well costs remain capitalized as long as sufficient progress is being made in assessing the economic and operating viability of the well. Criteria utilized in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected additional development activities, and regulatory matters. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized

for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval of development plans.

Where it is determined that an exploratory well or project is unsuccessful, the costs are written-off as exploration and evaluation expense.

Reserves Estimates

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic factors and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates, commodity prices and estimates of future net revenue will be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates.

Estimates of reserves impact: (i) the assessment of whether a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the estimation of the recoverable amount of petroleum and natural gas properties used in impairment assessments, all of which could have a material impact on earnings.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting, where the net identifiable assets acquired are recorded at fair value. Any excess of the consideration transferred over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred versus the fair value of the net identifiable assets acquired is recognized in earnings. Estimates of fair value require management to make assumptions about future events, including reserves estimates. These assumptions are based on management's judgments regarding the use of appropriate indicators of fair value. Changes in any of the assumptions or estimates used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned and earnings.

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. Management applies judgment in determining such assumptions and adjusts estimated amounts periodically to incorporate new information. Accordingly, actual payments to settle the obligations may differ materially from amounts estimated.

Share-Based Payments

Use of the Black-Scholes-Merton method to estimate the fair value of the Company's stock options requires the application of various assumptions including future risk-free rates, option lives, forfeiture rates, dividends, stock price and volatility. Changes in any of these variables could have a material impact on stock-based compensation expense.

Income Taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments related to the application of tax law, estimate the timing of temporary difference reversals, and estimate the realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and net income.

ADVISORIES

Forward-looking Information

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

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

Such forward-looking information is based on a number of assumptions which may prove to be incorrect. The following assumptions have been made, in addition to any other assumptions identified in this document:

- future crude oil, bitumen, natural gas and NGLs prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- well economics relative to other projects;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to secure adequate product processing, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- expected timelines being met in respect of facility development and construction projects;
- access to capital markets and other sources of funding; and
- currency exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward looking information is reasonable, undue reliance should not be placed on it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on current expectations, estimates and projections that involve a

number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward looking information. These risks and uncertainties include, but are not limited to:

- fluctuations in crude oil, bitumen, natural gas and NGLs prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, costs and expenses and the timing thereof;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling activities;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions or unexpected technical difficulties in designing, developing or operating new or existing facilities including, third party facilities that service Company production;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of funds at an acceptable cost to meet current and future obligations, including costs of anticipated projects;
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission reduction obligations;
- the receipt and timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due to environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

The foregoing list of risks is not exhaustive. Additional information concerning these and other factors which could impact Paramount are included in Paramount's most recent Annual Information Form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including financial commodity contract settlements", "Net Debt", "Exploration and development expenditures" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by GAAP.

The Company has adjusted its funds flow from operations measure for all periods to exclude asset retirement obligation settlements, cash outflows related to the purchase of Paramount's Common Shares under the Company's stock incentive plan and the effect of changes in foreign exchange rates in respect of foreign currency cash and cash equivalent balances. Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations.

Netback equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and

gas operations between periods. Net Debt is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the calculation of Net Debt in the liquidity and capital resources section of this document. Exploration and development expenditures refer to capital expenditures incurred by the Company's COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity.

Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy Corp., MGM Energy and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

This document contains disclosures expressed as "Boe" and "Boe/d". 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. The term "liquids" is used to represent oil, natural gas liquids ("NGLs") and condensate. The term "liquids-rich" is used to represent natural gas streams with associated liquids volumes.

For fiscal 2011, the value ratio between crude oil and natural gas was approximately 23:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.