June 24, 2004

U.S.$125,000,000

Paramount resources ltd.

8⅞% Senior Notes due 2014

COMPANY

- We are a Canadian energy company focused primarily on natural gas. We explore for, develop, produce, process, transport and market natural gas and oil.

NOTES

- We are offering U.S.$125 million aggregate principal amount of our 8⅞% Senior Notes due 2014.
- Interest on the notes will accrue from June 29, 2004 and will be payable on January 15 and July 15 of each year, beginning on January 15, 2005.
- The notes will be unsecured obligations and will rank equally with all of our existing and future unsecured indebtedness. The notes will effectively rank behind all of our secured obligations to the extent of the value of the assets securing those obligations.
- We may redeem some or all of the notes at any time after July 15 , 2009 at the redemption prices described in this prospectus supplement. In addition, we may redeem up to 35% of the notes prior to July 15, 2007 using the proceeds of certain equity offerings. We may also redeem all, but not fewer than all, of the notes in the event of certain changes affecting tax laws.
- Upon specified change of control events, we will be required to make an offer to repurchase the notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.
- We do not intend to apply for the notes to be listed on any securities exchange or to arrange for any quotation system to quote them. Certain of the underwriters have advised us that they intend to make a market for the notes, but they are not obligated to do so.

Investing in the notes involves risks. See "Risk factors" beginning on page S-15 of this prospectus supplement and page 1 of the accompanying prospectus.

Neither the United States Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense in the United States.

We are permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this prospectus supplement and the accompanying prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements, which are incorporated by reference into the accompanying prospectus, in accordance with Canadian generally accepted accounting principles, and they are subject to Canadian auditing and auditor independence standards. They may not be comparable to financial statements of United States companies.

Owning the notes may subject you to tax consequences both in the United States and in Canada. This prospectus supplement and the accompanying prospectus may not describe these tax consequences fully. You should read the tax discussion contained in this prospectus supplement.

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because we are incorporated in Canada, most of our officers and directors and some of the experts named in this prospectus supplement and the accompanying prospectus are Canadian residents, and most of our assets and the assets of our directors and officers and the experts are located outside the United States.

	Per Note	Total
Price to public[1]	100.00%	U.S.$125,000,000
Underwriting commission	2.00%	U.S.$ 2,500,000
Proceeds to Paramount before expenses[1]	98.00%	U.S.$122,500,000

(1) Plus accrued interest, if any, from June 29, 2004.

The underwriters expect to deliver the notes on or about June 29, 2004 through the book-entry facilities of The Depository Trust Company in New York, New York.

Sole Book-Running Lead Manager

UBS Investment Bank

Joint Lead Manager

Harris Nesbitt

CIBC World Markets

Scotia Capital

Important notice about information in this prospectus supplement and the accompanying prospectus

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the notes we are offering and also adds to and updates certain information contained in the accompanying prospectus and the documents incorporated by reference. The second part, the accompanying prospectus dated June 17, 2004, gives more general information, some of which may not apply to the notes we are offering. The accompanying prospectus is referred to as the "prospectus" in this prospectus supplement.

If the description of the terms of the notes varies between this prospectus supplement and the prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the prospectus, as well as information we previously filed with the U.S. Securities and Exchange Commission and with the securities regulatory authority in each of the provinces and territories of Canada that is incorporated by reference, is accurate as of their respective dates only. Our business, financial condition, results of operations and prospects may have changed since those dates.

Except as set forth under "Description of debt securities" in the prospectus and "Prospectus summary—The offering" and "Description of the notes" in this prospectus supplement, and unless the context otherwise requires, all references in this prospectus supplement and the prospectus to "Paramount", "we", "us" and "our" mean Paramount Resources Ltd. and its consolidated subsidiaries and partnerships.

In this prospectus supplement and the prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars, references to "dollars" or "$" are to Canadian dollars and all references to "U.S.$" are to United States dollars. Unless otherwise indicated, all financial information included in this prospectus supplement and incorporated by reference in the prospectus is determined using Canadian generally accepted accounting principles, referred to as "Canadian GAAP". "U.S. GAAP" means generally accepted accounting principles in the United States. We prepare our consolidated financial statements in accordance with Canadian GAAP, which differs from U.S. GAAP. Therefore, our consolidated financial statements incorporated by reference into the prospectus may not be comparable to financial statements prepared in accordance with U.S. GAAP. For a summary of the principal differences between our financial results as calculated under Canadian GAAP and under U.S. GAAP, you should refer to the document entitled "Reconciliation of Financial Statements to United States Generally Accepted Accounting Principles for the year ended December 31, 2003 and the three-months ended March 31, 2004" incorporated by reference into the prospectus.

This prospectus supplement contains disclosure respecting oil and gas production expressed as "Mcfe", "MMcfe", "MMcfe/d" or "Bcfe" (see definitions on page S-4). 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 equivalence conversion

method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

In this prospectus supplement, all reserves and production information is shown on a net basis (after royalties). In the documents incorporated by reference in the prospectus, all reserves and production information is shown before royalties unless otherwise indicated. Our reserves have been calculated in accordance with the reserves classifications prescribed by National Instrument 51-101 of the Canadian Securities Administrators. Unless otherwise indicated, all reserves information in this prospectus supplement is based on constant prices and costs.

In this prospectus supplement, all production and other operating data is presented on the basis of removing the results associated with the properties that were part of the Trust Disposition (see definition on page S-4) for periods or as of dates prior to the Trust Disposition. In the documents incorporated by reference in the prospectus, all production and other operating data include the results associated with the properties that were part of the Trust Disposition for periods or as of dates prior to the Trust Disposition.

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Disclosure regarding forward-looking statements

This prospectus supplement and the prospectus contain or incorporate by reference forward-looking statements within the meaning of U.S. federal securities laws. The words "believe", "expect", "intend", "estimate" and "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could", often identify forward-looking statements. Specific forward-looking statements contained or incorporated by reference in this prospectus supplement and the prospectus include, among others, statements regarding:

- oil and natural gas prices and demand;
- our acquisition strategy;
- our business strategy;
- our focus on our core areas;
- our intention to reinvest internally generated cash flow;
- our intention to rationalize our undeveloped acreage;
- our intention to continue focusing on finding and developing long-life reserves;
- our intention to control our marketing and transportation activities;
- the weighting of our production toward natural gas and the increasing profitability resulting from our focus on natural gas;
- reserve and recovery estimates;
- production estimates and costs;
- our intention to maintain financial flexibility;
- hedging policies;
- cash flow estimates;
- net revenues and the present value thereof;
- operating costs, site restoration costs, development costs, and abandonment and reclamation costs;
- exploration, development and drilling plans and prospects;
- inflation estimates;
- royalty estimates;
- the size of available income tax pools and our status as a cash tax payer;
- the budget and funding sources of our capital expenditure program, and the allocation of those expenditures;
- the funding sources of our development and exploration projects, and acquisitions;
- the impact of environmental risks and compliance with environmental laws;

- the effect of legal actions on our financial condition and operating results;
- the effect of the adoption of various accounting pronouncements;
- the timing and completion of our proposed acquisition of oil and natural gas assets in western Canada, and our ability to exploit the acquired assets;
- the benefits of having a high degree of undeveloped acreage; and
- the effect of successful high impact exploration on our reserves and production.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based upon certain estimates and assumptions, that the reserves described can be profitably produced in the future.

You should not place undue reliance on our forward looking statements, as we cannot assure you that the plans, assumptions, intentions or expectations upon which they are based will be realized. By their nature, forward looking statements involve numerous assumptions, risks and uncertainties. Some of the risks and uncertainties that could affect our future results or could cause our results to differ materially from those expressed in our forward looking statements include:

- oil and natural gas price volatility;
- oil and natural gas demand fluctuations;
- exchange rate and interest rate fluctuations;
- uncertainty of the cost of expanding our property holdings;
- availability of services, equipment and supplies;
- the impact of market competition;
- uncertainties in the estimates of reserves;
- the timing of development expenditures;
- production levels and timing of achieving such levels;
- our ability to replace and expand oil and gas reserves;
- the availability, sources and adequacy of funding for capital investments;
- the availability of future growth prospects and our expected financial requirements;
- the cost of future dismantlement and site restoration;
- our ability to enter into or renew leases;
- the availability and prices of alternative products;
- changes in customer demand;
- unpredictable weather conditions;
- our ability to secure adequate product transportation;

- changes in environmental and other regulations;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of services of any of our executive officers or key employees;
- our ability to extend our debt on an ongoing basis;
- the failure of conditions to our acquisition of oil and natural gas assets in western Canada to be fulfilled; and
- general economic conditions.

We caution that the foregoing list of important factors is not exhaustive. Events or circumstances could cause our actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward looking statements. You should also carefully consider the matters discussed under "Risk factors" in this prospectus supplement and the prospectus. We undertake no obligation to update publicly or otherwise revise any forward looking statements, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting this information.

Definitions and other matters

As used in this prospectus supplement, the following terms and phrases have the meanings indicated:

"**bbl**", "**bbls**", "**Mbbls**" and "**MMbbls**" mean barrel, barrels, thousand barrels and million barrels, respectively;

"**bbls/d**" means barrels per day;

"**developed acreage**" means acreage on which we have a productive well;

"**Mcf**", "**MMcf**" and "**Bcf**" mean thousand cubic feet, million cubic feet and billion cubic feet, respectively;

"**Mcfe**", "**MMcfe**" and "**Bcfe**" mean thousand cubic feet equivalent, million cubic feet equivalent and billion cubic feet equivalent, respectively;

"**MMBtu/d**" means millions of British thermal units per day;

"**MMcf/d**" means million cubic feet per day;

"**MMcfe/d**" means million cubic feet equivalent per day;

"**production**" means production attributable to our working interest in a property after deducting royalties;

"**Proposed Acquisition**" means our proposed acquisition of oil and gas assets described in the section of this prospectus supplement entitled "Proposed acquisition";

"**Proposed Acquisition Properties**" means all of the oil and gas properties we have agreed to purchase under the Proposed Acquisition, without giving effect to any rights of first refusal which may be exercised in respect of certain of such properties;

"**reserves**" means proved reserves attributable to our working interest in a property after deducting royalties;

"**Trust Disposition**" means the disposition of our northeast Alberta assets to Paramount Energy Trust, as described in the section of this prospectus supplement entitled "Business—Our company";

"**undeveloped acreage**" means acreage on which we do not have a productive well and includes exploratory acreage; and

"**WTI**" means West Texas Intermediate grade oil at a reference sales point in Cushing, Oklahoma, a common benchmark for oil.

The gross number of wells drilled by us means the total number of wells drilled on properties in which we have a working interest.

The net number of wells drilled means the product of the total number of wells drilled on properties in which we have a working interest multiplied by our working interests in such wells.

Productive wells are producing wells and wells capable of production. Our gross productive wells means the total number of productive wells in which we have a working interest.

Our net productive wells means the product of the total number of productive wells in which we have a working interest multiplied by our working interests in such wells.

Our gross acreage means the total acreage in which we have an interest and our net acreage means the product of the total acreage in which we have an interest multiplied by our interest in such acreage.

Exchange rate data

The following table lists, for each period presented, the high and low exchange rates, the average of the exchange rates on the last day of each month during the period indicated and the exchange rates at the end of the period for one Canadian dollar, expressed in United States dollars, based upon the inverse of the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York. On June 24, 2004, the inverse of the noon buying rate in New York City for cable transfers in Canadian dollars was $1.00 = U.S.$0.7446.

	Three months ended March 31,		Year ended Dec 31,		
	2004	2003	2003	2002	2001
High	0.7448	0.6382	0.6382	0.6619	0.6697
Low	0.7864	0.6833	0.7733	0.6200	0.6241
Average	0.7587	0.6626	0.7146	0.6368	0.6457
End of period	0.7634	0.6816	0.7710	0.6329	0.6279

Prospectus summary

The following summary is qualified in its entirety by and should be read in conjunction with the detailed information, financial statements and financial data contained, and incorporated by reference, in this prospectus supplement and the prospectus. You should read the entire prospectus supplement and the prospectus closely. In this prospectus supplement, all production and other operating data is presented on the basis of removing the results associated with the properties that were part of the Trust Disposition for periods or as of dates prior to the Trust Disposition.

OUR COMPANY

We are an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas and oil. Our principal properties are located primarily in Alberta, the Northwest Territories and British Columbia in Canada. We also have properties in Saskatchewan and offshore the East Coast in Canada, and in Montana and North Dakota in the United States. Our shares have been listed on the Toronto Stock Exchange since 1984 and our market capitalization as of May 31, 2004 was approximately $862 million.

We had total proved reserves of 248.6 Bcfe as of December 31, 2003, as evaluated by our independent petroleum engineers, with approximately 79% or 196.5 Bcf being natural gas and approximately 21% or 8,670 Mbbls being oil and natural gas liquids. Of these total proved reserves, approximately 92% were proved developed reserves. We are focused primarily on natural gas with natural gas accounting for approximately 81% of our production as of March 31, 2004. In addition, as of December 31, 2003 we had a portfolio of approximately 2.8 million net acres of undeveloped acreage available for potential future exploration.

We have a focused exploration and development strategy, concentrated on acquiring land and establishing reserves within our core areas. Our activities are designed to establish new reserves of natural gas and oil and to increase the productive capacity of our existing fields. We strive to maintain a balanced portfolio of opportunities, increase our working interest in low to medium risk projects and enter into joint venture arrangements on select high risk/high return projects. We believe we have a strong portfolio of exploration prospects in Alberta, the Northwest Territories and northeastern British Columbia. Going forward, we intend to apply our technical expertise to develop and grow new core areas.

Over the last two years, we completed two significant transactions. In July 2002, we completed the acquisition of all of the outstanding shares of Summit Resources Limited. The total consideration paid by us for Summit was $332.1 million, consisting of $249.6 million in cash and the assumption of $82.5 million of net debt.

Our second significant transaction in the last two years was the Trust Disposition. We formed Paramount Energy Trust through a spin off to our shareholders in February 2003 and transferred virtually all our northeast Alberta natural gas assets to the Trust through a series of transactions ending in March 2003. We used the proceeds from the Trust Disposition to repay debt incurred by us in connection with our acquisition of Summit. Despite our common history and shareholder base, our company and the Trust are separate entities and have no economic interest in each other. You should refer to the section of this prospectus supplement entitled “Certain relationships and related transactions”.

On October 1, 2003, we completed the disposition of the Sturgeon Lake properties in our Grande Prairie core area, including the associated oil batteries and gas plant, for gross proceeds of $54.0 million. During the year ended December 31, 2003, we also completed the sale of non-core properties in Alberta, Saskatchewan, North Dakota and Montana for total gross proceeds of $71.2 million as part of our property rationalization program. We dispose of non-core assets from

time to time as opportunities arise. We may also dispose of core assets from time to time if we believe such a transaction will be beneficial to our stakeholders.

100% of our reserves as of December 31, 2003 have been evaluated by McDaniel & Associates Consultants Ltd., our independent petroleum engineers. Our proved reserves as of December 31, 2003 based on constant pricing assumptions, as evaluated by our independent petroleum engineers, were as follows:

	Gas	Oil and liquids	Total
	(Bcf)	(Mbbls)	(Bcfe)
Proved developed producing	138.4	7,256	181.9
Proved developed non-producing	40.6	915	46.1
Proved undeveloped	17.5	500	20.5
Total proved[(1)]	196.5	8,670	248.6

Note:

(1) Columns may not add due to rounding.

PROPOSED ACQUISITION

On May 25, 2004, we entered into an agreement to acquire the Proposed Acquisition Properties and certain other oil and natural gas assets for $189 million, subject to adjustments. The Proposed Acquisition Properties are in the Kaybob area in central Alberta, in the Fort Liard area in the Northwest Territories and in northeast British Columbia. The Proposed Acquisition Properties are adjacent to or nearby our existing properties at Kaybob, Fort Liard and northeast British Columbia. The Proposed Acquisition is scheduled to be completed on or about June 30, 2004.

The Proposed Acquisition Properties are currently producing approximately 29 MMcf/d of natural gas and 2,400 bbls/d of oil and NGLs and had total proved reserves of 62.1 Bcfe as of June 1, 2004, as evaluated by Sproule Associates Limited, independent petroleum engineers.

OUR CORE PROPERTIES

We are focused on five core operating areas, as described below. The reserve numbers provided below are as of December 31, 2003, as evaluated by our independent petroleum engineers.

Kaybob: Kaybob is our largest core area, accounting for approximately 56% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 79.0 MMcfe/d. Our Kaybob area contains 132.1 Bcfe of proved reserves that are approximately 83% natural gas weighted. We expect the Proposed Acquisition, if completed, to add approximately 47.0 Bcfe of proved reserves (of which approximately 50% are natural gas) and production of approximately 29 MMcfe/d, both as of June 1, 2004. We plan to capitalize on our inventory of more than 50 low-risk down-space drilling opportunities in the area to achieve significant, low-risk production growth. Down space drilling involves increasing the density of wells in a specific producing area to enhance production prospects.

Grande Prairie: Grande Prairie accounted for approximately 14% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 19.5 MMcfe/d. Grande Prairie has 21.1 Bcfe of proved reserves that are approximately 74% natural gas weighted. Grande Prairie consists of properties we acquired in the Summit acquisition and properties acquired by us in a separate asset acquisition completed in 2002.

Northwest Alberta: Northwest Alberta accounted for approximately 11% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 15.0 MMcfe/d. Our Northwest Alberta area contains 55.6 Bcfe of proved reserves that are approximately 86% natural gas weighted. The northwest Alberta region covers the extreme northwest corner of Alberta, extending into the Cameron Hills area of the Northwest Territories. We control the infrastructure in the area with ownership of four processing plants, which we believe positions us to take advantage of opportunities as exploration occurs further into the Northwest Territories.

Liard, Northwest Territories/Northeast British Columbia: Liard, Northwest Territories/Northeast British Columbia accounted for approximately 6% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 8.0 MMcfe/d. Our Liard, Northwest Territories/Northeast British Columbia area contains 12.3 Bcf of proved natural gas reserves. We expect the Proposed Acquisition, if completed, to add approximately 15.1 Bcf of proved natural gas reserves and production of approximately 15 MMcfe/d, both as of June 1, 2004. We are an active explorer in the area.

Southern Alberta/Southeast Saskatchewan/United States: Southern Alberta/Southeast Saskatchewan/ United States accounted for approximately 12% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 17.2 MMcfe/d. Our Southern Alberta/Southeast Saskatchewan/United States area contains 26.0 Bcfe of proved reserves that are approximately 36% natural gas weighted. Our Southern Alberta/Southeast Saskatchewan/United States unit is a new operating area for us, with the majority of our properties coming from our acquisition of Summit. We have consolidated the properties in the area, which we believe will allow us to pursue the growth of fewer, higher interest core properties.

BUSINESS STRATEGY

Our strategy is to maintain a balanced portfolio of opportunities, to grow our reserves and increase our production in our core areas while maintaining a large inventory of undeveloped acreage, and to selectively enter into joint venture arrangements for high risk/high return prospects. We intend to pursue this strategy through the following initiatives:

Concentrate on core areas

We currently operate in five core production areas that provide us with a balanced portfolio of exploration and development prospects. We expect to continue to increase our interests in these core areas in order to achieve low-risk growth and cost efficiencies in production. We believe that our focus on these core areas has enabled us to develop significant expertise in the local geologies and techniques required to exploit hydrocarbons in these regions. In addition, we believe our concentrated interests allow us to benefit from economies of scale and other efficiencies, which we believe will improve our gross operating margins.

Focus on natural gas

We have considerable technical expertise and have achieved significant success in exploring for shallow and deep natural gas reservoirs. We plan to continue to focus on finding and developing long-life natural gas reserves. Our proved reserves as of December 31, 2003, of 248.6 Bcfe, were approximately 79% natural gas. We believe that our focus on natural gas production will lead to increasing future profitability for us, as we also believe natural gas prices are likely to be strong in the future as a result of increasing North American demand outstripping naturally declining supply.

Pursue full-cycle exploration complemented by selective acquisitions

We plan to continue to reinvest internally generated cash flow to fund our inventory of development and exploration projects. In addition, we seek to rationalize our undeveloped acreage base, adding to and consolidating our land position as we develop a growing inventory of future drilling locations. We

have successfully completed and integrated a series of strategic acquisitions to grow our reserves and production base, to increase our inventory of undeveloped acreage and to provide processing facilities for our production. Our acquisition strategy focuses on acquiring assets within our established core areas that will create long-term value, including assets that will increase our current working interests in such areas.

Control of operations

As of March 31, 2004, we operated approximately 78% of our natural gas production and approximately 80% of our oil production and had an average working interest of approximately 58% in our undeveloped acreage. We intend to continue consolidating our position in our core areas in order to maximize operating efficiencies and maintain control over our ongoing capital programs. We also owned or controlled the infrastructure critical to approximately 69% of our daily production as of March 31, 2004, which we believe will continue to be critical to the success of our full-cycle exploration program. The high level of our ownership and control allows us to exercise discretion in determining the timing and methodology of our ongoing exploration and development programs.

Maintain a large portfolio of undeveloped acreage

We have assembled a significant portfolio of approximately 4.8 million gross (approximately 2.8 million net) acres of undeveloped acreage as of December 31, 2003 that we hold for drilling activities. In the future, we intend to apply our technical expertise to develop this acreage portfolio and grow new core areas.

Maintain financial flexibility

We intend to maintain financial flexibility to allow us to pursue our full-cycle exploration program in periods of low commodity prices, and to respond to opportunities for strategic acquisitions as they arise. We intend to fund our exploration program and strategic acquisitions using cash flow, proceeds from property dispositions, equity or debt financing, or a combination of these sources.

COMPETITIVE STRENGTHS

We believe that the following strengths provide us with significant competitive advantages as we execute our business strategy:

Experienced, committed management team and employees

Our Chief Executive Officer and senior operating personnel have been involved in oil and natural gas exploration and development activities in western Canada for an average of more than 25 years and have developed significant expertise in the core areas in which we currently operate. In addition, our Chief Executive Officer beneficially owns, directly or indirectly, approximately 49.4% of our shares, our other directors and management own approximately 5.7% of our shares and all of our employees participate in our stock option plan or our special group registered retirement savings plan through which employees receive our shares, giving all of our employees an ownership interest in our company. We believe that our high level of management and employee ownership closely aligns our interests with those of our other stakeholders and enables us to attract, retain and motivate quality personnel.

Technological expertise

Through our years of experience and focus on the Western Canadian Sedimentary Basin, we have developed significant technological expertise in our operating areas. We believe our technical ability enables us to generate new drilling prospects from our large inventory of undeveloped acreage, to successfully convert these prospects into producing wells and to acquire additional assets that will provide future opportunities for us.

Large inventory of prospects and successful drilling program

We maintain a high ratio of undeveloped acreage to production that enables us to add value through the drill bit. We had approximately 2.8 million net acres of undeveloped acreage as of December 31, 2003, which provides us with a portfolio of low, medium and high risk drilling prospects that we believe will enable us to economically grow our production. Through our experience and technology, we have developed a strong track record of successfully developing new prospects. In 2003, we participated in the drilling of 129 net wells, resulting in 111 net natural gas wells, 12 net oil wells and 6 net dry holes, for an overall success rate of approximately 95%. For the three months ended March 31, 2004, we participated in the drilling of 82 net wells, resulting in 59 net natural gas wells, 4 net oil wells, 2 net dry holes and 17 oilsands evaluation wells, for an overall success rate of approximately 98%.

Significant long-term growth prospects

We have exposure to high impact exploration plays in the Colville Lake, Liard Basin and Cameron Hills areas in the Northwest Territories. Although only approximately 6% of our production as of March 31, 2004 comes from these areas, we believe these exploration prospects provide us with significant reserve potential. To manage our overall risk exposure, we currently allocate only 7-8% of our annual capital expenditure budget to these exploration plays and generally seek industry partners on these projects. We believe that success in our high impact exploration program could lead to significant growth in our reserves and production.

Ability to acquire and integrate strategic assets

We have demonstrated an ability to make and integrate strategic corporate, land and facility acquisitions, including the acquisition of the Kaybob North sour gas plant in 2001, the acquisition of 209,654 acres of undeveloped acreage in the Northwest Territories in 2001 and the acquisition of Summit in July 2002. We have used our technical expertise and financial flexibility to take advantage of these acquisition opportunities.

Long track record of performance

We have a proven performance record through 26 years of commodity price cycles. During this time, we have adapted to numerous operating climates and have continued to grow.

OTHER CORPORATE INFORMATION

We were incorporated under the laws of the Province of Alberta, Canada on February 14, 1978. Our head office and registered office is located at Suite 4700, 888 Third Street S.W., Calgary, Alberta, Canada, T2P 5C5. Our general telephone number is (403) 290-3600 and our website is located at www.paramountres.com. The information on our website is not part of this prospectus supplement or the prospectus. Our common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "POU".

The Offering

This summary describes the principal terms of the offering. Some of the terms and conditions described below are subject to important limitations and exceptions. You should carefully read the "Description of the notes" section of this prospectus supplement for a more detailed description of the offering.

Issuer	Paramount Resources Ltd.
Securities offered	U.S.$125 million aggregate principal amount of 8⅞% senior notes due 2014.
Maturity date	July 15, 2014.
Interest	8⅞% per year. We will make interest payments in U.S. dollars.
Interest payment dates	January 15 and July 15, beginning on January 15, 2005.
Mandatory redemption	We will not be required to make mandatory redemption or sinking fund payments with respect to the notes.
Optional redemption	We may redeem the notes, in whole or in part, at any time on or after July 15, 2009, at the redemption prices described under "Description of the notes-Optional redemption". Prior to July 15, 2007 we may redeem up to 35% of the notes with the proceeds of certain equity offerings, provided at least 65% of the aggregate principal amount of the notes under the indenture remains outstanding after the redemption.
Redemption for changes in Canadian withholding taxes	We will make payments on the notes free of withholding or deduction for Canadian taxes. If withholding is required, we will be required to pay additional amounts so that the net amounts you receive will equal the amount you would have received if withholding or deduction had not been imposed, provided that if you are not a U.S. resident such additional amounts will not exceed the additional amounts that would be paid if you were a U.S. resident. If, as a result of a change in law occurring after the date of the offering, we are required to pay such additional amounts, we may redeem the notes, in whole but not in part, at any time, at 100% of their principal amount, plus accrued interest, if any, to the redemption date.
Change of control	Upon specified change of control events, we will be required to make an offer to repurchase the notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.
Ranking	The notes will not be secured except for the pledge of the mirror notes, as described below, and will effectively rank junior to all of our secured debt to the extent of the assets securing such debt. As of March 31, 2004, after giving effect to this offering (assuming net proceeds of $159.3 million) and assuming the completion of the Proposed Acquisition and the related increase to borrowings available under our senior credit facility, we would have had approximately $146.6 million in secured debt outstanding and approximately $114.4 million of additional borrowings available under our senior credit facility. On June 15, 2004, we had total debt of approximately $426.6 million.

Certain covenants	The indenture governing the notes will limit our ability and that of our restricted subsidiaries to, among other things: ➤ incur additional debt and issue preferred shares; ➤ create liens; ➤ make restricted payments; ➤ make certain payments and distributions; ➤ make certain dispositions of assets; ➤ engage in transactions with affiliates; ➤ engage in certain business activities; and ➤ engage in mergers, consolidations and certain transfers of assets. These covenants are subject to important exceptions and qualifications, as described under the "Description of the notes" section in this prospectus supplement.
Absence of established market for the notes	The notes are a new issue of securities and there is currently no market for them. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for any quotation system to quote them. Some of the underwriters have advised us that they intend to make a market for the notes, but they are not obligated to do so. We cannot assure you that a liquid market will develop for the notes.
Mirror notes	Upon the closing of this offering, we will advance the gross proceeds from the offering, being U.S.$125 million, to Paramount Finance Ltd., our wholly-owned subsidiary, in exchange for a note, which we refer to in this prospectus supplement as a "mirror note", in the principal amount of U.S.$125 million having effectively the same payment terms as the notes. Paramount Finance Ltd. will in turn advance U.S.$125 million to Paramount Resources, an Alberta general partnership in which we have a 68% interest and our wholly-owned subsidiary Summit Resources Limited has the remaining 32% interest, in exchange for a mirror note in the principal amount of U.S.$125 million. The partnership will then loan to us U.S.$125 million, so that we may apply the offering proceeds as described under the "Use of proceeds" section of this prospectus supplement. Each of the mirror notes will be pledged to the trustee under the indenture governing the notes.
Use of proceeds	We estimate that the net proceeds we receive from this offering will be approximately U.S.$121.6 million, after deducting the underwriters' commission and offering expenses. The net proceeds from this offering will be used to fund the Proposed Acquisition. If the Proposed Acquisition is not completed or the net proceeds are greater than needed to fund the Proposed Acquisition, the net proceeds or excess net proceeds, as the case may be, will be used for capital expenditures, the repayment of indebtedness, the financing of acquisitions or addition to our working capital. You should refer to the sections of this prospectus supplement entitled "Use of proceeds" and "Proposed acquisition".

Summary reserves data

The information in the following table is derived from the reserves report prepared by our independent petroleum engineers, McDaniel & Associates Consultants Ltd., which evaluates 100% of our reserves as of December 31, 2003 based on constant pricing assumptions.

Proved reserves	**December 31, 2003**
Natural gas (Bcf)	196.5
Oil & natural gas liquids (Mbbls)	8,670
Natural gas equivalent (Bcfe)	248.6
% natural gas	79
% proved developed	92
Estimated reserve life (in years)[1]	4.9
Annual reserve replacement (%)[2]	41
Recycle ratio[3]	0.5
PV-10 (thousands of dollars)[4]	748,734

Notes:

(1) Reserve life is calculated by dividing our proved reserves at year end (248.6 Bcfe) by our annualized production for the three months ended March 31, 2004 (140.5 MMcfe/d).

(2) Annual reserve replacement is determined by dividing our estimated proved reserves added during the year from exploitation, development and exploration activities, acquisition of proved reserves and revisions of previous estimates, excluding property sales, by our annual production in that year, and expressing the quotient on a percentage basis.

(3) The recycle ratio is determined by dividing our netback per Mcfe by our finding and development costs per Mcfe in that year. Netback per Mcfe is calculated by dividing our annual net revenues generated from producing oil and natural gas volumes, net of operating costs and administrative expenses, by our annual production in that year. Finding and development costs per Mcfe is calculated by dividing our estimated finding and development costs associated with our estimated proved reserves added during the year by our estimated proved reserves added in that year from exploitation, development and exploration activities, acquisition of proved reserves and revisions of previous estimates, excluding property sales.

(4) PV-10 is the present value of our estimated future net cash flows before income taxes, discounted at 10% per year, calculated using constant pricing. The prices used for December 31, 2003 were $5.92 per Mcf of natural gas, $40.70 per barrel of oil and $36.80 per barrel of natural gas liquids. PV-10 is not necessarily indicative of actual future cash flows.

Summary acreage data

Our gross undeveloped acreage as of December 31, 2003 was approximately 4.8 million acres, in which we had an average working interest of approximately 58%.

Summary consolidated operating data

The following provides summary data with respect to our production, the average sales price per unit received by us and the costs relating to such production for the periods indicated.

	Year ended December 31, 2003	Three months ended March 31,		Twelve months ended March 31, 2004
		2003	2004	
Production:				
Natural gas (MMcf)	40,883	9,800	10,292	41,375
Natural gas liquids (Mbbls)	622	164	174	633
Oil (Mbbls)	1,497	412	240	1,325
Natural gas equivalent (MMcfe)	53,597	13,256	12,776	53,123
Average sales price[1][2]:				
Natural gas ($/Mcf)	5.87	6.56	6.49	5.86
Natural gas liquids ($/bbl)	34.45	36.53	39.46	35.29
Oil ($/bbl)	39.27	43.69	45.30	38.99
Natural gas equivalent ($/Mcfe)	5.97	6.66	6.62	5.96
Costs:				
Operating ($/Mcfe)[3]	1.42	1.03	1.45	1.52
General and administrative ($/Mcfe)[4]	0.37	0.34	0.46	0.39

Notes:

(1) Does not include the effects of hedging.

(2) Average sales price is determined by dividing our net revenue, which is petroleum and natural gas sales less royalties, by our production after royalties.

(3) Operating costs per unit is determined by dividing our operating costs by our production after royalties.

(4) General and administrative costs per unit is determined by dividing our general and administrative costs by our production after royalties.

Risk factors

You should consider carefully the risk factors set forth below and the risk factors in the prospectus under the heading "Risk factors" as well as the other information contained in and incorporated by reference in this prospectus supplement and the prospectus before purchasing the notes. If any event arising from these risks occurs, our business, prospects, financial condition, results of operation and cash flows could be materially adversely affected. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations and cash flows. Some of the statements under this caption constitute forward looking statements. You should refer to the section of this prospectus supplement entitled "Disclosure regarding forward-looking statements."

Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations under the notes.

After the offering, we will continue to have a significant amount of debt. On March 31, 2004, after giving effect to this offering (assuming net proceeds of $159.3 million) and assuming the completion of the Proposed Acquisition, we would have had total debt of $539.9 million, which consists of these notes, $229.5 million of debt under our existing senior notes due 2010, approximately $135.6 million of debt under our senior credit facility, our mortgage of approximately $6.7 million and approximately $4.3 million of drilling rig indebtedness. On June 15, 2004, we had total debt of approximately $426.6 million.

Our substantial debt could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, exploration and development and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage to our competitors with less debt than us; and
- limit our ability to borrow additional funds.

In addition, the indenture governing the notes, the indenture governing our existing senior notes and our senior credit facility contain financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Despite our current level of debt, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We and our subsidiaries may be able to incur substantial additional debt in the future. The terms of the indenture, the indenture governing our existing senior notes and our senior credit facility do not prohibit us or our subsidiaries from doing so as long as we observe specified covenants, maintain specified financial ratios and meet specified financial tests. You should refer to the sections of this prospectus supplement entitled "Description of other indebtedness" and "Consolidated capitalization". All of the borrowings under our senior credit facility will effectively rank senior to the notes to the extent of the value of the assets securing that debt. Our existing senior notes will rank equally with the

notes. If new debt is added to our and our subsidiaries' current level of debt, the related risks that we and they now face would intensify.

The indenture governing the notes contains covenants limiting our discretion to operate our business.

The indenture governing the notes contains provisions that limit our discretion to operate our business by restricting our ability to:

- incur additional debt;
- pay dividends or distributions on our capital shares or repurchase our capital shares;
- create liens to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company or entity; and
- transfer and sell assets.

The indenture governing our existing senior notes due 2010 and our senior credit facility also contain provisions that limit our discretion to operate our business. You should refer to the section of this prospectus supplement entitled "Description of other indebtedness" for a summary of these provisions.

All of these restrictive covenants may restrict our ability to expand our business or to pursue our business strategies. Our ability to comply with these and other provisions of such indentures and our senior credit facility will be affected by changes in our business condition or results of operations, adverse regulatory developments or other events beyond our control. The breach of any of these covenants will result in us being in default. A default would allow our creditors to accelerate related debt, as well as any other debt to which a cross acceleration or cross default provision applies. If our debt were to be accelerated, we cannot assure you that we will be able to repay it. In addition, a default could give the lenders the right to terminate any commitments they had made to provide us with further funds.

To service our debt, we will require a significant amount of cash. Our ability to generate cash depends upon many factors beyond our control.

Our ability to make payments on and to refinance our debt, including the notes, and to fund planned capital expenditures will depend upon our ability to generate cash in the future. This is largely subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control which are described under "Risk factors" in the prospectus.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior credit facility in an amount sufficient to enable us to pay our debt, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt, including the notes, on or before maturity. Our senior credit facility imposes significant restrictions on our ability to refinance our indebtedness, including our existing senior notes and the notes, prior to maturity. We cannot assure you that we will be able to refinance any of our debt, including our senior credit facility, our existing senior notes or the notes, on commercially reasonable terms or at all.

The notes will be effectively subordinated to our existing and future secured debt and other secured obligations and to all obligations of our subsidiaries that are not mirror note issuers or mirror note guarantors.

Holders of our secured debt and the secured debt of any mirror note issuer or mirror note guarantor will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other debt. In the event of any distribution or payment of our or any mirror note

issuer's or mirror note guarantor's assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of secured debt will have a prior claim to the assets that constitute their collateral. Holders of the notes will participate equally with all holders of unsecured claims (and with holders of secured claims to the extent of any deficiency in the security for those claims), based upon the respective amounts owed to each holder or creditor in our remaining assets. We cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, on a pro rata basis, than holders of secured debt. As of March 31, 2004, after giving effect to this offering and assuming the completion of the Proposed Acquisition and the related increase to borrowings available under our senior credit facility, we and our subsidiaries would have had approximately $146.6 million of secured debt and approximately $114.4 million of additional borrowings available under our senior credit facility. We may incur additional secured debt in the future in accordance with the terms of the indenture.

Additionally, the notes will be effectively subordinated to all debt and other obligations of our subsidiaries that are not mirror note issuers or mirror note guarantors. Our subsidiaries that are not restricted subsidiaries are not, and any future restricted subsidiaries which are not wholly-owned by us and any restricted subsidiaries that have not incurred or guaranteed in excess of U.S.$2.0 million of debt acquired by us following the issue date of the notes will not be, required to issue or guarantee mirror notes. So long as we are in compliance with the indenture, we will be permitted to designate additional subsidiaries as unrestricted subsidiaries following the issue date of the notes.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.

Upon the occurrence of specified change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes. A change of control under the indenture governing the notes will also result in us being required to offer to repurchase all of our existing senior notes and will be an event of default under our senior credit facility. Any future debt that we incur may also contain restrictions on repurchases of the notes in the event of a change of control or similar event. You should refer to the section of this prospectus supplement entitled "Description of the notes—Offer to repurchase—Change of control".

If an active trading market does not develop for the notes you may not be able to resell them.

Prior to this offering, there was no public market for the notes and we cannot assure you that an active trading market will develop for the notes. If no active trading market develops, you may not be able to resell your notes at their fair market value or at all. Future trading prices of the notes will depend upon many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. We do not intend to apply to list the notes on any securities exchange. While certain of the underwriters have advised us that they presently intend to make a market for the notes, they are not obligated to do so and may cease these activities at any time.

The completion of the Proposed Acquisition is not a condition to the closing of this offering.

The closing of this offering of the notes is not conditioned upon the closing of the Proposed Acquisition. If the Proposed Acquisition is not completed, we expect to use the net proceeds from this offering to reduce debt under our senior credit facility and for general corporate purposes. If the Proposed Acquisition is not completed we will not have the benefit of the Proposed Acquisition Properties described in this prospectus supplement and we may be unable to acquire other properties on terms as favorable to us or at all. Additionally, reducing outstanding borrowings under our senior credit facility with the net proceeds of this offering would be likely to increase our interest expense per dollar of debt over what it would have been had this offering not been completed.

Use of proceeds

We estimate that the net proceeds we receive from this offering will be approximately U.S.$121.6 million, after deducting the underwriters' fees and offering expenses. The net proceeds from this offering will be used to fund the Proposed Acquisition. If the Proposed Acquisition is not completed or the net proceeds are greater than needed to fund the Proposed Acquisition, the net proceeds or excess net proceeds, as the case may be, will be used for capital expenditures, the repayment of indebtedness, the financing of acquisitions or addition to our working capital.

Consolidated capitalization

(dollars in thousands)

The following table provides as of March 31, 2004:

- our actual consolidated cash and short-term investments and capitalization; and
- our consolidated cash and short-term investments and capitalization as adjusted to take into account this offering (assuming net proceeds of $159.3 million) and the completion of the Proposed Acquisition.

You should read this table together with management's discussion and analysis of financial condition and results of operations, our audited and unaudited consolidated financial statements, our unaudited pro forma consolidated financial statements and the related notes included or incorporated by reference in the prospectus.

	As of March 31, 2004	
	Actual	As adjusted[1]
Short-term investments	$ 17,652	$ 17,652
Debt:		
Senior credit facility[2]	$105,929	$ 135,636
Existing senior notes	229,477	229,477
Senior notes offered hereby	—	163,750
Mortgage	6,654	6,654
Drilling rig indebtedness	4,338	4,338
Total debt[3]	346,398	539,855
Total shareholders' equity	490,901	490,901
Total consolidated capitalization[3]	$837,299	$1,030,756

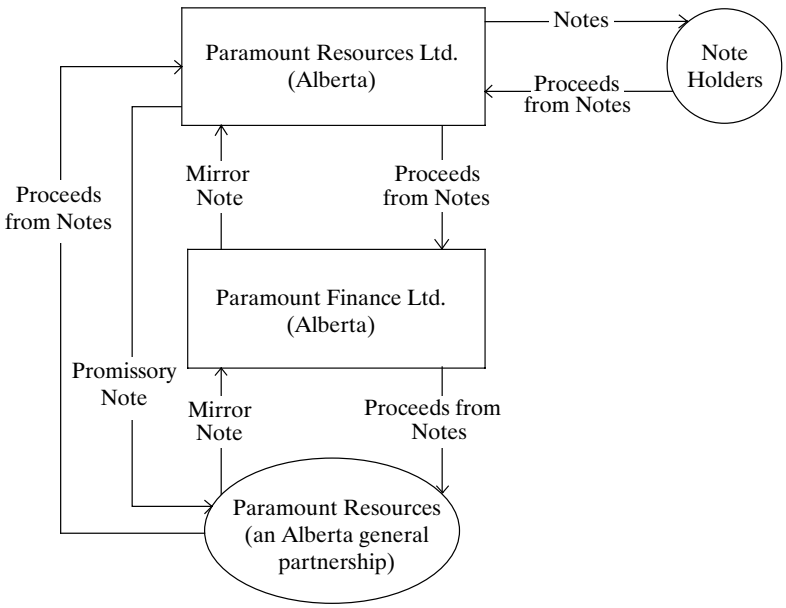
(1) The notes offered by this prospectus supplement have been converted to Canadian dollars at the noon buying rate on March 31, 2004, which was $1.00 = U.S.$0.7634. We have estimated fees and expenses associated with this offering at $4.5 million.

(2) We have a senior credit facility with a syndicate of Canadian chartered banks that matures on March 31, 2005, subject to extension. You should refer to the section of this prospectus supplement entitled "Description of other indebtedness". As of March 31, 2004, after giving effect to this offering (assuming net proceeds of $159.3 million) and assuming the completion of the Proposed Acquisition and the related increase to borrowings available under our senior credit facility, we would have had approximately $114.4 million of additional borrowings available under our senior credit facility.

(3) On June 15, 2004, we had total debt of approximately $426.6 million. The increase over our total debt as of March 31, 2004 is primarily attributable to us using our senior credit facility to pay down our accounts payable, changes in the Canada-U.S. dollar exchange rate and a drawdown of our senior credit facility to pay a deposit in connection with our Proposed Acquisition.

Offering structure

Upon the closing of this offering, we will advance the gross proceeds from the offering of the notes, being U.S.$125 million, to Paramount Finance Ltd., our wholly-owned subsidiary, in exchange for a note, which we refer to in this prospectus supplement as a "mirror note", in the principal amount of U.S.$125 million having effectively the same payment terms as the notes. Paramount Finance Ltd. will in turn advance U.S.$125 million to Paramount Resources, an Alberta general partnership in which we have a 68% interest and our wholly-owned subsidiary Summit Resources Limited has the remaining 32% interest, in exchange for a mirror note in the principal amount of U.S.$125 million. The partnership will then loan to us U.S.$125 million, so that we may apply the offering proceeds as described under the "Use of proceeds" section of this prospectus supplement. Each of the mirror notes will be pledged to the trustee under the indenture governing the notes.



Selected consolidated financial data

(dollars in thousands)

The following table provides selected consolidated financial data for us. The financial data for the years ended December 31, 2001, 2002 and 2003 and the three month periods ended March 31, 2003 and 2004 have been derived from our audited and unaudited consolidated financial statements for those periods. Our historical financial data for interim periods are not necessarily indicative of the results that may be expected for a full year of operations.

You should refer to our audited annual and unaudited interim consolidated financial statements, our unaudited pro forma consolidated financial statements and the related notes included or incorporated by reference in the prospectus.

(continued on next page)

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Canadian GAAP					
Earnings data:					
Revenue:					
Oil and natural gas sales	$509,878	$384,188	$434,059	$150,932	$105,504
Gain (loss) on financial instruments	15,808	46,813	(53,204)	(29,392)	(6,462)
Royalties, net of Alberta royalty tax credit	(99,706)	(74,444)	(82,512)	(31,217)	(20,935)
Gain (loss) on sale of investments	2,982	40,830	(1,020)	—	—
Other	(295)	2,111	2,012	1,123	1,072
Net revenue	$428,667	$399,498	$299,335	$ 91,446	$ 79,179
Expenses:					
Operating	$ 61,045	$ 86,067	$ 81,193	$ 18,866	$ 18,487
General and administrative	12,346	16,212	19,898	4,768	5,840
Bad debt expense	—	—	5,977	—	—
Interest	19,291	23,943	19,917	8,001	4,338
Surmont compensation—net	—	(37,291)	—	—	—
Lease rentals	4,319	4,552	3,574	775	1,234
Geological and geophysical	10,646	9,303	8,450	748	3,992
Dry hole costs	8,944	120,058	36,600	5,821	3,015
Loss (gain) on sale of property and equipment	1,537	(12)	3,660	(271)	(445)
Depletion, depreciation and amortization	105,433	169,433	163,413	46,864	42,140
Write-down of petroleum and natural gas properties	—	31,254	10,418	—	—
Provision for future site restoration and abandonment costs[4]	2,400	3,437	4,462	—	—
Accretion of asset retirement obligations[4]	—	—	—	1,057	1,246
Unrealized foreign exchange loss (gain) on U.S. debt	—	—	(1,566)	—	2,590
Total expenses	$225,961	$426,956	$355,996	$ 86,629	$ 82,437
Earnings (loss) before income taxes	202,706	(27,458)	(56,661)	4,817	(3,258)
Current taxes	25,000	—	—	—	—
Large Corporations Tax and other	2,729	9,150	2,875	547	776
Future income tax (recovery) expense	56,075	(46,915)	(62,169)	3,956	(7,213)
Income taxes (recovery) expense	83,804	(37,765)	(59,294)	4,503	(6,437)
Net earnings (loss)	$118,902	$ 10,307	$ 2,633	$ 314	$ 3,179

(continued on next page)

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Other Canadian financial data:					
EBITDAX[1]	$ 347,975	$ 252,179	$ 196,904	$ 67,037	$ 64,410
EBITDAX to interest expense	18.0	10.5	9.9	8.4	14.8
Ratio of total debt to EBITDAX[2]	0.9	2.1	1.5	N/A	N/A
Ratio of net debt to EBITDAX[3]	0.9	2.1	1.4	N/A	N/A
Balance sheet data (at end of period):					
Total assets[4]	$1,176,323	$1,526,786	$1,147,848	$1,286,306	$1,245,159
Total debt[2]	$ 316,600	$ 539,270	$ 298,561	$ 304,302	$ 346,398
Shareholders' equity	$ 535,384	$ 546,105	$ 501,642	$ 504,658	$ 490,901
U.S. GAAP and other U.S. financial data:					
Net earnings (loss)	$ 99,490	$ (30,098)	$ 8,563	$ (22,408)	$ 4,278
Total assets	$1,142,141	$1,415,848	$1,167,779	$1,303,535	$1,235,974
EBITDAX[1]	$ 347,975	$ 252,179	$ 196,904	$ 67,037	$ 64,410

(1) EBITDAX is the sum of earnings before non recurring items, non-cash items, interest, income taxes, depletion, depreciation and amortization and exploration expenses. EBITDAX is presented because we believe that it is a widely accepted financial indicator of the ability of an oil and gas company utilizing the successful efforts method of accounting to service indebtedness. However, EBITDAX does not have a standardized meaning prescribed by Canadian or U.S. GAAP, does not represent net income or cash flow from operations as defined by Canadian or U.S. GAAP, is not necessarily indicative of cash available to fund all cash flow needs, should not be considered as an alternative to net income or to cash flow from operating activities (as determined in accordance with Canadian or U.S. GAAP) and should not be construed as an indication of a company's operating performance or as a measure of liquidity. Therefore, our EBITDAX is not necessarily comparable with similarly titled measures presented by other companies.

The following table provides a reconciliation of EBITDAX to net earnings (loss) under Canadian GAAP for the periods indicated:

	Year ended December 31			Three months ended March 31,	
	2001	2002	2003	2003	2004
EBITDAX	$347,975	$252,179	$196,904	$ 67,037	$ 64,410
Less:					
(Gain) loss on sale of investment	(2,982)	(40,830)	1,020	—	—
Unrealized foreign exchange loss (gain) in U.S. debt	—	—	(1,566)	—	2,590
Income taxes (recovery) expense	83,804	(37,765)	(59,294)	4,503	(6,437)
Non-cash general and administrative	—	342	1,214	—	587
Non-cash loss on financial intruments	—	—	—	—	10,205
Interest	19,291	23,943	19,917	8,001	4,338
Bad debt expense	—	—	5,977	—	—
Depletion, depreciation and amortization	105,433	169,433	163,413	46,864	42,140
Geological and geophysical	10,646	9,303	8,450	748	3,992
Dry hole costs	8,944	120,058	36,600	5,821	3,015
Surmont compensation—net	—	(37,291)	—	—	—
Loss (gain) on sale of property and equipment	1,537	(12)	3,660	(271)	(445)
Write-down of petroleum and natural gas properties	—	31,254	10,418	—	—
Provision for future site restoration and abandonment costs[4]	2,400	3,437	4,462	—	—
Accretion of asset retirement obligations[4]	—	—	—	1,057	$ 1,246
Net earnings (loss)	$118,902	$ 10,307	$ 2,633	$ 314	$ 3,179

(continued on next page)

(2) Total debt consists of bank loans, drilling rig indebtedness and outstanding mortgage principal. The following table provides a calculation of our total debt for the periods indicated:

	Year ended December 31			Three months ended March 31,	
	2001	2002	2003	2003	2004
Bank loans	$314,148	$498,097	$ 1,450	$296,294	$ 1,468
Existing senior notes	—	—	226,887	—	229,477
Credit facility	—	—	60,350	—	105,929
Drilling rig indebtedness	2,452	1,443	3,456	1,354	3,187
Mortgage principal	—	6,730	6,418	6,654	6,337
Shareholder loan	—	33,000	—	—	—
Total debt	$316,600	$539,270	$298,561	$304,302	$346,398

(3) Net debt is total debt less cash and short term investments. The following table provides a reconciliation of net debt to total debt for the periods indicated:

	Year ended December 31			Three months ended March 31,	
	2001	2002	2003	2003	2004
Net debt	$301,928	$525,102	$282,010	$290,307	$328,746
Add:					
Cash	740	—	—	—	—
Short-term investments	13,932	14,168	16,551	13,995	17,652
Total debt	$316,600	$539,270	$298,561	$304,302	$346,398

(4) On January 1, 2004, Paramount retroactively adopted, with restatement, the Canadian Institute of Chartered Accountants recommendation on Asset Retirement Obligations, which requires liability recognition for fair value of retirement obligations associated with long-lived assets. As a result of the retroactive adoption of this recommendation, net earnings for the years ended December 31, 2003, 2002, and 2001 would decrease by $1.4 million, $3.2 million and $3.2 million, respectively. Property, plant and equipment, would increase by $31.1 million, $37.6 million and $37.6 million, respectively, as a result of the adoption this recommendation.

Business

OUR COMPANY

We are an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas and oil. Our principal properties are located primarily in Alberta, the Northwest Territories and British Columbia in Canada. We also have properties in Saskatchewan and offshore the East Coast in Canada, and in Montana and North Dakota in the United States. Our shares have been listed on the Toronto Stock Exchange since 1984 and our market capitalization as of May 31, 2004 was approximately $862 million.

We had total proved reserves of 248.6 Bcfe as of December 31, 2003, as evaluated by our independent petroleum engineers, with approximately 79% or 196.5 Bcf being natural gas and approximately 21% or 8,670 Mbbls being oil and natural gas liquids. Of these total proved reserves, approximately 92% were proved developed reserves. We are focused primarily on natural gas with natural gas accounting for approximately 81% of our production as of March 31, 2004. In addition, we had a portfolio of approximately 2.8 million net acres of undeveloped acreage available for potential future exploration as of December 31, 2003.

We have a focused exploration and development strategy, concentrated on acquiring land and establishing reserves within our core areas. Our activities are designed to establish new reserves of natural gas and oil and to increase the productive capacity of our existing fields. We strive to maintain a balanced portfolio of opportunities, increase our working interest in low to medium risk projects and enter into joint venture arrangements on select high risk/high return projects. We believe we have a strong portfolio of exploration prospects in Alberta, the Northwest Territories and northeastern British Columbia. Going forward, we intend to apply our technical expertise to develop and grow new core areas.

Over the last two years, we completed two significant transactions. In July 2002, we completed the acquisition of all of the outstanding shares of Summit. The total consideration paid by us for Summit was $332.1 million, consisting of $249.6 million in cash and the assumption of $82.5 million of net debt. Through the Summit acquisition we acquired natural gas and oil and natural gas liquids properties at Clarke Lake, British Columbia; Grande Prairie, Fox Creek/Two Creek, Sturgeon Lake, Sunset and Chain/Craigmyle in Alberta, as well as properties in southeastern Saskatchewan and minor properties in North Dakota and Montana.

Our second significant transaction in the last two years was the Trust Disposition. We formed the Trust through a spin off to our shareholders in February 2003. We transferred some of our northeast Alberta natural gas assets to the Trust in February 2003 for net proceeds of $79 million, consisting of 9,907,767 trust units of the Trust and a note payable. We then distributed to our shareholders, by way of dividend-in-kind, the 9,907,767 trust units of the Trust previously received by us. The northeast Alberta assets transferred were located in the Legend area of Alberta, which is approximately 120 kilometres northwest of Fort McMurray. The transferred assets included 24,960 gross acres (24,422 net acres) of undeveloped acreage and an average 82% working interest in 59 gross (48.4 net) producing natural gas wells. The proved reserves of the assets transferred were 38.5 Bcf as of December 31, 2002, as evaluated by our independent petroleum engineers. The assets transferred also included an interest of approximately 78% in an operated gas plant and six field booster compressors. The assets transferred represented aggregate production averaging 15.5 MMcf/d of natural gas for 2002 and 13.6 MMcf/d of natural gas for 2001.

In March 2003, we disposed of substantially all of our remaining northeast Alberta natural gas assets to the Trust for net proceeds of approximately $175 million. The assets included 391,680 gross acres (316,898 net acres) of undeveloped acreage and an average working interest of approximately 83% in 477 gross (396.5 net) producing natural gas wells. The proved reserves of the assets transferred were 91.0 Bcf of natural gas as of December 31, 2002, as evaluated by our independent petroleum engineers. The assets transferred represented aggregate production averaging 60.9 MMcf/d of natural gas for 2002 and 68.7 MMcf/d of natural gas for 2001.

We used the proceeds from the Trust Disposition to repay debt incurred by us in connection with our acquisition of Summit. Despite our common history and shareholder base, our company and the Trust are separate entities and have no economic interest in each other. You should refer to the section of this prospectus supplement entitled "Certain relationships and related transactions".

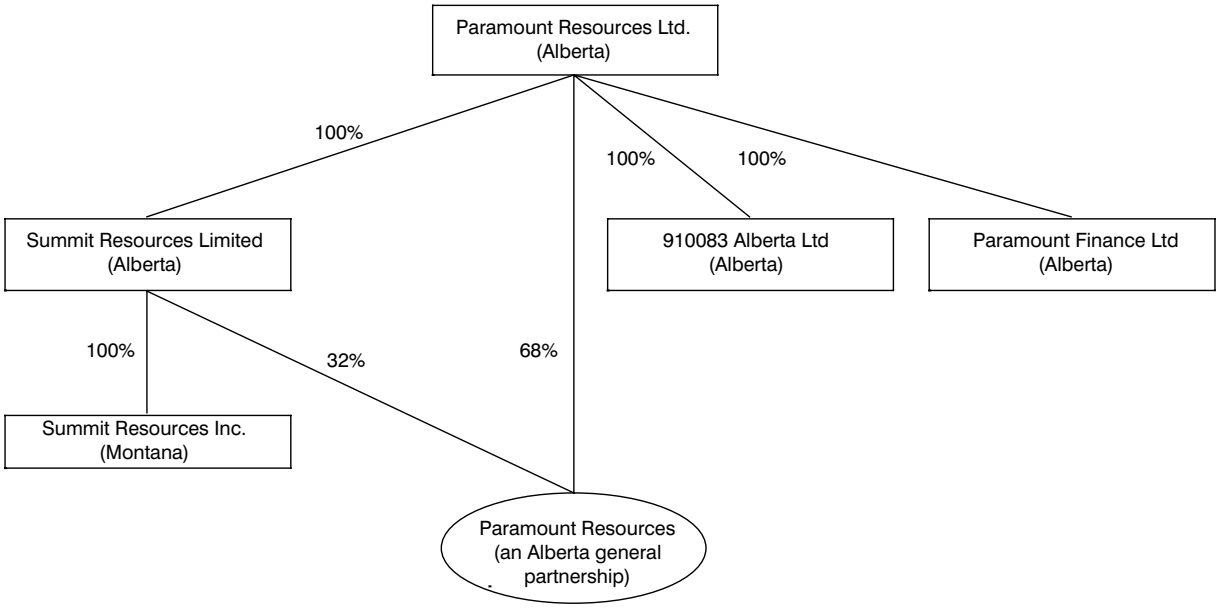
On October 1, 2003, we completed the disposition of the Sturgeon Lake properties in our Grande Prairie core area, including the associated oil batteries and gas plant, for gross proceeds of $54.0 million. During the year ended December 31, 2003, we also completed the sale of non-core properties in Alberta, Saskatchewan, North Dakota and Montana for total gross proceeds of $71.2 million as part of our property rationalization program. We dispose of non-core assets from time to time as opportunities arise. We may also dispose of core assets from time to time if we believe such a transaction will be beneficial to our stakeholders.

On May 25, 2004, we entered into an agreement to acquire certain oil and natural gas assets for $189 million, subject to adjustments. The Proposed Acquisition Properties are in the Kaybob area in central Alberta, in the Fort Liard area in the Northwest Territories and in northeast British Columbia. The Proposed Acquisition is expected to be completed on or about June 30, 2004, subject to the satisfaction of certain conditions. You should refer to the section of this prospectus supplement entitled "Proposed acquisition".

COMPANY STRUCTURE

The diagram below depicts the structure of our company. Our assets are held by us both directly and indirectly through our direct and indirect subsidiaries and partnerships. Paramount Resources, an Alberta general partnership in which we have a 68% interest and our wholly owned subsidiary Summit Resources Limited has the remaining 32% interest, holds our Canadian producing and non-producing oil and gas properties. As of March 31, 2004, the value of these properties represented more than 97% of the total value of our assets. Summit Resources, Inc., our indirect, wholly owned subsidiary, holds our U.S. producing and non-producing properties. 910083 Alberta Ltd., our wholly owned subsidiary, holds a building located in Calgary, Alberta. We directly hold our investments in other oil and gas companies and other entities, some minor oil and gas properties, our seismic data, our head office lease and our equipment. Our debt, other than trade payables and a mortgage on the building held by 910083 Alberta Ltd., is owed directly by us. Paramount Finance Ltd. was incorporated by us in connection with the offering of our existing senior notes. Paramount Finance Ltd. currently holds a mirror note (pledged to the trustee under the indenture governing our existing senior notes for the holders of those notes) in the principal amount of U.S.$175 million payable to it by Paramount Resources and owes us the principal amount of U.S.$175 million under a mirror note (pledged to the trustee under the indenture governing our existing senior notes for the benefit of the holders of those notes) held by us. Following the completion of this offering, Paramount Finance Ltd. will hold a mirror note (pledged to the trustee under the indenture for the benefit of the holders of the notes) in the principal amount of U.S.$125 million payable to it by Paramount Resources and will owe us the principal amount of U.S.$125 million under a mirror note (pledged to

the trustee under the indenture for the benefit of the holders of the notes) held by us. You should refer to the section of this prospectus entitled "Offering structure".



BUSINESS STRATEGY

Our strategy is to maintain a balanced portfolio of opportunities, to grow our reserves and increase our production in our core areas while maintaining a large inventory of undeveloped acreage, and to selectively enter into joint venture arrangements for high risk/high return prospects. We intend to pursue this strategy through the following initiatives:

Concentrate on Core Areas

We currently operate in five core production areas that provide us with a balanced portfolio of exploration and development prospects. We expect to continue to increase our interests in these core areas in order to achieve low risk growth and cost efficiencies in production. We believe that our focus on these core areas has enabled us to develop significant expertise in the local geologies and techniques required to exploit hydrocarbons in these regions. In addition, we believe our concentrated interests allow us to benefit from economies of scale and other efficiencies, which we believe will improve our gross operating margins.

Focus on Natural Gas

We have considerable technical expertise and have achieved significant success in exploring for shallow and deep natural gas reservoirs. We plan to continue to focus on finding and developing long-life natural gas reserves. Our proved reserves as of December 31, 2003 of 248.6 Bcfe, as evaluated by our independent petroleum engineers, were approximately 79% natural gas. We believe that our focus on natural gas production will lead to increasing future profitability for us, as we also believe natural gas prices are likely to be strong in the future as a result of increasing North American demand outstripping naturally declining supply.

Pursue Full-cycle Exploration Complemented by Selective Acquisitions

We plan to continue to reinvest internally generated cash flow to fund our inventory of development and exploration projects. In addition, we seek to rationalize our undeveloped acreage base, adding to and consolidating our land position as we develop a growing inventory of future drilling locations. We have successfully completed and integrated a series of strategic acquisitions to grow our reserves and production base, to increase our inventory of undeveloped acreage and to provide processing facilities for our production. Our acquisition strategy focuses on acquiring assets within our established core areas that will create long-term value, including assets that will increase our current working interests in such areas.

Control of Operations

As of March 31, 2004, we operated approximately 78% of our natural gas production and approximately 80% of our oil production, and had an average working interest of approximately 58% in our undeveloped acreage. We intend to continue consolidating our position in our core areas in order to maximize operating efficiencies and maintain control over our ongoing capital programs. We also owned or controlled the infrastructure critical to approximately 69% of our daily production as of March 31, 2004, which we believe will continue to be critical to the success of our full-cycle exploration program. The high level of our ownership and control allows us to exercise discretion in determining the timing and methodology of our ongoing exploration and development programs.

Maintain a Large Portfolio of Undeveloped Acreage

We have assembled a significant portfolio of approximately 4.8 million gross (approximately 2.8 million net) acres of undeveloped acreage as of December 31, 2003 that we hold for drilling activities. In the future, we intend to apply our technical expertise to develop this acreage portfolio and grow new core areas.

Maintain Financial Flexibility

We intend to maintain financial flexibility to allow us to pursue our full-cycle exploration program in periods of low commodity prices, and to respond to opportunities for strategic acquisitions as they arise. We intend to fund our exploration program and strategic acquisitions using cash flow, proceeds from property dispositions, equity or debt financing, or a combination of these sources.

COMPETITIVE STRENGTHS

We believe that the following strengths provide us with significant competitive advantages as we execute our business strategy:

Experienced, Committed Management Team and Employees

Our Chief Executive Officer and senior operating personnel have been involved in oil and natural gas exploration and development activities in western Canada for an average of more than 25 years and have developed significant expertise in the core areas in which we currently operate. In addition, our Chief Executive Officer beneficially owns, directly or indirectly, approximately 49.4% of our shares, our other directors and management own approximately 5.7% of our shares and all of our employees participate in our stock option plan or our special group registered retirement savings plan through which employees receive our shares, giving all of our employees an ownership interest in our company. We believe that our high level of management and employee ownership closely aligns our interests with those of our other stakeholders and enables us to attract, retain and motivate quality personnel.

Technological Expertise

Through our years of experience and focus on the Western Canadian Sedimentary Basin, we have developed significant technological expertise in our operating areas. We believe our technical ability enables us to generate new drilling prospects from our large inventory of undeveloped acreage, to successfully convert these prospects into producing wells and to acquire additional assets that will provide future opportunities for us.

Large Inventory of Prospects and Successful Drilling Program

We maintain a high ratio of undeveloped acreage to production that enables us to add value through the drill bit. We had approximately 2.8 million net acres of undeveloped acreage as of December 31, 2003, which provides us with a portfolio of low, medium and high risk drilling prospects that we believe will enable us to economically grow our production. Through our experience and technology, we have developed a strong track record of successfully developing new prospects. In 2003, we participated in the drilling of 129 net wells, resulting in 111 net natural gas wells, 12 net oil wells and 6 net dry holes, for an overall success rate of approximately 95%. For the three months ended March 31, 2004, we participated in the drilling of 82 net wells, resulting in 59 net natural gas wells, 4 net oil wells, 2 net dry holes and 17 oilsands evaluation wells, for an overall success rate of approximately 98%.

Significant Long-term Growth Prospects

We have exposure to high impact exploration plays in the Colville Lake, Liard Basin and Cameron Hills areas in the Northwest Territories. Although only approximately 6% of our production as of March 31, 2004 comes from these areas, we believe these exploration prospects provide us with significant reserve potential. To manage our overall risk exposure, we currently allocate only 7-8% of our annual capital expenditure budget to these exploration plays and generally seek industry partners on these projects. We believe that success in our high impact exploration program could lead to significant growth in our reserves and production.

Ability to Acquire and Integrate Strategic Assets

We have demonstrated an ability to make and integrate strategic corporate, land and facility acquisitions, including the acquisition of the Kaybob North sour gas plant in 2001, the acquisition of 209,654 acres of undeveloped acreage in the Northwest Territories in 2001 and the acquisition of Summit in July 2002. We have used our technical expertise and financial flexibility to take advantage of these acquisition opportunities

Long Track Record of Performance

We have a proven performance record through 26 years of commodity price cycles. During this time, we have adapted to numerous operating climates and have continued to grow.

CORE PROPERTIES

The following table summarizes the daily production from our core properties for the three months ended March 31, 2004:

	Natural Gas	Oil and Liquids	Total
	(MMcf/d)	(bbls/d)	(MMcfe/d)
Kaybob	67.0	1,988	79.0
Grande Prairie	16.0	587	19.5
Northwest Alberta	12.4	438	15.0
Liard, Northwest Territories/Northeast British Columbia	7.9	8	8.0
Southern Alberta/Southeast Saskatchewan/United States	8.0	1,537	17.2
Other	1.8	12	1.8
Total	113.1	4,570	140.5

We are focused on five core operating areas, as described below. The reserve numbers provided below are as of December 31, 2003. 100% of our reserves as of December 31, 2003 have been evaluated by McDaniel & Associates Consultants Ltd., our independent petroleum engineers.

Kaybob

The major properties in our Kaybob core area, consisting of Kaybob North, Kaybob, Pine Creek, Fox Creek, Clover, Kaybob West and Kakwa, are located in central Alberta and produce gas, oil and natural gas liquids.

Kaybob is our largest producing core area, accounting for approximately 56% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 79.0 MMcfe/d. Our Kaybob area contains 132.1 Bcfe of proved reserves that are approximately 83% natural gas weighted. We expect the Proposed Acquisition, if completed, to add approximately 47.0 Bcfe of proved reserves (of which approximately 50% are natural gas) and production of approximately 29 MMcfe/d, both as of June 1, 2004.

Production in the Kaybob area averaged 64.4 MMcf/d of natural gas and 1,985 bbls/d of oil and natural gas liquids for 2003, and averaged 67.0 MMcf/d of natural gas and 1,988 bbls/d of oil and natural gas liquids for the three months ended March 31, 2004.

Drilling activity in 2003 included 74 (44 net) wells resulting in 36 net natural gas wells and 8 net oil wells. We drilled 25 (18 net) wells resulting in 18 net natural gas wells during the three months ended March 31, 2004.

We operate four natural gas plants in Kaybob that currently process approximately 65% of our production of operated natural gas and liquids from this area, equating to approximately 45 MMcf/d of natural gas and 1,200 bbls/d of oil and liquids. We also operate one oil battery at Kaybob North.

We have 282,080 gross (230,135 net) acres of undeveloped acreage in our Kaybob core area. If the Proposed Acquisition is completed, we will have an additional 139,900 net acres of undeveloped acreage in our Kaybob core area.

Grande Prairie

The properties in our Grande Prairie core area, consisting of Grande Prairie, Sunset, Valhalla and Saddle Hills, are located in west central Alberta and produce gas, oil and natural gas liquids.

Grande Prairie accounted for approximately 14% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 19.5 MMcfe/d. Grande Prairie has 21.1 Bcfe of proved reserves that are approximately 74% natural gas weighted. Grande Prairie consists of properties we acquired in the Summit acquisition and properties acquired by us in a separate asset acquisition completed in 2002.

Production in the Grande Prairie area averaged 10.0 MMcf/d of natural gas and 1,431 bbls/d of oil and natural gas liquids for 2003, and averaged 16.0 MMcf/d of natural gas and 587 bbls/d of oil and natural gas liquids during the three months ended March 31, 2004.

We operate four compression facilities and two oil batteries in the Grande Prairie area. Approximately 55% of the area's total production is from these facilities operated by us.

We drilled 45 (30 net) wells, resulting in 26 net natural gas wells, 1 net oil well and 3 net dry and abandoned wells, and recompleted 5 (4 net) wells in 2003. We drilled 22 (20 net) wells resulting in 19 net natural gas wells and 1 net dry and abandoned well for the three months ended March 31, 2004.

We have 663,867 gross (498,035 net) acres of undeveloped acreage in this core area.

Northwest Alberta

Our Northwest Alberta core area covers the extreme northwest corner of Alberta, extending into the Cameron Hills area of the Northwest Territories. The major properties within this core area are Cameron Hills, Bistcho Lake and Negus East.

Northwest Alberta accounted for approximately 11% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 15.0 MMcfe/d. Our Northwest Alberta area contains 55.6 Bcfe of proved reserves that are approximately 86% natural gas weighted.

Production in the Northwest Alberta area averaged 18.1 MMcf/d of natural gas and 363 bbls/d of oil and natural gas liquids during 2003, and averaged 12.4 MMcf/d of natural gas and 438 bbls/d of oil and natural gas liquids during the three months ended March 31, 2004.

Drilling activity in 2003 included 24 (21 net) wells resulting in 20 net natural gas wells and 1 net oil well. We drilled 22 (15 net) wells resulting in 11 net natural gas wells and 4 net oil wells during the three months ended March 31, 2004.

We have three gas processing plants and one oil battery in this area, which we believe will permit us to take advantage of opportunities as exploration occurs further into the Northwest Territories. These plants and battery process approximately 23 MMcf/d of natural gas and 800 bbls/d of oil, respectively.

We have 1,152,654 gross (546,162 net) acres of undeveloped acreage in this core area.

Liard, Northwest Territories/Northeast British Columbia

Our Liard, Northwest Territories/Northeast British Columbia core area is an active exploration and production area for us. The major properties in this area are Maxhamish/Liard, Tattoo, Clarke Lake and Liard Non-Operated.

This area accounted for approximately 6% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 8.0 MMcfe/d. Our Liard, Northwest Territories/Northeast British Columbia area contains 12.3 Bcf of proved natural gas reserves. We

expect the Proposed Acquisition, if completed, to add approximately 15.1 Bcf of proved natural gas reserves and production of approximately 15 MMcfe/d, both as of June 1, 2004.

Production in the Liard, Northwest Territories/Northeast British Columbia area averaged 9.4 MMcf/d of natural gas and 7 bbls/d of oil and natural gas liquids in 2003, and averaged 7.9 MMcf/d of natural gas and 8 bbls/d of oil and natural gas liquids during the three months ended March 31, 2004.

In 2003, we drilled 15 (2 net) wells that resulted in 2 net natural gas wells. We drilled 14 (9 net) wells, resulting in 9 net natural gas wells, during the three months ended March 31, 2004.

We operate two gas processing plants in this area at Tattoo and Maxhamish, both of which are located in northeast British Columbia. These plants were processing approximately 2.8 MMcf/d of natural gas as of March 31, 2004. We also have production processed through two third-party operated facilities in this area.

We have 299,780 gross (215,752 net) acres of undeveloped acreage in this core area. If the Proposed Acquisition is completed, we will have an additional 61,200 net acres of undeveloped acreage in our Liard, Northwest Territories/Northeast British Columbia core area.

Southern Alberta/Southeast Saskatchewan/United States

Southern Alberta/Southeast Saskatchewan/United States is a relatively new core area for us. The properties in this area were acquired through the Summit acquisition. Geographically this area is extensive, with operations in Canada extending south from the city of Edmonton, Alberta to the southeast corner of Saskatchewan. In the United States, operations are located in north central and northeastern Montana and in western North Dakota. This area has year-round access to all of its production operations.

This area accounted for approximately 12% of our production for the three month period ended March 31, 2004. Production in the area for that period averaged 17.2 MMcfe/d. Our Southern Alberta/Southeast Saskatchewan/United States area contains 26.0 Bcfe of proved reserves that are approximately 36% natural gas weighted.

Production in the Southern Alberta/Southeast Saskatchewan/United States area averaged 7.7 MMcf/d of natural gas and 1,991 bbls/d of oil and natural gas liquids in 2003, and averaged 8.0 MMcf/d of natural gas and 1,537 bbls/d of oil and natural gas liquids for the three months ended March 31, 2004.

We have consolidated the properties in the area, which we believe will allow us to pursue the growth of fewer, higher interest core properties.

Drilling activity in 2003 included 20 (15 net) wells resulting in 12 net natural gas wells, 2 net oil wells and 1 net dry and abandoned well. We have drilled 6 (4 net) wells resulting in 3 net oil wells and 1 net dry and abandoned well for the three months ended March 31, 2004.

We operate four gas plants that process approximately 4 MMcf/d of natural gas and 11 oil batteries that process approximately 1,300 bbls/d of oil.

We have 272,763 gross (168,173 net) acres of undeveloped acreage in this core area.

OIL AND GAS RESERVES AND OTHER OIL AND GAS INFORMATION

The information in the following table is derived from the reserves report prepared by our independent petroleum engineers, McDaniel & Associates Consultants Ltd., which evaluated 100% of our reserves as of December 31, 2003 based on constant pricing assumptions.

Proved reserves	December 31, 2003
Natural gas (Bcf)	196.5
Oil & natural gas liquids (Mbbls)	8,670
Natural gas equivalent (Bcfe)	248.6
% natural gas	79
% proved developed	92
Estimated reserve life (in years)[1]	4.9
Annual reserve replacement (%)[2]	41
Recycle ratio[3]	0.5
PV-10 (thousands of dollars)[4]	748,734

Notes:

(1) Reserve life is calculated by dividing our proved reserves at year end (248.6 Bcfe) by our annualized production for the three months ended March 31, 2004 (140.5 MMcfe/d).

(2) Annual reserve replacement is determined by dividing our estimated proved reserves added during the year from exploitation, development and exploration activities, acquisition of proved reserves and revisions of previous estimates, excluding property sales, by our annual production in that year, and expressing the quotient on a percentage basis.

(3) The recycle ratio is determined by dividing our netback per Mcfe by our finding and development costs per Mcfe in that year. Netback per Mcfe is calculated by dividing our annual net revenues generated from producing oil and natural gas volumes, net of operating costs and administrative expenses, by our annual production in that year. Finding and development costs per Mcfe is calculated by dividing our estimated finding and development costs associated with our estimated proved reserves added during the year by our estimated proved reserves added in that year from exploitation, development and exploration activities, acquisition of proved reserves and revisions of previous estimates, excluding property sales.

(4) PV-10 is the present value of our estimated future net cash flows before income taxes, discounted at 10% per year, calculated using constant pricing. The prices used for December 31, 2003 were $5.92 per Mcf of natural gas, $40.70 per barrel of oil and $36.80 per barrel of natural gas liquids. PV-10 is not necessarily indicative of actual future cash flows.

For more detailed information respecting our reserves and oil and gas operations than that provided in this prospectus supplement, you should refer to the "Statement of Reserves Data and Other Oil and Gas Information" section of our annual information form for the year ended December 31, 2003 incorporated by reference in the prospectus.

SEASONALITY OF THE OIL AND GAS INDUSTRY

The exploration for and development of oil and natural gas reserves depends upon access to areas where operations are to be conducted. Oil and gas industry operations are affected by road bans imposed from time to time during the break-up and thaw period in the spring. Road bans are also imposed due to snow, mud and rock slides and periods of high water which can restrict access to our well sites and production facility sites.

Additionally, demand for oil and natural gas varies seasonally. Demand for natural gas is greatest in the winter months to meet peak heating demand, while demand for gasoline and the types of oil most used to produce it is highest in summer months.

We conduct a portion of our operations in the Northwest Territories of Canada, which we are able to do only on a seasonal basis. Unless the surface is sufficiently frozen, we are unable to access our properties, drill or otherwise conduct our operations as planned. In addition, if the surface thaws earlier than expected, we must cease our operations for the season earlier than planned. In recent years, winters in our Northwest Territories operating area have been warmer than we have normally experienced, so our operating seasons have been shorter than in the past.

MARKETING

Our natural gas sales portfolio is a diversified mix of markets, terms and pricing exposures. Through our transportation commitments and aggregator contracts, we have exposure to many North American natural gas markets. We have a mix of long term and short term contracts with a customer base that includes local distribution companies, power generators, other end-users, marketers and aggregators. The majority of our natural gas is sold at floating prices tied to various market indices, leaving us well positioned to take advantage of strong natural gas prices.

Our oil and natural gas liquids are typically sold under short-term contracts and priced off the appropriate WTI or Edmonton reference price. The majority of our liquids production is high quality, light sweet oil, which generates strong netbacks. At regular intervals we review our sales arrangements, ensuring the netbacks we receive are competitive with current market conditions. Our counterparties are primarily logistically value enhancing marketers of oil and natural gas liquids. We deal only with counterparties we deem to be credit worthy.

We actively monitor market trends and forward prices, and, when conditions warrant, enter into hedging arrangements to maximize netbacks, reduce risk and meet budget objectives.

COMPETITION

The oil and natural gas industry is very competitive. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and oil and natural gas reserves. Our competitive position depends upon our geological, geophysical and engineering expertise, our financial resources, our ability to develop our properties and our ability to select, acquire and develop proved reserves. We compete with a substantial number of other companies and entities, such as royalty trusts, which have larger technical staffs, greater financial and operational resources and/or greater access to capital markets. Many of those companies not only engage in the acquisition, exploration, development and production of oil and natural gas reserves, but also conduct refining operations and market refined products.

We also compete with other oil and natural gas companies and other industries supplying energy and fuel in the marketing and sale of oil and natural gas to transporters, distributors and end users, including industrial, commercial and individual consumers. Furthermore, we compete with other oil and natural gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells, which may be in short supply from time to time. Finally, companies not previously investing in oil and natural gas may choose to acquire reserves to establish a firm supply or simply as an investment. These companies will also provide competition for us.

REGULATION

The oil and natural gas industry in Canada is subject to extensive controls and regulations imposed by various levels of government. We do not expect that any of these controls or regulations will affect our operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and we are unable to predict what additional legislation or amendments may be enacted.

Oil and natural gas reserves located in Alberta, Saskatchewan and British Columbia are owned predominately by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas under leases, licenses and permits with terms generally varying from two years to five years and on conditions contained in provincial legislation. Leases, licenses and permits may be continued indefinitely by producing under the lease, license or permit. Some of the oil and natural gas located in these provinces is privately owned and rights to explore for and product oil and natural gas are granted by the mineral owners on negotiated terms and conditions.

ENVIRONMENTAL MATTERS

The oil and natural gas industry is governed by environmental requirements under both Canadian and United States federal, provincial, state and municipal laws, regulations and guidelines, which restrict and/or prohibit the release or emission of pollutants and regulate the storage, handling, transportation and disposal of various substances produced or utilized in association with oil and gas industry operations. In addition, well and facility sites must be decommissioned, abandoned and reclaimed, to the satisfaction of regulatory authorities. Also, environmental laws, regulations or guidelines may impose upon "responsible persons" remediation obligations for property designated as a contaminated site and liability for damage to natural resources and property. Responsible persons may include persons responsible for the substance causing the contamination, persons who caused the release of the substance and present or past owners, tenants or other persons in possession of the site. A violation of environmental laws, regulations or guidelines may result in the imposition of fines, penalties and imprisonment in addition to the costs of abandonment and reclamation.

The ratification of the Kyoto Protocol by the Canadian federal government in December 2002 may result in increased capital expenditures and operating costs. Moreover, we cannot assure you that discovery of currently unknown conditions or changes in applicable requirements or enforcement policies will not result in material costs or liabilities.

We are committed to achieving a high standard of environmental stewardship throughout all phases of our operations. We have committed our company to take all reasonable care to protect the environment and the safety of employees, contractors, and the public, in adherence with all applicable legislation. To accomplish this goal, we will endeavour to:

- make environmental protection a consistent component of the corporate decision making process by acknowledging and being sensitive to potential environmental impacts associated with our operations and take prudent actions to minimize these impacts;
- provide procedures and resources necessary to ensure our employees receive a level of environmental training;
- take a proactive approach towards project management that recognizes the benefits of environmental protection and the full cycle costs associated with environmental alterations and reclamation;

- be prepared to respond safely and effectively to emergencies in order to minimize any adverse environmental impacts;
- participate by supporting industry initiatives and organizations, in the creation of responsible policies, regulations and industry standards which are designed to protect the environment;
- repair environmental damage which occurs as a result of our business activities; and
- continually monitor our operations and facilities and seek ways to improve our environmental performance.

EMPLOYEES

As of March 31, 2004, we had 133 employees in our Calgary office and 67 employees at field locations. In addition, as of March 31, 2004, we employed 105 individuals on a full-time contract basis. None of our current employees are represented by a union and we consider our relations with our employees to be very good.

LEGAL PROCEEDINGS

We are a party to various legal actions in the ordinary course of business. In our opinion, none of these actions, or any actions that have been threatened against us of which we are aware, either individually or in the aggregate, would, if determined against us, have a material adverse effect on our financial condition or operating results.

Proposed acquisition

BACKGROUND

We entered into an agreement with a commercial trust wholly-owned by Enerplus Resources Fund (a publicly listed Canadian energy trust) on May 25, 2004 to acquire certain conventional western Canadian oil and natural gas assets currently owned by Chevron Canada Resources, a general partnership, for $189 million, subject to adjustments. Enerplus Resources Fund and its subsidiaries, which we refer to as "Enerplus", and Acclaim Energy Trust (a publicly listed Canadian energy trust) and its subsidiaries, which we refer to as "Acclaim", are parties to agreements with Chevron Canada Resources and Chevron Canada Limited, which we refer to collectively as "Chevron", to acquire all of the partnership interests of Chevron Canada Resources and certain of the assets of Chevron Canada Limited. The assets held by Chevron Canada Resources and those to be acquired by Enerplus and Acclaim from Chervon Canada Limited represent substantially all of the conventional western Canadian oil and natural gas assets of Chevron. The assets to be acquired form part of the assets of Chevron to be acquired by Enerplus and Acclaim pursuant to their agreements with Chevron.

Certain of the Proposed Acquisition Properties, representing in aggregate approximately 14% and 22% of the production and total proved plus probable reserves, respectively, attributable to the Proposed Acquisition Properties, are subject to rights of first refusal. If any of these rights of first refusal are exercised, we will remain obligated to purchase all assets other than those in respect of which the rights of first refusal have been exercised and the purchase price for the Proposed Acquisition will be reduced accordingly.

The Proposed Acquisition is expected to be completed on or about June 30, 2004 with an effective date of June 1, 2004. Closing of the Proposed Acquisition is subject to the completion of the transactions under the agreements Enerplus and Acclaim have with Chevron, the receipt of required regulatory approvals and the satisfaction of other standard closing conditions. We will use the net proceeds of this offering to fund the Proposed Acquisition if it is completed. Although we expect to complete the Proposed Acquisition, it is subject to conditions which we cannot control and, as a result, there is a risk it may not be completed. If it is not completed or the net proceeds are greater than needed to fund the Proposed Acquisition, we intend to use the net proceeds or excess net proceeds, as the case may be, for capital expenditures, the repayment of indebtedness, the financing of acquisitions or addition to working capital. You should refer to the section of this prospectus supplement entitled "Use of proceeds".

All of the Proposed Acquisition Properties are adjacent to or nearby our existing core areas at Kaybob and Northeast British Columbia/Northwest Territories. The Proposed Acquisition will complement our existing field operations and provide us with synergies in exploitation and exploration in these areas.

DESCRIPTION OF PROPOSED ACQUISITION PROPERTIES

Kaybob

The interests in the Kaybob properties to be acquired by us have current production of approximately 14 MMcf/d of natural gas and approximately 2,400 bbls/d of crude oil and natural gas liquids. The oil and gas properties in the area are primarily mature producing properties. Through the Proposed Acquisition we will acquire working interests ranging from 10%-50% in the pools associated with the Kaybob properties. These Kaybob assets will provide us with a number of properties that we expect will permit us to exploit the expertise that we have developed in the area.

Liard, Northwest Territories/Northeast British Columbia

The Fort Liard property to be acquired by us has four producing wells in the Northwest Territories which are currently producing approximately 15 MMcf/d of natural gas. Through the Proposed Acquisition we will acquire working interests of 43% in three of the wells and 15% in one of the wells. We currently have working interests of 2.8% and 6.9% in the three wells and one well referred to above, respectively. In addition, a new well is currently being drilled on the Fort Liard property which is expected to reach total depth of 4,324 meters or 14,186 feet by the end of June 2004. If the Proposed Acquisition is completed, we will have a 46.2% interest in this well.

The northeast British Columbia properties to be acquired by us consist of undeveloped lands in the Maxhamish area with no production or reserves currently assigned to these properties. The working interests being acquired in the lands range from 25-100%.

OIL AND NATURAL GAS RESERVES

The reserves attributable to the Proposed Acquisition Properties have been evaluated in accordance with National Instrument 51-101 by Sproule Associates Limited, a firm of independent petroleum engineers, in a report of Sproule dated June 3, 2004 and effective June 1, 2004. The following is a summary of the oil, natural gas liquids and natural gas reserves attributable to the Proposed Acquisition Properties and the estimated net present values of future net revenues associated with such reserves, on a constant price and costs basis, as evaluated by Sproule. The tables summarize the data contained in the evaluations and as a result may contain slightly different numbers than the evaluations due to rounding. Additionally, the numbers in the tables may not add due to rounding.

All future net revenues are stated prior to provision for interest, general and administrative expenses and after deduction of royalties and estimated future capital expenditures. It should not be assumed that the present worth of estimated future cash flows shown below is representative of the fair market value of the reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of the oil, natural gas liquids and natural gas reserves provided below are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided below. Readers should read the definitions and information contained in this prospectus supplement in conjunction with the following tables and notes.

Summary of Oil and Gas Reserves on a Constant Prices and Costs basis As of June 1, 2004

	Natural Gas[a]		Light and Medium Crude Oil		Natural Gas Liquids[b]		Total	
Reserves Category	Gross[d]	Net[e]	Gross[d]	Net[e]	Gross[d]	Net[e]	Gross[d]	Net[e]
	(MMcf)	(MMcf)	(Mbbl)	(Mbbl)	(Mbbl)	(Mbbl)	(MMcfe)	(MMcfe)
Proved								
Developed producing	49,446	37,303	2,943	2,424	2,233	1,416	80,506	60,344
Developed non-producing	2,304	1,690	—	—	—	—	2,305	1,691
Undeveloped	—	43	—	—	—	—	—	43
Total proved[c]	51,750	39,036	2,943	2,424	2,233	1,416	82,810	62,078

(a) Natural gas includes sulphur and solution gas equivalents.

(b) Natural gas liquids includes propane, butane and pentaneplus equivalents.

(c) Columns may not add due to rounding.

(d) Gross means company interest reserves before royalties.

(e) Net means company interest reserves after royalties.

Net Present Value of Future Net Revenues—Constant Prices and Costs

	Net Present Value of Future Revenue									
	Before Income Taxes Discounted at					After Income Taxes Discounted at				
Reserves Category ($ millions)	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
Proved										
Developed producing	286	245	215	192	174	233	196	171	151	137
Developed non-producing	6	5	5	5	5	3	3	3	3	3
Undeveloped	—	—	—	—	—	—	—	—	—	—
Total proved[(a)]	292	250	220	197	179	236	200	174	154	139

(a) Columns may not add due to rounding.

Notes:

(1) The estimated net present value of future net revenue does not include the Alberta Royalty Tax Credit.

(2) Natural gas reserves are reported at a base pressure of 14.65 pounds per square inch and a base temperature of 60°F.

(3) Prices for oil F.O.B. Edmonton are based upon 40° to 45° API having less than 0.5% sulphur. Prices for natural gas are based upon a base pressure of 14.65 pounds per square inch and base temperature of 60°F. The wellhead oil prices were adjusted for quality and transportation to reflect the actual price to be received. The natural gas prices were adjusted, where necessary, only for heating values and the differing costs of service applied by various purchasers. The natural gas liquids prices were adjusted to reflect current prices received.

(4) The constant price and costs case assumes the continuance of product prices at June 1, 2004, and operating costs projected for 2004, and the continuance of current laws and regulations. Product prices have not been escalated beyond this date nor have operating and capital costs been increased on an inflationary basis. The future net revenue to be received from the production for the reserves was based on an exchange rate of Cdn$1.00=US$0.734 and the following prices:

	Edmonton Par Price	Alberta AECO-C Spot	B.C. Westcoast	Propanes	Butanes	Pentanes Plus	Sulphur
	($/stb)[(a)]	($/mcf)	($/mcf)	($/bbl)	($/bbl)	($/bbl)	($/lt)[(b)]
June 1, 2004	52.72	7.33	7.13	33.18	41.29	56.10	40.00

(a) "stb" means stock tank barrel.

(b) "lt" means long tons.

(5) The undiscounted total future net revenue for Proved reserves as of June 1, 2004, using constant price and costs, is set forth below:

Reserves Category ($ millions)	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved	628	146	174	12	3	292	56	237

(6) The net present value of future net revenue for proved reserves by production group as of June 1, 2004, using constant price and costs and discounted at 10% per year, is set forth below:

Reserves Category ($ millions)	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%)
Proved	Natural gas[a]	$144
	Light and medium crude oil[b]	$ 72

(a) Natural gas includes associated sulphur, natural gas liquids, propane, butane and pentaneplus, but excludes solution gas from oil wells.

(b) Light and medium crude oil includes solution gas and associated natural gas liquids.

(7) The volume of gross and net company Proved production estimated by Sproule for the period from June 1, 2004 to December 31, 2004 in preparing the estimated net present values of future net revenue is as follows:

	Proved
Gross[a]	
Natural gas (MMcf)[c]	7,801
Light and medium crude oil (Mbbl)	368
Natural gas liquids (Mbbl)[d]	258
Total Gross (MMcfe)[e]	11,557
Net[b]	
Natural gas (MMcf)[c]	5,826
Light and medium crude oil (Mbbl)	269
Natural gas liquids (Mbbl)[d]	167
Total Net (MMcfe)[e]	8,433

(a) Gross means company interest before royalties.

(b) Net means company interest after royalties.

(c) Natural gas includes sulphur and solution gas equivalents.

(d) Natural gas liquids includes propane, butane and pentaneplus equivalents.

(e) Column may not add due to rounding.

(8) The amount of development costs deducted in the estimation of net present value of future net revenue is as follows:

	2004E		2005E		2006E		2007E		2008E	
Reserve Category ($ millions)	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**	**0%**	**10%**
Proved										
Constant Price Case	3.5	3.4	1.4	1.2	0.7	0.5	0.7	0.5	0.6	0.4

Management

The following table provides the name and position held of each of our directors and executive officers:

Name	Age	Positions Held
C.H. Riddell	66	Chief Executive Officer, Chairman of the Board and Director
J.H.T. Riddell	37	President, Chief Operating Officer and Director
B.K. Lee	53	Chief Financial Officer
J.C. Gorman	58	Director
D. Jungé	55	Director
D.M. Knott	59	Director
W.B. MacInnes	76	Director
V.S.A. Riddell	65	Director
S.L. Riddell Rose	39	Director
J.B. Roy	63	Director
A.S. Thomson	64	Director
B.M. Wylie	72	Director
C.E. Morin	52	Corporate Secretary

C. H. Riddell. Mr. Riddell has been the Chairman of the Board and Chief Executive Officer since 1978. Until June 2002 he was also the President. Mr. Riddell is also the Chairman of the Board and Chief Executive Officer of Paramount Energy Trust and Chairman of the Board of Newalta Corporation. He graduated from the University of Manitoba with a Bachelor of Science, Honours Degree in Geology, and in 2004 received an Honorary Doctorate in Science from the University of Manitoba. Mr. Riddell is currently a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Canadian Association of Petroleum Producers, the Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists. We have key man insurance of approximately $5.4 million on Mr. Riddell.

J. H. T. Riddell. Mr. Riddell has been the President and Chief Operating Officer since June 2002 and a director since 2000. From May 1991 until June 2002, he held various positions with our company. He graduated from Arizona State University with a Bachelor of Science degree in Geology and from the University of Alberta with a Master of Science degree in Geology.

B. K. Lee. Mr. Lee has been our Chief Financial Officer since May 2003, prior to which he was employed by Alberta Energy Company Ltd. and its successor EnCana Corporation in a variety of senior positions, most recently as Vice-President & Corporate Advisor, Business Ventures, Corporate Development. Mr. Lee graduated from the University of Alberta with a Bachelor of Commerce degree (with distinction) and a Master of Business Administration degree. He has also successfully completed the Executive Program offered by the University of Western Ontario. Mr. Lee was granted the designation of Certified Management Accountant in 1979 by the Society of Certified Management Accountants of Canada.

J. C. Gorman. Mr. Gorman has been a director of our company since 2002. He is currently a business consultant prior to which he was employed with ECT Canada from 1996 to 2000, retiring as Chairman of the Board. Previously he was a corporate banker with Bank of Montreal from 1972 to 1996, retiring as Senior Vice President, Natural Resources Group. Mr. Gorman obtained a Bachelor of Arts degree from the University of Ottawa and a Master of Business Administration degree from the University of Western Ontario.

D. Jungé. Mr. Jungé has been a director of our company since 2000. He is the Chairman of the Board of the Pitcairn Trust Company. Mr. Jungé also holds a number of director and trustee positions with philanthropic organizations. Mr. Jungé obtained a Bachelor of Science degree in Economics and Finance from Lehigh University, was designated a Chartered Financial Analyst by the Institute of Chartered Financial Analysts in 1978, holds NASD Series 52, 53 and 63 securities licenses, and is a member of the Financial Planning Association and the Association for Investment Management and Research.

D. M. Knott. Mr. Knott has been a director of our company since 1998. He is the Managing General Partner of Knott Partners, LP and the Chief Executive Officer of Dorset Management Corp. Mr. Knott is also a trustee of several philanthropic organizations. Mr. Knott graduated from the University of Pennsylvania with a Bachelor of Arts degree in Political Science and a Master of Business Administration degree in finance from the University of Pennsylvania's Wharton School.

W. B. MacInnes. Mr. MacInnes has been a director of our company since 1978. Since 2001 he has been counsel to Gowling Lafleur Henderson LLP, prior to which he was a partner with, and counsel to, Ballem MacInnes LLP. Mr. MacInnes graduated from the University of Manitoba with an honours Bachelor of Laws degree and is a member of the Law Society of Alberta, the Canadian Bar Association and the Calgary Bar Association.

V. S.A. Riddell. Ms. Riddell has been a director of our company since 1978.

S. L. Riddell Rose. Ms. Riddell Rose has been a director of our company since 2000. She is the President and Chief Operating Officer of Paramount Energy Operating Corp., a wholly-owned subsidiary of Paramount Energy Trust. She was employed by our company from 1990 until June 2002 culminating in the position of Corporate Operating Officer. Prior to joining our company, she was a geological engineer with Shell Canada Limited. Ms. Riddell Rose graduated from Queen's University with a Bachelor of Science degree in Geological Engineering and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and the American Association of Petroleum Geologists.

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

A. S. Thomson. Mr. Thomson has been a director of our company since 1992. He is the President of Touche Thomson & Yeoman Investment Consultants Ltd. Mr. Thomson graduated from the University of St. Andrews with a Master of Arts (Honours) degree in Political Economy and Geography. He is a former President of both the Alberta Society of Financial Analysts and the Economics Society of Alberta.

B. M. Wylie. Mr. Wylie has been a director of our company since 1978 and was Executive Vice President and Vice President, Land until 1996. He graduated from the University of California, Berkeley, with a Bachelor of Arts degree. Mr. Wylie is a member of the American Association of Professional Landmen and the Canadian Association of Professional Landmen, and is on the Canadian Association of Petroleum Producers Committee.

C.E. Morin. Mr. Morin is our General Counsel, Corporate Secretary and Land Manager and has been with our company since 1993. He is also a director of Pan Alberta Gas. Mr. Morin graduated from the University of Manitoba with an honours Bachelor of Arts degree and a Bachelor of Laws degree. He is a member of the Law Society of Alberta, the Canadian Bar Association and the Canadian Association of Petroleum Landmen.

EXECUTIVE COMPENSATION

The following table provides a summary of compensation earned during the fiscal years ended December 31, 2003, 2002 and 2001 by our Chief Executive Officer, our President and Chief Operating Officer, our Chief Financial Officer and our Corporate Secretary.

		Annual Compensation		Long-term Compensation		
Name and Principal Position	Fiscal Year	Salary	Other Annual Compensation[2]	SARs	Share Options[3]	All Other Compensation[4]
		($)	($)	(#)	(#)	($)
Clayton H. Riddell	2003	329,200	7,997	—	596,000	—
Chief Executive Officer	2002	329,200	4,581	—	456,000	—
	2001	329,200	7,313	—	456,000	—
James H.T. Riddell	2003	232,250	9,270	—	400,000	—
President and Chief	2002	206,750	5,232	—	140,000	—
Operating Officer	2001	206,847	3,909	—	140,000	250,182
Bernard K. Lee[1]	2003	118,108[1]	4,565	—	100,000	—
Chief Financial Officer						
Charles E. Morin	2003	193,250	4,565	—	104,000	—
Corporate Secretary	2002	172,883	708	—	60,000	—
	2001	168,147	707	—	60,000	260,532

Notes:

(1) Mr. Lee commenced employment on May 26, 2003. If he had been employed for all of 2003, his salary would have been $191,250.

(2) Other annual compensation includes taxable benefits.

(3) Aggregate stock options held at the applicable time.

(4) Other compensation includes payments for share application rights, club fees, and auto and life insurance.

OPTIONS GRANTED IN LAST FISCAL YEAR

The following table provides a summary of the options granted to our Chief Executive Officer, our President and Chief Operating Officer, our Chief Financial Officer and our Corporate Secretary during the last fiscal year.

Name and Principal Position	Stock Options Granted	% of Total Options Granted in Financial Year	Exercise Price per Share	Market Value of Shares Underlying Options on the Date of Grant	Expiration Date
	(#)		($)	($)	
Clayton H. Riddell	296,000	9.87%	12.02	12.02	April 30, 2005
Chief Executive Officer	90,000	3.00%	9.00	9.00	April 30, 2007
	50,000	1.67%	8.91	8.91	April 30, 2008
James H.T. Riddell	50,000	1.67%	12.02	12.02	April 30, 2005
President and Chief	160,000	5.34%	9.00	9.00	April 30, 2007
Operating Officer	100,000	3.34%	8.91	8.91	April 30, 2008
Bernard K. Lee	80,000	2.67%	9.00	9.00	April 30, 2007
Chief Financial Officer	20,000	0.67%	8.91	8.91	April 30, 2008
Charles E. Morin	24,000	0.80%	12.02	12.02	April 30, 2005
Corporate Secretary	24,000	0.80%	9.00	9.00	April 30, 2007
	20,000	0.67%	8.91	8.91	April 30, 2008

STOCK OPTION PLAN

We have a stock option plan, approved by our shareholders, that enables our board of directors or the compensation committee of our board of directors to grant our key employees, consultants and directors options to acquire our common shares. As options are issued, their exercise prices will be no lower than the closing market prices of our common shares at that time. Optionees exercising options are entitled to receive our common shares. Alternatively, such employees may request to receive cash from our company for the positive difference between the exercise price and market price of our common shares. We are permitted, but not obligated, to comply with such a request. The resolution of our board of directors approving the option plan authorized the initial reservation of 5,900,000 of our authorized but unissued common shares. Options granted under the plan vest over four years and have a four and one-half year contractual life. As of March 31, 2004, options to acquire a total of 3,474,750 common shares were outstanding at exercise prices between $8.91 and $12.51.

STOCK OPTIONS HELD BY DIRECTORS

The following table provides information relating to stock options held by our directors as of March 31, 2004.

	Number of Common Shares Underlying Options Granted	Date of Grant	Exercise Price ($)	Expiry Date
C.H. Riddell	100,000	Dec. 22, 2000	10.22	April 30, 2005
	296,000	Feb. 11, 2003	12.02	April 30, 2005
	60,000	Dec. 18, 2001	9.07	April 30, 2006
	90,000	May 15, 2003	9.00	April 30, 2007
	50,000	Dec. 1, 2003	8.91	April 30, 2008
	596,000			
J.H.T. Riddell	50,000	Dec. 22, 2000	10.22	April 30, 2005
	50,000	Feb. 11, 2003	12.02	April 30, 2005
	40,000	Dec. 18, 2001	9.07	April 30, 2006
	160,000	May 15, 2003	9.00	April 30, 2007
	100,000	Dec. 1, 2003	8.91	April 30, 2008
	400,000			
J.C. Gorman	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
D. Jungé	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
D.M. Knott	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
W.B. MacInnes	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
V.S.A. Riddell	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
S.L. Riddell Rose	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			

	Number of Common Shares Underlying Options Granted	Date of Grant	Exercise Price ($)	Expiry Date
J.B. Roy	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
A.S. Thomson	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
B.M. Wylie	25,000	May 15, 2003	9.00	October 19, 2007
	5,000	Dec. 1, 2003	8.91	April 30, 2008
	30,000			
All Directors	1,266,000			

Certain relationships and related transactions

C.H. Riddell, the Chairman of the Board, Chief Executive Officer and a director of our company, is also the Chairman of the Board, Chief Executive Officer and a director of Paramount Energy Operating Corp., a wholly-owned subsidiary of the Trust that provides administrative services to the Trust. S.L. Riddell Rose, a director of our company, is the President and a director of Paramount Energy Operating Corp. C.H. Riddell is the controlling shareholder of Paramount Oil & Gas Ltd., which is a holding company wholly owned by the Riddell family. J.H.T. Riddell, S.L. Riddell Rose and V.S.A. Riddell are also shareholders of Paramount Oil & Gas Ltd. The Riddell family beneficially owns or exercises control or direction over, directly or indirectly, including through Paramount Oil & Gas Ltd., approximately 50% of our company and approximately 44% of the Trust.

Our management owns oil and natural gas properties that do not form part of our properties. Members of our management may also acquire interests in energy related businesses for their own accounts and on behalf of persons other than our shareholders.

We have executed indemnity agreements with, and have directors' and officers' liability insurance for the benefit of each of our directors and officers. We believe the terms and conditions of these agreements and insurance are standard for our industry.

Security ownership of principal shareholders and management

The following table contains information provided to us by our shareholders, or contained in our share ownership records, with respect to beneficial ownership of our common shares as of March 31, 2004 by: each person known by us to be the beneficial owner of more than 10% of our outstanding common shares; each named executive officer; each director; and all directors and executive officers as a group.

Each person has sole voting and investment power with respect to the shares listed.

	Shares Beneficially Owned	
Name	**Number**	**%**
C.H. Riddell	28,873,070[1]	48.7
J.H.T. Riddell	114,915[2]	*
B.K. Lee	7,000	*
J.C. Gorman	2,000	*
D. Jungé	342,223[3]	*
D.M. Knott	2,155,600	3.6
W.B. MacInnes	3,000	*
V.S.A. Riddell	473,400[2]	*
S.L. Riddell Rose	160,311[2]	*
J.B. Roy	7,500	*
A.S. Thomson	8,000	*
B.M. Wylie	12,208	*
C.E. Morin	60,000	*
All directors and executive officers as a group (13 persons)	32,219,227	54.3

Notes:

* Less than 1%

(1) 25,303,170 of these shares are beneficially held by Paramount Oil & Gas Ltd. C.H. Riddell is the controlling shareholder of Paramount Oil & Gas Ltd. 2,716,200 of these shares are beneficially held by 409790 Alberta Ltd. and 767,400 of these shares are beneficially held by Treherne Resources Ltd., each of which is controlled by C. H. Riddell. C.H. Riddell holds 86,300 of these shares directly.

(2) J.H.T. Riddell, V.S.A. Riddell and S.L. Riddell Rose are also shareholders of Paramount Oil & Gas Ltd.

(3) Mr. Jungé is Chairman of Pitcairn Trust Company. Pitcairn owns, in a fiduciary capacity as trustee or investment advisor for clients, 1,448,997 of our common shares. Of these shares, 98,424 are owned by trusts for which Mr. Jungé serves as a co-trustee, and 342,223 are beneficially owned, directly or indirectly, by Mr. Jungé.

Description of share capital

Our authorized share capital consists of an unlimited number of common shares, of which 59,290,900 were outstanding as of March 31, 2004, and an unlimited number of non-voting preferred shares, issuable in series, of which none were outstanding as of March 31, 2004.

Listing. Our outstanding common shares are listed on the Toronto Stock Exchange under the symbol "POU".

Dividends. Other than in connection with the Trust Disposition, we have not declared or paid dividends on our common shares in the three years ended December 31, 2003. Common shareholders may receive dividends when declared by our board of directors. Dividends may be paid in cash, stock or another form.

Fully paid. All of our outstanding common shares are fully paid and non-assessable. Any additional common shares we issue will also be fully paid and non-assessable.

Voting rights. Each common share is entitled to one vote at any meeting of our shareholders.

Other rights. We will notify common shareholders of any shareholders' meetings according to applicable laws. If we liquidate, dissolve or wind-up our business, whether voluntarily or involuntarily, common shareholders will share equally in the assets remaining after we pay our creditors.

Description of other indebtedness

SENIOR CREDIT FACILITY

We have a $203 million senior credit facility with a syndicate of Canadian chartered banks which matures on March 31, 2005, subject to extension. If the Proposed Acquisition is completed, we expect borrowings available under our senior credit facility to be increased by approximately $47 million to $250 million. The facility is secured by a first floating charge over substantially all of our and our material subsidiaries' present and future property, a fixed charge on some of our and our material subsidiaries' oil and gas properties, and a security interest in all of our and our material subsidiaries' personal property. Our obligations are also guaranteed by each of our material subsidiaries.

We pay interest under the facility at prime rates, U.S. base rates and libor rates plus the applicable margin on any amount outstanding, depending upon the amount of borrowings available under the facility and in what form money is borrowed under the facility. We are required to pay fees under the facility, including banker's acceptance fees and fees related to the unused portion of the facility and fees to the agent for, and members of, the banking syndicate.

The facility contains a number of covenants that restrict our ability and the ability of our material subsidiaries to:

- sell, lease or otherwise dispose of assets;
- incur additional debt;
- guarantee obligations of others;
- prepay or change the terms of other debt;
- pay dividends or make other distributions;
- redeem or repurchase capital stock;
- create liens on assets;
- make investments, loans or advances; engage in mergers or consolidations;
- change our business;
- enter into sale-leaseback transactions;
- enter into certain commodity or interest rate swap arrangements;
- make capital expenditures;
- create material subsidiaries; and
- engage in certain transactions with affiliates.

The facility includes the following events of default:

- non payment of principal, interest, fees or other amounts due;
- violation of covenants, obligations and undertakings;
- inaccuracies of representations and warranties;
- bankruptcy or insolvency;
- cross default;

- ceasing to carry on business;
- material judgments against us or our material subsidiaries;
- invalidity of any guarantee, security interest or other loan document;
- sale of all or substantially all of our assets;
- events or conditions which could reasonably be expected to have a material adverse effect on us; and
- a change of control.

SENIOR NOTES DUE 2010

We have U.S.$175 million aggregate principal amount of our existing 7⅞% senior notes due 2010 outstanding. The indenture governing these notes contains substantially identical covenants and events of default to those contained in the indenture governing the notes offered by this prospectus supplement.

MORTGAGE

Our wholly owned subsidiary, 910083 Alberta Ltd., has a mortgage in the principal amount of approximately $6.7 million on a building owned by it. We are currently seeking buyers for this building and will use the proceeds from the sale of the building to repay the amount outstanding under the mortgage in its entirety.

DRILLING RIG INDEBTEDNESS

As of March 31, 2004, we had drilling rig indebtedness of approximately $4.3 million. This indebtedness is secured by the drilling rigs to which this indebtedness relates.

Description of the notes

The terms of our 8⅞% Senior Notes due 2014, which we refer to as the "notes", are described below. Our debt securities are described generally in the accompanying prospectus. The following description of the particular terms of the notes supplements, and to the extent inconsistent, replaces the description of the general terms and provisions of our debt securities included in the accompanying prospectus. You can find the definitions of certain terms used in this description under the subheading "—Certain definitions". In this section, the word "Paramount" refers only to Paramount Resources Ltd. and not to any of its subsidiaries or partnerships.

Paramount will issue the notes under the indenture that is described in the accompanying prospectus, or the "base indenture", between Paramount and Bank of Nova Scotia Trust Company of New York, as trustee, as supplemented by a first supplemental indenture to be entered into by Paramount and the trustee relating to the notes. We refer to the base indenture, as supplemented by the supplemental indenture, as the "indenture". The notes will be issued as a separate series of debt securities under the indenture, and accordingly will vote as a separate series from other series of debt securities on matters under the indenture. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of the notes. Copies of the indenture are available as set forth below under "—Additional information". Certain defined terms used in this description but not defined below under "—Certain definitions" have the meanings assigned to them in the indenture. References to "U.S.$" are to United States dollars and to "Cdn.$" are to Canadian dollars.

The registered Holder of a note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the indenture.

Brief description of the notes

The notes:

- are general obligations of Paramount;
- are equal in right of payment to all existing and future senior Indebtedness of Paramount;
- are senior in right of payment to any permitted future subordinated Indebtedness of Paramount;
- are unsecured except for a pledge of the Mirror Notes; and
- are effectively subordinated to all secured Indebtedness of Paramount, the Mirror Note Issuers and the Guarantors, including the Credit Agreement, to the extent of the value of the assets securing such secured Indebtedness.

Principal, maturity and interest

Paramount may issue an unlimited principal amount of notes under the supplemental indenture and U.S.$125.0 million will be issued in this offering. Paramount may issue additional notes under the supplemental indenture from time to time after this offering. Any offering of additional notes is subject to the covenant described below under the caption "—Certain covenants—Incurrence of indebtedness and issuance of preferred stock". The notes and any additional notes subsequently issued under the supplemental indenture will be treated as a single series for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. For purposes of this section, except for the covenant described under "—Certain covenants—Incurrence of indebtedness and issuance of preferred stock," references to the notes include such additional notes, if any. Paramount

will issue notes in denominations of U.S.$1,000 and integral multiples of U.S.$1,000. The notes will mature on July 15, 2014.

Interest on the notes will accrue at the rate of 8⅞% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2005. Paramount will make each interest payment to the Holders of record on the immediately preceding January 1 and July 1. For purposes of disclosure under the *Interest Act* (Canada), the yearly rate of interest to which interest is calculated under a note for any period in any calendar year (the "Calculation Period") is equivalent to the rate payable under a note in respect of the Calculation Period multiplied by a fraction the numerator of which is the actual number of days in such calendar year and the denominator of which is the actual number of days in the Calculation Period.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of receiving payments on the notes

If a Holder has given wire transfer instructions to Paramount in writing at least 10 calendar days prior to the applicable payment date, Paramount will pay all principal, interest and premium, if any, on that Holder's notes in accordance with those instructions. All other payments on notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless Paramount elects to make interest payments by check mailed to the Holders at their address set forth in the register of Holders.

Paying agent and registrar for the notes

The trustee will initially act as paying agent and registrar. Paramount may change the paying agent or registrar without prior notice to the Holders of the notes, and Paramount or any of its Subsidiaries may act as paying agent or registrar.

Transfer and exchange

A Holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all transfer taxes due on transfer. Paramount is not required to transfer or exchange any note selected for redemption. Also, Paramount is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Mirror notes

Upon closing of the offering of the notes, we will advance U.S.$125.0 million to Paramount Finance Ltd., our wholly-owned subsidiary, which is a single purpose company incorporated to participate in this transaction. Paramount Finance Ltd. will issue to us a Mirror Note in the principal amount of U.S.$125.0 million.

Paramount Finance Ltd. will lend the U.S.$125.0 million received from us to Paramount Resources, which will issue to Paramount Finance Ltd. a Mirror Note in the principal amount of U.S.$125.0 million. The Paramount Resources Mirror Note and the related Mirror Note Guarantees will be pledged to Paramount by Paramount Finance Ltd. to secure Paramount Finance Ltd.'s obligations under its Mirror Note. In turn, Paramount will pledge the Paramount Finance Ltd. Mirror Note, its interest in the Paramount Resources Mirror Note and the related Mirror Note Guarantees to secure performance of Paramount's obligations under the notes.

The obligations of Paramount Finance Ltd. to Paramount under its Mirror Note and the obligations of Paramount Resources to Paramount Finance Ltd. under its Mirror Note will be initially guaranteed by each existing Restricted Subsidiary of Paramount other than the Mirror Note Issuers.

Optional redemption

At any time prior to July 15, 2007, Paramount may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture at a redemption price of 108.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; *provided* that

(1) at least 65% of the aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by Paramount and its Subsidiaries); and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

If Paramount becomes obligated to pay any Additional Amounts as a result of a change in the laws or regulations of Canada or any Canadian Taxing Authority, or a change in any official position regarding the application or interpretation thereof, which is publicly announced or becomes effective on or after the date of the supplemental indenture, Paramount may, at its option, redeem the notes, in whole but not in part, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

Except pursuant to the preceding paragraphs, the notes will not be redeemable at Paramount's option prior to July 15, 2009.

After July 15, 2009, Paramount may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on July 15 of the years indicated below:

Year	Percentage
2009	104.438%
2010	102.958%
2011	101.479%
2012 and thereafter	100.000%

Mandatory redemption

Paramount is not required to make mandatory redemption or sinking fund payments with respect to the notes.

Offer to repurchase

Change of control

If a Change of Control occurs, Paramount will be required to offer to repurchase all or any part (equal to U.S.$1,000 or an integral multiple of U.S.$1,000) of each Holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, Paramount will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase. Within 30 days following any Change of Control, Paramount will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to

repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. Paramount will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, Paramount will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such conflict.

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

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by Paramount.

The paying agent will promptly mail to each Holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each new note will be in a principal amount of U.S.$1,000 or an integral multiple of U.S.$1,000.

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

If a Change of Control Offer is made, there can be no assurance that Paramount will have available, or will be able to obtain from third parties, funds sufficient to pay for all or any of the notes that might be delivered by Holders seeking to accept the Change of Control Offer. In addition, there can be no assurance that in the event of a Change of Control Paramount will be able to obtain any consents necessary to consummate the Change of Control Offer from the lenders under agreements governing any outstanding Indebtedness that may prohibit the offer.

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

Paramount will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by Paramount and purchases all notes properly tendered and not withdrawn under the Change of Control Offer.

The definition of Change of Control includes a reference to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of Paramount and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the reference

under applicable law. Accordingly, whether or not Paramount is required to offer to repurchase notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Paramount and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset sales

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

(1) Paramount (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets, properties or Equity Interests issued or sold or otherwise disposed of;

(2) the fair market value is set forth in an officers' certificate delivered to the trustee; and

(3) at least 75% of the consideration received in the Asset Sale by Paramount or such Restricted Subsidiary is in the form of cash, Cash Equivalents, Liquid Securities or Permitted Assets. For purposes of this provision, each of the following will be deemed to be cash:

   (a) any liabilities, as shown on Paramount's or such Restricted Subsidiary's most recent balance sheet, of Paramount or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes, any Mirror Note, any Mirror Note Guarantee or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases Paramount or such Restricted Subsidiary from further liability; and

   (b) any securities, notes or other obligations received by Paramount or any such Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by Paramount or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

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

(1) to repay or prepay Indebtedness of Paramount or a Restricted Subsidiary that is not subordinated to the notes, any Mirror Note, any Mirror Note Guarantee or any Subsidiary Guarantee;

(2) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Oil and Gas Business;

(3) to make a capital expenditure; or

(4) to acquire other long-term assets or properties that are used or useful in the Oil and Gas Business.

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

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute "Excess Proceeds". When the aggregate amount of Excess Proceeds exceeds U.S.$10.0 million, Paramount will make an offer (an "Asset Sale Offer") to all Holders of notes and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be

equal to 100% of principal amount plus accrued and unpaid interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Paramount may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

Paramount will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, Paramount will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such conflict.

Selection and notice

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

(1) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

No notes of U.S.$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

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

Certain covenants

Set forth below are certain covenants that are contained in the indenture.

Restricted payments

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

(1) declare or pay any dividend or make any other payment or distribution on account of Paramount's Equity Interests (including, without limitation, any payment on account of such Equity Interests in connection with any merger or consolidation involving Paramount) or to the direct or indirect holders of Paramount's Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Paramount);

(2) purchase, retract, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Paramount), in whole or in part, any Equity Interests of Paramount (other than any such Equity Interests owned by Paramount or a Restricted Subsidiary);

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the notes, any Mirror Note, any Mirror Note Guarantee or any Subsidiary Guarantee, except for (i) a payment of interest at the Stated Maturity thereof or of principal not earlier than one year prior to the Stated Maturity thereof and (ii) any such Indebtedness owed to Paramount or a Restricted Subsidiary; or

(4) make any Restricted Investment;

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

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) Paramount would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least U.S.$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "—Incurrence of indebtedness and issuance of preferred stock"; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Paramount and its Restricted Subsidiaries after the Issue Date (excluding Restricted Payments permitted by clauses (2), (3) and (8) of the next succeeding paragraph), is less than the sum, without duplication, of:

   (a) 50% of the Consolidated Net Income of Paramount for the period (taken as one accounting period) from the beginning of the fiscal quarter commencing July 1, 2004 to the end of Paramount's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a loss, less 100% of such loss), *plus*

   (b) 100% of the aggregate net cash proceeds received by Paramount since the Issue Date as a contribution to its common equity capital or from the issue or sale of Equity Interests of Paramount (other than Disqualified Stock and other than sales of Equity Interests to a Restricted Subsidiary) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of Paramount that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of Paramount) plus the aggregate net cash proceeds received by Paramount at the time of such conversion or exchange, *plus*

   (c) to the extent that any Restricted Investment that was made after the Issue Date is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment, *plus*

   (d) upon a redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the lesser of (i) the fair market value of Paramount's proportionate interest in such Subsidiary immediately

following such redesignation, and (ii) the aggregate amount of Paramount's Investments in such Subsidiary to the extent such Investments were excluded from or otherwise reduced the sum of clauses (a), (b) and (c) immediately above and were not previously repaid or otherwise reduced.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the indenture;

(2) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of Paramount, any Mirror Note Issuer or any Guarantor or of any Equity Interests of Paramount in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of Paramount) of, Equity Interests of Paramount (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3)(b) of the preceding paragraph;

(3) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of Paramount, any Mirror Note Issuer or any Guarantor with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Paramount or any Restricted Subsidiary of Paramount held by any member of Paramount's, or any of its Restricted Subsidiaries', management, directors or employees pursuant to any management equity subscription agreement, stock option agreement or similar agreement or upon the death, disability or termination of employment of such directors, officers or employees; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed U.S.$2.0 million in any calendar year (with up to an additional U.S.$2.0 million of unused amounts from any year available to be used in the following year);

(5) repurchases of Equity Interests deemed to occur upon the exercise of stock options or warrants if the Equity Interests represent a portion of the exercise price thereof and repurchases of Equity Interests deemed to occur upon the withholding of a portion of the Equity Interests granted or awarded to an employee to pay for the taxes payable by such employee upon such grant or award;

(6) the payment of dividends on Disqualified Stock issued after the date of the supplemental indenture pursuant to the terms thereof as in effect on the date of issuance; *provided* that such Disqualified Stock was issued in accordance with the covenant described below under the caption "—Incurrence of indebtedness and issuance of preferred stock";

(7) the purchase, redemption, acquisition, cancellation or other retirement for nominal value per right of any rights granted to all the holders of common stock of Paramount pursuant to any shareholders' rights plan adopted for the purpose of protecting stockholders from unfair takeover tactics;

(8) payments by Paramount or any Restricted Subsidiary in respect of Indebtedness of Paramount or any Restricted Subsidiary owed to Paramount or another Restricted Subsidiary;

(9) the repurchase of subordinated Indebtedness of Paramount at a purchase price no greater than 101% of the principal amount of such subordinated Indebtedness in the event of a "Change of

Control" in accordance with provisions similar to the covenant described under "—Offer to repurchase—Change of control"; *provided* that, prior to or simultaneously with such repurchase, Paramount has made the Change of Control Offer, if required, with respect to the notes and has repurchased all notes validly tendered for payment in connection with such Change of Control Offer;

(10) the repurchase, redemption or other acquisition or retirement for value of Equity Interests of Paramount or any Restricted Subsidiary of Paramount held by the estate of any Person who had a 'key man' life insurance policy maintained by Paramount or any Restricted Subsidiary out of the proceeds received by Paramount or such Restricted Subsidiary under such policy; or

(11) the making of other Restricted Payments in an aggregate amount not to exceed U.S.$20.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Paramount or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors.

Incurrence of indebtedness and issuance of preferred stock

Paramount will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (in any such case, "incur") any Indebtedness (including Acquired Debt), and Paramount will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however*, that Paramount may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Mirror Note Issuers and the Guarantors may incur Indebtedness or issue preferred stock, if the Fixed Charge Coverage Ratio for Paramount's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.5 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock or Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period; *provided further* that a Restricted Subsidiary may issue preferred stock to Paramount or to a Wholly Owned Restricted Subsidiary of Paramount, or in a transaction or series of related transactions consisting of a sale of such Restricted Subsidiary, *provided* that immediately after giving effect to such sale, neither Paramount nor any of its Subsidiaries owns any Equity Interests of such Restricted Subsidiary and such sale complies with the covenant described under "—Offer to repurchase—Asset sales".

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

(1) the incurrence by Paramount and its Restricted Subsidiaries of Indebtedness, letters of guarantee, tender cheques and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of guarantee, tender cheques and letters of credit being deemed to have a principal amount equal to the maximum potential liability of Paramount and its Restricted Subsidiaries thereunder) not to exceed the greater of

   (a) Cdn.$256.0 million, *less* the aggregate amount of all Net Cash Proceeds of Asset Sales that have been applied by Paramount or any of its Restricted Subsidiaries since the date of the indenture to permanently repay any term Indebtedness under a Credit Facility pursuant to the

covenant described above under the caption "—Offer to repurchase—Asset sales" and *less* the aggregate amount of all commitment reductions with respect to any revolving credit borrowings under a Credit Facility that have been made by Paramount or any of its Restricted Subsidiaries since the date of the indenture as a result of the application of Net Cash Proceeds of Asset Sales pursuant to the covenant described above under the caption "—Offer to repurchase—Asset sales"; and

(b) Cdn.$30.0 million plus 20% of Adjusted Consolidated Net Tangible Assets as of the date on which such additional Indebtedness is incurred, and after giving effect to the incurrence of such Indebtedness (and including any assets acquired with such Indebtedness);

(2) Existing Indebtedness;

(3) the incurrence by Paramount, the Mirror Note Issuers and the Guarantors of Indebtedness represented by the notes to be issued on the date of the supplemental indenture, the Mirror Notes, the Mirror Note Guarantees and the Subsidiary Guarantees;

(4) the incurrence by Paramount, any Mirror Note Issuer or any Guarantor of Indebtedness and Obligations represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction, development or improvement of property, plant or equipment, including Facilities, used in the business of Paramount, such Mirror Note Issuer or such Guarantor, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed U.S.$10.0 million at any time outstanding;

(5) the incurrence by Paramount or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3) (with respect to the notes only) or (5) of this paragraph;

(6) the incurrence by Paramount or any of its Restricted Subsidiaries of intercompany Indebtedness or the issuance of preferred stock between or among Paramount and any of its Restricted Subsidiaries; *provided, however*, that

(a) if Paramount, any Mirror Note Issuer or any Guarantor is the obligor on such Indebtedness or preferred stock, such Indebtedness or preferred stock must be unsecured; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness or preferred stock being held by a Person other than Paramount or a Restricted Subsidiary of Paramount and (ii) any sale or other transfer of any such Indebtedness or preferred stock to a Person that is not either Paramount or a Restricted Subsidiary of Paramount, will be deemed, in each case, to constitute an incurrence of such Indebtedness or the issuance of preferred stock by Paramount or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the incurrence by Paramount, any Mirror Note Issuer or any Guarantor of Hedging Obligations, *provided* that such Hedging Obligations were incurred in the ordinary course of business and not for speculative purposes;

(8) the guarantee by Paramount, any Mirror Note Issuer or any Guarantor of Indebtedness of Paramount or a Restricted Subsidiary of Paramount that was permitted to be incurred by another provision of this covenant or required to be incurred by the indenture;

(9) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock or preferred stock in the form of additional shares of the same class of Disqualified Stock or preferred stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock or preferred stock for purposes of this covenant; *provided*, in each such case, that the amount thereof is included in Fixed Charges of Paramount as accrued;

(10) the incurrence by Paramount, any Mirror Note Issuer or any Guarantor of Indebtedness and Obligations under Oil and Gas Hedging Contracts, *provided* that such Oil and Gas Hedging Contracts were entered into in the ordinary course of business and not for speculative purposes;

(11) production imbalances arising in the ordinary course of business;

(12) Indebtedness and Obligations in connection with one or more standby letters of credit, Guarantees, performance or surety bonds or other reimbursement obligations, in each case, issued in the ordinary course of business and not in connection with the borrowing of money or the obtaining of an advance or credit (other than advances or credit for goods and services in the ordinary course of business and on terms and conditions that are customary in the Oil and Gas Business, and other than the extension of credit represented by such letter of credit, Guarantee or performance or surety bond itself);

(13) the incurrence by Paramount, any Mirror Note Issuer or any Guarantor of Non-Recourse Purchase Money Debt in an amount not to exceed U.S.$20.0 million outstanding at any one time;

(14) the incurrence by Paramount or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (14), not to exceed U.S.$25.0 million;

(15) Indebtedness of Paramount, any Restricted Subsidiary, any Mirror Note Issuer or any Guarantor arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business;

(16) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(17) Indebtedness of Paramount or any Restricted Subsidiary (including letters of credit), for the account of Paramount or any such Restricted Subsidiary incurred in order to provide security for environmental reclamation obligations to governmental agencies, workers' compensation claims, payment obligations in connection with self-insurance or similar statutory and other requirements in the ordinary course of business; and

(18) customary indemnification, adjustment of purchase price or similar obligations, including title insurance, of Paramount or any Restricted Subsidiary, in each case, incurred in connection with the acquisition or disposition of any assets of Paramount or any such Restricted Subsidiary (other than Guarantees incurred by any Person acquiring all or any portion of such assets for the purpose of financing such acquisition).

For purposes of determining compliance with this "Incurrence of indebtedness and issuance of preferred stock" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (18) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, Paramount will be permitted to classify, or later reclassify, such item of Indebtedness in whole or in part in any manner that

complies with this covenant, including by allocation to more than one other type of Indebtedness. Indebtedness under Credit Facilities outstanding on the date on which notes are first issued and authenticated under the supplemental indenture will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt above.

The maximum amount of Indebtedness that Paramount or any Restricted Subsidiary may incur pursuant to this covenant will not be deemed to be exceeded solely as the result of fluctuations in the exchange rates of currencies. In determining the amount of Indebtedness outstanding under one of the clauses above, the outstanding principal amount of any particular Indebtedness of any Person shall be counted only once and any obligation of such Person or any other Person arising under any Guarantee, Lien, letter of credit or similar instrument supporting such Indebtedness shall be disregarded so long as it is permitted to be incurred by the Person or Persons incurring such obligation.

None of Paramount, any Mirror Note Issuer or any Guarantor will incur any additional Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of such Person unless such additional Indebtedness is also contractually subordinated in right of payment to the notes, the applicable Mirror Note, or the applicable Mirror Note Guarantee or Subsidiary Guarantee, as the case may be, on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness solely by virtue of being unsecured.

Liens

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

Dividend and other payment restrictions affecting restricted subsidiaries

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

(1) pay dividends or make any other distributions on its Capital Stock to Paramount or any of its Restricted Subsidiaries or pay any indebtedness owed to Paramount or any of its Restricted Subsidiaries;

(2) make loans or advances to Paramount or any of its Restricted Subsidiaries; or

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

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

(1) agreements governing Existing Indebtedness or Credit Facilities as in effect or which come into effect on the date of the supplemental indenture and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of those agreements, *provided* that the amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are not materially less favorable to holders of notes, as determined by Paramount's Board of Directors in their reasonable and good faith judgment;

(2) the indenture, the notes, the Mirror Notes, the Mirror Note Guarantees, the Subsidiary Guarantees and the Mirror Note Pledge Agreements;

(3) applicable law;

(4) any instrument governing Indebtedness or Capital Stock of a Person acquired by Paramount or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;

(5) customary non-assignment provisions in contracts and leases entered into in the ordinary course of business;

(6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (3) of the preceding paragraph;

(7) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(8) Permitted Refinancing Indebtedness, including any encumbrances or restrictions imposed by any amendments or refinancings of the contracts, instruments and obligations referred to in this covenant, *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially less favorable to holders of notes, as determined by Paramount's Board of Directors in their reasonable and good faith judgment;

(9) agreements existing on the Issue Date;

(10) Liens securing Indebtedness otherwise permitted to be incurred under the provisions of the covenant described above under the caption "—Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, partnership agreements, asset sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business; and

(12) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business.

Amalgamation, merger, consolidation or sale of assets

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

(1) either (a) Paramount is the surviving corporation; or (b) the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of Canada or any province thereof or the United States, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made expressly assumes all the obligations of Paramount under the notes, the

indenture and the Mirror Note Pledge Agreements pursuant to agreements reasonably satisfactory to the trustee;

(3) immediately after such transaction no Default or Event of Default exists;

(4) Paramount or the Person formed by or surviving any such amalgamation, consolidation or merger (if other than Paramount), or to which such sale, assignment, transfer, conveyance or other disposition has been made:

  (a) will have Consolidated Net Worth immediately after the transaction equal to or greater than the Consolidated Net Worth of Paramount immediately preceding the transaction; and

  (b) will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least U.S.$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Incurrence of indebtedness and issuance of preferred stock"; and

(5) the transactions will not result in Paramount or the surviving corporation being required to make any deduction or withholding on account of taxes as described below under the caption "—Payment of additional amounts" that Paramount would not have been required to make had such transactions or series of transactions not occurred; and

(6) in case Paramount shall consolidate, amalgamate or merge with or into any other Person or, except for conveyances or transfers to one or more Wholly-Owned Restricted Subsidiaries, convey or transfer its properties and assets substantially as an entirety to any Person, Paramount has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger, conveyance or transfer and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the covenant described under "—Certain covenants—Amalgamation, merger, consolidation or sale of assets" and that all conditions precedent contained in the indenture relating to such transaction have been complied with.

In addition, Paramount may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person. This "Amalgamation, merger, consolidation or sale of assets" covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among Paramount, any Mirror Note Issuer and any Guarantor.

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

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(2) either:

  (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such amalgamation, consolidation or merger assumes all the obligations of that Mirror Note Issuer or Guarantor, as the case may be, under the indenture, its Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee, as the case may be, and the Mirror Note Pledge Agreements, if applicable, pursuant to a supplemental indenture reasonably satisfactory to the trustee; or

(b) the Net Cash Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture; and

(3) in case any Mirror Note Issuer or Guarantor shall consolidate, amalgamate or merge with or into any other Person or, except for conveyances, transfers or leases to one or more Wholly-Owned Restricted Subsidiaries, convey, transfer or lease its properties and assets substantially as an entirety to any Person, Paramount has delivered to the trustee an officers' Certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the covenant described under "—Certain covenants—Amalgamation, merger, consolidation or sale of assets" and that all conditions precedent contained in the indenture relating to such transaction have been complied with.

The Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee, as the case may be, of a Guarantor or a Mirror Note Issuer, as the case may be, will be released

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of Paramount, if the sale or other disposition complies with the "Asset Sales" provisions of the indenture; or

(2) in connection with any sale of all of the Capital Stock of a Subsidiary to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of Paramount, if the sale complies with the "Asset Sales" provisions of the indenture; or

(3) if Paramount designates any Restricted Subsidiary that is a Guarantor or a Mirror Note Issuer as an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture.

Transactions with affiliates

Paramount will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on terms that are no less favorable to Paramount or the relevant Restricted Subsidiary than those that would have reasonably been expected to have been obtained in a comparable transaction at such time by Paramount or such Restricted Subsidiary with an unrelated Person; and

(2) Paramount delivers to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$5.0 million, a resolution of the Board of Directors set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$15.0 million, an opinion as to the fairness to Paramount or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing in Canada or the United States selected by Paramount.

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

(1) any employment agreement entered into by Paramount or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of Paramount or such Restricted Subsidiary or approved by a majority of the disinterested members of the Board of Directors of Paramount (or a committee comprised solely of disinterested directors);

(2) transactions between or among Paramount and/or its Restricted Subsidiaries;

(3) transactions with a Person that is an Affiliate of Paramount solely because Paramount owns an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary compensation or fees to, or the execution of customary expense reimbursement, indemnification or similar arrangements with, Paramount or any of its Restricted Subsidiaries or any of their respective directors and officers in the ordinary course of business;

(5) sales of Equity Interests (other than Disqualified Stock) to Affiliates of Paramount; and

(6) Restricted Payments and Permitted Investments that are permitted by the provisions of the indenture described above under the caption "—Restricted payments".

Issuance of subsidiary guarantees and mirror note guarantees

If Paramount forms or acquires any Restricted Subsidiary that is not a Guarantor or a Mirror Note Issuer and that incurs any Indebtedness (other than Indebtedness owing to Paramount, a Mirror Note Issuer or a Guarantor), or if any Restricted Subsidiary that is not a Guarantor or a Mirror Note Issuer guarantees any Indebtedness of Paramount, a Guarantor or a Mirror Note Issuer (other than a Guarantee of Indebtedness owing to Paramount, a Guarantor or a Mirror Note Issuer), in each case, in excess of U.S.$2.0 million, then Paramount shall:

(1) cause such Restricted Subsidiary to (i) execute and deliver to the trustee a supplemental indenture substantially in the form contemplated by the indenture pursuant to which such Restricted Subsidiary shall unconditionally guarantee (each, a "Subsidiary Guarantee") all of Paramount's obligations under the notes and the indenture on the terms set forth in the indenture or (ii) unconditionally guarantee to the Person to whom the Mirror Notes are issued (each, a "Mirror Note Guarantee") all of the Mirror Note Issuers' obligations under the Mirror Notes pursuant to documentation substantially in the form delivered by the Mirror Note Guarantors on the Issue Date; and

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

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

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

or such Restricted Subsidiary may request to evidence the termination of the applicable Subsidiary Guarantee or Mirror Note Guarantee.

Designation of restricted and unrestricted subsidiaries

The Board of Directors of Paramount may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by Paramount and its Restricted Subsidiaries in the Subsidiary so designated will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the first paragraph of the covenant described above under the caption "—Restricted payments" or Permitted Investments, as determined by Paramount. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of Paramount may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default.

Business activities

Paramount will not, and will not permit any Restricted Subsidiary to, engage in any business other than the Oil and Gas Business, except to such extent as would not be material to Paramount and its Restricted Subsidiaries taken as a whole.

Payments for consent

Paramount will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture, the notes, the Mirror Notes, the Mirror Note Guarantees, the Subsidiary Guarantees or the Mirror Note Pledge Agreements unless such consideration is offered to be paid and is paid to all Holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Payment of additional amounts

All payments made by Paramount or on behalf of Paramount with respect to the notes will be made without withholding or deduction for any Taxes imposed by any Canadian Taxing Authority, unless required by law or the interpretation or administration thereof by the relevant Canadian Taxing Authority. If Paramount is obligated to withhold or deduct any amount on account of Taxes imposed by any Canadian Taxing Authority from any payment made with respect to the notes, Paramount will:

(1) make such withholding or deduction;

(2) remit the full amount deducted or withheld to the relevant government authority in accordance with the applicable law;

(3) pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction will not be less than the amount the Holder would have received if such Taxes had not been withheld or deducted;

(4) furnish to the trustee for the benefit of the Holders, within 30 days after the date the payment of any Taxes is due, an official receipt of the relevant government authorities for all amounts deducted or withheld, or if such receipts are not obtainable, other evidence of payment by Paramount of those Taxes;

(5) indemnify and hold harmless each Holder, other than as described below, for the amount of:

(a) any Taxes (including interest and penalties) paid by such Holder as a result of payments made on or with respect thereto, and

(b) any Taxes imposed with respect to any reimbursement under the preceding clause (a) or this clause (b), but excluding any such Taxes on such Holder's net income; and

(6) at least 15 days prior to each date on which any Additional Amounts are payable, deliver to the trustee an officers' certificate setting forth the calculation of the Additional Amounts to be paid and such other information as the trustee may request to enable the trustee to pay such Additional Amounts to Holders on the payment date.

Notwithstanding the foregoing, Paramount will not pay Additional Amounts to a Holder in respect of a beneficial owner of a note:

- imposed or withheld by reason of the failure of the Holder or beneficial owner to complete, execute and deliver to Paramount any form or document to the extent applicable to such Holder or beneficial owner that may be required by law or by reason of administration of such law and which is reasonably requested in writing to be delivered by Paramount in order to enable Paramount to make payments on the notes without deduction or withholding for Taxes, or with deduction of withholding of a lesser amount, which form or document shall be delivered within 60 days of a written request therefor by Paramount;
- in any case where such beneficial owner is not a resident (within the meaning of the Canada-United States Income Tax Convention) of the United States of America, in excess of the amount that Paramount would have been obligated to pay hereunder if such beneficial owner were resident in the United States of America for the purposes of such treaty;
- where Paramount does not deal at arm's length (within the meaning of the Income Tax Act (Canada)) at the time of making such payment with such beneficial owner, or
- where such beneficial owner is subject to such Taxes by reason of its being connected with Canada or any province or territory thereof otherwise than by the mere acquisition, holding or disposition of notes or the receipt of payments thereunder.

If, following any payment made by Paramount to any Holder of notes under paragraph (3) of the second preceding paragraph or any indemnity payment made by Paramount to any Holder of notes under paragraph (5) of the second preceding paragraph, such Holder shall receive or be granted a refund, credit, allowance or remission in respect of the Taxes resulting in the payment thereof and such Holder is able to readily identify such refund, credit, allowance or remission as being attributable to such Taxes, such Holder shall, to the extent that it can do so without prejudice to the retention of the amount of such refund, credit, allowance or remission and without prejudice to the right of such Holder to obtain any other relief or allowance that may be available to it, reimburse Paramount with such amount as such Holder, acting reasonably, determines to be the amount of money attributable to such refund, credit, allowance or remission that may be paid by such Holder to leave it (after such reimbursement) in no worse position than it would have been in had there been no such deduction or withholding or payment of Taxes, which resulted in the payment under paragraph (3) or (5) of the second preceding paragraph. Such Holder may charge to Paramount (and may deduct from amounts reimbursable to Paramount hereunder) a fee reasonably determined by such Holder to compensate it for any additional effort expended or cost incurred in determining such credit or remission or allocating it to Paramount. Notwithstanding the foregoing, no Holder shall be obligated to disclose to Paramount, or any of its agents, any computation made by such Holder in connection with this paragraph or any information regarding such Holder's tax status or affairs.

Any reference in the indenture to the payment of principal, premium, if any, interest, Change of Control or Asset Sale purchase price, redemption price or any other amount payable under or with respect to any note, will be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof. Paramount's obligation to make payments of Additional Amounts will survive any termination of the indenture or the defeasance of any rights thereunder.

For a discussion of the exemption from Canadian withholding taxes applicable to payments under or with respect to the notes, see "Certain Canadian and U.S. income tax consequences—Canadian federal income tax consequences".

Reports

Whether or not required by the SEC, so long as any notes are outstanding, Paramount will furnish, or cause the trustee to furnish, to the Holders of notes, within the time periods (except as otherwise noted below) specified in the SEC's rules and regulations:

(1) (a) all annual financial information that would be required to be contained in a filing with the SEC on Forms 20-F or 40-F, as applicable (or any successor forms), containing the information required therein (or required in such successor form) including a report on the annual financial statements by Paramount's certified independent accountants; and

(b) for the first three quarters of each year, all quarterly financial information that would be required to be contained in quarterly reports under the laws of Canada or any province thereof or provided to securityholders of a company with securities listed on the Toronto Stock Exchange, whether or not the Company has any of its securities so listed, in each case including a "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and

(2) within 10 Business Days after the occurrence of any event that would give rise to a requirement to file information regarding such event with the SEC on Form 8-K, all information that would otherwise be required to be filed with the SEC on Form 8-K if Paramount were required to file such reports.

If Paramount has designated any of its Subsidiaries as Unrestricted Subsidiaries, then, to the extent such Unrestricted Subsidiaries in the aggregate accounted for more than 10% of Consolidated Cash Flow or the consolidated total assets of Paramount and its Restricted Subsidiaries for or as of the end of the reporting period, the quarterly and annual financial information required by the preceding paragraph must include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of Paramount and its Restricted Subsidiaries excluding the Unrestricted Subsidiaries.

In addition, whether or not required by the SEC, Paramount will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's rules and regulations (unless the SEC will not accept such a filing).

Events of default and remedies

Each of the following is an Event of Default:

(1) default for 30 days in the payment when due of interest on the notes;

(2) default in payment when due of the principal of, or premium, if any, on the notes;

(3) failure by Paramount or any of its Restricted Subsidiaries to comply with the provisions described under the captions "—Offer to repurchase—Change of control", "—Offer to repurchase—Asset sales", or "—Certain covenants—Amalgamation, Merger, consolidation or sale of assets";

(4) failure by Paramount or any of its Restricted Subsidiaries to comply with any of the other agreements in the indenture for 60 days after written notice has been given to Paramount by the trustee or to Paramount and the trustee by Holders of at least 25% of the outstanding principal amount of the notes;

(5) default under any other mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by Paramount or any of its Restricted Subsidiaries (or the payment of which is guaranteed by Paramount or any of its Restricted Subsidiaries) whether such Indebtedness or Guarantee now exists, or is created after the date of the indenture, if that default:

(a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the applicable grace or cure period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default, which remains outstanding or the maturity of which has been so accelerated, aggregates U.S.$10.0 million or more, *provided* that if any such default is cured or waived or any such acceleration is rescinded, or such Indebtedness is repaid, within a period of 30 days from the continuation of such default beyond the applicable grace or cure period or the occurrence of such acceleration, as the case may be, such Event of Default under the indenture and any consequential acceleration of the notes shall be automatically rescinded, so long as such rescission does not conflict with any judgment or decree;

(6) failure by Paramount or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of U.S.$10.0 million in cash (net of amounts covered by insurance or bonded), which judgments are not paid, discharged or stayed for a period of 60 days after the date of entry of such judgment or, in the event such judgments have been bonded to the extent required pending appeal, after the date such judgments become non-appealable;

(7) except as permitted by the indenture, any Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect and such failure shall not be cured within 10 days (it being understood that if any Mirror Note or Mirror Note Guarantee becomes invalid or unenforceable, such invalidity may be cured by causing each obligor under such Mirror Note or Mirror Note Guarantee to directly guarantee the notes pursuant to a Subsidiary Guarantee) or any Significant Subsidiary or any Person acting on behalf of any such Significant Subsidiary, shall deny or disaffirm its obligations under its Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee (other than by reason of release of such Significant Subsidiary from its Subsidiary Guarantee or Mirror Note Guarantee in accordance with the indenture);

(8) except as contemplated by their terms, the Mirror Note Pledge Agreements cease to be in full force and effect or cease to give the trustee, in any material respect, the Liens, rights, powers and privileges purported to be created thereby; and

(9) certain events of bankruptcy or insolvency described in the indenture with respect to Paramount or any of its Significant Subsidiaries.

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

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

The Holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may on behalf of the Holders of all of the notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the notes.

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

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of Paramount, any Mirror Note Issuer or any Guarantor, as such, will have any liability for any obligations of Paramount, any Mirror Note Issuer or any Guarantor under the notes, the indenture, the Mirror Notes, the Mirror Note Guarantees, the Subsidiary Guarantees or the Mirror Note Pledge Agreements, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the United States federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

Legal Defeasance and Covenant Defeasance

Paramount may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes, all of the Mirror Note Issuers' obligations discharged with respect to the Mirror Notes and all obligations of each Guarantor discharged with respect to its Mirror Note Guarantee or Subsidiary Guarantee, as the case may be ("Legal Defeasance"), except for:

(1) the rights of Holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on such notes when such payments are due from the trust referred to below;

(2) Paramount's obligations with respect to the notes concerning issuing temporary notes, replacing mutilated, destroyed, lost or stolen notes, maintaining an office or agency for payment and segregating and holding money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee, and the obligations of Paramount and the Guarantors that have issued Subsidiary Guarantees in connection therewith; and

(4) the Legal Defeasance provisions of the indenture.

In addition, Paramount may, at its option and at any time, elect to have the obligations of Paramount and the Guarantors that have issued Subsidiary Guarantees released with respect to certain covenants that are described in the indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "—Events of default and remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) Paramount must irrevocably deposit with the trustee, in trust, for the benefit of the Holders of the notes, cash in U.S. dollars, Government Securities, or a combination of cash in U.S. dollars and Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants in Canada or the United States selected by Paramount, to pay the principal of, or interest and premium, if any, on the outstanding notes on the stated maturity or on the applicable redemption date, as the case may be, and Paramount must specify whether the notes are being defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, Paramount has delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that (a) Paramount has received from, or there has been published by, the Internal Revenue Service and each applicable Canadian Taxing Authority a ruling or (b) since the Issue Date, there has been a change in the applicable Canadian and United States federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to Canadian and United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, Paramount has delivered to the trustee (a) an opinion of counsel reasonably acceptable to the trustee confirming that the Holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred and (b) an opinion of counsel qualified to practice in Canada or a ruling from the Canada Customs and Revenue Agency to the effect that Holders of the outstanding notes who are not resident in Canada will not recognize income, gain or loss for Canadian federal, provincial or territorial income tax or other tax purposes as a result of such deposit and defeasance and will only be subject to Canadian federal and provincial income tax and other taxes on the same amounts, in the same manner and at the same times as would have been the case had such deposit and defeasance not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which Paramount or any of its Restricted Subsidiaries is a party or by which Paramount or any of its Restricted Subsidiaries is bound;

(6) Paramount must deliver to the trustee an officers' certificate stating that the deposit was not made by Paramount with the intent of preferring the Holders of notes over the other creditors of Paramount with the intent of defeating, hindering, delaying or defrauding creditors of Paramount or others; and

(7) Paramount must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent under the indenture relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next three succeeding paragraphs, the indenture, the notes, the Mirror Notes, the Mirror Note Guarantees, the Subsidiary Guarantees or the Mirror Note Pledge Agreements may each be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing Default or lack of compliance with any provision of the indenture, the notes, the Mirror Notes, the Mirror Note Guarantees, the Subsidiary Guarantees or the Mirror Note Pledge Agreements may be waived with the consent of the Holders of at least a majority in principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting Holder):

(1) reduce the principal amount of notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the time for payment of any note or alter the provisions with respect to the redemption of the notes (other than provisions relating to the covenants described above under the caption "—Offer to repurchase");

(3) reduce the rate of or change the time for payment of interest on any note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on the notes (except a rescission of acceleration of the notes by the Holders of at least a majority in aggregate principal amount of the notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in a currency other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of Holders of notes to receive payments of principal of, or interest or premium, if any, on the notes;

(7) waive a redemption payment with respect to any note;

(8) amend, change or modify in any material respect the obligation of Paramount to make and consummate a Change of Control Offer after the occurrence of a Change of Control or to make or consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;

(9) modify or change any provision of the indenture or the related definitions affecting the ranking of the notes, any Subsidiary Guarantee, any Mirror Note or any Mirror Note Guarantee in any manner adverse to the Holders of the notes;

(10) modify the provisions of the section entitled "—Certain covenants—Payments for consent" in any manner adverse to a Holder of notes;

(11) release any Mirror Note Issuer or Guarantor that is a Significant Subsidiary from any of its obligations under its Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee, as the case may be, or the indenture otherwise than in accordance with the terms of the indenture;

(12) modify or change any provision of the Mirror Note Pledge Agreements affecting the priority of the claims of the trustee and the Holders of the notes in and to the Mirror Notes in any manner adverse to the Holders of the notes;

(13) directly or indirectly release any Lien on the Mirror Notes except in compliance with the terms of the indenture and the Mirror Note Pledge Agreements; or

(14) make any change in the preceding amendment and waiver provisions.

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

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of Paramount's, a Mirror Note Issuer's or a Guarantor's obligations to Holders of notes in the case of a merger or consolidation or sale of all or substantially all of Paramount's assets or to comply with the provisions of "—Certain Covenants—Issuance of subsidiary guarantees and mirror note guarantees";

(4) to release any Guarantor from its obligations under its Subsidiary Guarantee or Mirror Note Guarantee (to the extent permitted by the indenture);

(5) to make any change that would provide any additional rights or benefits to the Holders of notes or that does not adversely affect the legal rights under the indenture of any such Holder; or

(6) to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act.

Satisfaction and discharge

The indenture will cease to be of further effect as to all notes issued thereunder, when

(1) either:

  (a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to Paramount, have been delivered to the trustee for cancellation; or

  (b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and Paramount has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient to pay and discharge the principal, premium, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which Paramount or any Restricted Subsidiary is a party or by which Paramount or any Restricted Subsidiary is bound;

(3) Paramount or any Guarantor has paid or caused to be paid all sums payable by Paramount under the indenture; and

(4) Paramount has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or the redemption date, as the case may be.

In addition, Paramount must deliver an officers' certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the trustee

If the trustee becomes a creditor of Paramount, any Mirror Note Issuer or any Guarantor, the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the Trust Indenture Act, the trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any Holder of notes, unless such Holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Governing law

The indenture, the notes, the Mirror Notes, the Mirror Note Guarantees and the Mirror Note Pledge Agreements will be governed by and construed in accordance with the laws of the State of New York.

Additional information

Anyone who receives this prospectus supplement may obtain a copy of the indenture without charge by writing to Paramount Resources Ltd., Suite 4700, 888 Third Street S.W., Calgary, Alberta T2P 5C5, Attention: Corporate Secretary.

Book-entry, delivery and form

The Depository Trust Company ("DTC") will act as securities depository for the notes. The notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.

The following is based on information furnished by DTC:

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC

holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

Purchases of notes under the DTC system must be made by or through Direct Participants, which will receive a credit for such notes on DTC's records. The ownership interest of each actual purchaser of notes represented by a registered global security ("Note Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Note Beneficial Owners will not receive written confirmation from DTC of their purchase, but Note Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Note Beneficial Owner entered into the transaction. Transfers of ownership interests in the registered global security representing notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Note Beneficial Owners. Note Beneficial Owners will not receive certificates representing their ownership interests in the registered global security representing notes, except in the event that use of the book-entry system for the notes is discontinued or upon the occurrence of certain other events described in this prospectus supplement.

To facilitate subsequent transfers, the registered global security representing notes deposited by Direct Participants with DTC is registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the registered global security with DTC and its registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Note Beneficial Owners of the registered global security representing the notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Note Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Note Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the registered global security representing the notes. Under its usual procedures, DTC mails an Omnibus Proxy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the registered global security representing the notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Paramount or the trustee on the payable date in

accordance with their respective holdings shown on DTC's records. Payments by Participants to Note Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the trustee, or Paramount, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Paramount or the trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Note Beneficial Owners shall be the responsibility of Direct and Indirect Participants. Neither Paramount nor the trustee will have any responsibility or liability for the disbursements of payments in respect of ownership interests in the notes by DTC or the Direct or Indirect Participants or for maintaining or reviewing any records of DTC or the Direct or Indirect Participants relating to ownership interests in the notes or the disbursement of payments in respect of the notes.

DTC may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to Paramount or the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, notes in definitive form are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Paramount believes to be reliable, but Paramount takes no responsibility for the accuracy of this information.

Certain definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person,

(1) Indebtedness of any other Person existing at the time such other Person is amalgamated or merged with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person amalgamating or merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person;

provided that any Indebtedness of such other Person that is redeemed, defeased, retired or otherwise repaid at the time of or immediately upon consummation of the transaction by which such other Person is amalgamated or merged with or into, or becomes a Restricted Subsidiary of, such specified Person, or such assets are acquired by such specified Person, will not be Acquired Debt.

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

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

(1) discounted future net revenues from proved oil and gas reserves of Paramount and its Restricted Subsidiaries calculated in accordance with SEC guidelines (before any provincial, state or federal income taxes), as confirmed by a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd.,

Sproule Associates Limited and Sproule Associates Inc.) in a reserve report prepared as of the end of Paramount's most recently completed fiscal year, as *increased by*, as of the date of determination, the discounted future net revenues of (a) estimated proved oil and gas reserves acquired since the date of such year-end reserve report, and (b) estimated oil and gas reserves attributable to extensions, discoveries and other additions and upward revisions of estimates of proved oil and gas reserves since the date of such year-end reserve report due to exploration, development or exploitation activities, in each case, calculated in accordance with SEC guidelines (utilizing the prices utilized in such year-end reserve report), *and decreased by*, as of the date of determination, the estimated discounted future net revenues of (c) estimated proved oil and gas reserves produced or disposed of since the date of such year-end reserve report and (d) reductions in estimated proved oil and gas reserves attributable to downward revisions of estimates of proved oil and gas reserves since the date of such year-end reserve report due to changes in geological conditions or other factors that would, in accordance with standard industry practice, cause such revisions, in each case calculated in accordance with SEC guidelines (utilizing the prices in such year-end reserve report), *provided* that, in the case of each of the determinations made pursuant to clauses (a) through (d), such increases and decreases shall be as estimated by Paramount's petroleum engineers, unless there is a Material Change as a result of such acquisitions, dispositions or revisions, in which case the discounted future net revenues utilized for purposes of this clause (1) shall be confirmed in a written report of a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd., Sproule Associates Limited and Sproule Associates Inc.) delivered to the trustee (which report shall be reasonably satisfactory in form and substance to the trustee),

(2) the capitalized costs that are attributable to oil and gas properties of Paramount and its Restricted Subsidiaries to which no proved oil and gas reserves are attributable, based on Paramount's books and records as of a date no earlier than the date of Paramount's most recent available internal annual or quarterly financial statements,

(3) the Consolidated Net Working Capital of Paramount on a date no earlier than the date of Paramount's most recently available internal annual or quarterly financial statements, and

(4) the greater of (a) the net book value of other tangible assets of Paramount on a date no earlier than the date of Paramount's most recently available internal annual or quarterly financial statements or (b) the appraised value, as estimated by independent appraisers, of other tangible assets of Paramount and its Restricted Subsidiaries, in either case, as of the date of Paramount's most recently available internal annual or quarterly financial statements,

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

(1) minority interests,

(2) any net gas balancing liabilities of Paramount and its Restricted Subsidiaries reflected in Paramount's most recently available internal annual or quarterly financial statements,

(3) the discounted future net revenues, calculated in accordance with SEC guidelines utilizing the prices utilized in Paramount's year- end reserve report, attributable to reserves that are required to be delivered to third parties to fully satisfy the obligations of Paramount and its Restricted Subsidiaries with respect to Volumetric Production Payments on the schedules specified with respect thereto,

(4) the discounted future net revenues, calculated in accordance with SEC guidelines, attributable to reserves subject to Dollar-Denominated Production Payments that, based on the estimates of production and price assumptions included in determining the discounted future net revenues

specified in the first clause (1) above, would be necessary to fully satisfy the payment obligations of Paramount and its Restricted Subsidiaries with respect to Dollar-Denominated Production Payments on the schedules specified with respect thereto, and

(5) the discounted future net revenues, calculated in accordance with SEC guidelines utilizing the prices utilized in Paramount's year-end reserve report, attributable to reserves that are subject to participation, partnership, vendor financing or other agreements then in effect, or that are otherwise required to be delivered to third parties, but only to the extent that such third parties are then entitled to such reserves, or in the case of vendor financing or other encumbrances reduced only by the value of such encumbrances.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control unless there is a Beneficial Owner that is not an Affiliate of such Person holding a greater percentage of such Voting Stock. For purposes of this definition, the terms "controlling", "controlled by" and "under common control with" have correlative meanings.

"*Asset Sale*" means:

(1) the sale, lease, conveyance or other disposition of any assets or rights, other than sales of inventory in the ordinary course of business and other than the granting of a Lien in accordance with the indenture; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of Paramount and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "—Offer to repurchase—Change of control" and/or the provisions described above under the caption "—Certain covenants—Amalgamation, Merger, consolidation or sale of assets" and not by the provisions of the indenture described above under the caption "—Offer to repurchase—Asset Sales"; and

(2) the issuance of Equity Interests in any of Paramount's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries (other than directors' qualifying shares or shares required to be owned by other Persons pursuant to applicable law).

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

(1) any single transaction or series of related transactions that involves assets having a fair market value of less than U.S.$2.5 million;

(2) a transfer of assets between or among Paramount and its Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary to Paramount or to another Restricted Subsidiary;

(4) any disposition of worn-out, obsolete, retired or otherwise unsuitable or excess assets or equipment or facilities or of assets or equipment no longer used or useful, in each case, in the ordinary course of business;

(5) the sale or lease of equipment, inventory, including current production, accounts receivable or other assets in the ordinary course of business;

(6) the sale or other disposition of cash or Cash Equivalents;

(7) any transfer of properties or assets (including Capital Stock) that is governed by the provisions of the indenture described under "—Certain covenants—Amalgamation, Merger, consolidation or sale of assets"; or that is a Restricted Payment that is permitted by the covenant described above under the caption "—Certain covenants—Restricted payments";

(8) the sale or transfer (whether or not in the ordinary course of business) of oil and gas properties or direct or indirect interests in real property, *provided* that at the time of such sale or transfer such properties do not have associated with them any proved reserves;

(9) the abandonment, farm-out, lease or sublease of developed or undeveloped oil and gas properties in the ordinary course of business or resulting from any pooling, unit or farm-out agreement entered into in the ordinary course of business;

(10) the trade or exchange by Paramount or any Restricted Subsidiary of any oil and gas property owned or held by Paramount or such Restricted Subsidiary for any oil and gas property owned or held by another Person;

(11) the sale or transfer of hydrocarbons or other mineral products in the ordinary course of business; and

(12) a Permitted Investment.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors of the corporation (or any duly authorized committee thereof);

(2) with respect to a partnership, the board of directors of the corporation that is the general partner or managing partner of the partnership; and

(3) with respect to any other Person, the board or committee of such Person serving a similar function.

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

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

"*Capital Stock*" means:

(1) in the case of a corporation, association or other business entity, any and all shares, interests, participations, rights or other equivalents (however designated and whether or not voting) of corporate stock;

(2) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(3) any other interest or participation that confers on a Person rights in, or other equivalents of or interests in, the equity of the issuing Person or otherwise confers the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means:

(1) United States or Canadian dollars;

(2) securities issued by or directly and fully guaranteed or insured by the federal governments of Canada or the United States of America or any agency or instrumentality thereof (*provided* that the full faith and credit of the federal governments of Canada or the United States is pledged in support of those securities) having maturities of not more than 365 days from the date of acquisition;

(3) certificates of deposit and eurodollar time deposits with maturities of 365 days or less from the date of acquisition, bankers' acceptances with maturities not exceeding 365 days and overnight bank deposits, in each case, with any lender party to the Credit Agreement or with any United States commercial bank or any Canadian chartered bank having capital and surplus in excess of U.S.$500 million;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper rated at least P-1 by Moody's Investors Service, Inc. or A-1 by Standard & Poor's Rating Services or R-1 by Dominion Bond Rating Service and in each case maturing within 270 days after the date of acquisition; and

(6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

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

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Paramount and its Restricted Subsidiaries, taken as a whole, to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act);

(2) the adoption or approval by the Board of Directors of Paramount or its stockholders of a plan relating to the liquidation or dissolution of Paramount;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) (other than a Permitted Holder) becomes the Beneficial Owner, directly or indirectly, of more than 50% the Voting Stock of Paramount, measured by voting power rather than number of shares; or

(4) during any two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of Paramount was approved pursuant to a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*:

(1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*

(2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received in respect of interest pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; *plus*

(4) exploration expenses for such Person and its Restricted Subsidiaries for such period, to the extent that any such exploration expenses were deducted in computing such Consolidated Net Income; *plus*

(5) depreciation, depletion, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, depletion, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*

(6) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business; and *minus*

(7) to the extent included in determining Consolidated Net Income, the sum of:

  (a) the amount of deferred revenues that are amortized during such period and that are attributable to reserves that are subject to Volumetric Production Payments; and

  (b) amounts recorded in accordance with GAAP as repayments of principal and interest pursuant to Dollar-Denominated Production Payments,

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

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

(1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders;

(3) the cumulative effect of a change in accounting principles will be excluded;

(4) any non-cash charges related to an impairment test write-down under GAAP will be excluded; and

(5) to the extent not otherwise included, any gain on the disposition of a Restricted Investment will be included.

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

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

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

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

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

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

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, prior to the date on which the notes

mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require Paramount to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Sale will not constitute Disqualified Stock if the provisions applicable to such Capital Stock either (i) are no more favorable to the holders of such Capital Stock than the provisions contained in the covenants described under "—Offer to repurchase—Asset sales" and "—Offer to repurchase—Change of control" and such Capital Stock specifically provides that the issuer will not repurchase or redeem any of such Capital Stock pursuant to such provisions prior to Paramount's repurchase of such of the notes as are required to be repurchased pursuant to the covenants described under "—Offer to repurchase—Asset sales" and "—Offer to repurchase—Change of control", or (ii) provide that Paramount may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Certain covenants—Restricted payments".

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

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

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

"*Existing Indebtedness*" means all Indebtedness of Paramount and its Subsidiaries (other than Indebtedness under the Credit Agreement) in existence on the date of the supplemental indenture.

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

"*fair market value*" means, with respect to any asset, property or service, the price (after taking into account any related liabilities, costs or expenses) that could be negotiated in an arm's length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under pressure or compulsion to complete the transaction. Unless otherwise specified in the indenture, in the case of a transaction with respect to Paramount or any of its Restricted Subsidiaries exceeding U.S.$10.0 million, fair market value will be determined by the Board of Directors of Paramount acting in good faith.

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

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred

payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Interest Rate Agreements; *plus*

(2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest expense on Indebtedness of another Person that is guaranteed by such Person (other than such Person or its Restricted Subsidiaries) or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, to the extent the primary obligor is currently in default under such Indebtedness, whether or not such Guarantee or Lien is called upon; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of Disqualified Stock or preferred stock of such Person or any of its Restricted Subsidiaries, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, provincial, state and local statutory tax rate of such Person or any of its Restricted Subsidiaries, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

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

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

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through amalgamations, mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

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

"*Government Securities*" means direct non-callable obligations of, or obligations guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

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

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

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

"*Holder*" means a Person in whose name a note is registered.

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

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit, letters of guarantee or tender cheques (or reimbursement agreements in respect thereof);

(3) in respect of banker's acceptances;

(4) representing Capital Lease Obligations;

(5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable;

(6) representing any Hedging Obligations;

(7) in respect of Production Payments;

(8) in respect of Oil and Gas Hedging Contracts; or

(9) in respect of all conditional sale obligations and all obligations under title retention agreements, but excluding a title retention agreement to the extent it constitutes an operating lease under GAAP.

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

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

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount; and

(2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness.

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

(1) trade payables incurred in the ordinary course of business and payable in accordance with customary practice;

(2) deferred tax obligations;

(3) minority interests;

(4) uncapitalized interest; and

(5) non-interest bearing installment obligations and accrued liabilities incurred in the ordinary course of business.

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

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

"*Issue Date*" means June 29, 2004.

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

operating lease in accordance with GAAP and generally accepted accounting principles in the United States, as in effect on the Issue Date.

"Liquid Securities" means securities constituting (or immediately convertible into) no more than 7.5% of the outstanding securities of a class of securities that is publicly traded on the Toronto Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the Nasdaq Stock Market, the London Stock Exchange or the TSX Venture Exchange.

Securities meeting the requirements of the preceding sentence shall be treated as Liquid Securities from the date of receipt thereof until and only until the earlier of:

(1) the date on which such securities, or securities exchangeable for, or convertible into, such securities, are sold or exchanged for cash or Cash Equivalents, and

(2) 60 days following the date of receipt of such securities; *provided*, that, notwithstanding the foregoing, up to U.S.$2.0 million of securities (valued as of the date of receipt) received by Paramount or a Restricted Subsidiary in any 12 month period and which Paramount or such Restricted Subsidiary is restricted from selling freely pursuant to the applicable securities laws of Canada or any province thereof, shall not cease to be Liquid Securities as a result of this clause (2) until 180 days following the date of receipt of such securities.

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

(1) any acquisitions during the fiscal quarter of oil and gas reserves that have been audited by a Canadian or United States nationally recognized firm of independent petroleum engineers (which shall include McDaniel & Associates Consultants Ltd., Sproule Associates Limited and Sproule Associates Inc.) and on which a report or reports exist; and

(2) any disposition of properties held at the beginning of such quarter that have been disposed of as provided in the covenant described under the caption "—Asset sales".

"*Mirror Note Guarantee*" has the meaning set forth under "—Certain covenants—Issuance of subsidiary guarantees and mirror note guarantees."

"*Mirror Note Issuers*" means Paramount Finance Ltd. and Paramount Resources, a general partnership.

"*Mirror Note Pledge Agreements*" means, collectively the pledge agreements, dated the Issue Date pursuant to which (i) the Mirror Note issued by Paramount Resources to Paramount Finance Ltd. will be pledged to Paramount and (ii) the Mirror Note issued by Paramount Finance Ltd. to Paramount and Paramount's interest in the Mirror Note issued by Paramount Resources are pledged as security for all Obligations thereunder and under the notes and the indenture.

"*Mirror Notes*" means the promissory notes issued by Paramount Finance Ltd. and Paramount Resources evidencing Indebtedness equal in aggregate principal amount to that of the notes outstanding from time to time.

"Net Cash Proceeds" means, with respect to any Asset Sale, the proceeds therefrom in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received

in the form of cash or Cash Equivalents, or stock or other assets when disposed of for cash or Cash Equivalents, received by Paramount or any of the Restricted Subsidiaries from such Asset Sale, net of:

(1) brokerage commissions and other reasonable out-of-pocket fees and expenses (including fees and expenses of legal counsel, accountants and investment banks, sales commissions and relocation expenses) related to such Asset Sale;

(2) provisions for all taxes payable or required to be accrued in accordance with GAAP as a result of such Asset Sale;

(3) payments made to retire Indebtedness where payment of such Indebtedness is secured by a Lien on the assets or properties that are the subject of such Asset Sale;

(4) amounts required to be paid to any Person owning a beneficial interest in the assets or properties that are subject to the Asset Sale; and

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

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

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

(1) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and

(2) any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"*Non-Recourse Debt*" means Indebtedness:

(1) as to which neither Paramount nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; and

(2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of Paramount or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its stated maturity.

"*Non-Recourse Purchase Money Debt*" means Indebtedness incurred in connection with the acquisition by Paramount or any Mirror Note Issuer or Guarantor in the ordinary course of business of Facilities, and renewals and refinancings of such Indebtedness but only to the extent that the lenders with respect to such Indebtedness or such renewals and refinancings have a claim solely against the assets acquired with such Indebtedness and any improvements thereon and not against Paramount or any Restricted Subsidiary generally).

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, costs, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Oil and Gas Business*" means:

(1) the acquisition, exploration, development, operation and disposition of interests in oil, gas and other hydrocarbon properties,

(2) the gathering, marketing, treating, processing, storage, selling and transporting of any production from such interests or properties,

(3) the exploration for or development, extraction, production, treatment, processing, storage, transportation, refining or marketing and sale of oil, gas and other minerals and products produced in association therewith,

(4) the evaluation, participation in or pursuit of any other activity or opportunity that is primarily related to clauses (1) through (3) above, and

(5) any activity that is ancillary to, necessary or appropriate for or incidental to the activities described in clauses (1) through (4) of this definition,

provided that, in respect of Paramount, the determination of what reasonably constitutes a permissible Oil and Gas Business pursuant to clauses (1) to (5) above shall be made in good faith by the Board of Directors of Paramount.

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

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

(1) ownership interests in oil and gas properties, processing facilities or gathering systems or ancillary real property interests, and

(2) Investments in the form of or pursuant to operating agreements, processing agreements, farm-in agreements, farm-out agreements, development agreements, area of mutual interest agreements, unitization agreements, pooling agreements, joint bidding agreements, service contracts, joint

venture agreements, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements and other similar agreements with third parties.

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

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

"*Permitted Investments*" means, without duplication:

(1) any Investment in Paramount or in a Restricted Subsidiary of Paramount;

(2) any Investment in cash and/or Cash Equivalents;

(3) any Investment by Paramount or any Restricted Subsidiary of Paramount in a Person, if as a result of such Investment:

  (a) such Person becomes a Restricted Subsidiary of Paramount; or

  (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Paramount or a Restricted Subsidiary of Paramount;

(4) any Investment made as a result of the receipt of consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Offer to repurchase—Asset sales";

(5) any acquisition of assets or other Investments solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Paramount;

(6) Investments resulting from repurchases of the notes;

(7) any Investments received in compromise of obligations of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer;

(8) Hedging Obligations and Oil and Gas Hedging Contracts;

(9) Oil and Gas Investments;

(10) Investments existing on the date of the indenture and Investments made with the proceeds, including, without limitation, from sales or other dispositions, of such Investments and any other Investments made pursuant to this clause (10);

(11) (a) loans or advances made to any officer, director or employee of Paramount or any of its Restricted Subsidiaries in the ordinary course of business that are approved by the Board of Directors of the Company or a duly authorized officer, and (b) loans or advances made to

refinance loans, together with accrued interest thereon, made pursuant to this clause (11); *provided* such loans do not exceed U.S.$2.0 million at any one time outstanding; and

(12) other Investments in any Person having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (12) that are at the time outstanding not to exceed U.S.$15.0 million.

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

(1) Liens on assets of Paramount and any Subsidiary securing Indebtedness under Credit Facilities and Obligations in respect of such Indebtedness in an aggregate principal amount not to exceed the greater of the amounts set forth in subclauses (a) and (b) of clause (1) under "Certain covenants—Incurrence of indebtedness and issuance of preferred stock," plus U.S.$25.0 million;

(2) Liens in favor of Paramount, any of the Mirror Note Issuers or any of the Guarantors;

(3) Liens on property of a Person existing at the time such Person is amalgamated or merged with or into or consolidated with Paramount or any Restricted Subsidiary of Paramount; *provided* that such Liens were in existence prior to the contemplation of such amalgamation, merger or consolidation and do not extend to any assets other than those of the Person amalgamated or merged into or consolidated with Paramount or the Subsidiary;

(4) Liens securing Hedging Obligations and Oil and Gas Hedging Contracts;

(5) Liens securing the assets purchased by purchase money indebtedness;

(6) Liens to secure payment of royalties, revenue interests, net profits interests and preferential rights of purchase incurred in the ordinary course of business to the extent of the security interest in those underlying assets;

(7) Liens for any judgments rendered that do not constitute an Event of Default;

(8) Liens for any judgment rendered, or claim filed, against Paramount or any Restricted Subsidiary which are being contested in good faith by appropriate proceedings that do not constitute an Event of Default if during such contestation a stay of enforcement of such judgment or claim is in effect;

(9) Liens on property existing at the time of acquisition of the property by Paramount or any Restricted Subsidiary of Paramount, *provided* that such Liens were in existence prior to the contemplation of such acquisition;

(10) Liens incurred or deposits made to secure the performance of or otherwise in connection with statutory obligations, environmental reclamation obligations, bids, leases, government contracts, surety or appeal bonds, performance or return-of-money bonds or other obligations of a like nature incurred in the ordinary course of business;

(11) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled "—Certain covenants—Incurrence of indebtedness and issuance of preferred stock" covering only the assets acquired with such Indebtedness;

(12) Liens existing on the date of the supplemental indenture;

(13) Liens for taxes, workers' compensation, unemployment insurance and other types of social security, assessments or other governmental charges or claims that are not yet due and payable or, if due and payable and delinquent, that are being contested by Paramount or a Restricted

Subsidiary in good faith by appropriate proceedings promptly instituted and diligently concluded, *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

(14) Liens in pipelines or pipeline facilities that arise by operation of law;

(15) Liens arising under partnership agreements, oil and natural gas leases, overriding royalty agreements, net profits agreements, royalty trust agreements, master limited partnership agreements, farm-out agreements, division orders, utilization and pooling designations, declarations, orders and agreements, joint venture agreements, development agreements, operating agreements, production sales contracts (including security in respect of take or pay or similar obligations thereunder), area of mutual interest and other agreements, natural gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements and other similar agreements, or arising by operation of law, which in each of the foregoing cases are customary in the Oil and Gas Business, and easements, rights of way or other similar rights in land, *provided* that such Liens are not given in connection with borrowed money;

(16) Liens in oil, gas or other mineral property or products derived from such property to secure obligations incurred or Guarantees of obligations incurred in connection with or necessarily incidental to commitments of purchase or sale of, or the transportation, storage or distribution of, such property or the products derived from such property, *provided* that such Indebtedness is not given in connection with borrowed money;

(17) Liens in respect of any oil, gas or mineral property acquired after the date of the supplemental indenture (i) securing the costs and expenses incurred after the date of the supplemental indenture in connection with surveying, exploration, drilling, development, extraction, operation or production relating to or arising in connection with any such oil, gas or other mineral property or with the acquisition thereof, including costs incurred for the acquisition, construction, development, alteration, repair, improvement or operation of any and all Facilities relating to such property, or to projects, ventures or other arrangements of which such property forms a part or which relate to such property, whether or not such Facilities are in whole or in part located (or from time to time located) at or on such property, and all related costs of abandonment, or (ii) securing Indebtedness created, issued, incurred or assumed by Paramount or any of its Restricted Subsidiaries to provide funds for, or otherwise finance (directly or indirectly), the activities set forth above, if such Indebtedness is incurred prior to, during or within two years after the acquisition or completion of construction, development or other relevant activities referred to in clause (i) above and does not exceed the cost of such acquisition, construction, development or other activities, as applicable; *provided* that any such Lien shall be limited to the property that is the subject of the acquisition, construction, development or other relevant activities referred to above;

(18) Liens in favor of any federal government or any province, state or territory thereof or any municipality therein or any political subdivision, department, agency or instrumentality of any of them to secure the performance of any covenant or obligation to or in favor of or entered into at the request of such authorities where such security is required pursuant to any contract, statute or regulation or with respect to any franchise, grant, license or permit (including related to periodic payments in connection therewith) or arises by operation of law and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands held by Paramount, any of its Restricted Subsidiaries, any Mirror

Note Issuer or any Guarantor under government permits, leases or grants, *provided* that such Lien is not given in connection with borrowed money;

(19) Liens imposed by law that are incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, mechanics', landlords', materialmen's, employees', laborers', employers', suppliers', banks', builders', repairmen's and other like Liens;

(20) easements, rights-of-way, zoning restrictions and other similar charges, restrictions or encumbrances in respect of real property or immaterial imperfections of title that do not, in the aggregate, impair in any material respect the ordinary conduct of the business of Paramount and its Restricted Subsidiaries taken as a whole;

(21) Liens in connection with any Production Payments; *provided* that (i) such Liens are limited to the property that is the subject of such Production Payment; and (ii) either (x) such Production Payments were in existence on the Issue Date; (y) such Production Payments are entered into in connection with the acquisition of any property after the Issue Date and such Lien is created, incurred, issued or assumed in connection with the financing of, or within 90 days after the acquisition of, such property; or (z) such Production Payments do not exceed in the aggregate U.S.$5.0 million at any time outstanding;

(22) Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases;

(23) Liens incurred in the ordinary course of business of Paramount or any Subsidiary of Paramount with respect to obligations that do not in the aggregate exceed U.S.$5.0 million at any one time outstanding;

(24) Liens securing Permitted Refinancing Indebtedness in respect of Indebtedness that was secured by Permitted Liens and securing similar property; and

(25) Liens on any intercompany Indebtedness of a Restricted Subsidiary of Paramount (which Indebtedness shall be unsecured except by a pledge of any note or other evidence of intercompany Indebtedness of another Restricted Subsidiary of Paramount) granted as security for debt securities issued by Paramount; *provided* that the principal amount and interest rate of such intercompany Indebtedness subject to such Liens shall not exceed the principal amount and interest rate, respectively, of the debt securities issued by Paramount so secured;

provided, *however*, that none of the Liens identified in the foregoing clauses (1) through (12) and (14) through (25) shall constitute Permitted Liens to the extent any such Liens are on or cover any Mirror Note or Mirror Note Guarantee (other than Liens in respect of or established by any of the Mirror Note Pledge Agreements).

In the event that a Lien meets the criteria of more than one of the categories of Permitted Liens described in clauses (1) through (25) above, Paramount may classify, or later reclassify, such Lien in whole or in part in any manner that complies with this definition, including by allocation to more than one other type of Permitted Lien.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of Paramount or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew,

replace, defease or refund other Indebtedness of Paramount or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, a Mirror Note, a Mirror Note Guarantee or a Subsidiary Guarantee, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of the notes and is subordinated in right of payment to the notes or such Mirror Note, Mirror Note Guarantee or Subsidiary Guarantee, as the case may be, on terms at least as favorable to the Holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(4) such Indebtedness is incurred either by Paramount or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

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

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

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

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

"*SEC*" means the United States Securities and Exchange Commission.

"*Securities Act*" means the United States Securities Act of 1933, as amended.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Issue Date.

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

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

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other

business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

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

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

"*Unrestricted Subsidiary*" means (i) 910083 Alberta Ltd. (unless designated as a Restricted Subsidiary following the Issue Date in accordance with the terms of the indenture) and (ii) any other Subsidiary of Paramount that is designated by the Board of Directors of Paramount as an Unrestricted Subsidiary pursuant to a resolution of such Board of Directors, but only to the extent that such other Subsidiary:

(1) at the time of such designation, has no Indebtedness other than (i) Non-Recourse Debt and (ii) Indebtedness that could be guaranteed by Paramount in compliance with the covenant set forth under the caption "—Certain covenants—Restricted payments" (and the amount of such indebtedness under this clause (ii) shall be deemed to be an Investment by Paramount for purposes of such covenant);

(2) is not party to any agreement, contract, arrangement or understanding with Paramount or any Restricted Subsidiary of Paramount unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to Paramount or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Paramount;

(3) is a Person with respect to which neither Paramount nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Paramount or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of Paramount as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of the resolutions of the Board of Directors of Paramount giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Certain covenants—Designation of restricted and unrestricted subsidiaries". If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Paramount as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Certain covenants—Incurrence of indebtedness and issuance of preferred stock", Paramount will be in default of such covenant. The Board of Directors of Paramount may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Paramount of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described

under the caption "—Certain covenants—Incurrence of indebtedness and issuance of preferred stock", calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; (2) no Default or Event of Default would be in existence following such designation; and (3) if required pursuant to the covenant described under "—Certain covenants—Issuance of subsidiary guarantees and mirror note guarantees," such Unrestricted Subsidiary becomes a Guarantor pursuant to such covenant within 10 Business Days of the date on which it is so designated.

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

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

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

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

(2) the then outstanding principal amount of such Indebtedness.

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

Credit ratings

The notes have been assigned preliminary ratings of "B" by Standard & Poor's Corporation and "B3" by Moody's Investors Service, Inc. Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, debt securities rated "B" are more vulnerable to nonpayment than obligations rated "BB", but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (–) sign to show relative standing within the major rating categories.

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

The credit ratings mentioned herein are not a recommendation to purchase, hold or sell the notes offered in this prospectus supplement and do not comment as to market price or suitability for a particular investor. We can not assure investors that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant and, if any such rating is so revised or withdrawn, we are not under any obligation to update this prospectus supplement or the prospectus.

Interest coverage

Interest payments on our debt, based upon our consolidated financial statements, for the twelve month periods ended December 31, 2003 and March 31, 2004 were $19.9 million and $17.2 million, respectively, before giving effect to the offering of notes, and would have been $34.8 million and $32.1 million, respectively, after giving effect to the offering of notes. Our loss, based on our consolidated financial statements and before deduction of interest on long term debt and income tax, for the twelve month periods ended December 31, 2003 and March 31, 2004 was $36.7 million and $48.1 million, respectively. Our loss would have prevented us from covering interest charges for the twelve month periods ended December 31, 2003 and March 31, 2004 by $56.7 million and $65.3 million, respectively, before giving effect to the offering of notes, and $71.6 million and $80.2 million, respectively, after giving effect to the offering of notes. The foregoing does not give effect to the Trust Disposition (for periods prior to the Trust Disposition) or the Proposed Acquisition, each of which is described and reflected in our pro forma consolidated financial statements incorporated by reference in the prospectus.

The following table shows our actual and adjusted interest coverage ratios in respect of EBITDAX calculated for the twelve month periods ended December 31, 2003 and March 31, 2004. The actual ratios are based upon our consolidated financial statements and the adjusted ratios give effect to this offering of notes. The following does not give effect to the Trust Disposition (for periods prior to the Trust Disposition) or the Proposed Acquisition, each of which is described and reflected in our pro forma consolidated financial statements incorporated by reference in the prospectus.

	Twelve months ended December 31, 2003	
	Actual	**Adjusted**
Interest coverage on debt (times) — EBITDAX[1]	9.9	5.7

(1) EBITDAX divided by interest on debt. You should refer to note 1 to our Selected Consolidated Financial Data table on page S-22 for a definition of EBITDAX, a description of the use of EBITDAX and its intended purpose, and a reconciliation of EBITDAX to net income.

	Twelve months ended March 31, 2004	
	Actual	**Adjusted**
Interest coverage on debt (times) — EBITDAX[1]	11.3	6.1

(1) EBITDAX divided by interest on debt. You should refer to note 1 to our Selected Consolidated Financial Data table on page S-22 for a definition of EBITDAX, a description of the use of EBITDAX and its intended purpose, and a reconciliation of EBITDAX to net income.

Refer to our consolidated financial statements incorporated by reference in the prospectus. The interest coverages do not purport to be indicative of interest coverages for any future periods.

Certain Canadian and U.S. income tax consequences

The following summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective holder and no representation with respect to the tax consequences to any particular holder is made. Accordingly, prospective holders should consult with their own tax advisers for advice with respect to the income tax consequences of acquiring, holding and disposing of the notes having regard to their particular circumstances.

CANADIAN FEDERAL INCOME TAX CONSEQUENCES

The following describes the principal Canadian federal income tax considerations as of the date of this prospectus, generally applicable to a purchaser of notes (a "Non-Resident Holder") who, for the purposes of the *Income Tax Act* (Canada) (the "ITA") at all relevant times, is not, and is not deemed to be, resident in Canada, does not use or hold and is not deemed to use or hold the notes in carrying on a business in Canada, deals at arm's length with Paramount, and is not an insurer that carries on an insurance business in Canada and elsewhere.

This summary takes into account the current provisions of the ITA and the regulations passed pursuant to the ITA (the "ITA Regulations") in force as of the date of this prospectus, any proposals to amend the ITA and the ITA Regulations publicly announced by the date of this prospectus by the federal Minister of Finance and the current published administrative practices of the Canada Revenue Agency. This description is not exhaustive of all Canadian federal income tax considerations and does not anticipate any changes in law whether by legislative, governmental or judicial action other than the passage of such publicly announced proposed amendments to the ITA or ITA Regulations, nor does it take into account provincial, territorial or foreign tax considerations which may differ from the Canadian federal income tax considerations described in this prospectus.

This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of notes. Prospective holders should consult their own Canadian tax advisors with respect to the Canadian income tax considerations associated with their participation in this offering.

Pursuant to the ITA, interest paid or credited or deemed to be paid or credited by Paramount on the notes as the case may be, to a Non-Resident Holder will be exempt from Canadian withholding tax. No other taxes on income (including taxable capital gains) will be payable pursuant to the ITA by a Non-Resident Holder in respect of the acquisition, ownership or disposition of the notes.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following describes the material United States federal income tax consequences that may be relevant to the purchase, ownership and disposition of notes by U.S. Holders (as defined below) who acquire the notes at original issue for cash and hold the notes as a "capital asset" under Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). This summary does not consider any tax consequences arising under United States federal gift and estate taxes or under the tax laws of any state, local or foreign jurisdiction. In addition, it does not include all of the rules that may affect the United States tax treatment of your investment in the notes. For example, special rules not discussed here may apply to you if you are:

- a broker-dealer, a dealer in securities or currencies, or a financial institution;
- a pass-through entity (e.g., a partnership) or an investor who holds the notes through a pass-through entity (e.g., a partner in a partnership);

- an insurance company;
- a tax-exempt organization;
- subject to the alternative minimum tax provisions of the Code;
- holding the notes as part of a hedge, straddle or other risk reduction or constructive sale transaction, conversion transaction or a synthetic security or other integrated transaction;
- a U.S. Holder whose "functional currency" is not the U.S. dollar; or
- a holder who is not a U.S. Holder.

Furthermore, the discussion below is based upon the provisions of the Code and United States Treasury regulations (including final, temporary and proposed regulations) promulgated thereunder, rulings and judicial decisions as of the date of this prospectus, and those authorities may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurance that the United States Internal Revenue Service ("IRS") will take a similar view as to any of the U.S. federal income tax consequences described in this summary.

Persons considering the purchase, ownership or disposition of notes should consult their tax advisors with regard to the application of the United States, Canadian and other income tax laws to their particular situations. This summary may not cover your particular circumstances because it does not consider foreign, state or local tax rules, disregards certain United States federal tax rules and does not describe future changes in United States federal tax rules. Please consult your tax advisor rather than relying on this general description.

United States Holders

If you are a "U.S. Holder", as defined below, this section applies to you.

Definition of U.S. Holder. You are a "U.S. Holder" if you hold the notes and you are:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or of any of its political subdivisions;
- an estate, the income of which is subject to United States federal income tax regardless of its source; or
- a trust, if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust was in existence on August 20, 1996 and has properly elected under applicable United States Treasury regulations to continue to be treated as a United States person.

Payments of interest. Interest received on the notes is generally taxable to you as ordinary interest income. You generally must pay United States federal income tax on the interest on the notes:

- when it accrues, if you use the accrual method of accounting for United States federal income tax purposes; or
- when you receive it, if you use the cash method of accounting for United States federal income tax purposes.

In additional to interest on the notes, you will be required to include in income any additional amounts and any taxes withheld from interest payments, notwithstanding that you do not in fact receive such withheld taxes. You may be entitled to claim a credit against your U.S. federal income tax liability, or a deduction in computing your U.S. federal taxable income, for any Canadian withholding taxes. You are encouraged to consult your tax advisor regarding the availability of the foreign tax credit for your particular circumstances.

Sale or other taxable disposition of the notes. You will recognize a gain or loss on the sale, exchange, redemption, repurchase, retirement or other taxable disposition of a note. The amount of your gain or loss equals the difference between the amount you receive for the note (in cash or other property, valued at fair market value), minus the amount attributable to accrued interest on the note (which will be taxable as interest income if not previously included in gross income), minus your adjusted tax basis in the note. Your initial tax basis in a note equals the price you paid for the note.

Any such gain or loss on a taxable disposition of a note as described in the foregoing paragraph will generally constitute a capital gain or loss and will be a long-term capital gain or loss if you held such note for more than one year. Under current law, net capital gains of non-corporate taxpayers under certain circumstances are taxed at lower rates than items of ordinary income. The deduction of capital losses is subject to certain limitations. Any such gain or loss will generally be treated as U.S. source gain or loss.

Information reporting and backup withholding. In general, information reporting requirements will apply to payments of interest on, and the proceeds of the sale or other disposition of, a Note to U.S. Holders other than certain exempt recipients (including, among others, corporations and certain tax-exempt organizations). In addition, if you are not an exempt recipient, you may be subject to backup withholding tax, currently at a rate of 28%, with respect to such payments. The backup withholding tax will not apply to you if you provide your taxpayer identification number ("TIN") in the prescribed manner unless: the TIN you provided is incorrect; you are notified by the IRS that you have failed to properly report payments of interest and dividends; or in some circumstances, you fail to certify under penalties of perjury that you have furnished a correct TIN and that you are not subject to backup withholding.

If the backup withholding tax does apply to you, you may use the amounts withheld as a refund or credit against your United States federal income tax liability as long as you provide certain information to the IRS. A U.S. Holder who does not provide a correct TIN may be subject to penalties imposed by the IRS.

Underwriting

Under the terms and subject to the conditions contained in an underwriting agreement between us and the underwriters, the underwriters named below, for whom UBS Securities LLC is acting as representative, have severally agreed to purchase, and we have agreed to sell to them, severally, the principal amount of notes listed opposite their respective names:

Underwriters	Principal amount of notes
UBS Securities LLC	U.S.$ 56,250,000
Harris Nesbitt Corp.	56,250,000
CIBC World Markets	6,250,000
Scotia Capital (USA) Inc.	6,250,000
Total	U.S.$125,000,000

The underwriters are offering the notes subject to their acceptance of the notes from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the notes offered by this prospectus supplement are subject to the approval of specified legal matters by their counsel and to other conditions. The underwriters are obligated to take and pay for all of the notes offered by this prospectus supplement, if any notes are purchased under the underwriting agreement. The obligations of the underwriters under the underwriting agreement may, in certain circumstances, be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of specified events.

This offering is being made by prospectus in the United States. The notes will not be qualified for sale in Canada and may not be offered or sold, directly or indirectly, in Canada or to residents of Canada except (i) through a registered dealer or pursuant to an exemption from the dealer registration requirements; and (ii) pursuant to an exemption from the prospectus requirements of applicable Canadian securities laws.

The underwriters initially propose to offer some of the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement. After the underwriters have made a reasonable effort to sell all of the notes at the initial public offering price, the offering price may be decreased, and further changed from time to time, to an amount not greater than the initial offering price and the compensation realized by the underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the notes is less than the gross proceeds paid by the underwriters to us.

The following table shows the underwriting commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	Paid by the company
Per note	2.00%

We estimate that the total expenses payable by us in connection with this offering, other than the underwriting commissions referred to above, will be approximately U.S.$900,000. These expenses primarily consist of legal, accounting, printing and filing fees related to the offering.

The notes are a new issue of securities with no established trading market. We do not intend to apply for a listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by some of the underwriters that they presently intend to make a market for the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market making activities at any time without notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

Until the distribution of the notes is completed, rules of the SEC and Alberta Securities Commission may limit the ability of the underwriters to bid for and purchase the notes. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize the price of the notes. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the notes.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in those transactions or that those transactions, once commenced, will not be discontinued without notice.

We and the underwriters have agreed to indemnify each other against specified liabilities, including liabilities under Canadian provincial securities legislation and the United States Securities Act of 1933, as amended.

UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc. are each affiliates of banks which are lenders to us under our senior credit facility. Harris Nesbitt Corp. is an affiliate of a bank that has provided a lending commitment to us under a bridge facility obtained to finance the Proposed Acquisition. Banks with which UBS Securities LLC, CIBC World Markets Corp. and Scotia Capital (USA) Inc. are affiliates have also provided commitments under the bridge facility. The bridge facility will not be drawn upon if this offering of notes is completed prior to the closing of the Proposed Acquisition. Additionally, Harris Nesbitt Corp. is an affiliate of a bank that is a lender to Paramount Oil and Gas Ltd., a significant shareholder of ours. Accordingly, we may be considered a connected issuer of each of UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc. in connection with this offering for the purposes of applicable Canadian securities laws.

As of March 31, 2004, we were indebted to the banks of which UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc. are affiliates in the aggregate amount of $105.9 million under our senior credit facility. We are in compliance with all material terms of the agreements governing our senior credit facility. From time to time the banks have waived compliance by us with various covenants (not including payment covenants) in our senior credit facility. The facility is secured by a first floating charge over substantially all our present and future property and the present and future property of our material subsidiaries (as defined in the facility), a fixed charge

on certain of our oil and gas properties and those of our material subsidiaries and a security interest in all of our personal property and that of our material subsidiaries. Our obligations are also guaranteed by each of our material subsidiaries.

Neither our financial position nor the value of the security under our senior credit facility have changed substantially since the debt under our senior credit facility was incurred, except as discussed in this prospectus supplement and the prospectus.

The decision to distribute the notes offered by this prospectus supplement and the determination of the terms of the distribution were made through negotiations between us, UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc.. The banks of which UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc. are affiliates did not have any involvement in that decision or determination, but those banks have been advised of the issuance of the notes and the terms of the issuance. In connection with the distribution of the notes, each of UBS Securities LLC, Harris Nesbitt Corp., CIBC World Markets Corp. and Scotia Capital (USA) Inc. will receive its share of the underwriters' fee.

Legal matters

Legal matters in connection with this offering will be passed upon for us by Torys LLP, New York, New York (concerning matters of U.S. law), and Macleod Dixon LLP, Calgary, Alberta (concerning matters of Canadian law). The partners and associates of Torys LLP and Macleod Dixon LLP beneficially own less than 1% of our outstanding shares.

Legal matters in connection with this offering will be passed upon for the underwriters by Cahill Gordon & Reindel LLP, New York, New York (concerning matters of U.S. law) and Osler, Hoskin & Harcourt LLP, Calgary, Alberta (concerning matters of Canadian law). The partners and associates of Cahill Gordon & Reindel LLP and Osler, Hoskin & Harcourt LLP beneficially own less than 1% of our outstanding shares.

Experts

The financial statements of Paramount Resources Ltd., as of December 31, 2003 and 2002, incorporated by reference in the prospectus have been audited by Ernst & Young LLP, Chartered Accountants, as stated in their report attached to such statements.

The schedule of revenues and expenses for the Proposed Acquisition Properties, as of December 31, 2003, included in the prospectus have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, as stated in their report attached to such statements.

Extracts and summaries from the reserves report of McDaniel & Associates Consultants Ltd. which are included or incorporated by reference in the prospectus supplement and the prospectus, have been included in reliance upon the authority of McDaniel & Associates Consultants Ltd. as experts in giving such reports. The partners and associates of McDaniel & Associates Consultants Ltd. beneficially own less than 1% of our outstanding shares.

Extracts and summaries from the reserves report of Sproule Associates Limited which are included or incorporated by reference in this prospectus supplement and the prospectus, have been included in reliance upon the authority of Sproule Associates Limited as experts in giving such reports. The partners and associates of Sproule Associates Limited beneficially own less than 1% of our outstanding shares.

Documents incorporated by reference

This prospectus supplement is deemed to be incorporated by reference into the prospectus solely for the purposes of the notes offered hereby. Other documents are also incorporated or deemed to be incorporated by reference into the prospectus. The following documents which have been filed with the securities commission or similar authority in each of the provinces and territories of Canada are also specifically incorporated by reference in and form an integral part of the prospectus and this prospectus supplement:

(a) our annual information form dated March 23, 2004 (including management's discussion and analysis for the year ended December 31, 2003, incorporated therein by reference);

(b) our audited comparative consolidated financial statements for the year ended December 31, 2003, including the auditors' report thereon;

(c) our management proxy circular dated March 23, 2004 relating to the annual and special meeting of our shareholders to be held on June 2, 2004 (excluding those portions under the headings "Report on Executive Compensation and Compensation Committee", "Stock Performance Graph" and "Corporate Governance Committee Report" and excluding Appendix A);

(d) our unaudited comparative interim consolidated financial statements for the three-month period ended March 31, 2004 and the accompanying management's discussion and analysis;

(e) our material change report dated June 4, 2004 relating to the Proposed Acquisition; and

(f) the document entitled "Reconciliation of Financial Statements to United States Generally Accepted Accounting Principles for the year ended December 31, 2003 and the three-months ended March 31, 2004".

Any statement contained in the prospectus, in this prospectus supplement or in any document (or part thereof) incorporated by reference, or deemed to be incorporated by reference, into the prospectus for the purpose of the offering of the notes offered hereby shall be deemed to be modified or superseded to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document (or part thereof) that also is, or is deemed to be, incorporated by reference in the prospectus modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus supplement or the prospectus. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes.

You may obtain a copy of our annual information form and other information identified above by writing or calling us at the following address and telephone number:

Paramount Resources Ltd.
4700, 888 - Third Street S.W.
Calgary, Alberta T2P 5C5
(403) 290-3600
Attention: Corporate Secretary

U.S.$125,000,000

8⅞% Senior Notes Due 2014

PROSPECTUS SUPPLEMENT
June 24, 2004

UBS Investment Bank
Harris Nesbitt

CIBC World Markets
Scotia Capital