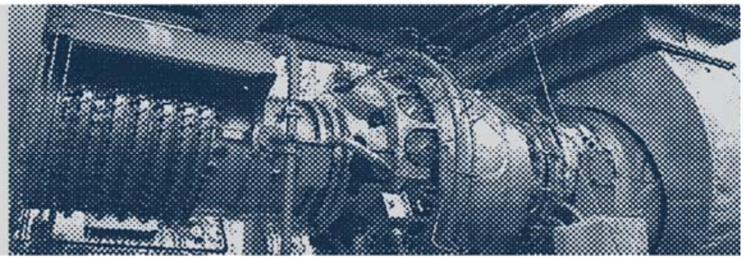
Paramount resources ltd.

ANNUAL RESULTS 2013



OVERVIEW

Oil and Gas Operations

- Proved reserves increased 72 percent year-over-year to 87.7 MMBoe, after production of 7.6 MMBoe and dispositions of 2.2 MMBoe (replacement ratio of 6.1 times).
- Total proved and probable ("P+P") reserves increased 47.3 MMBoe to 227.3 MMBoe, with conventional P+P reserves increasing 54 percent to 133.8 MMBoe (replacement ratio of 7.6 times) and probable oil sands bitumen reserves increasing to 93.5 MMBoe.
- Year-end 2013 P+P reserves included 57.8 MMBbl of NGLs (43 percent of conventional P+P reserves), representing an 88 percent increase in NGLs reserves over 2012.
- The value of year-end 2013 conventional P+P reserves (10% discount, before tax) more than doubled to $1.8 billion.
- Kaybob COU P+P finding and development costs, excluding major facilities and gathering system project construction costs, were $10.21 per Boe compared to $10.31 per Boe in 2012.
- Sales volumes will begin to ramp-up as the Musreau Deep Cut Facility starts up in the second quarter of 2014. Paramount's sales volumes are expected to reach approximately 50,000 Boe/d in 2014 and increase to approximately 70,000 Boe/d in 2015.
- Paramount's behind pipe well inventory in the Kaybob Deep Basin has increased to 66 (47.9 net) wells with estimated first month deliverability of approximately 300 MMcf/d (230 MMcf/d net).
- Kaybob COU sales volumes increased 23 percent to 13,402 Boe/d in 2013 compared to 10,910 Boe/d in 2012. Total Company sales volumes increased 5 percent in 2013 to average 20,914 Boe/d, despite third-party downstream disruptions that curtailed production by approximately 3,500 Boe/d and the sale of 1,500 Boe/d of production.
- NGLs volumes are projected to increase from 12 percent of total sales volumes in 2013 to approximately 40 percent by the end of 2014.
- Netbacks increased by 42 percent to $126.2 million in 2013 from $88.9 million in 2012.
- In 2013, the Company sold non-core properties in Alberta, the Northwest Territories and the United States, realizing proceeds of approximately $70 million in cash and publicly trading securities.
- In February 2014, Paramount entered into an agreement to sell coal bed methane properties producing approximately 6 MMcf/d in the Chain-Delia area of Alberta for approximately $12 million in common shares of a TSX-Venture listed Company.

Corporate

- The Company raised a total of approximately $360 million in 2013 through equity offerings and the $150 million re-opening of its 7⅝ percent senior notes due 2019.
- In November 2013, Paramount's bank credit facility was increased from $450 million to $600 million based on progress made in the Kaybob Deep Basin development and increases in reserves to the end of September 2013.
- Total 2013 capital spending was approximately $100 million lower than Paramount's $800 million capital guidance because of severe weather conditions in late-2013 and other factors which deferred spending into 2014.

Strategic Investments

- The market value of Paramount's investments in publicly-traded and private corporations was approximately $690 million ($7.10 per Paramount share) as of December 31, 2013.
- In the Liard Basin, the Company's first horizontal shale gas exploration well at Patry was brought-on production in late-December. At Dunedin, the Company plans to complete its d-57-D shale gas exploration well and drill an additional shale gas exploration well in 2014 to preserve lands.
- Cavalier Energy anticipates regulatory approvals for the initial 10,000 Bbl/d phase of its Hoole project will be received by mid-2014. Front-end engineering and design work was completed in 2013.
- Fox Drilling's two new walking rigs are both currently drilling separate 10-well pads in the Kaybob COU.

FINANCIAL AND OPERATING HIGHLIGHTS [1][2]

($ millions, except as noted)

	Three months ended December 31			Year ended December 31		
	2013	2012	% Change	2013	2012	% Change
FINANCIAL						
Petroleum and natural gas sales	57.8	54.6	6	232.5	197.1	18
Funds flow from operations	18.3	17.7	3	70.6	58.1	22
Per share – diluted ($/share)	*0.19*	*0.20*		*0.75*	*0.67*	
Net income (loss)	0.3	(151.8)	100	(59.1)	(61.9)	5
Per share – diluted ($/share)	–	*(1.69)*		*(0.63)*	*(0.71)*	
Exploration and development expenditures	175.8	166.8	5	624.9	523.1	19
Investments in other entities – market value [3]				688.5	704.8	(2)
Total assets				2,447.8	2,037.0	20
Net debt				1,119.2	701.4	60
Common shares outstanding (thousands)				96,993	89,932	8
OPERATING						
Sales volumes						
Natural gas (MMcf/d)	102.5	104.1	(2)	106.1	98.5	8
NGLs (Bbl/d)	2,668	2,110	26	2,498	1,873	33
Oil (Bbl/d)	536	1,213	(56)	726	1,620	(55)
Total (Boe/d)	20,290	20,674	(2)	20,914	19,917	5
Average realized price						
Natural gas ($/Mcf)	3.73	3.45	8	3.57	2.72	31
NGLs ($/Bbl)	74.30	61.23	21	74.73	67.10	11
Oil ($/Bbl)	78.92	79.72	(1)	87.47	83.16	5
Total ($/Boe)	30.99	28.70	8	30.46	27.04	13

RESERVES [4]

	Proved			Proved & Probable		
	December 31 2013	December 31 2012		December 31 2013	December 31 2012	
Natural gas (Bcf)	301.3	201.9	49	450.5	323.7	39
NGLs (MBbl)	36,777	15,662	135	57,844	30,761	88
Light and medium crude oil (MBbl)	680	1,540	(56)	885	2,128	(58)
Total Conventional (MBoe)	87,677	50,857	72	133,813	86,842	54
Oil sands bitumen (MBbl)	–	–	–	93,468	93,091	–
Total Company (MBoe)	87,677	50,857	72	227,281	179,933	26
Conventional F&D costs excluding facilities & gathering ($/Boe)	17.79	16.82	6	10.87	12.18	(11)
Conventional reserves replacement	611%	336%		759%	599%	
NPV_{10} future net revenue before tax						
Conventional	1,093	456	140	1,793	880	104
Total Company	1,093	456	140	2,094	1,259	66

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2013.
(3) Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.
(4) Working interest reserves before royalty deductions. Net present values were determined using forecast prices and costs and do not represent fair market value.

REVIEW OF OPERATIONS [1]

Year ended December 31	2013		2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	106.1		98.5		*8*
NGLs (Bbl/d)	2,498		1,873		*33*
Oil (Bbl/d)	726		1,620		*(55)*
Total (Boe/d)	20,914		19,917		*5*
Netback ($ millions) [2]		*($/Boe)[3]*		*($/Boe)[3]*	*% Change in $mm*
Natural gas revenue	138.3	*3.57*	98.2	*2.72*	*41*
NGLs revenue	68.1	*74.73*	46.0	*67.10*	*48*
Oil revenue	23.2	*87.47*	49.3	*83.16*	*(53)*
Royalty and sulphur revenue	2.9	–	3.6	–	*(19)*
Petroleum and natural gas sales	232.5	*30.46*	197.1	*27.04*	*18*
Royalties	(10.8)	*(1.42)*	(16.5)	*(2.27)*	*(35)*
Operating expense and production tax	(72.7)	*(9.52)*	(69.9)	*(9.58)*	*4*
Transportation	(22.8)	*(2.98)*	(21.8)	*(2.98)*	*5*
Netback	126.2	*16.54*	88.9	*12.21*	*42*

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2013 for further details.
(2) Readers are referred to the advisories concerning non-GAAP measures and oil and gas measures and definitions in the Advisories section of this document.
(3) Natural gas revenue shown per Mcf.

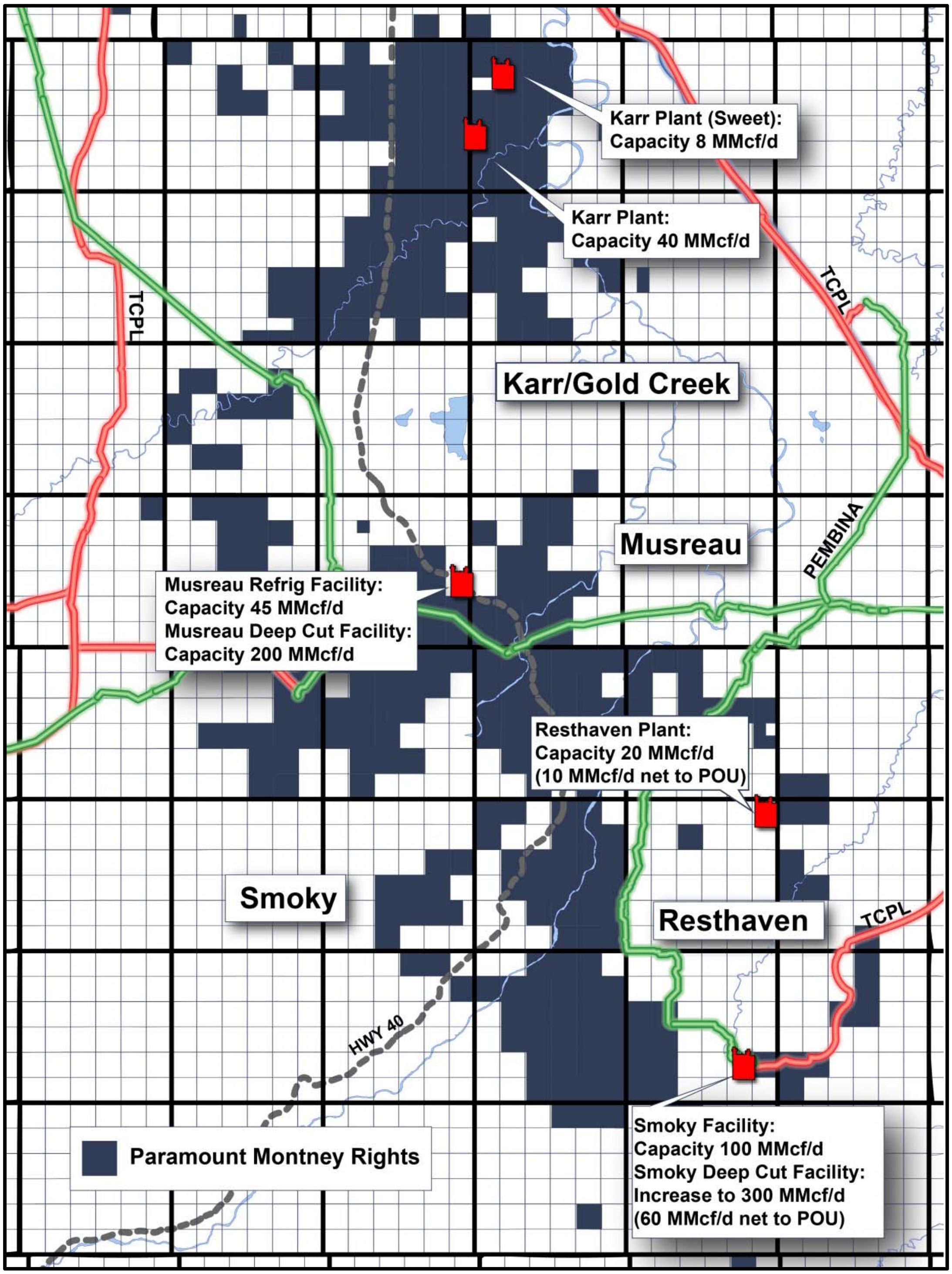
Paramount's operations continue to focus along the Deep Basin trend in west central Alberta, where the Company holds extensive multi-zone mineral rights to 1,220 (774 net) sections of land, including 394 (326 net) sections of Montney rights. Over the past few years, the Company has been constructing natural gas processing facilities and securing long-term NGLs transportation and processing capacity to provide the necessary infrastructure to maximize the value of Paramount's liquids-rich Deep Basin resources.

The Company's first major natural gas processing facility in the Deep Basin, a 45 MMcf/d refrigeration facility (the "Musreau Refrig Facility") was commissioned in the first quarter of 2012 and a second major facility, the 200 MMcf/d Musreau Deep Cut Facility, is scheduled to start up in the second quarter of 2014. This processing capacity, in conjunction with the expected alleviation of third-party downstream NGLs bottlenecks, will enable the Company to more than double current production to reach approximately 50,000 Boe/d in 2014 and more than triple production to approximately 70,000 Boe/d in 2015. NGLs volumes are projected to increase from 12 percent of total production in 2013 to approximately 40 percent by the end of 2014, which will significantly increase per unit netbacks.

In Kaybob, mechanical construction of the Musreau Deep Cut Facility is substantially complete and advance drilling continues to increase the volumes of behind pipe production that will feed the Musreau Deep Cut Facility and the deep cut expansion at Smoky. In Grande Prairie, the Company is advancing the exploration and delineation of its Montney lands northwest of Musreau at Karr-Gold Creek. Expansions to third-party pipeline systems and NGLs processing facilities downstream of Paramount's properties are being completed, which will provide Paramount with the required transportation and NGLs processing capacity to achieve planned production increases. As the Company continues to focus on its low-cost, liquids-rich properties, further divestitures of non-core properties were completed in 2013 in Alberta, the Northwest Territories and the United States.

Sales volumes increased five percent in 2013, despite third-party disruptions which curtailed production by approximately 3,500 Boe/d and the sale of approximately 1,500 Boe/d of production.

The Company's netback increased 42 percent in 2013, primarily as a result of higher revenue due to increased prices and higher natural gas and NGLs volumes. Royalties decreased because of a greater proportion of production qualifying for Alberta new well royalty incentive programs and the impact of annual gas cost allowance adjustments.



Kaybob

Year ended December 31	2013		2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	72.1		59.5		*21*
NGLs (Bbl/d)	1,365		924		*48*
Oil (Bbl/d)	29		62		*(53)*
Total (Boe/d)	13,402		10,910		*23*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	347		201		*73*
Facilities and gathering	150		162		*(7)*
	497		363		*37*
	Gross	Net	Gross	Net	
Total Land Holdings (sections)	682	428	788	446	
Wells Drilled	31	26	27	21	

The Kaybob corporate operating unit ("COU") operates in west central Alberta, where its core properties are in the Deep Basin at Musreau, Smoky and Resthaven. Paramount has assembled 682 (428 net) sections of extensive multi-zone mineral rights within the Kaybob COU. The Company's drilling activities are focused on the Montney, Falher and Dunvegan formations, which are high pressure, liquids rich, tight gas formations with large reserves potential.

Paramount has approximately 235 (200 net) sections of Montney rights in the Kaybob COU. In 2013, the Company received regulatory approval to increase well densities on a portion of its Montney lands at Musreau and now has a contiguous block of 36 sections approved for up to five wells per section. Densities of ten or more wells per section per formation are anticipated to be required to produce the recoverable resources in place, representing a multi-decade inventory of drilling locations.

In 2013, Paramount continued to execute the large-scale development of its Deep Basin lands, advancing construction of the Musreau Deep Cut Facility, participating in the deep cut expansion of the non-operated Smoky facility and drilling and completing wells to increase production deliverability in advance of the start-up of these new facilities.

The Company continued to achieve significant reserves growth in 2013 as a result of its development activities in the Kaybob Deep Basin. Further increases in reserves volumes are expected as development drilling continues in 2014.

With the first full year of operations of the Musreau Refrig Facility, Kaybob COU sales volumes increased 23 percent in 2013 to 13,402 Boe/d, despite continued capacity constraints and third-party disruptions. Operating expenses, net of processing income, averaged $4.34 per Boe for the Kaybob COU in 2013 and less than $4.00 per Boe within the Musreau area. The Musreau Refrig Facility provides significant savings to the Company through the elimination of third-party processing fees. Following start-up of the Musreau Deep Cut Facility, per unit operating costs are expected to decrease as fixed costs will be applied over significantly higher production volumes.

The downstream NGLs bottlenecks that constrained Paramount's production in 2013 are expected to alleviate in 2014 with the commencement of long-term firm service contracts to transport and process NGLs volumes extracted from Company's natural gas production. These contracts, together with the completion of the deep cut facilities expansions will allow the Company to produce from its behind-pipe inventory of 66 (47.9 net) wells, increasing production, netbacks and cash flow.

Kaybob Wells

Paramount completed the drilling of 31 (26.2 net) wells in the Kaybob COU in 2013, including 13 (12.3 net) Montney wells and 16 (11.9 net) Falher wells. The majority of these new wells have been completed and tied-in and will be brought-on production when the Musreau Deep Cut Facility commences operation. The 2013 drilling program included six pad sites that accounted for 19 of the 31 wells drilled. In addition, Paramount's two walking drilling rigs are each drilling 10-well Montney pads, which are expected to be finished drilling in the second quarter of 2014.

Currently, Kaybob area production volumes are mainly from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 to 100 percent. These wells, primarily producing from the Falher formation, have on average performed in accordance with anticipated type curves and expected liquids yields.

NGLs transportation and fractionation capacity constraints have continued to limit Paramount's ability to bring Montney formation wells on production due to their high liquids content. Where NGLs capacity is available, the Company is producing selected Montney wells at restricted flow rates, to recover load oil, cleanup wellbores and obtain production data before being shut-in to await the start-up of the Musreau Deep Cut Facility.

Paramount has transitioned from drilling single delineation wells to commercial resource development where multiple wells are drilled on pad sites. The use of multi-well pad sites provides capital efficiencies by minimizing mobilization and de-mobilization costs, as well as reducing equipping and tie-in costs through the use of common facilities. Paramount's walking rigs can move between wells and resume drilling operations within two hours, with the drill pipe standing in the derrick. Drilling techniques continue to be refined, including bit selection and drilling fluids, allowing wells to be drilled in shorter time periods. The Company has also reduced completion costs by improving pumping techniques, modifying frac sizing and spacing, recycling the frac oil, and securing lower costs for services, equipment and completion fluids. Each well on the 10-well pads is expected to be drilled in about 30 days, compared to an average of 41 days for Montney wells drilled in 2013, and cost approximately $10 million to drill, complete and tie-in. In 2014, the Kaybob COU's drilling program will primarily focus on drilling Montney wells from pad sites located in the northern portion of the Company's Kaybob area lands, where liquids yields are expected to be the highest.

As of February 28, 2014, the Company's behind pipe well inventory in the Kaybob Deep Basin was 66 (47.9 net) wells, including wells previously produced that have been temporarily shut-in due to capacity constraints, with estimated first month deliverability of approximately 300 MMcf/d (230 MMcf/d net) of raw gas. Production from these wells will be processed through the Musreau and Smoky deep cut facilities and Paramount's other Kaybob area capacity.

Kaybob NGLs Extraction Process

Paramount's production will ramp-up as the Musreau Deep Cut Facility starts up in the second quarter, with NGLs being extracted and delivered downstream for sale or to third-party facilities for further processing. Following the completion of expansions to Company-owned natural gas processing and downstream third-party NGLs processing facilities, the Kaybob NGLs extraction process ("$C2^+$ Recovery Mode") will be as follows:

- Production volumes will be transported from wellsites via a Company-owned gathering system to the Musreau Deep Cut Facility.

- Condensate will be separated from the liquids-rich gas stream at the plant inlet and treated through the condensate stabilizer system to remove lighter hydrocarbons, creating a higher value stabilized pentanes-plus product ("$C5^+$") that will be shipped through a third-party liquids pipeline system for sale. Lighter hydrocarbons removed from the $C5^+$ through the stabilization process will be returned to the gas stream.
- Following separation of the $C5^+$, the liquids-rich natural gas stream will pass through the amine processing train to sweeten the gas, and then will be cooled to approximately minus 100 degrees Celsius to extract substantially all remaining NGLs from the gas stream. When operating in full ethane recovery mode, the Musreau Deep Cut Facility is designed to extract approximately 90 percent of the ethane and virtually all propane, butane and heavier hydrocarbons in the gas stream to create an "ethane plus" NGLs product ("$C2^+$"). The $C2^+$ stream will be shipped through a third-party liquids pipeline system to Fort Saskatchewan for further processing at third-party NGLs processing facilities.
- At Fort Saskatchewan, the $C2^+$ volumes will first be processed through a third-party de-ethanization facility, where ethane will be extracted and then sold to a third party under a long-term ethane sales agreement, and the remaining stream of propane, butane and heavier hydrocarbons ("$C3^+$") will be fractionated and sold.
- Following the extraction of NGLs, dry natural gas, with a heat content of approximately 1,010 btu per standard cubic foot, will be delivered from the Musreau Deep Cut Facility to a third-party natural gas pipeline system for sale.

Until third party de-ethanization capacity is available, the Musreau Deep Cut Facility will be operated at warmer temperatures, resulting in most of the ethane remaining in the gas stream ("$C3^+$ Recovery Mode") and the deep cut plant creating a "propane plus" product comprised primarily of propane, butane and heavier hydrocarbons. Paramount's NGLs sales volumes and revenue will be lower during $C3^+$ Recovery Mode compared to $C2^+$ Recovery Mode, but these impacts will be mostly offset by higher natural gas sales with the ethane remaining in the gas stream, which will increase both the sales value and sales volume of natural gas.

Kaybob Natural Gas and Condensate Processing Capacity

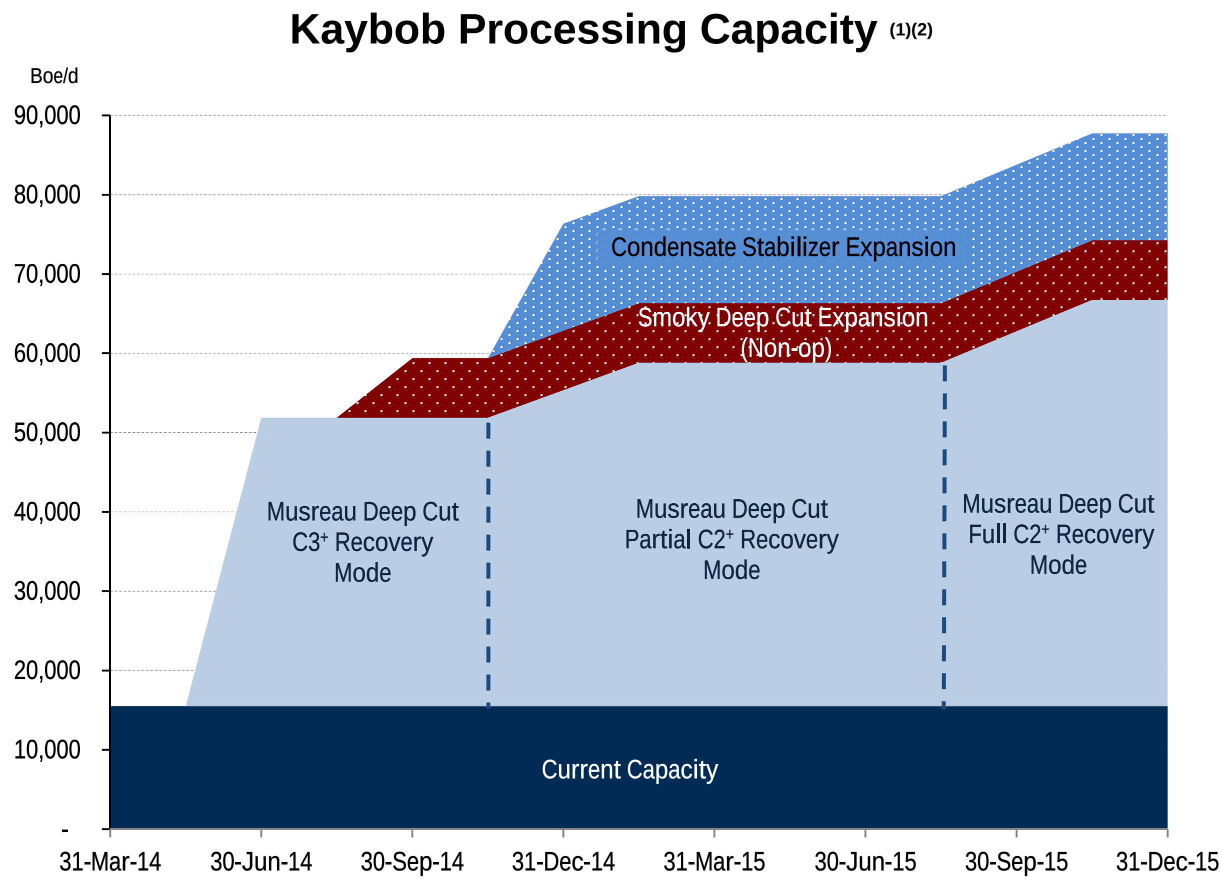
At the end of 2013, Paramount had 79 MMcf/d of net owned and firm service natural gas processing capacity in the Kaybob COU, which equates to approximately 15,500 Boe/d of potential sales volumes.

Upon completion of the Musreau Deep Cut Facility, the condensate stabilizer expansion and the non-operated Smoky Deep Cut Facility in 2014, the Company's net owned and firm service contracted natural gas and NGLs processing capacities will increase to over 300 MMcf/d in the Kaybob COU that will provide over 85,000 Boe/d of gross sales volume capacity. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee.

Kaybob COU sales volumes will ramp up over the first few months following startup of the Musreau Deep Cut Facility, as the operations team optimizes the facility's equipment and processes. Initial volumes processed through the new facility will be primarily from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes. The commissioning of the amine processing train ("Amine Train") and condensate stabilizer expansion will increase the Company's flexibility for processing sour gas production and for stabilizing incremental liquids volumes.

Paramount's midstream agreements commencing in the second quarter of 2014 provide long-term firm service transportation and processing capacity for NGLs volumes extracted from the Company's Kaybob area natural gas production. The NGLs processing agreements initially provide for the fractionation of C3+ streams, with C2+ Recovery Mode to commence upon completion of third-party de-ethanization facility expansions. The first phase of these expansions, previously scheduled for completion in the third quarter of 2014, is now expected to be complete in late-2014. Third-party de-ethanization capacity is expected to increase further with the completion of a second expansion phase in 2015. The Company is in discussions with midstream companies to secure short-term access to de-ethanization capacity in advance of the completion of these third-party expansions. The Company already has in place a long-term agreement for the sale of ethane.

The elements and estimated timing of additional Kaybob area processing capacity are shown below and are based on the expectation that planned third-party downstream de-ethanization capacity becomes available in late-2014:



(1) Aggregate processing capacity of the Kaybob COU's owned and firm service natural gas and condensate processing facilities. These processing capacity estimates are subject to a number of assumptions and risks and should not be construed as projections of Paramount's Kaybob area production volumes at or by any particular date or dates. The Company's net sales volumes in the Kaybob COU will be lower than the capacity shown because of a number of factors including, but not limited to: a) some unavoidably commingled third-party volumes will be processed using Paramount capacity; b) the liquids content of wells will vary; c) production volumes sufficient to fill capacity will not be available in all periods and under certain conditions; and d) during maintenance periods and at other times, the facilities will not operate at design capacity.
(2) Increases in Kaybob processing capacity in the chart above are shown at the mid-point of the quarter in which new facilities and facilities expansions are scheduled to be completed. However, the completion of such facilities may occur at any point during such period or may occur in a different period and the actual ramp-up will be different than depicted. See the Advisories section of this document.

Paramount Infrastructure Projects

The Musreau Deep Cut Facility is scheduled to startup in the second quarter of 2014. Mechanical construction is substantially complete and activities at the site are focused on completing the final stages of the electrical and instrumentation work. Commissioning of individual components of the facility commenced in December 2013. Activities at the site were impacted by third-party labour shortages and severe weather conditions in late-January and February 2014 which have prolonged the remaining work and the commissioning process. As a result of these changes, the Company is accelerating work originally planned for later in the year to integrate the Amine Train and the condensate stabilizer expansion to minimize downtime later in 2014 when these additional components are started-up. The expected total cost of the facility remains at approximately $190 million, in-line with the original budget.

The Company continues to advance the construction of the Amine Train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. This project is expected to cost approximately $45 million and will reduce equipping costs per well by over $1 million and result in lower ongoing well operating costs. Major components for the Amine Train are being delivered to the plant site, with construction and installation activities scheduled to be completed in the fourth quarter of 2014.

Condensate yields from Paramount's new Montney wells at Musreau exceeded expectations in 2012. As a result, the Company initiated a project to expand the condensate stabilizer system servicing the Musreau Deep Cut Facility and the Musreau Refrig Facility by 15,000 Bbl/d (the "Stabilizer Expansion") to process the anticipated incremental liquids volumes. Long-lead time components have been ordered and the project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million. Upon start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d when the Stabilizer Expansion becomes operational. Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing.

Paramount is continuing the preliminary planning for construction of additional natural gas processing facilities in the Deep Basin. The Company currently anticipates that a refrigeration process will be used to extract $C3^+$ NGLs as opposed to a deep cut recovery process because the availability of long-term sales contracts for incremental ethane volumes is believed to be limited. The specific location, capacity and construction timeline of proposed new facilities are currently under review. A decision to proceed is anticipated later in 2014 following the ramp-up of the Musreau Deep Cut Facility and obtaining additional well performance data, including NGLs yields.

To ensure access to downstream NGLs transportation and fractionation for future natural gas processing facilities, Paramount has secured capacity in further expansions to third-party NGLs transportation and fractionation systems servicing the Deep Basin that are expected to come on-stream beginning in mid-2016.

The deep cut expansion of the non-operated processing facility at Smoky (the "Smoky Deep Cut Facility") continues to progress. The Company will have a 20 percent interest in the expanded facility, an increase from its current 10 percent interest in the existing 100 MMcf/d dew point facility. The Smoky Deep Cut Facility will initially have a working capacity of 200 MMcf/d (40 MMcf/d net) upon start-up, increasing to 300 MMcf/d (60 MMcf/d net) through the later installation of an incremental 100 MMcf/d of compression. As a plant owner, Paramount has the option at any time to request installation of this additional compression.

Site work on the Smoky Deep Cut Facility continues, with process equipment delivered and mechanical work underway. The expansion is scheduled to be commissioned in the third quarter of 2014. Paramount was advised by the third-party operator that it expects the existing Smoky 100 MMcf/d dew-point facility will be shut-down for approximately two months commencing in the second quarter of 2014 to complete its integration with the expansion. Paramount's share of the Smoky Deep Cut Facility expansion costs is expected to total $75 million, of which approximately $50 million has been incurred to December 31, 2013.

Upon completion of the Company's new facilities, Paramount's net owned and firm service processing capacity will increase to over 300 MMcf/d in the Kaybob COU, providing over 85,000 Boe/d of gross sales volume capacity. The Kaybob COU plans to begin ramping up production in the second quarter of 2014 and production levels are expected to continue to increase throughout 2014 and 2015. The increases in production together with a higher proportion of NGLs, will generate significantly higher cashflows for Paramount.

Grande Prairie

Year ended December 31	2013		2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	20.0		20.9		*(4)*
NGLs (Bbl/d)	809		749		*8*
Oil (Bbl/d)	322		307		*5*
Total (Boe/d)	4,459		4,536		*(2)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	112		70		*60*
Facilities and gathering	16		33		*(52)*
	128		103		*24*
	Gross	Net	Gross	Net	
Total Land Holdings (sections)	538	346	577	379	
Wells Drilled	14	9	10	7	

The Grande Prairie COU operates in the Peace River Arch area of Alberta, where its principal properties include Karr-Gold Creek, Valhalla and Mirage. Activities in the Grande Prairie COU are currently focused at Karr-Gold Creek, where the Company has approximately 159 (126 net) sections of Montney rights that have exhibited similar reservoir and fluid characteristics to competitors' offsetting lands and the Company's Montney lands at Musreau, approximately six miles to the south.

As of December 31, 2013, Paramount has drilled a total of six (6.0 net) horizontal middle-Montney wells at Karr-Gold Creek. All six wells have been completed and brought-on production at restricted rates because of constraints in downstream natural gas and NGLs processing capacity. The drilling of three additional middle-Montney re-entry wells planned for the fourth quarter of 2013 was delayed to the first quarter of 2014 due to site access restrictions caused by heavy snowfall. In 2013, the Company also participated in seven (2.1 net) non-operated wells in the Karr-Gold Creek area.

Positive results from the Company's middle-Montney wells and offsetting industry wells confirm that the Montney trend extends from Kaybob northwest onto the Company's lands at Karr-Gold Creek. To further the exploitation of this resource, the Company has secured long-term firm service natural gas processing and liquids transportation capacity for its Karr-Gold Creek production beginning in the second quarter of 2014. This will provide long-term capacity that will allow the Grande Prairie COU to continuously produce its wells and is expected to lower per-unit operating costs.

In 2014, the Company plans to drill up to 7 wells to continue the delineation of its middle and upper Montney lands at Karr-Gold Creek. At Valhalla, Paramount is continuing to optimize its production through available third-party capacity and plans to drill up to three wells to manage expiries.

Sales volumes in the Grande Prairie COU averaged 4,459 Boe/d in 2013, a decrease of two percent compared to 2012. Third-Party Disruptions continued to impact operations during 2013, reducing sales volumes by approximately 1,500 Boe/d, primarily at Valhalla.

In the second quarter of 2013, Paramount completed the sale of the majority of its holdings in the Ante Creek area of Alberta in exchange for $13.5 million in common shares of RMP Energy Inc.

Southern (1)

Year ended December 31	2013		2012		*% Change*
Sales Volumes					
Natural gas (MMcf/d)	9.5		9.8		*(3)*
NGLs (Bbl/d)	255		171		*49*
Oil (Bbl/d)	342		1,016		*(66)*
Total (Boe/d)	2,179		2,814		*(23)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	7		23		*(70)*
Facilities and gathering	–		3		*(100)*
	7		26		(73)
	Gross	Net	Gross	Net	
Total Land Holdings (sections)	719	356	627	432	
Wells Drilled	1	1	4	2	

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2013 for further details.

In the first quarter of 2013, the Company sold its non-operated joint venture operations and lands in North Dakota for gross proceeds of approximately US$22 million. Combined with the 2011 sale of undeveloped land in North Dakota for US$40 million and the 2012 sale of operated properties in North Dakota and Montana for US$70 million, approximately US$132 million in cash proceeds were realized from the sale of these high royalty, high operating cost United States properties. Total sales proceeds significantly exceeded the carrying value of these assets.

In February 2014, Paramount entered into an agreement to sell its properties in the Chain-Delia area of Alberta for approximately $12 million in common shares of Marquee Energy Ltd., a TSX Venture Exchange listed company. These properties had average 2013 production of approximately 6 MMcf/d of natural gas, and include approximately 160 (120 net) sections of land. This transaction is scheduled to close in the first quarter of 2014.

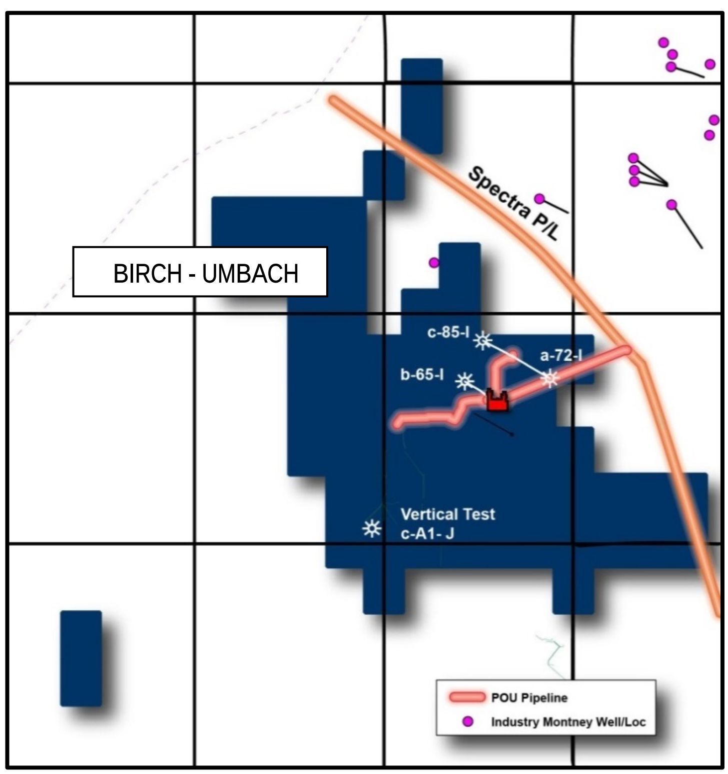
Following these dispositions, the Southern COU's main producing property will be at Harmattan, which produced approximately 600 Boe/d in the fourth quarter of 2013. The Company plans to drill up to four exploratory wells on its Southern properties in 2014.

Northern (1)

Year ended December 31	2013		2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	4.5		8.3		*(46)*
NGLs (Bbl/d)	69		29		*138*
Oil (Bbl/d)	33		235		*(86)*
Total (Boe/d)	874		1,657		*(47)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	–		21		*(100)*
Facilities and gathering	1		7		*(86)*
	1		28		*(96)*
	Gross	Net	Gross	Net	
Total Land Holdings (sections)	334	220	627	432	

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2013 for further details.

Paramount owns approximately 65 (65 net) sections of land in the Birch-Umbach area of Northeast British Columbia that are prospective for liquids-rich natural gas production from the Montney formation. The Company's activities at Birch have been directed towards drilling and producing new wells in order to evaluate well performance, including flow rates and liquids ratios. Three horizontal Montney wells completed to date are being produced through a 3 MMcf/d pilot facility, with NGLs yields averaging approximately 60 Bbl/MMcf of raw gas. Paramount plans to drill an additional four horizontal Montney wells at Birch in the second half of 2014, two of which are expected to be completed and tied-in by the end of the year.



In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million. Average 2012 sales volumes for these properties were approximately 1,000 Boe/d.

Reserves

Conventional

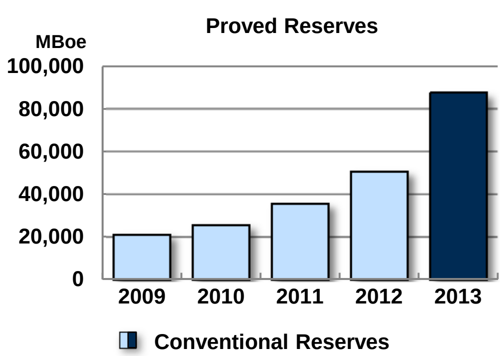
Paramount continued to achieve strong year-over-year reserves growth in 2013, driven by the Company's Deep Basin development program. Proved reserves additions in 2013 totaled 46.7 MMBoe, resulting in an increase of 72 percent over 2012 proved reserves, after 2013 production of 7.6 MMBoe and dispositions of 2.2 MMBoe. Proved & probable ("P+P") reserves additions in 2013 totaled 58.0 MMBoe, resulting in a 54 percent increase over 2012 P+P reserves, after 2013 production of 7.6 MMBoe and dispositions of 3.4 MMBoe. Year-over-year, proved reserves per share increased 60 percent and conventional P+P reserves per share increased 43 percent.

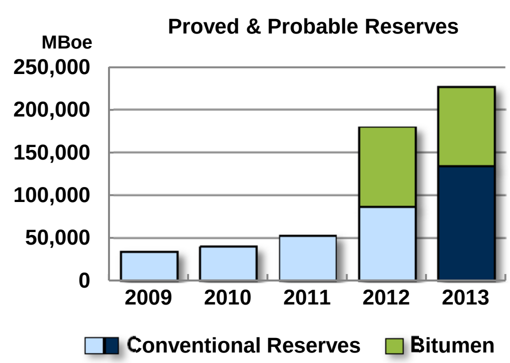
NGLs reserves increased significantly in 2013, both on a volume basis and as a percentage of total reserves, as the Company's drilling program continues to focus on the liquids-rich Montney formation. Proved NGLs reserves totaled 36.8 MMBbl as of December 31, 2013, representing 42 percent of total proved reserves, compared to 15.7 MMBbl and 31 percent of total proved reserves in 2012. P+P NGLs reserves totaled 57.8 MMBbl as of December 31, 2013, representing 43 percent of conventional P+P reserves, compared to 30.8 MMBbl and 35 percent of conventional P+P reserves in 2012.

As of December 31, 2013, the value of proved reserves (discounted at 10 percent, before tax) increased 140 percent to $1.1 billion and the value of conventional P+P reserves (discounted at 10 percent, before tax) increased 104 percent to $1.8 billion.

Hoole Oil Sands Bitumen

In addition to its conventional reserves, the Company's wholly-owned subsidiary, Cavalier Energy Inc. ("Cavalier Energy"), has 93.5 MMBbl of probable bitumen reserves attributed to its proposed 10,000 barrel per day Grand Rapids formation oil sands development planned at Hoole, Alberta. Bitumen reserves volumes for the Hoole Grand Rapids were recognized in 2012 following the filing of regulatory applications for project approval.





The Company's working interest reserves and before tax net present value of future net revenues as of December 31, 2013 using forecast prices and costs are as follows:

Reserves Summary [1]							
	Gross Reserves					Before Tax Net Present Value [3] ($ millions)	
	Natural Gas	Light & Medium Crude Oil	Natural Gas Liquids	*Bitumen*	Total	Discount Rate	
	(Bcf)	(MBbl)	(MBbl)	*(MBbl)*	(MBoe) [2]	0%	10%
Conventional							
Proved							
Developed Producing	183.6	680	6,759	–	38,034	841	591
Developed Non-producing	7.4	–	10,708	–	11,940	232	208
Undeveloped	110.4	–	19,310	–	37,703	692	294
Total Proved	301.3	680	36,777	–	87,677	1,765	1,093
Total Probable	149.2	206	21,067	–	46,136	1,251	700
Total Proved & Probable Conventional	450.5	885	57,844	–	133,813	3,016	1,793
Non-Conventional - Oil Sands Bitumen							
Total Proved	–	–	–	–	–	–	–
Total Probable	–	–	–	*93,468*	93,468	1,902	301
Total Proved & Probable Non-Conventional	–	–	–	*93,468*	93,468	1,902	301
Total Company							
Total Proved	301.3	680	36,777	–	87,677	1,765	1,093
Total Probable	149.2	206	21,067	*93,468*	139,604	3,153	1,001
Total Proved & Probable	450.5	885	57,844	*93,468*	227,281	4,918	2,094

(1) Columns may not add due to rounding.
(2) Refer to the Oil and Gas Measures and Definitions and other advisories in the Advisories section of this document.
(3) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of January 1, 2014.

December 31, 2013 reserves include 10.7 MMBbl of NGLs in the proved developed non-producing ("PDNP") classification which primarily relate to completed wells in the Kaybob COU that will be produced through the Musreau Deep Cut Facility. The PDNP NGLs reserves associated with these wells represent the incremental NGLs volumes that will be extracted from the natural gas stream through deep cut processing. These reserves will be reclassified to proved developed producing ("PDP") reserves when the Musreau Deep Cut Facility enters service. Proved undeveloped reserves totaling 37.7 MMBoe are related to wells in the Kaybob and Grande Prairie COUs that are in the process of being drilled, or are expected to be drilled over the next year.

Future development costs totaling $53 million in respect of the estimated costs to complete the Musreau Deep Cut Facility, the Amine Train and the Smoky Deep Cut Facility were deducted in determining the estimated net present value of future net revenue from Paramount's PDNP reserves.

The following table summarizes future development costs deducted in the calculation of future net revenue from conventional reserves:

Conventional Reserves

	Total	Before Tax NPV_0 [(1)]	Future Development Costs – Undiscounted: Plants	Wells & Other	Total
	(MBoe)	($MM)	($MM)	($MM)	($MM)
Proved Developed Producing	38,034	841	–	–	–
Proved Developed Non-producing	11,940	232	53	16	69
Proved Undeveloped	37,703	692	–	496	496
Total Proved	87,677	1,765	53	512	565
Total Probable	46,136	1,251	3	2	5
Total Proved & Probable	133,813	3,016	56	514	570

(1) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of January 1, 2014.

Reserves Reconciliation(1)

	Proved Reserves: Natural Gas	Oil & NGLs [(2)]	Total	Proved & Probable Reserves: Natural Gas	Oil & NGLs [(2)]	Total Conventional	*Bitumen*	Total
	(Bcf)	(MBbl)	(MBoe) [(3)]	(Bcf)	(MBbl)	(MBoe) [(3)]	*(MBbl)*	(MBoe) [(3)]
January 1, 2013	201.9	17,202	50,857	323.7	32,889	86,842	*93,091*	179,933
Extensions & discoveries	124.0	18,822	39,496	195.1	29,986	62,507	–	62,507
Technical revisions	23.5	3,267	7,183	(15.8)	(1,900)	(4,531)	*377*	(4,155)
Dispositions	(9.4)	(657)	(2,224)	(13.8)	(1,068)	(3,371)	–	(3,371)
Production	(38.7)	(1,177)	(7,634)	(38.7)	(1,177)	(7,634)	–	(7,634)
December 31, 2013	301.3	37,457	87,677	450.5	58,729	133,813	*93,468*	227,281

(1) Columns and rows may not add due to rounding.
(2) Light and medium crude oil and natural gas liquids.
(3) Refer to the Oil and Gas Measures and Definitions and other advisories in the Advisories section of this document.

Finding and Development Costs – Conventional

Paramount's finding and development ("F&D") costs per barrel are summarized below. The total F&D capital includes costs of and changes in future development costs relating to major facilities and gathering system projects.

2013 F&D Cost Including Major Facilities & Gathering						3-Year Average F&D		
	Costs [1][2]	FDC Change [1]	Total F&D Capital [1]	Reserves Additions [3]	F&D	2012	2011	3-Year Average
	$MM	$MM	$MM	MMBoe	$/Boe	$/Boe	$/Boe	$/Boe
PROVED								
Kaybob	485.0	202.1	687.1	37.9	18.14	27.13	26.73	22.16
Total Conventional	612.8	315.7	928.4	46.7	19.89	29.83	41.28	25.77
PROVED & PROBABLE								
Kaybob	485.0	49.7	534.8	44.4	12.03	16.19	21.28	14.94
Total Conventional	612.8	163.1	775.9	58.0	13.38	19.46	36.66	17.22

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
(2) Excludes capitalized interest.
(3) F&D amounts relate to conventional properties only. Refer to the Oil and Gas Measures and Definitions in the Advisories section of this document.

Paramount's F&D costs per barrel, excluding costs of and changes in future development costs related to major facilities and gathering system projects are summarized below:

2013 F&D Cost Excluding Major Facilities & Gathering						3-Year Average F&D		
	Costs [1][2]	FDC Change [1]	Total F&D Capital [1]	Reserves Additions [3]	F&D	2012	2011	3-Year Average
	$MM	$MM	$MM	MMBoe	$/Boe	$/Boe	$/Boe	$/Boe
PROVED								
Kaybob	347.2	259.1	606.2	37.9	16.01	14.64	17.85	15.85
Total Conventional	457.8	372.6	830.5	46.7	17.79	16.82	27.70	18.86
PROVED & PROBABLE								
Kaybob	347.2	106.7	453.9	44.4	10.21	10.31	13.57	10.64
Total Conventional	457.8	172.2	630.1	58.0	10.87	12.18	24.19	12.81

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
(2) Excludes capitalized interest.
(3) F&D amounts relate to conventional properties only. Refer to the Oil and Gas Measures and Definitions in the Advisories section of this document.

The Kaybob COU's recycle ratio was 2.0 to 1 in 2013, based on a proved and probable F&D cost of $10.21 per Boe (excluding major facilities and gathering costs). Paramount anticipates that the Kaybob COU's recycle ratio will increase once the Musreau Deep Cut Facility is on-stream, as higher liquids yields will generate greater per unit netbacks.

Exploration and Capital Expenditures

Year ended December 31 ($ millions)	2013	2012
Geological and geophysical	6.3	6.0
Drilling, completion and tie-ins	451.6	304.6
Facilities and gathering	167.0	212.5
Exploration and development expenditures (1)	624.9	523.1
Land and property acquisitions	20.3	25.2
Principal Properties	645.2	548.3
Strategic Investments (2)	92.3	82.5
Corporate	5.8	0.4
	743.3	631.2

(1) Exploration and development expenditures include $12.1 million of capitalized interest (2012 - $4.6 million).
(2) Strategic Investments include $1.0 million of capitalized interest (2012 - $0.4 million).

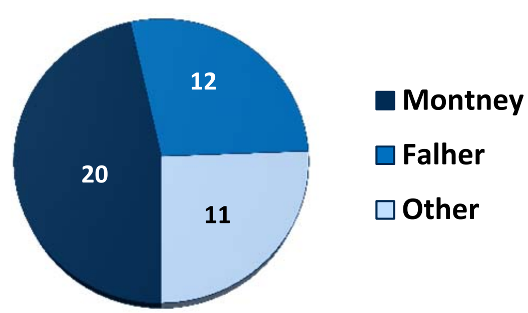
The Company's exploration and development expenditures and strategic investments spending, excluding land acquisitions and capitalized interest, totaled $704.1 million in 2013, $95.9 million less than Paramount's increased 2013 capital budget of $800 million. Planned drilling, completion, tie-in and gathering system projects for the fourth quarter within the Kaybob and Grande Prairie COUs were impacted by site access restrictions caused by unusually heavy snowfall. Completion operations planned for the shale gas exploration well at Dunedin in the fourth quarter were delayed until 2014, as work to prepare the well for completion continued through year-end. Aggregate spending on facilities projects was also lower than expected.

Drilling and Land

As at December 31	2013			2012		
(000's of acres)	Gross(1)	Net(2)	Average Working Interest	Gross(1)	Net(2)	Average Working Interest
Undeveloped land	1,337	924	69%	1,685	1,190	71%
Acreage assigned reserves	450	249	55%	523	289	55%
Total	1,787	1,173	66%	2,208	1,479	67%

(1) "Gross" acres means the total acreage in which Paramount has an interest.
(2) "Net" acres means gross acres multiplied by Paramount's working interest therein.

Wells Drilled by Formation
(Net)



CORPORATE

In May 2013, the Company raised $150.9 million through the issuance of 4.0 million common shares. In October 2013, Paramount raised approximately $60 million through the issuance of 1.4 million CEE flow-through Common Shares.

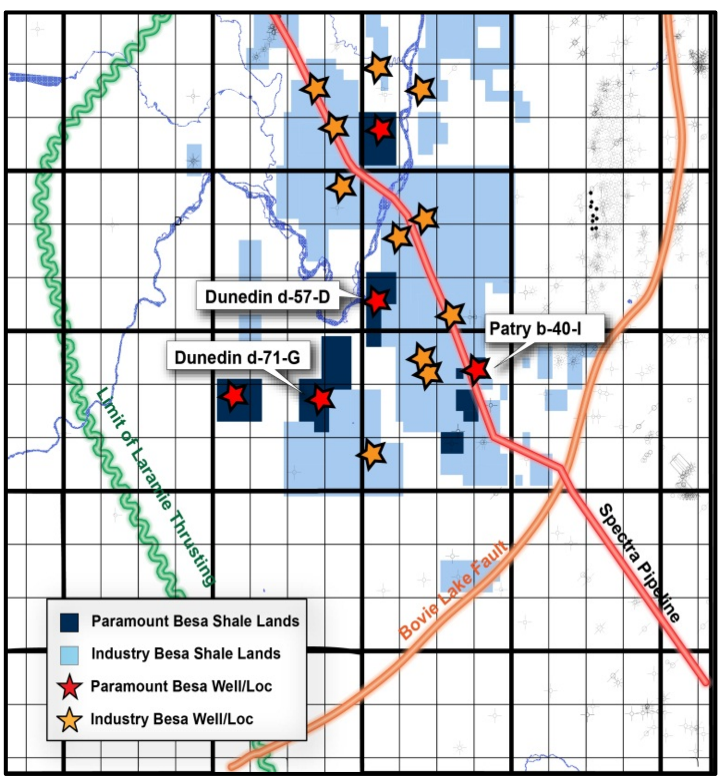
In December 2013, Paramount completed a $150 million re-opening of its 7⅝ percent senior notes due 2019 at a price of $1,007.50 per $1,000 principal amount.

The Company's bank credit facility was increased in 2013 from $300 million to $600 million. The revolving period and maturity date of the credit facility were extended to November 30, 2014 and November 30, 2015, respectively.

STRATEGIC INVESTMENTS

SHALE GAS

Paramount's shale gas land holdings encompass approximately 200 (167 net) sections in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories, including approximately 156 net sections with potential from the Besa River shale gas formation.



The Company finished drilling and completing its first horizontal shale gas exploration well at Patry in northeast British Columbia in the first quarter of 2013 and the well was brought-on production in late-December, following its tie-in to existing third-party infrastructure. Over its first 60 days of production, the well averaged 3.2 MMcf/d of natural gas. The results of the Patry well have been attributed to the well being drilled into a thinner portion of the Besa River shale formation along the eastern-most part of the Liard Basin.

At Dunedin, in the central portion of the Liard Basin, the Besa River shale formation is about four times thicker than it is at Patry. Paramount resumed drilling its Dunedin shale gas exploration well at d-57-D in September following the completion of a road to provide all-season access to the wellsite and other area lands. The well was drilled to a total measured depth of 6,000 meters, including a 1,600 meter horizontal leg, with significant pressures noted during drilling operations. While running production casing, the casing hanger packer system prematurely set, resulting in the liner becoming stuck in the wellbore. The Company is currently undertaking recovery operations to remove the liner materials. Following the recovery operation, the Company plans to complete the Dunedin well later in 2014, with tie-in operations to follow in 2015, pending test results from the well. In late-February 2014, Paramount moved an additional rig into Dunedin and has commenced drilling a vertical shale gas exploration well at d-71-G to preserve lands.

CAVALIER Energy Inc.

Cavalier Energy was created in 2011 as a self-funding entity to execute the development of the Company's oil sands and carbonate bitumen assets. Cavalier Energy holds approximately 200,000 net acres of Crown leases in the Western Athabasca region of Alberta.

Hoole Grand Rapids

Cavalier Energy's initial focus is to develop the Grand Rapids formation in its 100 percent owned in-situ oil sands leases in the Hoole area of Alberta (the "Hoole Project"). The Hoole Project is 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately $80 million has been invested through land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this asset to the development stage.

In November 2012, Cavalier Energy submitted regulatory applications for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Phase 1"). During 2013, front-end engineering and design work for Hoole Phase 1 was completed, along with geotechnical work and the drilling of additional delineation wells. Cavalier Energy's current activities are being funded with drawings on its $40 million credit facility.

Construction of Hoole Phase 1 is dependent upon the receipt of regulatory approvals, the securing of funding, and sanctioning by the Board of Directors. Cavalier Energy anticipates that regulatory approvals will be received by mid-2014 and is continuing to evaluate funding alternatives.

Cavalier Energy obtained an updated independent evaluation of its Hoole Project, effective December 31, 2013, from the Company's independent reserves evaluators. The evaluation ascribes 93.5 million barrels of probable undeveloped reserves to Hoole Phase 1 with a net present value of $301 million (before tax, discounted at 10 percent). In addition to these probable undeveloped reserves, the updated evaluation ascribes 746 million barrels of economic contingent resources (best estimate) with a net present value of

$1.5 billion (before tax, discounted at 10 percent) to Cavalier Energy's approximately 54 sections of additional Grand Rapids rights at Hoole that are not included in Hoole Phase 1 (the "Remaining Hoole Lands"). Results of the updated evaluation of the Remaining Hoole Lands are as follows:

Classification/Level of Certainty [1]	DEBIP [1]	Economic Contingent Resources [1]	NPV of Future Net Revenue [3] (before tax, discounted at 10%)
	(MMBbl)[2]	(MMBbl)[2]	($MM)
High Estimate	1,545	938	2,512
Best Estimate	1,544	746	1,511
Low Estimate	1,533	566	446

(1) See Oil Sands Resource Notes in the Advisories section of this document.
(2) MMBbl means millions of barrels.
(3) NPV of economic contingent resources, see Oil Sands Resource Notes in the Advisories section of this document.

Fox Drilling, a wholly-owned subsidiary of Paramount, owns five triple-sized rigs in Canada, including two new built-for-purpose walking rigs that were put into service in 2013.

Fox Drilling's rigs are designed to drill the deep horizontal wells that industry is currently focusing on. During 2013, all five rigs were deployed on the Company's Deep Basin lands. Paramount has achieved reductions in drilling days and costs from the efficiencies gained by utilizing Fox's fleet of rigs and maintaining the continuity of rig crews by drilling wells back-to-back.

The two new walking rigs are both currently drilling separate 10-well pads in the Kaybob COU, and the Company is realizing the benefit of the walking feature of the rigs as the time required to move from well to well is being measured in hours rather than days.

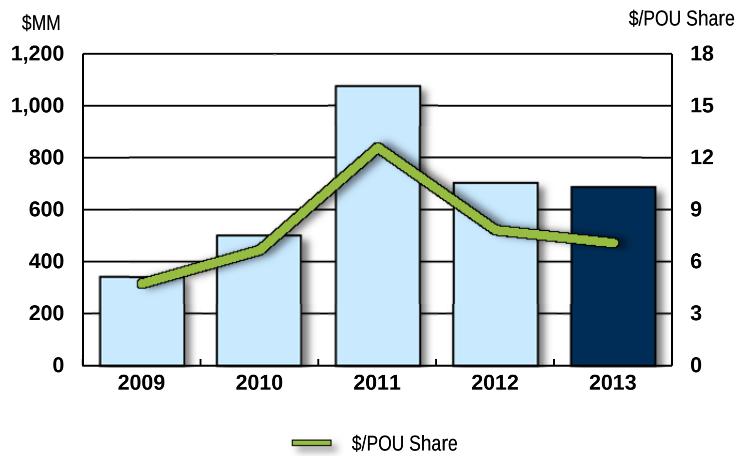
INVESTMENTS IN OTHER ENTITIES

Paramount holds investments in a number of publicly–traded and private corporations as part of its portfolio of strategic investments. The Company's investments in shares of Trilogy Energy and MGM Energy were principally obtained in the course of the spin-out of the entities from Paramount. Investments in shares of most other entities, including MEG Energy and Strategic Oil & Gas, were received as consideration for properties sold to the entities. Paramount's investments are summarized below:

Market Value [1]						
As at December 31	2013			2012		
	Shares (000's)	*($ millions)*	*($/share)*	*Shares (000's)*	*($ millions)*	*($/share)*
Trilogy Energy Corp.	19,144	$ 528.4	27.60	19,144	$ 557.3	29.11
MEG Energy Corp.	3,700	113.3	30.61	3,700	112.6	30.44
MGM Energy Corp.	54,147	8.7	0.16	54,147	13.5	0.25
Strategic Oil & Gas Ltd.	7,200	5.4	0.75	—	—	—
Other[2]		32.7			21.4	
		$ 688.5			$ 704.8	

[1] Based on the period-end closing price of publicly traded investments and book value of remaining investments.
[2] Includes investments in other public and private corporations.

Market Value of Investments



MANAGEMENT’S DISCUSSION & ANALYSIS

This Management’s Discussion and Analysis ("MD&A"), dated March 6, 2014, should be read in conjunction with the audited Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the year ended December 31, 2013. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company’s accounting policies have been applied consistently to all periods presented.

This document contains forward-looking information, non-GAAP measures and disclosure of certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Certain comparative figures have been reclassified to conform to the current years’ presentation. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company’s principal properties are primarily located in Alberta and British Columbia.

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

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

- the Kaybob COU, which includes properties in west central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in southern Alberta; and
- the Northern COU, which includes properties in northern Alberta and northeast British Columbia.

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

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

Highlights[1]

	2013	2012	2011
FINANCIAL			
Petroleum and natural gas sales – continuing operations	**230.7**	173.4	193.3
Petroleum and natural gas sales – discontinued operations	**1.8**	23.7	48.4
Petroleum and natural gas sales	**232.5**	197.1	241.7
Funds flow from operations – continuing operations	**71.9**	51.9	73.1
Funds flow from operations – discontinued operations	**(1.3)**	6.2	23.1
Funds flow from operations	**70.6**	58.1	96.2
per share – basic and diluted ($/share)	*0.75*	*0.67*	*1.23*
Loss from continuing operations	**(87.1)**	(64.7)	(241.9)
per share – basic and diluted ($/share)	*(0.93)*	*(0.75)*	*(3.08)*
Net loss	**(59.1)**	(61.9)	(232.0)
per share – basic and diluted ($/share)	*(0.63)*	*(0.71)*	*(2.96)*
Exploration and development expenditures	**624.9**	523.1	465.7
Investments in other entities – market value [2]	**688.5**	704.8	1,077.3
Total assets	**2,447.8**	2,037.0	1,725.7
Long-term debt	**882.6**	660.7	427.2
Net debt	**1,119.2**	701.4	513.4
OPERATIONAL			
Sales volumes [3]			
Natural gas (MMcf/d)	**106.1**	98.5	81.6
NGLs (Bbl/d)	**2,498**	1,873	1,542
Oil (Bbl/d)	**726**	1,620	2,291
Total (Boe/d)	**20,914**	19,917	17,426
Net wells drilled (excluding oil sands evaluation)	**37**	34	48
Net oil sands evaluation wells drilled	**6**	1	27
FUNDS FLOW FROM OPERATIONS ($/Boe) [3]			
Petroleum and natural gas sales	**30.46**	27.04	38.00
Royalties	**(1.42)**	(2.27)	(3.47)
Operating expense and production tax	**(9.52)**	(9.58)	(11.20)
Transportation	**(2.98)**	(2.98)	(3.23)
Netback	**16.54**	12.21	20.10
Financial commodity contract settlements	**–**	(0.02)	0.03
Insurance settlement	**–**	0.85	–
Netback including commodity contract and insurance settlements	**16.54**	13.04	20.13
General and administrative – corporate	**(1.66)**	(1.61)	(1.90)
General and administrative – strategic investments	**(0.89)**	(0.88)	(0.76)
Interest	**(6.69)**	(4.74)	(5.26)
Dividends from investments	**1.05**	1.10	1.79
Other	**0.89**	1.06	1.12
Funds flow from operations	**9.24**	7.97	15.12

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
(3) Amounts include the results of discontinued operations.

Consolidated Results

Net Loss

Year ended December 31	2013	2012	2011
Principal Properties	**(28.2)**	(157.5)	(260.6)
Strategic Investments	**5.3**	134.0	5.1
Corporate	**(82.8)**	(65.6)	(61.1)
Income tax recovery	**18.6**	24.4	74.7
Loss from continuing operations	**(87.1)**	(64.7)	(241.9)
Discontinued operations, net of tax	**28.0**	2.8	9.9
Net loss	**(59.1)**	(61.9)	(232.0)

Paramount recorded a loss from continuing operations of $87.1 million for the year ended December 31, 2013 compared to a loss from continuing operations of $64.7 million in 2012. Significant factors contributing to the change are shown below:

Year ended December 31	
Loss from continuing operations – 2012	**(64.7)**
• Lower income from equity-accounted investments mainly due to a $157.2 million gain in 2012 on the sale of 5.0 million shares of Trilogy Energy Corp. ("Trilogy")	(132.0)
• Higher interest expense due to increased debt	(17.3)
• Lower other income mainly due to a $6.2 million insurance settlement in 2012	(7.5)
• Loss on financial commodity contracts in 2013 compared to a gain in 2012	(6.5)
• Lower income tax recovery	(5.8)
• Lower depletion, depreciation and impairment mainly due to lower impairment write-downs of petroleum and natural gas properties in 2013	96.0
• Higher netback primarily due to higher realized prices and higher natural gas and NGLs sales volumes	44.2
• Higher gains on the sale of property, plant and equipment related to continuing operations	6.3
• Other	0.2
Loss from continuing operations – 2013	**(87.1)**

In March 2013, Paramount sold its Northern COU properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories (the "Northern Discontinued Operations") for proceeds of $9.1 million.

In May 2012, Paramount's wholly-owned subsidiary, Summit Resources, Inc., closed the sale of all of its operated properties in North Dakota and all of its properties in Montana (the "Southern Discontinued Operations") for after-tax cash proceeds of $66.5 million.

These properties were included in the Company's Principal Properties business segment.

Discontinued operations for the year ended December 31, 2013 include the results of the Northern Discontinued Operations. Discontinued operations for the year ended December 31, 2012 include the results of the Northern Discontinued Operations and Southern Discontinued Operations.

Income from discontinued operations ("IFDO") for the year ended December 31, 2013 of $28.0 million includes a pre-tax loss of $1.6 million from ordinary activities of the Northern Discontinued Operations, a $39.0 million pre-tax gain on the sale of the Northern Discontinued Operations and tax expense of $9.4 million. IFDO for the year ended December 31, 2012 includes a pre-tax loss from ordinary activities of the Northern Discontinued Operations of $36.7 million, pre-tax income from ordinary activities of the Southern Discontinued Operations of $5.0 million, a pre-tax gain of $50.8 million on the sale of the Southern Discontinued Operations, and tax expense of $16.3 million. IFDO for the year ended December 31, 2013 was $25.2 million higher than in 2012, primarily as a result of impairment write-downs related to the Northern Discontinued Operations recorded in 2012.

Paramount recorded a loss from continuing operations of $64.7 million for the year ended December 31, 2012 compared to a loss from continuing operations of $241.9 million in 2011. Significant factors contributing to the change are shown below:

Year ended December 31	
Loss from continuing operations – 2011	**(241.9)**
• Higher income from equity-accounted investments mainly due to a $157.2 million gain on the sale of 5.0 million shares of Trilogy in 2012	152.1
• Lower depletion, depreciation and impairment mainly due to lower write-downs of petroleum and natural gas properties and goodwill	95.8
• Higher gains on the sale of property, plant and equipment related to continuing operations	21.6
• Lower income tax recovery compared to 2011	(50.4)
• Lower netback primarily due to a 27 percent decrease in average realized prices	(22.2)
• Lower other income, mainly because 2011 included gains related to previous investments in NuLoch Resources Inc. and ProspEx Resources Ltd.	(10.1)
• Higher stock-based compensation expense	(7.6)
• Higher exploration and evaluation expense mainly due to higher dry hole expense	(6.0)
• Other	4.0
Loss from continuing operations – 2012	**(64.7)**

IFDO for the year ended December 31, 2012 was $2.8 million, $7.1 million lower than in 2011. IFDO in 2012 included a $50.8 million pre-tax gain on the sale of discontinued operations. IFDO for the year ended December 31, 2011 included a $37.2 million pre-tax gain on the sale of undeveloped land. The netback from discontinued operations in 2012 was $16.8 million lower than in 2011 because of a partial year of operations from the Southern Discontinued Operations as a result of their May 2012 sale and lower netbacks in 2012 from the Northern Discontinued Operations.

Funds Flow from Operations [1] [2]

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

Year ended December 31	2013	2012	2011
Cash from operating activities	44.9	55.2	84.9
Change in non-cash working capital	12.2	(12.1)	(3.0)
Geological and geophysical expenses	7.2	7.0	6.8
Asset retirement obligations settled	6.3	8.0	7.5
Funds flow from operations	**70.6**	58.1	96.2
Funds flow from operations ($/Boe)	**9.24**	7.97	15.12

[1] Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
[2] Includes the results of discontinued operations.

Year ended December 31	2013	2012	2011
Funds flow from operations			
Continuing operations	71.9	51.9	73.1
Discontinued operations	(1.3)	6.2	23.1
Funds flow from operations	**70.6**	58.1	96.2

Funds flow from operations in 2013 attributable to continuing operations was $71.9 million, $20.0 million higher than 2012. The increase was primarily due to higher netbacks resulting from a 19 percent increase in average realized prices and a 12 percent increase in continuing operations sales volumes, partially offset by higher interest expense and lower other income due to a $6.2 million business interruption insurance settlement received in 2012. Funds flow from operations in 2013 attributable to discontinued operations decreased by $7.5 million compared to the prior year because 2012 included a partial year of operations from the Southern Discontinued Operations as a result of their May 2012 sale.

Funds flow from operations in 2012 attributable to continuing operations decreased $21.2 million compared to 2011, primarily because of the impact of a 27 percent decrease in average realized prices, partially offset by higher other income, primarily due to $6.2 million in cash proceeds from a business interruption insurance settlement. Funds flow from operations attributable to discontinued operations in 2012 decreased by $16.9 million compared to 2011 because 2012 includes a partial year of operations from the Southern Discontinued Operations as a result of their May 2012 sale and because of lower netbacks in 2012 from the Northern Discontinued Operations.

Discontinued Operations

Results of the Northern Discontinued Operations have been presented as discontinued operations in the current and prior year. Results of the Southern Discontinued Operations have been presented as discontinued operations in 2012. Comparative results have been adjusted to conform to the current year's basis of presentation. The Principal Properties section of this Management's Discussion & Analysis provides an analysis of the results of the Company's continuing operations. The following tables reconcile Paramount's loss from continuing operations, income from discontinued operations and net loss:

Income (loss) from Continuing Operations ("CO") and Discontinued Operations ("DO")

Year ended December 31	2013						2012					
	CO	DO	Total	CO	DO	Total	CO	DO	Total	CO	DO	Total
	($ millions)			($/Boe except natural gas)[1]			($ millions)			($/Boe except natural gas)[1]		
Natural gas revenue	137.6	0.7	138.3	3.57	2.82	3.57	93.3	4.9	98.2	2.72	2.74	2.72
NGLs revenue	68.1	—	68.1	74.73	—	74.73	45.3	0.7	46.0	67.02	73.20	67.10
Oil revenue	22.1	1.1	23.2	87.61	84.75	87.47	31.2	18.1	49.3	83.67	82.30	83.16
Royalty and sulphur revenue	2.9	—	2.9	—	—	—	3.6	–	3.6	–	–	–
Petroleum and natural gas sales	230.7	1.8	232.5	30.44	32.95	30.46	173.4	23.7	197.1	25.64	45.01	27.04
Royalties	(10.8)	—	(10.8)	(1.43)	—	(1.42)	(14.3)	(2.2)	(16.5)	(2.11)	(4.27)	(2.27)
Operating expense	(69.8)	(2.9)	(72.7)	(9.22)	(52.54)	(9.52)	(55.6)	(14.3)	(69.9)	(8.22)	(26.96)	(9.58)
Transportation	(22.6)	(0.2)	(22.8)	(2.97)	(4.27)	(2.98)	(20.2)	(1.6)	(21.8)	(2.99)	(2.99)	(2.98)
Netback	127.5	(1.3)	126.2	16.82	(23.86)	16.54	83.3	5.6	88.9	12.32	10.79	12.21
Financial commodity contract settlements	—	—	—	—	—	—	(0.1)	–	(0.1)	(0.02)	–	(0.02)
Insurance settlement	—	—	—	—	—	—	6.2	–	6.2	0.92	–	0.85
Netback including commodity contract and insurance settlements	127.5	(1.3)	126.2	16.82	(23.86)	16.54	89.4	5.6	95.0	13.22	10.79	13.04
General and administrative	(19.5)	—	(19.5)	(2.57)	—	(2.55)	(18.1)	–	(18.1)	(2.68)	–	(2.49)
Interest	(51.1)	—	(51.1)	(6.74)	—	(6.69)	(34.6)	–	(34.6)	(5.11)	–	(4.74)
Dividends from investments	8.0	—	8.0	1.06	—	1.05	8.0	–	8.0	1.19	–	1.10
Other	7.0	—	7.0	0.91	—	0.89	7.2	0.6	7.8	1.06	0.95	1.06
Funds flow from operations	71.9	(1.3)	70.6	9.48	(23.86)	9.24	51.9	6.2	58.1	7.68	11.74	7.97
DD&A / Accretion	(156.0)	(0.3)	(156.3)				(251.8)	(37.1)	(288.9)			
Gain on sale of PP&E	32.7	39.0	71.7				26.4	50.8	77.2			
Stock-based compensation	(25.9)	—	(25.9)				(29.1)	–	(29.1)			
Income from equity-acct. investments	21.4	—	21.4				153.3	–	153.3			
Other	(49.8)	—	(49.8)				(39.8)	(0.8)	(40.6)			
Income tax (expense) recovery	18.6	(9.4)	9.2				24.4	(16.3)	8.1			
Net income (loss)	(87.1)	28.0	(59.1)				(64.7)	2.8	(61.9)			

[1] Natural gas revenue shown per Mcf.

Principal Properties

Netback and Segment Loss – Continuing Operations

Year ended December 31	**2013**		2012	
		($/Boe)		*($/Boe)*
Petroleum and natural gas sales	**230.7**	*30.44*	173.4	*25.64*
Royalties	**(10.8)**	*(1.43)*	(14.3)	*(2.11)*
Operating expense	**(69.8)**	*(9.22)*	(55.6)	*(8.22)*
Transportation	**(22.6)**	*(2.97)*	(20.2)	*(2.99)*
Netback	**127.5**	*16.82*	83.3	*12.32*
Financial commodity contract settlements	–	–	(0.1)	*(0.02)*
Insurance settlement	–	–	6.2	*0.92*
Netback including commodity contract and insurance settlements	**127.5**	*16.82*	89.4	*13.22*
Other principal property items (see below)	**(155.7)**		(246.9)	
Segment loss	**(28.2)**		(157.5)	

Petroleum and Natural Gas Sales – Continuing Operations

Year ended December 31	**2013**	2012	% Change
Natural gas	**137.6**	93.3	47
NGLs	**68.1**	45.3	50
Oil	**22.1**	31.2	(29)
Royalty and sulphur revenue	**2.9**	3.6	(19)
	230.7	173.4	33

Petroleum and natural gas sales in 2013 were $230.7 million, an increase of $57.3 million from the prior year, primarily due to higher realized prices and higher natural gas and NGLs sales volumes, partially offset by lower oil sales volumes.

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

	Natural gas	**NGLs**	**Oil**	**Royalty and Sulphur**	**Total**
Year ended December 31, 2012	93.3	45.3	31.2	3.6	173.4
Effect of changes in prices	32.8	7.0	1.0	–	40.8
Effect of changes in sales volumes	11.5	15.8	(10.1)	–	17.2
Change in royalty and sulphur revenue	–	–	–	(0.7)	(0.7)
Year ended December 31, 2013	**137.6**	**68.1**	**22.1**	**2.9**	**230.7**

Sales Volumes

	Year ended December 31											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Kaybob	**72.1**	59.5	21	**1,365**	924	48	**29**	62	(53)	**13,402**	10,910	23
Grande Prairie	**20.0**	20.9	(4)	**809**	749	8	**322**	307	5	**4,459**	4,536	(2)
Southern	**9.5**	9.7	(2)	**255**	158	61	**342**	647	(47)	**2,179**	2,419	(10)
Northern	**3.8**	3.5	9	**67**	17	294	**—**	—	—	**725**	609	19
Continuing Ops	**105.4**	93.6	13	**2,496**	1,848	35	**693**	1,016	(32)	**20,765**	18,474	12
Discontinued Ops	0.7	4.9	(86)	2	25	(92)	33	604	(95)	149	1,443	(90)
Total	106.1	98.5	8	2,498	1,873	33	726	1,620	(55)	20,914	19,917	5

Natural gas sales volumes increased 11.8 MMcf/d or 13 percent to 105.4 MMcf/d in 2013 compared to 93.6 MMcf/d in 2012. NGLs sales volumes increased 648 Bbl/d or 35 percent to 2,496 Bbl/d in 2013 compared to 1,848 Bbl/d in 2012. The Company's 45 MMcf/d natural gas refrigeration processing facility (the "Musreau Refrig Facility") was re-commissioned in March 2012, allowing the Company to begin producing incremental volumes that had been shut-in because of limited processing capacity. Increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2012 / 2013 drilling program at Musreau and Smoky within the Kaybob COU, including liquids-rich Montney wells. The increase in NGLs sales includes an increase in condensate volumes, which comprised 64 percent of total NGLs sales in 2013 (2012 – 57 percent).

Oil sales volumes decreased 32 percent to 693 Bbl/d in 2013 compared to 1,016 Bbl/d in 2012. The decrease in oil sales volumes is primarily due to the sale of properties in the Southern COU.

In 2013, Paramount's production within the Kaybob COU continued to be constrained by available owned and contracted natural gas processing capacity, pending completion of the new and expanded deep cut facilities at Musreau and Smoky. The constraints are expected to abate in 2014 following startup of the Musreau Deep Cut Facility and the completion of expansions to third-party downstream NGLs facilities, which will allow the Company to bring wells on production that have been shut-in on a temporary basis awaiting additional processing capacity.

The ability of Paramount to maximize production through Company-owned and third-party facilities in 2013 was impacted by various third-party downstream disruptions and capacity constraints ("Third-Party Disruptions") in the Kaybob and Grande Prairie COUs. The Third-Party Disruptions mainly related to apportionments of transportation and processing capacity and down-time because of maintenance at third-party natural gas processing facilities. The trucking of condensate production from well sites, which partially mitigated NGLs pipeline constraints, was temporarily suspended between May and August due to spring road bans and heavy rainfall. As a result, the Company estimates that average sales volumes were curtailed by approximately 3,500 Boe/d during 2013. Paramount's operations were also impacted by the temporary shut-in of multi-well pads to bring new wells on production and maintenance downtime at Company-owned facilities.

Average Realized Prices – Continuing Operations

Year ended December 31	2013	2012	% Change
Natural gas ($/Mcf)	**3.57**	2.72	31
NGLs ($/Bbl)	**74.73**	67.02	12
Oil ($/Bbl)	**87.61**	83.67	5
Total ($/Boe)	**30.44**	25.64	19

Paramount's average realized price for natural gas increased 31 percent in 2013 compared to the prior year, consistent with increases in benchmark AECO natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market and California market and is sold in a combination of daily and monthly contracts.

Paramount's NGLs and oil sales portfolio primarily consists of sales priced relative to Alberta and United States market indexes, adjusted for transportation and quality differentials.

Commodity Prices

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

	2013	2012	% Change
Natural Gas			
AECO daily spot (CDN$/GJ)	**3.13**	2.43	29
AECO monthly index (CDN$/GJ)	**3.00**	2.28	32
NYMEX (Henry Hub – US$/MMbtu)	**3.68**	2.80	31
Crude Oil			
Edmonton par (CDN$/Bbl)	**93.24**	86.53	8
West Texas Intermediate (US$/Bbl)	**97.98**	94.19	4
Foreign Exchange			
$CDN / 1 $US	**1.03**	1.00	3

Commodity Price Management

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

Payments on the settlement of financial commodity contracts are as follows:

Year ended December 31	2013	2012
Oil Contracts	—	(0.1)

At December 31, 2013, Paramount had the following financial commodity contracts outstanding:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $92.43/Bbl	(1.0)	January – June 2014
Oil – NYMEX WTI Swap	2,000 Bbl/d	US $91.78/Bbl	(3.0)	January – December 2014
			(4.0)	

Subsequent to December 31, 2013, the Company entered into the following financial commodity sales contracts:

Instrument	Total Notional	Average Fixed Price	Remaining Term
Natural Gas – AECO Swap	20,000 GJ/d	CAD$4.45/GJ	April – October 2014

Royalties – Continuing Operations

Year ended December 31	2013	Rate	2012	Rate
Royalties	10.8	4.7%	14.3	8.4%

Royalties decreased $3.5 million to $10.8 million in 2013 compared to $14.3 million in 2012, primarily as a result of a greater proportion of production qualifying for Alberta new well royalty incentive programs, partially offset by the impact of higher revenues. Royalties for the year ended December 31, 2013 also decreased $2.7 million as a result of annual gas cost allowance adjustments related to 2012. Excluding the impact of the gas cost allowance adjustments, Paramount's 2013 royalty rate decreased to six percent.

Operating Expense – Continuing Operations

Year ended December 31	2013	2012	% Change
Operating expense	69.8	55.6	26

Operating expense increased $14.2 million or 26 percent in 2013 to $69.8 million compared to $55.6 million in 2012, primarily related to higher production from new wells at Musreau and Smoky within the Kaybob COU and at Birch in the Northern COU, and higher costs within the Grande Prairie COU including well maintenance, temporary equipment rentals, and the impact of third-party processing facility equalizations.

Paramount's operating expenses were $9.22 per Boe in 2013 compared to $8.22 per Boe in 2012, mainly because of higher costs within the Grande Prairie COU including well maintenance, temporary equipment rentals and the impact of third-party processing facility equalizations. Paramount's per unit operating costs are expected to decrease in 2014 as a higher proportion of its production will be from its lower cost Kaybob properties.

Transportation – Continuing Operations

Year ended December 31	2013	2012	% Change
Transportation	**22.6**	20.2	12

Transportation expense was $22.6 million in 2013, an increase of $2.4 million compared to 2012, primarily due to higher variable transportation costs related to higher sales volumes including the additional cost of trucking condensate from well sites in 2013. The increase in variable costs was partially offset by the expiry of a long-term natural gas transportation export agreement in the fourth quarter of 2012, which reduced current year fixed transportation costs. Transportation per Boe was $2.97 in 2013 and $2.99 per Boe in 2012.

Other Principal Property Items – Continuing Operations

Year ended December 31	2013	2012
Commodity contracts – net of settlements	**4.0**	(2.6)
Depletion and depreciation (excluding impairment)	**144.1**	140.7
Impairment	**6.5**	106.1
Exploration and evaluation	**34.7**	31.5
Gain on sale of property, plant and equipment	**(32.3)**	(26.4)
Accretion of asset retirement obligations	**3.1**	2.9
Other	**(4.4)**	(5.3)
Total	**155.7**	246.9

Depletion and depreciation expense (excluding impairment) increased to $144.1 million ($19.01 per Boe) in 2013 compared to $140.7 million ($20.81 per Boe) in 2012, mainly due to higher production volumes.

The Company recorded a net impairment write-down of its petroleum and natural gas assets totaling $6.5 million in 2013 (2012 – $106.1 million), comprised of write-downs totaling $37.3 million in the Southern and Northern cash generating units ("CGU"), net of an impairment reversal of $30.8 million in respect of the Grande Prairie CGU.

The impairment write-downs in the Southern and Northern CGUs were recorded because the carrying value of their properties exceeded their recoverable amounts, which were estimated based on expected discounted cash flows from the production of proved and probable reserves. The impairments resulted from a combination of declines in reserves assigned due to well performance and, in the Southern CGU, the sale of properties with recoverable amounts that exceeded their carrying values.

The reversal of previously recorded impairment write-downs in the Grande Prairie CGU resulted from increases in reserves assigned to the CGU due to recent drilling programs. The reversal was recorded to the extent that the recoverable amount ascribed to the Grande Prairie CGU exceeded the carrying value of its properties.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Exploration and evaluation expense included expired lease costs of $14.4 million ($18.7 million – 2012) and dry hole expense of $14.0 million ($6.4 million – 2012), primarily from exploratory wells in the Grande Prairie and Southern COUs.

The gain on sale of property, plant and equipment of $32.3 million recorded in 2013 relate primarily to the sale of lands in the Ante Creek area of Alberta and the sale of non-core properties in the Southern COU.

In February 2014, Paramount entered into an agreement to sell its properties in the Chain-Delia area within the Southern COU for approximately $12 million in shares of a TSX Venture Exchange listed company. The properties had average 2013 production of approximately 6 MMcf/d of natural gas. The transaction is scheduled to close in the first quarter of 2014.

Strategic Investments

Year ended December 31	2013	2012
Income from equity–accounted investments	**21.4**	153.3
Drilling rig revenue	**4.2**	7.5
Drilling rig expense	**(1.9)**	(4.7)
General and administrative	**(6.8)**	(6.4)
Stock-based compensation	**(7.2)**	(10.9)
Interest	**(2.4)**	(1.5)
Other	**(2.0)**	(3.3)
Segment income	**5.3**	134.0

Income from equity-accounted investments in 2013 includes a $25.7 million dilution gain, partially offset by $4.3 million of equity losses. In 2012, Paramount closed the sale of 5.0 million of its Trilogy shares for net cash proceeds of $181.7 million, recognizing a gain of $157.2 million.

Strategic Investments at December 31, 2013 include:

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

Investments

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of strategic investments. The Company's investment in shares of Trilogy and MGM Energy were principally obtained in the course of the spin-out of the entities from Paramount. Investments in shares of most other entities, including MEG, were received as consideration for properties sold to the entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value [1]	
As at December 31	**2013**	2012	**2013**	2012
Trilogy	**97.4**	82.4	**528.4**	557.3
MEG	**113.3**	112.6	**113.3**	112.6
MGM Energy	**1.2**	2.3	**8.7**	13.5
Strategic	**5.4**	—	**5.4**	—
Other [2]	**32.7**	21.4	**32.7**	21.4
Total	**250.0**	218.7	**688.5**	704.8

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.
(2) Includes investments in other public and private corporations.

Cavalier Energy

In November 2012, Cavalier Energy submitted regulatory applications for the initial 10,000 Bbl/d phase of the Hoole Grand Rapids development ("Hoole Grand Rapids Phase 1"). During 2013, Cavalier Energy completed front-end engineering and design work for Hoole Grand Rapids Phase 1, along with geotechnical work and the drilling of additional delineation wells. Cavalier Energy's current activities are being funded with drawings on its $40 million credit facility.

Construction of Hoole Grand Rapids Phase 1 is dependent upon the receipt of regulatory approvals, securing funding, and sanctioning by the Board of Directors. Cavalier Energy anticipates regulatory approvals will be received by mid-2014 and is continuing to evaluate funding alternatives.

Shale Gas

The Company finished drilling and completing its first horizontal shale gas exploration well at Patry in northeast British Columbia in the first quarter of 2013 and the well was brought-on production in late-December, following its tie-in to existing third-party infrastructure. Over its first 60 days of production, the well averaged 3.2 MMcf/d of natural gas. The results of the Patry well have been attributed to the well being drilled into a thinner portion of the Besa River shale formation along the eastern-most part of the Liard Basin.

At Dunedin, in the central portion of the Liard Basin, the Besa River shale formation is about four times thicker than it is at Patry. Paramount resumed drilling its Dunedin shale gas exploration well at d-57-D in September following the completion of a road to provide all-season access to the wellsite and other area lands. The well was drilled to a total measured depth of 6,000 meters, including a 1,600 meter horizontal leg. While running production casing, the casing hanger packer system prematurely set, resulting in the liner becoming stuck in the wellbore. The Company is currently undertaking recovery operations to remove the liner materials. Following the recovery operation, the Company plans to complete the Dunedin well later in 2014, with tie-in operations to follow in 2015, pending test results from the well. In late-February 2014, Paramount moved an additional rig into Dunedin and has commenced drilling a vertical shale gas exploration well at d-71-G to preserve lands.

Fox Drilling

Fox Drilling owns five triple-sized rigs in Canada, including two new built-for-purpose walking rigs that were put into service in 2013. Fox Drilling's rigs are designed to drill the deep horizontal wells that the industry is currently focusing on. During 2013, all five rigs were deployed on the Company's Deep Basin lands. When the drilling rigs drill on a property owned by Paramount, the Company capitalizes its working interest share of the drilling expenses and eliminates the associated drilling revenue. Drilling rig revenue and drilling rig expense above relate to the working interest share of joint venture partners in such amounts.

Corporate

Year ended December 31	2013	2012
Interest	50.2	33.8
General and administrative	12.7	11.7
Stock-based compensation	18.7	18.2
Depreciation	0.7	0.3
Foreign exchange	0.5	1.6
Segment loss	**82.8**	65.6

The Corporate segment loss increased to $82.8 million in 2013 compared to $65.6 million in 2012, primarily as a result of higher interest expense as a result of higher 2013 debt levels.

Paramount's 2013 corporate general and administrative costs were $12.7 million compared to $11.7 million in 2012.

Taxes

Based on the current tax regime, and the Company's available tax pools and anticipated level of operations, Paramount does not expect to be cash taxable in the near future. At December 31, 2013, Paramount's income tax pools are as follows:

As at December 31	2013
Canadian oil and gas property expense	174.0
Canadian development expense	453.3
Canadian exploration expense	398.6
Undepreciated capital cost	638.0
Non-capital losses	601.5
Financing costs and other	29.0
Total federal tax pools	**2,294.4**

Exploration and Capital Expenditures

Year ended December 31	2013	2012
Geological and geophysical	**6.3**	6.0
Drilling, completion and tie-ins	**451.6**	304.6
Facilities and gathering	**167.0**	212.5
Exploration and development expenditures (1)	**624.9**	523.1
Land and property acquisitions	**20.3**	25.2
Principal Properties	**645.2**	548.3
Strategic Investments (2)	**92.3**	82.5
Corporate	**5.8**	0.4
	743.3	631.2

(1) Exploration and development expenditures include $12.1 million of capitalized interest (2012 - $4.6 million).
(2) Strategic Investments include $1.0 million of capitalized interest (2012 - $0.4 million).

Exploration and development ("E&D") expenditures in 2013 were $624.9 million compared to $523.1 million in 2012. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU where advance drilling is continuing for the new and expanded deep cut facilities. The Company also drilled and completed wells at Karr-Gold Creek in the Grande Prairie COU. Facilities and gathering expenditures focused on the new and expanded deep cut facilities at Musreau and Smoky.

Strategic investments capital expenditures for 2013 included $57.5 million related to the Company's exploratory shale gas drilling activities at Dunedin and Patry in Northeast British Columbia, $17.6 million related to completing the construction of two triple-sized walking drilling rigs and re-certifying an existing rig, and $17.2 million related to front-end engineering and design, geotechnical work, and the drilling of additional delineation wells in Cavalier Energy.

The Company's E&D and strategic investments spending, excluding land acquisitions and capitalized interest, totaled $704.1 million in 2013, $95.9 million less than Paramount's increased 2013 capital budget of $800 million. Planned drilling, completion, tie-in and gathering system projects for the fourth quarter within the Kaybob and Grande Prairie COUs were impacted by site access restrictions caused by unusually heavy snowfall. Completion operations planned for the shale gas exploration well at Dunedin in the fourth quarter were delayed until 2014, as work to prepare the well for completion continued through year-end. Aggregate spending on facilities projects was also lower than expected.

Wells drilled were as follows:

	2013		2012	
	Gross (1)	**Net** (2)	Gross (1)	Net (2)
Natural gas	**44**	**35**	44	34
Oil	**3**	**2**	1	–
Oil sands evaluation	**6**	**6**	1	1
Total	**53**	**43**	46	35

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

Kaybob Deep Basin Development

The Musreau Deep Cut Facility is scheduled to startup in the second quarter of 2014. Mechanical construction is substantially complete and activities at the site are focused on completing the final stages of the electrical and instrumentation work. Commissioning of individual components of the facility commenced in December 2013. Activities at the site were impacted by third-party labour shortages and severe weather conditions in late-January and February 2014 which have prolonged the remaining work and the commissioning process. As a result of these changes, the Company is accelerating work originally planned for later in the year to integrate the amine processing train and the condensate stabilizer expansion to minimize downtime later in 2014 when these additional components are started-up. The expected total cost of the facility remains at approximately $190 million, in-line with the original budget.

The Company continues to advance the construction of the amine processing train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. This project is expected to cost approximately $45 million, will reduce equipping costs per well by over $1 million and result in lower ongoing well operating costs. Major components for the amine processing train are being delivered to the plant site, with construction and installation activities scheduled to be completed in the fourth quarter of 2014.

Condensate yields from Paramount's new Montney wells at Musreau exceeded expectations in 2012. As a result, the Company initiated a project to expand the condensate stabilizer system servicing the Musreau Deep Cut Facility and the Musreau Refrig Facility by 15,000 Bbl/d to process the anticipated incremental liquids volumes (the "Stabilizer Expansion"). Long-lead time components have been ordered and the project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million. Upon start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d when the Stabilizer Expansion becomes operational. Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing.

Site work on the non-operated Smoky deep cut facility expansion (the "Smoky Deep Cut Facility") continues, with process equipment delivered and mechanical work underway. The expansion is scheduled to be commissioned in the third quarter of 2014. Paramount was advised by the third-party operator that it expects the existing Smoky 100 MMcf/d dew-point facility will be shut-down for approximately two months commencing in the second quarter of 2014 to complete its integration with the expansion. Paramount's share of the Smoky Deep Cut Facility expansion costs is expected to total $75 million, of which approximately $50 million has been incurred to December 31, 2013.

Paramount is continuing the preliminary planning for construction of additional natural gas processing facilities in the Deep Basin. The specific location, capacity and construction timeline of proposed new facilities are currently under review. A decision to proceed is anticipated later in 2014 following the ramp-up of the Musreau Deep Cut Facility and obtaining additional well performance data, including NGLs yields.

Paramount completed the drilling of 31 (26.2 net) wells in the Kaybob COU in 2013, including 13 (12.3 net) Montney wells and 16 (11.9 net) Falher wells. The majority of these new wells have been completed and tied-in and will be brought-on production when the Musreau Deep Cut Facility commences operation. The 2013 drilling program included six pad sites that accounted for 19 of the 31 wells drilled. In addition, Paramount's two walking drilling rigs are each drilling 10-well Montney pads, which are expected to be finished drilling in the second quarter of 2014.

As of February 28, 2014, the Company's behind pipe well inventory in the Kaybob Deep Basin was 66 (47.9 net) wells, including wells previously produced that have been temporarily shut-in due to capacity constraints. Production from these wells will be processed through the Musreau and Smoky deep cut facilities and Paramount's other Kaybob area capacity.

Kaybob COU sales volumes will start to increase in the second quarter of 2014 as the Musreau Deep Cut Facility starts up and will increase further as the Company's other infrastructure projects are completed and additional third-party NGLs processing capacity becomes available. The precise timing of the increases will depend upon the Company's working interest in wells processed through its facilities, the liquids content of the wells brought-on production and the period in which third-party de-ethanization capacity becomes available, among other factors.

Outlook

The Company's 2014 exploration and development ("E&D") and strategic investments capital budget is $650 million, excluding land acquisitions and capitalized interest. Paramount's E&D investments will primarily focus on the Company's Deep Basin developments, including drilling and completing wells in Kaybob to feed the new deep cut facilities and at Karr-Gold Creek to further delineate the middle and upper Montney formation. Spending will also be directed to facilities projects including completion of the deep cut projects at Musreau and at Smoky, the amine processing train and the condensate stabilizer expansion. In the Southern and Northern COUs, up to eight wells are planned to be drilled to explore new opportunities and for land retention. Strategic Investments spending in 2014 will be directed towards completing the d-57-D shale gas exploration well at Dunedin and drilling an additional vertical shale gas exploration well at Dunedin for land retention.

Fourth quarter 2013 sales volumes averaged approximately 20,000 Boe/d and Paramount expects sales volumes to continue at that level, after giving effect to the first quarter Chain area disposition. Paramount will begin to ramp-up production as the Musreau Deep Cut Facility starts up, additional components of the Company's Kaybob area infrastructure are completed and third-party de-ethanization capacity becomes available. Sales volumes are expected to reach approximately 50,000 Boe/d in 2014 and increase to approximately 70,000 Boe/d in 2015, depending upon the availability of downstream third-party de-ethanization capacity.

Liquidity and Capital Resources

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

As at December 31	2013	2012	% Change
Adjusted working capital deficit (surplus) (1)	**151.8**	(9.3)	NM
Demand facilities	**75.6**	40.7	86
Credit facility	**71.8**	—	100
Senior Notes (2)	**820.0**	670.0	22
Net debt (3)	**1,119.2**	701.4	60
Share capital	**1,169.2**	921.7	27
Accumulated deficit	**(224.6)**	(165.5)	(36)
Reserves	**87.6**	94.9	(8)
Total Capital	**2,151.4**	1,552.5	39

(1) Adjusted working capital excludes risk management assets and liabilities, demand facilities, assets and liabilities held for sale, and accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2013 – $9.5 million, December 31, 2012 – $10.8 million).
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.
NM – Not meaningful.

Paramount had an adjusted working capital deficit at December 31, 2013 of $151.8 million compared to a surplus of $9.3 million at December 31, 2012. The adjusted working capital deficit at December 31, 2013 included $10.7 million of cash and cash equivalents, $39.3 million of accounts receivable and $204.0 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending related to the Company's 2013 capital program, partially offset by proceeds from equity issuances, the December 2013 senior notes offering, funds flow from operations, drawings on credit facilities, and proceeds from the sale of non-core properties.

Paramount raised approximately $420 million in aggregate cash proceeds in 2013 through financing transactions, the sale of non-core oil and gas properties and the sale of investments (the "2013 Transactions"). These transactions included the public offering and private placement of 5.4 million Common Shares, of which 1.4 million Common Shares were issued on a “flow-through” basis, and the public offering of $150 million aggregate principal amount of additional 2019 senior notes. Proceeds from the 2013 Transactions were used, and are expected to be used, to further the development and exploration of Paramount's properties, including drilling and completion work on properties within the Kaybob, Grande Prairie and northeast British Columbia areas, and the construction and expansion of the Company's Kaybob natural gas processing and associated facilities. Proceeds from Common Shares issued on a “flow-through” basis were used, and are expected to be used, to incur eligible Canadian Exploration Expenses.

Paramount raised approximately $710 million in aggregate cash proceeds in 2012 through financing transactions, the sale of investments and the sale of non-core oil and gas properties (the “2012 Transactions”). These transactions included a public offering of $300 million aggregate principal amount of 2019 senior notes, public offerings and private placements of 4.2 million Common Shares issued on a “flow-through” basis, and the sale of a portion of the Company's investment in Trilogy for $181.7 million. Proceeds from the 2012 Transactions were used for drilling and completion work within the Kaybob, Grande Prairie and northeast British Columbia areas, and facilities construction within the Kaybob and Grand Prairie areas. Paramount incurred sufficient qualifying expenditures to satisfy commitments associated with flow-through Common Shares issued in 2012.

Paramount expects to fund its 2014 operations, obligations and capital expenditures with funds flow from operations, drawings on its bank credit facilities, existing cash and cash equivalents and by accessing the capital markets, if required. The Company's bank credit facility was increased to $600 million in November 2013, of which $71.8 million was drawn as of December 31, 2013. As production constraints within the Kaybob COU begin to abate in 2014, funds flow from operations is expected to increase because of higher sales volumes.

Demand Facilities

Drilling Rig Facilities

In 2013, Fox Drilling repaid and replaced demand loans previously outstanding with a new $57.0 million non-revolving demand loan facility (the "Drilling Rig Facility"). The Drilling Rig Facility was drawn in full at closing and principal payments of $4.0 million were made to December 31, 2013. In connection with the Drilling Rig Facility, an $8.0 million non-revolving demand loan facility was entered into in order to fund the purchase of auxiliary equipment for the drilling rigs (the "Auxiliary Equipment Loan"), which was undrawn at December 31, 2013.

Recourse and security for the Drilling Rig Facility and Auxiliary Equipment Loan (collectively, the "Drilling Rig Facilities") is limited to drilling rigs owned by Fox Drilling and drilling contracts guaranteed by Paramount. Interest on the Drilling Rig Facilities is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin. Scheduled principal repayments are $8.0 million annually from 2014 to 2017, with the remaining outstanding balance payable in 2018.

Cavalier Facility

Cavalier Energy has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptances rates, as selected at the discretion of Cavalier Energy, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier Energy, including oil sands and carbonate bitumen lands. At December 31, 2013, $22.6 million was drawn on the Cavalier Facility.

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2013 from $300 million to $600 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $500 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2014 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Facilities and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

Borrowings under the Facility bear interest at the lenders' prime lending rates, US base rates, bankers' acceptance rates or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio, the tranche under which borrowings are made and the total amount drawn. The maximum amount that Paramount may borrow under the Facility is subject to periodic review and is dependent upon the Company's reserves, lenders' projections of future commodity prices, the value attributed by lenders to Paramount's other property and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. As at December 31, 2013, $71.8 million was drawn on Tranche A and Tranche B was undrawn.

Paramount had undrawn letters of credit outstanding at December 31, 2013 totaling $44.7 million that reduce the amount available to the Company.

Senior Notes

Paramount has $370 million aggregate principal amount of senior unsecured notes due 2017 (the "2017 Senior Notes") outstanding. The 2017 Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The 2017 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2017 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In December 2012, Paramount completed a public offering of $300 million aggregate principal amount of senior unsecured notes due 2019 (the "2019 Senior Notes") at par. In December 2013, Paramount completed a $150 million re-opening of the 2019 Senior Notes at a price of $1,007.50 per $1,000 principal amount. Certain officers, management and associates of the Company purchased an aggregate $17.9 million principal amount of 2019 Senior Notes under the two offerings.

The 2019 Senior Notes bear interest at 7.625 percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019. The 2019 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2019 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

Share Capital

In October 2013, Paramount issued 1,115,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses (the "FTS") at a price of $44.00 per share for gross proceeds of $49.1 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued FTS at a price of $44.00 per share to the Company’s Chairman and Chief Executive Officer and President and Chief Operating Officer and/or companies controlled by them for gross proceeds of approximately $10 million, and to certain other directors, officers, and employees of Paramount and other persons for gross proceeds of approximately $1 million.

In May 2013, Paramount issued 4,025,000 Common Shares at a price of $37.50 per share for gross proceeds of $150.9 million pursuant to a public offering.

In October 2012, Paramount issued 1,936,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $31.00 per share and 356,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses ("CDE") at a price of $28.15 per share for aggregate gross proceeds of $70 million, pursuant to a public offering. Certain officers and management of the Company participated in this offering.

In September 2012, Paramount issued 646,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $31.00 per share and 1,244,000 Common Shares on a "flow-through" basis in respect of CDE at a price of $28.15 per share to a company controlled by the Company’s Chairman and Chief Executive Officer for aggregate proceeds of $55 million.

The Company is committed to incur $59.8 million of qualifying expenditures related to the 2013 offerings of FTS by December 31, 2014, of which $11.2 million was incurred as of December 31, 2013. Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with the CEE and CDE flow-through Common Shares issued in 2012.

At March 4, 2014, Paramount had 97,501,874 Common Shares and 6,188,450 Paramount Options outstanding, of which 1,973,000 Paramount Options are exercisable.

Quarterly Information

Operating Results – Continuing Operations

Netback – Continuing Operations

Three months ended December 31	2013		2012	
		($/Boe) [1]		*($/Boe)* [1]
Natural gas	**35.1**	*3.73*	31.6	*3.45*
NGLs	**18.2**	*74.30*	11.8	*61.14*
Oil	**3.9**	*78.92*	6.9	*79.20*
Royalty and sulphur revenue	**0.6**	–	0.7	–
Petroleum and natural gas sales	**57.8**	*30.99*	51.0	*28.27*
Royalties	**(2.8)**	*(1.50)*	(4.4)	*(2.45)*
Operating expense	**(19.0)**	*(10.19)*	(15.6)	*(8.63)*
Transportation	**(6.7)**	*(3.60)*	(5.2)	*(2.86)*
Netback	**29.3**	*15.70*	25.8	*14.33*
Financial commodity contract settlements	–	–	0.7	*0.40*
Netback including financial commodity contract settlements	**29.3**	*15.70*	26.5	*14.73*

[1] Natural gas revenue shown per Mcf.

Fourth quarter 2013 petroleum and natural gas sales were $57.8 million, an increase of $6.8 million from the fourth quarter of 2012, primarily due to higher NGLs and natural gas prices and sales volumes, partially offset by lower oil sales volumes.

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

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Three months ended December 31, 2012	31.6	11.8	6.9	0.7	51.0
Effect of changes in prices	2.5	3.2	–	–	5.7
Effect of changes in sales volumes	1.0	3.2	(3.0)	–	1.2
Change in royalty and sulphur revenue	–	–	–	(0.1)	(0.1)
Three months ended December 31, 2013	**35.1**	**18.2**	**3.9**	**0.6**	**57.8**

Sales Volumes

	Three months ended December 31											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Kaybob	**67.2**	63.3	6	**1,520**	901	69	**19**	64	(70)	**12,736**	11,501	11
Grande Prairie	**21.6**	23.5	(8)	**833**	1,008	(17)	**378**	317	19	**4,816**	5,243	(8)
Southern	**9.4**	9.0	4	**243**	150	62	**139**	566	(75)	**1,956**	2,223	(12)
Northern	**4.3**	3.6	19	**72**	39	85	**–**	–	–	**782**	639	22
Continuing Ops	**102.5**	99.4	3	**2,668**	2,098	27	**536**	947	(43)	**20,290**	19,606	3
Discontinued Ops	–	4.7	(100)	–	12	(100)	–	266	(100)	–	1,068	(100)
Total	102.5	104.1	(2)	2,668	2,110	26	536	1,213	(56)	20,290	20,674	(2)

Paramount's fourth quarter sales volumes averaged 20,290 Boe/d in 2013 compared to 19,606 Boe/d in the fourth quarter of 2012. Increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2012 / 2013 drilling program at Musreau within the Kaybob COU, including liquids-rich Montney wells. Oil sales volumes decreased mainly due to the sale of properties in the Southern COU.

Production within the Kaybob COU continued to be constrained by available owned and contracted natural gas processing capacity in the fourth quarter of 2013. In addition, the Third Party Disruptions that have been impacting the Company's production since mid-2012 continued in the fourth quarter of 2013, impacting average sales volumes by approximately 4,400 Boe/d (Fourth quarter 2012 – 3,000 Boe/d). Paramount's fourth quarter production was also impacted by downtime at Company facilities in Musreau and the temporary shut-in of multi-well pads in Grande Prairie to bring new wells on production.

Commodity Prices

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

Three months ended December 31	2013	2012	% Change
Natural Gas			
AECO daily spot (CDN$/GJ)	**3.52**	3.06	15
AECO monthly index (CDN$/GJ)	**2.99**	2.90	3
NYMEX (Henry Hub – US$/MMbtu)	**3.86**	3.40	14
Crude Oil			
Edmonton par (CDN$/Bbl)	**86.26**	84.43	2
West Texas Intermediate (US$/Bbl)	**97.46**	88.30	10
Foreign Exchange			
$CDN / 1 $US	**1.05**	0.99	6

Royalties expense decreased $1.6 million to $2.8 million in the fourth quarter of 2013 compared to $4.4 million in the same period in 2012, primarily as a result of lower rates as a greater proportion of production qualified for Alberta new well royalty incentive programs.

Operating expense increased $3.4 million in the fourth quarter of 2013 compared to the same period in 2012, primarily due to higher processing costs within the Kaybob COU related to utilizing interruptible third-party facilities to increase throughput and higher costs within the Grande Prairie COU including third-party processing facility equalizations and increased repairs and maintenance costs.

Paramount's operating expenses were $10.19 per Boe in the fourth quarter of 2013 compared to $8.63 per Boe in the same period of 2012. The per Boe increase was due to the items noted above, the impacts of which were partially offset by a growing proportion of sales volumes from lower cost Kaybob properties.

Net Income (Loss)

Three months ended December 31	2013	2012
Principal Properties	**6.1**	(136.6)
Strategic Investments	**12.9**	(9.1)
Corporate	**(21.8)**	(14.7)
Income tax recovery	**3.1**	31.8
Income (loss) from continuing operations	**0.3**	(128.6)
Discontinued operations, net of tax	**–**	(23.2)
Net income (loss)	**0.3**	(151.8)

Three months ended December 31	2013	2012
Netback	**29.3**	25.8
Gain (loss) on financial commodity contracts	**(0.4)**	0.6
General and administrative	**(4.6)**	(4.0)
Stock-based compensation	**(8.8)**	(7.0)
Depletion and depreciation	**(26.3)**	(151.4)
Exploration and evaluation	**(6.6)**	(13.6)
Gain (loss) on sale of property, plant and equipment	**6.2**	(1.8)
Interest	**(13.2)**	(11.6)
Other expenses	**(2.0)**	(0.8)
Income (loss) from equity-accounted investments	**19.3**	(0.4)
Other income	**4.3**	3.8
Income tax recovery	**3.1**	31.8
Income (loss) from continuing operations	**0.3**	(128.6)
Discontinued operations, net of tax	**–**	(23.2)
Net income (loss)	**0.3**	(151.8)

Paramount recorded income from continuing operations of $0.3 million for the three months ended December 31, 2013 compared to a loss from continuing operations of $128.6 million in the same period of 2012. Significant factors contributing to the change are shown below:

Three months ended December 31	
Loss from continuing operations – 2012	**(128.6)**
• Lower depletion, depreciation and impairment mainly due to lower write-downs of petroleum and natural gas properties and goodwill in 2013	125.1
• Income from equity-accounted investments in 2013 compared to a loss in 2012, mainly due to a $25.1 million dilution gain recorded in respect of Trilogy	19.7
• Gain on sale of property, plant and equipment compared to a loss in 2012	8.0
• Lower exploration and evaluation expense	7.0
• Lower income tax recovery	(28.7)
• Other	(2.2)
Income from continuing operations – 2013	**0.3**

IFDO for the three months ended December 31, 2012 was a loss of $23.2 million, primarily due to $29.5 million of impairment write-downs related to the Northern Discontinued Operations.

Funds Flow from Operations [(1)(2)]

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

Three months ended December 31	**2013**	2012
Cash used in operating activities	**(6.3)**	(13.2)
Change in non-cash working capital	**22.2**	27.2
Geological and geophysical expenses	**1.3**	1.0
Asset retirement obligations settled	**1.1**	2.7
Funds flow from operations	**18.3**	17.7
Funds flow from operations ($/Boe)	**9.79**	9.29

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
(2) Includes the results of discontinued operations.

Funds flow from operations increased by $0.6 million in the fourth quarter of 2013 compared to the same period in 2012, primarily as a result of higher netbacks due to higher realized prices and higher sales volumes for natural gas and NGLs, partially offset by higher interest and financial commodity contract settlements which contributed to cash flows in 2012.

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales – CO	**57.8**	53.9	59.5	59.5	51.0	38.8	40.5	43.1
Petroleum and natural gas sales – DO	—	—	—	1.8	3.6	2.5	6.0	11.6
Petroleum and natural gas sales	**57.8**	53.9	59.5	61.3	54.6	41.3	46.5	54.7
Funds flow from operations – CO	**18.3**	13.4	22.3	17.9	16.9	15.9	10.2	8.9
Funds flow from operations – DO	—	—	—	(1.3)	0.8	(0.4)	1.9	3.9
Funds flow from operations	**18.3**	13.4	22.3	16.6	17.7	15.5	12.1	12.8
Per share – basic and diluted ($/share)	*0.19*	*0.14*	*0.24*	*0.18*	0.20	0.18	0.15	0.15
Income (loss) – CO	**0.3**	(37.6)	(22.1)	(27.7)	(128.6)	(33.5)	(29.8)	127.2
Per share – basic ($/share)	—	*(0.39)*	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*	*(0.35)*	*1.49*
Per share – diluted ($/share)	—	*(0.39)*	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*	*(0.35)*	*1.45*
Net income (loss)	**0.3**	(37.6)	(22.1)	0.3	(151.8)	(34.6)	—	124.5
Per share – basic ($/share)	—	*(0.39)*	*(0.24)*	—	*(1.69)*	*(0.40)*	—	*1.46*
Per share – diluted ($/share)	—	*(0.39)*	*(0.24)*	—	*(1.69)*	*(0.40)*	—	*1.42*
Sales volumes								
Natural gas (MMcf/d)	**102.5**	100.9	107.6	110.8	99.4	90.6	101.4	83.3
NGLs (Bbl/d)	**2,668**	2,535	2,126	2,655	2,098	1,745	1,957	1,589
Oil (Bbl/d)	**536**	656	722	861	947	900	1,064	1,153
Total Continuing (Boe/d)	**20,290**	20,022	20,790	21,985	19,606	17,745	19,904	16,637
Discontinued (Boe/d)	—	—	—	606	1,068	967	1,570	2,176
Total (Boe/d)	**20,290**	20,022	20,790	22,591	20,674	18,712	21,474	18,813
Average realized price								
Natural gas ($/Mcf)	**3.73**	3.10	3.97	3.48	3.45	2.58	2.08	2.77
NGLs ($/Bbl)	**74.30**	78.55	71.84	73.76	61.14	60.55	69.52	78.96
Oil ($/Bbl)	**78.92**	100.73	85.98	84.32	79.20	81.45	82.74	89.99
Continuing ($/Boe)	**30.99**	29.27	31.41	30.08	28.27	23.78	22.36	28.43
Discontinued ($/Boe)	—	—	—	32.95	36.61	27.96	42.31	58.51
Total ($/Boe)	**30.99**	29.27	31.41	30.16	28.70	24.00	23.82	31.95

Significant Items Impacting Quarterly Results

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

- Fourth quarter 2013 earnings include a $25.1 million dilution gain on the Company's investment in Trilogy as a result of common shares issued by Trilogy during the quarter and a $7.3 million net impairment reversal of petroleum and natural gas properties.

- Third quarter 2013 earnings include a $13.8 million net impairment write-down of petroleum and natural gas properties.

- Second quarter 2013 earnings include $16.2 million of exploration expenses and $10.6 million in aggregate gains on the sale of petroleum and natural gas properties.

- First quarter 2013 earnings include $50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.

- Fourth quarter 2012 earnings include a $135.6 million write-down of petroleum and natural gas properties and goodwill, and $6.5 million in dry hole charges.

- Third quarter 2012 earnings includes $6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

- Second quarter 2012 earnings include a $50.7 million pre-tax gain recognized on the disposition of United States properties.

- First quarter 2012 earnings include a $157.2 million pre-tax gain on the sale of 5.0 million Trilogy shares and a $28.3 million gain on the sale of property, plant and equipment, partially offset by higher tax expense, operating expenses and depletion and depreciation.

Other Information

Related Party Transactions

Service Agreements

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

During 2013, Paramount charged $0.4 million (2012 – $0.4 million) to Trilogy in respect of operational and administrative services. Also, Paramount received $8.0 million (2012 – $8.0 million) in dividends from Trilogy. As of December 31, 2013, Paramount had a receivable balance due from Trilogy of $0.3 million (2012 – $0.9 million).

Contractual Obligations

Paramount had the following contractual obligations at December 31, 2013:

	2014	2015-2016	2017-2018	After 2018	Total
Cavalier Facility (1)	22.6	—	—	—	22.6
Bank Credit Facility (2)	3.8	75.7	—	—	79.5
Drilling Rig Facilities (2)	10.1	19.3	30.7	—	60.1
Senior notes (2)	64.8	129.7	469.2	484.3	1,148.0
Transportation and processing commitments (3)	40.4	162.3	231.6	688.2	1,122.5
Capital spending commitments (4)	14.2	—	—	—	14.2
Operating leases	2.5	4.6	3.8	6.9	17.8
	158.4	**391.6**	**735.3**	**1,179.4**	**2,464.7**

(1) Excluding interest.
(2) Including interest and principal repayments.
(3) Certain transportation and processing commitments are secured by outstanding letters of credit totaling $32.3 million at December 31, 2013 (2012 - $27.3 million).
(4) Relates to contractual obligations for purchases of major equipment.

Transportation and processing commitments mainly relate to long-term firm service arrangements for the transportation of natural gas and NGLs and downstream processing of NGLs.

Contingencies

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

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

Risk Factors

A description of the most significant risk factors related to Paramount and its business is contained in Paramount's Annual Information Form for the year ended December 31, 2013 under the heading "Risk Factors".

Paramount monitors and complies with current government regulations that affect its activities, although the Company and its operations may be adversely affected by changes in government policy, legislation and regulations. Paramount maintains liability, property and business interruption insurance which is believed to be appropriate for the Company's size and activities. Paramount cannot fully protect against all risks, nor are all risks insurable. The Company may become liable for damages for events which it cannot insure or against which it may elect not to insure due to high premium costs or for other reasons.

Refer to "Forward-Looking Information" in the Advisories section of this document and "Risk Factors" in Paramount's most recent annual information form for additional information.

Change in Accounting Policies

Changes in Accounting Standards

Effective January 1, 2013, the Company adopted IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IFRS 13 – *Fair Value Measurement*, IAS 28 – *Investments in Associates and Joint Ventures* and the amendment to IAS 1 – *Presentation of Financial Statements*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company resulting from the adoption of these standards.

Future Changes in Accounting Standards

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by Paramount effective January 1, 2014.

IFRS 9, "Financial Instruments" sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. The IASB has removed the effective date for this IFRS as they finalize and complete the various phases of its comprehensive project on financial instruments and its objective to fully replace IAS 39, the current standard on the recognition and measurement of financial instruments. The Company is currently assessing the impact of adopting IFRS 9 on its Consolidated Financial Statements.

Disclosure Controls and Procedures

As of the year ended December 31, 2013, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined by the rules of the Canadian Securities Administrators, was performed by the Company's management with the oversight of the chief executive officer and chief financial officer. Based upon that evaluation, the Company's chief executive officer and chief financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

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

Internal Controls Over Financial Reporting

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2013. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (1992) to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

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

Changes in Internal Controls Over Financial Reporting

During the fiscal year and quarter ended December 31, 2013, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Estimates

The timely preparation of financial statements requires management to make certain estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on revenue and expenses in future periods. A discussion of the accounting estimates that are considered significant follows:

Reserves Estimates

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

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

Exploration and Evaluation Assets

The accounting for exploration and evaluation costs requires management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of reserves, which requires the quantity and value of such reserves to be estimated. Designations are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable resources, the costs are written-off as exploration and evaluation expense.

If hydrocarbons are encountered, but further appraisal activity is required in order to conclude whether they are commercially viable, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval for development plans. Exploration and evaluation assets are subject to ongoing technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. When management is making this assessment, changes to project economics, quantities of resources, expected production techniques, unsuccessful drilling and estimated production costs and projected capital expenditures are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as exploration and evaluation expense.

Impairment of Assets

The recoverability of the carrying value of oil and gas properties is assessed at the CGU level. Determination of the properties and other assets to be included within a particular CGU is based on management's judgment with respect to the integration between assets, shared infrastructure and cashflows. Changes in the assets comprising CGUs impacts recoverable amounts used in impairment assessments and could have a material impact on earnings.

At the end of each reporting period, the Company is required to identify events or conditions that indicate that the net carrying value of a CGU might be impaired. Management uses judgment to determine if a specific event or condition is an indication of impairment for a CGU. If an indicator of impairment is identified, the asset's recoverable amount is estimated. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. In assessing fair value less costs to sell, the Company estimates the value a potential purchaser would ascribe to a CGU. For oil and gas properties, the fair value less costs to sell is estimated based on expected after-tax future net cash flows using forecast commodity prices and costs over the expected economic life of proved and probable reserves, discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. If the carrying value of an asset or CGU exceeds its estimated recoverable amount, an impairment charge is recognized.

At the end of each reporting period, the Company must exercise judgment to determine if there are indicators that conditions causing a previous impairment have reversed. Where a new recoverable amount estimate for a CGU exceeds its carrying value, previously recorded impairment adjustments are reversed, up to the amount of the original impairment.

Paramount's independent reserves evaluator evaluated the Company's reserves as of December 31, 2013. Results of the updated evaluation, in the Company's judgment, were an indicator of impairment for the Northern and Southern CGUs and an indicator that the conditions causing a previous impairment in the Grande Prairie CGU had partially reversed. As a result, recoverable amounts were estimated for each CGU and adjustments to the carrying value of each CGU were recorded. The recoverable amounts were estimated on a fair value less costs to sell basis, using a discounted cash flow method which is an approach commonly employed by market participants to value oil and gas properties. Cash flows were projected over the expected remaining productive life of each CGU's proved and probable reserves, at an after-tax discount rate of nine percent at December 31, 2013.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting, where the net identifiable assets acquired are recorded at fair value. Any excess of the consideration paid over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred versus the fair value of the net identifiable assets acquired is recognized in earnings. The fair value of individual assets is often required to be estimated, which may involve estimating the fair values of reserves and resources, tangible assets, undeveloped land, intangible assets and other assets acquired. These estimates are based on assumptions regarding appropriate indicators of fair value. Changes in any of the estimates or assumptions used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned and earnings.

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. The Company incorporates information from its current asset retirement projects, internally prepared retirement assessments for select properties, available industry estimates and estimates from regulators in its aggregated estimate of asset retirement obligations. Management adjusts amounts periodically as assumptions are changed to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

Share-Based Payments

The Company estimates the grant date value of stock options awarded using the Black-Scholes-Merton model. The inputs used to determine the estimated value of the options are based on assumptions regarding share price volatility, the expected life of the options, expected forfeiture rates and future interest rates. By their nature, these inputs are subject to measurement uncertainty and changes to any of these assumptions impacts amounts recognized as stock-based compensation expense and contributed surplus.

Significant Influence

An investor is presumed to have significant influence where it holds 20 percent or more of the voting power over an investee, or where significant influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the entity. Factors that may demonstrate significant influence include representation on the board of directors of the investee, interchange of management personnel and participation in determining the significant policies of the investee. The Company accounts for its investments in certain entities under the equity method although it holds less than 20 percent of the voting power because, in Management's judgment, it has significant influence as a result of common directors and members of senior management.

Income Taxes

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

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the company's estimate, the ability of the company to realize the deferred tax assets could be impacted.

Advisories

FORWARD-LOOKING INFORMATION

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

- projected production and sales volumes and growth and the timing thereof (including expected first month production volumes from the Kaybob COU's inventory of behind-pipe wells);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and potential future facility expansions and additions), and the anticipated timing of and/or sources of funding for such activities;
- anticipated increases in funds flow from operations;
- projected timelines for, and anticipated costs of, constructing, commissioning and/or starting-up new and expanded deep cut natural gas processing and associated facilities, and the Kaybob COU's processing capacity following the completion of the deep cut facilities;
- anticipated decreases in capital and operating costs;
- the projected availability of third party processing, transportation, fractionation, de-ethanization and other facilities;
- the anticipated date for receiving regulatory approvals for the initial phase of Cavalier Energy's Hoole Grand Rapids oil sands development project;
- business strategies and objectives;
- estimated reserves and resources and the discounted present value of future net revenues therefrom;
- non-core asset dispositions and the timing thereof; and
- tax pools and attributes.

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

- future oil, bitumen, natural gas, NGLs and other commodity prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation, de-ethanization and storage capacity on acceptable terms;
- the ability of Paramount to market its oil, bitumen, natural gas and NGLs successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions and NGLs yields) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

- fluctuations in oil, bitumen, natural gas, NGLs and other commodity prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, NGLs yields, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, de-ethanization and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing crude oil, bitumen, natural gas and NGLs;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third party facilities);
- industry wide processing, pipeline, de-ethanization, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing at an acceptable cost to fund planned exploration, development and operational activities and meet current and future obligations (including costs of anticipated new and expanded facilities and other projects and product processing, transportation, fractionation, de-ethanization and similar commitments);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings

geology of oil and gas deposits;

- the uncertainty of reserves and resources estimates;

with Canadian securities authorities.

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

NON-GAAP MEASURES

In this document "Funds flow from operations", "Netback", "Net Debt", "Adjusted Working Capital", "Exploration and development expenditures" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and development expenditures** refer to capital expenditures and geological and geophysical costs incurred by the Company's COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy, MGM Energy, Strategic and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

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

OIL AND GAS MEASURES AND DEFINITIONS

This document contains disclosures expressed as "Boe", "MBoe" and "Boe/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. The term "liquids" is used to represent oil and natural gas liquids.

During 2013, the value ratio between crude oil and natural gas was approximately 25:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Conventional reserve estimates include nominal amounts of volumes and future net revenues related to Paramount's completed shale gas well. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. In addition, estimates of future net revenue do not represent fair market value.

Finding and Development ("F&D") costs exclude capital costs and reserve volumes related to oil sands and exploratory shale gas properties within Paramount's Strategic Investments business segment because the relationship between capital amounts invested and reserve volumes discovered for such properties is not comparable to conventional oil and gas properties.

Proved reserves additions and P+P reserves additions disclosed herein were calculated as the aggregate of extensions and discoveries and technical revisions included in the reserves reconciliation table. The reserves replacement disclosure herein was calculated as the net increase in P+P reserves estimates from extensions and discoveries, technical revisions and economic factors divided by the Company's total production in the period. The recycle ratio is calculated by dividing Netback per Boe by F&D costs per Boe. Estimated production from wells that have not yet produced included in the Kaybob COU's behind pipe inventory is based on the Company's 4.4 Bcf type curve for Falher formation wells and 3.0 Bcf type curve for Montney formation wells.

Oil Sands Resource Notes:

This document contains disclosure of certain results of an updated independent evaluation by McDaniel of Cavalier Energy's bitumen reserves and resources in the Grand Rapids formation in Cavalier's Hoole oil sands property as of December 31, 2013 (the "Cavalier Evaluation"). Specifically, this document includes McDaniel's assessment as of December 31, 2013 of Cavalier's probable reserves, and the low, best and high estimates of economic contingent resources and discovered exploitable bitumen in place in the Grand Rapids formation at Hoole (and the estimated net present value of these probable reserves and economic contingent resources). These terms, as used in the Cavalier Evaluation, have the following meanings:

"Probable reserves" are reserves that are less certain to be recoverable than proved reserves. Specifically, whereas proved reserves are reserves that can be estimated with a high degree of certainty to be recoverable (i.e. it is likely that the actual remaining quantities recovered will exceed the estimated proved reserves), in the case of probable reserves it is equally likely that the actual quantities recovered will be greater or less than the estimated probable reserves (or where there are both proved and probable reserves the sum of the estimated proved plus probable reserves).

"Contingent resources" are those quantities of bitumen resources estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are classified as resources rather than reserves due to one or more contingencies, such as the absence of regulatory applications, detailed design estimates or near term development plans. "Economic contingent resources" are a sub-category of contingent bitumen resources that are considered to be currently economically recoverable based on the reserves evaluator's then current forecasts of commodity prices and costs.

At Hoole, a portion of Cavalier's economic contingent resources were re-classified by McDaniel as probable reserves by virtue of Cavalier having finalized its plans for a pilot project and submitted a regulatory application for this pilot project. Cavalier will need to finalize plans for the commercial development of the balance of the Hoole oil sands properties and submit regulatory applications for their development before the balance of Cavalier's contingent resources at Hoole can be re-classified as probable reserves. There is no certainty that it will be commercially viable to produce any portion of Cavalier's contingent resources at Hoole.

"Discovered bitumen in place" or "DBIP" (equivalent to discovered resources) is the aggregate quantity of bitumen that is estimated, as of a given date, to be contained in a known accumulation prior to production. To qualify as "discovered exploitable bitumen in place" or "DEBIP" these volumes must be contained in a reservoir that meets or exceeds certain characteristics, such as minimum continuous net pay, porosity and mass bitumen content. DBIP or DEBIP volumes that are considered to be recoverable as of a given date are classified as reserves or contingent resources (with the remaining DBIP or DEBIP volumes being those that are considered to be unrecoverable as of that date).

At Hoole, DEBIP volumes have been ascribed by McDaniel to those portions of the Grand Rapids formation where they felt minimum continuous net pay, porosity, mass bitumen content and other reservoir characteristics allowed for the commercial application of known recovery technologies. There is no certainty that it will ever be commercially viable to produce any portion of the DEBIP at Hoole.

"High Estimate" is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end for the estimate range have a lower degree of certainty (a 10 percent confidence level) that the actual quantities recovered will equal or exceed the estimate.

"Best Estimate" is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate (or stated another way, there is a 50 percent confidence level that the actual quantities recovered will equal or exceed the best estimate amount).

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

"Net present value" or "NPV" of Cavalier's probable undeveloped reserves and economic contingent reserves at Hoole represents McDaniel's estimates of Cavalier's share of future net revenues, before the deduction of income taxes, from these reserves and resources discounted at 10%. In calculating these NPVs McDaniel considered items such as revenues, royalties, operating costs, abandonment costs and capital expenditures (but excluded financing and general and administrative costs). Their calculations assume natural gas is used as a fuel for steam generation, and are based on their forecast commodity prices as of January 1, 2014 and forecast costs as of December 31, 2013. Royalties were calculated based on Alberta's Royalty Framework applicable to oil sands projects. McDaniel's estimated NPVs do not represent fair market value.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Paramount Resources Ltd. (the "Company") are the responsibility of Management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared by Management in Canadian dollars in accordance with International Financial Reporting Standards and include certain estimates that reflect Management's best judgments. When alternative accounting methods exist, Management has chosen those it considers most appropriate in the circumstances. Financial information contained throughout the Company's annual report is consistent with these Consolidated Financial Statements.

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

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee. The Audit Committee meets regularly with Management and the independent auditors to ensure that Management's responsibilities are properly discharged and to review the Consolidated Financial Statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual Consolidated Financial Statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the independent auditors. The Audit Committee of the Board of Directors is comprised entirely of non-management directors.

Ernst & Young LLP, independent auditors appointed by the shareholders of the Company, conducts an examination of the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee and Management.

/s/ Clayton H. Riddell
Clayton H. Riddell
Chief Executive Officer

/s/ Bernard K. Lee
Bernard K. Lee
Chief Financial Officer

March 6, 2014

INDEPENDENT AUDITORS' REPORT

To the shareholders of Paramount Resources Ltd.

We have audited the accompanying consolidated financial statements of Paramount Resources Ltd. which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Paramount Resources Ltd. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada

March 6, 2014

Chartered accountants

PARAMOUNT RESOURCES LTD.
Consolidated Balance Sheet
($ thousands)

As at December 31	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	20	**$ 10,703**	$ 146,684
Accounts receivable	19	**39,300**	32,790
Prepaid expenses and other		**2,252**	2,504
Assets held for sale	6	**—**	12,433
		52,255	194,411
Deposit	18	**20,437**	20,234
Exploration and evaluation	7	**429,911**	405,090
Property, plant and equipment, net	8	**1,573,011**	1,078,451
Equity-accounted investments	9	**104,314**	90,977
Investments in securities	10	**145,661**	127,767
Deferred income tax	18	**119,090**	116,901
Goodwill	11	**3,124**	3,124
		$ 2,447,803	$ 2,036,955
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	12	**$ 75,550**	$ 40,703
Accounts payable and accrued liabilities	19	**213,581**	183,512
Risk management	19	**3,972**	—
Liabilities associated with assets held for sale	6	**—**	470
		293,103	224,685
Long-term debt	13	**882,603**	660,702
Asset retirement obligations	14	**239,853**	300,468
		1,415,559	1,185,855
Commitments and contingencies	23		
Shareholders' equity			
Share capital	15	**1,169,178**	921,680
Accumulated deficit		**(224,612)**	(165,527)
Reserves	16	**87,678**	94,947
		1,032,244	851,100
		$ 2,447,803	$ 2,036,955

See the accompanying notes to these Consolidated Financial Statements.

On behalf of the Board

/s/ J.H.T. Riddell
J.H.T. Riddell, Director

/s/ J.C. Gorman
J.C. Gorman, Director

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Comprehensive Loss

($ thousands, except as noted)

Year ended December 31	Note	2013	2012 (restated see note 4)
Petroleum and natural gas sales		$ 230,722	$ 173,367
Royalties		(10,814)	(14,277)
Revenue		219,908	159,090
Gain (loss) on financial commodity contracts	19	(3,972)	2,487
		215,936	161,577
Expenses			
Operating expense		69,847	55,610
Transportation		22,550	20,196
General and administrative		19,481	18,140
Stock-based compensation	17	25,851	29,082
Depletion and depreciation	8	152,935	248,888
Exploration and evaluation	7	35,537	32,955
Gain on sale of property, plant and equipment		(32,688)	(26,432)
Interest		52,639	35,324
Accretion of asset retirement obligations	14	3,099	2,899
Foreign exchange		528	1,583
		349,779	418,245
Income from equity-accounted investments	9	21,378	153,333
Other income	5	6,757	14,290
Loss from continuing operations before tax		(105,708)	(89,045)
Income tax expense (recovery)	18		
Current		4,983	789
Deferred		(23,576)	(25,157)
		(18,593)	(24,368)
Loss from continuing operations		(87,115)	(64,677)
Income from discontinued operations, net of tax	4	28,030	2,765
Net loss		$ (59,085)	$ (61,912)
Other comprehensive income (loss), net of tax	16		
Change in market value of securities		3,908	(42,830)
Exchange differences on translation of US subsidiaries		393	438
		4,301	(42,392)
Comprehensive loss		$ (54,784)	$ (104,304)
Net income (loss) per common share ($/share)	15		
Basic – continuing operations		(0.93)	(0.75)
Basic – discontinued operations		0.30	0.04
Basic		(0.63)	(0.71)
Diluted – continuing operations		(0.93)	(0.75)
Diluted – discontinued operations		0.30	0.04
Diluted		(0.63)	(0.71)

See the accompanying notes to these Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Cash Flows
($ thousands)

Year ended December 31	Note	2013	2012
Operating activities			
Net loss		**$ (59,085)**	$ (61,912)
Add (deduct):			
Items not involving cash	20	**109,550**	101,013
Dividends from equity-accounted investments		**8,040**	8,040
Asset retirement obligations settled	14	**(6,336)**	(8,002)
Current tax related to the sale of U.S. properties		**4,915**	3,931
Change in non-cash working capital		**(12,171)**	12,150
Cash from operating activities		**44,913**	55,220
Financing activities			
Net draw of demand loans	12	**34,847**	17,861
Net draw (repayment) of revolving long-term debt	13	**71,826**	(61,383)
Proceeds from Senior Notes, net of issue costs	13	**148,507**	294,135
Common shares issued, net of issue costs		**217,369**	124,465
Common shares purchased under stock incentive plan		**(3,998)**	(3,052)
Cash from financing activities		**468,551**	372,026
Investing activities			
Property, plant and equipment and exploration		**(736,172)**	(623,631)
Proceeds on sale of property, plant and equipment		**37,875**	45,231
Proceeds on sale of discontinued operations, net		**9,062**	66,498
Proceeds on sale of investment, net		**10,097**	181,718
Investments in securities		**(9,915)**	(13,023)
Investments in equity-accounted investees		**—**	(1,650)
Change in non-cash working capital		**38,730**	36,008
Cash used in investing activities		**(650,323)**	(308,849)
Net increase (decrease)		**(136,859)**	118,397
Foreign exchange on cash and cash equivalents		**878**	(713)
Cash and cash equivalents, beginning of year		**146,684**	29,000
Cash and cash equivalents, end of year		**$ 10,703**	$ 146,684

Supplemental cash flow information 20

See the accompanying notes to these Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Shareholders' Equity
($ thousands, except as noted)

Year ended December 31	Note	2013 Shares (000's)	2013	2012 Shares (000's)	2012
Share Capital					
Balance, beginning of year		*89,857*	**$ 921,680**	*85,414*	$ 810,781
Issued		*7,133*	**247,582**	*4,432*	110,896
Change in unvested common shares for stock incentive plan	17	*3*	**(84)**	*11*	3
Balance, end of year		*96,993*	**$ 1,169,178**	*89,857*	$ 921,680
Accumulated Deficit					
Balance, beginning of year			**$ (165,527)**		$ (103,615)
Net loss			**(59,085)**		(61,912)
Balance, end of year			**$ (224,612)**		$ (165,527)
Reserves	16				
Balance, beginning of year			**$ 94,947**		$ 116,670
Other comprehensive income (loss)			**4,301**		(42,392)
Contributed surplus			**(11,570)**		20,669
Balance, end of year			**$ 87,678**		$ 94,947
Total Shareholders' Equity			**$ 1,032,244**		$ 851,100

See the accompanying notes to these Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are primarily located in Alberta and British Columbia. Paramount's operations are divided into three business segments, established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Inc. ("Fox Drilling"), Cavalier Energy Inc. ("Cavalier Energy") and Summit Resources, Inc. ("Summit"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for under the equity method of investment accounting along with certain other investees.

These consolidated financial statements of the Company, as at December 31, 2013 and December 31, 2012 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 6, 2014.

a) *Basis of Preparation*

These Consolidated Financial Statements comply in all material respects with International Financial Reporting Standards ("IFRS"), are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented.

The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated. Certain comparative figures have been reclassified to conform with the current year's presentation.

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories (the "Northern Discontinued Operations"). In May 2012, Summit closed the sale of all of its operated properties in North Dakota and all of its properties in Montana (the "Southern Discontinued Operations"). Results of the Northern Discontinued Operations and Southern Discontinued Operations have been presented as discontinued operations and prior year comparative results have been adjusted to conform to the current year's basis of presentation, refer to Note 4.

The preparation of these Consolidated Financial Statements requires the use of certain accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the Consolidated Financial Statements are described in Note 2.

b) Revenue Recognition

Petroleum and natural gas sales revenues are recognized when title passes to third parties and the significant risks and rewards of ownership have been transferred.

Drilling services are billed to customers on a per-day basis and revenues are recognized as services are rendered and collectability is reasonably assured. When the Company's drilling rigs (the "Rigs") drill on a property owned by Paramount, the Company capitalizes its working interest share of the drilling expenses and eliminates the associated drilling revenue.

c) Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost and include short-term investments with maturities of three months or less from the date of acquisition.

d) Trade and Other Receivables

Accounts receivable are recorded as corresponding amounts of revenue are recognized or costs are incurred on behalf of partners. An allowance for doubtful accounts is recognized based on management's best estimate of accounts that may not be collectible, which is reviewed and adjusted on a quarterly basis.

e) Exploration and Evaluation

Costs related to the exploration for and evaluation of hydrocarbon resources, including costs of drilling and completing exploratory wells, acquiring unproved property and estimated asset retirement costs, are initially capitalized, pending determination of technical feasibility and commercial viability. If hydrocarbons are found, but further appraisal activity is required to conclude whether they are commercially viable, the costs continue to be recognized as an asset. All such costs are subject to technical, commercial, and management review at least annually to confirm the continued intent to develop the discovery.

Net cashflows from the sale of production from shale gas exploration wells within the Strategic Investments business segment are applied against the capitalized costs of the shale gas projects to which they relate until the overall project is deemed commercially viable. All direct costs related to pre-development activities in connection with oil sands properties are considered pre-operating and are capitalized, including the costs to acquire mineral rights, conduct delineation and pre-production drilling, and design and construct plant and equipment.

When a project has been determined to be technically feasible and commercially viable, the exploration and evaluation costs ("E&E") are transferred to petroleum and natural gas assets, subject to an impairment assessment. When the Company determines that a project is no longer viable, its carrying value is charged to earnings.

Exploratory geological and geophysical costs, pre-license costs, and annual lease rentals are expensed as incurred.

f) Property, Plant and Equipment

Petroleum and natural gas assets are carried at cost, net of accumulated depletion, depreciation and impairments, and include costs related to drilling and completing development wells, infrastructure construction, successful E&E projects and asset retirement.

Paramount's Rigs are carried at cost, net of accumulated depreciation. Costs incurred to improve the capabilities of the Rigs, extend their useful lives or replace significant components are capitalized. When a significant component is replaced, the carrying value of the replaced part is written off. Costs incurred to maintain and repair the Rigs are expensed as incurred.

Other property, plant and equipment, including leasehold improvements, are carried at cost net of accumulated depreciation.

Depletion and Depreciation

Capitalized costs of proved oil and gas properties are depleted over estimated volumes of proved developed reserves using the unit-of-production method. For purposes of these calculations, volumes of natural gas production and reserves are converted to barrels on an energy equivalent basis. Depletion rates are revised annually, or more frequently when events dictate. E&E costs are not depleted.

Capitalized costs of gathering systems and production equipment are depleted on a unit-of-production basis over the proved developed reserves of the field to which they relate. Capitalized costs of processing plants are depreciated on a straight-line basis over their expected useful lives, which extend up to 20 years.

Leasehold improvements are depreciated over the term of the lease. Other assets are depreciated using the declining balance method at rates varying from 35 to 50 percent.

The Rigs are depreciated by component over their expected useful lives, which vary from 1,095 to 3,650 drilling days.

Impairment of Non-Financial Assets

The carrying values of the Company's non-financial assets, excluding goodwill, are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified, the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. In assessing fair value less costs to sell, the Company estimates the value a potential purchaser would ascribe to an asset or CGU. For oil and gas properties, the fair value less costs to sell is estimated based on expected after-tax future net cash flows using forecast commodity prices and costs over the expected economic life of proved and probable reserves, discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. If the carrying value of an asset or CGU exceeds its estimated recoverable amount, an impairment charge is recognized.

When it is determined that there has been a subsequent increase in the recoverable amount ascribed to an asset or CGU, reversals of impairments are recognized, net of any depletion and depreciation that would have been recorded since the date of the impairment charge.

g) Joint Arrangements

Paramount recognizes its proportionate share of the revenues, expenses, assets, and liabilities of jointly controlled operations. Interests in joint ventures are accounted for using the equity method of accounting. All of the Company's interests in joint control arrangements are accounted for as joint operations, the Company does not currently hold any interests in joint ventures.

h) Equity-Accounted Investments

Investments in entities over which Paramount has significant influence are accounted for using the equity method. An investor is presumed to have significant influence where it holds 20 percent or more of the voting power over an investee, or where significant influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the entity. Factors that may demonstrate significant influence include representation on the board of directors of the investee, interchange of management personnel and participation in determining the significant policies of the investee.

Under the equity method, an equity investment is recognized at cost on acquisition, with the carrying amount subsequently increased or decreased to reflect the investor's proportionate share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investor's investment. When necessary, adjustments are made to investee financial statements to align accounting policies of investees with those applied by the Company in its Consolidated Financial Statements.

The carrying values of the Company's equity-accounted investments are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified, the recoverable amount of the investment is estimated. If the carrying value of the investment exceeds the estimated recoverable amount, an impairment charge is recognized.

i) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. Under this method, the net identifiable assets acquired are measured at fair value on acquisition date. Any excess of the consideration paid over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred versus the fair value of the net identifiable assets acquired is recognized in earnings. Costs incurred to affect the transaction are expensed.

Goodwill is tested for impairment at least annually, or when a potential impairment indicator is identified. To test goodwill for impairment, the carrying value of a CGU (or group of CGUs), including allocated goodwill, is compared to that CGU's (or group of CGUs') estimated recoverable amount. An impairment charge is recognized to the extent that the carrying amount of the CGU (or group of CGUs), including goodwill, exceeds its estimated recoverable amount. Impairment charges relating to goodwill are not reversed in future periods.

For the purpose of testing goodwill for impairment, the recoverable amount of a CGU (or group of CGUs) is estimated on the same basis as used in testing the assets of that CGU for impairment.

j) Borrowing Costs

Borrowing costs directly associated with the acquisition, construction or production of a qualifying asset are capitalized while the asset is being constructed or otherwise prepared for its intended productive use. All other borrowing costs are recognized as an expense in the period incurred.

k) Asset Retirement Obligations

Asset retirement obligations arise from legal obligations to retire assets including oil and gas wells, gathering systems, processing plants and access roads at the end of their productive lives. Paramount recognizes the present value of an asset retirement obligation in the period in which it is incurred and when its fair value can be reasonably estimated. The present value of the obligation is determined using the applicable period-end risk free discount rate, after applying an estimated cost inflation factor, and is adjusted for the passage of time, which is recognized as accretion expense. Revisions to the timing, amount, discount rate and inflation rate relating to the estimated liability are accounted for prospectively by recording an adjustment to the asset retirement obligation liability, with a corresponding adjustment to the carrying value of the related asset. The present value of estimated future asset retirement costs are capitalized as part of the related long-lived asset and depreciated on the same basis as the underlying asset.

Actual costs incurred to retire assets are applied against the asset retirement obligation liability. Differences between the actual costs incurred and the liability accrued are recognized in earnings when reclamation of the area is fully complete.

l) Foreign Currency Translation

Paramount's functional and presentation currency is the Canadian dollar. The functional currencies of the Company's subsidiaries are determined by the nature and location of their operations, and amounts included in their individual financial statements are measured in that functional currency. The functional currency of the Company's United States subsidiaries was changed to the Canadian dollar following the sale of the Company's remaining United States properties in the first quarter of 2013.

For Paramount and its subsidiaries with a Canadian dollar functional currency, monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the period-end exchange rate. Gains or losses are recognized in earnings.

For the purpose of consolidation, the assets and liabilities of subsidiaries with functional currencies that are not the Canadian dollar are translated into Canadian dollars using the period-end exchange rate. Cumulative translation gains and losses related to the translation of foreign subsidiaries are accumulated in reserves. When the Company reduces its net investment in a foreign subsidiary, the corresponding amount of the cumulative translation gain or loss is recognized in earnings.

Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average monthly exchange rates.

m) Financial Instruments, Comprehensive Income and Hedges

Paramount periodically uses derivative instruments such as forwards, swaps and options to manage its exposure to fluctuations in petroleum and natural gas prices, foreign exchange rates, and interest rates.

Financial Instruments

Financial instruments are measured at fair value on initial recognition. The measurement of a financial instrument in subsequent periods is dependent upon whether it has been classified as "fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities", as defined by the relevant standard. Paramount does not presently employ hedge accounting for any of its financial instruments. All of the Company's financial instruments have been classified as fair value through profit or loss except the Company's investments in securities and long-term debt.

Fair value through profit or loss financial assets and financial liabilities are measured at fair value and changes in those fair values over time are recognized in earnings. Derivative financial instruments are classified as fair value through profit or loss. Available-for-sale financial assets are measured at fair value and changes in fair values are accumulated in other comprehensive income ("OCI") until the asset is realized, at which time the cumulative gain or loss is recognized in earnings. Held-to-maturity financial assets, loans and receivables and other financial liabilities, including related transaction costs, are measured at amortized cost using the effective interest method.

Other Comprehensive Income

For Paramount, OCI is comprised of changes in the market value of investments in available-for-sale securities and foreign exchange translation gains and losses relating to the Company's subsidiaries with a functional currency other than the Canadian dollar. The amounts recorded in OCI each period are presented in the Consolidated Statement of Comprehensive Loss. The cumulative changes in OCI are included in reserves, which is presented within shareholders' equity in the Consolidated Balance Sheet.

n) Estimates of Fair Value

Inputs used to estimate fair values incorporated in the preparation of the Consolidated Financial Statements are categorized into three levels in a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined below.

Level One – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level Two – Inputs are based on information other than quoted prices included within Level One that are observable for the asset or liability, either directly or indirectly. Level two inputs include:

- (a) quoted prices for similar assets or liabilities in active markets;
- (b) quoted prices for identical or similar assets or liabilities in markets that are not active;
- (c) inputs other than quoted prices that are observable for the asset or liability, for example:
  - (i) interest rates and yield curves observable at commonly quoted intervals;
  - (ii) implied volatilities; and
  - (iii) credit spreads; and

(d) market-corroborated inputs.

Level Three – Inputs are unobservable. Unobservable inputs are developed using the best information available in the circumstances, which may incorporate Paramount's own internally generated data.

o) Income Taxes

Paramount follows the liability method of accounting for income taxes. Under this method, a deferred income tax asset or liability is recognized in respect of any temporary difference between the carrying amount of an asset or liability reported in the Consolidated Financial Statements and its respective tax basis, using substantively enacted income tax rates. Deferred income tax balances are adjusted to reflect changes in substantively enacted income tax rates expected to apply when the underlying assets are realized or liabilities are settled, with adjustments being recognized in the period in which the change occurs.

Deferred income tax assets are recognized to the extent future realization is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

p) Flow-Through Shares

The proceeds of flow-through share issuances are allocated between the sale of Paramount's class A common shares ("Common Shares") and the sale of tax benefits associated with the flow-through feature of the securities. Proceeds are first allocated to share capital based on the market price of Common Shares on the date the offering is priced, with the balance recorded in accounts payable and accrued liabilities based on the difference between the issue price and the market price of Common Shares.

As qualifying expenditures intended for renunciation to subscribers are incurred, the Company recognizes a deferred tax liability, reduces the accounts payable and accrued liabilities amount and records any difference as deferred tax expense.

q) Stock-Based Compensation

Paramount Stock Option Plan

Paramount has a stock option plan that enables the Board of Directors or its Compensation Committee to grant to key employees and directors options to acquire Common Shares of the Company ("Paramount Options"). Paramount Options generally vest over five years and expire within six years after the grant date. The provisions of the plan permit the Company to settle the options in Common Shares of the Company or in cash.

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

Cavalier Energy Stock Option Plan

Cavalier Energy has a stock option plan that enables its Board of Directors to grant to key employees and directors options to acquire common shares of Cavalier Energy ("Cavalier Options"). Cavalier Options generally vest over five years and expire within seven years after the grant date. The provisions of the stock option plan permit Cavalier Energy to settle Cavalier Options in common shares of Cavalier Energy or in cash, at the discretion of Cavalier Energy. Cavalier Options are accounted for as equity-settled stock-based compensation transactions.

Stock Incentive Plan

Paramount's stock incentive plan ("SIP") provides that rights to Common Shares may be awarded to employees annually. Common Shares are purchased in the open market and held by an independent trustee until the completion of the vesting period. Generally, one third of an award vests immediately, with the remaining tranches vesting annually over two years. The unvested portion of an award is initially recorded as a reduction of share capital. The cost of the unvested Common Shares is then recognized over the vesting period as stock-based compensation expense, with a corresponding increase to Paramount's share capital.

r) Non-current assets held for sale

Non-current assets are reclassified as assets held for sale: (i) when it is expected that their carrying amount will be recovered principally through sale rather than from continuing use; (ii) such assets are available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such property; and (iii) the completion of the transaction is highly probable. The property is measured at the lower of carrying amount or fair value less costs to sell. Non-current assets held for sale are not depreciated or amortized.

2. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on revenue and expenses in future periods. The following is a description of the accounting judgments, estimates and assumptions that are considered significant:

Exploration and Evaluation Assets

The accounting for exploration and evaluation costs requires management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of reserves, which requires the quantity and value of such reserves to be estimated. Designations are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable resources, the costs are written-off as exploration and evaluation expense.

If hydrocarbons are encountered, but further appraisal activity is required in order to conclude whether they are commercially viable, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval for development plans. Exploration and evaluation assets are subject to ongoing technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. When management is making this assessment, changes to project economics, quantities of resources, expected production techniques, unsuccessful drilling and estimated production costs and projected capital expenditures are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as exploration and evaluation expense.

Reserves Estimates

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

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

Determination of CGUs

The recoverability of the carrying value of oil and gas properties is assessed at the CGU level. Determination of the properties and other assets to be included within a particular CGU is based on management’s judgment with respect to the integration between assets, shared infrastructure and cashflows. Changes in the assets comprising each CGU impacts recoverable amounts used in impairment assessments and could have a material impact on earnings.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting, where the net identifiable assets acquired are recorded at fair value. Any excess of the consideration paid over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred versus the fair value of the net identifiable assets acquired is recognized in earnings. The fair value of individual assets is often required to be estimated, which may involve estimating the fair values of reserves and resources, tangible assets, undeveloped land, intangible assets and other assets acquired. These estimates incorporate assumptions using appropriate indicators of fair value, as determined by management. Changes in any of the estimates or assumptions used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned and earnings.

Equity Accounted Investments

The Company accounts for its investments in certain entities under the equity method although it holds less than 20 percent of the voting power because, in Management's judgment, it has significant influence as a result of common directors and members of senior management.

Asset Retirement Obligations

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

Share-Based Payments

The Company estimates the grant date value of stock options awarded using the Black-Scholes-Merton model. The inputs used to determine the estimated value of the options are based on assumptions regarding share price volatility, the expected life of the options, expected forfeiture rates and future interest rates. By their nature, these inputs are subject to measurement uncertainty and require management to exercise judgment in determining which assumptions are the most appropriate.

Income Taxes

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

3. CHANGES IN ACCOUNTING STANDARDS

Changes in Accounting Standards

Effective January 1, 2013, the Company adopted IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IFRS 13 – *Fair Value Measurement*, IAS 28 – *Investments in Associates and Joint Ventures* and the amendment to IAS 1 – *Presentation of Financial Statements*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company resulting from the adoption of these standards.

Future Changes in Accounting Standards

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by Paramount effective January 1, 2014.

IFRS 9, "Financial Instruments" sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. The IASB has removed the effective date for this IFRS as they finalize and complete the various phases of its comprehensive project on financial instruments and its objective to fully replace IAS 39, the current standard on the recognition and measurement of financial instruments. The Company is currently assessing the impact of adopting IFRS 9 on its Consolidated Financial Statements.

($ thousands, except as noted)

4. DISCONTINUED OPERATIONS

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million.

In May 2012, Summit closed the sale of all of its operated properties in North Dakota and all of its properties in Montana for after-tax cash proceeds of $66.5 million.

These properties were included in the Company's Principal Properties business segment.

Details of the income from discontinued operations are presented below:

Year ended December 31	**2013**	2012
Petroleum and natural gas sales	**$ 1,796**	$ 23,776
Royalties	**(24)**	(2,253)
Revenue	**1,772**	21,523
Expenses		
Operating expense and production tax	**2,841**	14,241
Transportation	**233**	1,578
Depletion, depreciation, and write-downs	**267**	36,665
Exploration and evaluation	**29**	220
Loss on sale of property, plant and equipment	**—**	48
Accretion of asset retirement obligations	**—**	484
	3,370	53,236
Other expense	**—**	(13)
Loss from ordinary activities of discontinued operations before tax	**(1,598)**	(31,726)
Gain on sale of discontinued operations	**38,985**	50,769
Income from discontinued operations before tax	**37,387**	19,043
Income tax expense – discontinued operations		
Current	**—**	3,931
Deferred	**9,357**	12,347
	9,357	16,278
Income from discontinued operations	**$ 28,030**	$ 2,765

The cash flows from discontinued operations, including changes in related non-cash working capital items, are as follows:

Year ended December 31	**2013**	2012
Operating	**$ (926)**	$ 12,231
Investing	**9,062**	60,422
Cash flow from discontinued operations	**$ 8,136**	$ 72,653

($ thousands, except as noted)

5. SEGMENTED INFORMATION

Paramount's operations are divided into three business segments established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives:

Principal Properties: Principal properties consist of: (i) the Kaybob Corporate Operating Unit ("COU"), which includes properties in west central Alberta; (ii) the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta; (iii) the Southern COU, which includes properties in southern Alberta; and (iv) the Northern COU, which includes properties in northern Alberta and northeast British Columbia.

Strategic Investments: Strategic investments include: (i) investments in other entities, including affiliates; (ii) investments in exploration and development stage assets, where there is no near-term expectation of commercial production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation, including oil sands and carbonate interests held by Cavalier Energy, and prospective shale gas acreage; and (iii) drilling rigs owned by Fox Drilling.

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

Year ended December 31, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 219,908	$ —	$ —	$ —	**$ 219,908**
Loss on financial commodity contracts	(3,972)	—	—	—	**(3,972)**
	215,936	—	—	—	**215,936**
Expenses					
Operating expense and transportation	92,397	—	—	—	**92,397**
General and administrative	—	6,765	12,716	—	**19,481**
Stock-based compensation	—	7,166	18,685	—	**25,851**
Depletion and depreciation	150,633	9,913	685	(8,296)	**152,935**
Exploration and evaluation	34,692	845	—	—	**35,537**
Gain on sale of property, plant and equipment	(32,275)	(413)	—	—	**(32,688)**
Interest	—	2,400	50,239	—	**52,639**
Accretion of asset retirement obligations	3,082	17	—	—	**3,099**
Foreign exchange	—	—	528	—	**528**
	248,529	26,693	82,853	(8,296)	**349,779**
Income from equity-accounted investments	—	21,378	—	—	**21,378**
Other	4,419	28	—	—	**4,447**
Drilling rig revenue	—	42,465	—	(38,279)	**4,186**
Drilling rig expense	—	(19,351)	—	17,475	**(1,876)**
	(28,174)	17,827	(82,853)	(12,508)	**(105,708)**
Inter-segment eliminations	—	(12,508)	—	12,508	**—**
Segment income (loss)	$ (28,174)	$ 5,319	$ (82,853)	$ —	**(105,708)**
Income tax recovery					**18,593**
Income from discontinued operations, net of tax					**28,030**
Net loss					**$ (59,085)**

($ thousands, except as noted)

Year ended December 31, 2012 (restated see note 4)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 159,090	$ —	$ —	$ —	$ 159,090
Gain on financial commodity contracts	2,487	—	—	—	2,487
	161,577	—	—	—	161,577
Expenses					
Operating expense and transportation	75,806	—	—	—	75,806
General and administrative	—	6,438	11,702	—	18,140
Stock-based compensation	—	10,879	18,203	—	29,082
Depletion and depreciation	246,834	4,657	338	(2,941)	248,888
Exploration and evaluation	31,477	1,478	—	—	32,955
Gain on sale of property, plant and equipment	(26,432)	—	—	—	(26,432)
Interest	—	1,499	33,825	—	35,324
Accretion of asset retirement obligations	2,877	22	—	—	2,899
Foreign exchange	—	18	1,565	—	1,583
	330,562	24,991	65,633	(2,941)	418,245
Income from equity-accounted investments	—	153,333	—	—	153,333
Other	11,483	—	—	—	11,483
Drilling rig revenue	—	20,884	—	(13,422)	7,462
Drilling rig expense	—	(10,841)	—	6,186	(4,655)
	(157,502)	138,385	(65,633)	(4,295)	(89,045)
Inter-segment eliminations	—	(4,295)	—	4,295	—
Segment income (loss)	$(157,502)	$ 134,090	$ (65,633)	$ —	(89,045)
Income tax recovery					24,368
Income from discontinued operations, net of tax					2,765
Net loss					$ (61,912)

Total Assets	**December 31, 2013**	December 31, 2012
Principal Properties	**$ 1,772,049**	$ 1,410,129
Strategic Investments	**520,983**	342,967
Corporate	**154,771**	283,859
	$ 2,447,803	$ 2,036,955

Other Income

Year ended December 31	**2013**	2012
Gain on sale of investments	**$ 3,656**	$ –
Write-down of available-for-sale investment	**(3,628)**	–
Drilling rig revenue	**4,186**	7,462
Drilling rig expense	**(1,876)**	(4,655)
Other	**4,419**	11,483
	$ 6,757	$ 14,290

Other income for the year ended December 31, 2012 includes $6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at one of the Company's facilities in the fourth quarter of 2011.

($ thousands, except as noted)

6. ASSETS HELD FOR SALE

During the first quarter of 2013, Summit closed the sale of its non-operated joint venture operations and lands in North Dakota for proceeds of US$21.8 million. The carrying value of the properties and associated liabilities were presented as assets held for sale as at December 31, 2012:

Exploration and evaluation	$ 12,270
Property, plant and equipment, net	163
Asset retirement obligations	$ (470)

7. EXPLORATION AND EVALUATION

Year ended December 31	2013	2012
Balance, beginning of year	**$ 405,090**	$ 390,742
Additions	**203,642**	166,214
Transfer to assets held for sale	**—**	(12,270)
Transfers to property, plant and equipment	**(137,355)**	(111,416)
Dry hole	**(13,862)**	(6,842)
Expired lease costs	**(14,429)**	(18,550)
Dispositions	**(13,143)**	(2,548)
Foreign exchange	**(32)**	(240)
Balance, end of year	**$ 429,911**	$ 405,090

Additions to exploration and evaluation assets totaled $125.9 million (2012 – $119.0 million) for Principal Properties and $77.7 million (2012 – $47.2 million) for Strategic Investments.

Exploration and Evaluation Expense

Year ended December 31	2013	2012
Geological and geophysical	**$ 7,101**	$ 7,843
Dry hole	**14,007**	6,427
Expired lease costs	**14,429**	18,685
	$ 35,537	$ 32,955

($ thousands, except as noted)

8. PROPERTY, PLANT AND EQUIPMENT

Year ended December 31, 2013	**Petroleum and natural gas assets**	**Drilling rigs**	**Other**	**Total**
Cost				
Balance, December 31, 2012	$ 1,960,833	$ 84,100	$ 20,374	**$ 2,065,307**
Additions	528,519	17,417	7,461	**553,397**
Transfers from exploration and evaluation	137,355	—	—	**137,355**
Dispositions	(126,129)	—	(682)	**(126,811)**
Change in asset retirement provision	(11,220)	—	—	**(11,220)**
Currency translation differences	(2)	—	20	**18**
Cost, December 31, 2013	**2,489,356**	**101,517**	**27,173**	**2,618,046**
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2012	$ (949,699)	$ (18,420)	$(18,737)	**$ (986,856)**
Depletion and depreciation	(145,014)	(9,382)	(1,218)	**(155,614)**
Write-downs	(6,279)	—	—	**(6,279)**
Dispositions	103,507	—	220	**103,727**
Currency translation differences	(1)	—	(12)	**(13)**
Accumulated depletion, depreciation and write-downs, December 31, 2013	**(997,486)**	**(27,802)**	**(19,747)**	**(1,045,035)**
Net book value, December 31, 2012	1,011,134	65,680	1,637	**1,078,451**
Net book value, December 31, 2013	**$ 1,491,870**	**$ 73,715**	**$ 7,426**	**$ 1,573,011**

Year ended December 31, 2012	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2011	$1,466,107	$ 51,471	$ 19,943	$1,537,521
Additions	426,808	32,889	446	460,143
Transfers to assets held for sale	(1,284)	–	–	(1,284)
Transfers from exploration and evaluation	111,416	–	–	111,416
Dispositions	(58,305)	–	–	(58,305)
Change in asset retirement provision	15,697	–	–	15,697
Currency translation differences	394	(260)	(15)	119
Cost, December 31, 2012	1,960,833	84,100	20,374	2,065,307
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2011	$ (696,630)	$ (13,899)	$ (18,375)	$ (728,904)
Transfer to assets held for sale	1,121	–	–	1,121
Depletion and depreciation	(148,174)	(4,630)	(367)	(153,171)
Write-downs	(135,278)	–	–	(135,278)
Dispositions	29,504	–	–	29,504
Currency translation differences	(242)	109	5	(128)
Accumulated depletion, depreciation and write-downs, December 31, 2012	(949,699)	(18,420)	(18,737)	(986,856)
Net book value, December 31, 2011	769,477	37,572	1,568	808,617
Net book value, December 31, 2012	$1,011,134	$ 65,680	$ 1,637	$1,078,451

($ thousands, except as noted)

Depletion and Depreciation

Year ended December 31	2013	2012
Depletion and depreciation	**$ 155,701**	$ 145,981
Write-down of property, plant and equipment	**6,519**	105,802
Goodwill impairment	**—**	302
Inter-segment eliminations	**(9,285)**	(3,197)
	$ 152,935	$ 248,888

At December 31, 2013, $343.7 million (December 31, 2012 – $267.7 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Additions to property, plant and equipment in 2013 were $523.8 million (2012 – $426.8 million) for Principal Properties, $22.1 million (2012 – $32.9 million) for Strategic Investments and $7.5 million (2012 – $0.5 million) for Corporate. Additions to property, plant and equipment include $12.7 million (2012 – $4.6 million) of capitalized interest for qualifying assets in the construction phase at a weighted average interest rate of eight percent (2012 – eight percent).

The Company recorded a net impairment write-down of its petroleum and natural gas assets of $6.5 million in 2013 (2012 – $105.8 million), comprised of a $19.6 million write-down related to the Southern CGU and a $17.7 million write-down related to the Northern CGU, net of an impairment reversal of $30.8 million related to the Grande Prairie CGU. These properties are included within the Principal Properties business segment.

The impairment write-downs in the Southern and Northern CGUs were recorded because the carrying value of their properties exceeded their recoverable amounts, which were estimated based on expected discounted cash flows from the production of proved and probable reserves. The impairments resulted from a combination of declines in reserves assigned due to well performance and, in the Southern CGU, the sale of properties with recoverable amounts that exceeded their carrying values.

The reversal of previously recorded impairment write-downs in the Grande Prairie CGU resulted from increases in reserves assigned to the CGU due to recent drilling programs. The reversal was recorded to the extent that the recoverable amount ascribed to the Grande Prairie CGU exceeded the carrying value of its properties.

Recoverable amounts were estimated on a fair value less costs to sell basis, using a discounted cash flow method which is an approach commonly employed by market participants to value oil and gas properties. Cash flows were projected over the expected remaining productive life of each CGU's reserves, at an after-tax discount rate of nine percent at December 31, 2013 (2012 – eight percent). The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2014	2015	2016	2017	2018	2019-2028	Thereafter
Natural Gas							
AECO ($/MMBtu)	4.00	4.25	4.55	4.75	5.00	5.25 – 6.25	+2%/yr
Henry Hub (US$/MMBtu)	4.25	4.50	4.75	5.00	5.25	5.50 – 6.55	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	95.00	96.50	97.50	98.00	98.30	99.60 – 119.10	+2%/yr
WTI (US$/Bbl)	95.00	95.00	95.00	95.00	95.30	96.60 – 115.50	+2%/yr

Following the sale of the Cameron Hills and Bistcho properties in the first quarter of 2013 and the decline in reserves assigned to the remaining properties in the Northern CGU as at December 31, 2013, Paramount has determined that its remaining Northern properties no longer constitute a significant CGU. As a result, the remaining Northern properties will be included within the Grande Prairie CGU subsequent to December 31, 2013.

The Company recorded a net impairment write-down in 2012 related to its petroleum and natural gas assets of $105.8 million within the Principal Properties business segment, comprised of a $48.2 million write-down related to the Grande Prairie CGU, a $32.8 million write-down related to the Northern CGU and a $24.8 million write-down related to the Southern CGU. The impairments were recorded to the extent that the carrying value of the properties exceeded their expected discounted cash flows from the production of estimated proved and probable reserves. The impairment resulted from a combination of the decline in forecast oil, natural gas, and natural gas liquids prices, higher well costs than reserves values assigned, and declines in reserves assigned due to well performance.

The following benchmark prices were used in determining the 2012 estimates of recoverable amounts:

(Average for the period)	2013	2014	2015	2016	2017	2018-2027	Thereafter
Natural Gas							
AECO ($/MMBtu)	3.35	3.85	4.35	4.70	5.10	5.45 – 6.50	+2%/yr
Henry Hub (US$/MMBtu)	3.75	4.30	4.85	5.25	5.70	6.10 – 7.25	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	87.50	90.50	92.60	94.50	96.40	98.30 – 117.50	+2%/yr
WTI (US$/Bbl)	92.50	92.50	93.60	95.50	97.40	99.40 – 118.80	+2%/yr

9. EQUITY ACCOUNTED INVESTMENTS

As at December 31		**2013**			2012	
	Shares (000's)	**Carrying Value**	**Market Value(1)**	*Shares (000's)*	Carrying Value	Market Value(1)
Trilogy	*19,144*	**$ 97,391**	**$ 528,383**	*19,144*	$ 82,419	$ 557,292
MGM Energy Corp. ("MGM")	*54,147*	**1,212**	**8,664**	*54,147*	2,299	13,537
Other		**5,711**			6,259	
		$104,314			$ 90,977	

(1) Based on the period-end trading price.

($ thousands, except as noted)

Income from equity-accounted investments is comprised of the following:

Year ended December 31	**2013**	2012
Equity loss	**$ (4,297)**	$ (4,298)
Dilution gain	**25,675**	416
Gain on sale	**—**	157,215
	$ 21,378	$ 153,333

As at December 31, 2013, Paramount owned a 15 percent equity interest in Trilogy (December 31, 2012 – 16 percent). Trilogy is a petroleum and natural gas-focused Canadian energy corporation that develops, produces and sells natural gas, crude oil and natural gas liquids, primarily in the province of Alberta. Trilogy is a publicly listed entity in Canada with its common shares trading on the Toronto Stock Exchange. The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at December 31	**2013**	2012
Current assets	**$ 73,221**	$ 74,139
Non-current assets(1)	**1,481,860**	1,356,916
Current liabilities	**(138,744)**	(118,599)
Non-current liabilities	**(742,136)**	(790,113)
Equity	**$ 674,201**	$ 522,343
Multiply by: Paramount's equity interest	**15.3%**	16.4%
Paramount's proportionate share of equity	**$ 103,113**	$ 85,708
Less: share of share-based compensation recorded in equity of Trilogy	**(5,722)**	(3,289)
Carrying value of Paramount's investment	**$ 97,391**	$ 82,419

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting to account for shares of Trilogy which were purchased in the open market. Excluding such adjustments, Trilogy's non-current assets as at December 31, 2013 totaled $1,473,508 (2012 – $1,320,972).

Year ended December 31	**2013**	2012
Revenue	**$ 489,819**	$ 399,098
Comprehensive income (loss)(1)	**(17,397)**	(22,700)
Paramount's share of Trilogy's comprehensive loss	**$ (2,660)**	$ (3,725)

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting to account for shares of Trilogy purchased in the open market. Excluding such adjustments, Trilogy's comprehensive income for the year ended December 31, 2013 was $11,467 (2012 – comprehensive loss of $12,133).

Trilogy had 7.3 million stock options outstanding (2.6 million exercisable) at December 31, 2013 at exercise prices ranging from $4.85 to $38.74 per share.

For the year ended December 31, 2013, Paramount received cash dividends of $8.0 million (2012 – $8.0 million) from Trilogy.

Income from equity-accounted investments for the year ended December 31, 2013 also includes $25.7 million of dilution gains related to the Company's investment in Trilogy as a result of common shares issued by Trilogy during the year. Income from equity-accounted investments for the year ended December 31, 2012 included a $157.2 million gain recognized on the sale of 5.0 million Trilogy shares and a $0.4 million dilution gain.

The aggregate carrying amount of the Company's other equity-accounted investments at December 31, 2013 was $6.9 million (December 31, 2012 – $8.6 million) and Paramount's share of the income or loss of those investees for the year ended December 31, 2013 was an aggregate net loss of $1.6 million (2012 – net loss of $0.6 million).

10. INVESTMENTS IN SECURITIES

As at December 31	**2013**		2012	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	*3,700*	**$ 113,257**	*3,700*	$ 112,628
Strategic Oil & Gas Ltd.	*7,200*	**5,400**	—	—
Other		**27,004**		15,139
		$ 145,661		$ 127,767

11. GOODWILL

As at December 31	**2013**	2012
Carrying value, beginning of year	**$ 3,124**	$ 3,426
Impairment	**—**	(302)
Carrying value, end of year	**$ 3,124**	$ 3,124

The carrying amount of goodwill as at December 31, 2013 and December 31, 2012 relates to the Kaybob CGU. The Company recorded an impairment charge of $0.3 million in respect of goodwill related to the Northern CGU in 2012.

12. DEMAND FACILITIES

As at December 31	**2013**	2012
Drilling Rig Facilities	**$ 53,000**	$ —
Drilling Rig Loan I	**—**	17,766
Drilling Rig Loan II	**—**	21,000
Cavalier Facility	**22,550**	1,937
	$ 75,550	$ 40,703

Drilling Rig Loans

In 2013, Drilling Rig Loan I and Drilling Rig Loan II were repaid and replaced with a new $57.0 million non-revolving demand loan facility (the "Drilling Rig Facility"). The Drilling Rig Facility was drawn in full at closing and principal payments of $4.0 million were made to December 31, 2013. In connection with the Drilling Rig Facility, an $8.0 million non-revolving demand loan facility was entered into with the same bank to fund the purchase of auxiliary equipment for the drilling rigs (the "Auxiliary Equipment Loan"), which was undrawn at December 31, 2013.

($ thousands, except as noted)

Recourse and security for the Drilling Rig Facility and the Auxiliary Equipment Loan (collectively, the "Drilling Rig Facilities") is limited to drilling rigs owned by Fox Drilling and drilling contracts guaranteed by Paramount. Interest on the Drilling Rig Facilities is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin. Scheduled principal repayments are $8.0 million annually from 2014 to 2017 with the remaining outstanding principal balance due in 2018. The effective interest rate on the Drilling Rig Facility for the year ended December 31, 2013 was 4.4 percent. The effective combined interest rate for the drilling rig loans for the year ended December 31, 2013 was 4.2 percent (2012 – 4.4 percent).

Cavalier Facility

Cavalier Energy has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of Cavalier Energy, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier Energy, including oil sands and carbonate bitumen lands. The effective interest rate on the Cavalier Facility for the year ended December 31, 2013 was 3.4 percent (2012 – 4.7 percent).

13. LONG-TERM DEBT

As at December 31	2013	2012
Bank credit facility	**$ 71,826**	$ —
8¼% Senior Notes due 2017	**370,000**	370,000
7⅝% Senior Notes due 2019	**450,000**	300,000
	891,826	670,000
Unamortized financing costs, net of premiums	**(9,223)**	(9,298)
	$ 882,603	$ 660,702

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2013 from $300 million to $600 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $500 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2014 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Facilities and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

Borrowings under the Facility bear interest at the lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio, the tranche under which borrowings are made and the total amount drawn. The maximum amount that Paramount may borrow under the Facility is subject to periodic review and is dependent upon the Company's reserves, lenders' projections of future commodity prices, the value attributed by lenders to Paramount's other property, and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. As at December 31, 2013, $71.8 million was drawn on Tranche A and Tranche B was undrawn.

($ thousands, except as noted)

Paramount had undrawn letters of credit outstanding at December 31, 2013 totaling $44.7 million that reduce the amount available to the Company.

Senior Notes

Paramount has $370 million aggregate principal amount of senior unsecured notes due 2017 (the "2017 Senior Notes") outstanding. The 2017 Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The 2017 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2017 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In December 2012, Paramount completed a public offering of $300 million aggregate principal amount of senior unsecured notes due 2019 (the "2019 Senior Notes") at par. In December 2013, Paramount completed a public offering of an additional $150 million aggregate principal amount of 2019 Senior Notes at a price of $1,007.50 per $1,000 principal amount. Certain officers, management and associates of the Company purchased an aggregate $17.9 million principal amount of 2019 Senior Notes under the two offerings.

The 2019 Senior Notes bear interest at 7.625 percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019. The 2019 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2019 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

14. ASSET RETIREMENT OBLIGATIONS

Year ended December 31	**2013**	2012
Asset retirement obligations, beginning of year	**$ 300,468**	$ 299,202
Retirement obligations incurred	**35,749**	14,626
Revisions to estimated retirement costs and discount rates	**(45,321)**	441
Obligations settled	**(6,336)**	(8,002)
Disposal of properties	**(48,087)**	(8,500)
Accretion expense - continuing operations	**3,099**	2,899
Accretion expense - discontinued operations	**—**	484
Transfer to liabilities associated with assets held for sale	**—**	(470)
Other	**281**	(212)
Asset retirement obligations, end of year	**$ 239,853**	$ 300,468

Asset retirement obligations at December 31, 2013 were determined using a weighted average risk-free rate of 3.00 percent (December 31, 2012 – 2.00 percent) and an inflation rate of 2.00 percent

(December 31, 2012 – 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 47 years.

15. SHARE CAPITAL

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2013, 96,993,129 Common Shares were outstanding, net of 71,495 Common Shares held in trust under the stock incentive program, and no preferred shares were outstanding.

In October 2013, Paramount issued 1,115,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("FTS") at a price of $44.00 per share for gross proceeds of $49.1 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued FTS at a price of $44.00 per share to the Company's Chairman and Chief Executive Officer and President and Chief Operating Officer and/or companies controlled by them for gross proceeds of approximately $10 million, and to certain other directors, officers, and employees of Paramount and other persons for gross proceeds of approximately $1 million.

In May 2013, Paramount issued 4,025,000 Common Shares at a price of $37.50 per share for gross proceeds of $150.9 million pursuant to a public offering.

In October 2012 Paramount issued 1,936,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $31.00 per share and 356,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses ("CDE") at a price of $28.15 per share for aggregate gross proceeds of $70 million, pursuant to a public offering. Certain officers and management of the Company participated in this offering.

In September 2012 Paramount issued 646,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $31.00 per share and 1,244,000 Common Shares on a "flow-through" basis in respect of CDE at a price of $28.15 per share to a company controlled by the Company's Chairman and Chief Executive Officer for aggregate proceeds of $55 million.

On issuance of the flow-through shares during the year, a liability of $11.8 million (2012 – $19.8 million) was recognized in accounts payable and accrued liabilities on the issuance of flow-through shares in respect of the Company's obligation to renounce qualifying expenditures.

The Company incurred $6.4 million (2012 – $2.4 million) of transaction costs in respect of these equity offerings, net of tax benefits of $2.1 million (2012 – $0.8 million).

Loss per Weighted Average Common Share

Year ended December 31	2013		2012	
	Wtd. Avg. Shares (000's)	**Loss from continuing operations**	*Wtd. Avg. Shares (000's)*	Loss from continuing operations
Loss from continuing operations – basic	*93,708*	**$ (87,115)**	*86,607*	$ (64,677)
Dilutive effect of Paramount options	—	—	—	—
Loss from continuing operations – diluted	*93,708*	**$ (87,115)**	*86,607*	$ (64,677)

($ thousands, except as noted)

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted per share calculations when they are dilutive to income from continuing operations.

16. RESERVES

Reserves at December 31, 2013 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains (losses) on securities	**Translation of foreign subsidiaries**	**Contributed surplus**	**Total reserves**
Balance, December 31, 2012	$ 8,879	$ (393)	$ 86,461	**$ 94,947**
Other comprehensive income	3,908	393	—	**4,301**
Stock-based compensation	—	—	28,252	**28,252**
Stock options exercised	—	—	(39,822)	**(39,822)**
Balance, December 31, 2013	**$ 12,787**	**$ —**	**$ 74,891**	**$ 87,678**

	Unrealized gains (losses) on securities	Translation of foreign subsidiaries	Contributed surplus	Total reserves
Balance, December 31, 2011	$ 51,709	$ (831)	$ 65,792	$ 116,670
Other comprehensive income (loss)	(42,830)	438	—	(42,392)
Stock-based compensation	—	—	26,072	26,072
Stock options exercised	—	—	(5,403)	(5,403)
Balance, December 31, 2012	$ 8,879	$ (393)	$ 86,461	$ 94,947

Other Comprehensive Income

Year ended December 31	**2013**	2012
Unrealized gain (loss) on securities		
Change in market value of securities	**$ 636**	$ (43,096)
Reclassification of other comprehensive income to earnings	**3,628**	—
Deferred tax	**(356)**	266
	3,908	(42,830)
Translation of foreign subsidiaries		
Exchange differences on translation of US subsidiaries	**(587)**	89
Reclassification of other comprehensive income to earnings	**980**	349
	393	438
Other comprehensive income (loss)	**$ 4,301**	$ (42,392)

($ thousands, except as noted)

17. SHARE-BASED PAYMENTS

Paramount Options

Changes in outstanding Paramount Options are as follows:

	2013		2012	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		($/share)		($/share)
Balance, beginning of year	**6,667,850**	**$ 23.58**	5,767,450	$ 20.76
Granted	**1,865,000**	**37.37**	1,340,000	34.01
Exercised	**(1,747,650)**	**8.66**	(258,600)	11.13
Forfeited	**(153,000)**	**31.98**	(171,000)	28.15
Expired	**–**	**–**	(10,000)	40.09
Balance, end of year	**6,632,200**	**$ 31.20**	6,667,850	$ 23.58
Options exercisable, end of year	**2,407,250**	**$ 24.21**	2,862,134	$ 14.42

For options exercised in 2013, the weighted average market price of Paramount's Common Shares on the dates exercised was $36.25 (2012 – $34.46)

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of December 31, 2013 are as follows:

	Awards Outstanding		
Exercise Prices	**Number**	**Remaining contractual life**	**Weighted average exercise price**
$7.19 - $20.00	1,174,950	0.9 years	$ 10.49
$20.01 - $30.00	1,038,000	2.3 years	$ 29.37
$30.01 - $35.00	1,456,000	4.2 years	$ 33.89
$35.01 - $38.00	1,701,000	5.2 years	$ 37.73
$38.01 - $40.09	1,262,250	3.4 years	$ 40.05
	6,632,200	**3.4 years**	**$ 31.20**

The grant date fair value of Paramount Options was estimated using the Black-Scholes-Merton model incorporating the following weighted average inputs:

	Options awarded in 2013	Options awarded in 2012
Weighted average exercise price per share	**$ 37.37**	$ 34.01
Expected volatility	**36.1%**	45.3%
Expected life of share options	**4.6 years**	4.7 years
Pre-vest forfeiture rate	**5.6%**	5.0%
Risk-free interest rate	**1.6%**	1.3%
Expected dividend yield	**–**	–
Weighted average fair value of awards per share	**$ 12.13**	$ 13.47

The estimated expected life of the Paramount Options is based on historical exercise patterns. The expected volatility is estimated based on the historical volatility of the trading price of the Company's

Common Shares over the most recent period that is generally commensurate with the expected term of the option.

Cavalier Options

During 2013, Cavalier Energy granted 3.5 million Cavalier Options, which vest over four years. A total of 3.9 million previously issued Cavalier Options were cancelled during the year, resulting in a net balance of 4.3 million Cavalier Options outstanding at the end of the year.

The grant date fair value of Cavalier Options awarded was estimated using the Black-Scholes-Merton model, incorporating the following inputs: expected volatility 60.8% (2012 – 62.4%), expected life 6.0 years (2012 – 6.5 years), risk-free interest rate 2.0% (2012 – 1.5%), pre-vest forfeiture rate of nil (2012 – nil), and expected dividend yield of nil (2012 – nil).

The expected life of the Cavalier Options is the term of the option. As Cavalier is a private company, expected volatility is estimated based on the average historical volatility of the trading price of a group of publicly traded oil sands companies which are comparable to Cavalier Energy over the most recent period that is generally commensurate with the expected term of the option.

Stock Incentive Plan – Shares Held in Trust

Year ended December 31	**2013**		2012	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of year	*75*	**$ 416**	*86*	$ 419
Shares purchased	*113*	**3,998**	*124*	3,052
Change in vested and unvested shares	*(116)*	**(3,914)**	*(135)*	(3,055)
Balance, end of year	*72*	**$ 500**	*75*	$ 416

Employee Benefit Costs

Year ended December 31	**2013**	2012
Stock option plan	**$ 21,347**	$ 26,072
Stock incentive plan	**4,504**	3,010
Stock-based compensation expense	**25,851**	29,082
Salaries and benefits, net of recoveries	**13,392**	11,951
	$ 39,243	$ 41,033

($ thousands, except as noted)

18. INCOME TAX

The following table reconciles income taxes calculated at the Canadian statutory rate to Paramount's recorded income tax expense (recovery):

Year ended December 31	2013	2012
Loss from continuing operations before tax	**$ (105,708)**	$ (89,045)
Effective Canadian statutory income tax rate	**25.0%**	25.1%
Expected income tax expense (recovery)	**$ (26,427)**	$ (22,350)
Effect on income taxes of:		
Statutory and other rate differences	**2,707**	(2,484)
Income from equity-accounted investments	**(5,345)**	(22,441)
Investment in subsidiaries	**2,186**	2,643
Goodwill impairment	**–**	76
Flow-through share renunciations	**4,223**	8,759
Stock-based compensation	**5,337**	6,534
Non-deductible items and other	**(1,274)**	4,895
Income tax recovery	**$ (18,593)**	$ (24,368)

Components of Deferred Income Tax Asset

As at December 31	2013	2012
Property, plant and equipment	**$ (91,934)**	$ (9,373)
Investments	**(4,188)**	(2,761)
Asset retirement obligations	**60,006**	75,515
Non-capital losses	**150,514**	50,466
Other	**4,692**	3,054
Deferred tax asset	**$ 119,090**	$ 116,901

Paramount has $601.5 million (2012 – $208.6 million) of unused tax losses expiring between 2025 and 2033. In addition, Paramount has $180.0 million (2012 – $190.6 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recognized. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and unutilized tax losses can be applied. A deferred tax asset related to the carry forward of unutilized tax losses has been recorded as the Company expects that future taxable profits, through a combination of future operating results and gains realized on the disposition of assets, will be sufficient to utilize the deferred tax asset.

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

($ thousands, except as noted)

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Financial instruments at December 31, 2013 consisted of cash and cash equivalents, accounts receivable, the Deposit, available-for-sale investments, the demand facilities, accounts payable and accrued liabilities, risk management liabilities and long-term debt.

Fair Values of Financial Assets and Liabilities

The fair value of financial assets and liabilities are included in the Consolidated Financial Statements at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the Deposit approximates its carrying amount.
- Risk management liabilities are carried at fair values, which are estimated using level two fair value hierarchy inputs including forward market curves and price quotes for similar instruments provided by financial institutions.
- Publicly traded available-for-sale investments are carried at their period-end trading price, which are level one fair value hierarchy inputs.
- The carrying value of the demand facilities and long-term debt are measured at amortized cost.
- The 2017 Senior Notes had a market value of 103.5 percent of their principal amount at December 31, 2013 (December 31, 2012 – 104.1 percent). The 2019 Senior Notes had a market value of 101.0 percent of their principal amount at December 31, 2013 (December 31, 2012 – 100.3 percent). The Senior Notes are carried at amortized cost.

Risk management financial instruments outstanding at December 31, 2013 are as follows:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil - NYMEX WTI Swap	1,000 Bbl/d	US$92.43/Bbl	$ (1,015)	January - June 2014
Oil - NYMEX WTI Swap	2,000 Bbl/d	US$91.78/Bbl	(2,957)	January - December 2014
			$ (3,972)	

Changes in the fair value of risk management assets and liabilities are as follows:

Year ended December 31	2013	2012
Fair value, beginning of year	$ —	$ (2,603)
Changes in fair value	(3,972)	2,487
Settlements paid	—	116
Fair value, end of year	**$ (3,972)**	$ —

($ thousands, except as noted)

Subsequent to December 31, 2013, the Company entered into the following risk management financial instruments:

Instrument	Total Notional	Average Fixed Price	Remaining Term
Natural Gas - AECO Swap	20,000 GJ/d	CAD$4.45/GJ	April - October 2014

Risk Management

Paramount is exposed to market risks where the fair values or future cash flows of financial instruments fluctuate because of underlying changes in market prices. The principal market risks impacting Paramount are commodity price risk, foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk. Paramount periodically uses derivative instruments such as forwards, swaps and options to manage its exposure to fluctuations in crude oil and natural gas prices, foreign exchange rates, and interest rates.

Commodity Price Risk

At December 31, 2013, assuming all other variables are held constant, a $10 per barrel increase or decrease in the applicable forward market curves would have had the following impact on Paramount's net earnings from changes in the fair value of financial commodity contracts:

	$10 increase	$10 decrease
Crude Oil	$ (6,800)	$ 6,800

Foreign Currency Risk

Paramount is exposed to foreign currency risk on financial instruments denominated in US dollars including cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities.

Sales prices of natural gas, crude oil, and natural gas liquids ("NGLs") are determined with reference to US benchmark prices, therefore a strengthening of the Canadian dollar relative to the US dollar will decrease the revenue received for natural gas, crude oil, and NGLs. Paramount's expenditures are primarily in Canadian dollars but include capital expenditures in US dollars.

Interest Rate Risk

Paramount is exposed to interest rate risk from time to time on outstanding balances on its floating rate bank credit facilities, and on interest bearing cash and cash equivalents. A one percent increase or decrease in interest rates would have impacted Paramount's net earnings for the year ended December 31, 2013 by approximately $0.8 million (2012 – $0.5 million) based on the average floating rate credit facility balances outstanding during the year. Paramount's 2017 Senior Notes and 2019 Senior Notes bear interest at fixed rates and are subject to fair value changes as market interest rates change.

Equity Price Risk

Paramount is exposed to equity price risk associated with changes in the market value of its investments.

($ thousands, except as noted)

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company manages credit risk by endeavoring to enter into contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing letters of credit, and limiting available credit when necessary. The maximum credit risk exposure at December 31, 2013 is limited to the carrying values of accounts receivable. Accounts receivable include balances due from customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risk. At December 31, 2013, Paramount had balances due from one joint venture partner that represented approximately 10 percent of the Company's total accounts receivable.

Liquidity Risk

Liquidity risk is the risk that Paramount will be unable to meet its financial obligations. The Company manages liquidity risk by ensuring that it has sufficient cash and cash equivalents, credit facilities and other financial resources available to meet its obligations.

The Company forecasts cash flows for a period of at least 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities, dispositions of assets, and accessing capital markets.

In addition to commitments disclosed in Note 23, contractual obligations related to financial liabilities are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Accounts payable & accrued liabilities[1]	$ 204,035	$ –	$ –	$ –	$ –	$ –	$ 204,035
Cavalier Facility[2]	22,550	–	–	–	–	–	22,550
Credit Facility[3]	3,821	75,647	–	–	–	–	79,468
Drilling Rig Facilities[3]	10,159	9,813	9,468	9,122	21,553	–	60,115
Senior Notes[3]	64,838	64,838	64,838	434,838	34,313	484,313	1,147,978
	$ 305,403	**$150,298**	**$74,306**	**$443,960**	**$55,866**	**$484,313**	**$1,514,146**

(1) Excluding $9.5 million related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances.
(2) Excluding interest.
(3) Including interest.

Accounts payable and accrued liabilities

As at December 31	2013	2012
Trade and accrued payables	**$ 191,783**	$ 163,891
Joint venture and royalties	**8,208**	5,618
Interest payable	**4,044**	3,197
Flow-through share renunciation obligations	**9,546**	10,806
	$ 213,581	$ 183,512

($ thousands, except as noted)

Terms and conditions of the above financial liabilities:

- Trade and accrued payables and joint venture payables are non-interest bearing and are normally settled within 30 – 60 days.
- Interest on the 2017 Senior Notes is payable semi-annually in arrears on June 13 and December 13 in each year.
- Interest on the 2019 Senior Notes is payable semi-annually in arrears on June 4 and December 4 in each year.

Accounts receivable

As at December 31	**2013**	2012
Revenue receivable	**$ 20,214**	$ 19,412
Joint venture receivable	**12,361**	10,790
GST and other	**6,725**	2,588
	$ 39,300	$ 32,790

Joint venture receivables are non-interest bearing and are generally on 30 day terms.

In determining the recoverability of joint venture receivables, the Company performs a risk analysis considering the type and age of the outstanding receivables and the credit worthiness of the counterparties. The Company has determined that there was no impairment of joint venture receivables as at December 31, 2013. There were no significant non-current joint venture receivables as at December 31, 2013 and 2012.

20. CONSOLIDATED STATEMENT OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

Year ended December 31	**2013**	2012
Financial commodity contracts	**$ 3,972**	$ (2,603)
Stock-based compensation	**25,851**	29,082
Depletion and depreciation	**152,935**	248,888
Exploration and evaluation	**28,436**	25,596
Gain on sale of property, plant, and equipment	**(32,688)**	(26,432)
Accretion of asset retirement obligations	**3,099**	2,899
Foreign exchange	**599**	1,497
Income from equity-accounted investments	**(21,378)**	(153,333)
Deferred income tax	**(23,576)**	(25,157)
Discontinued operations	**(29,361)**	(682)
Other	**1,661**	1,258
	$ 109,550	$ 101,013

($ thousands, except as noted)

Supplemental cash flow information

Year ended December 31	2013	2012
Interest paid	**$ 64,207**	$ 36,424
Current tax paid	**$ 8,117**	$ 1,598

Components of cash and cash equivalents

As at December 31	2013	2012
Cash	**$ 10,703**	$ 4,575
Cash equivalents	**—**	142,109
	$ 10,703	$ 146,684

21. CAPITAL STRUCTURE

Paramount's primary objectives in managing its capital structure are to:

(i) maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;

(ii) maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives, and the repayment of debt obligations when due; and

(iii) maximize shareholder returns.

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount monitors metrics such as the Company's debt-to-equity and debt-to-cash flow ratios, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. The capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, refinancing existing debt, modifying capital spending programs, and disposing of assets, the availability of any such means being dependent upon market conditions.

($ thousands, except as noted)

Paramount's capital structure consists of the following:

As at December 31	2013	2012
Adjusted working capital deficit (surplus)(1)	**$ 151,780**	$ (9,271)
Demand facilities	**75,550**	40,703
Credit facility	**71,826**	–
Senior notes(2)	**820,000**	670,000
Net Debt(3)	**1,119,156**	701,432
Share capital	**1,169,178**	921,680
Accumulated deficit	**(224,612)**	(165,527)
Reserves	**87,678**	94,947
Total Capital	**$ 2,151,400**	$ 1,552,532

(1) Adjusted working capital excludes risk management assets and liabilities, demand facilities, assets and liabilities held for sale, and accounts payable and accrued liabilities related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2013 - $9.5 million, December 31, 2012 - $10.8 million).
(2) Excludes unamortized issue premiums and financing costs.
(3) Net Debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's Notice of Objection (See Note 18).

Paramount is subject to covenants under its bank Facility and senior notes agreements which contain certain restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets, and pay dividends.

22. RELATED PARTY TRANSACTIONS

Service Agreements

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

During 2013, Paramount charged $0.4 million (2012 – $0.4 million) to Trilogy in respect of operational and administrative services. Also, Paramount received $8.0 million (2012 – $8.0 million) in dividends from Trilogy. As of December 31, 2013, Paramount had a net receivable balance due from Trilogy of $0.3 million (2012 – $0.9 million).

Compensation of key management personnel

Year ended December 31	2013	2012
Salaries and benefits	**$ 1,857**	$ 1,914
Stock-based compensation	**9,980**	11,039
	$ 11,837	$ 12,953

($ thousands, except as noted)

23. COMMITMENTS AND CONTINGENCIES

Paramount had the following commitments as at December 31, 2013:

	Within One Year	After one year but not more than 5 years	More than five years
Petroleum and natural gas transportation and processing commitments (1)	$ 40,416	$ 393,994	$ 688,145
Operating leases	2,460	8,461	6,878
Capital spending commitments(2)	14,174	–	–
	$ 57,050	**$ 402,455**	**$ 695,023**

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $32.3 million at December 31, 2013 (2012 - $27.3 million).
(2) Relates to contractual obligations for purchases of major equipment.

Operating lease commitment

Paramount's head office lease expires in 2022. The Company incurred office lease costs of $3.5 million in 2013 (2012 – $3.2 million).

Flow-Through Shares

As a result of flow through share issuances in 2013, Paramount is required to incur and renounce $48.6 million of CEE during 2014. Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with CEE and CDE flow-through shares issued in 2012.

Contingencies

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

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

24. SUBSEQUENT EVENTS

In February 2014, Paramount entered into an agreement to sell its properties in the Chain - Delia area of Alberta for approximately $12 million in shares of a TSX Venture Exchange listed company.

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Chairman of the Board and
Chief Executive Officer

J. H. T. Riddell
President and
Chief Operating Officer

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.G. Tahmazian
V.P. Midstream

P. R. Kinvig
V.P. Finance & Controller

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

C. H. Riddell
Chairman of the Board and Chief Executive Officer
Paramount Resources Ltd.
Calgary, Alberta

J. H. T. Riddell
President and Chief Operating Officer
Paramount Resources Ltd.
Calgary, Alberta

J. G. M. Bell (1) (3) (4)
General Counsel, Olympia Trust Company
Calgary, Alberta

T. E. Claugus (4)
President, GMT Capital Corp.
Atlanta, Georgia

J. C. Gorman (1) (3) (4)
Independent Businessman
Calgary, Alberta

D. Jungé C.F.A. (2) (4)
Chairman of the Board
Pitcairn Trust Company
Bryn Athyn, Pennsylvania

D. M. Knott (4)
Managing General Partner
Knott Partners, L.P.
Syosset, New York

S. L. Riddell Rose
President and Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

B. M. Wylie (2)
Business Executive
Calgary, Alberta

(1) Member of Audit Committee
(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee

HEAD OFFICE

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Ernst & Young LLP
Calgary, Alberta

BANKERS

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Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Canadian Western Bank
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)