ANNUAL INFORMATION FORM
For the Year Ended December 31, 2013

March 6, 2014

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INTRODUCTORY INFORMATION

In this annual information form, unless otherwise specified or the context otherwise requires, reference to "Paramount" or to the "Company" includes reference to subsidiaries and partnerships directly and indirectly owned by Paramount Resources Ltd. In addition, information herein is as at December 31, 2013 unless otherwise noted.

Unless otherwise indicated, all financial information included in this annual information form is determined using International Financial Reporting Standards ("IFRS"). Paramount's audited consolidated financial statements as at and for the year ended December 31, 2013 can be found under the Company's profile on the SEDAR website at www.sedar.com.

This annual information form contains disclosure expressed as "Boe" (barrels of oil equivalent), "MBoe" (thousands of barrels of oil equivalent), "MMBoe" (millions of barrels of oil equivalent), "Boe/d" (barrels of oil equivalent per day), "Bbl" (barrels), "MBbl" (thousands of barrels), "Bbl/d" (barrels per day), "Mcfe" (thousands of cubic feet equivalent), "Mcf" (thousands of cubic feet), "MMcf" (millions of cubic feet), "Bcf" (billions of cubic feet), "MMcf/d" (millions of cubic feet per day), and "MMBtu" (millions of British thermal units). The term "liquids" is used to represent oil and natural gas liquids, including condensate. The term "liquids rich" is used to represent natural gas streams with associated liquids volumes. All oil, natural gas liquids ("NGLs"), and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). 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. 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.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars and all references to "dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars.

NOTE REGARDING FORWARD-LOOKING STATEMENTS AND ADVISORIES

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", “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;
- 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;
- anticipated decreases in capital and operating costs;
- projected timelines for, and anticipated costs of, for constructing, commissioning and/or starting-up new and expanded deep cut natural gas processing and associated facilities, and the Kaybob COU’s projected processing capacity following the completion of the deep cut facilities;
- 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 undiscounted and discounted present value of future net revenues therefrom;
- non-core asset dispositions and the timing thereof;
- future taxes payable or owing;
- the potential outcome and timing of any legal claims, audits, assessments or other regulatory matters or proceedings;
- the potential expiry of leases for undeveloped land; and
- timing and cost of future abandonment and reclamation obligations.

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, de-ethanization, fractionation 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 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, de-ethanization, fractionation and similar

- the ability to secure adequate product processing, transportation, de-ethanization, fractionation 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 geology of oil and gas deposits;
- the uncertainty of reserves and resources estimates;
- general business, economic and market conditions; 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 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 this annual information form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

CORPORATE STRUCTURE

Paramount was incorporated under the *Business Corporations Act* (Alberta). The Company's head and registered office is located at Suite 4700, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5. Paramount's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "POU".

Paramount's main operating entity is Paramount Resources, an Alberta general partnership directly and indirectly wholly-owned by Paramount. Individually, the Company's other subsidiaries and partnerships each accounted for less than 10 percent of the Company's total consolidated assets and total consolidated sales and operating revenues as at and for the year ended December 31, 2013. In aggregate, the Company's other subsidiaries and partnerships accounted for less than 20 percent of the Company's total consolidated assets and total consolidated sales and operating revenues as at and for the year ended December 31, 2013.

GENERAL DEVELOPMENT OF THE BUSINESS

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas, crude oil and natural gas liquids. The Company commenced operations as a public company on December 18, 1978, with an initial public offering that raised $4.7 million and a share exchange with a private company, Paramount Oil & Gas Ltd., for certain crude oil and natural gas assets with a book value of $341,000. Paramount has adapted to a multitude of operating climates over the years, and has grown into a company with a market capitalization of approximately $4.4 billion as of March 4, 2014. In addition, Paramount has spun-out three public entities: (i) Paramount Energy Trust in February, 2003 (Paramount Energy Trust subsequently converted to Perpetual Energy Inc.); (ii) Trilogy Energy Trust in April, 2005 (Trilogy Energy Trust subsequently converted to Trilogy Energy Corp. ("Trilogy")); and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007; and in December 2011, the Company reorganized its oil sands and carbonate bitumen assets into a new wholly-owned subsidiary named Cavalier Energy Inc. ("Cavalier").

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

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

- the Kaybob COU (or "Kaybob"), which includes properties in West Central Alberta;
- the Grande Prairie COU (or "Grande Prairie"), which includes properties in the Peace River Arch area of Alberta;
- the Southern COU (or "Southern"), which includes properties principally in Southern Alberta; and
- the Northern COU (or "Northern"), which includes properties principally 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 Cavalier, 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.

Set forth below is a brief description of the events that have influenced the general development of Paramount's business over the past three fiscal years.

2011

On December 13, 2010, Paramount completed a public offering in Canada of $300.0 million principal amount of 8.25% senior unsecured notes due 2017 (the "2017 Notes") at par. On February 4, 2011, Paramount sold an additional $70.0 million principal amount of its 2017 Notes at a premium price of $1,030 per $1,000 principal amount pursuant to a further public offering in Canada. The net proceeds of this additional notes offering were used for capital expenditures and general corporate purposes. An entity that is an associate of the Chairman and Chief Executive Officer of the Company purchased an aggregate $1.4 million principal amount of the February 2011 issuance. Following this additional issuance, a total of $370 million principal amount of 2017 Notes are outstanding. The trust indenture for the 2017 Notes and the supplemental trust indenture for the additional 2017 Notes sold is available on the SEDAR website.

In April 2011, Paramount completed: (i) a public offering, through a syndicate of underwriters, of 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million; and (ii) a private placement of 150,000 Common Shares issued on a "flow-through" basis, in respect of Canadian Development Expense ("CDE"), at a price of $36.50 per share for gross proceeds of $5.5 million. The Common Shares issued through the private placement were sold to a company controlled by Paramount's Chairman and Chief Executive Officer.

On May 31, 2011, Paramount acquired all of the issued and outstanding common shares of ProspEx Resources Ltd. ("ProspEx") not already owned by it for cash consideration of $64.8 million and the issuance by Paramount of 2.0 million Common Shares.

In June 2011, Paramount renewed its bank credit facility (the "Credit Facility"), increasing the total credit limit from $160.0 million to $300.0 million. See “2013” section below for additional Credit Facility information.

In October 2011, Paramount completed a public offering, through a syndicate of underwriters, of 1,450,000 Common Shares and a private placement of 100,000 Common Shares, both on a "flow-through" basis in respect of Canadian Exploration Expense (“CEE”), at a price of $40.50 per share for gross proceeds of $62.8 million. The Common Shares issued through the private placement were sold to companies controlled by Paramount’s Chairman and Chief Executive Officer.

In November 2011, Paramount completed a public offering, through a syndicate of underwriters, of 4,500,000 Common Shares at a price of $34.75 per share for gross proceeds of $156.4 million.

In December 2011, Paramount reorganized its oil sands and carbonate bitumen assets into a new wholly-owned subsidiary, named Cavalier Energy Inc. In addition, Cavalier entered into a $21.0 million demand loan facility in January 2012 with a syndicate of Canadian chartered banks (the "Cavalier Oil Sands Demand Loan"). See “2013” section below for additional information regarding the Cavalier Oil Sands Demand Loan.

On December 8, 2011, Paramount entered into an agreement with a syndicate of underwriters, on a bought deal basis, for a secondary offering by Paramount of 5,000,000 non-voting shares of Trilogy at $37.90 per share for gross proceeds to Paramount of $189.5 million. The offering closed January 5, 2012. Following this transaction, Paramount held approximately 12.8 million common shares and 6.4 million non-voting shares of Trilogy.

2012

In January 2012, Fox Drilling entered into a $30.0 million non-revolving demand loan facility (“Drilling Rig Loan II”) which had scheduled principal repayments of $3.5 million in 2013, $6.3 million in 2014 to 2016, and the remainder in 2017. Fox Drilling’s first loan (“Drilling Rig Loan I”) was entered into in 2009 and had scheduled principal repayments of $5.1 million in 2013 with the remaining balance of $12.7 million payable in 2014. See “2013” section below for additional information regarding Drilling Rig Loan I and II.

During the second quarter of 2012, Paramount’s wholly-owned subsidiary, Summit Resources, Inc. (“Summit”), closed the sale of all of its operated properties in North Dakota and all of its Montana properties for cash proceeds of approximately US$70 million.

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 corporation controlled by the Company’s Chairman and Chief Executive Officer for aggregate proceeds of $55.0 million.

In October 2012, Paramount completed a public offering, through a syndicate of underwriters, of 1,936,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $31.00 per share and 356,000 Common Shares on a "flow-through" basis in respect of CDE at a price of $28.15 per share for aggregate gross proceeds of $70.0 million.

On December 4, 2012, Paramount completed a public offering in Canada of $300.0 million principal amount of 7.625% senior unsecured notes due 2019 (the “2019 Notes”) at par. Certain directors, officers, employees and associates of the Company purchased an aggregate of $9.6 million principal amount of the 2019 Notes. The net proceeds were used for capital expenditures and general corporate purposes. The trust indenture for the 2019 Notes is available on the SEDAR website.

2013

In February 2013, Summit closed the sale of its non-operated joint venture operations and lands in North Dakota for aggregate gross proceeds of approximately US$22 million. With the closing of this transaction, substantially all of Paramount's US assets and operations have been sold.

In March 2013, Paramount closed the sale of its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for approximately $9 million.

Also in March 2013, the Cavalier Oil Sands Demand Loan was increased to $40.0 million from $21.0 million. The Cavalier Oil Sands Demand Loan is non-recourse to Paramount and is secured by all of the assets of Cavalier, including its oil sands and carbonate bitumen assets. For additional information regarding Cavalier, see "RESERVES AND OTHER OIL AND GAS INFORMATION" AND "CAVLIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION".

In May 2013, Paramount completed a public offering, through a syndicate of underwriters, of 4,025,000 Common Shares at a price of $37.50 per share for aggregate gross proceeds of $150.9 million.

In June 2013, Paramount's Credit Facility was increased to $450 million and in November 2013 it was further increased to $600 million and is available in two tranches. The first tranche ("Tranche A") is $500.0 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 $100.0 million and is due November 30, 2014 in the event the due date is not earlier extended. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time. The Credit Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding the assets securing the Drilling Rig Facilities (see definitions and description below) and the Cavalier Oil Sands Demand Loan. The maximum amount that Paramount may borrow under the Credit 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.

In August 2013, Drilling Rig Loan I and Drilling Rig Loan II were repaid and replaced with a new single $57.0 million non-revolving demand loan facility (the "Drilling Rig Facility"). The Drilling Rig Facility was drawn in full at closing and has scheduled principal repayments of $2.0 million per quarter which started in September 2013 with the remaining balance payable August 31, 2018. In connection with the Drilling Rig Facility, an $8.0 million non-revolving demand loan facility was entered into with the same bank in order to fund the purchase of auxiliary equipment for the drilling rigs (the "Auxiliary Equipment Loan"). As at December 31, 2013, $53.0 million was outstanding on the Drilling Rig Facility and nothing was outstanding on the Auxiliary Equipment Loan. Recourse and security for the Drilling Rig Facility and the Auxiliary Equipment Loan (collectively, the "Drilling Rig Facilities") is limited to the drilling rigs owned by Fox Drilling and take-or-pay contracts with a subsidiary of Paramount that are guaranteed by Paramount.

In October 2013, Paramount completed a public offering, through a syndicate of underwriters, of 1,115,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $44.00 per share for aggregate gross proceeds of $49.1 million. Concurrent with the public offering, Paramount issued 245,100 Common Shares on a "flow-through" basis in respect of CEE 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, to certain other directors, officers, and employees of Paramount, and other persons for gross proceeds of approximately $10.8 million.

On December 11, 2013, Paramount sold an additional $150.0 million principal amount of its 2019 Notes at a premium price of $1,007.50 per $1,000 principal amount pursuant to a public offering in Canada. The net proceeds of this offering were used for capital expenditures and general corporate purposes. An entity that is an associate of the Chairman and Chief Executive Officer of the Company purchased an aggregate $3.0 million principal amount of the December 2013 issuance. Following this additional issuance, a total of $450 million principal amount of 2019 Notes are outstanding. The supplemental trust indenture for the additional 2019 Notes sold is available on the SEDAR website.

Since 2011, the Company has been executing its large-scale development of its Deep Basin lands, including construction of the 200 MMcf/d deep cut processing plant at Musreau and the non-operated deep cut processing plant at Smoky. Paramount has drilled and completed wells in advance of the plant startup and as at February 28, 2014, Paramount’s behind pipe well inventory in the Kaybob Deep Basis was 66 (47.9 net) wells. The Company expects production and cash flow to increase significantly once these plants commence operations in 2014. See “NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES – KAYBOB COU” for further details.

NARRATIVE DESCRIPTION OF THE BUSINESS

OVERVIEW

Paramount's Principal Properties are located primarily in Alberta, British Columbia and the Northwest Territories. In 2013, approximately 85 percent of the Company's production was natural gas on a Boe basis.

The Company's ongoing exploration, development and production activities are designed to establish new reserves of oil, natural gas, NGLs, and bitumen and increase the productive capacity of existing fields. In order to optimize its capacity and control costs, the Company increases ownership and throughput in existing assets or constructs new assets as economic opportunities arise. Paramount strives to maintain a balanced portfolio of opportunities, increasing its working interest in low to medium risk projects and entering into joint venture arrangements on select higher risk/higher return exploration prospects. From time to time, Paramount enhances its exploration, development and production operations through focused acquisitions of petroleum and natural gas assets and companies within established core areas and dispositions of assets in non-core areas.

At December 31, 2013, approximately 98 percent of Paramount's proved and probable natural gas reserves, almost all of its proved and probable crude oil and NGLs reserves, and 100 percent of probable bitumen reserves (held by Cavalier) were located in Alberta, with the balance in Paramount's other operating areas.

PRINCIPAL PROPERTIES

Paramount retained independent qualified reserves evaluators to evaluate and prepare a report on 100 percent of its conventional natural gas, crude oil and NGLs reserves as at December 31, 2013. McDaniel & Associates Consultants Ltd. (“McDaniel”) evaluated Paramount’s reserves and reported on them in their report dated March 4, 2014. Reserves data is discussed below within Paramount’s four COUs. The reserves information is disclosed as at December 31, 2013 and is derived from McDaniel’s report. Estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

The following table summarizes the reserves and operating results by COU as at and for the year ended December 31, 2013:

	Kaybob	Grande Prairie	Southern	Northern	Total Principal Properties
Reserves					
Proved					
Gas (Bcf)	218.3	56.6	18.0	8.5	301.3
NGLs (MMBbl)	32.1	4.4	0.2	-	36.8
Oil (MMBbl)	0.1	0.4	0.2	-	0.7
Total (MMBoe)	**68.6**	**14.2**	**3.4**	**1.5**	**87.7**
Proved plus Probable					
Gas (Bcf)	328.6	85.3	25.4	11.1	450.5
NGLs (MMBbl)	50.7	6.8	0.3	-	57.9
Oil (MMBbl)	0.1	0.5	0.3	-	0.9
Total (MMBoe)	**105.6**	**21.5**	**4.8**	**1.9**	**133.8**
Production					
Gas (MMcf/d)	72.1	20.0	9.5	4.6	106.1
NGLs (Bbl/d)	1,365	809	255	69	2,498
Oil (Bbl/d)	29	322	342	33	726
Total (Boe/d)	**13,402**	**4,459**	**2,179**	**874**	**20,914**
Production Operated	91%	77%	88%	66%	86%
Wells Drilled (1)					
Gross (2)	31	14	1	1	47
Net (3)	26.2	8.6	1.0	1.0	36.8

(1) Excludes 6 (6.0 net) oil sands evaluation wells drilled by Cavalier.
(2) "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.
(3) "Net" is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

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 materially increase production.

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 1,500 Boe/d of production.

Kaybob COU

The Kaybob 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.

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. 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. 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 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.

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. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee.

	Gross Raw Gas Plant Capacity (MMcf/d)	Net Paramount Raw Gas Plant Capacity [(1)] (MMcf/d)
Current Processing Capacity		
Musreau Refrig Facility – Operated	45	45
Resthaven Facility – Non-operated	20	10
Smoky Facility – Non-operated	100	10
Kakwa Facility – Non-operated	40	4
Firm Contracted Capacity	10	10
	215	**79**
Future Additional Processing Capacity		
Musreau Deep-Cut Facility – Operated	200	200
Smoky Deep-Cut Facility – Non-operated	200	30
	400	**230**
Projected Total Capacity	**615**	**309**

(1) Net sales plant capacity will be lower due to shrinkage of natural gas during processing.

Paramount also operates several compression facilities in the Musreau, Resthaven, and Smoky fields with working interests ranging from 12 percent to 100 percent. Oil production in the Musreau area is processed through a non-operated oil battery for which Paramount has a 25 percent working interest.

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.

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.

Grande Prairie COU

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. 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. The Company's gathering and compression systems at Karr-Gold Creek include 40 MMcf/d of sour gas capacity and 8 MMcf/d of sweet gas capacity.

In addition to the facilities at Karr-Gold Creek described above, Paramount operates four wholly-owned compressors and a gas gathering system at Valhalla, two compressor sites at Mirage with working interests of 25 and 100 percent, two wholly-owned oil batteries at Mirage, and two compressors at Wapiti with working interests of 30 percent and 100 percent.

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.

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 COU

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.

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 COU

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. Natural gas and NGLs produced from the Birch property is compressed and processed at third party owned and operated facilities. 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.

STRATEGIC INVESTMENTS

General

Paramount's Strategic Investments constitute an important component of the value of the Company. As of December 31, 2013, the Company's Strategic Investments included:

i) investments in Trilogy (see Trilogy Energy Corp. section below), 3.7 million shares of MEG Energy Corp. and investments in other public and private companies, including 54.1 million shares of MGM Energy;

ii) five triple sized drilling rigs, including two triple sized walking rigs, which are operated by the Company's wholly-owned subsidiary Fox Drilling;

iii) oil sands leases held by Cavalier which are prospective for production from oil sands or carbonate bitumen reservoirs (see "RESERVES AND OTHER OIL AND GAS INFORMATION" and "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION"); and

iv) shale gas holdings of 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.

Trilogy Energy Corp.

Trilogy is a public Canadian energy company with producing oil and natural gas assets primarily in the Kaybob area of Alberta. As at December 31, 2013, Paramount owned approximately 12.8 million common shares of Trilogy and 6.4 million non-voting shares of Trilogy, representing approximately 15 percent of Trilogy's equity and approximately 13 percent of the common shares as at such date. The market value of Paramount's investment in Trilogy was approximately $528 million as of December 31, 2013, based on the closing market price of Trilogy's shares on the TSX as of that date.

For the year ended December 31, 2013, Paramount accounted for its investment in Trilogy using the equity method. Pursuant to National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), Paramount is required to separately disclose information concerning Trilogy's oil and gas reserves and future net revenue as at December 31, 2013 and certain costs incurred by Trilogy during 2013, based on the Company's equity interest in Trilogy. This information is set out in APPENDIX D – NATIONAL INSTRUMENT 51-101 EQUITY INVESTMENTS DISCLOSURE.

Readers are cautioned that Paramount does not have any direct or indirect interest in, or right to, the reserves or future net revenue of Trilogy disclosed in APPENDIX D nor does Paramount have any direct or indirect obligations in respect of, or liability for, the costs incurred by Trilogy disclosed in APPENDIX D. The Company is a shareholder of Trilogy just like any other shareholder of Trilogy, and, accordingly, the value of the Company's investment in Trilogy is based on the trading price of Trilogy's shares on the TSX.

The attached APPENDIX D has been prepared based solely on publicly disclosed information contained in Trilogy's annual information form dated March 4, 2014. For additional information regarding Trilogy's reserves, properties and costs incurred on such properties, reference should be made to Trilogy's annual information form which is posted on SEDAR (www.sedar.com) and is not incorporated by reference in this annual information form.

RESERVES AND OTHER OIL AND GAS INFORMATION

The reserves information provided below is derived from McDaniel's reports dated March 4, 2014 for Paramount's conventional reserves and for bitumen reserves held through Cavalier (collectively the "McDaniel Report"). The evaluation by McDaniel was prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and NI 51-101.

The following tables set forth information relating to Paramount's working interest share of reserves, net reserves after royalties, and net present values as at December 31, 2013. The reserves are reported using forecast prices and costs. Columns and rows may not add in the following tables due to rounding.

All evaluations of future net revenue are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net revenue shown below is representative of the fair market value of Paramount's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas, crude oil, natural gas liquids, and bitumen reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas, crude oil and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Paramount's Audit Committee, comprised of independent board members, reviews the qualifications and appointment of McDaniel, Paramount's independent qualified reserves evaluator. The Audit Committee also reviews the procedures for providing information to the evaluator.

Reserves Information

Reserves Data – Forecast Prices and Costs

The following table summarizes Paramount's reserves at December 31, 2013.

	Conventional Reserves								***Non-Conventional Reserves***			
	Principal Properties								***Strategic Investments – Cavalier [1]***		**Total Company**	
	Natural Gas		**Light & Medium Crude Oil**		**Natural Gas Liquids**		**Total Conventional Reserves**		***Bitumen [1]***		**Total Reserves**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	***Gross***	***Net***	**Gross**	**Net**
Reserves Category	**(Bcf)**	**(Bcf)**	**(MBbl)**	**(MBbl)**	**(MBbl)**	**(MBbl)**	**(MBoe)**	**(MBoe)**	***(MBbl)***	***(MBbl)***	**(MBoe)**	**(MBoe)**
Proved												
Developed Producing	183.6	171.2	680	583	6,759	5,149	38,034	34,260	-	-	38,034	34,260
Developed Non-producing	7.4	8.8	-	-	10,708	9,701	11,940	11,160	-	-	11,940	11,160
Undeveloped	110.4	104.7	-	-	19,310	16,392	37,703	33,841	-	-	37,703	33,841
Total Proved	301.3	284.6	680	583	36,777	31,243	87,677	79,260	-	-	87,677	79,260
Total Probable	149.2	136.7	206	181	21,067	15,831	46,136	38,802	*93,468*	*76,416*	139,604	115,218
Total Proved plus Probable	450.5	421.3	885	764	57,844	47,074	133,813	118,062	*93,468*	*76,416*	227,281	194,478

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

Net Present Value of Future Net Revenue – Forecast Prices and Costs

The following table summarizes the net present values of future net revenue attributable to Paramount's reserves evaluated at December 31, 2013. The net present values are reported before income tax and after income tax and have been discounted using rates of 0 percent, 5 percent, 10 percent, 15 percent and 20 percent as well as on a net unit value basis at a discount rate of 10 percent before income taxes. Future Net Revenue does not represent fair market value.

	Net Present Value of Future Net Revenues ($ millions)										**Unit Value Before Tax Discounted at 10%**
	Before Income Tax (discounted at)					**After Income Tax [2] (discounted at)**					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/boe**
Conventional Reserves – Principal Properties											
Proved											
Developed Producing	841	693	591	517	462	841	693	591	517	462	17.25
Developed Non-producing	232	219	208	196	186	232	219	208	196	186	18.60
Undeveloped	692	448	294	190	118	692	448	294	190	118	8.69
Total Proved	1,765	1,360	1,093	904	765	1,765	1,360	1,093	904	765	13.78
Total Probable	1,251	894	700	581	501	1,049	786	639	544	477	18.04
Total Proved plus Probable	3,016	2,254	1,793	1,485	1,266	2,813	2,146	1,731	1,448	1,242	15.18
Non-Conventional Reserves – Strategic Investments – Cavalier[1]											
Proved											
Developed Producing	-	-	-	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-	-	-	-
Total Probable	*1,902*	*780*	*301*	*76*	*(39)*	*1,415*	*545*	*175*	*2*	*(85)*	*3.94*
Total Proved plus Probable	*1,902*	*780*	*301*	*76*	*(39)*	*1,415*	*545*	*175*	*2*	*(85)*	*3.94*
Total Company											
Total Proved	1,765	1,360	1,093	904	765	1,765	1,360	1,093	904	765	13.78
Total Probable	3,153	1,674	1,001	657	462	2,464	1,331	814	546	392	8.69
Total Proved plus Probable Reserves	**4,918**	**3,034**	**2,094**	**1,561**	**1,227**	**4,228**	**2,691**	**1,906**	**1,450**	**1,157**	**10.77**

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

(2) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon. The after-tax net present value of Paramount's oil and gas properties here reflects the tax burden on the properties on a stand-alone basis. It does not consider the business-entity-level tax situation, or tax planning. It does not provide an estimate of the value at the business entity, which may be significantly different. The financial statements and the management's discussion & analysis of Paramount should be consulted for information at the level of the business entity.

Future Net Revenue – Forecast Prices and Costs

The following table summarizes the total undiscounted future net revenue attributable to Paramount's reserves evaluated at December 31, 2013.

($ millions)	**Reserves Category**					
	Proved			**Proved plus Probable**		
	Conventional Reserves	***Non-Conventional Reserves***		**Conventional Reserves**	***Non-Conventional Reserves***	
	Principal Properties	***Strategic Investments - Cavalier***[(1)]	**Total Company**	**Principal Properties**	***Strategic Investments - Cavalier***[(1)]	**Total Company**
Revenue	3,633	-	3,633	5,714	*7,004*	12,718
Royalties [(2)]	514	-	514	1,009	*1,313*	2,322
Operating Costs	722	-	722	1,046	*2,236*	3,282
Development Costs						
Principal Properties	565	-	565	570	-	570
Hoole Grand Rapids Phase 1 [(1)]	-	-	-	-	*1,535*	1,535
Well Abandonment Costs [(3)]	68	-	68	73	*18*	91
Future Net Revenue Before Income Tax	1,765	-	1,765	3,016	*1,902*	4,918
Income Taxes [(4)]	-	-	-	202	*487*	689
Future Net Revenue After Income Tax	1,765	-	1,765	2,813	*1,415*	4,228

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

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

(3) See "OTHER OIL AND GAS INFORMATION – ABANDONMENT AND RECLAMATION COSTS" for further information regarding reclamation costs.

(4) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon. The after-tax net present value of Paramount's oil and gas properties here reflects the tax burden on the properties on a stand-alone basis. It does not consider the business-entity-level tax situation, or tax planning. It does not provide an estimate of the value at the business entity, which may be significantly different. The financial statements and the management's discussion & analysis of Paramount should be consulted for information at the level of the business entity.

Future Net Revenue by Production Group – Forecast Prices and Costs

The following table summarizes the net present value of future net revenue by production group and on a unit value basis before income tax attributable to Paramount's net reserves evaluated at December 31, 2013, discounted at 10 percent.

Reserves Category	**Production Group**	**Future Net Revenue Before Income Tax (discounted at 10%) ($ millions)**	**Unit Value Before Income Tax (discounted at 10%) ($/unit)**
Proved	**Conventional Reserves - Principal Properties**		
	Natural Gas (including by-products but excluding solution gas from oil wells)	1,071	$ 3.79 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	22	$ 39.38 / Bbl
	Non-Conventional Reserves - Strategic Investments – Cavalier (1)		
	Bitumen	-	-
Total Proved		**1,093**	
Proved plus Probable	**Conventional Reserves – Principal Properties**		
	Natural Gas (including by-products but excluding solution gas from oil wells)	1,765	$ 4.22 / Mcf
	Light and Medium Crude Oil (including solution gas and other by-products)	27	$ 37.96 / Bbl
	Non-Conventional Reserves - Strategic Investments – Cavalier (1)		
	Bitumen	*301*	*$ 3.94 / Bbl*
Total Proved plus Probable		**2,094**	

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

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

(a) Reserves are classified according to the degree of certainty associated with the estimates:

i. **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

ii. **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

(b) Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories:

i. **Developed Reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

ii. **Developed Producing Reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

iii. **Developed Non-producing Reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

iv. **Undeveloped Reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

(c) **Gross Reserves** are defined as the Company’s working interest reserves before deduction of any royalties and without including royalty interests.

(d) **Net Reserves** are defined as the Company’s working interest reserves after deduction of royalties and including royalty interests.

Summary of Pricing and Inflation Rate Assumptions

Summaries of the December 31, 2013 pricing and inflation rate assumptions used in the McDaniel Report in calculating the net present value of future net revenue attributable to Paramount's reserves are as follows:

Forecast Prices and Costs		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
U.S. Henry Hub Gas	(US$ / MMBtu)	4.25	4.50	4.75	5.00	5.25	5.50	5.60	+1.6 to 2.6% / year
AECO Spot	(Cdn$ / MMBtu)	4.00	4.25	4.55	4.75	5.00	5.25	5.35	+1.6 to 2.6% / year
WTI Crude Oil	(US$/Bbl)	95.00	95.00	95.00	95.00	95.30	96.60	98.50	+2% / year
Edmonton Light Crude Oil	(Cdn$/Bbl)	95.00	96.50	97.50	98.00	98.30	99.60	101.60	+2% / year
Edmonton Cond. & Natural Gasolines	(Cdn$/Bbl)	102.50	101.60	100.60	101.20	101.50	102.90	105.00	+2% / year
Edmonton Butane	(Cdn$/Bbl)	76.60	77.80	78.60	79.00	79.20	80.30	81.90	+ 2% / year
Edmonton Propane	(Cdn$/Bbl)	50.20	50.50	50.60	51.30	52.00	53.20	54.10	+ 2% / year
Ethane	(Cdn$/Bbl)	10.83	11.54	12.40	12.97	13.68	14.39	14.54	+ 2% / year
Natural Gas at Fieldgate	(Cdn$ / MMBtu)	3.80	4.05	4.35	4.55	4.80	5.05	5.10	+ 1.4 to 2.6% / year
Edmonton Diluent	(Cdn$/Bbl)	102.50	104.20	105.38	106.07	106.47	107.97	110.17	+ 2% / year
Netback Bitumen at Fieldgate	(Cdn$/Bbl)	54.21	59.17	61.13	61.38	61.32	62.07	63.23	+ 2% / year
Inflation Rate	(%/year)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	+2% / year
Exchange Rate	(US$/Cdn$)	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95

Paramount's 2013 weighted average realized prices before settlement of financial commodity contracts were $3.57/Mcf for natural gas, $87.47/Bbl for oil and $74.73/Bbl for NGLs. For additional information regarding Paramount's financial commodity contracts as at December 31, 2013, see "OTHER OIL AND GAS INFORAMATION – FORWARD CONTRACTS".

Paramount's Canadian oil and NGLs sales portfolio primarily consist of sales priced relative to Alberta and United States market indexes adjusted for transportation and quality differentials. In addition, the Company may purchase and sell third-party products to provide operational flexibility for transportation, processing, or fractionation commitments, delivery points, and customer diversification.

Paramount's realized natural gas price is based on prices received at the various markets in which it sells natural gas and is sold in a combination of daily and monthly contracts. The Company's natural gas sales portfolio primarily consists of sales priced at the Alberta spot market and California markets.

Oil producers negotiate sales contracts directly with purchasers, with the result that the market determines the price of oil. The price of natural gas and NGLs are also determined by negotiations between buyers and sellers. The sales price received depends on quality, prices of competing fuels, distance to market, value of refined products, supply/demand balance, and contract terms. The export of oil and natural gas is subject to rules and regulations set by the National Energy Board of Canada and the government of Alberta.

Reserves Reconciliation

The following table sets forth the reconciliation of Paramount's gross reserves by principal product type for the year ended December 31, 2013.

	Conventional Reserves				*Non-Conventional Reserves*	
	Principal Properties				*Strategic Investments – Cavalier* [(1)]	Total Company
	Natural Gas (Bcf)	Light & Medium Crude Oil (MBbl)	Natural Gas Liquids (MBbl)	Total Conventional Reserves (Mboe)	*Bitumen (MBbl)*	Total Reserves (Mboe)
Proved						
January 1, 2013	201.9	1,540	15,662	50,857	-	50,857
Extensions and Improved Recoveries	124.0	96	18,726	39,495	-	39,495
Technical Revisions	23.5	(83)	3,350	7,183	-	7,183
Economic Factors	-		-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	(9.4)	(608)	(49)	(2,224)	-	(2,224)
Production	(38.7)	(265)	(912)	(7,634)	-	(7,634)
December 31, 2013	301.3	680	36,777	87,677	-	87,677
Probable						
January 1, 2013	121.8	588	15,099	35,985	*93,091*	129,076
Extensions and Improved Recoveries	71.1	21	11,143	23,012	-	23,012
Technical Revisions	(39.3)	(114)	(5,053)	(11,715)	*377*	(11,338)
Economic Factors	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	(4.4)	(290)	(122)	(1,147)	-	(1,147)
Production	-	-	-	-	-	-
December 31, 2013	149.2	206	21,067	46,136	*93,468*	139,604
Proved plus Probable						
January 1, 2013	323.7	2,128	30,761	86,842	*93,091*	179,933
Extensions and Improved Recoveries	195.1	117	29,869	62,507	-	62,507
Technical Revisions	(15.8)	(197)	(1,703)	(4,532)	*377*	(4,155)
Economic Factors	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	(13.8)	(898)	(171)	(3,371)	-	(3,371)
Production	(38.7)	(265)	(912)	(7,634)	-	(7,634)
December 31, 2013	450.5	885	57,844	133,813	*93,468*	227,281

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

Additional Information Relating to Reserves Data

Proved Undeveloped Reserves

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

Product Type	2011	2012	2013
Conventional Reserves - Principal Properties			
Natural Gas (Bcf)	10.5	21.0	110.4
Light and Medium Crude Oil (MBbl)	-	-	-
Natural Gas Liquids (MBbl)	216	7,769	19,310
Non-Conventional Reserves - Strategic Investments – Cavalier [(1)]			
Bitumen (MBbl)	-	-	-

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

Reserves are classified as proved undeveloped if they meet the requirements prescribed by the COGE Handbook, and if they are expected to be recovered from known accumulations on previously undrilled acreage or they are reserves from existing wells where significant expenditure is required to render them capable of production. The majority of the Proved Undeveloped Reserves are associated with wells planned to be drilled prior to the end of the 2014/2015 winter drilling season in the Kaybob COU. At Kaybob, the Company is constructing the 200 MMcf/d Musreau Deep Cut Facility, which is expected to start up in the second quarter of 2014, and participating in the upgrade and expansion of the non-operated Smoky Deep Cut Facility, which is expected to be commissioned in the third quarter of 2014 (see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES - KAYBOB COU"). The startup of the two deep cut facilities and the drilling and completion of the wells assigned Proved Undeveloped Reserves at Kaybob, is expected to result in the reclassification of these reserves to Proved Developed Producing reserves.

Probable Undeveloped Reserves

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

Product Type	2011	2012	2013
Conventional Reserves - Principal Properties			
Natural Gas (Bcf)	*22.6*	58.1	67.1
Light and Medium Crude Oil (MBbl)	*99*	-	-
Natural Gas Liquids (MBbl)	*581*	11,942	11,828
Non- Conventional Reserves - Strategic Investments – Cavalier [(1)]			
Bitumen (MBbl)	-	*93,091*	*93,468*

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

Reserves are classified as probable undeveloped when they are less certain to be recovered than proved undeveloped reserves as prescribed by the COGE Handbook. The majority of the Probable Undeveloped Reserves are associated with wells to be drilled in Kaybob COU described above. Similarly, the startup of the two deep cut facilities and the drilling and completion of the wells assigned Probable Undeveloped Reserves, is expected to result in the reclassification of these reserves to Probable Developed Reserves.

In November 2012, Cavalier submitted a regulatory application with the Energy Resources Conservation Board ("ERCB") and Alberta Environment and Sustainable Resources Development for the initial development of approximately two sections of land at its Hoole oil sands property. The submission allowed for the reclassification of approximately 93 million barrels of Economic Contingent Resources to probable undeveloped reserves. The current development plan is an initial phase of 10,000 Bbl/d of production with two additional 35,000 Bbl/d phases by 2023. Based on this development plan, startup of the initial 10,000 Bbl/d phase is expected to be in late 2016. In order to reclassify the probable undeveloped reserves to proved producing reserves, Cavalier will need to receive regulatory approval for the project, sanctioning of the project by the Board of Directors, raise sufficient capital to construct facilities (see "FUTURE DEVELOPMENT COSTS" below), and commence production. While Cavalier is working to move this project forward and currently plans to develop the initial 10,000 Bbl/d phase, there is no certainty that it will be commercially viable to produce any portion of the reserves or resources (see "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" and "RISK FACTORS" for additional information regarding this project and risk associated with the project).

Future Development Costs

The following table provides the undiscounted estimated future development costs deducted in the estimation of future net revenue.

	Future Development Costs (undiscounted, $ millions)						
Reserve Category	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**Remainder**	**Total**
Proved							
Conventional Reserves - Principal Properties							
	284	281	-	-	-	-	565
Non-Conventional Reserves - Strategic Investment – Cavalier [1]							
Hoole Grand Rapids Phase 1	-	-	-	-	-	-	-
Total Proved	284	281	-	-	-	-	565
Proved plus Probable							
Conventional Reserves - Principal Properties							
	286	284	-	-	-	-	570
Non-Conventional Reserves - Strategic Investment – Cavalier [1]							
Hoole Grand Rapids Phase 1	*67*	*103*	*326*	*35*	*20*	*984*	*1,535*
Total Proved plus Probable	353	387	326	35	20	984	2,105

(1) Bitumen reserves relate to Cavalier's Hoole Grand Rapids Phase 1. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information.

Paramount expects that funding for future development costs associated with its Principal Properties will come from the Company's working capital, cash flow, credit facilities, and, in some cases, equity or debt issues and the sale of non-core assets. Paramount does not anticipate that the costs of funding referred to above will materially affect the disclosed reserves and future net revenues of the Company or will make the development of any of the Company's properties uneconomic. The Company continues to evaluate its options to fund the oilsands development project at Hoole, including utilization of the Cavalier Oil Sands Demand Loan, diluting its ownership interest in Cavalier through Cavalier equity financings, joint ventures, other capital markets related transactions, and if necessary changing the scope and pace of development of the project.

Significant Factors or Uncertainties Affecting Reserves Data

Approximately 79% of Paramount's proved plus probable reserves (excluding Cavalier's probable reserves) as at December 31, 2013 are attributable to its Kaybob COU. It is expected that a majority of the production from this COU in 2014 and beyond will be processed at Paramount's new 100% owned and operated Musreau Deep Cut Facility and the expanded non-operated Smoky Deep Cut Facility, which are expected to come on stream in 2014. These facilities are subject to cost, design, start-up, capacity, operational and utilization risks and there are also risks associated with marketing the products processed by these facilities. See "RISK FACTORS – DEVELOPMENT OF OIL AND NATURAL GAS INFRASTRUCTURE".

Other Oil and Gas Information

Oil and Gas Properties and Wells

For a description of Paramount's important properties, plants and facilities, see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES". As at December 31, 2013, Paramount had an interest in 1,550 gross (836.3 net) producing and non-producing[(1)] oil and natural gas wells as follows:

	Producing		**Non-producing (1)**	
	Gross (2)	**Net (3)**	**Gross (2)**	**Net (3)**
Crude oil wells				
Alberta	151	66.1	48	23.4
British Columbia	1	0.6	-	-
Northwest Territories	-	-	1	0.6
Subtotal	152	66.7	49	24.0
Natural gas wells				
Alberta	872	470.7	376	223.1
British Columbia	29	9.8	37	25.0
Saskatchewan	4	-	5	4.0
Northwest Territories	-	-	26	13.0
Subtotal	905	480.5	444	265.1
Total	1,057	547.2	493	289.1

(1) "Non-producing" wells are wells which Paramount considers capable of production but which, for a variety of reasons including but not limited to a lack of markets and lack of development, cannot be placed on production at the present time.
(2) "Gross" wells means the number of wells in which Paramount has an interest.
(3) "Net" wells means Paramount's gross wells multiplied by Paramount's percentage working interest therein.

Properties With and Without Attributed Reserves

The following table sets forth Paramount's land position at December 31, 2013. The Company's holdings at December 31, 2013 totalled 1,787,411 (1,173,388 net) acres. Gross acreage is calculated only once per lease or license of petroleum and natural gas rights ("Lease") regardless of whether or not Paramount holds a working and/or royalty interest, or whether or not the Lease includes multiple prospective formations. If Paramount holds more than one Lease under the same geographical area, Paramount then records acreage for both Leases.

	Acreage Assigned Reserves		**Undeveloped Acreage**	
	Gross (1)	**Net (2)**	**Gross (1)**	**Net (2)**
Alberta				
Paramount	413,999	234,131	834,908	505,393
Cavalier (3)	1,440	1,440	203,339	200,779
British Columbia	21,631	6,278	211,875	183,509
Saskatchewan	3,209	640	5,592	4,317
Northwest Territories	10,430	6,762	73,564	24,027
Other	-	-	7,424	6,112
Total	**450,709**	**249,251**	**1,336,702**	**924,137**

(1) "Gross" acres means the total acreage in which Paramount has an interest.
(2) "Net" acres means Paramount's gross working interest acres multiplied by Paramount's working interest therein.
(3) Contingent Resources and Contingent Resources (Technology Under Development) acreage held by Cavalier is included in undeveloped acreage. See "GENERAL DEVELOPMENT OF THE BUSINESS – 2011" and "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" for additional information and definitions.

As of December 31, 2013, Paramount had approximately 337,000 (302,000 net) acres of undeveloped land due to expire in 2014. The actual acreage that will expire in 2014 may be less than these amounts to the extent Paramount is able to continue Leases through drilling or farm outs prior to their expiry.

Paramount has approximately 128,000 (107,000 net) acres prospective for shale gas in the Liard and Horn River Basins in Northeast British Columbia and the Northwest Territories, of which approximately 100,000 net acres has potential from the Besa River shale gas formation.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

As part of Alberta's New Royalty Framework announced on October 25, 2007, Alberta Energy introduced Shallow Rights Reversion ("SRR") for Alberta Crown Petroleum and Natural Gas Agreements ("P&NG Agreements"), pursuant to which mineral rights in all zones above the shallowest producing zone within the P&NG Agreement would revert to the Crown. SRR currently applies to all P&NG Agreements issued after January 1, 2009. In 2012 Alberta Energy was also going to begin sending Shallow Rights Reversion Notices ("SRR Notices") for P&NG Agreements that were issued prior to January 1, 2009, however, this has now been put on indefinite hold pursuant to Alberta Energy Information Letter (IL 2011-18) dated April 16, 2013.

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.

Paramount's shale gas acreage in the Liard and Horn River Basins (noted above) will require significant capital to fully develop. In addition, the Company may experience greater operational challenges and higher development costs due to the geographic location, weather conditions, formation depth, and minimal infrastructure in the region. There are no assurances that the shale gas assets in the Liard and Horn River Basins will generate earnings, operate profitably, be fully developed, or provide a return on investment in the future.

The development of oil sands and carbonate acreage, held by Cavalier, will require regulatory approvals and significant capital to construct and operate facilities to recover the bitumen. See "APPENDIX E - CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" AND "RISK FACTORS – EXPLORATION AND DEVELOPMENT OF OIL SANDS AND CARBONATE BITUMEN ASSETS" for further information regarding development of the oil sands and carbonate bitumen acreage and the associated risks.

Forward Contracts

The nature of Paramount's operations results in exposure to fluctuations in commodity prices, currency exchange rates and interest rates. Paramount monitors and, when appropriate, utilizes derivative financial instruments and/or physical forward delivery contracts to hedge its exposure to these risks. Paramount's derivative contracts and/or future commitments are disclosed in its audited consolidated financial statements as at and for the year ended December 31, 2013 which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Pipeline Transportation and Production Processing Commitments

As part of normal business operations, Paramount has entered into a number of short-term and long-term pipeline transportation commitments. At December 31, 2013, Paramount had long-term natural gas transportation commitments of up to 300 MMcf/d until 2025 to delivery points at Malin and Western Canada. The tariff rates for these commitments are adjusted annually and as at December 31, 2013 they ranged from \$0.14/Mcf to \$0.34/Mcf. Starting in 2014, these long-term transportation commitments exceed forecast production of the Company's proved natural gas reserves, based on the December 31, 2013 McDaniel Report, by approximately 60 MMcf/d, increasing to approximately 180 MMcf/d by 2016.

The Company has also secured commitments for the processing, transportation and fractionation of its natural gas and Liquids production from fields in Kaybob and Grande Prairie to Fort Saskatchewan (see "NARRATIVE DESCRIPTION OF THE BUSINESS"). Starting in 2014, the Liquids fractionation and/or transportation commitments exceed forecast production of the Company's proved NGLs reserves, based on the December 31, 2013 McDaniel Report, by approximately 6,000 Bbl/d increasing to approximately 35,000 Bbl/d by 2024. Paramount expects to fulfill these commitments through its ongoing exploration and development activities. However, the production, processing, transportation, and fractionation of gas and NGLs are interdependent and the Company's ability to fulfill each commitment could be impacted by well performance and disruptions and constraints at the facilities and pipelines. The Company could experience a financial loss and operations could be adversely affected if Paramount is unable to fulfill its commitments. Additional disclosure related to such commitments can be found in the Company's audited consolidated financial statements as at and for the year ended December 31, 2013, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Abandonment and Reclamation Costs

Abandonment and reclamation costs for Paramount's wells, facilities, pipelines, and associated surface leases and roads are estimated by Paramount taking into consideration expected costs of remediation, decommissioning, abandonment and reclamation, as well as the salvage values of existing equipment. These costs are adjusted to reflect working interests held, and are time discounted in accordance with the requirements of NI 51-101. Costs and salvage values are calculated for individual assets and aggregated to determine the total net liability. In estimating these costs and salvage values, reference is made to historical costs and values, internal estimates, third-party environmental reports, and publications including the Alberta Energy Regulator's Directives 006 and 011, as well as the Material Price Catalogue (published annually by the Petroleum Accountants Society of Canada). If these third-party estimates are believed to be low, higher internally generated estimates are used, based on previous Company experience.

During 2013, Paramount spent approximately $6.3 million on environmental remediation, reclamation and regulatory compliance activities.

As at December 31, 2013, the Company had approximately 932 net wells, including service wells, for which abandonment and reclamation costs are expected to be incurred.

The Company's estimates of abandonment and reclamation costs for surface leases, wells, facilities, pipelines, and roads undiscounted and discounted at 10 percent, are $281 million and $103 million, respectively. The future net revenue disclosed in this annual information form does not contain an allowance for abandonment and reclamation costs for surface leases, facilities and pipelines. The McDaniel Report deducted $73 million (undiscounted) and $19 million (10 percent discount) for downhole abandonment costs for wells only, on a total proved plus probable basis.

Abandonment and reclamation costs for the next three years are not expected to be material and are expected to be between $6 to $9 million per year. For fiscal 2014, the Company has budgeted approximately $6.5 million for abandonment and reclamation activities.

Tax Horizon

Based on the current tax regime, and the Company's available tax pools and anticipated level of operations, Paramount does not expect to be cash taxable in the near future (see "RISK FACTORS – GOVERNMENTAL REGULATION").

Costs Incurred

The following table summarizes the costs incurred by Paramount for property acquisitions and exploration and development costs in 2013.

Cost Type [1] **($ millions)**	**2013**	**Q4**	**Q3**	**Q2**	**Q1**
Acquisitions (corporate and property)					
Proved properties	2.7	1.7	0.1	0.9	-
Unproved properties	17.7	4.0	1.1	11.7	0.9
Exploration	164.7	38.2	32.7	31.2	62.6
Development (including facilities)	525.8	153.9	187.7	70.8	113.4
Strategic Investments – Cavalier	16.3	1.3	2.7	2.9	9.4
Total	727.2	199.1	224.3	117.5	186.3

(1) Excludes corporate asset capital expenditures (e.g. computer hardware, furniture and fixtures, etc.), and drilling rig capital expenditures

Exploration and Development Activities

The following table summarizes the results of Paramount's drilling activity for the year ended December 31, 2013. The working interest in certain of these wells may change after payout.

	Gross [(1)]	Net [(2)]
Development Wells [(3)]		
Gas	36	29.4
Oil	2	1.0
Subtotal	38	30.4
Exploratory Wells [(4)]		
Gas	8	5.4
Oil	1	1.0
Subtotal	9	6.4
Oil Sands Evaluation Well [(5)]	6	6.0
Total Wells	53	42.8

(1) "Gross" is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) "Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.
(3) "Development Well" is a well drilled within or in close proximity to a discovered pool of petroleum or natural gas.
(4) "Exploratory Well" is a well drilled either in search of a new and as yet undiscovered pool of petroleum or natural gas or with the expectation of significantly extending the limit of a pool that is partly discovered.
(5) Oil sands evaluation well drilled by Cavalier. Four of the six wells were converted to observation wells.

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.

Production Estimates

The following table summarizes the total estimated gross production for 2014 based on the McDaniel Report.

	Estimated Production (Gross)	
	Proved	**Probable**
Natural Gas (MMcf)	49,515	9,530
Light and Medium Crude Oil (MBbl)	167	5
Natural Gas Liquids (MBbl)	3,287	1,150
Total Production (MBoe)	11,707	2,744

The Company continues to grow its production and expand its gathering and processing capacity at the Musreau field in the Kaybob COU (see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES"). During 2013, actual production at Musreau was 3,456 MBoe comprised of 18.6 Bcf of natural gas, 361 MBbl of NGLs and 0.9 MBbl of oil. McDaniel's estimated gross production in 2014 from the Musreau field is 6,878 MBoe (Proved) and 9,007 MBoe (Proved plus Probable), or approximately 59% and 62% of total production for the Company, respectively.

Production History

The following table summarizes daily sales volume results for Paramount before the deduction of royalties on a quarterly and annual basis for 2013[(1)].

SALES	2013	Q4	Q3	Q2	Q1
Natural Gas (MMcf/d)	106.1	102.5	100.9	107.6	113.6
Light and Medium Crude Oil (Bbl/d)	726	536	656	722	998
Natural Gas Liquids (Bbl/d)	2,498	2,668	2,535	2,126	2,662

(1) As required by NI 51-101, natural gas production volumes are measured in marketable quantities, with adjustments for heat content and transportation reflected in the reported natural gas price.

The following table summarizes Paramount's average netbacks, by product, on a quarterly and annual basis for 2013 production in Canada.

	Netback – 2013				
	2013	Q4	Q3	Q2	Q1
Natural gas (including by-products) ($/Mcfe)					
Revenue [(1)]	**4.85**	4.98	4.64	5.06	4.77
Royalties	**(0.19)**	(0.19)	(0.25)	-	(0.31)
Operating expense [(2)]	**(1.38)**	(1.54)	(1.34)	(1.22)	(1.43)
Transportation	**(0.50)**	(0.61)	(0.52)	(0.46)	(0.42)
Netback	**2.78**	2.64	2.53	3.38	2.61
Conventional oil (including by-products) ($/Boe)					
Revenue	**49.94**	48.52	53.98	50.09	48.43
Royalties	**(5.72)**	(6.63)	(6.53)	(3.84)	(5.68)
Operating expense [(2)]	**(27.52)**	(23.35)	(29.01)	(29.04)	(28.95)
Transportation	**(2.70)**	(2.48)	(2.88)	(2.10)	(3.13)
Netback	**14.00**	16.06	15.56	15.11	10.67

(1) As required by NI 51-101, natural gas production volumes are measured in marketable quantities, with adjustments for heat content and transportation reflected in the reported natural gas price.

(2) Operating costs include all costs related to the operation of wells, facilities and gathering systems. Processing revenue has been deducted from these costs.

The Company had a $4.0 million unrealized loss associated with oil commodity contracts in fiscal 2013. These losses have not been reflected in the Netback tables above.

The following table summarizes sales volumes by Corporate Operating Unit for the year ended December 31, 2013.

	Natural Gas (MMcf)	**Light and Medium Crude Oil (MBbl)**	**Natural Gas Liquids (MBbl)**
Kaybob	26,299	11	498
Grande Prairie	7,289	118	295
Northern	1,689	12	25
Southern	3,465	125	93
Total	**38,741**	**265**	**912**

GENERAL

Competitive Conditions, Seasonality, and Trends

Competitive conditions affecting Paramount are described under the “RISK FACTORS” section of this annual information form.

The development and exploration of oil and natural gas reserves, including the drilling and tie-in of wells, and road, lease, and facility construction, is dependent on access to areas where operations are to be conducted. Winter-access only areas and seasonal weather variations, including freeze-up, break-up and wet ground conditions, affect access in certain circumstances. In addition, the seasonal accessibility of certain locations increases competition for equipment and personnel during those periods.

The oil and gas industry continues to develop new technology that improves or enhances recoverable reserves. In particular, multi-stage hydraulically-fractured horizontal wells have changed the productivity and economic returns of wells. Reservoirs floods, polymer injection, water or oil based fractionation fluids, and carbon dioxide (“CO_2”) injection techniques have also been used to increase recoverable reserves.

Employees

At December 31, 2013, Paramount had 172 full-time head office employees and 115 full-time employees at field locations. The Company also engages a number of contractors and service providers. Paramount’s compensation of full-time employees includes a combination of salary, cash and/or stock bonuses, benefits and participation in either a stock-based compensation plan or a Company-assisted share purchase savings plan. Amounts contributed by Paramount under its stock bonus and share purchase plans are utilized to make open market purchases of the Company’s shares and held by an independent trustee until the completion of the vesting period.

Environment, Health and Safety

Paramount's oil and gas operations are governed by environmental requirements under Canadian federal, provincial, territorial and municipal laws that, among other things, restrict and/or prohibit the release of emissions or pollutants, regulate the storage, handling, transportation and disposal of various substances produced or utilized in association with oil and gas industry operations, and require Paramount to remedy the effect of its activities on the environment at current and former operating sites (including through the proper abandonment and decommissioning of wells, pipelines, facilities, and roads and the remediation and reclamation of associated lands). See “OTHER

OIL AND GAS INFORMATION – ABANDONMENT AND RECLAMATION COSTS". Paramount is also required to comply with a wide range of regulatory requirements designed to ensure the health and safety of its workers and other people who may be impacted by its operations. Paramount has implemented monitoring, reporting and compliance programs to address environmental, health and safety issues in its operations, and conducts ongoing inspections and assessments, in an effort to ensure that applicable regulatory standards are met. In addition, contingency and response plans have been put in place to deal with environmental incidents and other emergency situations.

Paramount has a Health, Safety and Environment Policy (the "HSE Policy") which forms an integral part of the business operations of the Company and provides a framework pursuant to which the Company has developed a comprehensive management system (the "HSE Management System") containing specific policies and procedures to address environmental, health and safety matters associated with Paramount's operations. The Company is committed to the prevention of incidents in all phases of its operations that could cause harm to people, property loss or an adverse impact on the environment.

Paramount's HSE Policy and HSE Management System emphasize the Company's responsibility to make environmental, health and safety protection a consistent component of its decision-making processes and requires its management, employees, contractors, consultants and other parties performing work on behalf of Paramount to act in accordance with the HSE Policy. Paramount's managers and supervisors are required to assess the potential effects of their projects and to integrate protective measures to prevent environmental, health or safety incidents from occurring as a result of Paramount's business activities. Managers and supervisors also are expected to provide training and to be prepared to respond safely and effectively to an environmental, health or safety incident. An HSE Steering Committee ("HSE Steering Committee") has been established to ensure the proper implementation and functioning of Paramount's HSE Management System, and to endeavour to achieve continuous improvement on environmental, health and safety matters. The HSE Steering Committee is comprised of Paramount's four Corporate Operating Officers and the managers of Paramount's operations, drilling/completions and facilities engineering/construction departments.

Paramount's environmental, health and safety policies and programs are monitored by a committee of the Board of Directors, the "Environmental, Health and Safety Committee", which is comprised of three non-management directors of the Company. The duties and responsibilities of the committee are to:

- review and monitor the environmental, health and safety policies and activities of Paramount on behalf of the Board of Directors;

- recommend actions for developing policies, programs and procedures to ensure that the principles contained in the Corporation's HSE Policy are being adhered to and achieved;

- review with management any material environmental, health and safety issues that have arisen in the course of the Company's operations to determine, on behalf of the Board of Directors, that Paramount is taking all necessary steps and exercising all necessary due diligence both in respect of these specific issues and in carrying out its environmental, health and safety responsibilities generally; and

- review and report to the Board of Directors on the sufficiency of the resources available to fulfill the environmental, health and safety responsibilities of the Company.

The Environmental, Health and Safety Committee meets at least semi-annually and receives reports from management with respect to the above matters and in particular relative to Paramount's compliance with health, safety and environmental laws and regulations, and Company's management of its ongoing abandonment, reclamation, remediation and similar obligations.

Greenhouse Gas Reporting and Reduction Obligations

Paramount is required under Canadian federal legislation to report its aggregate emissions of greenhouse gases ("GHGs") and certain other substances for the purposes of the National Pollutant Release Inventory. Both the *Canadian Environmental Protection Act, 1999* and the Alberta *Specified Gas Reporting Regulation* impose an additional obligation to report GHG emissions from facilities that emit more than 50,000 tonnes of carbon dioxide equivalent ("CO_{2e}") per year. As Paramount's Musreau Refrig Facility and Musreau Deep Cut Facility are currently licensed to emit a combined 290,000 tonnes of CO_{2e} per year ("CO_{2e}/yr"), Paramount will be subject to reporting obligations in respect of these facilities under these regulations.

The Alberta government also imposes GHG emission intensity limits on industrial facilities pursuant to the *Specified Gas Emitters Regulations* (the "SGER"). Under the SGER, facilities that have 100,000 or more tonnes of GHG emissions in 2003 or in any subsequent year are required to reduce their GHG emissions intensity (i.e. the quantity of GHG per unit of production) from emissions intensity baselines that are established in accordance with the SGER. For a new facility, its baseline emissions intensity is generally established in its third year of operations, and it is required to reduce its emission intensity from this baseline in annual 2% increments beginning in the fourth year of commercial operation until the maximum 12% reduction requirement is reached.

There are three ways to comply with emission reduction requirements under the SGER: i) actual physical reduction in GHG emissions intensity; ii) purchasing Alberta-based emission offset credits and/or emission performance credits; or iii) making a payment of $15 per excess tonne of GHG emissions to the Government of Alberta's Climate Change and Emissions Management Fund.

As the Musreau Refrig Facility and Musreau Deep Cut Facility are licensed to emit GHGs in excess of the 100,000 tonnes/yr limit prescribed under the SGER, the Company believes it will have emission reduction obligations under this regulation when these facilities are fully operational (and their baseline emission intensities have been established) and is evaluating its options to comply with these regulatory requirements.

The Government of Alberta indicated in its 2008 Provincial Energy Strategy that it was considering imposing stricter emission intensity standards and higher excess emissions compliance payment requirements under the SGER. However, to date no such amendments have been announced.

Under Alberta Energy Regulator's Directive 60, Paramount has developed and implemented measures to detect and repair fugitive leaks of methane and other hydrocarbons from 41 of the Company's facilities. The Company has not incurred any material costs in implementing and administering this program.

In 2008, British Columbia implemented a carbon tax that applies to the purchase or use of fossil fuels by end users in the province and is designed to encourage individuals, businesses, and industries to consume less fossil fuel and thus reduce the emission of GHGs. Accordingly, to the extent Paramount consumes fossil fuels as part of its exploration, development and production operations in British Columbia, the Company is required to pay a carbon tax to the provincial government. In 2009, British Columbia imposed GHG reporting obligations pursuant to regulations under its Greenhouse Gas Reduction (Cap and Trade) Act that are applicable to facilities that emit more than 10,000 tonnes CO_{2e}/yr. Paramount does not have an interest in any oil and gas facilities in British Columbia whose emissions exceed this amount so currently has no reporting obligations under this legislation.

The Company could become subject to additional reduction obligations under federal or provincial legislation if and when such legislation is enacted. Over the last several years, the federal government has undertaken a number of initiatives to achieve domestic GHG reductions. See "RISK FACTORS – COMPLIANCE WITH AND CHANGES TO ENVIRONMENTAL LAWS AND REGULATIONS" for additional information regarding government initiatives to reduce GHG.

DIRECTORS AND OFFICERS

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

Directors

Name and Municipality of Residence	Director Since	Principal Occupation for Past Five Years
Clayton H. Riddell[(1)(7)] Calgary, Alberta, Canada	1978	Chairman of the Board and Chief Executive Officer, Paramount
James H.T. Riddell[(1)(3)(7)] Calgary, Alberta, Canada	2000	President and Chief Operating Officer, Paramount
James G.M. Bell [(2)(4)(5)] Calgary, Alberta, Canada	2011	General Counsel, Olympia Financial Group Inc. and Olympia Trust Company (a public company and a non-deposit taking trust company, respectively). Previously, a partner at Davis LLP, an international law firm.
Thomas E. Claugus[(5)] Atlanta, Georgia, United States	2010	President, GMT Capital Corp. (a private investment company)
John C. Gorman[(2)(4)(5)] Calgary, Alberta, Canada	2002	Independent Businessman
Dirk Jungé, CFA[(5)(6)] Bryn Athyn, Pennsylvania, United States	2000	Chairman of the Board, Pitcairn Trust Company (a private trust company)
David M. Knott[(1)(5)] Syosset, New York, United States	1998	Managing General Partner, Knott Partners, L.P. (a private investment firm), and Chief Executive Officer of Dorset Management Corp. (a private investment firm)
Susan L. Riddell Rose[(1)] Calgary, Alberta, Canada	2000	President and Chief Executive Officer, Perpetual Energy Inc. (a public oil and natural gas exploration and development company) and its predecessor Paramount Energy Trust
John B. Roy[(1)(2)(4)(5)(6)] Calgary, Alberta, Canada	1981	Independent Businessman
Bernhard M. Wylie[(1)(6)] Calgary, Alberta, Canada	1978	Business Executive

(1) From 1992 to 2008, Paramount was the general partner of T.T.Y. Paramount Partnership No. 5 ("TTY"), a limited partnership which was an unlisted reporting issuer in certain provinces of Canada. TTY was established in 1980 to conduct oil and gas exploration and development activities, but had not carried on operations since 1984 and had only nominal assets. A cease trade order against TTY was issued by the Quebec Securities Commission in 1999 for failing to file its June 30, 1998 financial statements in Quebec. The cease trade order was revoked on April 9, 2008. TTY was dissolved on July 21, 2008.

(2) Member of the Compensation Committee.

(3) Mr. J. H. T. Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year of such company becoming bankrupt. Jurassic's bankruptcy was subsequently annulled.

(4) Member of the Audit Committee.

(5) Member of the Corporate Governance Committee.

(6) Member of the Environmental, Health and Safety Committee.

(7) Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with Trilogy and with MGM Energy. Substantial time is devoted to their offices in Trilogy and MGM Energy, however, they are not paid a salary by Trilogy or MGM Energy therefore such offices are not considered their principal occupation.

Executive Officers

Name and Municipality of Residence	Office	Principal Occupation for Past Five Years
Clayton H. Riddell[(1)] Calgary, Alberta, Canada	Chief Executive Officer	Chairman of the Board and Chief Executive Officer of Paramount
James H.T. Riddell[(1)] Calgary, Alberta, Canada	President and Chief Operating Officer	President and Chief Operating Officer of Paramount
Bernard K. Lee Calgary, Alberta, Canada	Chief Financial Officer	Chief Financial Officer of Paramount
E. Mitchell Shier Calgary, Alberta, Canada	General Counsel and Corporate Secretary, Manager, Land	General Counsel and Corporate Secretary, Manager, Land of Paramount since January 2009

(1) Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with Trilogy and with MGM Energy. Substantial time is devoted to their offices in Trilogy and MGM Energy, however, they are not paid a salary by Trilogy or MGM Energy therefore such offices are not considered their principal occupation.

As at December 31, 2013, the directors and executive officers of the Company as a group beneficially owned or controlled, directly or indirectly, 47,967,444 Common Shares, representing approximately 49 percent of the 97,064,624 Common Shares outstanding at such date. This calculation excludes 1,711,900 Common Shares held by the Riddell Family Charitable Foundation.

Certain directors and officers of Paramount are also directors and/or officers and/or significant shareholders of other companies or entities engaged in the oil and gas business generally and which, in certain cases, own interests in oil and gas properties in which Paramount holds, or may in the future, hold an interest. As a result, situations may arise where such individuals have a conflict of interest. Such conflicts of interest will be resolved in accordance with Paramount's governing corporate statute, the *Business Corporations Act* (Alberta), and Paramount's internal policies respecting conflicts of interest. The *Business Corporations Act* (Alberta) requires that a director or officer of a corporation who is party to a material contract or proposed material contract with the corporation, or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the corporation, disclose in writing to the corporation or request to have entered into the minutes of meetings of directors the nature and extent of the director's or officer's interest; and, if a director, that he or she not vote on any resolution to approve the contract, except in certain circumstances. The *Business Corporations Act* (Alberta) also requires that a corporation's directors and officers act honestly and in good faith with a view to the best interest of the corporation. Paramount's internal policies respecting conflicts of interest require that directors and officers of Paramount avoid putting themselves in a conflict of interest position and, if such a position arises, that disclosure of such position be made so that Paramount can approve or disapprove such position, with disapproved conflict of interest positions requiring immediate cessation by the director or officer.

AUDIT COMMITTEE INFORMATION

The full text of the audit committee's charter is included in APPENDIX F of this annual information form.

Composition of the Audit Committee

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

J. C. Gorman

Mr. Gorman has been a director of the Company since 2002. He is an independent businessman. Mr. Gorman was the President and CEO of an energy trading, marketing and financial services company from 1996 to 2000 and a corporate banker with the Bank of Montreal (a Canadian chartered bank) from 1972 to 1996, retiring as Senior Vice President, Natural Resources Group. Mr. Gorman obtained a Bachelor of Arts degree from the University of Ottawa and a Master of Business Administration degree from the University of Western Ontario.

J. G. M. Bell

Mr. Bell has been a director of the Company since 2011. Mr. Bell is currently General Counsel for Olympia Financial Group Inc. (a public company) and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company). Prior thereto, Mr. Bell practiced securities and corporate commercial law as a partner at Davis LLP (an international law firm) until December 31, 2009. Mr. Bell has acted as legal counsel in connection with private placements, prospectus offerings, take-over bids, plans of arrangement and general securities and corporate finance matters. Mr. Bell graduated from the University of Saskatchewan with a Bachelor of Laws degree in 1999.

J. B. Roy

Mr. Roy has been a director of the Company since 1981. He is an independent businessman. Prior to December 1, 2003, he served as the Vice-President and Director, Investment Banking of Jennings Capital Inc. (a private investment banking firm). From 1970 to 1996, he held various positions at Greenshields Incorporated and its successor, Richardson Greenshields of Canada Ltd. (a private investment banking firm). Mr. Roy graduated from Queen's University with a Bachelor of Science degree in Mechanical Engineering and received a Diploma in Management from McGill University. He is a member of the Association of Professional Engineers and Geoscientists of Alberta.

Pre-Approval Policies and Procedures

The Company's audit committee has adopted a policy with respect to the pre-approval of audit and permitted non-audit services to be provided by its independent auditor (the "Policy"). Pursuant to the Policy, the audit committee has identified certain services that have been granted pre-approval and which the independent auditors may provide. The Policy also establishes procedures by which permitted audit and permitted non-audit services proposed to be performed by the Company's independent auditors may be pre-approved.

The audit committee has delegated authority to the Chairman of the audit committee to pre-approve permitted audit and permitted non-audit services to be provided by the independent auditor that have not otherwise been pre-approved by the full audit committee, including the fees and terms of the proposed services (the "Delegated Authority"). All pre-approvals granted pursuant to the Delegated Authority must be presented by the Chairman of the audit committee to the full audit committee at its next meeting.

All fees payable in connection with services provided by the independent auditor must be pre-approved by either the full audit committee or the Chairman of the audit committee pursuant to his Delegated Authority.

External Auditor Service Fees

The following table provides information about the fees billed to the Company for professional services rendered by Ernst & Young LLP in respect of the financial years ended December 31, 2013 and December 31, 2012:

($ thousands)	**2013**	**2012**
Audit Fees [1]	205	200
Audit-Related Fees [2]	243	198
Tax Fees	-	-
All Other Fees [3]	45	15
Total	493	413

(1) Represents the aggregate fees of the Company's auditors for audit services in respect of the financial year.

(2) Represents the aggregate fees billed for assurance and related services by the Company's auditors that are reasonably related to the performance of the audit or review of the Company's financial statements and are not included under "Audit Fees" and are primarily composed of services related to the Company's debt and equity offerings.

(3) Represents the aggregate fees billed for products and services provided by the Company's auditors other than those services reported under "Audit Fees", "Audit Related Fees" and "Tax Fees".

DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital as of the date hereof consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As of December 31, 2013, 97,064,624 Common Shares were issued and outstanding and no preferred shares were issued and outstanding.

Common Shares

The holders of the Common Shares are entitled to receive dividends if, as and when declared by the board of directors of the Company. The holders of the Common Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company. Holders of the Common Shares are entitled to one (1) vote in respect of each Common Share held at all meetings of the shareholders of the Company (except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series at such meeting) provided that if the Company fails to pay the full amount of any dividend declared by the board of directors of the Company on the Common Shares on the date specified for payment of such dividend, then, for so long as any dividends remain in arrears on the Common Shares, the holders of the Common Shares shall be entitled to two (2) votes in respect of each Common Share held at all meetings of the shareholders of the Company. In the event of liquidation, dissolution or winding up of the Company or other distributions of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will be entitled, subject to preferences accorded to holders of any class or series of preferred shares, to participate ratably in any distribution of the assets of the Company.

Preferred Shares, Issuable in Series

Preferred shares are non-voting and may be issued in one or more series. The board of directors may determine the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares before the issue of such series. As of December 31, 2013, no preferred shares were issued and outstanding.

CREDIT RATINGS

The following table outlines the ratings of the Company, the 2017 Notes, and the 2019 Notes as of December 31, 2013.

	Standard & Poor's Ratings Services ("S&P")	Moody's Investors Service ("Moody's")
Company Rating	B-	B3
Outlook	Negative	Positive
2017 Notes	B	Caa1
2019 Notes	B	Caa1

A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments.

S&P's credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. S&P has assigned Paramount a corporate credit rating of B-, negative outlook, and a credit rating of B on the 2017 Notes and the 2019 Notes. According to S&P's rating system, an obligation rated "B" is more vulnerable to non-payment than those rated BB, but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standing within the major rating categories. In addition, S&P may add a rating outlook of "positive", "negative" or "stable" which assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

Moody's credit ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. Moody's has assigned Paramount a corporate family credit rating of B3, positive outlook, and a credit rating of Caa1 on the 2017 Notes and the 2019 Notes. According to Moody's rating system, securities rated "B" are considered speculative and are subject to high credit risk and securities rated "Caa1" are judged to be speculative and of poor standing and are subject to very high credit risk. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through C. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its generic rating category. In addition, Moody's may add a rating outlook of "positive", "negative" or "stable", which assess the likely direction of an issuer's rating over the medium term.

The credit ratings accorded by S&P and Moody's are not recommendations to purchase, hold or sell securities and such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

In 2012 and 2013, the Company made payments to S&P and Moody's in connection with a) the assignment of ratings on the 2019 Notes, b) annual monitoring and surveillance fees in respect of Paramount, the 2017 Notes, and the 2019 Notes, and c) issuance of $150 million of the 2019 Notes in December 2013.

MARKET FOR SECURITIES

The Common Shares are listed on the TSX under the trading symbol "POU". The following table outlines the trading price range and volume of the Common Shares traded by month in 2013.

	Price Range ($ per share)		
2013	**High**	**Low**	**Trading Volume**
January	33.19	30.34	3,139,417
February	38.11	32.32	4,000,583
March	38.65	32.64	4,264,680
April	37.96	33.00	2,944,443
May	39.40	35.35	7,580,766
June	38.60	35.18	2,014,658
July	36.79	33.55	2,442,861
August	36.38	31.68	3,354,432
September	36.25	32.35	3,590,149
October	38.65	34.65	2,225,063
November	37.16	34.00	2,576,570
December	39.45	34.34	2,363,644

DIVIDENDS

Paramount has not paid a cash dividend in the last three fiscal years. Paramount currently has no plans to pay a dividend in the future. Any future payments will be dependent upon the financial requirements of the Company to reinvest earnings, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate.

LEGAL PROCEEDINGS

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Paramount's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings, or the amounts which the Company may be required to pay by reason thereof, would have a material adverse impact on its financial position, results of operations or liquidity.

RISK FACTORS

Set forth below are the most significant risk factors related to Paramount which you should carefully consider. If any event arising from these risk factors occurs, the Company's business, prospects, financial condition, results of operation or cash flows could be materially adversely affected. In addition to the risks identified in this section, see "APPENDIX E – CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION" regarding risks that are specific to Cavalier's oil sands and carbonate bitumen assets.

Volatility of oil and natural gas prices and price differentials.

Fluctuations in the prices of oil, natural gas, and NGLs will affect Paramount's operational results and financial condition. In addition, Paramount could be affected by changes in differentials between the price received for its oil, natural gas, and NGLs relative to quoted market prices as a result of various factors including supply and demand factors, location and quality.

Oil, natural gas, and NGLs prices have fluctuated widely during recent years and are likely to continue to be volatile in the future. Oil, natural gas, and NGLs prices may fluctuate in response to a variety of factors beyond Paramount's control, including, but not limited to, worldwide and regional supply and demand factors, weather, and general economic and market conditions.

Paramount's operations are highly focused on liquids rich natural gas. Any material decline in oil, natural gas, and NGLs prices could also result in a reduction in Paramount's production revenue and overall value.

The economics of producing from some oil and natural gas wells could change as a result of lower prices. As a result, Paramount could elect not to produce from certain wells. Any material decline in oil, natural gas, and/or NGLs prices could also result in a reduction in Paramount's oil and natural gas acquisition and development activities.

Any substantial and extended weakness in the price of oil, natural gas, and/or NGLs would have an adverse effect, possibly significant, on Paramount's operating results and Paramount's borrowing capacity under Paramount's Credit Facility that is established periodically by the lenders. Lenders' estimate of the present value of the future net revenue of Paramount's oil and natural gas properties and other assets of the Company are used to derive the credit limit under Paramount’s Credit Facility.

Development and/or acquisition of oil and natural gas properties.

Paramount's future success depends upon its ability to develop and/or acquire additional oil and natural gas reserves that are economically recoverable. If Paramount is unable to increase its reserves, the Company’s business will be adversely affected because it will eventually deplete its reserves.

The cost of drilling, completing and operating wells is often uncertain. The Company may experience unexpected cost increases, overruns, delays or cancellations of projects in their entirety as a result of numerous factors, many of which are beyond its control, including, but not limited to, increased labour costs, higher costs of inputs, weather conditions, required compliance with governmental laws and regulations, the ability to obtain stakeholder support and approvals, and shortages or delays in the delivery of equipment and services. There is the risk that no commercially productive reservoirs will be encountered, that Paramount will not recover all or any portion of its investment, and that Paramount's reserves, revenues and cash flow will decline. Paramount cannot assure you that it will be able to find and develop additional reserves at an acceptable cost or at all.

The successful acquisition and development of oil and natural gas properties requires an assessment of recoverable reserves, future oil, natural gas and NGLs prices and operating and capital costs, potential environmental and other liabilities, and productivity of new wells drilled. These assessments are inexact and, if Paramount makes them inaccurately, it might not recover the purchase price or development costs of a property from the sale of production from the property or might not recognize an acceptable return from properties it acquires or develops.

Development of infrastructure.

The costs and timing of constructing and expanding gas processing facilities are often uncertain. The Company may experience unexpected cost increases, overruns, or delays or cancellations related to the construction or expansion of its operated or non-operated gas processing facilities as a result of numerous factors, many of which are beyond its control, including, but not limited to, increased labour costs, higher cost of inputs, weather conditions, required compliance with governmental laws and regulations, the ability to obtain stakeholder support and approvals, and shortages or delays in the delivery of equipment and services.

There is also the risk that gas processing facilities may not operate as designed or at the expected capacity levels and actual operating costs may be materially higher than estimated. Actual utilization of gas processing facilities may be lower than their capacity due to lower natural gas volumes supplied to the facility or disruptions and constraints at pipeline, de-ethanization, and fractionation facilities downstream from the gas processing facility. In addition, there is a risk that gas processing facilities may be unable to produce products that meet the specification of third party facilities interconnected to the facility or that there is a limited or no market for products produced (see below "ABILITY TO MARKET"). There is also a risk that new or expanded gas processing facilities will not commence operations as planned or at all which will result in lower production and cash flow. In addition, third party facilities interconnected to new or expanded gas processing facilities may not operate or operate at reduced capacity, which will result in lower production and cash flow. These risks could have a material adverse affect on the Company's assets, results of operations, and its ability to execute its business plan.

Ability to market.

Paramount's ability to market its oil, natural gas and NGLs depends upon numerous factors beyond its control. As a result, Paramount may be unable to market all of the oil, natural gas and NGLs it produces which could adversely affect Paramount's business. In addition, Paramount may be unable to obtain favorable prices for the oil, natural gas and NGLs it produces. The price Paramount receives for its oil, natural gas, and NGLs may be below quoted market prices as a result of, among other things, regional supply and demand factors, transportation costs, capacity constraints and interruptions, and refining demand, all of which are beyond Paramount's control. These risks could have a material adverse affect on the Company's assets, results of operations, and its ability to execute its business plan.

The Company's ability to market its oil, natural gas and NGLs are also subject to risks connected with processing, transporting, de-ethanizing, fractionating, and/or storing these products. As part of normal business operations, Paramount has entered into firm processing, transportation, de-ethanization, and NGLs fractionation commitments for most of its natural gas and NGLs production. Production, pipeline and facility outages, apportionments, or other constraints may negatively impact Paramount's ability to produce at maximum productive capacity levels. In addition, these disruptions could adversely affect sales volumes, price realizations, and costs under firm processing, transportation, de-ethanization, and/or fractionation agreements. If Paramount is unable to meets its obligations under firm processing, transportation, de-ethanization, and/or fractionation agreements, the Company may be required to pay for the unutilized capacity under those agreements. These risks could have a material adverse affect on the Company's assets, results of operations, and its ability to execute its business plan. For additional information, see "RESERVES AND OTHER OIL AND GAS INFORMATION – PIPELINE TRANSPORTATION AND PRODUCTION PROCESSING COMMITMENTS".

Paramount sells its production to a variety of purchasers under normal industry sale and payment terms. As a result, Paramount is also exposed to counterparty credit risk.

Dependence on certain senior officers.

Paramount is highly dependent on its Chief Executive Officer and its President and Chief Operating Officer. The loss of either of these officers could impede the achievement of Paramount's objectives and could adversely affect Paramount's business and results of operations.

Funding of exploration, development and operational activities.

Paramount may not have, or be able to obtain, through operations, financings, asset dispositions or otherwise, on terms acceptable to the Company or at all, the necessary capital required to fund its exploration and development activities and other operations. Failure to have or obtain necessary capital when required could result in Paramount being unable to develop its existing reserves and resources, discover new reserves and make acquisitions or could result in the termination or reduction of Paramount's property interests, any of which may have a material adverse effect on the Company's assets, results of operations and ability to execute its business plan.

Inability to repay, refinance, or comply with covenants related to its indebtedness.

The Company's indebtedness includes a Credit Facility with a syndicate of Canadian chartered banks, the Drilling Rig Facilities, the Cavalier Oil Sands Demand Loan with a syndicate of Canadian chartered banks, the 2017 Notes, and the 2019 Notes.

There is a risk that the Credit Facility will not be extended or renewed for the same principal amount or on similar terms. There is a risk that the Company will not be able to meet the covenants associated with its indebtedness, repay all or part of the indebtedness, or refinance all or part of the indebtedness on commercially reasonable terms. In addition, certain amounts, if drawn, under Tranche B of the Credit Facility will be secured by the pledge of certain of the Company's equity investments. A decrease in the market value of these equity investments may result in the Company having to either increase the number of shares pledged or repay the amounts drawn under Tranche B of the Credit Facility. The occurrence of any one of these events may have a material adverse effect on the Company's assets and ability to execute its business plan.

The Drilling Rig Facilities and the Cavalier Oil Sands Demand Loan are demand loans. There is a risk that the banks providing these loans will demand repayment of the amounts outstanding at any time and that the Company may not be able to repay all or part of the indebtedness, or refinance all or part of the indebtedness on commercially reasonable terms.

Paramount's debt instruments are rated by various credit rating agencies. These ratings affect Paramount's ability to access debt financing on terms acceptable to the Company. If any of the credit ratings agencies downgrade Paramount's debt instruments, it may restrict the Company's ability to issue new debt or refinance existing debt. Rating agencies regularly review Paramount and its debt instruments based on a number of factors, including the Company's financial strength, as well as factors beyond the Company's control, including conditions affecting the oil and gas industry generally, and macro trends affecting the world economy. Paramount cannot be assured that one or more of the Company's credit ratings will not be downgraded. In addition, credit ratings may be important to customers or counterparties when engaging in transactions involving credit risk. The occurrence of a credit rating agency downgrade may have a material adverse effect on the Company's ability to execute its business plan.

Reserve and resource estimates.

Estimates of oil, natural gas, NGLs, and bitumen reserves and resources involve a great deal of uncertainty because they depend in large part upon the reliability of available geologic and engineering data, which is inherently imprecise. Geologic and engineering data are used to determine the probability of the existence and recoverability of reserves and resources. Probabilities are not certainties and actual recoveries of reserves will differ from estimates.

Estimates of oil, natural gas, NGLs, and bitumen reserves and resources also require numerous assumptions relating to operating conditions and economic factors, including, but not limited to, the price at which recovered oil, natural gas, NGLs, and bitumen can be sold, the availability and costs associated with recovering, processing, transporting, and selling oil, natural gas, NGLs and bitumen, the prevailing environmental conditions associated with drilling and production sites, the availability of enhanced recovery techniques, the successful application of in-situ bitumen recovery technologies, and governmental and other regulatory factors, such as taxes and environmental laws.

A change in one or more of these factors could result in known quantities of oil, natural gas, NGLs, and bitumen previously estimated as reserves or resources becoming unrecoverable. For example, for conventional oil and natural gas reserves a decline in the market price of oil, natural gas, or NGLs to an amount that is less than the cost of recovery of such oil, natural gas and NGLs in a particular location could make production of that oil, natural gas and NGLs commercially uneconomical, or for non-conventional reserves and resources an increase in the market price for natural gas and NGLs which are used as inputs for oil sands and carbonate bitumen operations could make the production of bitumen uneconomical depending on the market price for bitumen. Each of these factors, by having an impact on the cost of recovery and the rate of production, will also reduce the present value of future net cash flows from estimated reserves and resources.

In addition, if estimates of reserves and resources and future net cash flows expected from them are prepared by different independent engineers, or by the same engineers at different times, the results may vary substantially.

Furthermore, in accordance with IFRS, Paramount could be required to write-down the carrying value of its oil and natural gas properties if future oil and natural gas prices become depressed, or if there are substantial downward revisions to Paramount's quantities of reserves. A write-down would result in a charge to earnings and a reduction of shareholders' equity. For the year ended December 31, 2013, the carrying value of Paramount’s oil and natural gas properties was written down by approximately $6.9 million.

Industry competition.

The petroleum and natural gas industry is highly competitive. Paramount competes with numerous other participants in the search for and acquisition of oil and natural gas properties and in the processing, transportation, and marketing of these commodities. Many of Paramount’s competitors have greater financial and human resources and/or greater access to capital than Paramount. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and reserves. Paramount's competitive position depends upon its geological, geophysical and engineering expertise and its financial resources. In addition, successful reserve replacement in the future will depend not only on the further development of present properties, but also on the ability to select and acquire suitable prospects for exploratory drilling and development.

Investment risk.

Paramount’s investments include both public and private entities. Any material adverse effect on the financial position, business or operations of the entities in which Paramount has invested, may have a material adverse affect on the value of such investments and the returns on such investments (including the decrease, suspension, or termination of dividends). There is also no assurance as to the ability of Paramount to liquidate certain of its investments and the price Paramount would receive if it chose to liquidate these investments. Decreases in the value of Paramount’s investments or the inability to liquidate investments could have a material adverse effect on the Company.

Paramount’s short-term investments of excess cash are mainly in Bankers’ Acceptance notes and Bearer Deposit Notes, but may also include Guaranteed Investment Certificates, Treasury Bills, or other R1 or AAA rated investments.

Governmental Regulation.

Paramount’s operations are governed by numerous Canadian and United States laws and regulations at the municipal, provincial, territorial, state and federal levels. These laws and regulations include, but are not limited to, such matters as royalties, taxes (including income taxes), land tenure, production rates, export of petroleum and natural gas, the development and abandonment of oil and gas fields, drilling obligations, government fees, mineral rights, and environmental protection. In addition, regulatory approval processes can involve numerous stakeholders. Changes to laws and regulations, governmental intervention, failure to obtain stakeholder support, delays in obtaining regulatory approvals, or failure to comply with laws and regulations could have a material adverse affect on the Company’s assets, results of operations, and its ability to execute its business plan.

The Alberta government has created a single regulator for all oil and gas activities in the province. The new Alberta Energy Regulator is responsible for all projects from application to reclamation and is in the process of assuming the regulatory functions of the Energy Resources Conservation Board and the Department of Environment and Sustainable Resource Development in so far as they relate to oil and gas activities. The Company is monitoring the impact of these changes on its operations and in particular where delays in obtaining regulatory approvals have been experienced.

Paramount's historic income tax and royalty filings are subject to reassessment by government entities. The reassessment of historic filings could result in additional income tax, royalties, interest and penalties which could adversely affect Paramount's cash flows and financial position.

In 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 deposited approximately $20 million with the CRA, which amount will remain on account until the dispute is resolved.

Compliance with and changes to environmental, health and safety laws and regulations.

Paramount's operations are subject to extensive federal, provincial, territorial, and local laws and regulations that address environmental, health and safety matters relating to all aspects of the exploration, development and production of oil and gas including the release of emissions or pollutants, the storage, handling, transportation and disposal of hazardous and other substances, the remediation of environmental damage, the protection of environmentally sensitive areas and of endangered and protected species, and worker and operational safety. Compliance with these laws and regulations may impose substantial costs on Paramount and may subject Paramount to significant potential liabilities, and future changes in such legislation could result in stricter standards and enforcement, larger fines and increased costs of compliance, all of which could have a material adverse effect on Paramount's financial condition or results of operations.

Over the past several years, the federal government has undertaken a number of initiatives to achieve domestic GHG reductions. These measures include regulations, codes and standards, targeted investments, incentives, tax measures and programs that directly reduce GHG emissions. Given the high degree of economic integration between Canada and the U.S., Canada has stated that it intends to align its GHG reduction legislation with future U.S. emissions reduction regulations where it is appropriate and in Canada's best interests to do so. Going forward, the government has announced that it will focus on a sector-by-sector regulatory approach beginning with the largest sources of emissions. To date regulations have been put in place with respect to two of Canada's largest sources of GHG emissions, the electricity and transportation sectors. The oil and gas industry is expected to be the next sector of the economy where the federal government will regulate GHG emissions. It is not known when these regulations will be released but it could be as early as this year. At present, it is not possible to predict the impact such legislation could have on the business, operations, and/or finances of the Company.

As previously discussed in the section "NARRATIVE DESCRIPTION OF THE BUSINESS – GENERAL – GREENHOUSE GAS REPORTING AND REDUCTION OBLIGATIONS", both the Alberta and British Columbia governments have already taken steps to regulate GHG emissions and it is anticipated that they will take further regulatory action in the future. Any further regulatory steps that these governments take, or that are adopted by the federal government could materially impact the oil and gas industry, including Paramount, but at present it is not possible to predict what the potential magnitude of such impact could be. Environmental laws may require parties to undertake or pay for remedial action or to pay damages regardless of fault. Environmental laws may also impose liability with respect to divested or terminated operations, even if the operations were divested or terminated many years ago.

Paramount's operations may also result in civil liability for personal injuries, property damage, spills, the discharge of hazardous materials, remediation and clean-up costs and other environmental damages. Paramount may be liable for environmental damage caused by previous owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on Paramount's financial condition and results of operations. The release of harmful substances in the environment or other environmental damage caused by Paramount's activities may result in the suspension or revocation of operating and environmental permits. Paramount currently has insurance covering certain environmental damages. However, the scope of and coverage under such insurance is limited, and environmental liabilities that Paramount may be exposed to may not be covered under such insurance or, if covered, may be subject to monetary limits that would result in Paramount not being fully reimbursed for costs and expenses that it incurs. Accordingly, Paramount may be subject to significant liability in the event of environmental damages.

Potential environmental risks associated with hydraulic fracturing.

The Company utilizes horizontal, multi-stage hydraulic fracturing, and other technologies in its drilling and completion activities. Public concern over the hydraulic fracturing process has focused on a number of issues including the completion fluids used in the fracturing process and their potential effect on fresh water aquifers, and the use and disposal of water in connection with completion operations. The Canadian Association of Petroleum Producers, an industry group, has issued guidelines on hydraulic fracing in shale gas and other tight gas or oil reservoirs, and various government and regulatory agencies in Canada and the U.S. have been investigating the potential risks associated with the hydraulic fracturing process. Paramount is unable to predict whether regulations restricting the use of hydraulic fracturing may be implemented in any of the jurisdictions where the Company operates, or the impact any such regulations could have on the Company’s business. However, the implementation of any new regulations with respect to water usage or hydraulic fracturing generally could increase the Company’s regulatory compliance and operating costs, expose it to potential prosecution or litigation if it failed to comply with such regulations, and negatively impact the Company's prospects, any of which could have a material adverse effect on Paramount’s business, financial condition and results of operations.

Royalty rates and regulations.

The royalty rates and regulations in jurisdictions that the Company operates may be subject to change which could have a material adverse affect on the Company’s assets, results of operations and its ability to execute its business plan. Over the past several years, the Government of Alberta has amended the royalty legislation and regulations impacting royalty rates paid by oil and natural producers several times including, the *Mines and Minerals (Royalty Framework) Amendment Act, 2008*, the transitional 5-year royalty program in November 2008 and additional changes to reduce maximum royalty rates effective January 2011. The Government of Alberta has implemented and/or extended incentive programs that reduce royalty rates including the Deep Oil Exploratory Well Program, Natural Gas Deep Well Program, Drilling Royalty Credit Program, New Well Incentive Program, and Emerging Resource and Technologies Initiative. Royalties relating to Paramount’s production have been accrued based on the Company’s interpretation of the relevant legislation and regulations.

Operating risks and insurance.

There are many operating hazards in exploring for and producing oil and natural gas, including, but not limited to, unexpected formations, blowouts, accidents, equipment failures (including computer hardware and software systems), spills, releases, environmental damage or other unexpected or dangerous conditions that could result in damage to Paramount, injury or death of employees or contractors, damage to equipment and facilities, suspension or revocation of regulatory approvals, environmental contamination and potential liability to third parties (including government bodies). Also, a significant event may result in lost revenue and/or profit.

The Company cannot fully protect all of these risks, nor are all of these risks insurable. The Company may become liable for damages arising from these events against which it cannot insure or against which it may elect not to insure due to high premium costs or other reasons.

The occurrence of a significant event against which Paramount is not fully insured or indemnified could seriously harm Paramount's financial condition, operating results and ability to carry on its business.

Paramount does not control all of its operations.

The exploration and development of, and production from oil and gas properties, are largely dependent on the operator of the property. Paramount does not operate all of its properties. To the extent an operator fails to conduct operations properly or in a manner that Paramount prefers, Paramount's financial condition, operating results and ability to carry on its business could be adversely affected.

Risk management activities.

The nature of Paramount's operations results in exposure to fluctuations in commodity prices, currency exchange rates and interest rates. Paramount monitors and, when appropriate, utilizes derivative and/or physical forward delivery contracts to manage its exposure to these risks.

If commodity prices change, or the value of the Canadian dollar versus the U.S. dollar changes, or interest rates change from that provided in Paramount's various derivative contracts, Paramount could be required to make cash payments to counterparties, or lose the cost of an option. Conversely, a ceiling or fixed price could limit Paramount from receiving the full benefit of commodity price increases, changes in the value of the Canadian dollar or changes in interest rates.

By entering into these hedging activities, Paramount may suffer financial loss if it is unable to produce oil or natural gas to fulfill its obligations, could be required to pay a margin call on a derivative contract, or could be required to pay royalties based on a market or reference price that is higher than its fixed or ceiling price.

In addition, Paramount may be exposed to credit related losses in the event of non-performance by counterparties to these financial instruments and physical delivery contracts.

Surface conditions.

The exploration for and development of oil and natural gas reserves depends upon access to areas where operations are to be conducted. Oil and gas industry operations are affected by road bans imposed from time to time during the access period in the spring. Road bans are also imposed due to wildlife migration, snow, mud and rock slides, wild fires and periods of high water which can restrict access to Paramount's well sites and production facility sites. Access to Paramount’s operations may also be restricted due to environmental regulations.

Paramount conducts a portion of its operations in Northern Alberta, Northeast British Columbia and the Northwest Territories of Canada, which Paramount is able to do on a seasonal basis only. Unseasonably warmer or colder weather can significantly affect Paramount’s operations in these areas.

Unforeseen title defects, expiration of licenses and leases, and land claims.

Unforeseen title defects may result in the loss of entitlement to production and reserves. Title reviews are conducted in accordance with industry practice, however such reviews do not guarantee that an unforeseen defect in the chain of title will not arise and defeat the Company’s title to the assets. If such a defect were to occur, the Company’s entitlement to the production from such assets could be at risk.

The Company’s properties are held in the form of licenses and leases and working interest in licenses and leases. Failure to meet requirements of the license or lease may result in their termination or expiry. Paramount has processes in place to manage the termination and expiry of licenses and leases, however if Paramount was unable to continue licenses or leases it may have a material adverse effect on Paramount's financial condition, operating results and ability to carry on its business.

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of western and northern Canada, including some of the properties on which Paramount conducts its operations. Claims asserting aboriginal title or rights to the lands on which any of Paramount's properties are located, if successful, could have an adverse effect on Paramount's assets, results of operations and ability to execute its business plan.

Changes to future exploration, exploitation and development projects.

Whether Paramount ultimately undertakes an exploration, exploitation or development project will depend upon numerous factors such as market conditions, prices, access to and cost of capital, supply and demand factors and new information. Paramount continuously gathers data about its projects and it is possible that additional information will cause Paramount to alter its schedule or determine that a project should not be pursued.

Exploration and development of oil sands and carbonate bitumen assets.

In late 2011, Paramount transferred all of its oil sands and carbonate bitumen assets into Cavalier. These assets are prospective for in-situ bitumen recovery projects but are at the early stages of their evaluation and development. Cavalier currently has no bitumen production and there are no assurances that any of its properties will commence production, generate earnings, operate profitably or provide a return on investment in the future. In addition to the other risks identified in this “RISK FACTORS” section, see “APPENDIX E – CAVALIER OIL SANDS RESERVES, RESOURCES AND RELATED INFORMATION” regarding risks that are specific to Cavalier’s oil sands and carbonate bitumen assets.

Essential equipment and personnel.

Oil and natural gas exploration and development activities depend upon the availability of qualified personnel and drilling and related equipment in the areas. Shortage of qualified personnel or equipment may delay Paramount’s exploration and development activities.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Trust Company of Canada located at 600, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8.

INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants, are the Company's auditors and such firm has prepared an opinion with respect to the Company's consolidated financial statements as at and for the fiscal year ended December 31, 2013. Information relating to Paramount's and Cavalier's reserves in this annual information form was prepared by McDaniel as an independent qualified reserves evaluator. Information relating to Cavalier's resources in this annual information form was also prepared by McDaniel as an independent qualified resources evaluator. Information relating to Trilogy's reserves in APPENDIX D of this annual information form was prepared by InSite Petroleum Consultants Ltd. ("InSite") as an independent qualified reserves evaluator.

Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

The principals of McDaniel and InSite own beneficially, directly or indirectly, less than 1 percent of any class of Paramount's securities.

ADDITIONAL INFORMATION

Additional information relating to Paramount is available via the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Additional information, including directors' and officers' remuneration, principal holders of Paramount's securities, and options to purchase securities, is contained in the information circular for Paramount's most recent annual meeting of shareholders that involves the election of directors. Additional financial information is contained in Paramount's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2013.

APPENDIX A
REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR – PARAMOUNT RESOURCES LTD.

To the board of directors of Paramount Resources Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2013. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2013 estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2013, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue - $ million (before income taxes, 10% discount rate)			
		Audited	**Evaluated**	**Reviewed**	**Total**
March 4, 2014	Canada	–	$1,793	–	$1,793

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

/s/ P.A. Welch, P. Eng.
President & Managing Director
Calgary, Alberta
March 4, 2014

APPENDIX B

Report on Reserves Data by Independent Qualified Reserves Evaluator – Cavalier Energy Inc.

To the boards of directors of Cavalier Energy Inc. ("Cavalier"), a wholly owned subsidiary of Paramount Resources Ltd. ("Paramount") as at December 31, 2013, and Paramount:

1. We have evaluated Cavalier's reserves data as at December 31, 2013. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2013 estimated using forecast prices and costs.

2. The reserves data are the responsibility of Cavalier's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Cavalier evaluated by us for the year ended December 31, 2013, and identifies the respective portions thereof that we have evaluated and reported on to Cavalier's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue - $ million (before income taxes, 10% discount rate)			
		Audited	**Evaluated**	**Reviewed**	**Total**
March 4, 2014	Canada	–	$301	–	$301

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

/s/ P.A. Welch, P. Eng.
President & Managing Director
Calgary, Alberta
March 4, 2014

APPENDIX C
Report of Management and Directors on Reserves Data and Other Information

Management of Paramount Resources Ltd. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2013, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The reports of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Audit Committee of the board of directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Audit Committee of the board of directors of the Company has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Audit Committee, approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information contained in the Company's annual information form accompanying this report;

(b) the filing of the reports of the independent qualified reserves evaluators on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

/s/ Clayton H. Riddell
Chief Executive Officer

/s/ Bernard K. Lee
Chief Financial Officer

/s/ John B. Roy
Director

/s/ John C. Gorman
Director

March 6, 2014

APPENDIX D
Trilogy Energy Corp. - National Instrument 51-101 Equity Investments Disclosure

InSite evaluated 100% of Trilogy's natural gas, NGLs and crude oil reserves as at December 31, 2013 and reported on them (the "InSite Report"). The evaluation by InSite was prepared in accordance with the standards contained in the COGE Handbook and NI 51-101.

The (i) reserves and (ii) future net revenue and related forecast prices and costs disclosed herein and reported in the InSite Report include those NGLs within Trilogy's natural gas stream that are delivered, quantified and for which Trilogy is paid based on market rates pursuant to the NGLs Volumes Recovery Agreement[1]. For such purposes, it has been assumed that the NGLs Volumes Recovery Agreement will be successively renewed for five year terms and continue until 2033. As at December 31, 2013, these NGLs represented approximately 41.5% of Trilogy's proved plus probable NGLs reserve volumes, approximately 6.3% of Trilogy's total proved plus probable reserve volumes, approximately 5.3% of the net present value of Trilogy's future net revenue before taxes discounted at 10% using forecast prices and costs and approximately 6.1% of Trilogy's production. If these NGLs were instead reported as part of Trilogy's natural gas, it would both increase Trilogy's natural gas reserves (since these are notionally reduced for shrinkage attributable to the extraction of these NGLs) and the pricing Trilogy receives for its natural gas and decrease Trilogy's NGLs reserves and production accordingly, but would have no effect on Trilogy's future net revenues.

In January 2014 Trilogy received a letter from the CRA advising Trilogy that, subject to submissions by Trilogy, it is proposing to reassess Trilogy's tax filings related to the Conversion[2]. Trilogy is currently working on such submissions. The proposed reassessments seek to disallow certain tax pools in the amount of $728 million. If these tax pools were to be disallowed it is expected to result in (1) taxable income for Trilogy's 2010 and 2011 taxation years of up to $65 million in the aggregate with maximum estimated taxes owing for such years of approximately $16 million and (2) a reduction of $663 million of losses which could have otherwise been carried forward into subsequent taxation years which would have been used to reduce taxable income. The after tax figures provided herein assume that none of these disputed tax pools will be disallowed as Trilogy's management remains of the opinion that Trilogy's tax returns were correct as filed. However, if all or any of these disputed tax pools were ultimately disallowed, the after tax figures provided herein could be significantly lower than that shown as a result of the additional tax that may have to be paid as a result of such disputed tax pools not being available.

All evaluations of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of Trilogy's assets. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil, NGLs and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGLs and natural gas reserves may be greater than or less than the estimates provided herein.

As at December 31, 2013, Paramount owned approximately 12.8 million common shares of Trilogy and 6.4 million non-voting shares of Trilogy, representing approximately 15 percent of Trilogy's equity and approximately 13 percent of the common shares.

The following is a summary of Trilogy's reserves and future net revenue and the costs incurred by Trilogy as at and for the year ended December 31, 2013, each multiplied by 15 percent, being Paramount's equity interest in Trilogy as of December 31, 2013. Columns and rows may not add in the following tables due to rounding.

[1] NGLs Volumes Recovery Agreement means the NGLs Volumes Agreement dated January 1, 2011 between Trilogy and Aux Sable Canada LP.
[2] Conversion means the conversion from an income trust structure to a corporate structure through a business combination with a private corporation that was unrelated to Trilogy. The private corporation had no business, assets, or liabilities, other than residual tax pools at the time of such transaction.

The information contained within this APPENDIX D has been derived solely from Trilogy's annual information form dated March 4, 2014 which is posted on SEDAR (www.sedar.com) and is not incorporated by reference into this annual information form.

For the year ended December 31, 2013, Paramount accounted for its investment in Trilogy using the equity method. Pursuant to NI 51-101, Paramount is required to disclose the following information separately from its own reserves data and other oil and gas information. **Readers are cautioned that Paramount does not have any direct or indirect interest in or right to the reserves or future net revenue of Trilogy disclosed within this APPENDIX D nor does Paramount have any direct or indirect obligations in respect of or liability for the costs incurred by Trilogy disclosed within this APPENDIX D. The Company is a shareholder of Trilogy, just like any other shareholder of Trilogy, and, accordingly, the value of the Company's investment in Trilogy is based on the trading price of Trilogy's shares on the TSX.**

Reserves Data – Forecast Prices and Costs (1)

The following table summarizes Trilogy's reserves evaluated at December 31, 2013 multiplied by 15 percent using forecast prices and costs.

Reserves Category	Conventional Gas Gross (Bcf)	Conventional Gas Net (Bcf)	Shale Gas Gross (Bcf)	Shale Gas Net (Bcf)	Natural Gas Liquids Gross (MBbl)	Natural Gas Liquids Net (MBbl)
Proved						
Developed Producing	37.1	33.7	2.0	1.8	1,708	1,396
Developed Non-producing	3.3	3.0	-	-	123	94
Undeveloped	-	0.1	0.7	0.7	46	37
Total Proved	40.4	36.8	2.8	2.5	1,878	1,527
Total Probable	15.0	13.3	0.7	0.6	559	438
Total Proved plus Probable	55.4	50.2	3.5	3.2	2,437	1,965

Reserves Category	Light & Medium Crude Oil Gross (MBbl)	Light & Medium Crude Oil Net (MBbl)	Shale Oil Gross (MBbl)	Shale Oil Net (MBbl)	Total Gross (MBoe)	Total Net (MBoe)
Proved						
Developed Producing	2,414	1,827	244	201	10,877	9,357
Developed Non-producing	101	77	7	7	787	680
Undeveloped	-	-	-	-	179	167
Total Proved	2,515	1,904	252	208	11,844	10,204
Total Probable	1,000	704	62	44	4,232	3,514
Total Proved plus Probable	3,515	2,609	314	251	16,076	13,718

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

Net Present Value of Future Net Revenue – Forecast Prices and Costs[(1)]

The following table summarizes the net present values of future net revenue attributable to Trilogy's reserves evaluated at December 31, 2013 multiplied by 15 percent, except per unit information. The net present values are reported before income taxes and after income taxes at discount rates of 0%, 5%, 10%, 15%, and 20% as well as on a unit value basis at a discount rate of 10% before income taxes. Future net revenue does not represent fair market value.

	Net Present Value of Future Net Revenues ($ millions)										Unit Value Before Tax Discounted at 10%
	Before Income Tax (discounted at)					After Income Tax [(2)] (discounted at)					
Reserves Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	**$/boe**
Proved											
Developed Producing	299.3	225.3	182.5	154.8	135.5	278.4	214.7	176.6	151.3	133.3	19.50
Developed Non-producing	15.8	11.3	8.6	7.0	5.8	11.9	8.8	7.0	5.9	5.0	12.73
Undeveloped	3.4	2.0	1.2	0.6	0.3	2.6	1.5	0.8	0.4	0.1	7.07
Total Proved	318.6	238.6	192.3	162.4	141.5	292.9	225.0	184.5	157.6	138.5	18.85
Total Probable	127.5	63.8	38.9	26.8	20.0	95.3	48.4	30.0	21.1	16.1	11.07
Total Proved plus Probable	446.1	302.4	231.2	189.2	161.5	388.3	273.3	214.5	178.7	154.6	16.85

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

(2) Estimates of the after-tax value of future net revenue have been prepared based on pre-tax reserves information and include assumptions and estimates of Trilogy's tax pools and the sequences of claims and claim rates thereon. After tax value has been prepared on a consolidated basis and does not consider the business entity level tax situation or additional tax planning which may occur. Trilogy's financial statements and MD&A for the year ended December 31, 2013 as well as the risk factors herein should be consulted for additional information regarding income taxes.

Future Net Revenue – Forecast Prices and Costs[(1)]

The following table summarizes the total undiscounted future net revenue before income taxes and after income taxes attributable to Trilogy's reserves evaluated at December 31, 2013 multiplied by 15 percent.

Reserves Category ($ millions)	Proved	Proved plus Probable
Revenue	631.6	916.3
Royalties[(2)]	101.8	158.9
Operating Costs	199.4	295.5
Development Costs	4.9	7.2
Well Abandonment Costs	6.9	8.6
Future Net Revenue Before Income Tax	318.6	446.1
Income Taxes [(3)]	25.7	57.8
Future Net Revenue After Income Tax	292.9	388.3

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

(2) Royalties include crown royalties, freehold royalties, overriding royalties and mineral taxes.

(3) Estimates of the after-tax value of future net revenue have been prepared based on pre-tax reserves information and include assumptions and estimates of Trilogy's tax pools and the sequences of claims and claim rates thereon. After tax value has been prepared on a consolidated basis and does not consider the business entity level tax situation or additional tax planning which may occur. Trilogy's financial statements and MD&A for the year ended December 31, 2013 as well as the risk factors herein should be consulted for additional information regarding income taxes.

Future Net Revenue by Production Group – Forecast Prices and Costs[1]

The following table summarizes the net present value of future net revenue by production group and on a unit value basis before income taxes attributable to Trilogy's net reserves evaluated at December 31, 2013 multiplied by 15 percent, except unit values.

Reserves Category	**Production Group**	**Future Net Revenue Before Income Tax (discounted at 10%) ($ millions)**	**Unit Value Before Income Taxes (discounted at 10%/year using net reserves) ($/unit)**
Proved	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	80.3	$2.16/Mcfe
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	92.3	$ 28.47/Boe
	Shale Gas (including by-products but excluding solution gas and by-products from oil wells)	19.1	$4.33/Mcfe
	Shale Oil (including solution gas and other by-products such as natural gas liquids)	0.4	$ 27.47/Boe
	Total Proved	192.1	
Proved plus Probable	Natural Gas [2] (including by-products but excluding solution gas and by-products from oil wells)	97.4	$1.95/Mcfe
	Light and Medium Crude Oil [3] (including solution gas and other by-products such as natural gas liquids)	110.7	$ 24.71/Boe
	Shale Gas (including by-products but excluding solution gas and by-products from oil wells)	22.1	$4.07/Mcfe
	Shale Oil (including solution gas and other by-products such as natural gas liquids)	0.5	$ 25.37/Boe
	Total Proved plus Probable	230.8	

(1) Same terminology as earlier defined in this annual information form.
(2) Natural gas includes coalbed methane and associated and non-associated gas (including by-products).
(3) Light and medium crude oil includes solution gas and other by-products.
(4) This table does not include revenue from heavy oil or other minor sources of revenue.

Summary of Pricing and Inflation Rate Assumptions [1]

The following table summarizes the prices used by InSite in calculating the net present value of future net revenue attributable to reserves.

Forecast Prices and Costs		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
U.S. Henry Hub Gas Price	(US$/MMBtu)	4.25	4.40	4.75	5.00	5.25	5.50	5.61
Alberta Gas Reference Price	(Cdn$/MMBtu)	3.79	3.94	4.30	4.55	4.81	5.06	5.17
AECO Gas Price	(Cdn$/MMBtu)	3.99	4.14	4.50	4.75	5.01	5.26	5.37
WTI @ Cushing	(US$/Bbl)	96.00	95.00	95.00	95.00	96.00	97.00	98.94
Edmonton Reference Price	(Cdn$/Bbl)	96.05	97.50	97.45	97.40	98.40	99.40	101.39
Condensate Edmonton	(Cdn$/Bbl)	103.74	103.35	103.30	103.24	104.30	105.36	107.47
Butane	(Cdn$/Bbl)	76.84	78.00	77.96	77.92	78.72	79.52	81.11
Propane	(Cdn$/Bbl)	48.03	53.63	53.60	53.57	54.12	54.67	55.76
Ethane	(Cdn$/Bbl)	11.84	12.30	13.42	14.21	15.00	15.79	16.12
Inflation Rate [2]	(%/year)	0%	2%	2%	2%	2%	2%	2%
Exchange Rate [3]	(US$/Cdn$)	0.95	0.95	0.95	0.95	0.95	0.95	0.95

(1) Same terminology as earlier defined in this annual information form.
(2) Inflation rates for forecasting prices and costs subsequent to 2020 were assumed to be 2% per year.
(3) Exchange rates used to generate the benchmark reference prices in this table.

Costs Incurred

The following table summarizes the costs incurred by Trilogy for exploration and development costs multiplied by 15 percent.

Cost Type **($ millions)**	**2013**	**Q4**	**Q3**	**Q2**	**Q1**
Non-corporate acquisitions and dispositions					
Proved properties	-	-	-	-	-
Unproved properties (including undeveloped land)	(0.4)	(0.5)	-	-	0.1
Exploration	10.9	4.7	3.5	0.2	2.5
Development (including facilities)	50.1	6.5	11.8	8.5	23.3
Total	**60.6**	**10.7**	**15.3**	**8.7**	**25.9**

APPENDIX E
Cavalier Oil Sands Reserves, Resources and Related Information

General

In late 2011, Paramount reorganized all of the Company's oil sands and carbonate bitumen interests into a new wholly-owned subsidiary, Cavalier Energy Inc., and appointed an executive leadership team for Cavalier (see "GENERAL DEVELOPMENT OF THE BUSINESS – 2011"). The reorganization was undertaken to create a focused, self-funding oil sands entity to execute the development of Paramount's oil sands and carbonate bitumen assets. Cavalier was as at December 31, 2013, and is at the date hereof, a wholly-owned subsidiary of Paramount.

Cavalier owns approximately 320 sections of Crown oil sands leases in the western Athabasca region of Alberta. These leases are prospective in multiple formations, primarily for thermal in-situ development, but also have potential for cold production.

Bitumen production from Cavalier's oil sands leases are primarily prospective from the Grand Rapids formation at Hoole, the McMurray and Wabiskaw formations at Eagles Nest, and the Grosmont formation at Saleski and Cavalier's Other Carbonate Leases (as defined below). The following table summarizes Cavalier's landholdings as at December 31, 2013:

	Acreage Assigned Reserves		Acreage Assigned Contingent Resources		Acreage Assigned Contingent Resources (Technology Under Development) (8)		Undeveloped Acreage	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Clastic Reservoirs								
Hoole	1,440	1,440	34,400	34,400	-	-	-	-
Eagles Nest	-	-	-	-	-	-	23,040	23,040
Other	-	-	-	-	-	-	17,259	14,699
Carbonate Reservoirs								
Saleski	-	-	-	-	9,600	9,600	-	-
Other Carbonate Leases(3)	-	-	-	-	119,040	119,040	-	-
Total	1,440	1,440	34,400	34,400	128,640	128,640	40,299	37,739

See notes and definitions below. Acreage information above previously included in "OTHER OIL AND GAS INFORMATION – PROPERTIES WITH AND WITHOUT ATTRIBUTED RESERVES"

Cavalier's near-term plans are expected to focus on the development of its 100 percent owned oil sands leases at Hoole and further delineation of its other clastic and carbonate leases. During 2013, Cavalier completed the front end engineering and design work for Hoole Grand Rapids Phase 1 (as defined below) along with geotechnical work and the drilling of additional delineation wells. Cavalier is actively monitoring industry activity towards the successful commercial development and production from carbonate reservoirs before moving forward with the Saleski project. Given the focus on the Hoole Grand Rapids Phase 1, no specific development plans and project timelines have been initiated for Cavalier's other properties.

Below is a summary of certain of Cavalier's reserves and resources as estimated by McDaniel. There is no certainty that it will be commercially viable to produce any portion of these reserves or resources and there is no guarantee that these estimated reserves and resources or any reserves and resources will be recovered. The size of these reserve and resource estimates could be positively or negatively impacted if the size, quality, and/or thickness of the reservoirs is different than what is currently estimated. Actual reserves and resources may be greater than or less than the estimates provided herein. See "RISK FACTORS".

Hoole Oil Sands Reserves, Resources and Related Information

Regulatory approval for a 10,000 Bbl/d in-situ Steam Assisted Gravity Drainage ("SAGD") development at the Hoole oil sands property is expected by mid-2014. The application was submitted in November 2012 following completion of field work, preliminary front-end engineering and design, and reservoir modeling/simulation, which was verified by core flood experiments. Development of the Hoole oil sands leases is anticipated to be a multi-phase project with production capacity expected to exceed 80,000 Bbl/d.

McDaniel evaluated and prepared reports on the oil sands reserves and resources within the Grand Rapids formation in the Hoole oil sands leases. At the time of the evaluation, 80 oil sands evaluation wells had been drilled, including 37 with cores cut in the Grand Rapids formation. The McDaniel evaluation was prepared with an effective date of December 31, 2013, in accordance with NI 51-101 and COGE Handbook.

McDaniel's evaluation ascribed 93 million barrels of Probable Reserves with a net present value [12] (discounted at 10 percent) of $301 million to Cavalier's initial 10,000 barrel per day in-situ SAGD oil sands development covering approximately two sections of the Hoole oil sand leases ("Hoole Grand Rapids Phase 1"). Over and above the aforementioned reserves, the evaluation ascribed 746 million barrels of Economic Contingent Resources [7] (best estimate[4]) with a net present value (discounted at 10 percent) of $1.5 billion to the remaining approximate 54 sections of Cavalier's Hoole oil sands leases (the "Remaining Hoole Leases" and collectively with Hoole Grand Rapids Phase 1, the "Hoole Project").

Hoole Grand Rapids Phase 1 – December 31, 2013 Reserves and Net Present Value of Future Net Revenue – Forecast Prices and Costs

The following table summarizes the net present value of future net revenue attributable to Cavalier's Hoole Grand Rapids Phase 1 evaluated by McDaniel effective December 31, 2013 using forecast prices and costs. The net present values are reported before income tax and have been discounted using rates of 0 percent, 5 percent, 10 percent, 15 percent and 20 percent as well as on a net unit value basis at a discount rate of 10 percent before income taxes. Future net revenue does not represent fair market value.

	Bitumen Reserves	
Category	**Gross* (MBbl)**	**Net* (MBbl)**
Probable Undeveloped*	93,468	76,416
Possible Undeveloped [5]	15,591	9,643

See notes and definitions below.
* Defined previously – see "RESERVES AND OTHER OIL AND GAS INFORMATION"

	Net Present Value (NPV) of Future Net Revenue [12] ($millions)										**NPV [12] Before Income Tax Discounted at 10% ($/Bbl)**
	Before Income Tax (discounted at)					**After Income Tax (discounted at)**					
Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**	
Probable Undeveloped*	1,902	780	301	76	(39)	1,415	545	175	2	(85)	3.94
Possible Undeveloped [5]	739	347	197	129	94	552	263	152	102	76	20.43

See notes and definitions below.
* Defined previously – see "RESERVES AND OTHER OIL AND GAS INFORMATION"

For additional information regarding Hoole Grand Rapids Phase 1's probable reserves, see "RESERVES AND OTHER OIL AND GAS INFORMATION".

Remaining Hoole Leases – December 31, 2013 Resources Information

The following table summarizes Cavalier's Hoole oil sands resources attributable to Cavalier's Remaining Hoole Leases within the Grand Rapids formation evaluated by McDaniel effective December 31, 2013 using forecast prices and costs.

Category / Level of Certainty[4]	**Discovered Exploitable Bitumen In Place**[9] **Gross* (MBbl)**	**Economic Contingent Resources** [6][7] **Gross* (MBbl)**
High Estimate	1,544,706	937,922
Best Estimate	1,543,987	746,192
Low Estimate	1,532,621	565,706

See notes and definitions below
* Defined previously – see "RESERVES AND OTHER OIL AND GAS INFORMATION"

	Economic Contingent Resources[6][7] **Net Present Value (NPV) of Future Net Revenue** [12] **($millions)**			
	Before Income Tax (discounted at)			
Category / Level of Certainty [4]	**0%**	**5%**	**10%**	**15%**
High Estimate	27,610	7,702	2,512	834
Best Estimate	17,735	5,096	1,511	328
Low Estimate	9,319	2,513	446	(224)

See notes and definitions below

Cavalier's 2012 submission of the regulatory application for phase 1 of the Hoole Project allowed for the reclassification of the Economic Contingent Resources at the lands comprising Hoole Grand Rapids Phase 1 as reserves. Further reclassification to proved or probable reserves at Hoole is dependent upon, among other things, the following non-technical factors: finalization of plans for the initial development of the Hoole oil sands, regulatory approval, access to capital markets and other sources of funding, and intent to proceed by Cavalier evidenced by a development plan with major capital expenditures and sanctioning by Cavalier's Board of Directors.

Saleski Oil Sands Resources and Related Information

McDaniel was also retained in 2011 to evaluate and prepare reports on the carbonate bitumen resources associated with Cavalier's Saleski oil sands leases. The McDaniel evaluation was prepared with an effective date of October 31, 2011, in accordance with NI 51-101 and the standards for resources definitions contained in the COGE Handbook. At the time of the evaluation, ten oil sands evaluation wells had been drilled. McDaniel's evaluation was limited to the Grosmont formation and is based on the resource being exploited using SAGD. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and pilot projects by others in the industry are ongoing. At the time of the evaluation, there was insufficient economic data available for McDaniel to apply economic cutoffs or estimate future net revenue.

Category / Level of Certainty[4]	Discovered Exploitable Bitumen In Place[9] (MBbl)	Undiscovered Exploitable Bitumen In Place[10] (MBbl)	Contingent Resources (Technology Under Development)[8] (MBbl)	Prospective Resources[11] (MBbl)
High Estimate	1,184,641	133,904	566,795	62,754
Best Estimate	1,184,641	109,332	380,493	34,006
Low Estimate	1,184,641	89,269	-	-

See notes and definitions below

Other Carbonate Leases Resources and Related Information

The table below summarizes the estimated volumes attributable to the carbonate bitumen resources associated with Cavalier's Other Carbonate Leases as evaluated by McDaniel as of October 31, 2011, in accordance with NI 51-101 and the standards for resource definitions contained in the COGE Handbook. McDaniel's evaluation was limited to the Grosmont formation and is based on these resources being exploited using SAGD. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and pilot projects by others in the industry are ongoing. At the time of the evaluation, there was insufficient economic data available for McDaniel to apply economic cutoffs or estimate future net revenue.

Category / Level of Certainty[4]	Discovered Exploitable Bitumen In Place [9] (MBbl)	Undiscovered Exploitable Bitumen In Place [10] (MBbl)	Contingent Resources (Technology Under Development)[8] (MBbl)	Prospective Resources[11] (MBbl)
Best Estimate	430,586	4,418,573	111,118	1,073,439

See notes and definitions below

Notes:

(1) **"Gross"** acres means the total acreage in which Cavalier has an interest

(2) **"Net"** acres means Cavalier's gross working interest acres multiplied by Cavalier's working interest therein.

(3) **"Other Carbonate Leases"** include leases at Orchid, Granor and House in the Athabasca region of Alberta.

(4) **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 of 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. Those resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate. **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.

(5) **Possible Reserves** are those additional reserves that are less certain to be recovered than probable reserves. There is a 10 percent probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

(6) **Contingent Resources** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory applications, detailed design estimates or near term development plans. There is no certainty that it will be commercially viable to produce any portion of the contingent resources. For the Remaining Hoole Leases, contingencies which must be overcome to enable the reclassification of Economic Contingent Resources as reserves include the finalization of plans for the development, submission of a regulatory application and management's intent to proceed evidenced by a development plan with major capital expenditures. **Economic Contingent Resources** are a sub-category of Contingent Resources that are economically recoverable based on specific forecasts of commodity prices and costs.

(7) Represents the Company's share of recoverable volumes before deduction of royalties. In the assessment of Contingent Resources, McDaniel used a minimum net pay cut-off of 10 meters in the best estimate case.

(8) **Contingent Resources (Technology Under Development)** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. For the Saleski property and the Other Carbonate Leases, because of the lack of demonstrated commercial SAGD production or other production technology within carbonate reservoirs, the recoverable resources assigned are contingent upon successful application of SAGD or other production technology to the subject reservoir or a reasonable analog. The successful implementation of SAGD or other production technology in carbonate reservoirs is a significant contingency associated with these assignments that separate them from typical McMurray clastic SAGD contingent and prospective resources, where the technology has been proven effective. In addition to the technical contingency, additional contingencies applicable to the carbonate resources include being in the early evaluation stage, the economic viability of development and the absence of regulatory approvals. The economic status of these resources is undetermined.

(9) **Discovered Exploitable Bitumen In Place ("DEBIP")** is the estimated volume of bitumen, as of a given date, which is contained in a subsurface stratigraphic interval of a known accumulation that meets or exceeds certain reservoir characteristics, such as minimum continuous net pay, porosity and mass bitumen content. For the Hoole oil sands property, the presence of these characteristics is considered necessary for the commercial application of known recovery technologies. For the Saleski property and the Other Carbonate Leases, these volumes have been constrained to areas that have a minimum thickness of 10 meters of substantially clean, continuous predominantly bitumen-saturated carbonate with log porosity meeting a minimum of 10 percent and bitumen saturation greater than 50 percent and with both competent top and lateral reservoir containment. These carbonate bitumen resources are constrained to one mile in area around known data points that penetrate the zone and possess definitive geophysical log data. DEBIP for the Saleski property and the Other Carbonate Leases may be assigned outside of the one mile area if reservoir continuity between offsetting delineation is expected. The technology required to economically produce bitumen from carbonate formations is currently in the development stage and has not been proven on a commercial scale. There is no certainty that it will be commercially viable to produce any portion of the resources from the Hoole oil sands property, the Saleski property or the Other Carbonate Leases.

(10) **Undiscovered Exploitable Bitumen In Place ("UDEBIP")** is the volume of petroleum estimated, as of a given date, to be contained in accumulations yet to be discovered. These resources are mapped using known data points penetrating the zone and possess definitive geophysical log data along with seismic data and regional mapping. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

(11) **Prospective Resources** are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

(12) **Net Present Value or NPV** means net present value and represents the Company's share of future net revenue, before the deduction of income tax from the Probable, Possible, or Economic Contingent Resources in the Grand Rapids formation within the Hoole oil sands property. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. Royalties have been calculated based on Alberta's Royalty Framework applicable to oil sands projects in Alberta. The calculation does not consider financing costs and general and administrative costs. NPVs were calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of December 31, 2013. There is no assurance that such price and cost assumptions will be attained and variances could be material. The estimated net present values disclosed do not represent fair market value.

Risk Factors – Cavalier

There are numerous risks associated with the development of the oil sands and carbonate bitumen assets held by Cavalier. Cavalier currently has no bitumen production and there are no assurances that any of its properties will commence production, generate earnings, operate profitably or provide a return on investment in the future. In addition to the risks identified in the "RISK FACTORS" section in this Annual Information Form, below are risks that are specific to Cavalier's oil sands and carbonate bitumen assets.

Volatility of oil and natural gas prices and price differentials.

The price of bitumen, natural gas, and NGLs have fluctuated widely during recent years and are likely to continue to be volatile in the future. Bitumen, natural gas, and NGLs prices may fluctuate in response to a variety of factors beyond Paramount's control, including, but not limited, worldwide and regional supply and demand factors, location and quality, government regulations, weather, and general economic and market conditions. Natural gas and NGLs are used as inputs for oil sands and carbonate bitumen operations. Any substantial and extended weakness in the price of bitumen and/or strength in the price of natural gas and NGLs would have an adverse effect, possibly significant, on the value of Cavalier's assets, the economics associated with the Hoole Project, and the decision and timing to proceed, if at all, with the development of Cavalier's oil sands and carbonate bitumen assets.

Delays in obtaining, or inability to obtain, the required regulatory approvals.

There can be no assurance that the regulatory approvals needed for the development of Hoole Grand Rapids Phase 1, the Remaining Hoole Leases, or possible future development of Cavalier's other oil sands or carbonate bitumen leases will be obtained on schedule or on the desired or acceptable terms or at all. If the regulatory approvals are not received, these projects will be unable to proceed and the potential benefits of the projects will be lost.

***Oil sands and carbonate bitumen projects are at the early stage of their development*.**

Cavalier's Hoole oil sands and Eagles Nest leases are prospective for bitumen recovery from clastic reservoirs, whereas its Saleski and Other Carbonate Leases are prospective for bitumen recovery from carbonate reservoirs. Currently, there are numerous commercial projects which produce from clastic reservoirs using SAGD and other recovery processes. The successful development of Cavalier's carbonate reservoirs depends on, among other things, the successful development and application of SAGD or other processes for bitumen recovery from these reservoirs. Currently, there are several pilot projects underway in Alberta for bitumen recovery from carbonate reservoirs. The main risks associated with SAGD recovery in carbonate reservoirs include the possibility of unexpected steam channeling or operating problems due to wellbore plugging. These risks could result in increased operating costs, lower production rates, and reduced economically recoverable bitumen volumes, resulting in an uneconomic project.

Cavalier's Hoole Project is at the early stages of its planned development schedule and there is a risk that the project will not be commenced or, if commenced, will not be completed on time or within the estimates for scope and cost or at all.

Additionally, there is a risk that the Hoole Project may have delays, interruption of operations or increased costs as the project progresses due to many factors, including, without limitation: breakdown or failure of equipment or processes; construction performance falling below expected levels of output or efficiency; design errors; contractor or operator errors; non-performance by third-party contractors; labour disputes, disruptions or declines in productivity; increases in materials or labour costs; shortage of fabrication facilities; inability to attract sufficient numbers of qualified workers; delays in obtaining or conditions imposed by, regulatory approvals; changes in scope of the projects; violation of permit requirements; disruption in the supply of energy; unforeseen political events; local, First Nations and political opposition; and catastrophic events such as fires, earthquakes, storms or explosions. Given the stage of development of the Hoole Project, changes are likely to be made prior to their completion which could have a material impact both in terms of design and cost.

Cavalier’s other oil sands and carbonate bitumen assets are at an even earlier stage of development when compared to the Hoole Project and are subject to similar risks described above plus additional risks associated with advancing these assets and resources to a stage ready for regulatory submission and approval.

These above risks could adversely impact the value of Cavalier’s oil sands and carbonate bitumen assets, the amount of capital available to further evaluate and develop these assets, and the timing and progress of and production from any projects.

Ability to raise sufficient capital.

Significant amounts of capital will be required to fund costs to develop Hoole Grand Rapids Phase 1, the Remaining Hoole Leases, and continue the evaluation and development of Cavalier’s other oil sands and carbonate bitumen assets. There is no assurance that any equity and/or debt financings, borrowing of funds, joint venture, sales of assets, or combination thereof will be obtainable on acceptable terms, or at all, for such required capital. Failure to obtain the necessary funds for development could result in delays or an inability to develop the projects.

Cost overruns.

Historically oil sands projects have experienced capital cost overruns due to a variety of factors. There is no assurance that the development of Cavalier’s Hoole Project or other oil sands and carbonate bitumen leases will proceed or be met without delays or unforeseen and adverse effects upon the projects' budgets.

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

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

Operations and ability to market.

In the event that the Hoole Project or Cavalier's other oil sands or carbonate bitumen leases are developed and become operational, there can be no assurance that bitumen will be produced or, if produced, will be produced in economic quantities or at the costs anticipated and will continue producing. Because operating costs to produce bitumen from oil sands or carbonate may be substantially higher than operating costs to produce conventional crude oil, an increase in such costs, including the price of natural gas and power, may render extraction of bitumen resources from these projects uneconomic. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws and regulations and enforcement policies thereunder and claims for damages to property or persons resulting from a project's operations, could result in substantial costs and liabilities, delays or an inability to complete these projects or the abandonment of these projects.

The marketability of the bitumen associated with the oil sands and carbonate bitumen assets will be affected by numerous factors beyond its control. These factors include, but are not limited to, market fluctuations of prices, including price differential for bitumen relative to quoted market prices for other types of crude oil, proximity and capacity of pipelines and processing equipment, equipment availability and government regulations (including, without limitation, regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and gas and environmental protection). The extent of these factors cannot be accurately predicted, but the combination of these factors may result in there not being an adequate return on invested capital.

Environmental regulations.

Oil sands operations are subject to federal, provincial, and local laws and regulations. In Alberta these include requirements for SAGD facilities to obtain water licenses from the Alberta Environment Regulator in order to utilize water in their operations. Changes to environmental laws and regulations or an inability to obtain water licenses may result in increased costs or an inability to complete projects, each of which could have a material adverse effect on Cavalier and its assets, results of operation or ability to execute it business plans.

The development of Cavalier's oil sands and carbonate bitumen assets will be subject to GHG emission reporting and reduction requirements. Alberta currently regulates GHG emissions under the *Climate and Emissions Management Act*, the *Specified Gas Reporting Regulations* (the "SGRR"), which imposes GHG emissions reporting requirements, and the *Specified Gas Emitters Regulations* (the "SGER"), which imposes GHG emission intensity limits. See "NARRATIVE DESCRIPTION OF THE BUSINESS – GENERAL – GREENHOUSE GAS REPORTING AND REDUCTION OLIGATIONS" in this Annual Information Form for additional information regarding GHG reduction obligations and options to comply with regulations.

In addition, the oil and gas industry is expected to be the next sector of the economy where the federal government will regulate GHG emissions. At present, it is not possible to predict what impact these regulations, or any future changes in Alberta's GHG regulations, could have on Cavalier and its assets, results of operation or ability to execute it business plans. See "RISK FACTORS – COMPLIANCE WITH AND CHANGES TO ENVIRONMENTAL LAWS AND REGULATIONS" section in this Annual Information Form.

Other

APPENDIX C – REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION includes Cavalier, which is a wholly-owned subsidiary of Paramount as at December 31, 2013.

APPENDIX F
Paramount Resources Ltd.
Audit Committee Charter

(Adopted by the Board of Directors on May 19, 2005 and amended to May 18, 2011)

A. PURPOSE

The overall purpose of the Audit Committee (the "Committee") is to ensure that the Corporation's management has designed and implemented an effective system of internal financial controls and disclosure controls and procedures, to review and report on the integrity of the consolidated financial statements of the Corporation, to review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts and to review the Corporation's externally disclosed oil and gas reserves estimates including reviewing the qualifications of, and procedures used by, the independent engineering firm responsible for evaluating the Corporation's reserves.

B. COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the Board of Directors (the "Board"), all of whom shall be "independent", as that term is defined in Sections 1.4 and 1.5 of National Instrument 52-110, Audit Committees[1] and who meet the requirements of Section 3.5(1) of National Instrument 51-101[1] - Standards of Disclosure *for Oil and Gas Activities.*

2. All of the members of the Committee shall be "financially literate" (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of those of the Corporation and that can be reasonably expected to be raised by the Corporation's financial statements).

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

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

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

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

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

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

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

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

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

President and Chief Operating Officer
Chief Financial Officer
Controller
Corporate Secretary

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

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

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

C. ROLES AND RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

(j) to review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:

(a) to be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(b) to recommend to the Board a firm of external auditors to be nominated for appointment by the shareholders of the Corporation, and to monitor and verify the independence of such external auditors;

(c) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;

(d) review the audit plan of the external auditors prior to the commencement of the audit;

(e) to review with the external auditors, upon completion of their audit:

i contents of their report;

ii scope and quality of the audit work performed;

iii adequacy of the Corporation's financial and auditing personnel;

iv co-operation received from the Corporation's personnel during the audit;

v internal resources used;

vi significant transactions outside of the normal business of the Corporation;

vii significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and

viii the non-audit services provided by the external auditors, as pre-approved pursuant to the audit and non-audit services pre-approval policy;

(f) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles;

(g) to review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and

(h) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.

3. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:

   (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management;

   (b) review compliance under the Corporation's Code of Business Conduct Policy with those matters addressed in the policy which affect the financial integrity of the Corporation and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate; and

   (c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal accounting staff or by the external auditors have been implemented.

4. The Committee is also charged with the responsibility to:

   (a) review and recommend to the Board for its approval, the Corporation’s and its subsidiaries, partnerships and joint venturers, as applicable, annual financial statements, management’s discussion and analysis, annual information form and annual earnings press releases before the Corporation publicly discloses this information;

   (b) review and approve the Corporation’s and its subsidiaries, partnerships and joint venturers, as applicable, interim financial statements, interim management’s discussion and analysis including the impact of unusual items and changes in accounting principles and estimates and report to the Board in due course with respect thereto and to review and approve the Corporation’s interim earnings press releases before the Corporation publicly discloses this information;

   (c) review and approve the financial sections of:

      i the annual report to shareholders;

      ii the annual information form;

      iii prospectuses;

      iv other public reports requiring approval by the Board; and

      v press releases related there to, and report to the Board with respect thereto;

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

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

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

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

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

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

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

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

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

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

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

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

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

ii review the reserves data and the report of the reserves evaluator;

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

i approving the content and filing of the reserves statement;

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

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

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

D. ANNUAL REVIEW AND ASSESSMENT

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

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