ANNUAL REPORT 2014

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ANNUAL MEETING OF SHAREHOLDERS

Shareholders are cordially invited to attend the Annual Meeting of Shareholders to be held Thursday May 7, 2015 at 10:30 AM MDT at Centrium Place in the Conference Centre, 332 6th Avenue S.W., Calgary, Alberta.

Forward-Looking Statements and Information
This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the year ended December 31, 2014 contained herein which also includes supplemental advisories related to additional information included in this document.

2014 HIGHLIGHTS

FINANCIAL AND OPERATING [1]

($ millions, except as noted)	Q4 2014	Q4 2013	% Change	2014	2013 [2]	% Change
OPERATING						
Sales volumes						
Natural gas (MMcf/d)	143.9	102.5	40	110.5	106.1	4
Condensate and oil (Bbl/d)	5,320	2,530	110	3,986	2,313	72
Other NGLs (Bbl/d) [3]	5,123	674	660	2,128	911	134
Total (Boe/d)	34,430	20,290	70	24,524	20,914	17
FINANCIAL						
Petroleum and natural gas sales	99.4	57.8	72	350.0	232.5	51
Funds flow from operations	41.6	18.3	127	141.0	70.6	100
Per share – diluted ($/share)	*0.40*	*0.19*		*1.39*	*0.75*	
Net income (loss)	(106.5)	0.3		(71.7)	(59.1)	(21)
Per share – diluted ($/share)	*(1.02)*	*–*		*(0.71)*	*(0.63)*	
Principal Properties Capital [4]	224.6	171.8	31	813.9	612.8	33
Cash proceeds from divestitures [5]	0.5	8.3	(94)	100.0	37.9	164
Investments in other entities – market value [6]				256.9	688.5	(63)
Total assets				3,199.4	2,447.8	31
Net Debt				1,482.5	1,119.2	32
Common shares outstanding (thousands)				104,844	96,993	8

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2014.
(3) Other NGLs means ethane, propane and butane.
(4) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(5) Excludes shares of other companies and/or properties received in consideration for properties sold.
(6) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.

RESERVES [1] [2]

	Proved			Proved & Probable		
	2014	2013	% Change	2014	2013	% Change
Natural gas (Bcf)	703.8	301.3	134	1,090.9	450.5	142
NGLs (MBbl)	108,410	36,777	195	163,736	57,844	183
Light and Medium crude oil (MBbl)	1,108	680	63	1,526	885	72
Total Conventional (MBoe)	226,812	87,677	159	347,085	133,813	159
Oil sands bitumen (MBbl)	–	–	–	93,468	93,468	–
Total Company (MBoe)	226,812	87,677	159	440,553	227,281	94
Conventional F&D costs						
Excluding facilities & gathering ($/Boe) [3]	19.72	17.79	11	14.29	10.87	31
Conventional reserves replacement	17 X	6 X	183	25 X	8 X	213
NPV_{10} future net revenue before tax ($ millions)						
Conventional	2,255	1,093	106	3,836	1,793	114
Total Company	2,255	1,093	106	4,199	2,094	101

(1) Readers are referred to the advisories concerning Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Reserves evaluated by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. as of December 31, 2014 in accordance with National Instrument 51-101 definitions, standards and procedures. Amounts are working interest reserves before royalty deductions. Net present values were determined using forecast prices and costs and do not represent fair market value.
(3) P+P F&D costs, excluding facilities and gathering capital, were $10.87 per Boe in 2013 and $12.18 per Boe in 2012 and the three-year average for the period 2012 to 2014 is $13.37 per Boe.

PRESIDENT'S MESSAGE

To our Shareholders,

During 2014, we made significant progress on our major projects to bring the Deep Basin resources we have captured into production. The most significant achievement was the start-up of our Musreau deep-cut gas plant in August 2014. At the time of writing, the subsequent expansions to the project are nearing completion and we expect our corporate sales volumes to exceed 70,000 Boe/d in the second quarter of 2015.

Paramount's first large-scale development project in the Deep Basin is nearly complete. The new Musreau deep-cut plant has established reliable operations, construction of the amine processing train was completed in December 2014 and the condensate stabilizer expansion is nearly finished, with the additional capacity expected to be on-stream in the second quarter of 2015. Downstream pipeline, de-ethanization and fractionation capacity constraints are expected to be alleviated around the same time in the second quarter, which will enable Paramount to significantly increase production from previously drilled wells and maximize the utilization of our new plant. Paramount's non-operated Smoky deep-cut plant expansion commenced operations in September 2014, where we hold a 20 percent ownership interest in the 200 MMcf/d facility, which is expandable to 300 MMcf/d.

The Company's drilling and completion programs have evolved to a commercial scale and we are now drilling multi-well pad developments of between four and ten wells per pad. We also continue to work diligently in refining completion practices to improve well deliverability and increase per-well reserves, while reducing costs. The best example of this is the results from the 20 wells we drilled and completed on two pads at Musreau in the second half of 2014. These wells had combined test rates totaling over 230 MMcf/d, plus liquids.

During 2014, we made considerable progress at our Karr property, where we have implemented well completion practices that have reduced costs and improved productivity. Downstream takeaway capacity constraints in this area were alleviated in the third quarter of 2014 when a new third-party pipeline commenced service. This system not only provides reliable firm service capacity for all of our products, but also allows us to produce our condensate directly into a pipeline, reducing trucking and the associated costs. Paramount is proceeding with an expansion of the Karr facility from 40 MMcf/d to 80 MMcf/d, with completion expected in early 2016.

Paramount established a new exploration play in the Duvernay at Willesden Green in 2014. We drilled and completed two initial wells into the play, which tested at wellhead condensate-to-gas ratios of 250 Bbl/MMcf to over 1,000 Bbl/MMcf. We have drilled a third well into the play in early 2015, which is scheduled to be completed at the end of the second quarter. Paramount holds a 50 percent working interest in a contiguous land block of some 100 sections of land at Willesden Green.

In the second half of 2014, the benefits of our Deep Basin development started to show in our operating and financial results. Despite divestitures and various significant third-party downstream capacity restrictions throughout the year, sales volumes increased 17 percent to average 24,524 Boe/d in 2014, up from 20,914 Boe/d in 2013. Sales volumes in the fourth quarter of 2014 increased to 34,430 Boe/d and, most recently, February 2015 sales volumes further increased to over 40,000 Boe/d. Liquids volumes as a percentage of total sales were about 35 percent in February 2015, compared to 25 percent in 2014 and 15 percent in 2013. Operating and general and administrative costs per unit continue to decrease as we bring on incremental low-cost production. The Company reduced operating costs in 2014 by 15 percent to $7.96/Boe. Kaybob area operating costs in the fourth quarter of 2014 were $3.85/Boe. We expect further reductions in Paramount's per-unit operating costs in 2015 with the majority of new production continuing to come from the Kaybob operating area. Netbacks increased to $25.17/Boe in 2014 from $16.54/Boe in 2013, a 52 percent increase year-over-year, as a result of an increasing proportion of liquids production and lower per-unit operating costs, as well as generally higher commodity prices. Total cash netbacks increased to $225.3 million in 2014 from $126.2 million in 2013 due to these higher production levels and higher per-unit netbacks.

Paramount's Principal Properties capital spending in 2014 totaled $814 million, including $603 million for drilling and completion activities and $211 million for facilities and gathering systems. This capital expenditure program was funded through a combination of cash netbacks, proceeds from property dispositions, draws on our credit facilities and equity issuances.

Paramount was very successful in adding reserves at a low cost in 2014. Proved reserves increased by 159 percent from 87.7 MMBoe at the end of 2013 to 226.8 MMBoe at the end of 2014. Conventional proved plus probable reserves also increased 159 percent over the same period, from 133.8 MMBoe to 347.1 MMBoe. Total proved plus probable reserves, including bitumen reserves, stand at 441 MMBoe. The Company achieved reserves replacement ratios of over 17 times for proved reserves and over 25 times for conventional proved plus probable reserves. Excluding capital spending on facilities, which are expected to provide processing capability for several decades, these reserves were added at $19.72/Boe for proved reserves and $14.29/Boe for conventional proved plus probable reserves.

Paramount's 100 percent owned oil sands subsidiary, Cavalier Energy, saw its year highlighted by obtaining approval for the initial 10,000 Bbl/d phase at the Hoole project. Additional bitumen resources were also added at the Hoole project through an opportunistic acquisition of lands, increasing contingent resources by some 410 MMBbl. The independent evaluation of the Hoole project was updated at December 31, 2014, including updated pricing and project timelines. The updated evaluation ascribed total economic contingent resources of 1.2 billion Bbl and a net present value, discounted at 10 percent before tax, of $2.4 billion to the Hoole project. During 2015, the Cavalier team is working towards securing regulatory approval of the full

development of the Hoole property up to 100,000 Bbl/d, as well as further business development work in other areas.

Fox Drilling initiated the construction of two additional triple-sized walking drilling rigs, which will bring the total fleet to seven rigs. Paramount has been the exclusive user of Fox Drilling's rigs throughout 2014, as they are well suited to our operations in the Deep Basin area. The familiarity with Paramount's operations has allowed the Fox Drilling team to achieve significant reductions in time and costs to drill wells in the area, enhancing the positive economics of our Deep Basin plays.

In the Liard Basin, we continued with our shale gas program to drill evaluation wells in order to validate all of the lands with potential from the Besa River shale gas formation. During 2014, Paramount completed drilling the Dunedin d-57-D horizontal well. In preparing to complete the well, problems were encountered running production casing which resulted in the horizontal leg being abandoned. A decision to re-drill a horizontal leg has been deferred. Paramount completed drilling the Dunedin d-71-G vertical well in early 2015 and has now commenced drilling the c-37-D La Biche area vertical well, which will be suspended through the summer of 2015 due to access issues. We are expecting to resume drilling on the c-37-D well through the winter of 2015/16.

In late-2014 and in early-2015, the oil and gas industry experienced a rapid collapse in the market price for crude oil and natural gas liquids, and to a lesser degree natural gas. This collapse appears to have been created by simple supply and demand pressures, as the supply of these commodities in North America has increased at unprecedented levels over the last several years. It should be noted, however, that the value of the Canadian dollar has declined considerably against the U.S. dollar, partially offsetting the impact of these lower commodity prices. The lower commodity prices have created material downward pressure on Paramount's projections of near-term cash flows. Our capital expenditure program for 2015 aligns spending levels closely with projected cash flows for the year, which we believe will preserve financial flexibility.

Paramount's capital program for 2015 is currently budgeted at $400 million, which is less than half of the prior year's amount, due in part to the completion of the Musreau deep-cut plant in 2014. We believe the current lower commodity prices are unsustainable in the long-term, but are not prepared to increase spending without a clearer view of higher prices in the future. Paramount is willing to delay initiating new major projects, including the additional processing plants at Musreau, until conditions improve. We have also deferred some of our planned well completions, as we expect that the costs for services and materials will decrease as a result of market pressures. The Company is also working with our service providers to reduce ongoing operating costs as well as the costs of capital projects.

Paramount's $400 million capital spending program for 2015 includes $355 million for Principal Properties and $45 million for Strategic Investments, mainly for shale gas exploration activities in the Liard Basin and completing the construction of the two new Fox Drilling rigs. Sales volumes are expected to be approximately 40,000 Boe/d until additional processing capacity is available during the second quarter, at which point we expect sales volumes to grow to over 70,000 Boe/d. We have set our initial expectation of 2015 average sales volumes at 55,000 to

65,000 Boe/d, and will refine this estimate as the exact timing of in-service dates for the additional capacity is confirmed. With the Company's current capital budget, we expect that by the second half of 2015 Paramount will begin generating cash flow from operations in excess of capital expenditures. We will see declining debt balances in absolute terms and improving leverage metrics.

Paramount's management team is extremely excited to be realizing the results of the many years of hard work on our major projects. We look forward to delivering continued growth from our newly completed projects and our future developments as we continue to build on the resource base we have captured and proven.

In our message to Shareholders one year ago, we stressed our view that the best strategy has evolved from amassing a large magnitude of resources to targeting only the absolute most profitable opportunities available. If the opportunities one holds do not compete with the most economic available, they might as well not be owned at all. Our belief in this strategy has only strengthened. We continue to plan to develop our Deep Basin resources with several additional projects similar to our initial success at Musreau.

J.H.T. Riddell
President and Chief Operating Officer
March 2015

2014 OVERVIEW

RESERVES

- Proved reserves increased 159 percent to 226.8 MMBoe, after production of 9.0 MMBoe and dispositions of 2.4 MMBoe (replacement ratio of 17 times).
- Conventional proved and probable ("P+P") reserves increased 159 percent to 347.1 MMBoe (replacement ratio of 25 times), a record level for the Company.
- P+P condensate and Other NGLs reserves increased to 163.7 MMBbl, a 183 percent increase over 2013, and represent 47 percent of conventional P+P reserves.
- The net present value of conventional P+P reserves (10% discount, before tax) more than doubled to $3.8 billion, or $36.59 per share, despite significantly lower future commodity prices.
- P+P finding and development ("F&D") costs, excluding facilities and gathering capital, were $14.29 per Boe.

OIL AND GAS OPERATIONS

- Paramount's sales volumes averaged approximately 40,000 Boe/d in February 2015, the highest monthly average since the 2005 Trilogy Energy spin-out. The Company expects third-party NGLs processing constraints that have limited its ability to maximize production will begin to abate in the second quarter.
- Sales volumes in the fourth quarter of 2014 increased 70 percent to 34,430 Boe/d compared to the same period in 2013. Outages and apportionments of transportation and fractionation capacity impacted Paramount's ability to sustain production over 40,000 Boe/d in the fourth quarter. The Company's annual sales volumes increased 17 percent to 24,524 Boe/d in 2014 compared to 20,914 Boe/d in 2013.
- Fourth quarter 2014 liquids sales volumes totaled 10,443 Bbl/d, 226 percent higher than the same period in 2013, and included 5,320 Bbl/d of condensate and oil. Approximately 30 percent of fourth quarter sales volumes and 46 percent of petroleum and natural gas sales revenues were from liquids.
- The Kaybob COU's fourth quarter 2014 operating expense was $3.85 per Boe. Paramount's operating expense per Boe in 2014 was $7.96, 15 percent lower than 2013. Per-unit operating costs are expected to continue to decrease in 2015.
- Netbacks in the fourth quarter increased 108 percent to $61.0 million in 2014 from $29.3 million in 2013. Higher sales volumes, including an increasing proportion of liquids, more than offset the impact of lower liquids prices.
- The Company's two 10-well Montney pads in Kaybob have been completed. Aggregate test rates for the 10 wells on the 3-20 pad were 108 MMcf/d (10.8 MMcf/d per well) plus liquids. Aggregate test rates for the 10 wells on the 8-22 pad were 130 MMcf/d (13.0 MMcf/d per well) plus liquids.
- The three wells on the 3-20 pad with at least 30 days of production have averaged 6.0 MMcf/d of natural gas production over their first 30 days. Following the recovery of load oil volumes, wellhead condensate gas ratios for these wells have averaged 193 Bbl/MMcf.

STRATEGIC INVESTMENTS

- In the first quarter of 2015, Paramount finished drilling the Dunedin d-71-G shale gas exploration well in the Liard Basin and has commenced drilling the c-37-D shale gas exploration well at La Biche.

- Commissioning of Fox Drilling's two new triple-sized walking rigs is scheduled for the fourth quarter of 2015.

- Cavalier Energy received regulatory approval for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids development in the second quarter of 2014.

- Paramount completed the acquisition of all of the outstanding common shares of MGM Energy Corp. that it did not already own in exchange for 1.1 million Common Shares of Paramount in June 2014.

OUTLOOK

- Sales volumes are expected to surpass 70,000 Boe/d in 2015 following the start-up of Paramount's condensate stabilizer expansion in the second quarter and the completion of third-party de-ethanization facilities expansions. Annual sales volumes in 2015 are expected to average between 55,000 and 65,000 Boe/d. The Company has 33 wells behind-pipe as of February 28, 2015 that can be brought on-stream in 2015, with estimated first-month production capability of 210 MMcf/d plus liquids.

- Paramount's 2015 capital budget totals $400 million, focused on the Company's Deep Basin development and maintaining the optionality of future growth initiatives.

- The Company is continuing planning and detailed engineering work for the construction of incremental natural gas processing capacity in the Deep Basin. We have temporarily deferred the ordering of long-lead-time items until summer. Paramount expects that the first new 100 MMcf/d plant would be on-stream 18 to 22 months following the placement of long-lead-time orders. The second new 100 MMcf/d plant is expected to commence operations 9 to 12 months after the first.

FINANCIAL FLEXIBILITY

- Paramount expects to fund its 2015 capital program with increasing funds flow from operations and available capacity under its bank credit facility. The Company's capital budget remains flexible and activity levels may be adjusted depending on commodity prices and other factors.

- Paramount's revolving bank credit facility was increased to $900 million in December 2014 and the maturity date was extended to November 2016.

- The Company's coverage ratios improved in 2014 as a result of the start-up of the Musreau Deep Cut Facility and are expected to continue to strengthen in 2015 due to further growth in sales volumes and cash flows, despite the plunge in commodity prices.

- There are no financial maintenance covenants under the terms of Paramount's bank credit facility or its senior unsecured notes.

- In February 2015, Moody's Investors Services affirmed Paramount's corporate credit rating of B2, Positive Outlook and Standard & Poor's Rating Services upgraded Paramount's corporate credit rating to B, Positive Outlook.

REVIEW OF OPERATIONS

FINANCIAL AND OPERATING HIGHLIGHTS [1]

	Q4 2014		Q4 2013		% Change	2014		2013[2]		% Change
Sales volumes by COU (Boe/d)										
Kaybob		**25,062**		12,736	*97*		**17,137**		13,402	*28*
Grande Prairie		**8,157**		4,816	*69*		**5,956**		4,459	*34*
Southern & Northern		**1,211**		2,738	*(56)*		**1,431**		3,053	*(53)*
Total		**34,430**		20,290	*70*		**24,524**		20,914	*17*
Netback ($ millions)		***$/Boe*** [3]		*$/Boe* [3]			***$/Boe*** [3]		*$/Boe* [3]	
Natural gas revenue	**52.7**	***3.98***	35.1	*3.73*		**192.7**	***4.78***	138.3	*3.57*	
Condensate and oil revenue	**33.5**	***68.45***	19.1	*82.22*		**128.6**	***88.41***	79.0	*93.59*	
Other NGLs revenue [4]	**12.6**	***26.64***	3.0	*48.28*		**25.1**	***32.36***	12.3	*37.02*	
Royalty and sulphur revenue	**0.6**	**–**	0.6	–		**3.6**	**–**	2.9	–	
Petroleum and natural gas sales	**99.4**	***31.37***	57.8	*30.99*		**350.0**	***39.10***	232.5	*30.46*	
Royalties	**(4.7)**	***(1.48)***	(2.8)	*(1.50)*		**(17.5)**	***(1.96)***	(10.8)	*(1.42)*	
Operating expense	**(22.2)**	***(7.02)***	(18.7)	*(10.02)*		**(71.3)**	***(7.96)***	(71.5)	*(9.35)*	
Transportation and NGLs processing [5]	**(11.5)**	***(3.62)***	(7.0)	*(3.77)*		**(35.9)**	***(4.01)***	(24.0)	*(3.15)*	
Netback	**61.0**	***19.25***	29.3	*15.70*		**225.3**	***25.17***	126.2	*16.54*	
Principal Properties Capital ($ millions)										
Wells and exploration		**183.4**		119.1	*54*		**603.2**		457.9	*32*
Facilities and gathering		**41.2**		52.7	*(22)*		**210.7**		154.9	*36*
		224.6		171.8	*31*		**813.9**		612.8	*33*
By COU ($ millions)										
Kaybob		**182.4**		126.7	*44*		**528.2**		462.3	*14*
Grande Prairie		**39.4**		45.1	*(13)*		**204.5**		127.8	*60*
Southern, Northern & Other		**2.8**		—	*100*		**81.2**		22.7	*258*
		224.6		171.8	*31*		**813.9**		612.8	*33*

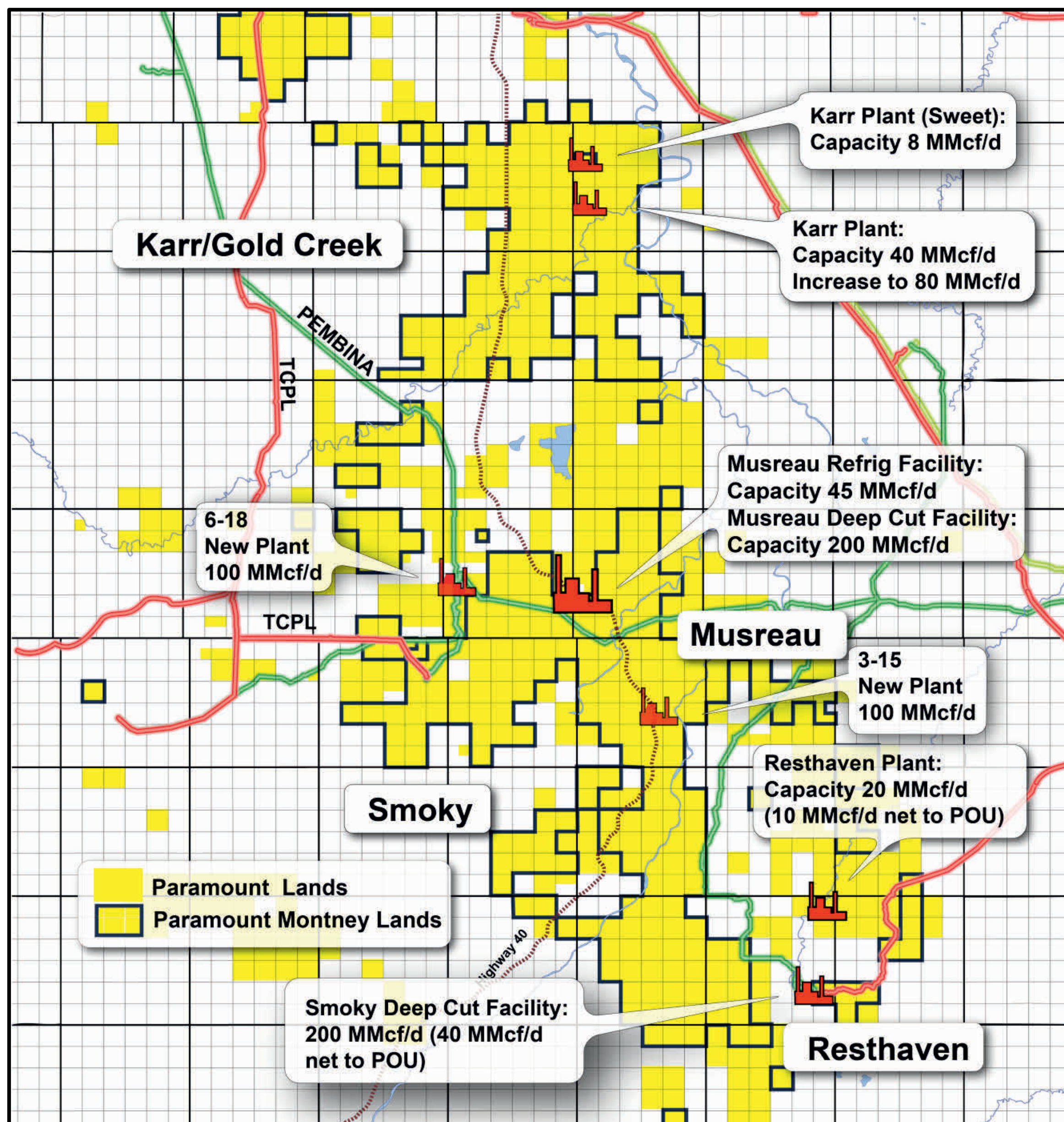
(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas measures and definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the year ended December 31, 2014 for further details.
(3) Natural gas revenue shown per Mcf.
(4) Other NGLs means ethane, propane and butane.
(5) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Paramount's operations are focused on the large-scale development of its Deep Basin lands in west central Alberta, where the Company holds extensive multi-zone mineral rights to 1,186 (768 net) sections of land, including 364 (313 net) sections of Montney rights. The Company also has exposure to emerging plays through its Duvernay lands in the Willesden Green area and its shale gas lands in the Liard Basin and to oil sands resources at Hoole which are held by its wholly-owned subsidiary, Cavalier Energy Inc. ("Cavalier").

PRINCIPAL PROPERTIES

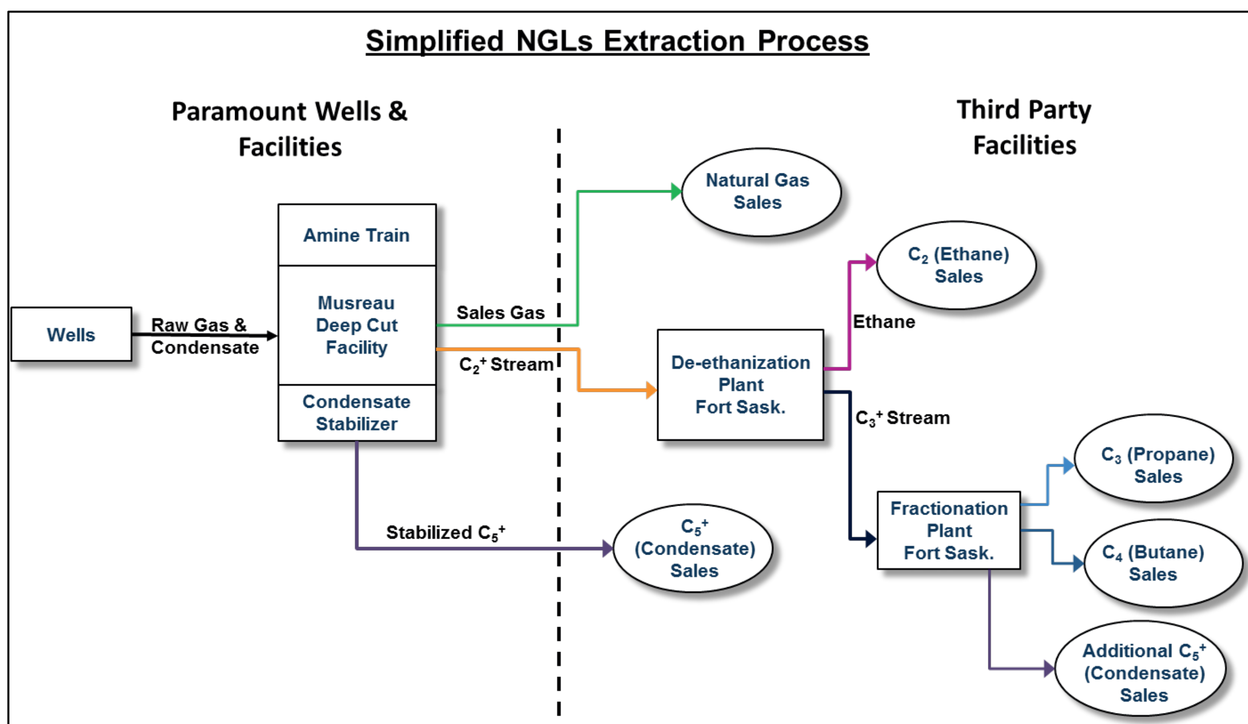
In 2014, the Company completed one of its multi-year development projects in the Deep Basin: the drilling and completion of the initial large multi-well Montney pads at Musreau and the construction and start-up of the 200 MMcf/d Musreau deep cut natural gas processing facility (the "Musreau Deep Cut Facility"). Paramount also continues with the expansion of its regional gathering systems. Paramount's Deep Basin investments have provided a low-cost production base with strategic gathering and

processing infrastructure to support the repeatable multi-decade development of the Company's Montney, Cretaceous and other resources. Third-party pipeline systems and NGLs processing facilities expansions downstream of Paramount's properties are expected to be completed in 2015.



Paramount commenced delivering sales gas from the Musreau Deep Cut Facility in August 2014 and has continued to ramp-up production from its inventory of behind pipe wells. Total Company sales volumes were approximately 40,000 Boe/d in February 2015; the highest monthly average since the 2005 Trilogy Energy spin-out. Fourth quarter 2014 sales volumes increased 70 percent to 34,430 Boe/d compared to the same period in 2013. Outages and apportionments of transportation and fractionation capacity in the fourth quarter impacted Paramount's ability to sustain production over 40,000 Boe/d.

Fourth quarter 2014 liquids sales volumes totaled 10,443 Bbl/d, including 5,320 Bbl/d of condensate and oil, as incremental production from liquids-rich Montney wells was brought on. The start-up of new deep cut processing facilities at Musreau and Smoky also resulted in higher recoveries of ethane, propane, and butane from natural gas streams.



Paramount's incremental long-term firm processing capacity for Other NGLs is scheduled to become available in two phases in 2015, following the completion of third-party expansions. The third-party operator has announced that the first phase, a de-ethanization plant expansion, will be commissioned by the end of the first quarter of 2015 and the second phase, a storage cavern expansion, will be in-service in mid-2015. The Company is continuing to maximize production through firm and interruptible NGLs processing capacity in advance of the expansions.

Sales volumes are expected to surpass 70,000 Boe/d in 2015 following the start-up of Paramount's condensate stabilizer expansion in the second quarter and the completion of the third-party de-ethanization facilities expansions. Annual sales volumes in 2015 are expected to average between 55,000 and 65,000 Boe/d. The Company has 33 wells behind-pipe as of February 28, 2015 that can be brought on-stream in 2015, with estimated first-month production capability of approximately 210 MMcf/d plus liquids.

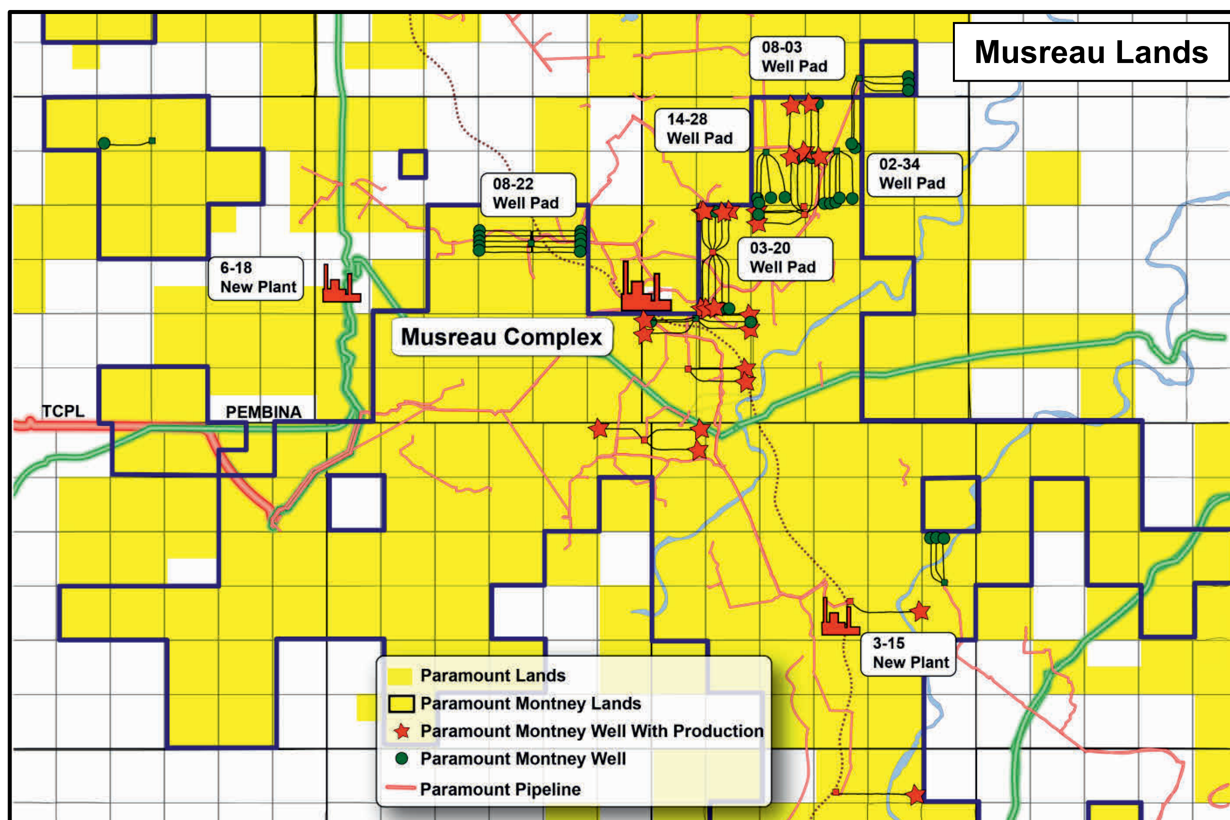
Approximately 30 percent of fourth quarter sales volumes and 46 percent of petroleum and natural gas sales revenues were from liquids. Paramount's sales volume mix is expected to evolve to approximately 50 percent gas / 50 percent liquids as additional Montney production is brought on-stream in 2015 and the Musreau Deep Cut Facility operates in full deep cut mode following the removal of downstream restrictions. Currently, Paramount's working interest share of volumes being processed through the Musreau Deep Cut Facility is approximately 80 percent. As new 100 percent working interest Montney wells are brought on production, the Company expects its working interest share of volumes processed to increase.

Paramount's 2014 operating expenses were $7.96 per Boe, 15 percent lower than in 2013. The Company's operating expenses were $7.02 per Boe in the fourth quarter of 2014, a 30 percent decrease from the fourth quarter of 2013. Per unit operating costs are expected to continue to decrease in 2015 as low-cost Kaybob production comprises a greater proportion of the Company's total production. Paramount's ownership of gas processing facilities provides significant savings through the elimination of

third-party processing fees. Fourth quarter 2014 operating expenses within Kaybob averaged $3.85 per Boe, net of processing income earned from third parties.

KAYBOB – MUSREAU, RESTHAVEN, SMOKY

As of February 28, 2015, the Company had 25 Montney wells at Musreau with production, and another 27 behind pipe wells awaiting production that will be brought on as the Company's condensate stabilizer expansion starts up and downstream transportation and NGLs processing expansions are completed. An additional 14 wells are currently being drilled, including 12 wells on two six-well Montney pads where drilling operations are scheduled to finish at the end of the first quarter.



The Montney wells in the map above which are located to the northeast of the Musreau Complex have exhibited the highest wellhead condensate-gas ratios ("CGR"). CGRs[1] for these wells range from 176 Bbl/MMcf to 338 Bbl/MMcf following the recovery of load oil volumes. Natural gas production rates[2] over the first 30 days of production for these wells range from 2.0 MMcf/d to 7.0 MMcf/d.

The Montney wells in the map above to the south of the Musreau Complex have CGRs ranging between 48 Bbl/MMcf and 92 Bbl/MMcf following the recovery of load oil volumes. Natural gas production rates over the first 30 days of production for these wells range from 2.7 MMcf/d to 6.9 MMcf/d.

[1] CGRs included in this document were calculated for each well for the period commencing on the date load oil volumes were completely recovered for such well and ending on February 28, 2015 (the "Post-load Recovery Period"). CGRs were calculated for each well over the applicable Post-load Recovery Period by dividing total raw liquids volumes produced by total raw natural gas volumes produced during such period. Raw volumes as measured at the wellhead. Sales volumes are lower due to shrinkage.

[2] Production rates are gross raw volumes produced at the wellhead. Sales volumes are lower due to shrinkage.

The Company's Montney formation wells continue to be profitable despite the recent plunge in condensate and oil prices.

Drilling and completion activities in 2014 focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands. The 3-20 10-well pad was completed in the third quarter, with aggregate test rates[3] of 108 MMcf/d of natural gas (10.8 MMcf/d per well) plus liquids. The second 10-well pad at 8-22 was completed in the fourth quarter, with aggregate test rates[3] of 130 MMcf/d of natural gas (13.0 MMcf/d per well) plus liquids. Drilling of the 5-well 08-03 pad has been finished and the wells are scheduled to be completed later in 2015.

The three wells on the 3-20 pad with at least 30 days of production have averaged 6.0 MMcf/d of natural gas production over their first 30 days. Following the recovery of load oil volumes, CGRs for these wells have averaged 193 Bbl/MMcf.

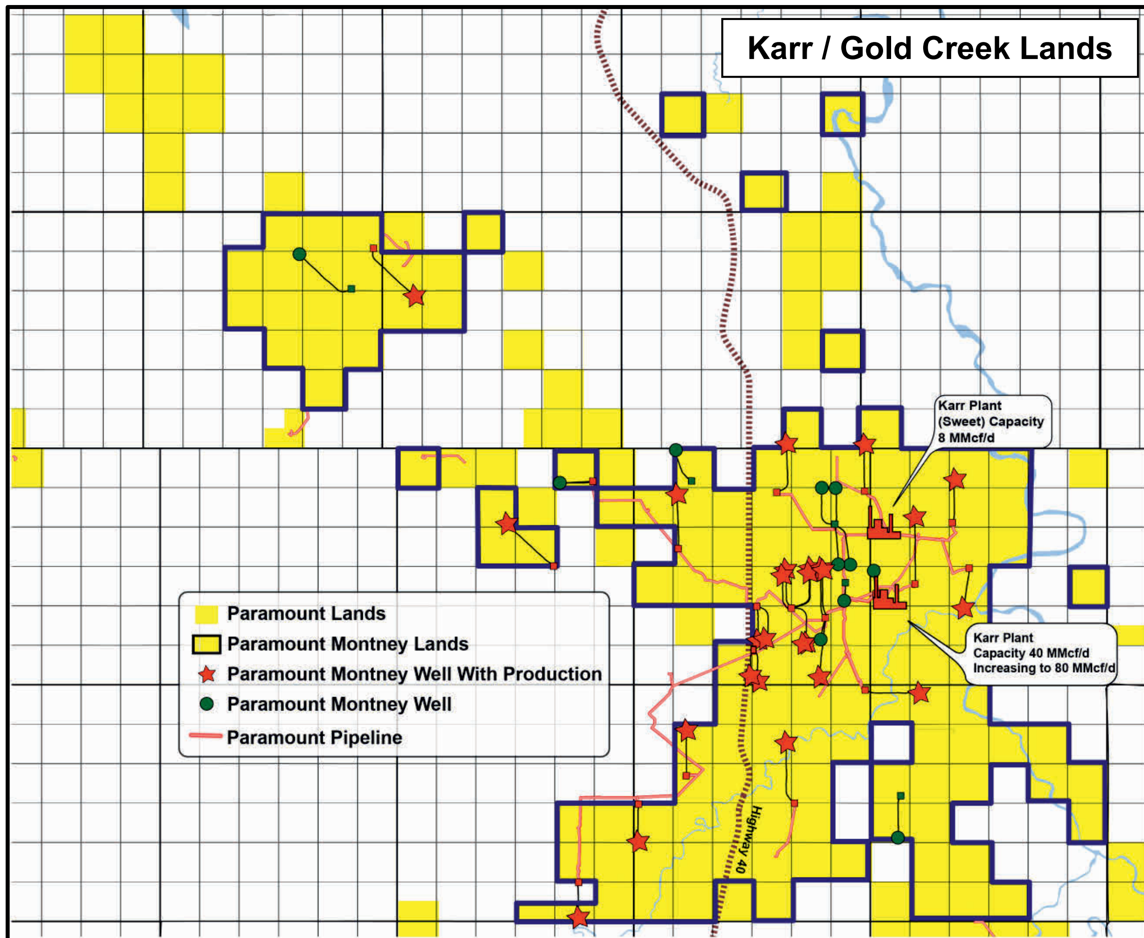
Paramount's two walking drilling rigs are currently finishing drilling operations on the two six-well Montney pads located to the northeast of the Musreau Deep Cut Facility, where the Company is continuing to target high-condensate yields. Drilling on six-well pads reduces the time from spud to initial production compared to the larger 10-well pads, while continuing to realize the capital efficiencies of using multi-well sites. This includes minimizing mobilization and de-mobilization costs and lowering equipping and tie-in costs through the use of common facilities. These new pads have been laid out to allow an additional six wells to be drilled from the same site at a later date, after the commencement of production from the initial six wells.

The Alberta Energy Regulator recently approved new regulations applicable to the majority of Paramount's Deep Basin lands which will allow the drilling of as many Montney formation wells per section as needed to capture the resources. Paramount estimates that densities of ten or more wells per section will be required to achieve a 70 percent resource recovery ratio. Having the flexibility to drill a higher number of wells provides opportunities to reduce the horizontal spacing of wells, to drill at different intervals within the 200 meter thickness of the Montney formation and to complete the heels of horizontal wells drilled into other sections, all of which will increase resource recoveries.

GRANDE PRAIRIE – KARR

Paramount's Karr-Gold Creek property, located approximately six miles north of the Musreau development, includes approximately 113 net sections of Montney rights. The Company has constructed a gathering system and 48 MMcf/d of compression and dehydration capacity and has focused its drilling programs on delineating the middle-Montney resources and preserving the mineral rights.

[3] Test rates for the wells fracked on the Company's 3-20 ten-well pad averaged 10.8 MMcf/d of natural gas per well, and are the average of production test rates over the final period of post clean-up flow-back at the largest choke setting, with durations of between 5 and 53 hours. Flow-back casing pressures for the tests of these wells ranged between approximately 2,200 psi and 3,000 psi. Test rates for the wells fracked on the Company's 8-22 ten-well pad averaged 13.0 MMcf/d of natural gas per well, and are the average of production test rates over the final period of post clean-up flow-back at the largest choke setting, with durations of between 4 and 30 hours. Flow-back casing pressures for the tests of these wells ranged between approximately 2,000 psi and 2,900 psi. All wells were stimulated using frack oil and substantially all fluids recovered during the test periods were load fluids. As a result, fluid volumes recovered during the tests have not been disclosed. Pressure transient analyses and well-test interpretations have not been carried out for these wells and as such, data should be considered to be preliminary until such analysis or interpretation has been done. Test results are not necessarily indicative of long-term performance or of ultimate recovery.



In the third quarter of 2014, incremental natural gas processing capacity became available at Karr-Gold Creek following the completion of a third-party pipeline. The incremental capacity has enabled new wells to be brought on and existing wells to produce more consistently. As a result, Grande Prairie sales volumes increased to 8,157 Boe/d in the fourth quarter of 2014.

There are 14 operated middle-Montney wells at Karr-Gold Creek that have produced for more than 30 days. CGRs for these wells range from 46 Bbl/MMcf to 286 Bbl/MMcf following the recovery of load oil volumes. Natural gas production rates over the initial 30 days of production for these wells ranged from 1.4 MMcf/d to 7.7 MMcf/d.

The Company currently has 16 operated Montney wells on production, with an additional two wells scheduled to be tied-in and brought on production in 2015. The Company is planning a 40 MMcf/d expansion of the Karr-Gold Creek compression facility which is currently scheduled to be completed in the first quarter of 2016.

DEEP BASIN INFRASTRUCTURE

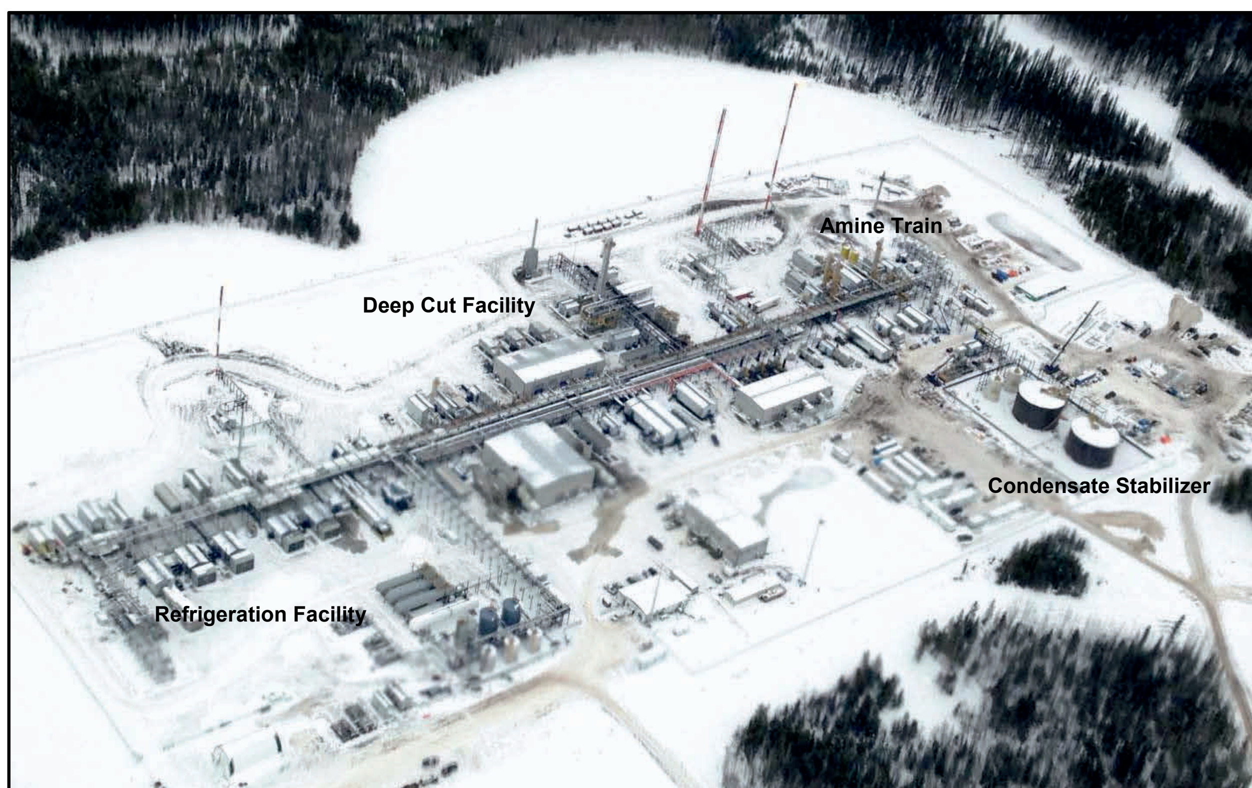
Paramount's net owned and firm-service contracted natural gas processing capacities total approximately 345 MMcf/d that will provide approximately 100,000 Boe/d of potential sales volumes following the completion of the 15,000 Bbl/d Musreau condensate stabilizer expansion. Paramount has also invested in gathering infrastructure and entered into firm-service arrangements with midstream providers downstream of its facilities to transport and process its liquids-rich Deep Basin production. Paramount's ownership of natural gas processing plants and contracted firm-service transportation and processing capacity is a

strategic advantage for the Company. These capacities are essential to being able to produce in the Deep Basin and are currently in short supply in the region. Ownership of facilities also reduce ongoing operating costs by eliminating third-party fees.

Processing Capacity	Gross Raw Gas Capacity	Net Paramount Raw Gas Capacity	Potential Sales Volumes[1]
	(MMcf/d)	*(MMcf/d)*	*(Boe/d)*
Musreau Deep-Cut Facility	200	200	50,000
Musreau Refrig Facility	45	45	8,500
Stabilizer Expansion	–	–	15,000
Smoky Facility	200	40	10,000
Karr capacity	40	40	10,000
Other capacity	64	18	3,400
	549	**343**	**96,900**

(1) Refer to the heading "Potential Sales Volumes" in the Advisories section for further information.

The Company's first natural gas processing facility in the Deep Basin, a 45 MMcf/d refrigeration facility at Musreau, was commissioned in the first quarter of 2012. The Company's second major facility, the 200 MMcf/d Musreau Deep Cut Facility was brought on-stream on the same site (the "Musreau Complex"):



Musreau Complex (February 12, 2015)

Paramount also completed the construction of an amine processing train (the "Amine Train") at the Musreau Complex in the fourth quarter of 2014 to treat sour production at the facility instead of at well sites. The Amine Train eliminates over $1 million of equipping costs per well for wells with sour production and reduces ongoing well operating costs.

The Musreau Complex currently has condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d when Paramount starts-up a 15,000 Bbl/d expansion (the "Stabilizer Expansion"). Mechanical construction is nearing completion and the additional capacity is scheduled to be on-stream in the second quarter of 2015. Paramount will continue to have the ability to truck production in excess of this increased capacity to other Company and third-party facilities for processing.

Paramount is a part-owner of a third-party operated natural gas processing plant at Smoky in Kaybob (the "Smoky Deep Cut Facility"). The Company has increased its working interest in the facility to 20 percent and participated in an expansion, which increased capacity to 200 MMcf/d (40 MMcf/d net) and added deep cut processing. The expanded facility was operational in September 2014.

To continue the development of Paramount's liquids-rich Montney lands in the Deep Basin, the Company sanctioned the construction of two new wholly-owned 100 MMcf/d refrigeration plants in the summer of 2014. The plants will incorporate oversized condensate stabilization, amine processing and infrastructure components to allow for future expansions.

Front-end engineering and design for the new facilities is ongoing and the Company received regulatory approval for the 6-18 plant in the first quarter of 2015. The ordering of long-lead time items for the first new plant has been temporarily deferred until the summer. Paramount expects the first plant would be on-stream approximately 18 to 22 months following the placement of long-lead-time orders at a cost of approximately $150 million. The second new plant is expected to commence operations 9 to 12 months after the first.

To ensure access to downstream transportation and fractionation, Paramount has secured incremental long-term firm-service capacity for the transportation of incremental natural gas, NGLs and condensate, as well as $C3^+$ fractionation capacity at Fort Saskatchewan.

Upon completion of the 40 MMcf/d facility expansion at Karr-Gold Creek and the first new 100 MMcf/d refrigeration plant, Paramount's net owned and firm-service natural gas processing capacity in the Deep Basin area will increase to approximately 480 MMcf/d, providing potential sales volumes of over 130,000 Boe/d. Once the second new plant is completed in the Kaybob area, Paramount's net owned and firm-service natural gas processing capacity in the Deep Basin will increase to approximately 580 MMcf/d, providing potential sales volumes of over 155,000 Boe/d, depending on the liquids content of the natural gas processed.

OTHER AREAS

Paramount began exploration activities on its Willesden Green property in southern Alberta in 2014. The Company has entered into joint venture agreements that will increase its land position to 100 (54 net) sections following the completion of earning obligations. Four (2.0 net) Duvernay wells have been drilled to date, two of which have been completed.

In the second quarter of 2014, Paramount sold a 50 percent interest in its Birch property in northeast British Columbia for $91.5 million cash. The Company and its partner subsequently drilled four (2.0 net) wells, three of which were fracked by the end of the year. Paramount is participating in the construction of new compression facilities at Birch to provide capacity to produce the wells.

RESERVES

Paramount recorded significant year-over-year reserves growth in 2014, driven by the Company's Deep Basin development program. Proved reserves increased by 139.1 MMBoe after 2014 production of 9.0 MMBoe and dispositions of 2.4 MMBoe. Conventional proved and probable ("P+P") reserves increased by 213.3 MMBoe in 2014 after production of 9.0 MMBoe and dispositions of 3.4 MMBoe. Paramount's investments in its Deep Basin development, including the construction of processing facilities and gathering systems, the sanctioning of the additional plants in the Kaybob area and the securing of long-term firm-service downstream transportation and NGLs processing capacities, resulted in the recording of significant increases in undeveloped reserves in 2014. The Company's undeveloped reserves are related to wells in the Kaybob and Grande Prairie COUs that are in the process of being drilled, or are expected to be drilled within the next few years. Proved undeveloped reserves increased to 166.8 MMBoe in 2014 compared to 37.7 MMBoe in 2013.

	Proved(1)(2)(3)			Proved & Probable(1)(2)(3)		
	2014	2013	*% Change*	**2014**	2013	*% Change*
Natural Gas (Bcf)	**703.8**	301.3	*134*	**1,090.9**	450.5	*142*
NGLs (MBbl)	**108,410**	36,777	*195*	**163,736**	57,844	*183*
Light and Medium crude oil (MBbl)	**1,108**	680	*63*	**1,526**	885	*72*
Total Conventional (MBoe)	**226,812**	87,677	*159*	**347,085**	133,813	*159*
Oil sands bitumen (MBbl)	**–**	–	*–*	**93,468**	93,468	*–*
Total Company (MBoe)	**226,812**	87,677	*159*	**440,553**	227,281	*94*
Conventional F&D costs						
Excluding facilities & gathering ($/Boe)	**19.72**	17.79	*11*	**14.29**	10.87	*31*
Conventional reserves replacement	**17 X**	6 X	*183*	**25 X**	8 X	*213*
NPV_{10} future net revenue before tax						
Conventional ($ millions)	**2,255**	1,093	*106*	**3,836**	1,793	*114*
Total Company ($ millions)	**2,255**	1,093	*106*	**4,199**	2,094	*101*

(1) See "Reserves Details / F&D / Land" section below for additional information.
(2) Readers are referred to the advisories concerning Oil and Gas Measures and Definitions in the Advisories section of this document.
(3) Reserves evaluated by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. as of December 31, 2014 in accordance with National Instrument 51-101 definitions, standards and procedures. Working interest reserves before royalty deductions. Net present values were determined using forecast prices and costs and do not represent fair market value.

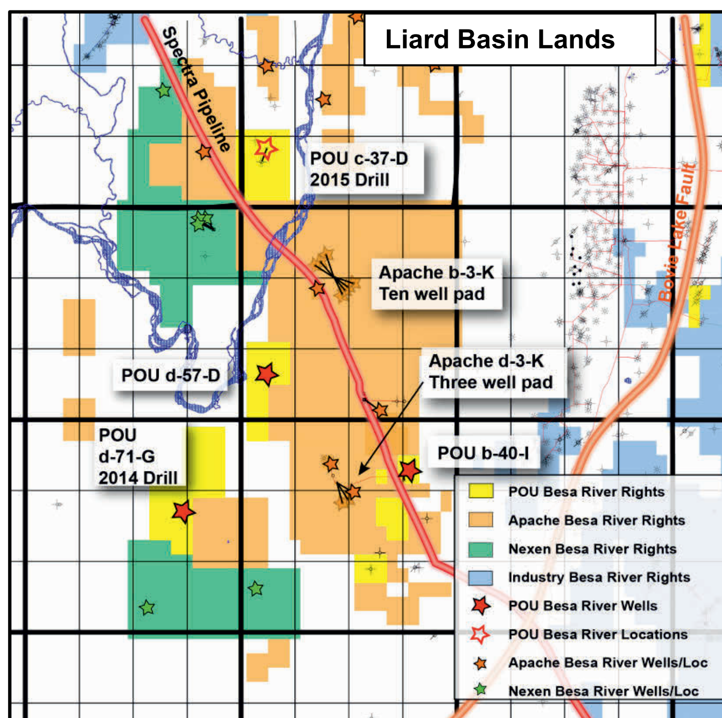
NGLs reserves increased significantly in 2014, as the Company's drilling program continues to focus on the liquids-rich Montney formation. Proved NGLs reserves totaled 108.4 MMBbl as of December 31, 2014, representing 48 percent of total proved reserves, compared to 36.8 MMBbl and 42 percent of total proved reserves in 2013. P+P NGLs reserves totaled 163.7 MMBbl as of December 31, 2014, representing 47 percent of conventional P+P reserves, compared to 57.8 MMBbl and 43 percent of conventional P+P reserves in 2013.

As of December 31, 2014, the net present value of proved reserves (discounted at 10 percent, before tax) increased 106 percent to $2.3 billion ($21.52 per share) and the net present value of conventional P+P reserves (discounted at 10 percent, before tax) increased 114 percent to $3.8 billion ($36.59 per share).

STRATEGIC INVESTMENTS

SHALE GAS

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 133 net sections of land with potential from the Besa River shale formation. The Company's 2014 / 2015 winter drilling program began in the fourth quarter of 2014 with drilling operations resuming at the Dunedin d-71-G vertical exploratory shale gas well, which was drilled to targeted depth by mid-February.



Paramount then moved to the c-37-D well at La Biche, where drilling operations will continue until spring break-up. The Company expects to return during the 2015/2016 winter season when access can be safely re-established and complete drilling operations on the well. Upon completion of drilling operations at the La Biche well, the Company will have secured the mineral rights for its shale gas properties for another 10 years. Further operations at the Dunedin d-57-D well have been deferred as land earning has been completed.

Cavalier was created in 2011 as a self-funding entity to execute the development of the Company's oil sands and carbonate bitumen assets. Cavalier holds approximately 220,000 net acres of Crown leases in the Western Athabasca region of Alberta.

Hoole Grand Rapids

Cavalier's initial focus is to develop the Grand Rapids formation in its 100 percent owned in-situ oil sands leases in the Hoole area of Alberta, which is located 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately $106 million has been invested through land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this project (the "Hoole Project") to the development stage; including $20 million that was invested in 2014 to acquire 23 additional net sections of contiguous oil sands acreage.

Front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Phase 1") has been completed and Cavalier received regulatory approval for Hoole Phase 1 in the second quarter of 2014. Construction will commence once funding has been secured and Cavalier's

Board of Directors has sanctioned the project. Cavalier's current activities are being funded with drawings on its $40 million credit facility.

An updated evaluation of the Hoole Project was prepared by McDaniel & Associates Consultants Ltd, the Company's independent reserves evaluator, effective December 31, 2014. In the updated evaluation, 93.5 million barrels of probable undeveloped reserves were ascribed to Hoole Phase 1 with a net present value of $363 million (before tax, discounted at 10 percent). In addition to these probable undeveloped reserves, this updated evaluation ascribes 1.2 billion barrels of economic contingent resources (best estimate) with a net present value of $2.4 billion (before tax, discounted at 10 percent) to Cavalier's 53 sections of additional Grand Rapids rights at Hoole that are not included in Hoole Phase 1 (the "Remaining Hoole Lands"). Results of the updated evaluation of the Remaining Hoole Lands are as follows:

Classification/Level of Certainty (1)	**DEBIP** (1)	**Economic Contingent Resources** (1)	**NPV of Future Net Revenue** (3) **(before tax, discounted at 10%)**
	(MMBbl) (2)	(MMBbl) (2)	($MM)
High Estimate	2,566	1,492	4,191
Best Estimate	**2,502**	**1,157**	**2,382**
Low Estimate	2,436	872	965

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

Fox Drilling, a wholly-owned subsidiary of Paramount, owns five triple-sized rigs, including two built-for-purpose walking rigs. These rigs are designed to drill the deep horizontal wells that industry is currently focusing on. During 2014, all five rigs were deployed on the Company's Deep Basin lands.

To support Paramount's future drilling initiatives, Fox Drilling is completing the construction of two new triple-sized built-for-purpose walking rigs. The new rigs are expected to be commissioned in the fourth quarter of 2015 and cost approximately $25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial funding for the new rigs.

In the second quarter of 2014, Paramount acquired all of the common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for 1.1 million Paramount Common Shares. Through the acquisition, Paramount added approximately 1,300,000 (725,000 net) acres of undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and approximately 300,000 (155,000 net) acres of undeveloped land in the Mackenzie Delta prospective for natural gas.

INVESTMENTS IN OTHER ENTITIES

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

Market Value

	December 31, 2014			December 31, 2013		
	Shares (000's)	($ millions)	($/share)	Shares (000's)	($ millions)	($/share)
Trilogy Energy Corp.	**19,144**	**151.4**	**7.91**	19,144	528.4	27.60
MEG Energy Corp.	**3,700**	**72.3**	**19.55**	3,700	113.3	30.61
Other (2)		**33.2**			46.8	
		256.9			688.5	

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.
(2) Includes investments in Marquee Energy Ltd., RMP Energy Inc., Strategic Oil & Gas Ltd., and other public and private corporations.

CORPORATE

Paramount's capital structure includes a revolving bank credit facility (the "Facility") and an aggregate $820 million principal amount of senior unsecured notes (the "Senior Notes"). The Facility was increased to $900 million in December 2014 and the maturity date was extended to November 2016. There are no financial maintenance covenants under the terms of the Facility or the Senior Notes.

The Company's coverage ratios improved in 2014 as a result of the start-up of the Musreau Deep Cut Facility and are expected to continue to strengthen in 2015 as a result of further growth in sales volumes and cash flows, despite the collapse in commodity prices.

The Company raised aggregate gross proceeds of $350 million in July 2014 through the issuance of 4.6 million Common Shares and 1.0 million Flow-Through Common Shares.

In February 2015, Moody's Investors Services affirmed Paramount's corporate credit rating of B2, Positive Outlook and Standard and Poor's Rating Services upgraded Paramount's corporate credit rating to B, Positive Outlook.

CAPITAL

2014 NET EXPLORATION AND CAPITAL EXPENDITURES

Year ended December 31 ($ millions)	2014	2013
Geological and geophysical	6.7	6.3
Drilling, completion and tie-ins	596.5	451.6
Facilities and gathering	210.7	154.9
Principal Properties Capital [(1)]	813.9	612.8
Land and property acquisitions and capitalized interest	43.5	32.4
Cash proceeds on divestitures [(2)]	(100.0)	(37.9)
Principal Properties	757.4	607.3
Strategic Investments [(3)]	95.3	92.3
Corporate	1.3	5.8
	854.0	705.4

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(2) Excludes shares of other companies and/or properties received in consideration for properties sold.
(3) Strategic Investments includes $0.8 million of capitalized interest (2013 - $1.0 million) and $20.0 million of land acquisition costs (2013 – nil).

Principal Properties Capital spending in 2014 was focused in the Deep Basin; primarily drilling and completing wells at Musreau and Karr-Gold Creek. Facilities and gathering expenditures were focused on the new and expanded facilities at Musreau and Smoky and expansions to gathering systems in the Deep Basin. Strategic investments capital expenditures for 2014 included $38.5 million related to shale gas drilling activities in northeast British Columbia, $20.0 million for Cavalier's Hoole land acquisition and $23.5 million for the construction of Fox Drilling's two new walking drilling rigs.

2015 CAPITAL BUDGET

Paramount's 2015 capital budget totals $400 million, focused on the Company's Deep Basin development and maintaining the optionality of future growth initiatives. The Company is continuing its planning and detailed engineering work for the construction of new natural gas processing facilities in the Deep Basin.

2015 CAPITAL BUDGET DETAILS ($ millions)		
Kaybob – Musreau	220	• Pad drilling program to continue in 2015, with some completions deferred until late 2015 or H1 2016 • Complete condensate Stabilizer Expansion
Grande Prairie – Karr Gold-Creek	65	• Montney drilling and completions • Expand Karr compression capacity from 40 MMcf/d to 80 MMcf/d
Southern - Willesden Green	35	• Duvernay exploratory drilling and completions
Northern - Birch	35	• Montney drilling program and facilities construction
Principal Properties Capital	355	
Strategic Investments	45	• Shale gas drilling and completion of the new drilling rigs
Total Capital Budget	400	

The Company expects to fund its 2015 capital program with increasing cash flow from operations and available capacity under its bank credit facility. The Company's capital plan remains flexible and activity levels may be adjusted depending on commodity prices and other factors.

RESERVES DETAILS / F&D / LAND

	Gross Reserves[1]					Before Tax Net Present Value [1][3] ($ millions)	
	Natural Gas (Bcf)	Light Medium Crude Oil (MBbl)	Natural Gas Liquids (MBbl)	Bitumen *(MBbl)*	Total (MBoe) [2]	Discount Rate 0%	10%
Conventional							
Proved							
Developed Producing	187.6	852	24,172	–	56,295	1,131	854
Developed Non-producing	13.4	178	1,317	–	3,722	72	49
Undeveloped	502.8	78	82,921	–	166,795	3,106	1,352
Total Proved	**703.8**	**1,108**	**108,410**	**–**	**226,812**	**4,309**	**2,255**
Total Probable	387.2	418	55,326	–	120,273	3,218	1,581
Total Proved & Probable Conventional	**1,090.9**	**1,526**	**163,736**	**–**	**347,085**	**7,527**	**3,836**
Non-Conventional - Oil Sands Bitumen							
Total Proved	–	–	–	–	–	–	–
Total Probable	–	–	–	*93,468*	93,468	2,328	363
Total Proved & Probable Non-Conventional	**–**	**–**	**–**	***93,468***	**93,468**	**2,328**	**363**
Total Company							
Total Proved	703.8	1,108	108,410	–	226,812	4,309	2,255
Total Probable	387.2	418	55,326	*93,468*	213,741	5,546	1,944
Total Proved & Probable	**1,090.9**	**1,526**	**163,736**	***93,468***	**440,553**	**9,855**	**4,199**

(1) Columns may not add due to rounding.
(2) Refer to the Oil and Gas Measures and Definitions and other advisories in the Advisories section of this document.
(3) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of January 1, 2015.

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

Future Development Costs – Conventional [1] (Undiscounted, $ millions)	**2014**	**2016**	**2017**	**2018**	**2019**	**Total**
Proved Developed Producing	—	—	—	—	—	—
Proved Developed Non-producing	11	—	—	—	—	11
Proved Undeveloped	169	640	692	698	666	2,864
Total Proved	**180**	**640**	**692**	**698**	**666**	**2,876**
Total Probable	27	72	60	51	32	241
Total Proved & Probable	**207**	**712**	**751**	**749**	**697**	**3,117**

(1) Columns may not add due to rounding.

RESERVES RECONCILIATION

	Proved Reserves (1)			Proved & Probable Reserves (1)				
	Natural Gas (Bcf)	Oil & NGLs (2) (MBbl)	Total (MBoe) (3)	Natural Gas (Bcf)	Oil & NGLs (2) (MBbl)	Total Conventional (MBoe) (3)	*Bitumen (MBbl)*	Total (MBoe) (3)
January 1, 2014	301.3	37,457	87,677	450.5	58,729	133,813	*93,468*	227,281
Extensions & discoveries	438.8	73,277	146,411	720.4	114,607	234,669	–	234,669
Technical revisions	18.0	1,070	4,070	(19.5)	(5,770)	(9,027)	–	(9,027)
Dispositions	(14.0)	(54)	(2,394)	(20.1)	(71)	(3,417)	–	(3,417)
Production	(40.3)	(2,233)	(8,953)	(40.3)	(2,233)	(8,953)	–	(8,953)
December 31, 2014	**703.8**	**109,518**	**226,812**	**1,090.9**	**165,262**	**347,085**	*93,468*	**440,553**

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

FINDING AND DEVELOPMENT COSTS – CONVENTIONAL

Including Major Facilities & Gathering

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

	2014 F&D Cost Including Major Facilities & Gathering					3-Year Average F&D		
	Costs (1) (2) $MM	FDC Change (1) $MM	Total F&D Capital (1) $MM	Reserves Additions (3) MMBoe	**F&D $/Boe**	2013 $/Boe	2012 $/Boe	**3-Year Average $/Boe**
Proved								
Kaybob	550.8	2,384.8	2,935.7	151.0	19.44	18.14	27.13	19.99
Total Conventional	813.9	2,311.3	3,125.3	150.5	20.77	19.89	29.83	21.58
Proved & Probable								
Kaybob	550.8	2,393.1	2,943.9	210.2	14.00	12.03	16.19	14.04
Total Conventional	813.9	2,547.2	3,361.1	225.6	14.90	13.38	19.46	15.24

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

Excluding Major Facilities & Gathering

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

	2014 F&D Cost Excluding Major Facilities & Gathering					3-Year Average F&D		
	Costs (1) (2) $MM	FDC Change (1) $MM	Total F&D Capital (1) $MM	Reserves Additions (3) MMBoe	**F&D $/Boe**	2013 $/Boe	2012 $/Boe	**3-Year Average $/Boe**
Proved								
Kaybob	391.8	2,438.2	2,829.9	151.0	**18.74**	16.01	14.64	**17.83**
Total Conventional	603.2	2,364.7	2,967.8	150.5	**19.72**	17.79	16.82	**18.95**
Proved & Probable								
Kaybob	391.8	2,435.7	2,827.5	210.2	**13.45**	10.21	10.31	**12.49**
Total Conventional	603.2	2,621.2	3,224.4	225.6	**14.29**	10.87	12.18	**13.37**

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

LAND

	As at December 31, 2014			As at December 31, 2013		
(thousands of acres)	**Gross (1)**	**Net (2)**	**Average Working Interest**	Gross (1)	Net (2)	Average Working Interest
Undeveloped land	**2,939**	**1,722**	**59%**	1,337	924	69%
Acreage assigned reserves	**359**	**201**	**56%**	450	249	55%
Total	**3,298**	**1,923**	**58%**	1,787	1,173	66%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated March 5, 2015, should be read in conjunction with the audited Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the year ended December 31, 2014. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

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

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

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

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

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

2014 HIGHLIGHTS [(1)]

	2014	2013	2012
FINANCIAL			
Petroleum and natural gas sales – continuing operations	350.0	230.7	173.4
Petroleum and natural gas sales – discontinued operations	–	1.8	23.7
Petroleum and natural gas sales	350.0	232.5	197.1
Funds flow from operations – continuing operations	141.0	71.9	51.9
Funds flow from operations – discontinued operations	–	(1.3)	6.2
Funds flow from operations	141.0	70.6	58.1
per share – basic and diluted ($/share)	*1.39*	*0.75*	*0.67*
Loss from continuing operations	(71.7)	(87.1)	(64.7)
per share – basic and diluted ($/share)	*(0.71)*	*(0.93)*	*(0.75)*
Net loss	(71.7)	(59.1)	(61.9)
per share – basic and diluted ($/share)	*(0.71)*	*(0.63)*	*(0.71)*
Principal Properties Capital	813.9	612.8	518.5
Investments in other entities – market value [(2)]	256.9	688.5	704.8
Total assets	3,199.4	2,447.8	2,037.0
Long-term debt	1,210.4	882.6	660.7
Net debt	1,482.5	1,119.2	701.4
OPERATIONAL			
Sales volumes [(3)]			
Natural gas (MMcf/d)	110.5	106.1	98.5
Condensate and oil (Bbl/d)	3,986	2,313	2,682
Other NGLs (Bbl/d) [(4)]	2,128	911	811
Total (Boe/d)	24,524	20,914	19,917
Net wells drilled (excluding oil sands evaluation)	58	37	34
Net oil sands evaluation wells drilled	–	6	1
FUNDS FLOW FROM OPERATIONS ($/Boe) [(3)]			
Petroleum and natural gas sales	39.10	30.46	27.04
Royalties	(1.96)	(1.42)	(2.27)
Operating expense	(7.96)	(9.35)	(9.58)
Transportation and NGLs processing [(5)]	(4.01)	(3.15)	(2.98)
Netback	25.17	16.54	12.21
Financial commodity contract settlements	(0.13)	–	(0.02)
Insurance settlement	–	–	0.85
Netback including commodity contract and insurance settlements	25.04	16.54	13.04
General and administrative – corporate	(1.80)	(1.66)	(1.61)
General and administrative – strategic investments	(0.87)	(0.89)	(0.88)
Interest	(7.69)	(6.69)	(4.74)
Dividends from investments	0.82	1.05	1.10
Other	0.25	0.89	1.06
Funds flow from operations	15.75	9.24	7.97

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
(3) Amounts for 2013 and 2012 include the results of discontinued operations.
(4) Other NGLs means ethane, propane and butane.
(5) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

CONSOLIDATED RESULTS

Net Loss

Year ended December 31	2014	2013	2012
Principal Properties	66.7	(28.2)	(157.5)
Strategic Investments	(37.4)	5.3	134.0
Corporate	(104.0)	(82.8)	(65.6)
Income tax recovery	3.0	18.6	24.4
Loss from continuing operations	(71.7)	(87.1)	(64.7)
Discontinued operations, net of tax	–	28.0	2.8
Net loss	(71.7)	(59.1)	(61.9)

Paramount recorded a loss from continuing operations of $71.7 million for the year ended December 31, 2014 compared to a loss from continuing operations of $87.1 million in 2013. Significant factors contributing to the change are shown below:

Year ended December 31	
Loss from continuing operations – 2013	**(87.1)**
• Higher netback primarily due to higher sales volumes and higher natural gas prices	97.8
• Higher gains on the sale of property, plant and equipment related to continuing operations	63.0
• Higher depletion and depreciation, and higher impairment write-downs of petroleum and natural gas properties in 2014	(76.9)
• Loss from equity-accounted investments compared to income in 2013	(24.8)
• Higher interest and financing expense due to increased debt	(18.0)
• Lower income tax recovery	(15.6)
• Higher write-down of investments in securities	(12.0)
• Other	1.9
Loss from continuing operations – 2014	(71.7)

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

Year ended December 31	
Loss from continuing operations – 2012	**(64.7)**
• Lower income from equity-accounted investments mainly due to a $157.2 million gain in 2012 on the sale of 5.0 million shares of Trilogy Energy Corp. ("Trilogy")	(132.0)
• Higher interest and financing expense due to increased debt	(17.3)
• Lower other income	(7.5)
• Loss on financial commodity contracts in 2013 compared to a gain in 2012	(6.5)
• Lower depletion, depreciation and impairment mainly due to lower impairment write-downs of petroleum and natural gas properties in 2013	96.0
• Higher netback primarily due to higher realized prices and higher NGLs and natural gas sales volumes	44.2
• Other	0.7
Loss from continuing operations – 2013	**(87.1)**

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

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

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

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

Funds Flow from Operations [1]

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

Year ended December 31	2014	2013 [2]	2012 [2]
Cash from operating activities	118.5	44.9	55.2
Change in non-cash working capital	5.4	12.2	(12.1)
Geological and geophysical expenses	12.5	7.2	7.0
Asset retirement obligations settled	4.6	6.3	8.0
Funds flow from operations	141.0	70.6	58.1
Funds flow from operations ($/Boe)	15.75	9.24	7.97

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

Year ended December 31	2014	2013	2012
Funds flow from operations			
Continuing operations	141.0	71.9	51.9
Discontinued operations	–	(1.3)	6.2
Funds flow from operations	141.0	70.6	58.1

Funds flow from operations for the year ended December 31, 2014 attributable to continuing operations was $141.0 million, $69.1 million higher than the same period of 2013. Significant factors contributing to the change are shown below:

Year ended December 31	
Funds flow from operations – continuing operations – 2013	**71.9**
• Higher netback primarily due to higher sales volumes and higher natural gas prices	97.8
• Higher interest and financing expense due to increased debt	(17.8)
• Lower other income	(5.2)
• Higher general and administrative expense	(4.4)
• Other	(1.3)
Funds flow from operations – continuing operations – 2014	141.0

Funds flow from operations for the year ended December 31, 2013 attributable to continuing operations was $71.9 million, $20.0 million higher than the same period of 2012. Significant factors contributing to the change are shown below:

Year ended December 31	
Funds flow from operations – continuing operations – 2012	**51.9**
• Higher netback primarily due to higher realized prices and higher NGLs and natural gas sales volumes	44.2
• Higher interest and financing expense due to increased debt	(16.5)
• Lower other income	(7.4)
• Other	(0.3)
Funds flow from operations – continuing operations – 2013	**71.9**

Funds flow from operations in 2013 attributable to discontinued operations decreased by $7.5 million compared to 2012 because 2012 included the results of operations for the Southern Discontinued Operations prior to their May 2012 sale.

PRINCIPAL PROPERTIES

The Principal Properties section of this MD&A provides an analysis of the results of the Company's continuing operations and therefore excludes results of the Northern Discontinued Operations. A summary of the results of the Northern Discontinued Operations is included in the Discontinued Operations section of this document.

Netback and Segment Income (Loss) – Continuing Operations

Year ended December 31	2014		2013	
		($/Boe) [1]		($/Boe) [1]
Natural gas revenue	192.7	4.78	137.6	3.57
Condensate and oil revenue	128.6	88.41	77.9	93.73
Other NGLs revenue [2]	25.1	32.36	12.3	37.02
Royalty and sulphur revenue	3.6	–	2.9	–
Petroleum and natural gas sales	350.0	39.10	230.7	30.44
Royalties	(17.5)	(1.96)	(10.8)	(1.43)
Operating expense	(71.3)	(7.96)	(68.6)	(9.05)
Transportation and NGLs processing [3]	(35.9)	(4.01)	(23.8)	(3.14)
Netback	225.3	25.17	127.5	16.82
Financial commodity contract settlements	(1.1)	(0.13)	–	–
Netback including commodity contract settlements	224.2	25.04	127.5	16.82
Other principal property items (see below)	(157.5)		(155.7)	
Segment income (loss)	66.7		(28.2)	

(1) Natural gas revenue shown per Mcf.
(2) Other NGLs means ethane, propane and butane.
(3) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Petroleum and natural gas sales were $350.0 million in 2014, an increase of $119.3 million from the prior year, primarily due to higher sales volumes and higher natural gas prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Year ended December 31, 2013	137.6	77.9	12.3	2.9	230.7
Effect of changes in prices	48.6	(7.8)	(3.6)	–	37.2
Effect of changes in sales volumes	6.5	58.5	16.4	–	81.4
Change in royalty and sulphur revenue	–	–	–	0.7	0.7
Year ended December 31, 2014	**192.7**	**128.6**	**25.1**	**3.6**	**350.0**

Sales Volumes – Continuing Operations

	Year ended December 31											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Kaybob	**79.0**	72.1	*10*	**2,468**	1,141	*116*	**1,512**	253	*498*	**17,137**	13,402	*28*
Grande Prairie	**24.9**	20.0	*25*	**1,317**	670	*97*	**486**	461	*5*	**5,956**	4,459	*34*
Southern	**3.6**	9.5	*(62)*	**182**	402	*(55)*	**130**	195	*(33)*	**906**	2,179	*(58)*
Northern	**3.0**	3.8	*(21)*	**19**	65	*(71)*	**–**	2	*(100)*	**525**	725	*(28)*
Continuing Ops	**110.5**	105.4	*5*	**3,986**	2,278	*75*	**2,128**	911	*134*	**24,524**	20,765	*18*
Discontinued Ops	—	0.7	*(100)*	—	35	*(100)*	—	—	—	—	149	*(100)*
Total	110.5	106.1	*4*	3,986	2,313	*72*	2,128	911	*134*	24,524	20,914	*17*

The Company's sales volumes increased 18% to 24,524 Boe/d in 2014 compared to 20,765 Boe/d in 2013. Sales volumes averaged 21,186 Boe/d for the first nine months of the year and increased to an average of 34,430 Boe/d in the fourth quarter of 2014. The Company's production within the Kaybob COU was constrained by available owned and contracted natural gas processing capacity until August 2014, when the Company's wholly-owned 200 MMcf/d Musreau Deep Cut Facility (the "Musreau Deep Cut Facility") commenced operations. Third-party constraints also impacted production at Karr-Gold Creek in the Grande Prairie COU until the fourth quarter of 2014.

Natural gas sales volumes increased 5.1 MMcf/d or five percent to 110.5 MMcf/d in 2014 compared to 105.4 MMcf/d in 2013. The increase was primarily due to production from new wells in the Kaybob COU following the start-up of the Musreau Deep Cut Facility and new well production at Karr-Gold Creek in the Grande Prairie COU. These increases were partially offset by the impact of property dispositions in the Southern COU, lower production at Smoky in the Kaybob COU due to a three-month shutdown to commission an expansion to the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") and lower production at other properties due to facilities constraints and natural declines.

Condensate and oil sales volumes increased 1,708 Bbl/d or 75 percent to 3,986 Bbl/d in 2014 compared to 2,278 Bbl/d in 2013. The increase in condensate and oil sales volumes was primarily related to new well production from Montney formation wells at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU, partially offset by the impact of property dispositions in the Southern COU.

Other NGLs sales volumes increased 134 percent to 2,128 Bbl/d in 2014 compared to 911 Bbl/d in 2013, primarily as a result of increased Other NGLs volumes being extracted at Musreau following start-up of the Musreau Deep Cut Facility.

Paramount's production continues to be impacted by outages and apportionments of fractionation capacity. The Company's incremental long-term firm processing capacity for Other NGLs is scheduled to become available in two phases in 2015, following the completion of third-party expansions. The third-party operator has announced that the first phase, a de-ethanization plant expansion, will be commissioned by the end of the first quarter of 2015 and the second phase, a storage cavern expansion, will be in-service in mid-2015. The Company continues to maximize production through firm and interruptible NGLs processing capacity in advance of such additional capacity becoming available.

Sales volumes are expected to surpass 70,000 Boe/d in 2015 following the start-up of Paramount's 15,000 Bbl/d condensate stabilizer expansion (the "Stabilizer Expansion") in the second quarter and the completion of the third-party de-ethanization facilities expansions. Annual sales volumes in 2015 are expected to average between 55,000 and 65,000 Boe/d.

Commodity Prices

	2014	2013	Change %
Natural Gas			
Paramount realized price (CDN$/Mcf)	**4.78**	3.57	34
AECO daily spot (CDN$/GJ)	**4.27**	3.13	36
AECO monthly index (CDN$/GJ)	**4.19**	3.00	40
Malin (US$/MMbtu)	**4.38**	3.60	22
Crude Oil			
Paramount average realized condensate and oil price (CDN$/Bbl)	**88.41**	93.73	(6)
Edmonton Light Sweet (CDN$/Bbl)	**94.18**	93.08	1
West Texas Intermediate (US$/Bbl)	**93.00**	97.98	(5)
Foreign Exchange			
$CDN / 1 $US	**1.10**	1.03	7

North America experienced an unusually cold and prolonged winter in 2013 / 2014, which led to increased seasonal demand for natural gas in the first quarter of the year and multi-year lows in inventory levels in the spring of 2014, resulting in increases in market prices in 2014 versus 2013. Paramount's average realized natural gas price increased 34 percent in 2014 compared to 2013, consistent with increases in benchmark natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market and California market and is sold in a combination of daily and monthly contracts.

Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet price, adjusted for transportation and quality differentials. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, adjusted for transportation and quality and density differentials, which are generally higher than prices for unstabilized volumes. As incremental stabilization capacity becomes available, a greater portion of volumes are expected to be sold in stabilized condition.

Commodity Price Management

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

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

Year ended December 31	2014	2013
Commodity contracts	(1.1)	–

Paramount did not have any financial commodity contracts in place at December 31, 2014.

Royalties – Continuing Operations

Year ended December 31	2014	Rate	2013	Rate
Royalties	17.5	5.1%	10.8	4.7%
$/Boe	*1.96*		*1.43*	

Royalties increased $6.7 million to $17.5 million in 2014 compared to $10.8 million in 2013, primarily as a result of higher current year revenue and reduced royalties in 2013 due to $2.7 million in gas cost allowance adjustments. The increases in royalties due to higher revenue were partially offset by lower average royalty rates in 2014.

The royalty rate was 5.1 percent in 2014 compared to 5.8 percent in 2013, excluding the impact of the prior year gas cost allowance adjustments. The majority of Paramount's new wells in Alberta qualify for royalty incentive programs, which reduce the Company's overall royalty rate.

Operating Expense – Continuing Operations

Year ended December 31	2014	2013	% Change
Operating expense	71.3	68.6	4
$/Boe	*7.96*	*9.05*	*(12)*

Operating expense increased $2.7 million or four percent in 2014 to $71.3 million compared to $68.6 million in 2013, primarily due to higher operating costs in the Kaybob COU associated with the start-up of the Musreau Deep Cut Facility and the Smoky Deep Cut Facility and higher lease operating costs resulting from increased production. Operating expenses also increased in the Grande Prairie COU as a result of increased production. These increases were partially offset by lower operating costs in the Southern COU as a result of property dispositions and lower costs in the Northern COU due to lower production.

Paramount's per Boe operating expenses decreased 12 percent to $7.96 in 2014 compared to $9.05 in 2013, mainly as a result of lower-cost Kaybob area volumes becoming a greater proportion of the Company's overall production. Operating expenses within the Kaybob COU, net of processing income, averaged $3.85 per Boe in the fourth quarter of 2014. Paramount's per-unit operating costs are expected to continue to decrease in 2015.

Transportation and NGLs Processing – Continuing Operations

Year ended December 31	2014	2013	% Change
Transportation and NGLs processing	35.9	23.8	51
$/Boe	*4.01*	*3.14*	*28*

Transportation and NGLs processing includes the costs of downstream natural gas, NGLs and oil transportation and NGLs fractionation costs incurred by the Company. Transportation and NGLs processing was $35.9 million in 2014, an increase of $12.1 million compared to 2013, primarily due to increased firm-service transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility, higher pipeline tolls as a result of increased production, higher trucking costs due to increased condensate volumes and higher fractionation costs associated with higher Other NGLs production. Paramount incurred incremental trucking costs in 2014 in order to produce from new liquids-rich wells that would otherwise have been shut-in due to capacity constraints.

Other Principal Property Items – Continuing Operations

Year ended December 31	2014	2013
Commodity contracts – net of settlements	(4.0)	4.0
Depletion and depreciation (excluding impairment)	196.3	144.1
Impairment	32.8	6.5
Exploration and evaluation	23.2	34.7
Gain on sale of property, plant and equipment	(95.7)	(32.3)
Accretion of asset retirement obligations	5.9	3.1
Other	(1.0)	(4.4)
Total	157.5	155.7

Depletion and depreciation expense (excluding impairment) increased to $196.3 million ($21.93 per Boe) in 2014 compared to $144.1 million ($19.01 per Boe) in 2013, mainly due to higher production volumes and higher per unit rates.

The Company recorded an impairment write-down of $32.8 million at December 31, 2014 related to petroleum and natural gas assets in the Southern cash generating unit ("CGU"). The impairment write-down was recorded because the carrying value of the Southern CGU properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted future oil and natural gas prices.

The Company recorded a net impairment write-down of its petroleum and natural gas assets in 2013 of $6.5 million, comprised of a $19.6 million write-down related to the Southern CGU and a $17.7 million write-down related to the Northern CGU, net of an impairment reversal of $30.8 million related to the Grande Prairie CGU. The impairment write-downs in the Southern and Northern CGUs were recorded because the carrying value of their properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of declines in reserves assigned due to well performance and, in the Southern CGU, the sale of properties with recoverable amounts that exceeded their carrying values.

The reversal of previously recorded impairment write-downs in the Grande Prairie CGU in 2013 resulted from increases in reserves assigned to the CGU. The reversal was recorded to the extent that the recoverable amount ascribed to the Grande Prairie CGU exceeded the carrying value of its properties.

Exploration and evaluation expense in 2014 includes expired undeveloped land leases costs of $11.8 million (2013 - $14.4 million), geological and geophysical costs of $6.8 million (2013 - $6.3 million) and dry hole expense of $4.6 million (2013 - $14.0 million).

The $95.7 million in aggregate gains recorded on the sale of property, plant and equipment in 2014 primarily relate to the second quarter sale of a 50 percent working interest in the Birch property within the Northern COU in exchange for $91.5 million cash and the first quarter sale of coal bed methane properties in the Chain-Delia area within the Southern COU in exchange for $11.7 million in shares of Marquee Energy Ltd. ("Marquee"). The gain on sale of property, plant and equipment of $32.3 million recorded in 2013 relates primarily to the sale of lands in the Ante Creek area of Alberta and the sale of non-core properties in the Southern COU.

DISCONTINUED OPERATIONS

Results of the Northern Discontinued Operations have been presented as discontinued operations in 2013. The following table reconciles Paramount's loss from continuing operations, income from discontinued operations and net loss:

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

	CO	DO	Total	CO	DO	Total
Year ended December 31, 2013	($ millions)			($/Boe except natural gas) (1)		
Natural gas revenue	137.6	0.7	138.3	*3.57*	*2.82*	*3.57*
Condensate and oil revenue	77.9	1.1	79.0	*93.73*	*84.59*	*93.59*
Other NGLs revenue	12.3	—	12.3	*37.02*	—	*37.02*
Royalty and sulphur revenue	2.9	—	2.9	—	—	—
Petroleum and natural gas sales	230.7	1.8	232.5	*30.44*	*32.95*	*30.46*
Royalties	(10.8)	—	(10.8)	*(1.43)*	—	*(1.42)*
Operating expense	(68.6)	(2.9)	(71.5)	*(9.05)*	*(52.54)*	*(9.35)*
Transportation and NGLs processing	(23.8)	(0.2)	(24.0)	*(3.14)*	*(4.27)*	*(3.15)*
Netback	127.5	(1.3)	126.2	*16.82*	*(23.86)*	*16.54*
General and administrative	(19.5)	—	(19.5)	*(2.57)*	—	*(2.55)*
Interest and financing	(51.1)	—	(51.1)	*(6.74)*	—	*(6.69)*
Dividends from investments	8.0	—	8.0	*1.06*	—	*1.05*
Other	7.0	—	7.0	*0.91*	—	*0.89*
Funds flow from operations	71.9	(1.3)	70.6	*9.48*	*(23.86)*	*9.24*
Depletion, depreciation and accretion	(156.0)	(0.3)	(156.3)			
Gain on sale of property, plant and equipment	32.7	39.0	71.7			
Stock-based compensation	(25.9)	—	(25.9)			
Income from equity-accounted investments	21.4	—	21.4			
Other	(49.8)	—	(49.8)			
Income tax (expense) recovery	18.6	(9.4)	9.2			
Net income (loss)	(87.1)	28.0	(59.1)			

(1) Natural gas revenue shown per Mcf.

STRATEGIC INVESTMENTS

Year ended December 31	2014	2013
General and administrative	(7.8)	(6.8)
Stock-based compensation	(5.8)	(7.2)
Exploration and evaluation	(6.8)	(0.8)
Interest and financing	(2.7)	(2.4)
Income (loss) from equity–accounted investments	(3.4)	21.4
Write-down of investments in securities	(15.6)	(3.6)
Drilling rig revenue	0.5	4.2
Drilling rig expense	(0.2)	(1.9)
Other	4.4	2.4
Segment income (loss)	(37.4)	5.3

The loss from equity-accounted investments in 2014 of $3.4 million includes $11.5 million of equity losses, a $2.9 million write-down of other equity-accounted investment, partially offset by a $10.8 million gain recorded on the MGM Energy Corp. ("MGM Energy") acquisition. Income from equity-accounted investments in 2013 of $21.4 million includes a $25.7 million dilution gain, partially offset by $4.3 million of equity losses. The write-down of investments in securities in 2014 of $15.6 million resulted from the recognition of aggregate unrealized losses related to the Company's investments in Marquee, Strategic Oil & Gas Ltd. ("SOG") and other securities as a result of significant decreases in the market values of the securities at the end of the year.

Strategic Investments at December 31, 2014 include:

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

Investments

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

As at December 31	Carrying Value 2014	Carrying Value 2013	Market Value (1) 2014	Market Value (1) 2013
Trilogy	**79.9**	97.4	**151.4**	528.4
MEG	**72.3**	113.3	**72.3**	113.3
MGM Energy	**–**	1.2	**–**	8.7
Other (2)	**33.1**	38.1	**33.2**	38.1
Total	**185.3**	250.0	**256.9**	688.5

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

In June 2014, Paramount acquired all 338.3 million issued and outstanding common shares of MGM Energy not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). Through the acquisition, Paramount added approximately 1,300,000 (725,000 net) acres of undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and approximately 300,000 (155,000 net) acres of undeveloped land in the Mackenzie Delta prospective for natural gas.

Cavalier Energy Inc.

Cavalier's initial focus is to develop the Grand Rapids formation in its 100 percent owned in-situ oil sands leases in the Hoole area of Alberta, which is located 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately $106 million has been invested through land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this project (the "Hoole Project") to the development stage; including $20 million that was invested in July 2014 to acquire 23 additional net sections of contiguous oil sands acreage.

Front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Phase 1") has been completed and Cavalier received regulatory approval for Hoole Phase 1 in the second quarter of 2014. Construction will commence once funding has been secured and Cavalier's Board of Directors has sanctioned the project. Cavalier's current activities are being funded with drawings on its $40 million credit facility.

Shale Gas

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 133 net sections of land with potential from the Besa River shale formation. Paramount continued the drilling of the Dunedin d-57-D exploratory shale gas well in 2014 to a total measured depth of 6,000 meters, including a 1,600 meter horizontal leg. While running production casing the liner became stuck in the wellbore. Recovery operations to remove the liner materials were unsuccessful and further operations at the well have been deferred as land earning has been completed.

In late-February 2014, Paramount commenced drilling the d-71-G vertical exploratory shale gas well at Dunedin before suspending operations due to spring break-up. Drilling operations resumed in the fourth quarter and the well was drilled to targeted depth by mid-February 2015. Paramount then moved to the c-37-D well at La Biche where drilling operations will continue until spring break-up. The Company expects to return during the 2015/2016 winter season when access can be safely re-established and complete drilling operations on the well.

Fox Drilling

Fox Drilling owns five triple-sized rigs, including two built-for-purpose walking rigs. These rigs are designed to drill the deep horizontal wells that industry is currently focusing on. During 2014, all five rigs were deployed on the Company's Deep Basin lands.

To support the Company's future drilling initiatives, Fox Drilling is completing the construction of two new triple-sized built-for-purpose walking rigs. The new rigs are expected to be commissioned in the fourth quarter of 2015 and cost approximately $25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial financing for the new rigs.

CORPORATE

Year ended December 31	2014	2013
Interest and financing	67.9	50.2
General and administrative	16.1	12.7
Stock-based compensation	19.5	18.7
Depreciation	0.2	0.7
Foreign exchange and other	0.3	0.5
Segment loss	**104.0**	82.8

The Corporate segment loss increased to $104.0 million in 2014 compared to $82.8 million in 2013, primarily as a result of higher interest and financing expense and higher general and administrative expenses.

Tax Pools

As at December 31	2014
Canadian oil and gas property expense	87.9
Canadian development expense	631.3
Canadian exploration expense	476.2
Undepreciated capital cost	736.0
Non-capital losses	1,141.3
Financing costs and other	32.0
Total federal tax pools	**3,104.7**

EXPLORATION AND CAPITAL EXPENDITURES

Year ended December 31	2014	2013
Geological and geophysical	6.7	6.3
Drilling, completion and tie-ins	596.5	451.6
Facilities and gathering	210.7	154.9
Principal Properties Capital (1)	813.9	612.8
Land and property acquisitions and capitalized interest	43.5	32.4
Principal Properties	857.4	645.2
Strategic Investments (2)	95.3	92.3
Corporate	1.3	5.8
	954.0	743.3
Principal Properties Capital by COU (1)		
Kaybob	528.2	462.3
Grande Prairie	204.5	127.8
Southern, Northern & Other	81.2	22.7
	813.9	612.8

(1) Principal properties capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.
(2) Strategic Investments include $0.8 million of capitalized interest (2013 - $1.0 million) and $20.0 million of land acquisition costs (2013 – nil).

Principal Properties Capital was $813.9 million in 2014 compared to $612.8 million in 2013. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Resthaven and Smoky in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. The Company also drilled and completed wells in the Southern COU, including at Willesden Green and at Birch in the Northern COU. Facilities and gathering expenditures were focused on the new and expanded deep cut facilities at Musreau and Smoky and expansions to liquid handling facilities and gathering systems in the Deep Basin.

Strategic investments capital expenditures for 2014 included $38.5 million related to the Company's exploratory shale gas drilling activities at Dunedin in northeast British Columbia, $20.0 million related to Cavalier's acquisition of approximately 23 net sections of undeveloped land at Hoole and $23.5 million related to the two new triple-sized, built-for-purpose walking rigs being constructed by Fox Drilling.

Wells drilled were as follows:

	2014		2013	
	Gross (1)	Net (2)	Gross (1)	Net (2)
Natural gas	61	55	44	35
Oil	5	3	3	2
Oil sands evaluation	–	–	6	6
Total	66	58	53	43

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

Kaybob COU Major Projects

The Musreau Deep Cut Facility was brought on-line in August 2014. Prior to the start-up of the new facility, Kaybob COU production was constrained by available owned and contracted natural gas processing capacity. Sale volumes subsequently increased as behind pipe wells were brought on production.

Paramount also completed the construction of an amine processing train (the "Amine Train") at the Musreau Complex in the fourth quarter of 2014 to treat sour production at the facility instead of at well sites.

The Company currently has condensate stabilization capacity of approximately 8,500 Bbl/d at the Musreau Deep Cut Facility site, which will increase to approximately 23,500 Bbl/d when Paramount starts-up its 15,000 Bbl/d Stabilizer Expansion. Mechanical construction is nearing completion and the additional capacity is scheduled to be on-stream in the second quarter of 2015. Paramount will continue to have the ability to truck production in excess of this increased capacity to other Company and third-party facilities for processing.

Paramount is a part-owner of a third-party operated natural gas processing plant at Smoky in Kaybob. The Company has increased its working interest in the facility to 20 percent and participated in an expansion, which increased capacity to 200 MMcf/d (40 MMcf/d net) and added deep cut processing. The expanded facility was operational in September 2014.

To continue the development of Paramount's liquids-rich Montney lands in the Deep Basin, the Company sanctioned the construction of two new wholly-owned 100 MMcf/d refrigeration plants in the summer of 2014. The plants will incorporate oversized condensate stabilization, amine processing and infrastructure components to allow for future expansions.

Front-end engineering and design for the new facilities is ongoing and the Company received regulatory approval for the 6-18 plant in the first quarter of 2015. The ordering of long-lead time items for the first new plant has been temporarily deferred until the summer of 2015. Paramount expects the first plant would be on-stream approximately 18 to 22 months following the placement of long-lead-time orders at a cost of approximately $150 million. The second new plant is expected to commence operations 9 to 12 months after the first.

To ensure access to downstream transportation and fractionation, Paramount has secured incremental long-term firm-service capacity for the transportation of incremental natural gas, NGLs and condensate, as well as $C3^+$ fractionation capacity at Fort Saskatchewan.

Kaybob Multi-Well Pads

Drilling and completion activities in 2014 focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands. Both 10-well pads were completed before the end of 2014. Drilling of the 5-well 08-03 pad has been finished and the wells are scheduled to be completed later in 2015.

Paramount's two walking drilling rigs are currently finishing drilling operations on two six-well Montney pads located to the northeast of the Musreau Deep Cut Facility, where the Company is continuing to target high-condensate yields.

2015 CAPITAL BUDGET

Paramount's 2015 capital budget totals $400 million, focused on the Company's Deep Basin development and maintaining the optionality of future growth initiatives. The Company is continuing its planning and detailed engineering work for the construction of new natural gas processing facilities in the Deep Basin.

2015 CAPITAL BUDGET DETAILS ($ millions)		
Kaybob – Musreau	220	• Pad drilling program to continue in 2015, with some completions deferred until late 2015 or H1 2016 • Complete condensate Stabilizer Expansion
Grande Prairie – Karr Gold-Creek	65	• Montney drilling and completions • Expand Karr compression capacity from 40 MMcf/d to 80 MMcf/d
Southern - Willesden Green	35	• Duvernay exploratory drilling and completions
Northern - Birch	35	• Montney drilling program and facilities construction
Principal Properties Capital	**355**	
Strategic Investments	**45**	• Shale gas drilling and completion of the new drilling rigs
Total Capital Budget	**400**	

The Company expects to fund its 2015 capital program with increasing funds flow from operations and available capacity under its bank credit facility. The Company's capital plan remains flexible and activity levels may be adjusted depending on commodity prices and other factors.

LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31	2014	2013	% Change
Adjusted working capital deficit [(1)]	183.3	151.8	21
Demand facilities	81.5	75.6	8
Credit facility	397.7	71.8	454
Senior Notes [(2)]	820.0	820.0	-
Net debt [(3)]	1,482.5	1,119.2	32
Share capital	1,603.4	1,169.2	37
Accumulated deficit	(296.3)	(224.6)	(32)
Reserves	46.2	87.6	(47)
Total Capital	2,835.8	2,151.4	32

(1) Adjusted working capital excludes accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2014 – $3.3 million, December 31, 2013 – $9.5 million), risk management assets and liabilities and demand facilities.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Paramount had an adjusted working capital deficit at December 31, 2014 of $183.3 million compared to a deficit of $151.8 million at December 31, 2013. The adjusted working capital deficit at December 31, 2014 included $18.3 million of cash and cash equivalents, $57.0 million of accounts receivable and $263.5 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending related to the Company's 2014 capital program, partially offset by proceeds from drawings on credit facilities, the July 2014 equity issuances, funds flow from operations and proceeds from the sale of non-core properties and investments.

Paramount raised approximately $465 million in aggregate net cash proceeds in 2014 through financing transactions, the sale of interests in oil and gas properties and the sale of investments. These transactions included the public offering and private placement of 5.6 million Common Shares, of which 1.0 million Common Shares were issued on a "flow-through basis". Net proceeds from the offering of Common Shares have been, and will be, applied to Paramount's exploration and development activities, which are primarily focused on the Company's Deep Basin lands, including drilling and completing wells, facilities and gathering expenditures, and for general corporate purposes. The gross proceeds from the offering of flow-through shares have been, and will be used by Paramount to incur eligible Canadian exploration expenses ("CEE"). The net proceeds from the offerings were initially used to temporarily reduce indebtedness under the Company's bank credit facility.

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

Paramount expects to fund its 2015 operations, obligations and capital expenditures with funds flow from operations and available capacity under its bank credit facility. As production continues to increase in 2015, funds flow from operations is expected to increase as a result of higher sales volumes and netbacks.

Demand Facilities

Fox Drilling Facility

The Fox Drilling Facility is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal amount of $45.8 million outstanding at December 31, 2014. Scheduled principal payments under Fox Tranche A are $8.2 million in each of 2015, 2016 and 2017, with the remaining balance payable in 2018.

The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new drilling rigs. At December 31, 2014, $5.1 million was drawn under Fox Tranche B. Once construction of the new drilling rigs is completed in 2015, scheduled quarterly principal repayments of Fox Tranche B will commence over a five year term.

Recourse and security for the Fox Drilling Facility is limited to Fox Drilling's rigs, including new drilling rigs being constructed, and drilling contracts with Paramount. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin.

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base

rates, or bankers' acceptances rates, as selected at Cavalier's discretion, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier, including oil sands and carbonate bitumen lands. At December 31, 2014, $30.6 million was drawn on the Cavalier Facility.

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2014 from $600 million to $900 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $800 million and is available on a revolving basis to November 30, 2015. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2015 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

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

At December 31, 2014, $397.7 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at December 31, 2014 totaling $55.2 million that reduce the amount available to the Company.

Senior Notes

Paramount has $820 million of senior unsecured notes ("Senior Notes") outstanding, consisting of $370 million principal amount due December 13, 2017 (the "2017 Senior Notes") and $450 million principal amount due December 4, 2019 (the "2019 Senior Notes").

The 2017 Senior Notes bear interest at 8¼ percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year. The 2019 Senior Notes bear interest at 7⅝ percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year.

The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2017 Senior Notes and 2019 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the series of Senior Notes redeemed and date of redemption.

Paramount is not subject to financial maintenance covenants under the terms of its Facility or Senior Notes. The Facility and senior notes agreements include certain standard restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets, and pay dividends.

Share Capital

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2014, 104,843,846 Common Shares were outstanding, net of 54,199 Common Shares held in trust under the Company's stock incentive program, and no preferred shares were outstanding.

In July 2014, Paramount issued 4.6 million Common Shares at a price of $60.00 per share and 0.9 million Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $74.40 per share for aggregate gross proceeds of $343.0 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued 0.1 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to Paramount's Chairman and Chief Executive Officer for gross proceeds of $7.4 million.

The Company is committed to incur $74.4 million of CEE by December 31, 2015 in connection with the issuance of flow-through shares in July 2014, of which $57.5 million was incurred as of December 31, 2014.

In October 2013, Paramount issued 1,360,000 shares on a "flow-through" basis in respect of CEE for gross proceeds of $59.8 million. The Company has incurred sufficient CEE to satisfy commitments associated with the 2013 flow through share issuance.

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

At March 3, 2015, Paramount had 104,932,645 Common Shares and 7,181,250 Paramount Options outstanding, of which 2,541,400 Paramount Options are exercisable.

QUARTERLY INFORMATION - OPERATING RESULTS

Netback

Three months ended December 31	**2014**		2013	
		($/Boe) (1)		*($/Boe)* (1)
Natural gas revenue	**52.7**	***3.98***	35.1	*3.73*
Condensate and oil revenue	**33.5**	***68.45***	19.1	*82.22*
Other NGLs revenue	**12.6**	***26.64***	3.0	*48.28*
Royalty and sulphur revenue	**0.6**	**–**	0.6	–
Petroleum and natural gas sales	**99.4**	***31.37***	57.8	*30.99*
Royalties	**(4.7)**	***(1.48)***	(2.8)	*(1.50)*
Operating expense	**(22.2)**	***(7.02)***	(18.7)	*(10.02)*
Transportation and NGLs processing	**(11.5)**	***(3.62)***	(7.0)	*(3.77)*
Netback	**61.0**	***19.25***	29.3	*15.70*
Financial commodity contract settlements	**4.4**	**1.37**	–	–
Netback including commodity contract settlements	**65.4**	***20.62***	29.3	*15.70*

(1) Natural gas revenue shown per Mcf.

Fourth quarter 2014 petroleum and natural gas sales were $99.4 million, an increase of $41.6 million from the fourth quarter of 2013, primarily due to higher sales volumes, partially offset by lower liquids prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended December 31, 2013	35.1	19.1	3.0	0.6	57.8
Effect of changes in prices	3.4	(6.7)	(10.2)	–	(13.5)
Effect of changes in sales volumes	14.2	21.1	19.8	–	55.1
Three months ended December 31, 2014	**52.7**	**33.5**	**12.6**	**0.6**	**99.4**

Sales Volumes

	Three months ended December 31											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Kaybob	**103.7**	67.2	*54*	**3,529**	1,283	*175*	**4,257**	256	*1,563*	**25,062**	12,736	*97*
Grande Prairie	**34.8**	21.6	*61*	**1,637**	968	*69*	**725**	243	*198*	**8,157**	4,816	*69*
Southern	**2.7**	9.4	*(71)*	**149**	208	*(28)*	**141**	174	*(19)*	**748**	1,956	*(62)*
Northern	**2.7**	4.3	*(37)*	**5**	71	*(93)*	**–**	1	*(100)*	**463**	782	*(41)*
Total	**143.9**	102.5	*40*	**5,320**	2,530	*110*	**5,123**	674	*660*	**34,430**	20,290	*70*

Paramount's fourth quarter sales volumes averaged 34,430 Boe/d in 2014, a 70 percent increase compared to the fourth quarter of 2013.

Natural gas sales volumes increased 41.4 MMcf/d or 40 percent to 143.9 MMcf/d in 2014 compared to 102.5 MMcf/d in 2013. The increase was primarily due to new well production following the start-up of the Musreau Deep Cut Facility in the Kaybob COU and new well production at Karr-Gold Creek in the Grande Prairie COU. These increases were partially offset by lower sales volume in the Southern COU as a result of property dispositions in the first quarter of 2014.

Condensate and oil sales volumes increased 110 percent to 5,320 Bbl/d in 2014 compared to 2,530 Bbl/d in the same period in 2013, primarily related to new production from Montney formation wells at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Other NGLs sales volumes increased 660 percent to 5,123 Bbl/d in 2014 compared to 674 Bbl/d in the same period in 2013 as a result of increased production and higher liquids recoveries at Musreau following the start-up of the Musreau Deep Cut Facility and higher production at Karr-Gold Creek in the Grande Prairie COU.

Commodity Prices

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

Three months ended December 31	2014	2013	Change %
Natural Gas			
Paramount realized price (CDN$/Mcf)	3.98	3.73	7
AECO daily spot (CDN$/GJ)	3.41	3.52	(3)
AECO monthly index (CDN$/GJ)	3.80	2.99	27
Malin (US$/MMbtu)	3.97	3.60	10
Crude Oil			
Paramount average condensate and oil price (CDN$/Bbl)	68.45	82.22	(17)
Edmonton Light Sweet (CDN$/Bbl)	75.11	86.52	(13)
West Texas Intermediate (US$/Bbl)	73.15	97.46	(25)
Foreign Exchange			
$CDN / 1 $US	1.14	1.05	9

Royalties increased $1.9 million to $4.7 million in the fourth quarter of 2014 compared to $2.8 million in the same period in 2013, primarily due to higher current year revenues.

Operating expense increased $3.5 million to $22.2 million in the fourth quarter of 2014 compared to $18.7 million in the same period in 2013, primarily due to higher operating costs associated with the start-up of the new facilities and higher production in the Kaybob and Grande Prairie COUs. These increases were partially offset by the impact of higher processing income and property dispositions in the Southern COU.

Paramount's operating expense per Boe decreased 30 percent to $7.02 in the fourth quarter of 2014 compared to $10.02 in the same period of 2013, as lower-cost Musreau area volumes have become a greater proportion of the Company's overall production. Operating expenses within the Kaybob COU, net of processing income, averaged $3.85 per Boe in the fourth quarter of 2014.

Transportation and NGLs processing expense increased $4.5 million to $11.5 million in the fourth quarter of 2014 compared to $7.0 million in the same period in 2013, primarily due to higher pipeline tolls related to higher production volumes, increased firm-service transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility and higher Other NGLs fractionation fees.

Net Income (Loss)

Three months ended December 31	2014	2013
Principal Properties	(50.5)	6.1
Strategic Investments	(47.3)	12.9
Corporate	(29.4)	(21.8)
Income tax recovery	20.7	3.1
Net income (loss)	(106.5)	0.3

Three months ended December 31	2014	2013
Netback	**61.0**	29.3
Gain (loss) on financial commodity contracts	**3.7**	(0.4)
General and administrative	**(5.2)**	(4.6)
Stock-based compensation	**(6.9)**	(8.8)
Depletion, depreciation and impairment	**(108.5)**	(26.3)
Exploration and evaluation	**(12.0)**	(6.6)
Gain on sale of property, plant and equipment	**0.1**	6.2
Interest and financing	**(21.5)**	(13.2)
Other expenses	**(1.7)**	(2.0)
Income (loss) from equity-accounted investments	**(23.3)**	19.3
Write-down of investment in securities	**(13.7)**	(3.6)
Other income	**0.8**	7.9
Income tax recovery	**20.7**	3.1
Net income (loss)	**(106.5)**	0.3

Paramount recorded a net loss of $106.5 million for the three months ended December 31, 2014 compared to net income of $0.3 million in the same period of 2013. Significant factors contributing to the change are shown below:

Three months ended December 31	
Net income – 2013	**0.3**
• Higher netback primarily due to higher sales volumes, partially offset by lower liquids prices	31.7
• Higher income tax recovery	17.6
• Higher depletion and depreciation, and higher impairment write-downs of petroleum and natural gas properties in 2014	(82.2)
• Loss from equity-accounted investments in 2014 compared to income in 2013, mainly due to a $25.1 million dilution gain recorded in respect of Trilogy in 2013	(42.6)
• Higher write-down of investments in securities	(10.1)
• Higher interest and financing expense due to increased debt	(8.3)
• Lower other income	(7.1)
• Other	(5.8)
Net loss – 2014	**(106.5)**

Funds Flow from Operations [(1)]

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

Three months ended December 31	2014	2013
Cash from (used in) operating activities	**34.2**	(6.3)
Change in non-cash working capital	**0.2**	22.2
Geological and geophysical expenses	**6.3**	1.3
Asset retirement obligations settled	**0.9**	1.1
Funds flow from operations	**41.6**	18.3
Funds flow from operations ($/Boe)	**13.14**	9.79

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.

Funds flow from operations in the fourth quarter of 2014 was $41.6 million, an increase of 127 percent compared to the same period in 2013. Significant factors contributing to the change are shown below:

Three months ended December 31	
Funds flow from operations – 2013	**18.3**
• Higher netback primarily due to higher sales volumes, partially offset by lower liquids prices	31.7
• Receipts from financial commodity contract settlements in 2014	4.4
• Higher interest and financing expense due to increased debt	(8.3)
• Lower other income	(3.5)
• Other	(1.0)
Funds flow from operations – 2014	**41.6**

QUARTERLY INFORMATION

	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Petroleum and natural gas sales – CO	**99.4**	84.4	80.0	86.2	57.8	53.9	59.5	59.5
Petroleum and natural gas sales – DO	**—**	—	—	—	—	—	—	1.8
Petroleum and natural gas sales	**99.4**	84.4	80.0	86.2	57.8	53.9	59.5	61.3
Funds flow from operations – CO	**41.6**	36.4	29.5	33.5	18.3	13.4	22.3	17.9
Funds flow from operations – DO	**—**	—	—	—	—	—	—	(1.3)
Funds flow from operations	**41.6**	36.4	29.5	33.5	18.3	13.4	22.3	16.6
Per share – basic and diluted ($/share)	***0.40***	*0.35*	*0.30*	*0.34*	*0.19*	*0.14*	*0.24*	*0.18*
Income (loss) – CO	**(106.5)**	(9.4)	53.1	(8.9)	0.3	(37.6)	(22.1)	(27.7)
Per share – basic and diluted ($/share)	***(1.02)***	*(0.09)*	*0.54*	*(0.09)*	—	*(0.39)*	*(0.24)*	*(0.31)*
Net income (loss)	**(106.5)**	(9.4)	53.1	(8.9)	0.3	(37.6)	(22.1)	0.3
Per share – basic and diluted ($/share)	***(1.02)***	*(0.09)*	*0.54*	*(0.09)*	—	*(0.39)*	*(0.24)*	—
Sales volumes								
Natural gas (MMcf/d)	**143.9**	93.6	99.4	104.7	102.5	100.9	107.6	110.8
Condensate and oil (Bbl/d)	**5,320**	4,690	3,212	2,686	2,530	2,231	1,946	2,402
Other NGLs (Bbl/d)	**5,123**	1,643	810	893	674	960	902	1,113
Total Continuing (Boe/d)	**34,430**	21,936	20,585	21,028	20,290	20,022	20,790	21,985
Discontinued (Boe/d)	**—**	—	—	—	—	—	—	606
Total (Boe/d)	**34,430**	21,936	20,585	21,028	20,290	20,022	20,790	22,591
Average realized price								
Natural gas ($/Mcf)	**3.98**	4.43	4.96	6.04	3.73	3.10	3.97	3.48
Condensate and oil ($/Bbl)	**68.45**	92.66	106.38	99.55	82.22	102.96	95.96	95.92
Other NGLs ($/Bbl)	**26.64**	32.87	43.78	54.50	48.28	36.95	31.16	34.92
Continuing ($/Boe)	**31.37**	41.80	42.72	45.56	30.99	29.27	31.41	30.08
Discontinued ($/Boe)	**—**	—	—	—	—	—	—	32.95
Total ($/Boe)	**31.37**	41.80	42.72	45.56	30.99	29.27	31.41	30.16

Significant Items Impacting Quarterly Results

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

- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of petroleum and natural gas properties and a $23.3 million loss from equity-accounted investments, partially offset by income tax recovery of $20.7 million.
- In the third quarter of 2014, the Musreau Deep Cut Facility was brought on-line and the Company began to ramp-up production, which increased petroleum and natural gas sales and funds flow from operations.
- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of petroleum and natural gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.
- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- Fourth quarter 2013 earnings include a $25.1 million dilution gain on the Company's investment in Trilogy as a result of common shares issued by Trilogy during the quarter and a $7.3 million net impairment reversal of petroleum and natural gas properties.
- Third quarter 2013 earnings include a $13.8 million net impairment write-down of petroleum and natural gas properties.
- Second quarter 2013 earnings include $16.2 million of exploration expenses and $10.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- First quarter 2013 earnings include $50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.

OTHER INFORMATION

Related Party Transactions

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

During 2014, Paramount charged $0.6 million (2013 – $0.4 million) to Trilogy in respect of operational and administrative services. Paramount charged $0.6 million (2013 – $3.0 million) to Trilogy and was charged $1.6 million (2013 – $0.8 million) by Trilogy in respect of joint operations. Also, Paramount received $7.4 million (2013 – $8.0 million) in dividends from Trilogy. In December 2014, Trilogy discontinued the payment of dividends. As of December 31, 2014, Paramount had a net payable balance due to Trilogy of $0.3 million (2013 – net receivable of $0.3 million).

Contractual Obligations

Paramount had the following contractual obligations at December 31, 2014:

	2015	2016-2017	2018-2019	After 2019	Total
Cavalier Facility (1)	31	—	—	—	31
Bank Credit Facility (2)	19	417	—	—	436
Drilling Rig Facilities (2)	11	21	24	2	58
Senior notes (2)	65	498	516	—	1,079
Transportation and processing commitments (3)	82	237	253	742	1,314
Asset retirement obligations	5	5	41	236	287
Capital spending commitments and other (4)	19	4	—	—	23
Operating leases	10	15	5	5	35
	242	1,197	839	985	3,263

(1) Excluding interest.
(2) Including interest.
(3) Certain transportation and processing commitments are secured by outstanding letters of credit totaling $41.2 million at December 31, 2014 (2013 - $32.3 million).
(4) Relates to contractual obligations for purchases of major equipment.

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

Contingencies

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

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

Risk Factors

A description of the most significant risk factors related to Paramount and its business is contained in Paramount's Annual Information Form for the year ended December 31, 2014 under the heading "Risk Factors".

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

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

CHANGE IN ACCOUNTING POLICIES

Changes in Accounting Standards

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies* and amendments to IAS 32 – *Financial Instruments: Presentation* that clarified the application of offsetting rules. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on the adoption of these standards.

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2017. The Company has not yet determined the impact of the IFRS on the Company's consolidated financial statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Company's consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2014, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined by the rules of the Canadian Securities Administrators, was performed by the Company's management with the oversight of the chief executive officer and chief financial officer. Based upon that evaluation, the Company's chief executive officer and chief financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as

necessary to permit the preparation of financial statements in accordance with IFRS, that the Company's assets are safeguarded and that expenditures are made in accordance with appropriate authorization.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2014. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

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

Changes in Internal Controls Over Financial Reporting

During the year ended December 31, 2014, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

Exploration and Evaluation Assets

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

If hydrocarbons are encountered, but further appraisal activity is required, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval for development plans. Exploration and evaluation assets are subject to ongoing technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. When management is making this assessment, changes to project economics, expected quantities of resources, expected

production techniques, drilling results and estimated capital expenditures and production costs are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as exploration and evaluation expense.

Impairment of Non-Financial Assets

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

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

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

Estimates of recoverable amounts used in impairment tests often incorporate level three hierarchy inputs including estimated volumes and future net cash flows from oil and natural gas reserves, contingent resource estimates and internal and external market metrics used to estimate value based comparable transactions and assets. By their nature, such estimates are subject to measurement uncertainty and changes in such estimates based on new information could have a material impact on earnings.

The significant decline in the market prices of crude oil and natural gas were potential indicators of impairment at December 31, 2014. As a result, recoverable amounts were estimated for each CGU and an adjustment to the carrying value of the Southern CGU was recorded. Cash flows for the Southern COU were projected over the expected remaining productive life of proved and probable reserves, at an after-tax discount rate of 10 percent at December 31, 2014.

Reserves Estimates

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas resources. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results,

reserves estimates, commodity price estimates and estimates of future net revenue will be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates.

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

Investments in Securities

The Company's investments in securities that are accounted for as available-for-sale financial instruments are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment to determine whether a decrease in the fair value of an investment is significant or prolonged, which would require an impairment charge to be recognized.

Business Combinations

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

Asset Retirement Obligations

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

Share-Based Payments

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

Significant Influence

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

Income Taxes

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

Deferred income tax assets are recognized to the extent future realization is probable. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the company to realize the deferred tax assets could be impacted.

ADVISORIES

Forward Looking Information

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

- projected production and sales volumes (including the liquids component thereof and expected first month production volumes from the Company's inventory of behind-pipe wells);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling and completion programs, well tie-ins and potential facilities expansions and additions), and the anticipated timing of and sources of funding for such activities;
- anticipated increases in netbacks and funds flow from operations and decreases in per unit operating costs;
- the further strengthening of the Company's financial coverage ratios that is expected to occur in 2015;
- projected timelines for, and the estimated costs of, constructing and starting-up new and expanded natural gas processing and associated facilities (and the Company's projected Deep Basin processing and condensate stabilization capacities following the completion of these facilities);

- projected increases in the Company's working interest share of production processed in the Musreau Deep Cut Facility;
- the projected availability of third party processing, transportation, de-ethanization, fractionation and other capacity;
- Paramount's expected ability to continue to truck condensate volumes in excess of its condensate stabilization capacity;
- projected timelines for, and the estimated costs of, constructing and commissioning new drilling rigs;
- estimated reserves and resources and the discounted present value of future net revenues therefrom;
- anticipated increases in Montney resource recoveries under new well spacing regulations, and the estimated well densities per section that will be required to optimize the recovery of these resources;
- the projected outcome of legal claims; and
- business strategies and objectives.

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 natural gas, condensate, Other NGLs, oil and bitumen 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 natural gas, condensate, Other NGLs, oil and bitumen 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, liquids yields and resource recoveries) 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 natural gas, condensate, Other NGLs, oil and bitumen prices;
- changes in foreign currency exchange rates and interest rates;

- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- 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 natural gas, condensate, Other NGLs, oil and bitumen;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays 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;
- 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 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 Paramount's current annual information form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

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

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs and

transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and development expenditures** consist of the Company's spending on drilling and infrastructure projects, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and development expenditures, except for $12.5 million of geological and geophysical costs which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, refer the Exploration and Capital Expenditures section of the Company's Management Discussion and Analysis. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on drilling and infrastructure projects separate from land acquisition activity. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy, Marquee, SOG and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values. **Cash Proceeds from Divestitures** represents cash proceeds received by the Company on dispositions of oil and gas properties and excludes any non-cash consideration received. This measure is equivalent to Proceeds on Sale of Property, Plant and Equipment in the Company's Consolidated Statement of Cashflows.

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

Oil and Gas Measures and Definitions

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
MMBbl	Millions of Barrels
Other NGLs	Ethane, propane and butane
Condensate	Pentane and heavier hydrocarbons

Natural Gas	
Mcf	Thousands of cubic feet
MMcf	Millions of cubic feet
MMcf/d	Millions of cubic feet per day
Bcf	Billions of cubic feet
GJ	Gigajoule
MMbtu	Millions of British thermal units

Oil Equivalent	
Boe	Barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day
MMBoe	Millions of barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day

Measures

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

During 2014, the value ratio between condensate and oil and natural gas was approximately 18:1. 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.

Test rates for the wells fracked on the Company's 3-20 ten-well pad averaged 10.8 MMcf/d of natural gas per well, and are the average of production test rates over the final period of post clean-up flow-back at the largest choke setting, with durations of between 5 and 53 hours. Flow-back casing pressures for the tests ranged between approximately 2,200 psi and 3,000 psi. Test rates for the wells fracked on the Company's 8-22 ten-well pad averaged 13.0 MMcf/d of natural gas per well, and are the average of production test rates over the final period of post clean-up flow-back at the largest choke setting, with durations of between 4 and 30 hours. Flow-back casing pressures for the tests ranged between approximately 2,000 psi and 2,900 psi.

All 20 of the wells on these two ten-well pads were stimulated using frack oil and substantially all fluids recovered during the test periods were load fluids. As a result, fluid volumes recovered during the tests have not been disclosed. Pressure transient analyses and well-test interpretations have not been carried out for these wells and as such, data should be considered to be preliminary until such analysis or interpretation has been done. Test results are not necessarily indicative of long-term performance or of ultimate recovery.

Wellhead condensate-gas ratios ("CGRs") disclosed in this document were calculated for each well for the period commencing on the date load oil volumes were completely recovered for such well and ending on February 28, 2015 (the "Post-load Recovery Period"). CGRs were calculated for each well over its applicable Post-load Recovery Period by dividing total raw liquids volumes produced by total raw natural gas volumes produced during such period. Raw volumes as measured at the wellhead. Sales volumes are lower due to shrinkage.

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

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

Proved reserves additions and P+P reserves additions disclosed herein were calculated as the aggregate of extensions & discoveries and technical revisions, after production and dispositions, included in the

reserves reconciliation table. The reserves replacement disclosure herein was calculated as the net increase in proved and P+P reserves estimates from extensions and discoveries, technical revisions and economic factors divided by the Company's total production in the period.

Behind-pipe wells includes new wells that have been rig-released but have not been placed on production, including wells that have not been completed, wells that have been completed but not yet tied-in and wells that have been completed and tied-in.

Potential Sales Volumes

"Potential Sales Volumes" means the potential volumes of saleable natural gas and NGLs (expressed on a combined basis in Boe/d) that could result from processing the associated quantities of raw natural gas set out in the "Net Paramount Raw Gas Capacity" column. These potential sales volumes should not be construed as a projection of Paramount's Deep Basin area production at or by any particular date, as they will include some unavoidably commingled third-party production, and are subject to a number of factors and contingencies including the following: (a) production volumes sufficient to fill Paramount's capacity will not be available in all periods and under certain conditions; (b) during maintenance periods and at other times, the facilities will not operate at design capacity; and (c) NGLs sales volumes will vary depending on the liquids content of individual wells and the manner in which the facilities are operated. The potential sales volumes for each facility have been estimated assuming that natural gas processing and condensate stabilization capacity is fully utilized.

Oil Sands Resource Notes

This document contains disclosure of certain results of an updated independent evaluation by McDaniel of Cavalier Energy's bitumen reserves and resources in the Grand Rapids formation in Cavalier's Hoole oil sands property as of December 31, 2014 (the "Cavalier Evaluation"). Specifically, this document includes McDaniel's assessment as of December 31, 2014 of Cavalier's probable undeveloped reserves, and the low, best and high estimates of economic contingent resources and discovered exploitable bitumen in place in the Grand Rapids formation at Hoole (and the estimated net present value of these probable undeveloped reserves and economic contingent resources). These terms, as used in the Cavalier Evaluation, have the following meanings:

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

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

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

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

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

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

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

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

"Net present value" or "NPV" of Cavalier’s probable undeveloped reserves and economic contingent resources at Hoole represents McDaniel’s estimates of Cavalier’s share of future net revenues, before the deduction of income taxes, from these reserves and resources discounted at 10%. In calculating these NPVs McDaniel considered items such as revenues, royalties, operating costs, abandonment costs and capital expenditures (but excluded financing and general and administrative costs). Their calculations assume natural gas is used as a fuel for steam generation, and are based on their forecast commodity prices as of January 1, 2015 and forecast costs as of December 31, 2014. Royalties were calculated based on Alberta’s Royalty Framework applicable to oil sands projects. McDaniel’s estimated NPVs do not represent fair market value.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

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

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

Ernst & Young LLP, independent auditors appointed by the shareholders of the Company, conducts an examination of the Consolidated Financial Statements in accordance with Canadian Generally Accepted Auditing Standards. Ernst & Young LLP has full and free access to the Board of Directors, the Audit Committee and Management.

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

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

March 5, 2015

INDEPENDENT AUDITORS' REPORT

To the shareholders of Paramount Resources Ltd.

We have audited the accompanying consolidated financial statements of Paramount Resources Ltd. which comprise the consolidated balance sheets as at 31 December, 2014 and 2013, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

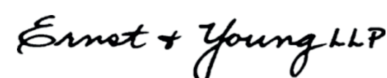
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Paramount Resources Ltd. as at 31 December, 2014 and 2013 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Calgary, Canada

March 5, 2015

Chartered Accountants

CONSOLIDATED BALANCE SHEET

($ thousands)

As at December 31	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	20	18,320	10,703
Accounts receivable	19	57,040	39,300
Prepaid expenses and other		4,883	2,252
		80,243	52,255
Deposit	18	20,643	20,437
Exploration and evaluation	7	567,420	429,911
Property, plant and equipment, net	8	2,168,565	1,573,011
Equity-accounted investments	9	82,444	104,314
Investments in securities	10	102,894	145,661
Deferred income tax	18	152,487	119,090
Goodwill	5,11	24,733	3,124
		3,199,429	2,447,803
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	12	81,530	75,550
Accounts payable and accrued liabilities	19	266,847	213,581
Risk management	19	–	3,972
		348,377	293,103
Long-term debt	13	1,210,355	882,603
Asset retirement obligations	14	287,415	239,853
		1,846,147	1,415,559
Commitments and contingencies	23		
Shareholders' equity			
Share capital	15	1,603,436	1,169,178
Accumulated deficit		(296,326)	(224,612)
Reserves	16	46,172	87,678
		1,353,282	1,032,244
		3,199,429	2,447,803

See the accompanying notes to these Consolidated Financial Statements.

On behalf of the Board of Directors

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

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

March 5, 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

($ thousands, except as noted)

Year ended December 31	Note	2014	2013
Petroleum and natural gas sales		349,995	230,722
Royalties		(17,542)	(10,814)
Revenue		332,453	219,908
Gain (loss) on financial commodity contracts	19	2,852	(3,972)
		335,305	215,936
Expenses			
Operating expense		71,279	68,615
Transportation and NGLs processing		35,896	23,782
General and administrative		23,877	19,481
Stock-based compensation	17	25,373	25,851
Depletion and depreciation	8	229,819	152,935
Exploration and evaluation	7	30,007	35,537
Gain on sale of property, plant and equipment		(95,691)	(32,688)
Interest and financing		70,599	52,639
Accretion of asset retirement obligations	14	5,936	3,099
Foreign exchange		568	528
		397,663	349,779
Income (loss) from equity-accounted investments	9	(3,399)	21,378
Write-down of investments in securities	10	(15,645)	(3,628)
Other income	4	6,686	10,385
Loss from continuing operations before tax		(74,716)	(105,708)
Income tax expense (recovery)	18		
Current		(45)	4,983
Deferred		(2,957)	(23,576)
		(3,002)	(18,593)
Loss from continuing operations		(71,714)	(87,115)
Income from discontinued operations, net of tax	6	–	28,030
Net loss		(71,714)	(59,085)
Other comprehensive income (loss), net of tax	16		
Items that may be reclassified to net income or loss			
Change in market value of securities		(42,475)	3,908
Exchange differences on translation of US subsidiaries		–	393
		(42,475)	4,301
Comprehensive loss		(114,189)	(54,784)
Net income (loss) per common share ($/share)	15		
Basic and diluted – continuing operations		(0.71)	(0.93)
Basic and diluted – discontinued operations		–	0.30
Basic and diluted		(0.71)	(0.63)

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

($ thousands)

Year ended December 31	Note	2014	2013
Operating activities			
Net loss		**(71,714)**	(59,085)
Add (deduct):			
Items not involving cash	20	**192,829**	109,550
Dividends from equity-accounted investments		**7,371**	8,040
Asset retirement obligations settled	14	**(4,576)**	(6,336)
Current tax related to the sale of U.S. properties		**–**	4,915
Change in non-cash working capital		**(5,406)**	(12,171)
Cash from operating activities		**118,504**	44,913
Financing activities			
Net draw of demand facilities	12	**5,980**	34,847
Net draw of revolving long-term debt	13	**325,847**	71,826
Proceeds from Senior Notes, net of issue costs	13	**–**	148,507
Common shares issued, net of issue costs		**355,392**	217,369
Common shares purchased under stock incentive plan		**(4,617)**	(3,998)
Cash from financing activities		**682,602**	468,551
Investing activities			
Property, plant and equipment and exploration		**(941,470)**	(736,172)
Proceeds on sale of property, plant and equipment		**99,957**	37,875
Proceeds on sale of discontinued operations, net		**–**	9,062
Cash of MGM Energy Corp. on acquisition	5	**3,200**	–
Proceeds on sale of investment, net		**10,179**	10,097
Investments in securities		**(5,000)**	(9,915)
Change in non-cash working capital		**39,549**	38,730
Cash used in investing activities		**(793,585)**	(650,323)
Net increase (decrease)		**7,521**	(136,859)
Foreign exchange on cash and cash equivalents		**96**	878
Cash and cash equivalents, beginning of year		**10,703**	146,684
Cash and cash equivalents, end of year		**18,320**	10,703
Supplemental cash flow information	20		

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

($ thousands, except as noted)

Year ended December 31		2014		2013	
	Note	*Shares (000's)*		*Shares (000's)*	
Share Capital					
Balance, beginning of year		***96,993***	**1,169,178**	*89,857*	921,680
Issued		***6,704***	**364,884**	*7,133*	247,582
Issued on acquisition of MGM Energy Corp.	5	***1,128***	**69,382**	–	–
Change in unvested common shares for stock incentive plan	17	***18***	**(8)**	*3*	(84)
Balance, end of year		***104,843***	**1,603,436**	*96,993*	1,169,178
Accumulated Deficit					
Balance, beginning of year			**(224,612)**		(165,527)
Net loss			**(71,714)**		(59,085)
Balance, end of year			**(296,326)**		(224,612)
Reserves	16				
Balance, beginning of year			**87,678**		94,947
Other comprehensive income (loss)			**(42,475)**		4,301
Contributed surplus			**969**		(11,570)
Balance, end of year			**46,172**		87,678
Total Shareholders' Equity			**1,353,282**		1,032,244

See the accompanying notes to these Consolidated Financial Statements.

1. Significant Accounting Policies

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

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

These consolidated financial statements of the Company, as at December 31, 2014 and December 31, 2013 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 5, 2015.

Basis of Preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented. Amounts included in these Consolidated Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted. Certain comparative figures have been reclassified to conform with the current year's presentation.

The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated.

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

a) Revenue Recognition

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

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

b) Cash and Cash Equivalents

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

c) Trade and Other Receivables

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

d) Exploration and Evaluation

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

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

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

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

e) Property, Plant and Equipment

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

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

Other property, plant and equipment ("PP&E"), including leasehold improvements, are carried at cost net of accumulated depreciation.

Depletion and Depreciation

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

Capitalized costs of gathering systems and production equipment are depleted on a unit-of-production basis over the proved developed reserves of the field to which they relate. Capitalized costs of processing plants are depreciated on a straight-line basis over their expected useful lives, which extend up to 40 years.

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

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

f) Impairment of Non-Financial Assets

Carrying values of the Company's non-financial assets are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified, the asset's recoverable amount is estimated. If the carrying value of an asset exceeds its estimated recoverable amount, an impairment charge is recognized.

For the purpose of impairment testing, PP&E assets are tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. E&E assets are aggregated and tested at the operating segment level.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. In assessing fair value less costs to sell, the Company estimates the value a potential purchaser would ascribe to an asset or CGU. For oil and gas properties, the fair value less costs to sell is generally estimated based on expected after-tax future net cash flows using forecast commodity prices and costs over the expected economic life of proved and probable reserves, discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. When it is determined that there has been a subsequent increase in the recoverable amount ascribed to an oil and gas property or CGU, reversals of impairments are recognized, net of any depletion and depreciation that would have been recorded since the date of the impairment charge.

g) Joint Arrangements

Paramount conducts its exploration and development activities independently, as well as jointly with others through jointly controlled assets and operations. Paramount recognizes its proportionate share of the revenues, expenses, assets, and liabilities of joint operations. All of the Company's interests in joint arrangements are accounted for as joint operations. Interests in joint ventures are accounted for using the equity method of accounting. The Company does not currently have any interests in joint ventures.

h) Equity-Accounted Investments

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

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

i) Business Combinations and Goodwill

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

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

j) Capitalized Borrowing Costs

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

k) Asset Retirement Obligations

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

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

l) Foreign Currency Translation

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

m) Financial Instruments and Other Comprehensive Income

Financial Instruments

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

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

Other Comprehensive Income

For Paramount, OCI is comprised of changes in the market value of investments in securities, which are classified as available-for-sale financial instruments. The amounts recorded in OCI each period are presented in the Consolidated Statement of Comprehensive Loss. The cumulative changes in OCI are included in reserves, which is presented within shareholders' equity in the Consolidated Balance Sheet.

An impairment charge is recognized in respect of an available-for-sale financial instrument where its fair value decreases below its carrying value, and the decline is considered to be significant or prolonged. Subsequent increases in the fair value of an available-for-sale financial instrument are recognized in OCI.

n) Estimates of Fair Value

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

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

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

a) quoted prices for similar assets or liabilities in active markets;

b) quoted prices for identical or similar assets or liabilities in markets that are not active;

c) inputs other than quoted prices that are observable for the asset or liability, for example:

   i. interest rates and yield curves observable at commonly quoted intervals;
   ii. implied volatilities; and
   iii. credit spreads; and

d) market-corroborated inputs.

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

o) Income Taxes

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

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

p) Flow-Through Shares

The proceeds of flow-through share issuances are allocated between the sale of Paramount's class A common shares ("Common Shares") and the sale of tax benefits associated with the flow-through feature of the securities. Proceeds are first allocated to share capital based on the market price of Common Shares on the date the offering is priced, with the balance recorded in accounts payable and accrued liabilities based on the difference between the issue price and the market price of Common Shares. As qualifying expenditures intended for renunciation to subscribers are incurred, the Company recognizes a deferred tax liability, reduces the accounts payable and accrued liabilities amount and records any difference as deferred tax expense.

q) Stock-Based Compensation

Paramount Stock Option Plan

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

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

Cavalier Stock Option Plan

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

Stock Incentive Plan

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

r) Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of Common Shares outstanding during the year. Diluted net loss per share is calculated by adjusting the weighted average number of Common Shares outstanding for potentially dilutive Common Shares related to the Paramount stock option plan. The number of dilutive Common Shares is determined using the treasury method. As Paramount Options can be exchanged for Common Shares, they are considered potentially dilutive and are included in the Company’s diluted loss per share when they are dilutive to income from continuing operations.

2. Significant Accounting Estimates, Assumptions & Judgments

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

Exploration or Development

The Company is required to apply judgment when designating the nature of a project as exploration and evaluation or development, which requires an assessment of the geological characteristics and other factors related to each project.

Exploration and Evaluation Assets

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

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

Estimates of Recoverable Amounts

Estimates of recoverable amounts used in impairment tests often incorporate level three hierarchy inputs including estimated volumes and future net cash flows from oil and natural gas reserves, contingent resource estimates and internal and external market metrics used to estimate value based comparable transactions and assets. By their nature, such estimates are subject to measurement uncertainty. Changes in such estimates, and differences between actual and estimated amounts, could have a material impact on earnings.

Reserves Estimates

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

Estimates of reserves impact: (i) the assessment of whether a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the estimated recoverable amount of petroleum and

natural gas properties used in impairment assessments, all of which could have a material impact on earnings.

Determination of CGUs

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

Business Combinations

To account for an acquisition as a business combination, management is required to exercise judgment in determining whether the assets acquired and liabilities assumed constitute a business. A business consists of an integrated set of assets and activities, comprised of inputs and processes, that is capable of being conducted and managed as a business by a market participant. An integrated set of assets and activities in the development stage may not have outputs. The Company's acquisition of MGM Energy Corp. ("MGM Energy") was accounted for as a business combination because, even though MGM Energy had not yet generated revenues, management made the judgment that the assets and activities acquired were capable of being managed as a business.

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

Equity Accounted Investments

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

Investments in Securities

The Company's investments in securities that are accounted for as available-for-sale financial instruments are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment to determine whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized.

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired.

Management adjusts estimated amounts periodically as assumptions are changed to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

Share-Based Payments

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

Income Taxes

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

3. Changes in Accounting Standards

Effective January 1, 2014, the Company adopted IFRIC 21 – Levies and amendments to IAS 32 – Financial Instruments: Presentation, which clarified the application of offsetting rules. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on the adoption of these standards.

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – Revenue From Contracts With Customers, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2017. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

In July 2014, the IASB issued IFRS 9 – Financial Instruments, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

4. Segmented Information

Paramount's operations are reported by business segment, which have been established by Management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives. The segments are divided based on the nature of activities and the Company's management structure:

- **Principal Properties**: Principal properties include the Company's four Corporate Operating Units, which are involved in the exploration, development, production and marketing of natural gas, crude oil and natural gas liquids, generally having similar economic characteristics.

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

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

Year ended December 31, 2014	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	332,453	–	–	–	332,453
Gain on financial commodity contracts	2,852	–	–	–	2,852
	335,305	–	–	–	335,305
Expenses					
Operating expense	71,279	–	–	–	71,279
Transportation and NGLs processing	35,896	–	–	–	35,896
General and administrative	–	7,827	16,050	–	23,877
Stock-based compensation	–	5,828	19,545	–	25,373
Depletion and depreciation	229,108	11,190	170	(10,649)	229,819
Exploration and evaluation	23,214	6,793	–	–	30,007
(Gain) loss on sale of property, plant and equipment	(95,734)	43	–	–	(95,691)
Interest and financing	–	2,686	67,913	–	70,599
Other	5,859	77	568	–	6,504
	269,622	34,444	104,246	(10,649)	397,663
Loss from equity-accounted investments	–	(3,399)	–	–	(3,399)
Write-down of investments in securities	–	(15,645)	–	–	(15,645)
Other	980	5,154	229	–	6,363
Drilling rig revenue	–	47,221	–	(46,682)	539
Drilling rig expense	–	(22,179)	–	21,963	(216)
	66,663	(23,292)	(104,017)	(14,070)	(74,716)
Inter-segment eliminations	–	(14,070)	–	14,070	–
Segment income (loss)	66,663	(37,362)	(104,017)	–	(74,716)
Income tax recovery					3,002
Net loss					(71,714)

Year ended December 31, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	219,908	–	–	–	219,908
Loss on financial commodity contracts	(3,972)	–	–	–	(3,972)
	215,936	–	–	–	215,936
Expenses					
Operating expense	68,615	–	–	–	68,615
Transportation and NGLs processing	23,782	–	–	–	23,782
General and administrative	–	6,765	12,716	–	19,481
Stock-based compensation	–	7,166	18,685	–	25,851
Depletion and depreciation	150,633	9,913	685	(8,296)	152,935
Exploration and evaluation	34,692	845	–	–	35,537
Gain on sale of property, plant and equipment	(32,275)	(413)	–	–	(32,688)
Interest and financing	–	2,400	50,239	–	52,639
Other	3,082	17	528	–	3,627
	248,529	26,693	82,853	(8,296)	349,779
Income from equity-accounted investments	–	21,378	–	–	21,378
Write-down of investments in securities	–	(3,628)	–	–	(3,628)
Other	4,419	3,656	–	–	8,075
Drilling rig revenue	–	42,465	–	(38,279)	4,186
Drilling rig expense	–	(19,351)	–	17,475	(1,876)
	(28,174)	17,827	(82,853)	(12,508)	(105,708)
Inter-segment eliminations	–	(12,508)	–	12,508	–
Segment income (loss)	(28,174)	5,319	(82,853)	–	(105,708)
Income tax recovery					18,593
Income from discontinued operations, net of tax					28,030
Net loss					(59,085)

For the year ended December 31, 2014, the Company had sales of $101.1 million, $45.6 million and $42.6 million to three customers which exceeded ten percent of its total revenue.

Total Assets

As at December 31	2014	2013
Principal Properties	2,449,073	1,772,049
Strategic Investments	559,027	520,983
Corporate	191,329	154,771
	3,199,429	2,447,803

Other Income

Year ended December 31	2014	2013
Gain on sale of investments	5,154	3,656
Drilling rig revenue	539	4,186
Drilling rig expense	(216)	(1,876)
Other	1,209	4,419
	6,686	10,385

5. Acquisition

MGM Energy Corp.

On June 11, 2014, Paramount acquired all 338.3 million issued and outstanding common shares of MGM Energy not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares, based on an exchange ratio of one Common Share of Paramount for every 300 common shares of MGM Energy. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). MGM Energy was a publicly-traded development-stage energy company, the principal business of which was to acquire, exploit and produce oil and natural gas in northern Canada. MGM Energy did not generate revenues and, except for limited periods of testing, MGM Energy's assets have not been placed on production. The acquisition of MGM Energy increased the Company's exploratory land holdings in the Northwest Territories. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction.

The acquisition of MGM Energy was accounted for using the acquisition method whereby all of the assets acquired and liabilities assumed were recorded at fair value. The following table summarizes the net assets acquired:

Cash	3,200
Accounts receivable	234
Prepaid expenses	76
Exploration and evaluation assets	13,909
Deferred income tax asset	48,420
Goodwill	21,609
Accounts payable and accrued liabilities	(108)
Asset retirement obligations	(6,856)
Net assets acquired	**80,484**
Paramount Common Shares issued (1)	69,382
Fair value of MGM Energy shares previously held (2)	11,102
Total	**80,484**

(1) Based on 1.1 million Paramount Common Shares issued and the acquisition date closing price of Paramount Common Shares of $61.52 per share.
(2) Based on 54.1 million MGM Energy common shares held by Paramount prior to the acquisition and the acquisition date closing price of MGM Energy common shares of $0.205 per share.

On the acquisition of MGM Energy, a gain of $10.8 million related to the MGM Energy common shares held by Paramount at the acquisition date was recognized in income from equity-accounted investments, based on the closing market price of the MGM Energy common shares of $0.205 per share. Goodwill recorded on the acquisition is the result of an increase in the trading price of Paramount's Common Shares between the date the Company offered to acquire MGM Energy and the date the transaction closed. The goodwill recognized in the transaction is not deductible for tax purposes. The net assets acquired, including goodwill, have been allocated to the Strategic Investments business segment.

6. Discontinued Operations

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million. These properties were included in the Company's Principal Properties business segment. Amounts related to these properties from January 1, 2013 to their sale in March 2013 have been classified as discontinued operations and are excluded from the results of the Company's continuing operations.

Details of the income from discontinued operations are presented below:

Year ended December 31	2013
Petroleum and natural gas sales	1,796
Royalties	(24)
Revenue	1,772
Expenses	
Operating expense	2,841
Transportation and NGLs processing	233
Depletion and depreciation	267
Exploration and evaluation	29
	3,370
Loss from ordinary activities of discontinued operations before tax	(1,598)
Gain on sale of discontinued operations	38,985
Income from discontinued operations before tax	37,387
Deferred income tax expense – discontinued operations	9,357
Income from discontinued operations	28,030

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

Year ended December 31	2013
Operating	(926)
Investing	9,062
Cash flow from discontinued operations	8,136

7. Exploration and Evaluation

Year ended December 31	2014	2013
Balance, beginning of year	**429,911**	405,090
Additions	**295,949**	203,642
Transfers to property, plant and equipment	**(143,217)**	(137,355)
Corporate acquisition	**13,909**	–
Dry hole	**(4,719)**	(13,862)
Expired lease costs	**(12,780)**	(14,429)
Dispositions	**(11,633)**	(13,143)
Foreign exchange	**–**	(32)
Balance, end of year	**567,420**	429,911

Additions to exploration and evaluation assets totaled $224.3 million (2013 – $125.9 million) for Principal Properties and $71.7 million (2013 – $77.7 million) for Strategic Investments.

Exploration and Evaluation Expense

Year ended December 31	2014	2013
Geological and geophysical	12,498	7,101
Dry hole	4,729	14,007
Expired lease costs	12,780	14,429
	30,007	35,537

8. Property, Plant and Equipment

Year ended December 31, 2014	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2013	2,489,356	101,517	27,173	2,618,046
Additions	641,649	25,893	1,212	668,754
Transfers from exploration and evaluation	143,217	–	–	143,217
Dispositions	(144,822)	–	(303)	(145,125)
Change in asset retirement provision	60,527	–	–	60,527
Cost, December 31, 2014	3,189,927	127,410	28,082	3,345,419
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2013	(997,486)	(27,802)	(19,747)	(1,045,035)
Depletion and depreciation	(196,349)	(10,920)	(1,001)	(208,270)
Write-downs	(32,755)	–	–	(32,755)
Dispositions	108,994	–	212	109,206
Accumulated depletion, depreciation and write-downs, December 31, 2014	(1,117,596)	(38,722)	(20,536)	(1,176,854)
Net book value, December 31, 2013	1,491,870	73,715	7,426	1,573,011
Net book value, December 31, 2014	2,072,331	88,688	7,546	2,168,565

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

Depletion and Depreciation

Year ended December 31	2014	2013
Depletion and depreciation	209,126	155,701
Write-down of property, plant and equipment	32,755	6,519
Inter-segment eliminations	(12,062)	(9,285)
	229,819	152,935

At December 31, 2014, $252.6 million (December 31, 2013 – $343.7 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Additions to property, plant and equipment in 2014 were $640.3 million (2013 – $523.8 million) for Principal Properties, $26.7 million (2013 – $22.1 million) for Strategic Investments and $1.8 million (2013 – $7.5 million) for Corporate. Additions to property, plant and equipment include $14.5 million (2013 – $12.7 million) of capitalized interest for major facilities in the construction phase at a weighted average interest rate of 7.3 percent (2013 – 7.9 percent).

In the first quarter of 2014, the Company sold its properties in the Chain-Delia area of Alberta in exchange for $11.7 million in common shares of Marquee Energy Ltd. ("Marquee"). In the second quarter of 2014, Paramount sold a 50 percent working interest in its Birch properties in northeast British Columbia for $91.5 million cash.

In the first quarter of 2013, Paramount's wholly-owned subsidiary Summit Resources, Inc. sold its non-operated joint operations and lands in North Dakota for proceeds of US$21.8 million.

The Company recorded an impairment write-down of $32.8 million at December 31, 2014 related to petroleum and natural gas assets in the Southern CGU. These properties are included within the Principal Properties business segment. The impairment write-down was recorded because the carrying value of the Southern CGU properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted future oil and natural gas prices.

Recoverable amounts were estimated on a fair value less costs to sell basis, using a discounted cash flow method which is an approach commonly used by market participants to value oil and gas properties (Level 3 fair value inputs). Cash flows were projected over the expected remaining productive life of the Southern CGU's reserves, at an after-tax discount rate of 10 percent, resulting in an estimated recoverable amount of $20.6 million. The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2015	2016	2017	2018	2019	2020-2029	Thereafter
Natural Gas							
AECO ($/MMBtu)	3.50	4.00	4.25	4.50	4.70	5.00 – 6.50	+2%/yr
Henry Hub (US$/MMBtu)	3.30	3.80	4.05	4.30	4.55	4.85 – 6.30	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	68.60	83.20	88.90	94.60	99.60	104.70 – 125.30	+2%/yr
WTI (US$/Bbl)	65.00	75.00	80.00	84.90	89.30	93.80 – 112.20	+2%/yr

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

The 2013 impairment write-downs in the Southern and Northern CGUs were recorded because the carrying value of their properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of declines in reserves assigned due to well performance and, in the Southern CGU, the sale of properties with recoverable amounts that exceeded their carrying values.

The 2013 reversal of previously recorded impairment write-downs in the Grande Prairie CGU resulted from increases in reserves assigned to the CGU. The reversal was recorded to the extent that the recoverable amount ascribed to the Grande Prairie CGU exceeded the carrying value of its properties.

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

9. Equity-Accounted Investments

As at December 31	2014			2013		
	Shares (000's)	Carrying Value	Market Value (1)	*Shares (000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	79,879	151,432	*19,144*	97,391	528,383
MGM Energy	–	–	–	*54,147*	1,212	8,664
Other		2,565			5,711	
		82,444			104,314	

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

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

Year ended December 31	2014	2013
Equity loss	(11,508)	(4,297)
Dilution gain	257	25,675
Write-down of other equity-accounted investment	(2,938)	–
Gain on MGM Energy acquisition (Note 5)	10,790	–
	(3,399)	21,378

As at December 31, 2014, Paramount owned a 15 percent equity interest in Trilogy (December 31, 2013 – 15 percent). Trilogy is a petroleum and natural gas-focused Canadian energy corporation that develops, produces and sells natural gas, crude oil and natural gas liquids, primarily in the province of Alberta. Trilogy is a publicly listed entity in Canada with its common shares trading on the Toronto Stock Exchange. The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at December 31	2014	2013
Current assets	56,478	73,221
Non-current assets(1)	1,563,333	1,481,860
Current liabilities	(106,941)	(138,744)
Non-current liabilities	(939,877)	(742,136)
Equity	572,993	674,201
Multiply by: Paramount's equity interest	15.2%	15.3%
Paramount's proportionate share of equity	87,161	103,113
Less: portion of share-based compensation recorded in equity of Trilogy	(7,282)	(5,722)
Carrying value of Paramount's investment	79,879	97,391

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at December 31, 2014 totaled $1,562,475 (2013 – $1,473,508) and equity totaled $572,135 (2013 - $665,849).

Year ended December 31	2014	2013
Revenue	549,037	489,819
Comprehensive loss(1)	(68,534)	(17,397)
Paramount's share of Trilogy's comprehensive loss	(10,408)	(2,660)

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the year ended December 31, 2014 was $61,011 (2013 – comprehensive income $11,467).

Trilogy had 8.2 million stock options outstanding (3.3 million exercisable) at December 31, 2014 at exercise prices ranging from $4.85 to $38.74 per share.

For the year ended December 31, 2014, Paramount received cash dividends from Trilogy of $7.4 million (2013 – $8.0 million).

Income from equity-accounted investments for the year ended December 31, 2014 also includes $0.3 million (2013 - $25.7 million) of dilution gains related to the Company's investment in Trilogy as a result of common shares issued by Trilogy during the year.

The aggregate carrying amount of the Company's other equity-accounted investments at December 31, 2014 was $2.6 million (December 31, 2013 – $6.9 million) and Paramount's share of the income or loss of those investees for the year ended December 31, 2014 was an aggregate net loss of $1.1 million (2013 – net loss of $1.6 million).

10. Investments in Securities

As at December 31	2014		2013	
	Shares (000's)	Market Value	*Shares (000's)*	Market Value
MEG Energy Corp.	*3,700*	72,335	*3,700*	113,257
Other (1)		30,559		32,404
		102,894		145,661

(1) Includes investments in Marquee, RMP Energy Inc., Strategic Oil & Gas Ltd., and other public and private corporations.

At December 31, 2014 aggregate unrealized losses of $15.6 million related to the Company's investments in Marquee, Strategic Oil & Gas Ltd. and other securities previously recorded in OCI were charged to net earnings as a result of significant decreases in the market prices of the securities at the end of the year.

11. Goodwill

As at December 31	2014	2013
Carrying value, beginning of year	3,124	3,124
Acquisition	21,609	–
Carrying value, end of year	24,733	3,124

The carrying amount of goodwill at December 31, 2014 includes $21.6 million related to the MGM Energy acquisition and $3.1 million related to the Kaybob CGU. Goodwill recognized in respect of the MGM Energy acquisition was allocated to a group of GGUs within the Strategic Investments business segment.

Goodwill was assessed for impairment as at December 31, 2014 based on recoverable amounts estimated using fair value less costs to sell. Recoverable amounts in respect of Strategic Investments CGUs with allocated goodwill were estimated using level three hierarchy inputs including third-party estimates of fair value, third-party reserves and resource estimates and internally generated estimates. The recoverable amount for the Kaybob CGU was estimated on the basis described in Note 1(f). No reasonably possible change in assumptions would cause goodwill to become impaired in either CGU.

12. Demand Facilities

As at December 31	2014	2013
Fox Drilling Facility	50,940	53,000
Cavalier Facility	30,590	22,550
	81,530	75,550

Fox Drilling Facility

The Fox Drilling Facility is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal amount of $45.8 million outstanding at December 31, 2014. Scheduled principal repayments on Fox Tranche A are $8.2 million in each of 2015, 2016 and 2017, with the remaining outstanding balance payable in 2018.

The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new drilling rigs. At December 31, 2014, $5.1 million was drawn under Fox Tranche B. Once construction of the new drilling rigs is completed in 2015, scheduled quarterly principal repayments will commence over a five year term.

Recourse and security for the Fox Drilling Facility is limited to Fox Drilling's rigs, including the new drilling rigs being constructed, and drilling contracts with Paramount. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin. The effective interest rate on the Fox Drilling Facility for the year ended December 31, 2014 was 4.4 percent (2013 – 4.4 percent).

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of the Company, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier,

including oil sands and carbonate bitumen lands. The effective interest rate on the Cavalier Facility for the year ended December 31, 2014 was 3.5 percent (2013 – 3.4 percent).

13. Long-Term Debt

As at December 31	2014	2013
Bank credit facility	**397,673**	71,826
8¼% Senior Notes due 2017	**370,000**	370,000
7⅝% Senior Notes due 2019	**450,000**	450,000
	1,217,673	891,826
Unamortized financing costs, net of premiums	**(7,318)**	(9,223)
	1,210,355	882,603

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2014 from $600 million to $900 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $800 million and is available on a revolving basis to November 30, 2015. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2015 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

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

As at December 31, 2014, $397.7 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at December 31, 2014 totaling $55.2 million that reduce the amount available to the Company.

Senior Notes

Paramount has $370 million aggregate principal amount of senior unsecured notes due 2017 (the "2017 Senior Notes") outstanding. The 2017 Senior Notes bear interest at 8¼ percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The 2017 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2017 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

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

The 2019 Senior Notes bear interest at 7⅝ percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019. The 2019 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2019 Senior Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

14. Asset Retirement Obligations

Year ended December 31	2014	2013
Asset retirement obligations, beginning of year	**239,853**	300,468
Retirement obligations incurred	**23,190**	35,749
Revisions to estimated retirement costs	**6,126**	(9,952)
Change in discount rates	**40,164**	(35,369)
Obligations settled	**(4,576)**	(6,336)
Dispositions	**(30,134)**	(48,087)
Assumed on corporate acquisition	**6,856**	–
Accretion expense	**5,936**	3,099
Other	**–**	281
Asset retirement obligations, end of year	**287,415**	239,853

At December 31, 2014, the estimated undiscounted asset retirement obligations were $287.4 million (December 31, 2013 - $281.3 million), which have been discounted using a weighted average risk-free rate of 2.00 percent (December 31, 2013 – 3.00 percent) and an inflation rate of 2.00 percent (December 31, 2013 – 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 47 years.

15. Share Capital

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2014, 104,843,846 Common Shares were outstanding, net of 54,199 Common Shares held in trust under the stock incentive program, and no preferred shares were outstanding.

In July 2014, Paramount issued 4,600,000 Common Shares at a price of $60.00 per share and 900,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $74.40 per share for aggregate gross proceeds of $343.0 million pursuant to a public offering. Concurrent with the public offering, Paramount issued 100,000 Common Shares on a "flow-through" basis in respect of CEE ("FTS") at a price of $74.40 per share to Paramount's Chairman and Chief Executive Officer for gross proceeds of $7.4 million. On issuance of the flow-through shares, a liability of $14.4 million was recognized in accounts payable and accrued liabilities in respect of the Company's obligation to renounce qualifying expenditures. The Company incurred $10.7 million of transaction costs in respect of these equity offerings, net of tax benefits of $3.6 million.

In October 2013, Paramount issued 1,115,000 FTS at a price of $44.00 per share for gross proceeds of $49.1 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued FTS at a price of $44.00 per share to the Company's Chairman and Chief Executive Officer and President and Chief Operating Officer and/or companies controlled by them for gross proceeds of approximately $10 million, and to certain other directors, officers, and employees of Paramount and other persons for gross proceeds of approximately $1 million. On issuance of the flow-through shares, a liability of $11.8 million was recognized in accounts payable and accrued liabilities in respect of the Company's obligation to renounce qualifying expenditures.

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

The Company incurred $6.4 million of transaction costs in respect of the 2013 equity offerings, net of tax benefits of $2.1 million.

Weighted Average Common Shares

Year ended December 31	2014		2013	
	Wtd. Avg Shares (000's)	Loss from continuing operations	*Wtd. Avg Shares (000's)*	Loss from continuing operations
Loss from continuing operations – basic	*101,090*	(71,714)	*93,708*	(87,115)
Dilutive effect of Paramount options	–	–	–	–
Loss from continuing operations – diluted	*101,090*	(71,714)	*93,708*	(87,115)

16. Reserves

Reserves at December 31, 2014 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

Year ended December 31, 2014	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	12,787	74,891	**87,678**
Other comprehensive loss	(42,475)	–	**(42,475)**
Stock-based compensation	–	21,439	**21,439**
Stock options exercised	–	(20,470)	**(20,470)**
Balance, end of year	(29,688)	75,860	**46,172**

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

Other Comprehensive Income (Loss)

Year ended December 31	2014	2013
Unrealized gain (loss) on securities		
Change in market value of securities	(53,664)	636
Reclassification of other comprehensive loss to earnings	10,918	3,628
Deferred tax	271	(356)
	(42,475)	3,908
Translation of foreign subsidiaries		
Exchange differences on translation of US subsidiaries	–	(587)
Reclassification of other comprehensive income to earnings	–	980
	–	393
Other comprehensive income (loss)	(42,475)	4,301

17. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	2014		2013	
	Number	Weighted average exercise price ($/share)	Number	Weighted average exercise price ($/share)
Balance, beginning of year	6,632,200	31.20	6,667,850	23.58
Granted	1,922,500	33.22	1,865,000	37.37
Exercised [(1)]	(1,107,350)	17.22	(1,747,650)	8.66
Forfeited	(171,500)	35.67	(153,000)	31.98
Balance, end of year	7,275,850	33.75	6,632,200	31.20
Options exercisable, end of year	2,592,750	31.58	2,407,250	24.21

(1) For options exercised in 2014, the weighted average market price of Paramount's Common Shares on the dates exercised was $48.09 (2013 – $36.25).

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of December 31, 2014 are as follows:

	Awards Outstanding		
Exercise Prices	Number	Remaining contractual life (years)	Weighted average exercise price
$13.20 - $20.00	434,450	0.3	13.42
$20.01 - $30.00	2,514,250	3.9	29.71
$30.01 - $35.00	1,297,900	3.3	34.00
$35.01 - $40.00	1,689,500	4.3	37.76
$40.01 - $64.47	1,339,750	2.8	42.63
	7,275,850	3.5	33.75

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

	Options awarded in 2014	Options awarded in 2013
Weighted average exercise price ($ / share)	**33.22**	37.37
Expected volatility (%)	**35.0**	36.1
Expected life of share options (years)	**4.6**	4.6
Pre-vest annual forfeiture rate (%)	**5.7**	5.6
Risk-free interest rate (%)	**1.3**	1.6
Expected dividend yield (%)	**–**	–
Weighted average fair value of awards per share ($ / share)	**10.24**	12.13

The estimated expected life of the Paramount Options is based on historical exercise patterns. The expected volatility is estimated based on the historical volatility of the trading price of the Company's Common Shares over the most recent period that is generally commensurate with the expected term of the option.

Cavalier Options

During 2014, Cavalier granted 1.7 million Cavalier Options, which vest over five years. A total of 0.2 million previously issued Cavalier Options were cancelled during the year, resulting in a net balance of 5.8 million Cavalier Options outstanding at December 31, 2014.

The grant date fair value of Cavalier Options awarded was estimated using the Black-Scholes-Merton model, incorporating the following inputs: expected volatility 58.3% (2013 – 60.8%), expected life 6.8 years (2013 – 6.0 years), risk-free interest rate of 1.8% (2013 – 2.0%), pre-vest forfeiture rate of nil (2013 – nil), and expected dividend yield of nil (2013 – nil).

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

Stock Incentive Plan – Shares Held in Trust

	2014		2013	
Year ended December 31	***Shares (000's)***		***Shares (000's)***	
Balance, beginning of year	***72***	**500**	*75*	416
Shares purchased	***92***	**4,617**	*113*	3,998
Change in vested and unvested shares	***(110)***	**(4,609)**	*(116)*	(3,914)
Balance, end of year	***54***	**508**	*72*	500

Employee Benefit Costs

Year ended December 31	2014	2013
Stock option plan	20,290	21,347
Stock incentive plan	5,083	4,504
Stock-based compensation expense	25,373	25,851
Salaries and benefits, net of recoveries	16,178	13,392
	41,551	39,243

18. Income Tax

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

Year ended December 31	2014	2013
Loss from continuing operations before tax	(74,716)	(105,708)
Effective Canadian statutory income tax rate	25.0 %	25.0 %
Expected income tax recovery	(18,679)	(26,427)
Effect on income taxes of:		
Statutory and other rate differences	284	2,707
Income from equity-accounted investments	850	(5,344)
Write-down of investments in securities	3,911	907
Investment in subsidiaries	–	2,186
Flow-through share renunciations	5,870	4,223
Stock-based compensation	5,072	5,337
Non-deductible items and other	(310)	(2,182)
Income tax recovery	(3,002)	(18,593)

The following table summarizes the temporary differences that give rise to the net deferred income tax asset:

As at December 31	2014	2013
Property, plant and equipment	(209,850)	(91,934)
Investments	(357)	(4,188)
Asset retirement obligations	71,872	60,006
Non-capital losses	285,166	150,514
Other	5,656	4,692
Deferred tax asset	152,487	119,090

The following table summarizes the movements of the deferred income tax asset during the year:

Year ended December 31	2014	2013
Balance, beginning of year	119,090	116,901
Deferred income tax recovery	2,957	14,219
Deferred income tax recovery (expense) included in other comprehensive income	271	(356)
Flow-through share renunciations	(20,671)	(13,008)
Share issuance costs	3,553	2,139
Business combinations and other	47,287	805
Balance, end of year	152,487	119,090

Paramount has $1,141.3 million (2013 – $601.5 million) of unused tax losses expiring between 2025 and 2034. In addition, Paramount has $233.8 million (2013 – $180.0 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recognized. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and unutilized tax losses can be applied. A deferred tax asset related to the carry forward of unutilized tax losses has been recorded as the Company expects that future taxable profits, through a combination of future operating results and gains realized on the disposition of assets, will be sufficient to utilize the deferred tax asset.

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

19. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at December 31, 2014 consisted of cash and cash equivalents, accounts receivable, the Deposit, investments in securities, the demand facilities, accounts payable and accrued liabilities and long-term debt.

Fair Values of Financial Assets and Liabilities

The following methods and assumptions are used to estimate the fair values for financial instruments carried at fair value in the Company's financial statements:

- Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the Deposit approximates its carrying amount.

- Risk management assets and liabilities outstanding from time-to-time are carried at fair values, which are estimated using a market approach incorporating level two fair value hierarchy inputs, including forward market curves and price quotes for similar instruments provided by financial institutions.

- Publicly-traded investments in securities are carried at their period-end trading price, which are level one fair value hierarchy inputs.

Liabilities Carried at Amortized Cost

The carrying value of the demand facilities and long-term debt, including the Senior Notes, are measured at amortized cost. The 2017 Senior Notes had a market value of 97.3 percent of their principal amount at December 31, 2014 (December 31, 2013 – 103.5 percent). The 2019 Senior Notes had a market value of 93.6 percent of their principal amount at December 31, 2014 (December 31, 2013 – 101.0 percent). The market values of the Company's Senior Notes were estimated using a market approach incorporating prices quoted from financial institutions which are level two fair value hierarchy inputs.

Risk Management

For the year ended December 31, 2014, the Company entered into financial commodity contracts in respect of its natural gas and oil sales. Changes in the fair value of oil and natural gas risk management assets and liabilities are as follows:

Year ended December 31	2014	2013
Fair value, beginning of year	(3,972)	–
Changes in fair value	2,852	(3,972)
Settlements paid	1,120	–
Fair value, end of year	–	(3,972)

The Company did not have any financial commodity contracts in place at December 31, 2014.

Paramount is exposed to market risks where the fair values or future cash flows of financial instruments fluctuate because of changes in underlying market prices.

Commodity Price Risk

Paramount uses financial and physical commodity price contracts from time-to-time to manage exposure to commodity price volatility. The Company is exposed to commodity price risk on these instruments, as changes in underlying commodity prices will impact the market values of the contracts and ultimately the amounts received or paid upon settlement.

Foreign Currency Risk

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

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

Interest Rate Risk

Paramount is exposed to interest rate risk from time-to-time on outstanding balances on its floating rate bank credit facilities, and on interest bearing cash and cash equivalents. A one percent increase or decrease in interest rates would have impacted Paramount's net earnings for the year ended December 31, 2014 by approximately $2.7 million (2013 – $0.8 million) based on the average floating rate credit facility balances outstanding during the year. Paramount's 2017 Senior Notes and 2019 Senior Notes bear interest at fixed rates and are subject to fair value changes as market interest rates change.

Equity Price Risk

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

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company manages

credit risk by endeavoring to enter into contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing letters of credit, and limiting available credit when necessary. The maximum credit risk exposure at December 31, 2014 is limited to the carrying value of accounts receivable. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk. At December 31, 2014, Paramount had no balances due from partners that represented more than 10 percent of the Company's total accounts receivable.

Liquidity Risk

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

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

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

	2015	2016	2017	2018	2019	Thereafter	Total
Accounts payable & accrued liabilities (1)	263,571	–	–	–	–	–	263,571
Cavalier Facility (2)	30,590	–	–	–	–	–	30,590
Credit Facility (3)	19,088	416,762	–	–	–	–	435,850
Fox Drilling Facility (3)	10,740	10,999	10,521	22,959	859	2,371	58,449
Senior Notes (3)	64,838	64,838	433,249	34,313	481,680	–	1,078,918
	388,827	**492,599**	**443,770**	**57,272**	**482,539**	**2,371**	**1,867,378**

(1) Excluding $3.3 million related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances.
(2) Excluding interest.
(3) Including interest.

Accounts Payable and Accrued Liabilities

As at December 31	2014	2013
Trade and accrued payables	**252,349**	191,783
Joint operation and other	**7,178**	8,208
Interest payable	**4,044**	4,044
Flow-through share renunciation obligations	**3,276**	9,546
	266,847	213,581

Terms and conditions of the above financial liabilities:

- Trade and accrued payables and joint operation and other payables are non-interest bearing and are normally settled within 30 – 60 days.

- Interest on the 2017 Senior Notes is payable semi-annually in arrears on June 13 and December 13 in each year. Interest on the 2019 Senior Notes is payable semi-annually in arrears on June 4 and December 4 in each year.

Accounts Receivable

As at December 31	2014	2013
Revenue receivable	33,972	20,214
Joint operation receivable	17,655	12,361
GST and other	5,413	6,725
	57,040	39,300

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

In determining the recoverability of joint operation receivables, the Company performs a risk analysis considering the type and age of the outstanding receivables and the credit worthiness of the counterparties. The Company has determined that there was no impairment of joint operation receivables as at December 31, 2014. There were no significant non-current joint operation receivables as at December 31, 2014 and 2013.

20. Consolidated Statement of Cash Flows Selected Information

Items Not Involving Cash

Year ended December 31	2014	2013
Financial commodity contracts	(3,972)	3,972
Stock-based compensation	25,373	25,851
Depletion and depreciation	229,819	152,935
Exploration and evaluation	17,509	28,436
Gain on sale of property, plant, and equipment	(95,691)	(32,688)
Accretion of asset retirement obligations	5,936	3,099
Foreign exchange	1,058	599
(Income) loss from equity-accounted investments	3,399	(21,378)
Write-down of investments in securities	15,645	3,628
Gain on sale of investments	(5,154)	(3,656)
Deferred income tax	(2,957)	(23,576)
Discontinued operations	–	(29,361)
Other	1,864	1,689
	192,829	109,550

Supplemental Cash Flow Information

Year ended December 31	2014	2013
Interest paid	79,263	58,338
Current tax paid	402	8,117

Components of Cash and Cash Equivalents

As at December 31	2014	2013
Cash	18,320	10,703
Cash equivalents	–	–
	18,320	10,703

21. Capital Structure

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

i. maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;
ii. maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives, and the repayment of debt obligations when due; and
iii. maximize shareholder returns.

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

Paramount's capital structure consists of the following:

As at December 31	2014	2013
Adjusted working capital deficit (1)	183,328	151,780
Demand facilities	81,530	75,550
Facility	397,673	71,826
Senior Notes (2)	820,000	820,000
Net Debt (3)	1,482,531	1,119,156
Share capital	1,603,436	1,169,178
Accumulated deficit	(296,326)	(224,612)
Reserves	46,172	87,678
Total Capital	2,835,813	2,151,400

(1) Adjusted working capital excludes accounts payable and accrued liabilities related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2014 - $3.3 million, December 31, 2013 - $9.5 million), risk management assets and liabilities, and demand facilities.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net Debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's Notice of Objection (See Note 18).

Paramount is not subject to financial maintenance covenants under the terms of the Facility or the Senior Notes. The agreements include certain restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets, and pay dividends.

22. Related Party Transactions

Service Agreements

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

During 2014, Paramount charged $0.6 million (2013 – $0.4 million) to Trilogy in respect of operational and administrative services. Paramount charged $0.6 million (2013 – $3.0 million) to Trilogy and was charged $1.6 million (2013 – $0.8 million) by Trilogy in respect of joint operations. Also, Paramount received $7.4 million (2013 – $8.0 million) in dividends from Trilogy. As of December 31, 2014, Paramount had a net payable balance due to Trilogy of $0.3 million (2013 – net receivable of $0.3 million).

Compensation of Key Management Personnel

Year ended December 31	2014	2013
Salaries and benefits	1,899	1,857
Stock-based compensation	10,658	9,980
	12,557	11,837

23. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2014:

	Within one year	After one year but not more than five years	More than five years
Petroleum and natural gas transportation and processing commitments (1)	81,994	490,425	741,331
Operating leases	10,439	19,748	5,067
Capital spending commitments and other (2)	19,326	3,359	190
	111,759	513,532	746,588

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $41.2 million at December 31, 2014 (2013 - $32.3 million).
(2) Relates to contractual obligations for purchases of major equipment.

Operating Lease Commitment

Paramount's head office lease expires in 2022. The Company incurred office lease costs of $3.7 million in 2014 (2013 – $3.5 million).

Flow-Through Shares

As a result of flow-through share issuances in 2014, Paramount is required to incur, on or before December 31, 2015, $74.4 million of CEE, of which $57.5 million was incurred as of December 31, 2014. Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with CEE flow-through shares issued in 2013.

Contingencies

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

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

CORPORATE INFORMATION

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

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

B. K. Lee
Chief Financial Officer

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Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

P. R. Kinvig
V.P. Finance and Controller

P. G. Tahmazian
V.P. Midstream

E. M. Shier
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L. A. Friesen
Assistant Corporate Secretary

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Independent Businessman
Calgary, Alberta

B. M. Wylie (2)
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Calgary, Alberta

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

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