



# 40 YEARS

***Paramount***  
*resources ltd.*

ANNUAL REPORT 2018



|                                               |           |
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## **ANNUAL MEETING OF SHAREHOLDERS**

Paramount's shareholders are cordially invited to attend the Annual Meeting of Shareholders to be held Wednesday, May 8, 2019 at 10:30 AM MDT at the Hudson, 6<sup>th</sup> Floor, 200 - 8<sup>th</sup> 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, 2018 contained herein, which also includes supplemental advisories related to additional information included in this document.

## MESSAGE TO SHAREHOLDERS



To our Shareholders,

Paramount navigated through 2018 and achieved key milestones which have positioned the Company for success. Integration of the acquired entities into Paramount's operations was a key focus and I am pleased to say that the vast majority of this work has now been completed. Our management team has built on the strengths of each of the predecessor organizations, seeking to choose the best people, processes, and platforms for all our business processes, and we have become a stronger company for this. We are well prepared to take on the challenges and new complexities of the modern energy industry and to achieve our goals through what remains a turbulent time in our industry.

Paramount continues to execute our strategy of capturing and developing large-scale profitable resource plays that will generate and sustain free cash flow for decades to come. Our Grande Prairie developments have emerged as the near-term focus for the Company. We are progressing well on the plan to develop the Grande Prairie operating area to approximately 85,000 Boe/d of production by 2021. By then, the Company expects to be in a position to deliver returns to shareholders in the form of cash dividends, repurchases of equity, further growth, or a combination of these elements.

Well results at the Karr Project area have significantly exceeded our initial expectations, including higher condensate to gas ratios and lower overall decline rates. Paramount debottlenecked the Karr facilities during 2018 by increasing inlet separation capacity, expanding additional field pipeline capacity, adding 20 MMcf/d of compression capacity, as well as liquids handling modifications, which all contributed to record throughput exiting 2018. Paramount also elected to move ahead with the expansion of the Karr facility. This expansion will add 70 MMcf/d of raw natural gas processing capacity (50 MMcf/d sales) and will increase overall condensate processing capacity to 30,000 Bbl/d by the second half of 2020. Paramount continues to work toward developing this project to over 45,000 Boe/d of production by 2021.

At the new Wapiti development, the Company drilled and completed its first new 11 well pad in anticipation of the start-up of the new third-party Wapiti plant, where Paramount is the anchor tenant. We eagerly anticipate the first 50 MMcf/d of production and associated liquids coming on stream this year, with first production during the second quarter of 2019. Paramount has maintained our scheduled development plan to ramp up production at Wapiti by drilling a second 12 well pad through the latter parts of 2018 and the beginning of 2019. We expect initiating completion activities on this pad in the second quarter of 2019 and remain on track to ramp up to 100 MMcf/d of production plus associated liquids in the spring of 2020. There remains a further ramp up of production to 130 MMcf/d plus associated liquids in 2021. Paramount's leading-edge completions have resulted in progressively higher, more valuable, liquids ratios at its neighboring Karr development. We have applied these higher intensity completion designs and technology at

Wapiti, which we expect will provide enhanced value to the Wapiti development. Paramount is progressing well on its goal of achieving approximately 40,000 Boe/d of production at Wapiti by 2021.

Paramount continues to hold material incremental value in other resource plays it has captured in the Duvernay at Kaybob as well as additional resource plays in the Montney at Kaybob and at Birch, B.C. The Company has also captured additional Duvernay development potential at Willesden Green in Central Alberta, and is in the delineation stage of evaluating promising emerging resource plays in the Duvernay in the East Shale Basin and additional Montney acreage at Ante Creek. These projects represent opportunities that will support decades of future development.

Overall, Canadian energy industry conditions remain challenging, with access to capital for our industry being the most difficult we have ever seen. An important aspect of our business plan is to rationalize non-core assets to further strengthen the balance sheet and focus our operations. This will remain challenging over the short-term because of limited capital currently available to potential buyers. Increased volatility in commodity prices, as well as high and unpredictable differentials for both gas and liquids as a result of export capacity restrictions to the rest of North America and the world, have led us to be very conservative in our near-term planning. Technological advances do appear to be slowing and remaining location inventories for many operators are becoming more limited in the best resource plays in North America. If this proves to be the case, we expect to see less aggressive growth for the industry and higher, more sustainable pricing. Paramount will maintain a strong balance sheet to weather the challenges for the next few years and will be in a great position to benefit as supply and demand begin to balance.

To prepare for these industry conditions and challenges, Paramount has set conservative goals of 81,000 Boe/d to 85,000 Boe/d of average production in 2019 while spending approximately \$350 million on its base capital budget. This budget maintains capital discipline, is expected to align spending with adjusted cash flow, and delivers a higher production level in the latter part of the year as new Wapiti production comes on-stream. We will also have pre-invested much of the capital for our 2020 growth plans.

As you know, Paramount lost our founder, Clay Riddell, on September 15, 2018, just shy of our 40<sup>th</sup> anniversary as a public company, which we celebrated in December 2018. Building Paramount into the successful company it is today was his life's work, and we will proudly continue to build on his dreams for the Company. His stewardship and valuable insights will be dearly missed, but he will continue to inspire us every day to continue his legacy, building on the foundation he established for Paramount as a preeminent leader in the Canadian oil and gas industry.



James H.T. Riddell  
President and Chief Executive Officer and Chairman  
March 2019

# 2018 OVERVIEW

## OPERATING AND FINANCIAL RESULTS <sup>(1)</sup>

(\$ millions, except as noted)

|                                                    | Three months ended December 31 |                       |         |                       | Twelve months ended December 31 |                       |         |                       |
|----------------------------------------------------|--------------------------------|-----------------------|---------|-----------------------|---------------------------------|-----------------------|---------|-----------------------|
|                                                    | 2018                           |                       | 2017    |                       | 2018                            |                       | 2017    |                       |
| Sales volumes (Boe/d)                              |                                |                       |         |                       |                                 |                       |         |                       |
| Grande Prairie                                     | 26,976                         |                       | 31,791  |                       | 26,059                          |                       | 21,480  |                       |
| Kaybob                                             | 37,262                         |                       | 41,531  |                       | 39,004                          |                       | 14,073  |                       |
| Central Alberta and Other                          | 20,257                         |                       | 22,090  |                       | 20,878                          |                       | 9,417   |                       |
| Total                                              | 84,495                         |                       | 95,412  |                       | 85,941                          |                       | 44,970  |                       |
| % liquids                                          | 38%                            |                       | 37%     |                       | 37%                             |                       | 40%     |                       |
| Netback                                            |                                | \$/Boe <sup>(3)</sup> |         | \$/Boe <sup>(3)</sup> |                                 | \$/Boe <sup>(3)</sup> |         | \$/Boe <sup>(3)</sup> |
| Natural gas revenue                                | 79.2                           | 2.73                  | 69.9    | 2.11                  | 267.1                           | 2.25                  | 132.8   | 2.26                  |
| Condensate and oil revenue                         | 104.3                          | 45.54                 | 161.2   | 66.65                 | 599.9                           | 67.81                 | 313.4   | 61.52                 |
| Other NGLs revenue <sup>(2)</sup>                  | 20.4                           | 31.39                 | 25.4    | 30.15                 | 82.7                            | 30.67                 | 40.5    | 26.80                 |
| Royalty and sulphur revenue                        | 3.5                            | —                     | 2.4     | —                     | 15.8                            | —                     | 4.7     | —                     |
| Petroleum and natural gas sales                    | 207.4                          | 26.68                 | 258.9   | 29.49                 | 965.5                           | 30.78                 | 491.4   | 29.94                 |
| Royalties                                          | (8.0)                          | (1.03)                | (16.8)  | (1.92)                | (69.2)                          | (2.21)                | (24.6)  | (1.50)                |
| Operating expense                                  | (103.2)                        | (13.28)               | (86.1)  | (9.81)                | (381.0)                         | (12.15)               | (165.9) | (10.11)               |
| Transportation and NGLs processing <sup>(4)</sup>  | (24.2)                         | (3.11)                | (24.3)  | (2.77)                | (93.0)                          | (2.96)                | (51.0)  | (3.11)                |
| Netback                                            | 72.0                           | 9.26                  | 131.7   | 14.99                 | 422.3                           | 13.46                 | 249.9   | 15.22                 |
| Exploration and development capital <sup>(5)</sup> |                                |                       |         |                       |                                 |                       |         |                       |
| Grande Prairie                                     | 72.0                           |                       | 97.0    |                       | 301.6                           |                       | 369.6   |                       |
| Kaybob                                             | 35.6                           |                       | 39.3    |                       | 215.7                           |                       | 106.5   |                       |
| Central Alberta and Other                          | 16.3                           |                       | 14.1    |                       | 40.9                            |                       | 51.5    |                       |
| Total                                              | 123.9                          |                       | 150.4   |                       | 558.2                           |                       | 527.6   |                       |
| Net income (loss) <sup>(6)</sup>                   | (170.5)                        |                       | (103.2) |                       | (367.2)                         |                       | 336.9   |                       |
| per share – diluted (\$/share)                     | (1.31)                         |                       | (0.76)  |                       | (2.78)                          |                       | 2.91    |                       |
| Adjusted funds flow                                | 45.5                           |                       | 110.1   |                       | 263.9                           |                       | 218.7   |                       |
| per share – diluted (\$/share)                     | 0.35                           |                       | 0.82    |                       | 2.00                            |                       | 1.89    |                       |
| Total assets <sup>(6)</sup>                        |                                |                       |         |                       | 4,118.1                         |                       | 4,480.6 |                       |
| Net debt                                           |                                |                       |         |                       | 896.0                           |                       | 636.2   |                       |
| Common shares outstanding (thousands)              |                                |                       |         |                       | 130,899                         |                       | 135,059 |                       |

(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) Other NGLs means ethane, propane and butane.

(3) Natural gas revenue shown per Mcf.

(4) Includes downstream transportation costs and NGLs fractionation costs.

(5) Excludes land and property acquisitions and spending related to corporate assets.

(6) Net income (loss) for the three and twelve months ended December 31, 2017 and total assets as at December 31, 2017 have been restated, refer to the Company's consolidated financial statements.

## RESERVES <sup>(1)(2)</sup>

|                                                    | Proved  |         |          | Proved plus Probable |         |          |
|----------------------------------------------------|---------|---------|----------|----------------------|---------|----------|
|                                                    | 2018    | 2017    | % Change | 2018                 | 2017    | % Change |
| Natural gas (Bcf)                                  | 1,366.6 | 1,398.7 | (2)      | 2,169.2              | 2,171.3 | —        |
| NGLs (MBbl) <sup>(3)</sup>                         | 146,791 | 119,134 | 23       | 238,325              | 196,883 | 21       |
| Crude oil (MBbl)                                   | 16,130  | 23,570  | (32)     | 34,550               | 34,714  | —        |
| Total (MBoe)                                       | 390,688 | 375,824 | 4        | 634,403              | 593,473 | 7        |
| Future Net Revenue NPV <sub>10</sub> (\$ millions) | 2,136   | 2,464   | (13)     | 4,134                | 4,353   | (5)      |

(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 McDaniel & Associates Consultants Ltd. ("McDaniel") as of December 31, 2018 and December 31, 2017 in accordance with National Instrument 51-101 definitions, standards and procedures. Reserves are gross reserves representing working interest before royalties. Net present values of future net revenue were determined using forecast prices and costs and do not represent fair market value.

(3) Includes ethane, propane, butane and condensate.

## OIL AND GAS OPERATIONS

- Annual sales volumes averaged 85,941 Boe/d (37 percent liquids) in 2018, an increase of 91 percent compared to average sales volumes of 44,970 Boe/d (40 percent liquids) in 2017. Fourth quarter 2018 sales volumes averaged 84,495 Boe/d (38 percent liquids).
- Adjusted funds flow in 2018 was \$263.9 million or \$2.00 per share. Liquids revenue was \$682.6 million or 71 percent of total revenue.
- Capital spending in 2018, excluding land acquisitions, totalled \$569.0 million compared to Paramount's capital guidance of \$600 million. Fourth quarter spending totalled \$126.3 million. Cash proceeds from non-core asset sales in 2018 totalled \$182.4 million.
- At Karr, 5 (5.0 net) new Montney wells on the 1-2 pad were brought on production in the third quarter of 2018. These wells averaged 1,869 Boe/d of peak 30-day wellhead production per well, with an average condensate to gas ratio ("CGR") of 264 Bbl/MMcf.<sup>(1)</sup>
- Facilities enhancements and trucking facility expansions were completed at Karr, increasing raw liquids handling capacity to approximately 15,000 Bbl/d. Fourth quarter sales volumes at Karr averaged 26,282 Boe/d (53 percent liquids).
- At Wapiti, 11 (11.0 net) wells on the 9-3 pad have been drilled and completed, and are awaiting the start-up of a new third-party processing facility, scheduled to be onstream in mid-2019.
- Paramount's natural gas diversification strategy includes approximately 122,000 GJ/d of sales under long-term contracts priced at the Dawn, US Midwest and Malin markets. The Company's average realized natural gas sales price for the fourth quarter of 2018 was \$2.73/Mcf compared to average AECO prices of \$1.64/GJ.
- Paramount has 14,000 Bbl/d of liquids hedged for fiscal 2019 at an average price of C\$77.05/Bbl.
- In the fourth quarter of 2018, Paramount expanded its covenant-based revolving bank credit facility from \$1.2 billion to \$1.5 billion and extended the maturity date to November 2022. At December 31, 2018, \$815.0 million was drawn on the facility.
- Paramount shut-in the dry-gas Hawkeye field in central Alberta and has decided to cease production operations in the Zama field in northern Alberta. Total sales volumes for these fields averaged approximately 1,500 Boe/d. Paramount is moving forward with area-based closure programs for both of these fields.

<sup>(1)</sup> Production measured at the wellhead. Natural gas sales volumes are approximately five percent lower and liquids sales volumes are approximately 12 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

## 2019 GUIDANCE

- Paramount is focused on maintaining capital discipline and is prioritizing lower-risk, liquids-rich Montney resource plays that generate immediate cash flows. Discretionary spending on longer-term projects is being limited in order to preserve financial flexibility and balance sheet strength.
- Paramount's 2019 annual sales volumes are expected to average between 81,000 Boe/d and 85,000 Boe/d.
  - Sales volumes are anticipated to average between 80,000 Boe/d and 81,000 Boe/d in the first half of 2019, as the majority of new 2019 wells are scheduled to be brought on later in the year.
  - Paramount expects production to increase in the second half of the year as production at Wapiti ramps up, with fourth quarter sales volumes forecast to average between 85,000 Boe/d and 90,000 Boe/d.
- The Company's base capital budget for 2019 is \$350 million, excluding land acquisitions and abandonment and reclamation activities. The 2019 program is largely focused on growing Montney production at Wapiti and Karr, increasing liquids sales and per-unit netbacks.
- Capital expenditures required in 2019 to advance the further expansion of the Karr 6-18 facility for a 2020 startup are estimated at \$145 million and are not included in the \$350 million base capital budget. Spending on the expansion is heavily weighted to the second half of the year, providing the Company flexibility to evaluate funding alternatives.
- The Company's 2019 capital plan remains flexible and may be adjusted depending on commodity prices and other factors.
- The Company has budgeted \$32 million for abandonment and reclamation activities in 2019, including those at Hawkeye and Zama.

## RESERVES

- Paramount's proved plus probable reserves ("P+P") increased seven percent to 634 MMBoe in 2018 compared to 594 MMBoe in 2017. Proved reserves increased four percent to 391 MMBoe in 2018 compared to 376 MMBoe in 2017.
- The Company's reserves replacement ratio was 2.5 times for P+P reserves and 1.7 times for proved reserves.
- Total developed reserves (P+P) were 178 MMBoe in 2018, with estimated future net revenue of \$1.2 billion (discounted at 10 percent, before tax).
- P+P reserves for the Karr and Wapiti Montney plays in the Grande Prairie Region increased 29 percent to 356 MMBoe in 2018 compared to 277 MMBoe in 2017.
- P+P finding, development and acquisition costs for the Grande Prairie region were \$10.61 per Boe in 2018.
- Estimated future net revenue at December 31, 2018 totalled \$2.1 billion for proved reserves and \$4.1 billion for P+P reserves (discounted at 10 percent, before tax).

## CORPORATE

- In early 2019, the Company entered into interest rate swaps to fix interest rates on a portion of its debt; \$250 million notional amount for four years and an additional \$250 million notional amount for seven years.
- The Company purchased a total of 4.2 million common shares for cancellation under its 2018 normal course issuer bid program at a total cost of \$66.4 million. In January 2019, Paramount implemented a normal course issuer bid program under which the Company may purchase up to 7.1 million common shares for cancellation.

## REVIEW OF OPERATIONS

In 2018, Paramount expanded its liquids-rich resource plays across its portfolio, integrated its 2017 acquisitions of Apache Canada Ltd. and Trilogy Energy Corp. and continued the dispositions of non-core assets. The Company is focused on two large-scale Montney developments in the Grande Prairie Region at Karr and at Wapiti, where Paramount is planning to add material new production in mid-2019. The Company also continues to advance the early-stage development of its liquids-rich Duvernay plays. The Company's netback was \$422.3 million in 2018, capital expenditures totalled \$569.0 million and \$340 million in total proceeds were realized through the sale of the Resthaven / Jayar property.

Company sales volumes increased to 85,941 Boe/d in 2018, 91 percent higher than the prior year. Organic production growth at Karr accounted for about 15 percent of the increase, with a full year of production from the 2017 acquisitions accounting for the balance. Karr area production comprised approximately 27 percent of 2018 Company sales volumes, averaging 22,807 Boe/d in 2018 (54 percent liquids).

In light of the current economic environment, Paramount is focused on maintaining capital discipline and prioritizing lower-risk, liquids-rich Montney resource plays that generate immediate cash flows and replace legacy lower-netback production. Discretionary spending on longer-term projects is being limited in order to preserve financial flexibility and balance sheet strength. The Company continues to focus on improving netbacks through implementing market diversification strategies to increase revenue and optimizing field operations to lower operating expenses without compromising safety or operational integrity.

Paramount's annual 2019 sales volumes are expected to average between 81,000 Boe/d and 85,000 Boe/d. Sales volumes are anticipated to average between 80,000 Boe/d and 81,000 Boe/d in the first half of the year, as the majority of new 2019 wells are scheduled to be brought on later in the year. Paramount expects production to increase in the second half of the year as production at Wapiti ramps up, with fourth quarter sales volumes forecast to average between 85,000 Boe/d and 90,000 Boe/d.

The Company's base capital budget for 2019 is \$350 million, excluding land acquisitions and abandonment and reclamation activities. The majority of the capital will be directed to the Grande Prairie Region, with \$145 million allocated to Wapiti and \$110 million to Karr. The Wapiti program includes drilling, completion and equipping projects in preparation for the startup of new processing capacity. Capital investments at Karr continue to focus on adding new wells to fully utilize available capacity at the existing 6-18 compression and dehydration facility (the "6-18 Facility"). The 2019 capital program also includes \$60 million related to projects in the Kaybob and Central Alberta and Other regions and \$35 million for maintenance, optimization and corporate projects.

Capital expenditures required in 2019 to advance the further expansion of the 6-18 Facility for a 2020 startup are estimated at \$145 million and are not included in the \$350 million base capital budget. Spending on the expansion, which would add 70 MMcf/d of raw natural gas processing capacity and an additional 15,000 Bbl/d of raw liquids handling capacity, is heavily weighted to the second half of the year, providing the Company with flexibility to evaluate funding alternatives.

After conducting an in-depth review, Paramount shut-in dry gas production in the Hawkeye area in September 2018, which averaged approximately 300 Boe/d for the nine months ended September 30, 2018. In early 2019, the Company also made the decision to cease production operations in the Zama field in northern Alberta. Sales volumes at Zama averaged approximately 1,200 Boe/d in the fourth quarter of 2018. Paramount will continue to focus on safety and environmental responsibility as it transitions into the

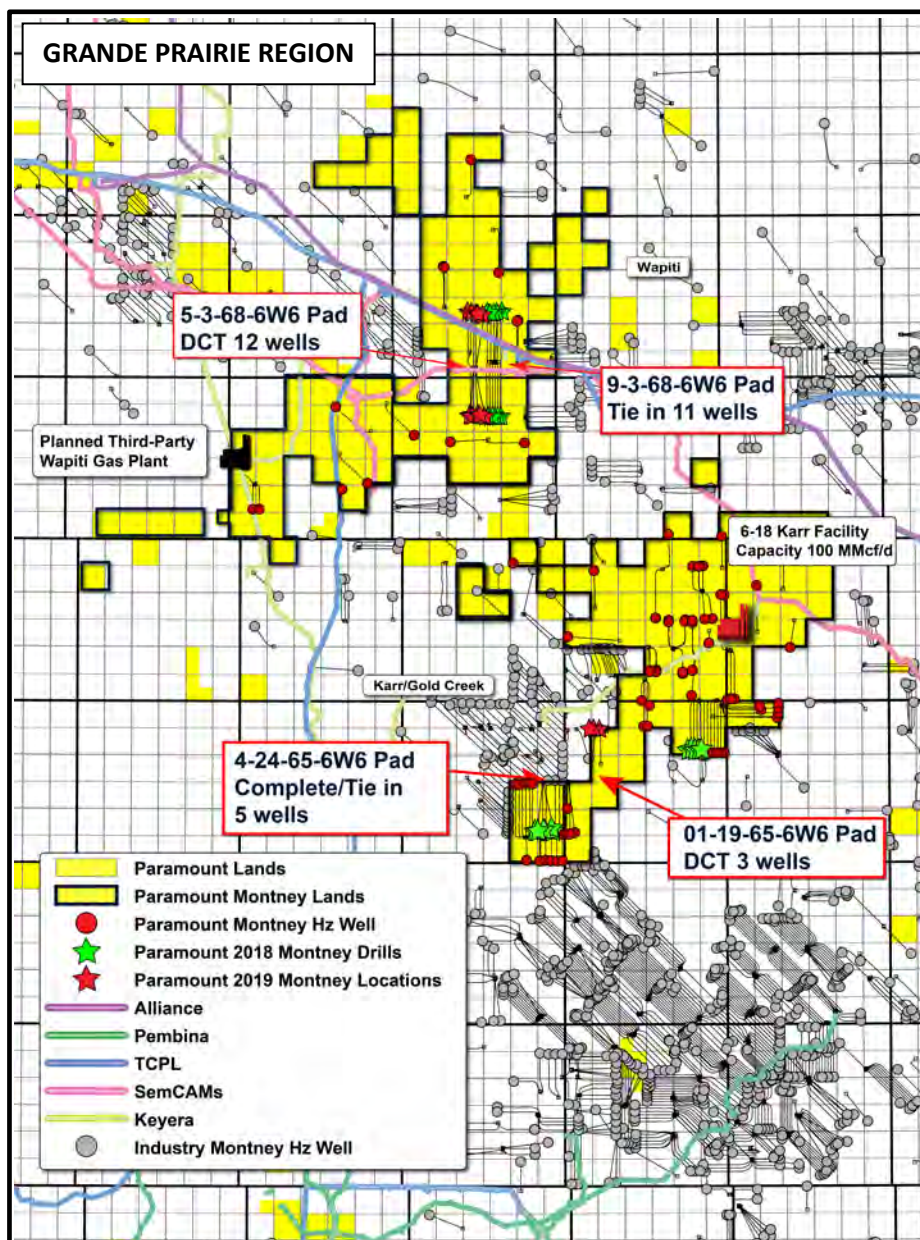


abandonment and reclamation phase for the Hawkeye and Zama fields. Paramount is moving forward with area-based closure programs for both of these fields.

Paramount has budgeted \$32 million for abandonment and reclamation activities in 2019. The Company expects to continue to spend approximately \$30 to \$40 million per year on abandonment and reclamation activities, including those at Hawkeye and Zama.

## **GRANDE PRAIRIE REGION**

At December 31, 2018, Paramount held approximately 106,000 net acres of Montney rights.



Development activities in the Grande Prairie Region are focused at the Karr and Wapiti resource plays, located south of Grande Prairie, Alberta, in the over-pressured liquids-rich Deep Basin Montney trend. There are three potential development layers, only one of which is currently being developed.

Grande Prairie Region sales volumes averaged 26,059 Boe/d in 2018, the majority of which was liquids-rich production from the Karr development. Exploration and development capital totaled \$301.6 million, which was focused on drilling and completion operations at Wapiti and drilling, completion and facility expansion projects at Karr.

### **Karr**

Cash flows at Karr benefit from a liquids-rich product mix, which generates strong per-unit revenues and low per-unit operating costs, resulting in top-tier netbacks. Karr sales volumes and netbacks are summarized below:

|                                    | 2018          |          | 2017          | % Change |                         |
|------------------------------------|---------------|----------|---------------|----------|-------------------------|
| Sales volumes                      |               |          |               |          |                         |
| Natural gas (MMcf/d)               |               | 63.4     | 43.1          |          | 47                      |
| Condensate and oil (Bbl/d)         |               | 10,967   | 8,483         |          | 29                      |
| Other NGLs (Bbl/d)                 |               | 1,270    | 723           |          | 76                      |
| Total (Boe/d)                      |               | 22,807   | 16,393        |          | 39                      |
| % liquids                          |               | 54%      | 56%           |          |                         |
| Netback                            | (\$ millions) | (\$/Boe) | (\$ millions) | (\$/Boe) | % Change in \$ millions |
| Petroleum and natural gas sales    | 349.3         | 41.96    | 236.9         | 39.58    | 47                      |
| Royalties                          | (22.3)        | (2.68)   | (8.8)         | (1.48)   | 153                     |
| Operating expense                  | (75.0)        | (9.01)   | (49.0)        | (8.18)   | 53                      |
| Transportation and NGLs processing | (27.8)        | (3.33)   | (24.6)        | (4.11)   | 13                      |
|                                    | 224.2         | 26.94    | 154.5         | 25.81    | 45                      |

The 2018 capital program at Karr focused on drilling ten wells on two large pads. The 5 (5.0 net) wells on the 1-2 pad were completed and brought on production in the third quarter. The 5 (5.0 net) wells on the second pad (4-24) will be completed and tied-in in 2019.

As a result of new Karr Montney wells maintaining higher than expected condensate rates after initial start-up, Karr production was constrained for most of 2018 by the then available liquids handling capacity. The Company completed, ahead of schedule and under budget, a number of facilities enhancements in the fourth quarter of 2018, including debottlenecking liquids handling processes at the 6-18 Facility, adding incremental liquids field gathering capacity and installing additional truck loading facilities. In addition, natural gas compression capacity at the 6-18 Facility was expanded from 80 MMcf/d to 100 MMcf/d.

Fourth quarter 2018 Karr sales volumes increased 21 percent to 26,282 Boe/d compared to an average of 21,636 Boe/d for the first nine months of the year. Facility reliability in the fourth quarter exceeded 98 percent. In February 2019, the Company installed a higher-rate water injection system, which will reduce future trucking costs. Paramount continues to pursue opportunities to increase reliability and lower operating expenses at the 6-18 Facility.

Royalty rates for the Karr development increased in 2018 compared to 2017, as a number of wells from the 2016/2017 Montney development program fully utilized new well royalty incentives. New wells at Karr will continue to benefit from a five percent initial royalty rate up to the maximum incentive.

The 1-2 pad includes the Company's first high intensity completion of a Lower Montney horizontal well. To date, no Lower Montney well locations have been included in the reserves recognized for Paramount's Karr development.

The following table summarizes the performance of the five wells on the 1-2 pad brought on-stream in the third quarter of 2018 and the 27 wells drilled in the 2016/2017 Karr capital program:

|                                           | Peak 30-Day <sup>(1)</sup> |                             |                                  | Cumulative <sup>(2)</sup> |                            |                                  | Days on Production |
|-------------------------------------------|----------------------------|-----------------------------|----------------------------------|---------------------------|----------------------------|----------------------------------|--------------------|
|                                           | Total<br>(Boe/d)           | Wellhead Liquids<br>(Bbl/d) | CGR <sup>(3)</sup><br>(Bbl/MMcf) | Total<br>(MBoe)           | Wellhead Liquids<br>(MBbl) | CGR <sup>(3)</sup><br>(Bbl/MMcf) |                    |
| <b>1-2 Pad</b>                            |                            |                             |                                  |                           |                            |                                  |                    |
| 00/04-25-065-05W6/0                       | 1,598                      | 975                         | 261                              | 250                       | 147                        | 237                              | 202                |
| 02/04-25-065-05W6/0                       | 1,703                      | 951                         | 211                              | 267                       | 137                        | 176                              | 171                |
| 00/01-26-065-05W6/0                       | 1,878                      | 1,180                       | 282                              | 315                       | 185                        | 238                              | 193                |
| 02/01-26-065-05W6/0                       | 2,108                      | 1,333                       | 287                              | 252                       | 155                        | 269                              | 145                |
| 00/02-26-065-05W6/0                       | 2,058                      | 1,286                       | 278                              | 350                       | 211                        | 252                              | 185                |
| <b>2016/2017 Wells</b>                    |                            |                             |                                  |                           |                            |                                  |                    |
| 27 wells<br>(Peak 30 day – avg. per well) | 1,971                      | 1,186                       | 252                              | 14,167                    | 7,572                      | 191                              | 464                |

- (1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately five percent lower and liquids sales volumes are approximately 12 percent lower due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints.
- (2) Cumulative is the aggregate production measured at the wellhead to February 28, 2019. Natural gas sales volumes are approximately five percent lower and liquids sales volumes are approximately 12 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.
- (3) CGRs calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes.

In 2019, the Company plans to complete the five wells on the 4-24 pad and drill and complete a new three-well pad (1-19 pad). All eight of these new wells are scheduled to be brought on production in 2019 and are expected to provide sufficient new production to continue to fully utilize the 6-18 Facility.

## Wapiti

The 2018 capital program at Wapiti included the drilling and completion of 11 (11.0 net) wells on the 9-3 pad and commencing the drilling of 12 (12.0 net) wells on the 5-3 pad.

Paramount originally planned to complete six of the wells on the 9-3 pad in 2018, with the remaining five wells scheduled to be completed in the first half of 2019. To take advantage of economies of scale and reduced completion fluid handling costs as a result of warmer weather, the Company completed all 11 wells in 2018.

The drilling and completion of the 9-3 pad set new standards on several metrics. The fracks employed a plug and perf design in a zipper fracturing operation, with pumping downtime being minimized between stages by utilizing a surface manifold. This, along with other advances in well designs and program execution, contributed to an average of 14 stages pumped per day (an increase from an average of 11 on the 1-2 Karr pad), with a day record of 23 stages pumped (compared to a high of 16 on the 1-2 Karr pad), both of which are new records for Paramount. A transfer of new technology from the Karr field has also reduced the duration of mill-out operations with the adoption of 100% dissolvable plugs.

Wapiti production volumes will be processed through a new third-party natural gas processing facility (the "Wapiti Plant"), scheduled to start-up in mid-2019. Paramount has secured firm-service third-party natural



gas transportation capacity for its Wapiti production volumes, which capacity ramps up from 50 MMcf/d in the second half of 2019 to 130 MMcf/d in 2021.

The wells on the 5-3 pad are scheduled to be drilled by the end of the first quarter of 2019. Drilling operations continue to be refined, including advances in drilling fluids, rotary-steerable technology, geo-steering and bit selection.

The Company plans to gradually bring wells from the 9-3 pad on production following the startup of the Wapiti Plant. Wells from the 5-3 pad will also be completed and brought on production later in 2019. Paramount plans to continue its Wapiti drilling and completion program in 2020 to build its base production.

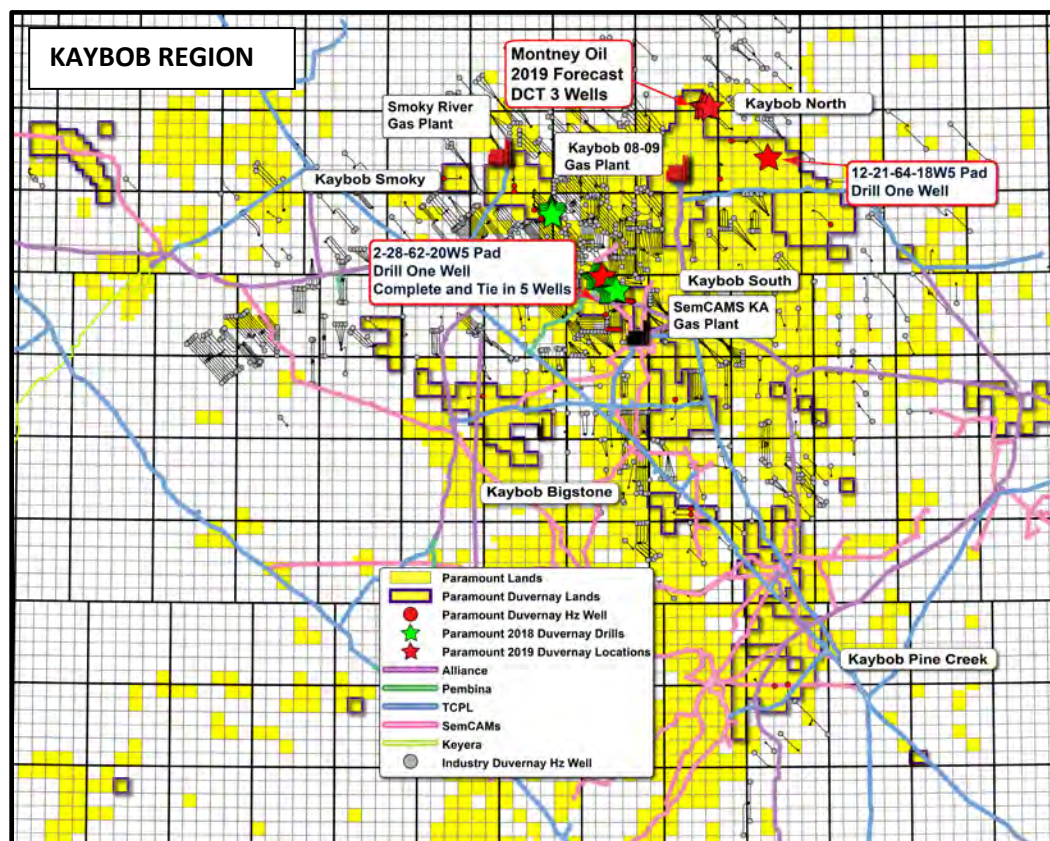
### ***Resthaven / Jayar Disposition***

In the third quarter of 2018, Paramount sold its properties at Resthaven / Jayar in the Grande Prairie Region for \$340 million. Total consideration included \$170 million cash, 85 million common shares and 8.5 million warrants of the purchaser, Strath Resources Ltd. ("Strath"). Sales volumes for the sold properties averaged approximately 5,000 Boe/d in 2018 prior to the sale. Strath is a Calgary-based private company focused on the development of its Kakwa oil and natural gas asset.

### **KAYBOB REGION**

Paramount has a large portfolio of resource plays in the Kaybob Region, including approximately 190,000 gross (165,000 net) acres of core Duvernay rights and approximately 32,000 net acres of Montney Oil rights.

The Company's key development areas include the Smoky Duvernay, South Duvernay and Montney Oil properties:





Kaybob Region sales volumes averaged 39,004 Boe/d in 2018. Exploration and development capital spending totaled \$215.7 million. Development activities in 2018 focused on the early-stage development of two Duvernay resource plays and bringing new Montney Oil wells on production. In order to preserve financial flexibility, development activities at Kaybob in 2019 will be constrained as capital expenditures will be focused on the Karr and Wapiti Montney developments in the Grande Prairie Region. The 2019 capital budget for the Kaybob Region is \$50 million.

#### *Kaybob Smoky Duvernay*

The Company expanded an existing natural gas processing plant and drilled and completed a new four-well pad (10-35 pad) at the Smoky Duvernay property in 2018. Capacity at the 6-16 plant at Smoky was expanded from 6 MMcf/d to 12 MMcf/d by repurposing and relocating surplus equipment from Zama in northern Alberta. This redeployment of existing equipment reduced capital costs and enabled the plant expansion to be fast tracked from 2019.

The 4 (4.0 net) wells on the 10-35 pad began flowing through permanent facilities in early-November. Initial results have confirmed the high liquids yield nature of the Smoky Duvernay reservoir. These four wells averaged 985 Boe/d of production per well over their first 90 days of production, with an average wellhead CGR of 350 Bbl/MMcf.<sup>(1)</sup>

#### *Kaybob South Duvernay*

The Company's 2018 capital program at the South Duvernay development was focused at two multi-well pads. The 7-22 pad includes 5 (2.5 net) wells, which were brought on production in the third quarter of 2018. These wells averaged 1,456 Boe/d of gross peak 30-day production per well, with an average wellhead CGR of 209 Bbl/MMcf.<sup>(2)</sup>

Paramount is utilizing fiber optic technology to monitor production data from controlled tests in perforation clusters, fluid viscosity, pump rate, fracture sequencing and landing zones on two of the wells on the 7-22 pad. The fiber optic system was installed prior to fracking the wells and has remained intact for production testing. The information gathered in these tests is being incorporated in future well completions.

Drilling operations for 5 (2.5 net) wells on the new 2-28 pad commenced in September. Drilling operations continued to improve, with one of the wells being drilled in a record 18 days. This was a result of changes in bit selection, employing rotary steerable technology, as well as adjustments in fluid weight. These wells are scheduled to be completed and brought on production in mid-2019.

The Company also plans to drill and case one tenure well in the North Kaybob Duvernay oil window in 2019 to preserve mineral rights.

#### *Kaybob Montney Oil*

The Company's 2018 capital program at the Montney Oil development included the drilling of 12 (12.0 net) wells. Ten of these wells, plus a well drilled in late-2017, were completed and brought on production in

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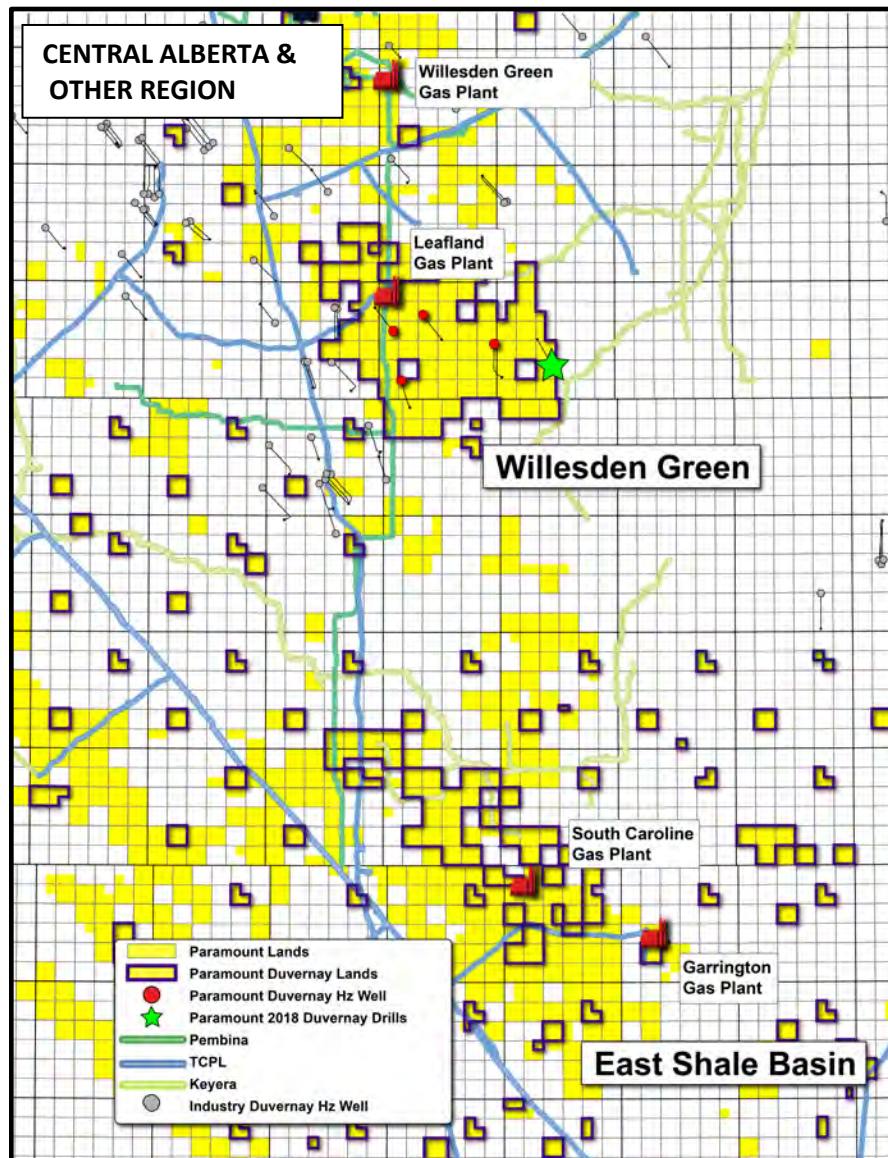
<sup>(1)</sup> Production measured at the wellhead. Natural gas sales volumes are approximately eight percent lower and liquids sales volumes are approximately 15 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

<sup>(2)</sup> Production measured at the wellhead. Natural gas sales volumes are approximately nine percent lower and liquids sales volumes are approximately 30 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

2018. In 2019, Paramount brought the remaining two wells from the 2018 program on production and plans to drill, complete and bring on production 3 (3.0) net wells on a new multi-well pad.

### **CENTRAL ALBERTA AND OTHER REGION**

The Central Alberta and Other Region includes multiple land and resource plays including approximately 150,600 net acres of Duvernay rights at Willesden Green and the East Shale Basin, as well as Cardium, Glauconite and Ellerslie rights and approximately 180,000 net acres of fee simple lands across these resource plays.



Central Alberta and Other Region sales volumes averaged 20,878 Boe/d in 2018. Exploration and development capital totaled \$40.9 million. Activities in the Central and Other Region are focused at Willesden Green, where the 5-29 Duvernay oil well was completed and brought on production in the third quarter of 2018. Pressure test results from the 5-29 well indicate that an over-pressure, high oil deliverability

reservoir is present on the Company's Willesden Green Duvernay acreage. The 5-29 well averaged 944 Boe/d of peak 30-day wellhead production, 86 percent oil.<sup>(1)</sup>

Over the course of the past year, the Company has expanded its Duvernay land position in the East Shale Basin, more than doubling its working interest lands to approximately 50,000 acres. Paramount also owns over 10,000 acres of fee simple lands in the area.

In 2019, the Company plans to drill one tenure well in the East Shale Basin to preserve mineral rights.

After an in-depth review of recent performance, future development potential and economic outlook, Paramount shut-in dry gas production in the Hawkeye area in September 2018, which averaged approximately 300 Boe/d of sales for the nine months ended September 30, 2018. In early 2019, the Company also made the decision to cease production operations in the Zama field in northern Alberta. Sales volumes at Zama averaged approximately 1,200 Boe/d in the fourth quarter of 2018.

## RESERVES AND FINDING, DEVELOPMENT & ACQUISITION COSTS

Paramount's proved plus probable reserves ("P+P") increased seven percent to 634.4 MMBoe in 2018 compared to 593.5 MMBoe in 2017. Paramount's proved reserves increased four percent to 390.7 MMBoe in 2018 compared to 375.8 MBoe in 2017. The Company's reserve replacement ratio was 2.5 times for P+P reserves and 1.7 times for proved reserves. Total developed reserves (proved plus probable) for the Company were 178 MMBoe in 2018, with estimated future net revenue of \$1.2 billion (discounted at 10 percent, before tax).

P+P reserves for the Karr and Wapiti resource plays in the Grande Prairie Region increased 29 percent to a total of 356.0 MMBoe in 2018 compared to a total of 277.0 MMBoe in 2017. Proved reserves for these properties increased 33 percent to a total of 213.7 MMBoe in 2018 from 160.7 MMBoe in 2017.

### Reserves by Product

Total Company gross reserves at December 31, 2018 are as follows:

|                            | Proved <sup>(1)(2)</sup> |         |          | Proved plus Probable <sup>(1)(2)</sup> |         |          |
|----------------------------|--------------------------|---------|----------|----------------------------------------|---------|----------|
|                            | 2018                     | 2017    | % Change | 2018                                   | 2017    | % Change |
| Natural gas (Bcf)          | 1,366.6                  | 1,398.7 | (2)      | 2,169.2                                | 2,171.3 | —        |
| NGLs (MBbl) <sup>(3)</sup> | 146,791                  | 119,134 | 23       | 238,325                                | 196,883 | 21       |
| Crude oil (MBbl)           | 16,130                   | 23,570  | (32)     | 34,550                                 | 34,714  | —        |
| Total (MBoe)               | 390,688                  | 375,824 | 4        | 634,403                                | 593,473 | 7        |

(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 McDaniel and Associates Ltd. ("McDaniel") as of December 31, 2018 and December 31, 2017 in accordance with National Instrument 51-101 definitions, standards and procedures. Working interest reserves before royalty deductions.

(3) Includes ethane, propane, butane and condensate.

<sup>(1)</sup> Production measured at the wellhead. Depending on the property, natural gas sales volumes are approximately 20 percent lower and liquids sales volumes are approximately 15 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells

### Reserves by Category

The following table summarizes the Company's gross proved and proved plus probable developed reserves and undeveloped reserves as at December 31, 2018 and the net present value of future net revenue of such reserves before income taxes, undiscounted and discounted at 10%.

|              | Proved         |                                                 |              | Proved plus Probable |                                                 |              |
|--------------|----------------|-------------------------------------------------|--------------|----------------------|-------------------------------------------------|--------------|
|              | Gross Reserves | Future Net Revenue NPV Before Tax (\$ millions) |              | Gross Reserves       | Future Net Revenue NPV Before Tax (\$ millions) |              |
|              | (MBoe)         | 0%                                              | 10%          | (MBoe)               | 0%                                              | 10%          |
| Developed    | 133,553        | 881                                             | 843          | 177,585              | 1,534                                           | 1,228        |
| Undeveloped  | 257,135        | 3,355                                           | 1,293        | 456,818              | 7,441                                           | 2,906        |
| <b>Total</b> | <b>390,688</b> | <b>4,236</b>                                    | <b>2,136</b> | <b>634,403</b>       | <b>8,975</b>                                    | <b>4,134</b> |

### Reserves Reconciliation

The following table provides a reconciliation of Paramount's gross reserves for the year ended December 31, 2018.

|                          | Proved <sup>(1)</sup> |                        |                | Proved plus Probable <sup>(1)</sup> |                        |                |
|--------------------------|-----------------------|------------------------|----------------|-------------------------------------|------------------------|----------------|
|                          | Natural Gas           | Liquids <sup>(2)</sup> | Total          | Natural Gas                         | Liquids <sup>(2)</sup> | Total          |
|                          | (Bcf)                 | (MBbl)                 | (MBoe)         | (Bcf)                               | (MBbl)                 | (MBoe)         |
| December 31, 2017        | 1,398.7               | 142,704                | 375,824        | 2,171.3                             | 231,597                | 593,473        |
| Extensions & discoveries | 177.5                 | 29,029                 | 58,609         | 318.8                               | 55,472                 | 108,602        |
| Technical revisions      | (32.3)                | 5,435                  | 59             | (140.1)                             | 773                    | (22,578)       |
| Economic factors         | (36.9)                | (541)                  | (6,699)        | (33.1)                              | (522)                  | (6,043)        |
| Dispositions             | (21.4)                | (2,163)                | (5,737)        | (28.7)                              | (2,902)                | (7,681)        |
| Production               | (119.0)               | (11,543)               | (31,369)       | (119.0)                             | (11,543)               | (31,369)       |
| <b>December 31, 2018</b> | <b>1,366.6</b>        | <b>162,921</b>         | <b>390,688</b> | <b>2,169.2</b>                      | <b>272,875</b>         | <b>634,403</b> |

(1) Columns and rows may not add due to rounding.

(2) Crude oil and NGLs.



## Finding, Development and Acquisitions Costs

The following table provides a calculation of finding, development and acquisition costs ("FD&A"):

|                              | 2018 <sup>(1)</sup>        |                              |                    |                                   |          |
|------------------------------|----------------------------|------------------------------|--------------------|-----------------------------------|----------|
|                              | Net Capital <sup>(2)</sup> | Change in FDC <sup>(3)</sup> | Total FD&A Capital | Reserves Additions <sup>(4)</sup> | FD&A     |
|                              | (\$ millions)              | (\$ millions)                | (\$ millions)      | (MMBoe)                           | (\$/Boe) |
| <b>TOTAL COMPANY</b>         |                            |                              |                    |                                   |          |
| Proved                       | 216.6                      | 548.2                        | 764.8              | 46.2                              | 16.54    |
| Proved plus Probable         | 216.6                      | 1,104.8                      | 1,321.4            | 72.3                              | 18.28    |
| <b>GRANDE PRAIRIE REGION</b> |                            |                              |                    |                                   |          |
| Proved                       | (37.2)                     | 713.9                        | 676.7              | 56.3                              | 12.02    |
| Proved plus Probable         | (37.2)                     | 890.1                        | 852.9              | 80.4                              | 10.61    |

- (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) Total exploration and development capital expenditures for the year, inclusive of acquisition and disposition proceeds.
- (3) Change in estimated future development capital from December 31, 2017 to December 31, 2018, excluding maintenance capital not associated with reserves additions being incorporated into future development capital as at December 31, 2018 in accordance with 2018 amendments to the COGE Handbook. Excluded amounts were \$180 million for the total Company and \$91 million for the Grande Prairie Region on both a proved and proved plus probable basis.
- (4) Net changes to reserves from the prior year before production, inclusive of changes due to acquisitions and dispositions.

## LAND

Paramount's land position includes:

| (thousands of acres)          | December 31, 2018    |                    | December 31, 2017    |                    |
|-------------------------------|----------------------|--------------------|----------------------|--------------------|
|                               | Gross <sup>(1)</sup> | Net <sup>(2)</sup> | Gross <sup>(1)</sup> | Net <sup>(2)</sup> |
| Acreage assigned reserves     | 1,212                | 724                | 1,251                | 775                |
| Acreage not assigned reserves | 3,384                | 2,083              | 3,625                | 2,123              |
| <b>Total</b>                  | <b>4,596</b>         | <b>2,807</b>       | <b>4,876</b>         | <b>2,898</b>       |

- (1) "Gross" acres means the total acreage in which Paramount has an interest. Gross acreage is calculated only once per lease or license of petroleum and natural gas rights ("Lease") regardless of whether or not Paramount holds a working and/or royalty interest, or whether or not the Lease includes multiple prospective formations. If Paramount holds interests in different formations beneath the same surface location pursuant to separate Leases, the acreage set out in each Lease is counted. Excludes oil sands lands associated with Cavalier Energy.
- (2) "Net" acres means gross acres multiplied by Paramount's working interest therein. Excludes oil sands lands associated with Cavalier Energy.

## CORPORATE

In the fourth quarter of 2018, Paramount expanded its covenant-based revolving bank credit facility from \$1.2 billion to \$1.5 billion and extended the maturity date to November 2022. At December 31, 2018, \$815.0 million was drawn on the facility.

In early 2019, the Company entered into interest rate swaps to fix interest rates on a portion of its bank debt; \$250 million notional amount for four years and an additional \$250 million notional amount for seven years.

Paramount's natural gas diversification strategy includes approximately 122,000 GJ/d of sales under long-term contracts priced at the Dawn, US Midwest and Malin markets. The Company's average realized natural gas sales price for the fourth quarter of 2018 was \$2.73/Mcf compared to average AECO prices of \$1.64/GJ.

To protect the Company's cash flows and support the 2019 capital program, Paramount has 14,000 Bbl/d of liquids hedged for fiscal 2019 at an average price of C\$77.05/Bbl.

The Company purchased a total of 4.2 million common shares for cancellation under its 2018 normal course issuer bid program at a total cost of \$66.4 million. In January 2019, Paramount implemented a normal course issuer bid program under which the Company may purchase up to 7.1 million common shares for cancellation.

The integration of Apache Canada Ltd. and Trilogy Energy Corp. progressed throughout 2018 and the majority of planned system conversions and process integrations have been successfully completed. The Company had 349 full-time head office employees at December 31, 2018 a reduction of 17 percent compared to December 31, 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated March 6, 2019, 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, 2018 (the "Consolidated Financial Statements"). 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. Effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to the discounting of asset retirement obligations. As a result, certain comparative information has been restated in this MD&A. Refer to the Changes in Accounting Policies section of this document for a description of the changes and the impact on the Company's financial statements. Comparative amounts for periods prior to January 1, 2017 included in this MD&A have not been restated.

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. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia. The Company's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

The Company's operations are organized into the following three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which is focused on Montney and Duvernay developments at Kaybob, Smoky River, Pine Creek and Ante Creek; and
- the Central Alberta and Other Region, which includes Duvernay development plays in southern Alberta at Willesden Green and the East Shale Basin, and lands and production in northern Alberta and British Columbia.

Paramount also holds a portfolio of: (i) investments in other entities; (ii) investments in exploration and development stage assets, including oil sands and carbonate bitumen interests held by Paramount's wholly-owned subsidiary Cavalier Energy ("Cavalier") and prospective shale gas acreage in the Liard and Horn River Basins (the "Shale Gas Project"); and (iii) drilling rigs owned by Paramount's wholly-owned limited partnership, Fox Drilling Limited Partnership ("Fox Drilling").

## 2018 FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)(2)(3)</sup>

|                                                    | 2018          | 2017    | 2016    |
|----------------------------------------------------|---------------|---------|---------|
| <b>FINANCIAL</b>                                   |               |         |         |
| Petroleum and natural gas sales                    | 965.5         | 491.4   | 248.8   |
| Net income (loss)                                  | (367.2)       | 336.9   | 1,165.3 |
| <i>per share – basic (\$/share)</i>                | <i>(2.78)</i> | 2.93    | 10.98   |
| <i>per share – diluted (\$/share)</i>              | <i>(2.78)</i> | 2.91    | 10.95   |
| Adjusted funds flow                                | 263.9         | 218.7   | 35.7    |
| <i>per share – basic (\$/share)</i>                | <i>2.00</i>   | 1.90    | 0.34    |
| <i>per share – diluted (\$/share)</i>              | <i>2.00</i>   | 1.89    | 0.34    |
| Exploration and Development Capital <sup>(4)</sup> | 558.2         | 527.6   | 187.5   |
| Total assets                                       | 4,118.1       | 4,480.6 | 2,059.0 |
| Long-term debt                                     | 815.0         | 701.8   | –       |
| Net debt (cash)                                    | 896.0         | 636.2   | (565.9) |
| <b>OPERATIONAL</b>                                 |               |         |         |
| <b>Sales volumes</b>                               |               |         |         |
| Natural gas (MMcf/d)                               | 325.9         | 161.3   | 104.8   |
| Condensate and oil (Bbl/d)                         | 24,238        | 13,956  | 7,733   |
| Other NGLs (Bbl/d) <sup>(5)</sup>                  | 7,386         | 4,138   | 6,668   |
| Total (Boe/d)                                      | 85,941        | 44,970  | 31,860  |
| Net wells drilled                                  | 51            | 36      | 12      |
| <b>ADJUSTED FUNDS FLOW (\$/Boe)</b>                |               |         |         |
| Petroleum and natural gas sales                    | 30.78         | 29.94   | 21.34   |
| Royalties                                          | (2.21)        | (1.50)  | (0.19)  |
| Operating expense                                  | (12.15)       | (10.11) | (8.32)  |
| Transportation and NGLs processing <sup>(6)</sup>  | (2.96)        | (3.11)  | (4.84)  |
| Netback                                            | 13.46         | 15.22   | 7.99    |
| Commodity contract settlements                     | (2.44)        | 0.88    | 3.91    |
| Netback including commodity contract settlements   | 11.02         | 16.10   | 11.90   |
| General and administrative                         | (1.87)        | (2.50)  | (2.22)  |
| Interest and financing expense                     | (0.99)        | (0.66)  | (6.74)  |
| Other                                              | 0.25          | 0.39    | 0.12    |
| Adjusted funds flow                                | 8.41          | 13.33   | 3.06    |

(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 and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted Funds Flow, Exploration and Development Capital, Net Debt (cash) and Netback.

(2) Net income for the year ended December 31, 2017 and total assets as at December 31, 2017 have been restated, refer to the Changes in Accounting Policies section of this document. Comparative amounts for 2016 have been prepared in accordance with the Company's previous accounting policies.

(3) The results of operations and net assets of Apache Canada Ltd. are included in Paramount's results following the Apache Canada Acquisition on August 16, 2017. The results of operations and net assets of Trilogy Energy Corp. are included in Paramount's results following the closing of the Trilogy Merger on September 12, 2017.

(4) Exploration and development capital consists of expenditures related to property, plant and equipment and exploration and evaluation assets, excluding expenditures related to land, property acquisitions and corporate assets.

(5) Other NGLs means ethane, propane and butane.

(6) Includes downstream transportation costs and NGLs fractionation costs.



## CONSOLIDATED RESULTS

### Net Income (Loss)

Paramount recorded a net loss of \$367.2 million for the year ended December 31, 2018 compared to net income of \$336.9 million in the same period in 2017. Significant factors contributing to the change are shown below:

| Year ended December 31, 2018                                                                                                      |                |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------|
| Net income – 2017 <sup>(1)</sup>                                                                                                  | 336.9          |
| • Higher depletion, depreciation and impairment in 2018, mainly due to higher impairment charges and higher sales volumes in 2018 | (595.8)        |
| • Gain on Apache Canada Acquisition in 2017                                                                                       | (548.9)        |
| • Revaluation gain on Trilogy shares owned by Paramount immediately prior to the Trilogy Merger in 2017                           | (61.8)         |
| • Lower gain on sale of oil and gas assets in 2018                                                                                | (38.5)         |
| • Higher accretion of asset retirement obligations                                                                                | (32.0)         |
| • Higher interest and financing expense                                                                                           | (20.2)         |
| • Higher general and administrative expense following the corporate acquisitions in 2017                                          | (17.5)         |
| • Exploration and evaluation expense in 2017 included an impairment of \$184.6 million related to the Shale Gas Project           | 188.2          |
| • Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices                                            | 172.4          |
| • Higher income tax recovery in 2018                                                                                              | 111.4          |
| • Higher recovery related to changes in asset retirement obligations                                                              | 82.2           |
| • Lower transaction and reorganization costs in 2018                                                                              | 24.9           |
| • Impairment of investments in securities in 2017                                                                                 | 12.6           |
| • Gain on commodity contracts in 2018 compared to a loss in 2017                                                                  | 11.1           |
| • Loss recorded in 2017 related to the decrease in the market value of securities distributed                                     | 10.5           |
| • Other                                                                                                                           | (2.7)          |
| <b>Net loss – 2018</b>                                                                                                            | <b>(367.2)</b> |

(1) 2017 amounts restated, refer to the Changes in Accounting Policies section of this document.

In August 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada" and the "Apache Canada Acquisition"). In September 2017, the Company completed a merger transaction with Trilogy Energy Corp. ("Trilogy" and the "Trilogy Merger"), under which Paramount acquired all of the outstanding shares of Trilogy not already owned by Paramount. Paramount's results include the results of Apache Canada from August 16, 2017 and Trilogy from September 12, 2017.

Paramount recorded net income of \$336.9 million for the year ended December 31, 2017 compared to net income of \$1,165.3 million in the same period in 2016. Significant factors contributing to the change are shown below:

| Year ended December 31, 2017                                                                                                                                                                                                               |              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Net income – 2016                                                                                                                                                                                                                          | 1,165.3      |
| • Gain on Apache Canada Acquisition                                                                                                                                                                                                        | 548.9        |
| • Income tax recovery in 2017 compared to income tax expense in 2016                                                                                                                                                                       | 238.1        |
| • Higher netback                                                                                                                                                                                                                           | 156.8        |
| • Lower interest and financing expense                                                                                                                                                                                                     | 69.5         |
| • Revaluation gain on Trilogy Shares owned by Paramount immediately prior to the Trilogy Merger in 2017                                                                                                                                    | 61.8         |
| • Higher recovery related to changes in asset retirement obligations                                                                                                                                                                       | 38.0         |
| • Debt extinguishment expense in 2016                                                                                                                                                                                                      | 27.6         |
| • Lower gain on sale of oil and gas assets in 2017 primarily due to the Musreau area asset sales in 2016                                                                                                                                   | (1,284.0)    |
| • Higher depletion, depreciation and impairment, mainly due to higher sales volumes and net impairment charges of \$79.6 million in 2017 compared to impairment reversals totaling \$133.2 million in 2016                                 | (305.1)      |
| • Exploration and evaluation expense in 2017, including an impairment of \$184.6 million related to the Shale Gas Project, compared to income in 2016, which included a \$99.2 million gain in respect of the sale of the Cavalier royalty | (287.6)      |
| • Foreign exchange loss in 2017; the 2016 gain mainly related to US\$450 million senior notes                                                                                                                                              | (44.0)       |
| • Transaction and reorganization costs related to the corporate acquisitions in 2017                                                                                                                                                       | (30.5)       |
| • Higher accretion of asset retirement obligations in 2017                                                                                                                                                                                 | (21.0)       |
| • Other                                                                                                                                                                                                                                    | 3.1          |
| <b>Net income – 2017 <sup>(1)</sup></b>                                                                                                                                                                                                    | <b>336.9</b> |

(1) 2017 amounts restated, refer to the Changes in Accounting Policies section of this document.

### Adjusted Funds Flow <sup>(1)</sup>

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

|                                      | 2018         | 2017         | 2016        |
|--------------------------------------|--------------|--------------|-------------|
| Cash from operating activities       | 223.4        | 126.3        | 45.7        |
| Change in non-cash working capital   | (7.0)        | 31.1         | (15.9)      |
| Transaction and reorganization costs | 5.6          | 30.5         | –           |
| Geological and geophysical expenses  | 12.5         | 9.3          | 4.1         |
| Asset retirement obligations settled | 29.4         | 21.5         | 1.8         |
| <b>Adjusted funds flow</b>           | <b>263.9</b> | <b>218.7</b> | <b>35.7</b> |
| <b>Adjusted funds flow (\$/Boe)</b>  | <b>8.41</b>  | <b>13.33</b> | <b>3.06</b> |

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

Adjusted funds flow for the year ended December 31, 2018 was \$263.9 million compared to \$218.7 million in 2017. Significant factors contributing to the change are shown below:

| Year ended December 31, 2018                                                             |        |
|------------------------------------------------------------------------------------------|--------|
| Adjusted funds flow – 2017                                                               | 218.7  |
| • Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices   | 172.4  |
| • Payments on commodity contract settlements in 2018 compared to receipts in 2017        | (90.9) |
| • Higher interest and financing expense                                                  | (20.2) |
| • Higher general and administrative expense following the corporate acquisitions in 2017 | (17.5) |
| • Other                                                                                  | 1.4    |
| Adjusted funds flow – 2018                                                               | 263.9  |

Adjusted funds flow for the year ended December 31, 2017 was \$218.7 million compared to \$35.7 million in 2016. Significant factors contributing to the change are shown below:

| Year ended December 31, 2017                                                             |        |
|------------------------------------------------------------------------------------------|--------|
| Adjusted funds flow – 2016                                                               | 35.7   |
| • Higher netback in 2017 mainly due to higher sales volumes and higher commodity prices  | 156.8  |
| • Lower interest and financing expense                                                   | 67.8   |
| • Lower receipts from commodity contract settlements in 2017                             | (31.2) |
| • Higher general and administrative expense following the corporate acquisitions in 2017 | (15.2) |
| • Other                                                                                  | 4.8    |
| Adjusted funds flow – 2017                                                               | 218.7  |

## OPERATING RESULTS

### Netback

|                                                   | 2018    |                         | 2017    |                         |
|---------------------------------------------------|---------|-------------------------|---------|-------------------------|
|                                                   |         | (\$/Boe) <sup>(1)</sup> |         | (\$/Boe) <sup>(1)</sup> |
| Natural gas revenue                               | 267.1   | 2.25                    | 132.8   | 2.26                    |
| Condensate and oil revenue                        | 599.9   | 67.81                   | 313.4   | 61.52                   |
| Other NGLs revenue <sup>(2)</sup>                 | 82.7    | 30.67                   | 40.5    | 26.80                   |
| Royalty and sulphur revenue                       | 15.8    | –                       | 4.7     | –                       |
| Petroleum and natural gas sales                   | 965.5   | 30.78                   | 491.4   | 29.94                   |
| Royalties                                         | (69.2)  | (2.21)                  | (24.6)  | (1.50)                  |
| Operating expense                                 | (381.0) | (12.15)                 | (165.9) | (10.11)                 |
| Transportation and NGLs processing <sup>(3)</sup> | (93.0)  | (2.96)                  | (51.0)  | (3.11)                  |
| Netback                                           | 422.3   | 13.46                   | 249.9   | 15.22                   |
| Commodity contract settlements                    | (76.5)  | (2.44)                  | 14.4    | 0.88                    |
| Netback including commodity contract settlements  | 345.8   | 11.02                   | 264.3   | 16.10                   |

(1) Natural gas revenue shown per Mcf.

(2) Other NGLs means ethane, propane and butane.

(3) Includes downstream transportation costs and NGLs fractionation costs.

Petroleum and natural gas sales were \$965.5 million in 2018, an increase of \$474.1 million from the prior year, due to higher sales volumes and higher liquids prices.

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

|                                       | Natural gas | Condensate and oil | Other NGLs | Royalty and Sulphur | Total |
|---------------------------------------|-------------|--------------------|------------|---------------------|-------|
| Year ended December 31, 2017          | 132.8       | 313.4              | 40.5       | 4.7                 | 491.4 |
| Effect of changes in sales volumes    | 135.6       | 230.9              | 31.8       | –                   | 398.3 |
| Effect of changes in prices           | (1.3)       | 55.6               | 10.4       | –                   | 64.7  |
| Change in royalty and sulphur revenue | –           | –                  | –          | 11.1                | 11.1  |
| Year ended December 31, 2018          | 267.1       | 599.9              | 82.7       | 15.8                | 965.5 |

## Sales Volumes

|                         | Year ended December 31 |       |          |                            |        |          |                    |       |          |               |        |          |
|-------------------------|------------------------|-------|----------|----------------------------|--------|----------|--------------------|-------|----------|---------------|--------|----------|
|                         | Natural gas (MMcf/d)   |       |          | Condensate and Oil (Bbl/d) |        |          | Other NGLs (Bbl/d) |       |          | Total (Boe/d) |        |          |
|                         | 2018                   | 2017  | % Change | 2018                       | 2017   | % Change | 2018               | 2017  | % Change | 2018          | 2017   | % Change |
| Grande Prairie          | 76.2                   | 63.3  | 20       | 11,419                     | 9,159  | 25       | 1,945              | 1,771 | 10       | 26,059        | 21,480 | 21       |
| Kaybob                  | 162.2                  | 60.2  | 169      | 9,523                      | 3,160  | 201      | 2,450              | 885   | 177      | 39,004        | 14,073 | 177      |
| Central Alberta & Other | 87.5                   | 37.8  | 131      | 3,296                      | 1,637  | 101      | 2,991              | 1,482 | 102      | 20,878        | 9,417  | 122      |
| Total                   | 325.9                  | 161.3 | 102      | 24,238                     | 13,956 | 74       | 7,386              | 4,138 | 78       | 85,941        | 44,970 | 91       |

Sales volumes for the year ended December 31, 2018 increased 91 percent to 85,941 Boe/d compared to 44,970 Boe/d in 2017. The increase in sales volumes was primarily due to wells acquired through the Apache Canada Acquisition and the Trilogy Merger in the third quarter of 2017 and production from new Montney wells at Karr in the Grande Prairie Region. As a result of new Montney wells maintaining higher than expected condensate rates after initial start-up, Karr area production was constrained by available liquids handling capacity until the fourth quarter of 2018. To alleviate these constraints, the Company completed a number of facilities enhancements during the year, including debottlenecking liquids handling processes at the Karr 6-18 compression and dehydration facility (the "6-18 Facility"), adding incremental liquids field gathering capacity and installing additional truck loading facilities. Natural gas compression capacity at the 6-18 Facility was also expanded from 80 MMcf/d to 100 MMcf/d.

The Company's average annual sales volumes were lower than expected in 2018 primarily as a result of lower production in the Kaybob Region, scheduled and unscheduled third-party outages impacting all three regions, the management of natural gas production at Karr in order to maximize liquids production and the sale of the Resthaven/Jayar properties. At the Montney Oil development in the Kaybob Region, production levels were lower than forecast, new wells were brought on production later than planned, the number of wells drilled was reduced in order to redeploy capital to Wapiti and water handling requirements increased for certain wells. At Kaybob Smoky Duvernay, new production was delayed as a result of unanticipated issues identified while commissioning the Smoky 6-16 processing plant. At Kaybob South Duvernay, production levels were impacted by start-up issues related to new production equipment and unscheduled third-party facility outages.

Paramount's annual 2019 sales volumes are expected to average between 81,000 Boe/d and 85,000 Boe/d. Sales volumes are anticipated to average between 80,000 Boe/d and 81,000 Boe/d in the first half of the year, as the majority of new 2019 wells are scheduled to be brought on later in the year. Paramount expects production to increase in the second half of the year as production at Wapiti ramps up, with fourth quarter sales volumes forecast to average between 85,000 Boe/d and 90,000 Boe/d.



## Commodity Prices

|                                                    | 2018  | 2017  | % Change |
|----------------------------------------------------|-------|-------|----------|
| <b>Natural Gas</b>                                 |       |       |          |
| Paramount realized price (\$/Mcf)                  | 2.25  | 2.26  | –        |
| AECO daily spot (\$/GJ)                            | 1.42  | 2.04  | (30)     |
| AECO monthly index (\$/GJ)                         | 1.45  | 2.31  | (37)     |
| Dawn (\$/MMbtu)                                    | 4.08  | 3.96  | 3        |
| NYMEX (US\$/MMbtu)                                 | 3.07  | 3.02  | 2        |
| Malin (US\$/MMbtu)                                 | 2.69  | 2.79  | (4)      |
| <b>Crude Oil</b>                                   |       |       |          |
| Paramount realized condensate & oil price (\$/Bbl) | 67.81 | 61.52 | 10       |
| Edmonton Light Sweet (\$/Bbl)                      | 68.49 | 61.84 | 11       |
| West Texas Intermediate (US\$/Bbl)                 | 64.77 | 50.95 | 27       |
| <b>Foreign Exchange</b>                            |       |       |          |
| \$CDN / 1 \$US                                     | 1.30  | 1.30  | –        |

Paramount's natural gas portfolio consists of sales priced at the Alberta, California, Chicago, Ventura and eastern Canada markets and is sold in a combination of daily and monthly contracts. This market diversification strategy largely mitigated the weaker AECO prices in 2018. Paramount continues to evaluate opportunities to further diversify its natural gas sales.

Paramount sells its condensate and oil volumes at Edmonton via third-party pipelines, at truck terminals or at the lease. Condensate and oil volumes sold at Edmonton generally receive higher prices than volumes sold at truck terminals or leases. Sales prices for condensate and oil are based on West Texas Intermediate reference prices, adjusted for transportation, quality and density differentials. The Company's average realized condensate and oil price increased in 2018 as a result of increases in benchmark prices.

## Commodity Price Management

From time-to-time, Paramount enters into financial commodity price contracts to manage exposure to commodity price volatility, protect the Company's cash flows and support its capital programs. Paramount had the following financial commodity contracts outstanding at December 31, 2018:

| Instruments                  | Aggregate notional | Average fixed price           | Fair value | Remaining term               |
|------------------------------|--------------------|-------------------------------|------------|------------------------------|
| Oil – NYMEX WTI Swaps (Sale) | 14,000 Bbl/d       | CDN\$77.05/Bbl                | 64.4       | January 2019 – December 2019 |
| Oil – NYMEX WTI Calls (Sale) | 2,000 Bbl/d        | CDN\$82.00/Bbl <sup>(1)</sup> | –          | January 2019 – December 2019 |
|                              |                    |                               | 64.4       |                              |

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN\$82.00 per barrel, for which the Company will receive a premium of CDN\$2.65 per barrel.

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

| Year ended December 31        | 2018   | 2017   |
|-------------------------------|--------|--------|
| Fair value, beginning of year | (19.1) | (5.2)  |
| Changes in fair value         | 7.0    | (4.1)  |
| Settlements paid (received)   | 76.5   | (14.4) |
| Assumed on Trilogy Merger     | –      | 4.6    |
| Fair value, end of year       | 64.4   | (19.1) |

## Royalties

| Year ended December 31 | 2018 | Rate | 2017 | Rate |
|------------------------|------|------|------|------|
| Royalties              | 69.2 | 7.3% | 24.6 | 5.0% |
| \$/Boe                 | 2.21 |      | 1.50 |      |

Royalties increased \$44.6 million to \$69.2 million in 2018 compared to \$24.6 million in 2017, primarily due to higher revenue in 2018 and higher royalty rates. Applicable royalty rates for sales volumes from wells acquired through the Apache Canada Acquisition and Trilogy Merger are higher than Paramount's average royalty rates prior to the transactions. Royalty rates in the Grande Prairie Region increased in 2018 as a number of wells from the 2016/2017 Montney drilling program fully utilized their new well royalty incentives. New wells continue to benefit from a five percent initial royalty rate up to the maximum incentive.

## Operating Expense

| Year ended December 31 | 2018  | 2017  | % Change |
|------------------------|-------|-------|----------|
| Operating expense      | 381.0 | 165.9 | 130      |
| \$/Boe                 | 12.15 | 10.11 | 20       |

Operating expense increased by \$215.1 million to \$381.0 million in 2018 compared to \$165.9 million in 2017. The increase in operating expenses in 2018 is primarily due to incremental production costs associated with wells acquired through the Apache Canada Acquisition and Trilogy Merger and increased production at the Karr development in the Grande Prairie Region.

Operating costs averaged \$12.15 per Boe in 2018. As a large portion of the Company's operating costs are fixed, lower than expected sales volumes resulted in higher than forecast per unit operating costs in 2018.

## Transportation and NGLs Processing

| Year ended December 31             | 2018 | 2017 | % Change |
|------------------------------------|------|------|----------|
| Transportation and NGLs processing | 93.0 | 51.0 | 82       |
| \$/Boe                             | 2.96 | 3.11 | (5)      |

Transportation and NGLs processing includes the costs of downstream transportation and NGLs fractionation incurred by the Company. Transportation and NGLs processing was \$93.0 million in 2018, an increase of \$42.0 million compared to 2017. The increase was primarily the result of increased transportation costs associated with production volumes and contracted capacity acquired through the Apache Canada Acquisition and Trilogy Merger and production growth at the Karr development.

Following the completion of an expansion to condensate stabilization capacity at a third-party facility in May 2018, the majority of liquids volumes at Karr are now delivered into pipelines, which provide cost savings.

The Company is continuing to truck a portion of liquids production in excess of available pipeline and stabilization capacity to maximize cash flows.

## Other Operating Items

| Year ended December 31                                                                  | 2018    | 2017    |
|-----------------------------------------------------------------------------------------|---------|---------|
| Depletion and depreciation (excluding impairment / impairment reversals) <sup>(1)</sup> | (474.7) | (301.9) |
| Impairment of property plant and equipment <sup>(1)</sup>                               | (502.5) | (79.6)  |
| Gain on sale of oil and gas assets <sup>(1)</sup>                                       | 57.4    | 95.9    |
| Exploration and evaluation expense (excluding impairment) <sup>(1)</sup>                | (27.3)  | (18.2)  |
| Exploration and evaluation – impairment                                                 | –       | (197.3) |

(1) 2017 amounts restated, refer to the Change in Accounting Policies section of this document.

Depletion and depreciation expense increased to \$474.7 million in 2018 compared to \$301.9 million in 2017, primarily due to higher sales volumes in 2018. In the fourth quarter of 2018, the Company modified the method of determining depletion rates to better reflect the usage pattern in which oil and gas assets are depleted. Refer to the Critical Accounting Estimates section of this document.

At December 31, 2018, the Company recorded impairments of \$457.0 million and \$40.7 million related to petroleum and natural gas assets in the Kaybob and Central Alberta and Other regions, respectively. The impairments were recorded because the carrying value of the properties exceeded their recoverable amounts, which were estimated based on expected after-tax discounted future net cash flows from the production of proved and probable reserves. The impairments mainly resulted from decreases in estimated future net revenues due to changes in economic factors and estimated reserve volumes.

At December 31, 2017, the Company recorded an impairment of \$121.7 million related to petroleum and natural gas assets for the northern properties within the Central Alberta and Other Region, which was estimated based on expected discounted net future cash flows from the production of proved and probable reserves. The impairments resulted from a combination of decreases in estimated future net revenues due to lower forecasted natural gas prices and higher well costs than reserves values assigned.

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar in the Grande Prairie Region (the "Resthaven/Jayar Assets") for gross proceeds of \$340 million, resulting in the recognition of a gain on sale of \$47.5 million. Total consideration included \$170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath"), and 10-year warrants to acquire 8.5 million Strath Resources common shares at an exercise price of \$2.00 per share ("Strath Warrants"). The Resthaven/Jayar Assets encompassed approximately 201 (152 net) sections of land and had sales volumes of approximately 5,000 Boe/d in 2018 prior to being sold.

In May 2017, Paramount sold its Valhalla property for gross cash proceeds of \$151.3 million, resulting in the recognition of a \$42.1 million de-impairment and a gain on sale of \$73.2 million.

In September 2017, Paramount closed the sale of its oil and gas properties in the Saddle Hills/Mirage area of Alberta for cash and other proceeds of \$8.2 million and recorded a gain on sale of \$16.7 million.

Exploration and evaluation ("E&E") expense was higher in 2018 mainly due to higher expenses for expired mineral leases. E&E impairment for the year ended December 31, 2017 included \$184.6 million related to the de-recognition of the carrying value of E&E assets related to the Company's Shale Gas Project. The impairment was due to, among other factors, the suspension of development activities by the Company and other operators in the region and delays and cancellations of proposed downstream liquified natural gas terminals to facilitate the transportation of shale gas production to international markets.

## INVESTMENTS IN SECURITIES

Paramount holds equity investments in a number of publicly-traded and private corporations as part of its portfolio of investments. The majority of these investments, including Strath and MEG Energy Corp. ("MEG"), were received as consideration for properties sold to the entities. Paramount's investments in securities are summarized below:

| As at December 31     | Market Value <sup>(1)</sup> |             |
|-----------------------|-----------------------------|-------------|
|                       | 2018                        | 2017        |
| Strath <sup>(2)</sup> | 170.0                       | –           |
| MEG                   | 28.5                        | 19.0        |
| Privateco             | 21.1                        | 21.1        |
| Other <sup>(3)</sup>  | 12.1                        | 13.2        |
| <b>Total</b>          | <b>231.7</b>                | <b>53.3</b> |

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.

(2) Includes 85 million Strath common shares and 8.5 million Strath Warrants.

(3) Includes investments in Pipestone Energy Corp., Storm Resources Ltd., Canadian Premium Sand Inc. and other public and private corporations.

## OTHER ASSETS

### Fox Drilling

Fox Drilling owns seven triple-sized drilling rigs, including four walking rigs, that are used to drill Company wells. The walking rigs have the capability of moving across a lease with the derrick and drill pipe remaining vertical, significantly increasing efficiencies when drilling multi-well pads.

### Shale Gas Project

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 135 net sections of land as at December 31, 2018, with potential for natural gas production from the Besa River shale formation. Paramount has drilled a total of 4 (4.0 net) exploration wells in the Liard Basin for delineation and land retention purposes. Future development activities will depend on the advancement of downstream third-party liquified natural gas terminals, project economics, and other factors.

### Cavalier Energy

Cavalier Energy was created in 2011 to develop the Company's oil sands lands. Cavalier Energy owned approximately 207,000 gross (207,000 net) acres of land in the Western Athabasca region of Alberta as at December 31, 2018.

Cavalier's oil sands resources are at the early stages of their evaluation and development and currently have no production. There are no assurances that Cavalier will commence production, generate earnings, operate profitably or provide a return on investment at any time in the near future. In 2016, Cavalier granted a royalty on its oil sands lands to an unrelated third-party.

## CORPORATE

| Year ended December 31                                | 2018   | 2017   |
|-------------------------------------------------------|--------|--------|
| General and administrative                            | (58.6) | (41.1) |
| Share-based compensation                              | (24.1) | (17.8) |
| Interest and financing                                | (31.0) | (10.8) |
| Transaction and reorganization costs                  | (5.6)  | (30.5) |
| Gain on Apache Canada Acquisition                     | –      | 548.9  |
| Change in asset retirement obligations <sup>(1)</sup> | 120.2  | 38.0   |
| Revaluation of Trilogy Shares                         | –      | 61.8   |
| Impairment of investments in securities               | –      | (12.6) |
| Decrease in market value of securities distributed    | –      | (10.5) |

(1) 2017 amounts restated, refer to the Change in Accounting Policies section of this document.

General and administrative expenses were higher in 2018 primarily as a result of the Apache Canada Acquisition and the Trilogy Merger.

Interest and financing expense was \$31.0 million in 2018, an increase of \$20.2 million from 2017, primarily as a result of higher average debt balances in 2018.

Transaction and reorganization costs incurred relate to the Apache Canada Acquisition and the Trilogy Merger.

In 2018, the Company recorded a recovery of \$120.2 million (2017 - \$38.0 million) due to changes in the carrying value of asset retirement obligations in respect of oil and gas properties which had a nil carrying value ascribed to the property, plant, and equipment assets of such properties as at December 31, 2018 and 2017. The changes resulted from changes in discount rates and revisions to the timing and estimated costs of retirement.

The carrying value of the 19.1 million Trilogy shares held by Paramount was increased to fair value immediately prior to the closing of the Trilogy Merger, resulting in the recognition of a gain of \$61.8 million in 2017.

The aggregate impairment of investments in securities of \$12.6 million in 2017 resulted from decreases in the market value of certain of the Company's publicly traded investments.

In December 2016, the Company's Board of Directors declared a dividend of the Company's remaining 3.8 million class A common shares of Seven Generations Energy Ltd. ("7Gen Shares") to holders of record of Paramount's Common Shares on January 9, 2017. The decrease in the fair value of the 7Gen Shares of \$10.5 million between the acquisition date and the date of the dividend, January 16, 2017, was reclassified to net income from accumulated other comprehensive income in 2017.

### Tax Pools

As of December 31, 2018, Paramount's tax pools included approximately \$3.6 billion of non-capital losses and scientific research and experimental development, \$1.3 billion of Canadian resource pools and undepreciated capital cost and \$0.1 billion of financing costs and other.



## PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

| Year ended December 31                                                     | 2018  | 2017  |
|----------------------------------------------------------------------------|-------|-------|
| Drilling, completion and tie-ins                                           | 437.0 | 451.7 |
| Facilities and gathering                                                   | 121.2 | 75.9  |
| Exploration and Development Capital <sup>(1)</sup>                         | 558.2 | 527.6 |
| Land and property acquisitions                                             | 11.2  | 13.3  |
| Exploration and Development Capital including land & property acquisitions | 569.4 | 540.9 |
| Corporate                                                                  | 10.8  | 4.2   |
|                                                                            | 580.2 | 545.1 |
| Exploration and Development Capital by Region <sup>(1)</sup>               |       |       |
| Grande Prairie                                                             | 301.6 | 369.6 |
| Kaybob                                                                     | 215.7 | 106.5 |
| Central Alberta and Other                                                  | 40.9  | 51.5  |
|                                                                            | 558.2 | 527.6 |

(1) Exploration and Development Capital consists of property, plant and equipment and exploration expenditures excluding spending related to land and property acquisitions and corporate assets.

Exploration and Development Capital was \$558.2 million in 2018 compared to \$527.6 million in 2017. Current year expenditures were mainly related to drilling and completion programs and facilities projects in the Grande Prairie and Kaybob Regions.

Development activities in the Grande Prairie Region focused on the Company's Montney developments at Karr and Wapiti. At Karr, 10 (10.0 net) wells were drilled on the 1-2 and 4-24 pads. The five wells on the 1-2 pad were completed and brought on production in 2018. The five wells on the 4-24 pad are scheduled to be completed and brought on production in 2019. At Wapiti, 11 (11.0 net) wells were drilled and completed on the 9-3 pad and are awaiting the start-up of a new third-party processing facility, which the operator has scheduled for mid-2019. The Company also commenced the drilling of 12 (12.0 net) wells on the 5-3 pad at Wapiti in the fourth quarter of 2018.

In the Kaybob Region, development activities focused on two Duvernay developments and the Montney Oil property. At the 10-35 Smoky Duvernay pad, 4 (4.0 net) wells were completed and brought on production in the fourth quarter of 2018. At the South Duvernay development, 5 (2.5 net) wells on the 7-22 pad were completed and brought on production in the third quarter. At the 2-28 South Duvernay pad, drilling operations for 5 (2.5 net) wells were completed in 2018. These wells are scheduled to be completed and brought on production in mid-2019. The Company's 2018 capital program at the Montney Oil development included the drilling of 12 (12.0 net) wells. Ten of these wells, plus a well drilled in late-2017, were completed and brought on production in 2018. In 2019, Paramount brought the remaining two wells from the 2018 program on production and plans to drill, complete and bring on production 3 (3.0) net wells on a new multi-well pad.

Capital expenditures were lower than planned in 2018, primarily due to the deferral of drilling and completion activities to preserve capital, drilling fewer wells at the Montney Oil development in the Kaybob Region and the cancellation of new well projects at the non-operated Birch property in the Central Alberta and Other Region, partially offset by higher facilities spending in the Grande Prairie and Kaybob Regions. The Company's capital expenditures in 2018 included \$209.0 million related to growth projects at Wapiti and Karr that will be brought on production in 2019.

The Company's base capital budget for 2019 is \$350 million, excluding land acquisitions and abandonment and reclamation activities. The majority of the capital will be directed to the Grande Prairie Region, with \$145 million allocated to Wapiti and \$110 million to Karr. The Wapiti program includes drilling, completion

and equipping projects in preparation for the startup of new processing capacity. Capital investments at Karr continue to focus on adding new wells to fully utilize available capacity at the existing 6-18 Facility. The 2019 capital program also includes \$60 million related to projects in the Kaybob and Central Alberta and Other regions and \$35 million for maintenance, optimization and corporate projects.

Capital expenditures required in 2019 to advance the further expansion of the 6-18 Facility for a 2020 startup are estimated at \$145 million and are not included in the \$350 million base capital budget. Spending on the expansion, which would add 70 MMcf/d of raw natural gas processing capacity and an additional 15,000 Bbl/d of raw liquids handling capacity, is heavily weighted to the second half of the year, providing the Company with flexibility to evaluate funding alternatives.

Wells drilled were as follows:

|              | 2018                 |                    | 2017                 |                    |
|--------------|----------------------|--------------------|----------------------|--------------------|
|              | Gross <sup>(1)</sup> | Net <sup>(2)</sup> | Gross <sup>(1)</sup> | Net <sup>(2)</sup> |
| Natural gas  | 53                   | 35                 | 35                   | 28                 |
| Oil          | 17                   | 16                 | 8                    | 8                  |
| <b>Total</b> | <b>70</b>            | <b>51</b>          | <b>43</b>            | <b>36</b>          |

(1) Gross is the number of wells in which Paramount has a working interest.

(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

## 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 through a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets, and participating in joint ventures, the availability of any such means being dependent upon market conditions.

| As at December 31                                         | 2018           | 2017           |
|-----------------------------------------------------------|----------------|----------------|
| Cash and cash equivalents                                 | (19.3)         | (123.3)        |
| Accounts receivable                                       | (121.3)        | (170.3)        |
| Prepaid expenses and other                                | (9.6)          | (9.1)          |
| Accounts payable and accrued liabilities                  | 231.2          | 237.2          |
| Adjusted working capital deficit (surplus) <sup>(1)</sup> | 81.0           | (65.5)         |
| Paramount Facility                                        | 815.0          | 395.0          |
| 2019 Senior Notes                                         | –              | 306.7          |
| <b>Net Debt <sup>(2)</sup></b>                            | <b>896.0</b>   | <b>636.2</b>   |
| Share Capital                                             | 2,184.6        | 2,249.8        |
| Retained earnings <sup>(3)</sup>                          | 21.2           | 272.9          |
| Reserves                                                  | 44.7           | 143.6          |
| <b>Total Capital <sup>(3)</sup></b>                       | <b>3,146.5</b> | <b>3,302.5</b> |

(1) Adjusted working capital excludes risk management assets and liabilities and the current portion of asset retirement obligations.

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

(3) 2017 amounts restated, refer to the Changes in Accounting Policies section of this document.

The change in net debt in 2018 is primarily due to capital expenditures and the repurchase of Common Shares under the Company's normal course issuer bid program, partially offset by cash flows from operations and proceeds from dispositions. Paramount expects to fund its 2019 operations, obligations and capital expenditures with cash flows from operations, non-core asset dispositions, and available capacity under its bank credit facility.

## Paramount Facility

At December 31, 2018, the Company had a \$1.5 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 16, 2022, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

- i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and
- ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

Senior Secured Debt currently consists of amounts drawn under the Paramount Facility and the undrawn face amounts of outstanding letters of credit.

Consolidated EBITDA is determined on a trailing twelve month basis, is adjusted for material acquisitions and dispositions, and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including unrealized mark-to-market amounts on derivatives, unrealized foreign exchange, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all financial covenants under the Paramount Facility.

Paramount had undrawn letters of credit outstanding totaling \$26.6 million at December 31, 2018 that reduce the amount available to be drawn on the Paramount Facility.

## Interest Rate Swaps

In 2019, the Company entered into the following floating-to-fixed interest rate swaps:

| Contract Type      | Aggregate notional | Maturity Date | Fixed Contract Rate | Reference           |
|--------------------|--------------------|---------------|---------------------|---------------------|
| Interest Rate Swap | \$250 million      | January 2023  | 2.3%                | CDOR <sup>(1)</sup> |
| Interest Rate Swap | \$250 million      | January 2026  | 2.4%                | CDOR <sup>(1)</sup> |

(1) Canadian Dollar Offered Rate

## **2019 Senior Notes**

In April 2018, Paramount redeemed all \$300 million principal amount of the Company's outstanding 7¼ percent senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of \$3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a \$6.7 million gain on redemption less the redemption premium of \$3.6 million. The 2019 Senior Notes were issued by Trilogy in 2012 and became Paramount's obligation through the Trilogy merger.

## **Trilogy Facility**

At closing of the Trilogy Merger on September 12, 2017, Trilogy had a \$285 million senior secured revolving credit facility with a syndicate of Canadian banks (the "Trilogy Facility"). In November 2017, the Trilogy Facility was repaid in full and cancelled.

## **Share Capital**

Paramount implemented a normal course issuer bid in January 2019. The normal course issuer bid will terminate on the earlier of: (i) January 3, 2020; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the normal course issuer bid are purchased. Purchases of Common Shares under the normal course issuer bid will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase.

Paramount may purchase up to 7,110,667 Common Shares under the normal course issuer bid. Pursuant to the rules of the TSX, the maximum number of Common Shares that the Company may purchase under the normal course issuer bid in any one day is 96,491 Common Shares. Paramount may also make one block purchase per calendar week which exceeds such daily purchase restriction, subject to the rules of the TSX. Any Common Shares purchased pursuant to the normal course issuer bid will be cancelled by the Company. Any shareholder may obtain, for no charge, a copy of the notice in respect of the normal course issuer bid filed with the TSX by contacting the Company at 403-290-3600.

Paramount previously implemented a normal course issuer bid in December 2017 (the "2018 NCIB"). The Company purchased and cancelled 4,239,359 Common Shares at a total cost of \$66.4 million under the 2018 NCIB. The 2018 NCIB expired on December 21, 2018.

In September 2017, Paramount issued 28,537,134 Common Shares pursuant to the Trilogy Merger.

At February 28, 2019, Paramount had 130,329,693 Common Shares outstanding (net of 574,045 Common Shares held in trust under the Company's restricted share unit plan) and 12,391,980 options to acquire Common Shares outstanding, of which 3,593,404 options are exercisable.

## FOURTH QUARTER 2018 RESULTS

### Netback

| Three months ended December 31                    | 2018    |                         | 2017   |                         |
|---------------------------------------------------|---------|-------------------------|--------|-------------------------|
|                                                   |         | (\$/Boe) <sup>(1)</sup> |        | (\$/Boe) <sup>(1)</sup> |
| Natural gas revenue                               | 79.2    | 2.73                    | 69.9   | 2.11                    |
| Condensate and oil revenue                        | 104.3   | 45.54                   | 161.2  | 66.65                   |
| Other NGLs revenue <sup>(2)</sup>                 | 20.4    | 31.39                   | 25.4   | 30.15                   |
| Royalty and sulphur revenue                       | 3.5     | –                       | 2.4    | –                       |
| Petroleum and natural gas sales                   | 207.4   | 26.68                   | 258.9  | 29.49                   |
| Royalties                                         | (8.0)   | (1.03)                  | (16.8) | (1.92)                  |
| Operating expense                                 | (103.2) | (13.28)                 | (86.1) | (9.81)                  |
| Transportation and NGLs processing <sup>(3)</sup> | (24.2)  | (3.11)                  | (24.3) | (2.77)                  |
| Netback                                           | 72.0    | 9.26                    | 131.7  | 14.99                   |
| Commodity contract settlements                    | (9.3)   | (1.20)                  | 3.7    | 0.42                    |
| Netback including commodity contract settlements  | 62.7    | 8.06                    | 135.4  | 15.41                   |

(1) Natural gas revenue shown per Mcf.

(2) Other NGLs means ethane, propane and butane.

(3) Includes downstream transportation costs and NGLs fractionation costs.

Fourth quarter 2018 petroleum and natural gas sales were \$207.4 million, a decrease of \$51.5 million from the fourth quarter of 2017, primarily due to lower condensate and oil prices and lower sales volumes, partially offset by higher natural gas prices.

Royalties decreased \$8.8 million in the fourth quarter of 2018 compared to the same period in 2017, primarily as a result of higher gas cost allowance and lower revenue.

Operating expense increased \$17.1 million to \$103.2 million in the fourth quarter of 2018 compared to \$86.1 million in the same period in 2017, primarily due to higher repairs and maintenance costs in the Kaybob and Central Alberta & Other Regions as well as higher processing fees and water handling costs associated with higher production at Karr.

The impact of changes in sales volumes and prices 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, 2017  | 69.9        | 161.2              | 25.4       | 2.4                 | 258.9  |
| Effect of changes in sales volumes    | (8.7)       | (8.5)              | (5.7)      | –                   | (22.9) |
| Effect of changes in prices           | 18.0        | (48.4)             | 0.7        | –                   | (29.7) |
| Change in royalty and sulphur revenue | –           | –                  | –          | 1.1                 | 1.1    |
| Three months ended December 31, 2018  | 79.2        | 104.3              | 20.4       | 3.5                 | 207.4  |



## Sales Volumes

|                         | Three months ended December 31 |              |             |                               |               |            |                       |              |             |                  |               |             |
|-------------------------|--------------------------------|--------------|-------------|-------------------------------|---------------|------------|-----------------------|--------------|-------------|------------------|---------------|-------------|
|                         | Natural gas<br>(MMcf/d)        |              |             | Condensate and Oil<br>(Bbl/d) |               |            | Other NGLs<br>(Bbl/d) |              |             | Total<br>(Boe/d) |               |             |
|                         | 2018                           | 2017         | % Change    | 2018                          | 2017          | % Change   | 2018                  | 2017         | % Change    | 2018             | 2017          | % Change    |
| Grande Prairie          | 77.3                           | 93.7         | (18)        | 12,339                        | 13,146        | (6)        | 1,754                 | 3,026        | (42)        | 26,976           | 31,791        | (15)        |
| Kaybob                  | 154.0                          | 176.3        | (13)        | 9,268                         | 9,531         | (3)        | 2,334                 | 2,625        | (11)        | 37,262           | 41,531        | (10)        |
| Central Alberta & Other | 83.9                           | 89.9         | (7)         | 3,291                         | 3,608         | (9)        | 2,971                 | 3,498        | (15)        | 20,257           | 22,090        | (8)         |
| <b>Total</b>            | <b>315.2</b>                   | <b>359.9</b> | <b>(12)</b> | <b>24,898</b>                 | <b>26,285</b> | <b>(5)</b> | <b>7,059</b>          | <b>9,149</b> | <b>(23)</b> | <b>84,495</b>    | <b>95,412</b> | <b>(11)</b> |

Sales volumes decreased 11 percent to 84,495 Boe/d in the fourth quarter of 2018 compared to 95,412 Boe/d in the same period in 2017. The decrease was primarily due to the disposition of the Resthaven/Jayar Assets in the Grande Prairie Region in the third quarter of 2018 and lower sales volumes in the Kaybob Region due to natural declines, partially offset by production from new Kaybob Montney Oil and Kaybob Duvernay wells.

## Commodity Prices

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

| Three months ended December 31                     | 2018  | 2017  | % Change |
|----------------------------------------------------|-------|-------|----------|
| <b>Natural Gas</b>                                 |       |       |          |
| Paramount realized price (\$/Mcf)                  | 2.73  | 2.11  | 29       |
| AECO daily spot (\$/GJ)                            | 1.48  | 1.60  | (8)      |
| AECO monthly index (\$/GJ)                         | 1.80  | 1.85  | (3)      |
| Dawn (\$/MMbtu)                                    | 5.07  | 3.78  | 34       |
| NYMEX (US\$/MMbtu)                                 | 3.74  | 2.92  | 28       |
| Malin (US\$/MMbtu)                                 | 3.90  | 2.70  | 44       |
| <b>Crude Oil</b>                                   |       |       |          |
| Paramount realized condensate & oil price (\$/Bbl) | 45.54 | 66.65 | (32)     |
| Edmonton Light Sweet (\$/Bbl)                      | 48.27 | 65.68 | (27)     |
| West Texas Intermediate (US\$/Bbl)                 | 58.81 | 55.40 | 6        |
| <b>Foreign Exchange</b>                            |       |       |          |
| \$CDN / 1 \$US                                     | 1.32  | 1.27  | 4        |

## Net Income (Loss)

| Three months ended December 31                           | 2018    | 2017    |
|----------------------------------------------------------|---------|---------|
| Petroleum and natural gas sales                          | 207.4   | 258.9   |
| Royalties                                                | (8.0)   | (16.8)  |
| Revenue                                                  | 199.4   | 242.1   |
| Gain (loss) on commodity contracts                       | 170.3   | (21.5)  |
|                                                          | 369.7   | 220.6   |
| (Expenses) Income                                        |         |         |
| Depletion and depreciation <sup>(1)</sup>                | (601.0) | (270.0) |
| Operating expense                                        | (103.2) | (86.1)  |
| Transportation and NGLs processing                       | (24.2)  | (24.3)  |
| General and administrative                               | (16.8)  | (18.7)  |
| Accretion of asset retirement obligations <sup>(1)</sup> | (14.6)  | (14.2)  |
| Exploration and evaluation <sup>(1)</sup>                | (11.9)  | (207.5) |
| Share-based compensation                                 | (7.2)   | (9.3)   |
| Interest and financing                                   | (8.7)   | (8.5)   |
| Transaction and reorganization costs                     | (1.1)   | (16.1)  |
| Change in asset retirement obligations <sup>(1)</sup>    | 120.4   | 38.0    |
| Income tax recovery <sup>(1)</sup>                       | 116.2   | 100.9   |
| Gain on sale of oil and gas assets <sup>(1)</sup>        | 3.0     | 6.2     |
| Foreign exchange                                         | 0.7     | 0.4     |
| Gain on Apache Canada Acquisition                        | –       | 182.9   |
| Other                                                    | 8.2     | 2.5     |
|                                                          | (540.2) | (323.8) |
| Net loss <sup>(1)</sup>                                  | (170.5) | (103.2) |

(1) 2017 amounts restated, refer to the Changes in Accounting Policies section of this document.

Paramount recorded a net loss of \$170.5 million for the three months ended December 31, 2018 compared to a net loss of \$103.2 million in the same period in 2017. Significant factors contributing to the change are shown below:

| Three months ended December 31, 2018                                                                                                |         |
|-------------------------------------------------------------------------------------------------------------------------------------|---------|
| Net loss – 2017                                                                                                                     | (103.2) |
| • Higher depletion and depreciation in 2018 mainly due to higher impairment charges in 2018                                         | (331.0) |
| • Gain on Apache Canada Acquisition in 2017                                                                                         | (182.9) |
| • Lower netback in 2018, mainly due to lower revenue and higher operating costs                                                     | (59.7)  |
| • Higher exploration and evaluation expense in 2017, primarily due to a \$184.6 million impairment related to the Shale Gas Project | 195.6   |
| • Gain on commodity contracts in 2018 compared to a loss in 2017                                                                    | 191.8   |
| • Change in asset retirement obligations                                                                                            | 82.4    |
| • Higher income tax recovery in 2018                                                                                                | 15.3    |
| • Lower transaction and reorganization costs in 2018                                                                                | 15.0    |
| • Other                                                                                                                             | 6.2     |
| Net loss – 2018                                                                                                                     | (170.5) |

## Adjusted Funds Flow <sup>(1)</sup>

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

| Three months ended December 31                  | 2018        | 2017         |
|-------------------------------------------------|-------------|--------------|
| Cash from operating activities                  | 12.4        | 43.4         |
| Change in non-cash working capital              | 21.2        | 36.8         |
| Transaction and reorganization costs            | 1.1         | 16.1         |
| Geological and geophysical expenses             | 1.9         | 4.8          |
| Asset retirement obligations settled            | 8.9         | 9.0          |
| <b>Adjusted funds flow</b>                      | <b>45.5</b> | <b>110.1</b> |
| <b>Adjusted funds flow (\$/Boe)</b>             | <b>5.85</b> | <b>12.55</b> |
| <b>Adjusted funds flow (\$/share - diluted)</b> | <b>0.35</b> | <b>0.82</b>  |

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

Adjusted funds flow in the fourth quarter of 2018 was \$45.5 million compared to \$110.1 million in the same period in 2017. Significant factors contributing to the change are shown below:

| Three months ended December 31                                                    |             |
|-----------------------------------------------------------------------------------|-------------|
| Adjusted funds flow – 2017                                                        | 110.1       |
| • Lower netback in 2018, mainly due to lower revenue and higher operating costs   | (59.7)      |
| • Payments on commodity contract settlements in 2018 compared to receipts in 2017 | (13.0)      |
| • Lower general and administrative expense in 2018                                | 1.9         |
| • Other                                                                           | 6.2         |
| <b>Adjusted funds flow – 2018</b>                                                 | <b>45.5</b> |

## Exploration and Development Capital

Exploration and Development Capital in the fourth quarter of 2018 totaled \$123.9 million, with the majority of spending directed towards drilling and completion programs at Wapiti and facilities expansions at Karr in the Grande Prairie Region. Fourth quarter spending also included drilling and completion programs at the Montney Oil, South Duvernay and Smoky Duvernay developments in the Kaybob Region.

## QUARTERLY INFORMATION

|                                  | 2018    |        |         |        | 2017    |        |        |        |
|----------------------------------|---------|--------|---------|--------|---------|--------|--------|--------|
|                                  | Q4      | Q3     | Q2      | Q1     | Q4      | Q3     | Q2     | Q1     |
| Petroleum and natural gas sales  | 207.4   | 248.5  | 239.7   | 269.8  | 258.9   | 116.5  | 61.3   | 54.7   |
| Net income (loss) <sup>(1)</sup> | (170.5) | (13.1) | (119.0) | (64.6) | (103.2) | 383.4  | 39.6   | 17.1   |
| Per share – basic (\$/share)     | (1.31)  | (0.10) | (0.90)  | (0.48) | (0.76)  | 3.42   | 0.37   | 0.16   |
| Per share – diluted (\$/share)   | (1.31)  | (0.10) | (0.90)  | (0.48) | (0.76)  | 3.39   | 0.37   | 0.16   |
| Adjusted funds flow              | 45.5    | 58.2   | 62.6    | 97.6   | 110.1   | 45.3   | 35.2   | 28.0   |
| Per share – basic (\$/share)     | 0.35    | 0.44   | 0.47    | 0.73   | 0.82    | 0.40   | 0.33   | 0.26   |
| Per share – diluted (\$/share)   | 0.35    | 0.44   | 0.47    | 0.73   | 0.82    | 0.40   | 0.33   | 0.26   |
| Sales volumes                    |         |        |         |        |         |        |        |        |
| Natural gas (MMcf/d)             | 315.2   | 303.8  | 334.1   | 351.1  | 359.9   | 177.2  | 53.0   | 51.4   |
| Condensate and oil (Bbl/d)       | 24,898  | 22,868 | 23,815  | 25,391 | 26,285  | 14,845 | 8,118  | 6,348  |
| Other NGLs (Bbl/d)               | 7,059   | 6,963  | 7,242   | 8,298  | 9,149   | 4,641  | 1,414  | 1,255  |
| Total (Boe/d)                    | 85,495  | 80,471 | 86,741  | 92,203 | 95,412  | 49,023 | 18,367 | 16,163 |
| Average realized price           |         |        |         |        |         |        |        |        |
| Natural gas (\$/Mcf)             | 2.73    | 1.93   | 1.71    | 2.59   | 2.11    | 1.89   | 3.24   | 3.55   |
| Condensate and oil (\$/Bbl)      | 45.54   | 79.83  | 77.25   | 70.10  | 66.65   | 54.30  | 57.95  | 61.75  |
| Other NGLs (\$/Bbl)              | 31.39   | 32.16  | 27.35   | 31.68  | 30.15   | 23.05  | 20.09  | 23.69  |
| Total (\$/Boe)                   | 26.68   | 33.57  | 30.37   | 32.51  | 29.49   | 25.84  | 36.69  | 37.61  |

(1) Comparative 2018 and 2017 periods are restated, refer to the Accounting Policy Changes section of this document.

### Significant Items Impacting Quarterly Results

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

- The fourth quarter 2018 loss includes a \$502.5 million impairment of petroleum and natural gas assets, partially offset by a \$170.3 million gain on financial commodity contracts.
- The third quarter 2018 loss includes a \$48.8 million gain on the sale of oil and gas assets, primarily related to the sale of the Resthaven/Jayar Assets, and a \$31.1 million loss on commodity contracts.
- The second quarter 2018 loss includes an \$84.6 million loss on commodity contracts.
- The first quarter 2018 loss includes a \$47.6 million loss on commodity contracts.
- The fourth quarter 2017 loss includes a \$184.6 million impairment related to the Company's Shale Gas Project, a \$182.9 million gain related to the Apache Canada Acquisition and \$121.7 million of aggregate impairment of property, plant and equipment.
- Third quarter 2017 earnings include a \$366.1 million gain related to the Apache Canada Acquisition and a \$61.8 million gain related to a fair value adjustment in respect of Trilogy Shares held prior to the Trilogy Merger.
- Second quarter 2017 earnings include a \$72.6 million gain on the sale of oil and gas assets, primarily related to the sale of the Valhalla property.
- First quarter 2017 earnings include a \$42.1 million reversal of impairments of oil and gas assets recorded in prior years related to the Valhalla property and a \$10.5 million loss due to changes in the fair value of 3.8 million common shares of Seven Generations Energy Ltd. distributed to Paramount shareholders by way of dividend.

## OTHER INFORMATION

### Contractual Obligations

Paramount had the following long-term contractual obligations at December 31, 2018:

|                                                                            | Within 1<br>year | After one<br>year but<br>not more<br>than three<br>years | After three<br>years but<br>not more<br>than five<br>years | More than<br>five years | Total   |
|----------------------------------------------------------------------------|------------------|----------------------------------------------------------|------------------------------------------------------------|-------------------------|---------|
| Paramount Facility <sup>(1)</sup>                                          | –                | –                                                        | 815.0                                                      | –                       | 815.0   |
| Transportation and processing<br>commitments <sup>(2)</sup>                | 178.0            | 403.1                                                    | 366.5                                                      | 674.5                   | 1,622.1 |
| Asset retirement obligations <sup>(3)</sup>                                | 32.0             | 78.4                                                     | 78.6                                                       | 1,596.1                 | 1,785.1 |
| Operating leases, capital spending<br>commitments and other <sup>(4)</sup> | 42.9             | 17.5                                                     | 4.2                                                        | 0.2                     | 64.8    |
|                                                                            | 252.9            | 499.0                                                    | 1,264.3                                                    | 2,270.8                 | 4,287.0 |

(1) Excluding interest.

(2) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$1 million at December 31, 2018 (December 31, 2017 - \$20 million).

(3) Asset retirement obligations estimated as at December 31, 2018. Estimated costs and timing of settlement are revised from time-to-time based on new information.

(4) Future lease commitments for corporate office space have been reduced for sublease revenue and the impact of provisions recorded in respect of a market rate adjustment and unoccupied office space.

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

### Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

In 2016, a release occurred from a non-operated pipeline in which the Company owned a 50 percent interest. The operator, and owner of the remaining 50 percent, initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately \$60 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

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 amounts 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 current Annual Information Form under the heading "Risk Factors".



The Company cannot fully protect against all of these potential risks. Some of them cannot be insured against, and the coverage that can be obtained with respect to those that are insurable will be subject to exclusions, deductibles and coverage limits. Accordingly, Paramount may be exposed to liabilities that are outside the scope of its insurance, are only partially covered by it, or that Paramount could not insure against (either at all or because of high premium costs or for other reasons). The occurrence of a significant event against which Paramount is not fully insured could have a material adverse effect on the Company.

## CHANGES IN ACCOUNTING POLICIES

### Asset Retirement Obligations

As described in Note 1 and 22 of the Consolidated Financial Statements, effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to asset retirement obligations to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Paramount believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies and results in reliable and more relevant information for the readers of the Company's financial statements.

The change in accounting policy did not have an impact on the Company's operations, cash flows, capital expenditures or strategic objectives and was applied retrospectively, resulting in the restatement previously reported amounts as follows:

### Consolidated Balance Sheets

| As at                                   | December 31<br>2018 | December 31<br>2017              |                     |          | January 1<br>2017                |                     |          |
|-----------------------------------------|---------------------|----------------------------------|---------------------|----------|----------------------------------|---------------------|----------|
|                                         | Effect of<br>change | Previous<br>accounting<br>policy | Effect of<br>change | Restated | Previous<br>accounting<br>policy | Effect of<br>change | Restated |
| Property, plant and equipment, net      | 87.9                | 3,282.5                          | (527.8)             | 2,754.7  | 882.7                            | (32.0)              | 850.7    |
| Deferred income tax asset               | (42.3)              | 666.4                            | (82.3)              | 584.1    | –                                | –                   | –        |
| Deferred income tax liability           | –                   | –                                | –                   | –        | 6.1                              | 25.5                | 31.6     |
| Asset retirement obligations and other  | (68.7)              | 1,661.0                          | (832.7)             | 828.3    | 204.4                            | (126.6)             | 77.8     |
| Retained earnings (accumulated deficit) | 114.3               | 50.3                             | 222.6               | 272.9    | (152.2)                          | 69.1                | (83.1)   |

## Consolidated Statement of Comprehensive Income

| For the year ended December 31              | 2018             | 2017                       |                  |          |
|---------------------------------------------|------------------|----------------------------|------------------|----------|
|                                             | Effect of change | Previous accounting policy | Effect of change | Restated |
| Depletion and depreciation                  | (91.9)           | 434.1                      | (52.6)           | 381.5    |
| Exploration and evaluation                  | –                | 214.8                      | 0.7              | 215.5    |
| Gain on sale of oil and gas assets          | 13.3             | (124.0)                    | 28.1             | (95.9)   |
| Accretion of asset retirement obligations   | 20.6             | 16.0                       | 9.7              | 25.7     |
| Change in asset retirement obligations      | (98.6)           | –                          | (38.0)           | (38.0)   |
| ARO Discount Rate Adjustment <sup>(1)</sup> | –                | (158.2)                    | 158.2            | –        |
| Deferred income tax recovery                | 42.3             | (138.8)                    | 56.8             | (82.0)   |
| Net income (loss)                           | 114.3            | 183.4                      | 153.5            | 336.9    |
| Net income per common share (\$/share)      |                  |                            |                  |          |
| Basic                                       | 0.87             | 1.60                       | 1.33             | 2.93     |
| Diluted                                     | 0.87             | 1.58                       | 1.33             | 2.91     |

<sup>(1)</sup> In 2017, asset retirement obligations of \$757.2 million and \$110.4 million recognized in the purchase allocations for Apache Canada and Trilogy, respectively, were subsequently remeasured in accordance with Paramount's previous accounting policy to reflect the discounting of such amounts using a risk-free discount rate (the "ARO Discount Rate Adjustment"). Under the Company's new accounting policy, which utilizes a credit-adjusted risk-free discount rate, the ARO Discount Rate Adjustment is not required and the \$158.2 million charge previously recorded to earnings for the year ended December 31, 2017 was reversed.

## Consolidated Statement of Cash Flows

| For the year ended December 31 | 2018             | 2017                       |                  |          |
|--------------------------------|------------------|----------------------------|------------------|----------|
|                                | Effect of change | Previous accounting policy | Effect of change | Restated |
| Net income (loss)              | 114.3            | 183.4                      | 153.5            | 336.9    |
| Items not involving cash       | (114.3)          | (4.5)                      | (153.5)          | (158.0)  |

## Adoption of New Accounting Standards

Paramount adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected not to restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through profit and loss", "fair value through OCI", and "amortized cost". The following table outlines the classification of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and under IFRS 9 beginning January 1, 2018:

| Financial Instrument                   | IAS 39                             | IFRS 9                             |
|----------------------------------------|------------------------------------|------------------------------------|
| Risk management assets and liabilities | Fair value through profit and loss | Fair value through profit and loss |
| Investments in securities              | Available-for-sale                 | Fair value through OCI             |
| Long-term debt                         | Financial liabilities              | Amortized cost                     |

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in OCI under IFRS 9.

Under IFRS 9, impairment charges are not recognized in respect of investments in securities classified as fair value through OCI. Cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy upon adoption of IFRS 9 resulted in the reclassification of previously recorded impairment charges of \$117.1 million between Retained Earnings and Reserves in the Company's Balance Sheet. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from \$272.9 million and \$143.6 million, respectively, under IAS 39 to \$390.0 million and \$26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an investment in securities, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking expected credit loss model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition accounting policy to recognize revenue when the customer assumes control of a product or service. The transfer of control of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue, however, the Company has included additional revenue disclosures in the notes to the Consolidated Financial Statements in accordance with the new standard.

### **Future Changes in Accounting Standards**

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 may be applied retrospectively or using a modified retrospective approach, effective for annual periods beginning on or after January 1, 2019. The modified retrospective approach does not require restatement of prior period comparative financial information, as the cumulative effect is recognized as an adjustment to retained earnings on the transition date.

The Company is currently completing its detailed assessment. Following the adoption of IFRS 16 on January 1, 2019, the Company anticipates that its minimum commitments for long-term corporate office lease arrangements will require the recognition of a right of use asset, as well as a corresponding lease liability on the balance sheet. In addition, the nature of the expenses related to those leases will change. Straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Company plans to adopt IFRS 16 using the modified retrospective approach. The cumulative financial effect of the adoption will be recognized as an adjustment to opening retained earnings, with the standard being applied prospectively. Paramount anticipates using the practical expedients permitted under the standard upon initial adoption for low value and short-term lease arrangements, as well as the use of

hindsight in determining the lease term where the contract contains terms to extend or terminate the lease. The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date, including whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

## **DISCLOSURE CONTROLS AND PROCEDURES**

As of the year ended December 31, 2018, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined under National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" ("NI 52-109"), 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 has assessed the effectiveness of the Company's internal controls over financial reporting ("ICFR") as defined under NI 52-109 as at December 31, 2018. 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 ICFR. Based on this assessment, Management has concluded that the Company's ICFR was effective as of December 31, 2018.

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 Control Over Financial Reporting**

During the year ended December 31, 2018, there was no change in the Company's ICFR that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## CRITICAL ACCOUNTING ESTIMATES

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 assets, liabilities, revenues and expenses recognized 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 a project as exploration and evaluation or development, including assessments of geological and technical characteristics and other factors related to each project.

### Exploration and Evaluation Projects

The accounting for E&E projects requires Management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of petroleum and natural gas, which requires the quantity and realizable value of such petroleum and natural gas 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 petroleum and natural gas, the costs are written-off as E&E 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 petroleum and natural gas 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 exploratory activities are carried out or the Company seeks government, regulatory or partner approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected quantities of petroleum and natural gas, expected production techniques, drilling results, estimated capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

### Reserves Estimates

Reserves engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of such 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, 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, the results of subsequent drilling, testing and production and other factors 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; (iii) the estimated fair value of petroleum and natural gas acquired in a business combination, and (iv) the estimated recoverable amount of petroleum and natural gas properties used from time-to-time in impairment and impairment reversal assessments, all of which could have a material impact on earnings.

## **Business Combinations**

Management is required to exercise judgment in determining whether 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.

Business combinations are accounted for using the acquisition method of accounting, whereby the net identifiable assets acquired are recorded at fair value. 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 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 to assets and liabilities acquired and could have a material impact on earnings.

## **Estimates of Recoverable Amounts**

Estimates of recoverable amounts used in impairment and impairment reversal assessments often incorporate level three hierarchy inputs, including estimated volumes and future net revenues from petroleum and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. 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.

## **Determination of CGUs**

The recoverability of the carrying value of petroleum and natural gas assets is generally assessed at the CGU level. The determination of the properties and other assets grouped within a particular CGU is based on Management's judgment with respect to the integration between assets, shared infrastructure and cash flows, the overall significance of individual properties and the manner in which management monitors its operations and allocates capital. Changes in the assets comprising CGUs could have an impact on estimated recoverable amounts used in impairment assessments and could have a material impact on earnings.

## **Depletion**

Depletion rates are determined based on Management's estimates of the expected usage pattern of the Company's petroleum and natural gas assets, including assumptions regarding future production volumes and the useful lives of production equipment and gathering systems.

Prior to the fourth quarter of 2018, the capitalized costs of the Company's developed oil and gas properties, production equipment and gathering systems were depleted over estimated volumes of proved developed reserves, using the unit-of-production method. In the fourth quarter of 2018, the method of determining



Paramount's depletion rates was modified to better reflect the expected usage pattern of Paramount's petroleum and natural gas assets.

The change in determining depletion rates was applied prospectively and resulted in a reduction to depletion expense of approximately \$39.6 million in the fourth quarter of December 31, 2018.

### **Equity Accounted Investments**

Prior to the merger with Trilogy in September 2017, the Company owned approximately 15 percent of the outstanding common shares of Trilogy. The Company accounted for its investment in Trilogy under the equity method of investment accounting, although it held less than 20 percent of the voting power, because in Management's judgment, it had significant influence as a result of common directors and members of senior management.

### **Investments in Securities**

The Company's investments in securities are accounted for as fair value through OCI financial assets. Management is required to exercise judgment in estimating the fair value of investments in the securities of corporations that are not publicly traded. Changes in estimates of fair value for such investments could have a material impact on comprehensive income.

### **Provisions**

A provision is recognized where the Company has determined that it has a present obligation arising from past events and the settlement of the obligation is expected to result in an outflow of economic benefits. The determination of whether the Company has a present obligation arising from past events requires Management to exercise judgement as to the facts and circumstances of the event and the extent of any expected obligations of Paramount. Changes in facts and circumstances as a result of new information and other developments may impact Management's assessment of the Company's obligations, if any, in respect of such events. Changes in such estimates could have a material impact on Paramount's assets, liabilities, revenues, expenses and earnings.

### **Asset Retirement Obligations**

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

### **Income Taxes**

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments and estimates related to the application of tax law, the timing of

temporary difference reversals and the likelihood of realizing deferred income 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, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

## 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:

- Paramount's development plans at Karr and Wapiti, including the 6-18 Facility expansions and future production goals and targets at those properties;
- the ability of the Company to deliver returns to shareholders by 2021;
- the expected addition of material new production at Karr and Wapiti in mid-2019;
- expected average sales volumes for 2019, including for the first half of 2019 and the fourth quarter of 2019;
- an expected increase in sales volumes in the second half of 2019;
- planned capital expenditures for 2019;
- estimated capital expenditures required in 2019 for the expansion of the 6-18 Facility;
- planned abandonment and reclamation expenditures for 2019;
- the expectation that the Company will continue to spend approximately \$30 to \$40 million per year on abandonment and reclamation activities;
- the expectation that new wells at Karr will provide sufficient new production to continue to fully utilize the 6-18 Facility;
- the timing of the projected start-up of the new third-party processing facility at Wapiti;
- planned exploration, development and production activities, included the expected timing of completing and bringing new wells on production;
- the expected funding of 2019 operations, obligations and capital expenditures with cash flows from operations, non-core asset dispositions and available liquidity under the Company's bank credit facility;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position;
- Paramount's assessment that it is not responsible for the costs of the Response Activities associated with the 2016 non-operated pipeline release; and
- the expected impact of the adoption of IFRS 16.

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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 and liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;

- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- 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 and liquids 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;
- the application of regulatory requirements respecting abandonment and reclamation;
- the merits of outstanding and pending legal proceedings; 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 are reasonable based on the information available at the time of this document, undue reliance should not be placed on the forward-looking information 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 and liquids 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, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- 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);
- 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 estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, de-ethanization, fractionation and similar commitments and obligations);
- 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 and other factors including wildlife and environmental restrictions which affect field operations and access;

- 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 annual information form for the year ended December 31, 2018, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). 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 MD&A "Adjusted funds flow", "Netback", "Net Debt", "Adjusted working capital" and "Exploration and development capital", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

**Adjusted funds flow** refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow 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. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **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. Refer to the Operating Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital and other 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 calculation of Net Debt and **Adjusted working capital**. **Exploration and development capital** consists of the Company's spending on wells, infrastructure projects, and other property, plant and equipment and exploration and evaluation assets and excludes spending related to land and property acquisitions and corporate assets. The Exploration and development capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof. The following is the calculation of Exploration and Development Capital from the nearest GAAP measure for the three months ended December 31, 2018 and December 31, 2017:

| Three months ended December 31                | 2018  | 2017  |
|-----------------------------------------------|-------|-------|
| Property, plant and equipment and exploration | 127.5 | 158.8 |
| Land and property acquisitions                | (1.2) | (6.0) |
| Corporate                                     | (2.4) | (2.4) |
| Exploration and Development Capital           | 123.9 | 150.4 |

The 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.

## Reserves Data

Reserves data set forth in this document is based upon an evaluation of the Company's reserves prepared by McDaniel & Associates Consultants Ltd. ("McDaniel") dated March 6, 2019 and effective December 31, 2018 (the "McDaniel Report"). The price forecast used in the McDaniel Report is an average of the January 1, 2019 price forecasts for McDaniel and GLJ Petroleum Consultants Ltd. and the December 31, 2018 price forecast of Sproule Associates Ltd. The estimates of reserves contained in the McDaniel Report and referenced in this document are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided in the McDaniel Report and referenced in this document. Estimates of future net revenues contained in the McDaniel Report and referenced in this document do not represent fair market value. There is no assurance that the forecast prices and costs assumptions used in the McDaniel Report will be attained, and variances could be material. 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 effects of aggregations. Readers should refer to the Company's annual information form for the year ended December 31, 2018, which is available on SEDAR at [www.sedar.com](http://www.sedar.com), for a complete description of the McDaniel Report and the material assumptions, limitations and risk factors pertaining thereto.

## Oil and Gas Measures and Definitions

The term "liquids" includes oil, condensate and Other NGLs (ethane, propane and butane). NGLs consist of condensate and Other NGLs.

### Abbreviations

| Liquids        |                                       | Natural Gas |                                   |
|----------------|---------------------------------------|-------------|-----------------------------------|
| Bbl            | Barrels                               | Mcf         | Thousands of cubic feet           |
| Bbl/d          | Barrels per day                       | MMcf/d      | Millions of cubic feet per day    |
| NGLs           | Natural gas liquids                   | GJ          | Gigajoule                         |
| Condensate     | Pentane and heavier hydrocarbons      | MMbtu       | Millions of British thermal units |
|                |                                       | AECO        | AECO-C reference price            |
|                |                                       | NYMEX       | New York Mercantile Exchange      |
| Oil Equivalent |                                       |             |                                   |
| Boe            | Barrels of oil equivalent             |             |                                   |
| MMBoe          | Millions of Barrels of oil equivalent |             |                                   |
| Boe/d          | Barrels of oil equivalent per day     |             |                                   |

This document contains disclosures expressed as "Boe", "\$/Boe", "MMBoe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. 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. For the year ended December 31, 2018, the value ratio between crude oil and natural gas was approximately 47:1. 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.

This document contains metrics commonly used in the oil and natural gas industry. Each of these metrics is determined by the Company as set out below or elsewhere in this press release. The metrics are "CGR", "reserves replacement ratio" and "F&D costs". These metrics do not have standardized meanings and may not be comparable to similar measures presented by other companies. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare the Company's performance over time; however, such measures are not reliable indicators of the Company's future performance and future performance may not compare to the performance in previous periods and therefore should not be unduly relied upon.

"CGR" means condensate to gas ratio and is calculated by dividing wellhead raw liquids volumes by wellhead raw natural gas volumes.

"Reserves replacement ratio" is calculated by dividing: (i) the aggregate changes in reserves from the prior year from extensions and improved recoveries, technical revisions and economic factors, by (ii) the aggregate production during the year. Reserves replacement ratio is a measure commonly used by management and investors to assess the rate at which reserves depleted by production are being replaced by reserves added through operations.

"FD&A costs" are calculated by dividing: (i) the sum of the total exploration and development capital expenditures for the year, inclusive of the net acquisition costs and disposition proceeds, and net changes in estimated future development costs from the prior year (excluding changes in estimated future development costs resulting from the inclusion of maintenance capital not associated with reserves additions due to 2018 amendments to the COGE Handbook), by (ii) the net changes to reserves from the prior year before production, inclusive of changes due to acquisitions and dispositions. Finding, development and acquisition costs are a measure commonly used by management and investors to assess the relationship between capital invested in oil and gas exploration and development projects and reserve additions associated with such projects.



# CONSOLIDATED 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 included in 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 all transactions are recorded that are necessary for the preparation and presentation of financial statements in accordance with International Financial Reporting Standards, that such transactions are recorded accurately 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 fulfills 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/ J.H.T. Riddell

**J.H.T. Riddell**

President and Chief Executive Officer and Chairman

/s/ B.K. Lee

**B.K. Lee**

Executive Vice President, Finance and  
Chief Financial Officer

March 6, 2019

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Paramount Resources Ltd.

### Opinion

We have audited the consolidated financial statements of Paramount Resources Ltd. and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2018 and 2017 and January 1, 2017, and the consolidated statements of comprehensive income (loss), consolidated statements of cash flows and consolidated statements of shareholders' equity for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017 and January 1, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

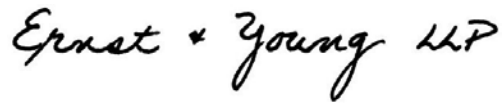
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Jubenvill.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Calgary, Alberta  
March 6, 2019

## CONSOLIDATED BALANCE SHEET

(\$ thousands)

| As at                                           | Note   | December 31<br>2018 | December 31<br>2017     | January 1<br>2017       |
|-------------------------------------------------|--------|---------------------|-------------------------|-------------------------|
|                                                 |        |                     | (Restated -<br>Note 22) | (Restated -<br>Note 22) |
| <b>ASSETS</b>                                   |        |                     |                         |                         |
| <b>Current assets</b>                           |        |                     |                         |                         |
| Cash and cash equivalents                       | 18     | 19,295              | 123,329                 | 621,872                 |
| Investments in securities for distribution      | 11, 17 | –                   | –                       | 118,978                 |
| Accounts receivable                             | 15     | 121,330             | 170,313                 | 23,895                  |
| Risk management                                 | 15     | 64,441              | –                       | –                       |
| Prepaid expenses and other                      |        | 9,641               | 9,047                   | 1,715                   |
|                                                 |        | 214,707             | 302,689                 | 766,460                 |
| Exploration and evaluation                      | 4      | 719,908             | 785,764                 | 301,530                 |
| Property, plant and equipment, net              | 5      | 2,178,181           | 2,754,751               | 850,705                 |
| Equity-accounted investment                     | 7      | –                   | –                       | 44,053                  |
| Investments in securities                       | 8      | 231,732             | 53,315                  | 64,193                  |
| Deferred income tax                             | 14     | 773,575             | 584,071                 | –                       |
|                                                 |        | 4,118,103           | 4,480,590               | 2,026,941               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>     |        |                     |                         |                         |
| <b>Current liabilities</b>                      |        |                     |                         |                         |
| Dividend payable                                | 11     | –                   | –                       | 118,978                 |
| Accounts payable and accrued liabilities        | 15     | 231,228             | 237,181                 | 81,585                  |
| Risk management                                 | 15     | –                   | 19,060                  | 5,180                   |
| Current portion of asset retirement obligations | 10     | 32,000              | 28,000                  | 7,896                   |
|                                                 |        | 263,228             | 284,241                 | 213,639                 |
| Long-term debt                                  | 9      | 815,000             | 701,750                 | –                       |
| Asset retirement obligations and other          | 10     | 789,346             | 828,342                 | 77,805                  |
| Deferred income tax                             | 14     | –                   | –                       | 31,639                  |
|                                                 |        | 1,867,574           | 1,814,333               | 323,083                 |
| Commitments and contingencies                   | 21     |                     |                         |                         |
| <b>Shareholders' equity</b>                     |        |                     |                         |                         |
| Share capital                                   | 11     | 2,184,608           | 2,249,746               | 1,639,466               |
| Retained earnings (accumulated deficit)         |        | 21,189              | 272,932                 | (83,107)                |
| Reserves                                        | 12     | 44,732              | 143,579                 | 147,499                 |
|                                                 |        | 2,250,529           | 2,666,257               | 1,703,858               |
|                                                 |        | 4,118,103           | 4,480,590               | 2,026,941               |

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 6, 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(\$ thousands, except as noted)

| Year ended December 31                                                    | Note   | 2018      | 2017                    |
|---------------------------------------------------------------------------|--------|-----------|-------------------------|
|                                                                           |        |           | (Restated -<br>Note 22) |
| Petroleum and natural gas sales                                           |        | 965,474   | 491,421                 |
| Royalties                                                                 |        | (69,183)  | (24,649)                |
| Revenue                                                                   | 16     | 896,291   | 466,772                 |
| Gain (loss) on commodity contracts                                        | 15     | 7,026     | (4,059)                 |
|                                                                           |        | 903,317   | 462,713                 |
| Expenses                                                                  |        |           |                         |
| Operating expense                                                         |        | 380,985   | 165,893                 |
| Transportation and NGLs processing                                        |        | 92,996    | 50,985                  |
| General and administrative                                                |        | 58,586    | 41,102                  |
| Share-based compensation                                                  | 13     | 24,063    | 17,840                  |
| Depletion and depreciation                                                | 5      | 977,275   | 381,495                 |
| Exploration and evaluation                                                | 4      | 27,279    | 215,503                 |
| Gain on sale of oil and gas assets                                        | 5      | (57,413)  | (95,917)                |
| Interest and financing                                                    |        | 31,011    | 10,783                  |
| Accretion of asset retirement obligations                                 | 10     | 57,652    | 25,663                  |
| Change in asset retirement obligations                                    | 1,10   | (120,244) | (37,975)                |
| Transaction and reorganization costs                                      | 6,7,10 | 5,573     | 30,529                  |
| Debt extinguishment                                                       | 9      | (3,126)   | —                       |
| Foreign exchange                                                          |        | (2,278)   | 292                     |
|                                                                           |        | 1,472,359 | 806,193                 |
| Income from equity-accounted investment                                   | 7      | —         | 63,729                  |
| Gain on Apache Canada Acquisition                                         | 6      | —         | 548,931                 |
| Other                                                                     | 17     | 8,439     | (14,324)                |
| Income (loss) before tax                                                  |        | (560,603) | 254,856                 |
| Income tax recovery                                                       | 14     |           |                         |
| Deferred                                                                  |        | (193,440) | (82,037)                |
|                                                                           |        | (193,440) | (82,037)                |
| Net income (loss)                                                         |        | (367,163) | 336,893                 |
| Other comprehensive income (loss), net of tax                             |        |           |                         |
| Items that may be reclassified to net income (loss):                      |        |           |                         |
| Change in market value of securities                                      | 8      | 4,702     | (40,078)                |
| Reclassification of accumulated losses on securities to net income (loss) | 8      | —         | 23,011                  |
| Deferred tax on other comprehensive income (loss) related to securities   |        | (3,938)   | 947                     |
| Comprehensive income (loss)                                               |        | (366,399) | 320,773                 |
| Net income (loss) per common share (\$/share)                             | 11     |           |                         |
| Basic                                                                     |        | (2.78)    | 2.93                    |
| Diluted                                                                   |        | (2.78)    | 2.91                    |

See the accompanying notes to these Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ thousands)

| Year ended December 31                                   | Note | 2018             | 2017                    |
|----------------------------------------------------------|------|------------------|-------------------------|
|                                                          |      |                  | (Restated -<br>Note 22) |
| <b>Operating activities</b>                              |      |                  |                         |
| Net income (loss)                                        |      | (367,163)        | 336,893                 |
| Add (deduct):                                            |      |                  |                         |
| Items not involving cash                                 | 18   | 616,070          | (158,011)               |
| Asset retirement obligations settled                     | 10   | (29,390)         | (21,450)                |
| Debt extinguishment                                      | 9    | (3,126)          | –                       |
| Change in non-cash working capital                       |      | 7,022            | (31,137)                |
| <b>Cash from operating activities</b>                    |      | <b>223,413</b>   | <b>126,295</b>          |
| <b>Financing activities</b>                              |      |                  |                         |
| Net draw of revolving long-term debt                     | 9    | 420,000          | 392,535                 |
| Repayment of Trilogy credit facility                     | 9    | –                | (155,901)               |
| Redemption of 2019 Senior Notes                          | 9    | (303,624)        | –                       |
| Common shares issued, net of issue costs                 |      | 779              | 6,623                   |
| Common shares purchased under restricted share unit plan | 13   | (9,219)          | (11,370)                |
| Common shares repurchased under NCIB                     | 11   | (66,381)         | –                       |
| <b>Cash from financing activities</b>                    |      | <b>41,555</b>    | <b>231,887</b>          |
| <b>Investing activities</b>                              |      |                  |                         |
| Property, plant and equipment and exploration            |      | (580,239)        | (545,109)               |
| Proceeds on sale of oil and gas assets                   |      | 182,379          | 158,370                 |
| Investments in securities                                |      | (4,139)          | –                       |
| Proceeds on sale of investment in securities             |      | 423              | –                       |
| Corporate acquisition                                    | 6    | –                | (486,852)               |
| Cash acquired on corporate acquisition                   | 6    | –                | 25,468                  |
| Change in non-cash working capital                       |      | 30,118           | (7,121)                 |
| <b>Cash used in investing activities</b>                 |      | <b>(371,458)</b> | <b>(855,244)</b>        |
| <b>Net decrease</b>                                      |      | <b>(106,490)</b> | <b>(497,062)</b>        |
| Foreign exchange on cash and cash equivalents            |      | 2,456            | (1,481)                 |
| Cash and cash equivalents, beginning of year             |      | 123,329          | 621,872                 |
| <b>Cash and cash equivalents, end of year</b>            |      | <b>19,295</b>    | <b>123,329</b>          |

### Supplemental cash flow information

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See the accompanying notes to these Consolidated Financial Statements.



## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(\$ thousands, except as noted)

| Year ended December 31                                                     | Note   | 2018                      |                  | 2017                                              |                  |
|----------------------------------------------------------------------------|--------|---------------------------|------------------|---------------------------------------------------|------------------|
|                                                                            |        | <b>Shares<br/>(000's)</b> |                  | (Restated - Note 22)<br><b>Shares<br/>(000's)</b> |                  |
| <b>Share Capital</b>                                                       |        |                           |                  |                                                   |                  |
| Balance, beginning of year                                                 |        | 134,713                   | 2,249,746        | 105,784                                           | 1,639,466        |
| Issued                                                                     | 13     | 80                        | 1,086            | 735                                               | 9,552            |
| Issued on Trilogy Merger, net of issuance costs                            | 7      | –                         | –                | 28,537                                            | 603,085          |
| Common shares purchased under NCIB                                         | 11     | (4,239)                   | (66,381)         | –                                                 | –                |
| Change in vested and unvested common shares for restricted share unit plan | 13     | (228)                     | 157              | (343)                                             | (2,357)          |
| <b>Balance, end of year</b>                                                |        | <b>130,326</b>            | <b>2,184,608</b> | <b>134,713</b>                                    | <b>2,249,746</b> |
| <b>Retained Earnings (Accumulated Deficit)</b>                             |        |                           |                  |                                                   |                  |
| Balance, beginning of year                                                 |        |                           | 272,932          |                                                   | (83,107)         |
| Reclassification of accumulated losses on securities on adoption of IFRS 9 | 2      |                           | 117,057          |                                                   | –                |
| Balance, beginning of year - restated                                      |        |                           | 389,989          |                                                   | (83,107)         |
| Net income (loss)                                                          |        |                           | (367,163)        |                                                   | 336,893          |
| Decrease in value of securities prior to distribution                      | 11, 17 |                           | –                |                                                   | 19,146           |
| Reclassification of accumulated losses on securities sold                  |        |                           | (1,637)          |                                                   | –                |
| <b>Balance, end of year</b>                                                |        |                           | <b>21,189</b>    |                                                   | <b>272,932</b>   |
| <b>Reserves</b>                                                            | 12     |                           |                  |                                                   |                  |
| Balance, beginning of year                                                 |        |                           | 143,579          |                                                   | 147,499          |
| Reclassification of accumulated losses on securities on adoption of IFRS 9 | 2      |                           | (117,057)        |                                                   | –                |
| Balance, beginning of year - restated                                      |        |                           | 26,522           |                                                   | 147,499          |
| Other comprehensive income (loss)                                          |        |                           | 764              |                                                   | (16,120)         |
| Contributed surplus                                                        |        |                           | 15,809           |                                                   | 12,200           |
| Reclassification of accumulated losses on securities sold                  |        |                           | 1,637            |                                                   | –                |
| <b>Balance, end of year</b>                                                |        |                           | <b>44,732</b>    |                                                   | <b>143,579</b>   |
| <b>Total Shareholders' Equity</b>                                          |        |                           | <b>2,250,529</b> |                                                   | <b>2,666,257</b> |

See the accompanying notes to these Consolidated Financial Statements.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **1. Significant Accounting Policies**

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia.

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 2800, 421 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy ("Cavalier") and MGM Energy.

These consolidated financial statements of the Company, as at December 31, 2018 and 2017 and January 1, 2017, and for the years ended December 31, 2018 and 2017 (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 6, 2019.

#### **Basis of Preparation**

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented, except for changes resulting from the adoption of IFRS 9 – Financial Instruments ("IFRS 9") and IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which are described below. Amounts included in these Consolidated Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted.

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 3.

Effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to asset retirement obligations to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Paramount believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, and results in reliable and more relevant information for the readers of the Company's financial statements. The change in accounting policy was applied retrospectively, including the restatement of comparative amounts in these Consolidated Financial Statements. The impact of this change in accounting policy is described in Note 22.

In the fourth quarter of 2018, the Company modified the method used to determine depletion rates in respect of its petroleum and natural gas assets. The impact of this change is described in Note 3.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **a) Revenue Recognition**

Petroleum and natural gas sales are recognized when the customer assumes control of the product. The transfer of control of petroleum and natural gas volumes generally coincides with the purchaser obtaining physical possession and title to such volumes.

Revenue for drilling services is recognized when the performance of services has been completed and the Company has a right to collect consideration commensurate with the value of the services provided. 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 carried at amortized cost and are comprised of cash in operating bank accounts, term deposits, certificates of deposit and other highly liquid investments.

### **c) Trade and Other Receivables**

Accounts receivable are carried at amortized cost and are recorded as corresponding amounts of revenue are recognized or costs are incurred on behalf of partners in connection with joint operations.

### **d) Exploration and Evaluation**

Costs related to the exploration for and evaluation of hydrocarbon resources, including costs of acquiring unproved property, drilling and completing exploratory wells 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 exploration and evaluation ("E&E") 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 establish the technical feasibility and commercial viability of the discovery.

When the technical feasibility and commercial viability of a project has been established, the E&E costs are transferred to petroleum and natural gas assets, subject to an impairment assessment. When the Company determines that an E&E project is no longer viable or its carrying value exceeds its recoverable amount, an impairment charge is recognized.

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 impairment, 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 component is written-off. Costs incurred to maintain and repair the Rigs are expensed as incurred.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

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

### *Depletion and Depreciation*

The capitalized costs of developed oil and gas properties are depleted over estimated volumes of proved plus probable reserves using the unit-of-production method. In determining applicable depletion rates, estimated future development capital amounts ascribed to such reserves are included in the numerator. 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.

The capitalized costs of the majority of Paramount's production equipment and gathering systems are depleted on a unit-of-production basis over the volume of estimated proved plus probable reserves ascribed to the field to which they relate. Capitalized costs of processing plants and other major infrastructure assets are depreciated on a straight-line basis over their expected useful lives, which extend up to 40 years.

The Rigs are depreciated on a straight-line basis by component over their expected useful lives, which range between 5 and 20 years.

Leasehold improvements are depreciated over the term of the related lease. Other assets are depreciated using the declining balance method at rates ranging between 35 and 50 percent.

### **f) Impairment of Non-Financial Assets**

The carrying values of the Company's non-financial assets are reviewed at each reporting date to determine whether any indicators of impairment are present, or whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. For the purpose of impairment testing, non-financial assets are tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company's developed oil and gas properties include four CGUs: the Grande Prairie CGU, the Kaybob CGU, the Central Alberta CGU and the Northern CGU. The Company's E&E assets consisting of undeveloped land form a fifth CGU for the purposes of impairment testing.

If an indicator of impairment or impairment reversal is identified for a particular asset or CGU, its recoverable amount is estimated. If the carrying value of such asset or CGU exceeds its estimated recoverable amount, an impairment charge is recognized. If the estimated recoverable amount of an asset or CGU that was previously impaired exceeds its carrying value, impairment charges recognized in prior periods are reversed to a maximum of the carrying value that would have been determined, net of depletion and amortization, had no impairment charges been recognized for that CGU in prior periods.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use. In assessing fair value less costs of disposal, the Company estimates the value a potential purchaser would ascribe to an asset or CGU. For oil and gas properties, fair value less costs of disposal is generally estimated based on expected after-tax future net cash flows from the production of proved and probable reserves volumes using forecast commodity prices and costs, 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.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **g) Joint Arrangements**

Paramount conducts its exploration and development activities independently, as well as jointly with others through jointly controlled assets and operations. All of the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, Paramount recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such 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 arrangements that are classified as joint ventures.

### **h) Equity-Accounted Investments**

Investments in entities in which Paramount has significant influence are accounted for using the equity method of investment accounting. 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 investment is recognized at cost on acquisition, with the carrying amount being 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 investment. The Company does not currently hold any investments in entities in which it has significant influence.

### **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, except for deferred income tax amounts. Any excess of the consideration paid over the value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred compared to the value of the net identifiable assets acquired is recognized in earnings. Costs incurred to complete the business combination are expensed.

### **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 expensed in the period incurred.

### **k) Provisions**

Provisions are recognized where the Company has a present legal and/or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for onerous contracts is recognized when the expected economic benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **l) Asset Retirement Obligations**

Asset retirement obligations arise from legal and/or constructive 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 cost of retirement can be made. The present value of the obligation is determined using the applicable credit-adjusted 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. The present values of estimated future asset retirement costs are capitalized as part of the carrying value of the related long-lived asset and depreciated on the same basis as the underlying asset. 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. Where changes to asset retirement obligations relate to properties which have a nil carrying value ascribed to the petroleum and natural gas assets of such properties, the corresponding change is recorded in earnings.

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 the reclamation of a property is complete.

### **m) Foreign Currency Translation**

The functional and presentation currency of Paramount and its subsidiaries is the Canadian dollar.

### **n) Estimates of Fair Value**

Inputs used to estimate fair values incorporated in the preparation of the Consolidated Financial Statements are categorized into one of three levels of 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 as follows:

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.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **o) 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", "fair value through other comprehensive income ("OCI")" or "amortized cost". Paramount did not employ hedge accounting for any of its financial instruments as at December 31, 2018.

Paramount's risk management assets and liabilities are classified as fair value through profit or loss. Fair value through profit or loss financial instruments are measured at fair value, with changes in their fair values over time being recognized in net earnings. The fair values of the Company's risk management assets and liabilities 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.

Investments in securities are classified as fair value through OCI. Financial assets that are classified as fair value through OCI are measured at fair value with changes in such fair values being accumulated in OCI until the asset is sold or derecognized. Upon the disposition or derecognition of investments in securities, amounts previously recorded in OCI in respect of such an investment are reclassified to Retained Earnings.

Investments in publicly-traded securities are carried at their period-end trading price (level one fair value hierarchy estimate). Estimates of fair value for investments in the shares of private companies are based on valuation techniques that incorporate unobservable inputs (level three fair value hierarchy inputs). The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value. Changes in assumptions, as well as changes in judgments regarding comparable transactions and entities, could result in a material change in estimated fair value in future periods.

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. Amounts recorded in OCI each period are presented in the Consolidated Statement of Comprehensive Income (Loss). Cumulative changes in OCI are included in Reserves, which is presented within Shareholders' Equity in the Consolidated Balance Sheet.

### **p) Impairment of Financial Assets**

The Company recognizes provisions for expected credit losses upon the initial recognition of financial assets and re-assesses the provision at each reporting date. The provision is adjusted as a result of changes in historical default rates, age of balances outstanding, and counterparty credit metrics.

### **q) 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



## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

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 considered probable. The carrying value of deferred income tax assets is reviewed at each reporting date taking into consideration historical and expected future taxable income, expected reversals of temporary differences, anticipated timing of realization, tax basis carry-forward periods and other factors. Deferred income tax assets are de-recognized to the extent that it is not more likely than not that the carrying value of the asset will be realized.

### **r) Share-Based Compensation**

#### *Paramount Stock Option Plan*

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

The Company accounts for Paramount Options as equity-settled share-based compensation transactions. The aggregate grant date fair value of stock options awarded is recognized as share-based compensation expense over the applicable vesting period on a straight-line basis, 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 share-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 that option to Share Capital.

#### *Cavalier Stock Option Plan*

Cavalier has a stock option plan that enables its Board of Directors to grant options to acquire common shares of Cavalier ("Cavalier Options") to key employees and directors. Cavalier Options generally vest over five years and expire within seven years of 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 share-based compensation transactions.

#### *Restricted Share Unit Plan*

Paramount's cash bonus and restricted share unit plan ("RSU") 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, the awards vest over two years. The unvested portion of an award is initially recorded as a reduction of Paramount's Share Capital. The cost of such awards is then recognized over the vesting period as share-based compensation expense, with a corresponding increase to Share Capital.

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### s) Net Income Per Share

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

## 2. Changes in Accounting Standards

Paramount adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected not to restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through profit and loss", "fair value through OCI", and "amortized cost". The following table outlines the classification of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and under IFRS 9 beginning January 1, 2018:

| Financial Instrument                   | IAS 39                             | IFRS 9                             |
|----------------------------------------|------------------------------------|------------------------------------|
| Risk management assets and liabilities | Fair value through profit and loss | Fair value through profit and loss |
| Investments in securities              | Available-for-sale                 | Fair value through OCI             |
| Long-term debt                         | Financial liabilities              | Amortized cost                     |

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in OCI under IFRS 9.

Under IFRS 9, impairment charges are not recognized in respect of investments in securities classified as fair value through OCI. Cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy upon adoption of IFRS 9 resulted in the reclassification of previously recorded impairment charges of \$117.1 million between Retained Earnings and Reserves in the Company's Balance Sheet. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from \$272.9 million and \$143.6 million, respectively, under IAS 39 to \$390.0 million and \$26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an investment in securities, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking expected credit loss model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

accounting policy to recognize revenue when the customer assumes control of a product or service. The transfer of control of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue, however, the Company has included additional revenue disclosures in the notes to the Consolidated Financial Statements in accordance with the new standard.

### **Future Changes in Accounting Standards**

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 may be applied retrospectively or using a modified retrospective approach, effective for annual periods beginning on or after January 1, 2019. The modified retrospective approach does not require restatement of prior period comparative financial information, as the cumulative effect is recognized as an adjustment to retained earnings on the transition date.

The Company is currently completing its detailed assessment. Following the adoption of IFRS 16 on January 1, 2019, the Company anticipates that its minimum commitments for long-term corporate office lease arrangements will require the recognition of a right of use asset, as well as a corresponding lease liability on the balance sheet. In addition, the nature of the expenses related to those leases will change. Straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense for lease liabilities.

The Company plans to adopt IFRS 16 using the modified retrospective approach. The cumulative financial effect of the adoption will be recognized as an adjustment to opening retained earnings, with the standard being applied prospectively. Paramount anticipates using the practical expedients permitted under the standard upon initial adoption for low value and short-term lease arrangements, as well as the use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease. The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date, including whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

### **3. 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 assets, liabilities, revenues and expenses recognized in future periods. The following is a description of the accounting judgments, estimates and assumptions that are considered significant.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

### **Exploration or Development**

The Company is required to apply judgment when designating a project as exploration and evaluation or development, including assessments of geological and technical characteristics and other factors related to each project.

### **Exploration and Evaluation Projects**

The accounting for E&E projects requires Management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of petroleum and natural gas, which requires the quantity and realizable value of such petroleum and natural gas 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 petroleum and natural gas, the costs are written-off as E&E 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 petroleum and natural gas 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 exploratory activities are carried out or the Company seeks government, regulatory or partner approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected quantities of petroleum and natural gas, expected production techniques, drilling results, estimated capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

### **Reserves Estimates**

Reserves engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of such 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, 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, the results of subsequent drilling, testing and production and other factors 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; (iii) the estimated fair value of petroleum and natural gas acquired in a business combination, and (iv) the estimated recoverable amount of petroleum and natural gas properties used from time-to-time in impairment and impairment reversal assessments, all of which could have a material impact on earnings.

### **Business Combinations**

Management is required to exercise judgment in determining whether assets acquired and liabilities assumed constitute a business. A business consists of an integrated set of assets and activities, comprised

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

of inputs and processes, that is capable of being conducted and managed as a business by a market participant.

Business combinations are accounted for using the acquisition method of accounting, whereby the net identifiable assets acquired are recorded at fair value. 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 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 to assets and liabilities acquired and could have a material impact on earnings.

### **Estimates of Recoverable Amounts**

Estimates of recoverable amounts used in impairment and impairment reversal assessments often incorporate level three hierarchy inputs, including estimated volumes and future net revenues from petroleum and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. 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.

### **Determination of CGUs**

The recoverability of the carrying value of petroleum and natural gas assets is generally assessed at the CGU level. The determination of the properties and other assets grouped within a particular CGU is based on Management's judgment with respect to the integration between assets, shared infrastructure and cash flows, the overall significance of individual properties and the manner in which management monitors its operations and allocates capital. Changes in the assets comprising CGUs could have an impact on estimated recoverable amounts used in impairment assessments and could have a material impact on earnings.

### **Depletion**

Depletion rates are determined based on Management's estimates of the expected usage pattern of the Company's petroleum and natural gas assets, including assumptions regarding future production volumes and the useful lives of production equipment and gathering systems.

Prior to the fourth quarter of 2018, the capitalized costs of the Company's developed oil and gas properties, production equipment and gathering systems were depleted over estimated volumes of proved developed reserves, using the unit-of-production method. In the fourth quarter of 2018, the method of determining Paramount's depletion rates was modified to better reflect the expected usage pattern of Paramount's petroleum and natural gas assets.

The change in determining depletion rates was applied prospectively and resulted in a reduction to depletion expense of approximately \$39.6 million in the fourth quarter of December 31, 2018.

### **Equity Accounted Investments**

Prior to the merger with Trilogy Energy Corp. ("Trilogy") in September 2017, the Company owned approximately 15 percent of the outstanding common shares of Trilogy. The Company accounted for its

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

investment in Trilogy under the equity method of investment accounting, although it held less than 20 percent of the voting power, because in Management's judgment, it had significant influence as a result of common directors and members of senior management.

### **Investments in Securities**

The Company's investments in securities are accounted for as fair value through OCI financial assets. Management is required to exercise judgment in estimating the fair value of investments in the securities of corporations that are not publicly traded. Changes in estimates of fair value for such investments could have a material impact on comprehensive income.

### **Provisions**

A provision is recognized where the Company has determined that it has a present obligation arising from past events and the settlement of the obligation is expected to result in an outflow of economic benefits. The determination of whether the Company has a present obligation arising from past events requires Management to exercise judgement as to the facts and circumstances of the event and the extent of any expected obligations of Paramount. Changes in facts and circumstances as a result of new information and other developments may impact Management's assessment of the Company's obligations, if any, in respect of such events. Changes in such estimates could have a material impact on Paramount's assets, liabilities, revenues, expenses and earnings.

### **Asset Retirement Obligations**

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

### **Income Taxes**

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments and estimates related to the application of tax law, the timing of temporary difference reversals and the likelihood of realizing deferred income 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, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

**4. Exploration and Evaluation**

| Year ended December 31                              | 2018     | 2017      |
|-----------------------------------------------------|----------|-----------|
| Balance, beginning of year                          | 785,764  | 301,530   |
| Additions                                           | 8,300    | 14,276    |
| Apache Canada Acquisition and Trilogy Merger        | –        | 701,087   |
| Change in asset retirement provision <sup>(1)</sup> | –        | 5,031     |
| Transfers to property, plant and equipment          | (34,388) | (6,283)   |
| Expired lease costs                                 | (14,781) | (8,869)   |
| Impairment <sup>(1)</sup>                           | –        | (197,337) |
| Dispositions                                        | (24,987) | (23,671)  |
| Balance, end of year                                | 719,908  | 785,764   |

**Exploration and Evaluation Expense**

| Year ended December 31                                         | 2018   | 2017    |
|----------------------------------------------------------------|--------|---------|
| Geological and geophysical                                     | 12,498 | 9,297   |
| Expired lease costs                                            | 14,781 | 8,869   |
| Impairment of exploration and evaluation assets <sup>(1)</sup> | –      | 197,337 |
|                                                                | 27,279 | 215,503 |

(1) 2017 amounts restated, refer to Note 22.

Impairment of exploration and evaluation assets for the year ended December 31, 2017 include \$184.6 million related to the de-recognition of the carrying value of shale gas properties in the Liard and Horn River basins (the "Shale Gas Project"). The impairment of the Shale Gas Project was due to, among other factors, the suspension of development activities by the Company and other operators in the region and delays and cancellations of proposed downstream liquified natural gas terminals to facilitate transportation of shale gas production to international markets.

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### 5. Property, Plant and Equipment

| Year ended December 31, 2018                                                     | Petroleum<br>and natural<br>gas assets | Drilling<br>rigs | Other           | Total              |
|----------------------------------------------------------------------------------|----------------------------------------|------------------|-----------------|--------------------|
| <b>Cost</b>                                                                      |                                        |                  |                 |                    |
| Balance, December 31, 2017 <sup>(1)</sup>                                        | 3,928,455                              | 157,153          | 33,708          | 4,119,316          |
| Additions                                                                        | 564,227                                | 2,664            | 13,447          | 580,338            |
| Transfers from exploration and evaluation                                        | 34,388                                 | –                | –               | 34,388             |
| Dispositions                                                                     | (557,122)                              | –                | (581)           | (557,703)          |
| Change in asset retirement provision                                             | 71,150                                 | –                | –               | 71,150             |
| <b>Cost, December 31, 2018</b>                                                   | <b>4,041,098</b>                       | <b>159,817</b>   | <b>46,574</b>   | <b>4,247,489</b>   |
| <b>Accumulated depletion, depreciation and impairment</b>                        |                                        |                  |                 |                    |
| Balance, December 31, 2017 <sup>(1)</sup>                                        | (1,272,584)                            | (67,840)         | (24,141)        | (1,364,565)        |
| Depletion and depreciation                                                       | (463,006)                              | (11,025)         | (5,466)         | (479,497)          |
| Impairment                                                                       | (502,540)                              | –                | –               | (502,540)          |
| Dispositions                                                                     | 276,840                                | –                | 454             | 277,294            |
| <b>Accumulated depletion, depreciation and impairment,<br/>December 31, 2018</b> | <b>(1,961,290)</b>                     | <b>(78,865)</b>  | <b>(29,153)</b> | <b>(2,069,308)</b> |
| <b>Net book value, December 31, 2017 <sup>(1)</sup></b>                          | <b>2,655,871</b>                       | <b>89,313</b>    | <b>9,567</b>    | <b>2,754,751</b>   |
| <b>Net book value, December 31, 2018</b>                                         | <b>2,079,808</b>                       | <b>80,952</b>    | <b>17,421</b>   | <b>2,178,181</b>   |

(1) Restated, refer to Note 22.

| Year ended December 31, 2017                                                                    | Petroleum<br>and natural<br>gas assets | Drilling<br>rigs | Other           | Total              |
|-------------------------------------------------------------------------------------------------|----------------------------------------|------------------|-----------------|--------------------|
| <b>Cost</b>                                                                                     |                                        |                  |                 |                    |
| Balance, January 1, 2017 <sup>(1)</sup>                                                         | 1,871,428                              | 156,437          | 30,435          | 2,058,300          |
| Additions                                                                                       | 532,511                                | 716              | 3,526           | 536,753            |
| Apache Canada Acquisition and Trilogy Merger                                                    | 1,881,838                              | –                | –               | 1,881,838          |
| Transfers from exploration and evaluation                                                       | 6,283                                  | –                | –               | 6,283              |
| Dispositions <sup>(1)</sup>                                                                     | (305,614)                              | –                | (253)           | (305,867)          |
| Change in asset retirement provision <sup>(1)</sup>                                             | (57,991)                               | –                | –               | (57,991)           |
| <b>Cost, December 31, 2017 <sup>(1)</sup></b>                                                   | <b>3,928,455</b>                       | <b>157,153</b>   | <b>33,708</b>   | <b>4,119,316</b>   |
| <b>Accumulated depletion, depreciation and impairment</b>                                       |                                        |                  |                 |                    |
| Balance, January 1, 2017 <sup>(1)</sup>                                                         | (1,129,661)                            | (55,442)         | (22,492)        | (1,207,595)        |
| Depletion and depreciation <sup>(1)</sup>                                                       | (293,186)                              | (12,398)         | (1,854)         | (307,438)          |
| Impairment <sup>(1)</sup>                                                                       | (79,568)                               | –                | –               | (79,568)           |
| Dispositions <sup>(1)</sup>                                                                     | 229,831                                | –                | 205             | 230,036            |
| <b>Accumulated depletion, depreciation and impairment,<br/>December 31, 2017 <sup>(1)</sup></b> | <b>(1,272,584)</b>                     | <b>(67,840)</b>  | <b>(24,141)</b> | <b>(1,364,565)</b> |
| <b>Net book value, January 1, 2017 <sup>(1)</sup></b>                                           | <b>741,767</b>                         | <b>100,995</b>   | <b>7,943</b>    | <b>850,705</b>     |
| <b>Net book value, December 31, 2017 <sup>(1)</sup></b>                                         | <b>2,655,871</b>                       | <b>89,313</b>    | <b>9,567</b>    | <b>2,754,751</b>   |

(1) Restated, refer to Note 22.



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(Tabular amounts stated in \$ thousands, except as noted)

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar (the "Resthaven/Jayar Assets") for gross proceeds of \$340 million. Total consideration included \$170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath"), and 10-year warrants to acquire 8.5 million Strath common shares at an exercise price of \$2.00 per share ("Strath Warrants"). A gain of \$47.5 million was recognized on the sale. The Resthaven/Jayar Assets were included in the Grande Prairie CGU.

In February 2018, Paramount closed the sale of non-core assets in the Central Alberta CGU for cash proceeds of \$5.3 million, resulting in the recognition of a gain on sale of \$6.8 million.

In September 2017, Paramount closed the sale of its oil and gas properties in the Saddle Hills/Mirage area of Alberta for cash and other proceeds of \$8.2 million, resulting in the recognition of a gain on sale of \$16.7 million.

In May 2017, Paramount closed the sale of its oil and gas properties in the Valhalla area of Alberta (the "Valhalla Assets") for gross cash proceeds of \$151.3 million. A gain of \$73.2 million was recorded in respect of the sale of the Valhalla Assets.

### Depletion and Depreciation

| Year ended December 31                                     | 2018    | 2017    |
|------------------------------------------------------------|---------|---------|
| Depletion and depreciation <sup>(1)</sup>                  | 474,735 | 301,927 |
| Impairment of property, plant and equipment <sup>(1)</sup> | 502,540 | 79,568  |
|                                                            | 977,275 | 381,495 |

(1) 2017 amounts restated, refer to Note 22.

At December 31, 2018, the Company recorded impairments of \$457.0 million and \$40.7 million related to petroleum and natural gas assets in the Kaybob and Central Alberta CGUs, respectively. The impairments were recorded because the carrying value of the CGUs exceeded their recoverable amount, which were estimated based on expected net cash flows from the production of reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues due to changes in economic factors, timing of development and estimated reserves volumes.

Recoverable amounts were estimated on a fair value less costs of disposal basis using a discounted cash flow method, which is an approach commonly used by market participants to value oil and gas properties (level three fair value hierarchy estimate). Cash flows were based on estimated after-tax discounted future net cash flows from the production of proved and probable reserves assigned to the Kaybob and Central Alberta CGUs, at an after-tax discount rate of 10 percent.

Reserve estimates were prepared by Paramount's independent qualified reserves evaluator. 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:

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

| (Average for the period)     | 2019  | 2020  | 2021  | 2022  | 2023  | 2024-2033      | Thereafter |
|------------------------------|-------|-------|-------|-------|-------|----------------|------------|
| Natural Gas                  |       |       |       |       |       |                |            |
| AECO (\$/MMBtu)              | 1.88  | 2.31  | 2.74  | 3.05  | 3.21  | 3.31 – 4.00    | +2%/yr     |
| Henry Hub (US\$/MMBtu)       | 3.00  | 3.13  | 3.33  | 3.51  | 3.62  | 3.70 – 4.42    | +2%/yr     |
| Crude Oil                    |       |       |       |       |       |                |            |
| Edmonton Condensate (\$/Bbl) | 70.10 | 79.21 | 83.33 | 86.20 | 88.16 | 90.20 – 109.07 | +2%/yr     |
| WTI (US\$/Bbl)               | 58.58 | 64.60 | 68.20 | 71.00 | 72.81 | 74.59 – 90.08  | +2%/yr     |
| Foreign Exchange             |       |       |       |       |       |                |            |
| \$US / 1 \$CDN               | 0.76  | 0.78  | 0.80  | 0.80  | 0.81  | 0.81           | 0.81       |

At December 31, 2017, the Company recorded an impairment of \$121.7 million related to petroleum and natural gas assets in the Northern CGU. The impairment was recorded because the carrying value of the CGU exceeded its recoverable amount, which was estimated on a value in use basis based on expected net discounted future cash flows from the production of proved and probable reserves. The impairment resulted from a combination of decreases in estimated future net revenues due to lower forecasted natural gas prices and higher well costs than reserves values assigned.

A reversal of previously recorded impairment charges of \$42.1 million related to the Valhalla Assets was recorded in 2017 prior to accounting for the sale, representing the amount required to increase the carrying value of the assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

## 6. Apache Canada Ltd. Acquisition

On August 16, 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada") for cash consideration of \$486.9 million (the "Apache Canada Acquisition").

Apache Canada was a wholly-owned subsidiary of a publicly traded U.S. based international oil and gas company. Apache Canada's primary oil and gas assets were located at Wapiti, Kaybob and in Central Alberta. These Consolidated Financial Statements include the results of operations of Apache Canada for the period following the closing of the transaction on August 16, 2017.

The Apache Canada Acquisition was accounted for as a business combination in accordance with *IFRS 3, Business Combinations* ("IFRS 3"), using the acquisition method of accounting whereby all of the assets acquired and liabilities assumed were recorded at fair value. The allocation of the total consideration was based on estimates of fair value, except for deferred income tax amounts.

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

The following table summarizes the net assets acquired:

|                                   |            |
|-----------------------------------|------------|
| Cash consideration                | \$ 486,852 |
| Cash                              | \$ 25,468  |
| Accounts receivable               | 36,113     |
| Prepays                           | 5,015      |
| Exploration and evaluation        | 295,095    |
| Property, plant and equipment     | 870,329    |
| Deferred income tax asset         | 633,503    |
| Accounts payable                  | (59,632)   |
| Asset retirement obligations      | (757,196)  |
| Provision                         | (12,912)   |
| Net assets acquired               | 1,035,783  |
| Gain on Apache Canada Acquisition | (548,931)  |
|                                   | \$ 486,852 |

The estimated asset retirement obligations were discounted using a credit-adjusted risk-free discount rate of approximately six percent. These obligations will be settled over the useful lives of the assets, which exceed 40 years. A \$12.9 million provision was recorded in relation to Apache Canada's head office lease, which expires in 2023, as a result of the difference between market rates at the acquisition date and the contractual rates under the lease. The gain on acquisition of \$548.9 million is substantially attributable to the undiscounted nature of the deferred tax asset recognized in the purchase allocation.

Paramount incurred \$7.3 million of transaction costs in 2017 related to the Apache Canada Acquisition, which were recognized in transaction and reorganization costs in the statement of comprehensive income for the year ended December 31, 2017.

Between August 16, 2017 and December 31, 2017, the Company recorded \$123.0 million of petroleum and natural gas sales in respect of properties added through the Apache Canada Acquisition. The profit or loss for the same period is impracticable to determine.

## 7. Trilogy Energy Corp. Merger

On September 12, 2017, Paramount and Trilogy completed a merger transaction (the "Trilogy Merger") under which Paramount acquired all of the outstanding shares of Trilogy ("Trilogy Shares") not already owned by it in exchange for Common Shares, on the basis of one Common Share for every 3.75 Trilogy shares. Trilogy was, prior to the completion of the merger, a publicly traded petroleum and natural gas-focused Canadian energy corporation. Trilogy's primary oil and gas assets were located in the Kaybob and Grande Prairie areas of Alberta. These Consolidated Financial Statements include the results of operations of Trilogy for the period following the closing of the transaction on September 12, 2017.

The Trilogy Merger was accounted for as a business combination in accordance with IFRS 3, using the acquisition method of accounting whereby all of the assets acquired and liabilities assumed were recorded at fair value. The allocation of the total consideration was based on estimates of fair value, except for deferred income tax amounts.

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

The following table summarizes the net assets acquired:

|                                                                         |                   |
|-------------------------------------------------------------------------|-------------------|
| Share consideration – Common Shares                                     | \$ 603,275        |
| Fair value of Trilogy Shares held immediately before the Trilogy Merger | 107,783           |
| Share-based compensation – Trilogy Options                              | 3,196             |
| <b>Total consideration</b>                                              | <b>\$ 714,254</b> |
| Accounts receivable                                                     | \$ 18,513         |
| Risk management assets                                                  | 4,605             |
| Prepays                                                                 | 2,321             |
| Exploration and evaluation                                              | 405,992           |
| Property, plant and equipment                                           | 1,011,509         |
| Accounts payable                                                        | (51,033)          |
| Bank credit facility                                                    | (158,716)         |
| 7¼ percent senior unsecured notes due 2019                              | (306,750)         |
| Asset retirement obligations                                            | (110,395)         |
| Deferred income tax liability                                           | (101,792)         |
| <b>Net assets acquired</b>                                              | <b>\$ 714,254</b> |

Pursuant to the Trilogy Merger, Paramount issued 28.5 million Common Shares which were ascribed a value of \$21.14 per share based on the closing market price of the shares on the day immediately preceding the closing of the Trilogy Merger. The carrying value of the 19.1 million Trilogy Shares held by Paramount immediately prior to the Trilogy Merger was increased to fair value, resulting in the recognition of a gain of \$61.8 million. Equity income of \$1.9 million was recorded to September 12, 2017 in respect of Paramount's investment in Trilogy.

Following the closing of the Trilogy Merger, holders of options to acquire Trilogy Shares ("Trilogy Options") are entitled to purchase Common Shares rather than Trilogy Shares at an adjusted exercise price, based on the exchange ratio for the Trilogy Shares. As a result, the fair value of the vested Trilogy Options was recognized by Paramount as additional consideration, based on a Black-Scholes option value of \$3.2 million.

The estimated asset retirement obligations were discounted using a credit-adjusted risk-free discount rate of approximately six percent. These obligations will be settled over the useful lives of the assets, which exceed 40 years.

Paramount incurred \$3.1 million of transaction costs in 2017 related to the Trilogy Merger, which were recognized in transaction and reorganization costs in the statement of comprehensive income for the year ended December 31, 2017.

Between September 12, 2017, and December 31, 2017, the Company recorded \$66.4 million of petroleum and natural gas sales in respect of properties added through the Trilogy Merger. The profit or loss for the same period is impracticable to determine.

If the Apache Canada Acquisition and the Trilogy Merger had been completed on January 1, 2017, Paramount's revenue for the twelve months ended December 31, 2017 would have been approximately \$845 million (unaudited). Paramount's revenue less transportation, NGLs processing and operating expenses would have been approximately \$420 million (unaudited) for the twelve months ended December 31, 2017. The impact of the Apache Canada Acquisition and the Trilogy Merger on net income for the period is impracticable to determine. This pro forma information is not necessarily indicative of results that would

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

have been obtained if the Apache Canada Acquisition and the Trilogy Merger had actually occurred on January 1, 2017.

**8. Investments in Securities**

| As at                 | December 31, 2018 |                   | December 31, 2017 |                   | January 1, 2017   |                   |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                       | Shares<br>(000's) | Carrying<br>Value | Shares<br>(000's) | Carrying<br>Value | Shares<br>(000's) | Carrying<br>Value |
| Strath <sup>(1)</sup> | 85,000            | 170,000           | —                 | —                 | —                 | —                 |
| MEG Energy Corp.      | 3,700             | 28,527            | 3,700             | 19,018            | 3,700             | 34,151            |
| Privateco             |                   | 21,111            |                   | 21,111            |                   | 18,675            |
| Other <sup>(2)</sup>  |                   | 12,094            |                   | 13,186            |                   | 11,367            |
|                       |                   | <u>231,732</u>    |                   | <u>53,315</u>     |                   | <u>64,193</u>     |

(1) Carrying value includes Strath common shares and 8.5 million Strath Warrants.

(2) Includes investments in Pipestone Energy Corp., Storm Resources Ltd., Canadian Premium Sand Inc. and other public and private corporations.

For the twelve months ended December 31, 2017 aggregate unrealized losses of \$12.6 million related to the Company's investments in MEG Energy Corp., Pipestone Energy Corp. (formerly Blackbird Energy Inc.), Prairie Provident Resources (formerly Marquee Energy Ltd.), Storm Resources Ltd., and other securities previously recorded in OCI were charged to net income as a result of significant decreases in the market prices of the securities.

**9. Long-Term Debt**

| As at              | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--------------------|-------------------|-------------------|-----------------|
| Paramount Facility | 815,000           | 395,000           | —               |
| 2019 Senior Notes  | —                 | 306,750           | —               |
|                    | <u>815,000</u>    | <u>701,750</u>    | <u>—</u>        |

**Paramount Facility**

At December 31, 2018, the Company had a \$1.5 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 16, 2022, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

- i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and
- ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

Senior Secured Debt currently consists of amounts drawn under the Paramount Facility and the undrawn face amounts of outstanding letters of credit.

Consolidated EBITDA is determined on a trailing twelve month basis, is adjusted for material acquisitions and dispositions, and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including unrealized mark-to-market amounts on derivatives, unrealized foreign exchange, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all financial covenants under the Paramount Facility.

Paramount had undrawn letters of credit outstanding totaling \$26.6 million at December 31, 2018 that reduce the amount available to be drawn on the Paramount Facility.

### 2019 Senior Notes

In April 2018, Paramount redeemed all \$300 million principal amount of the Company's outstanding 7¼ percent senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of \$3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a \$6.7 million gain on redemption less the redemption premium of \$3.6 million. The 2019 Senior Notes were issued by Trilogy in 2012 and became Paramount's obligation through the Trilogy Merger.

### Trilogy Facility

At closing of the Trilogy Merger on September 12, 2017, Trilogy had a \$285 million senior secured revolving credit facility with a syndicate of Canadian banks (the "Trilogy Facility"). In November 2017, the Trilogy Facility was repaid in full and cancelled.

## 10. Asset Retirement Obligations and Other

| As at                                                   | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------------------------------------------------------|-------------------|-------------------|-----------------|
| Other liabilities                                       | 13,425            | 18,879            | –               |
| Asset retirement obligations – long-term <sup>(1)</sup> | 775,921           | 809,463           | 77,805          |
|                                                         | 789,346           | 828,342           | 77,805          |
| Asset retirement obligations – current                  | 32,000            | 28,000            | 7,896           |
| Asset retirement obligations – long-term <sup>(1)</sup> | 775,921           | 809,463           | 77,805          |
|                                                         | 807,921           | 837,463           | 85,701          |

(1) 2017 amounts restated, refer to Note 22.

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### Asset Retirement Obligations

| Year ended December 31                                         | 2018     | 2017     |
|----------------------------------------------------------------|----------|----------|
| Asset retirement obligations, beginning of year <sup>(1)</sup> | 837,463  | 85,701   |
| Retirement obligations incurred <sup>(1)</sup>                 | 6,020    | 972      |
| Apache Canada Acquisition and Trilogy Merger                   | –        | 867,591  |
| Revisions to estimated retirement costs <sup>(1)</sup>         | (4,038)  | (15,422) |
| Revisions due to change in discount rate <sup>(1)</sup>        | (50,910) | (78,788) |
| Obligations settled                                            | (29,390) | (21,450) |
| Dispositions <sup>(1)</sup>                                    | (8,876)  | (26,804) |
| Accretion expense <sup>(1)</sup>                               | 57,652   | 25,663   |
| Asset retirement obligations, end of year <sup>(1)</sup>       | 807,921  | 837,463  |

(1) 2017 amounts restated, refer to Note 22.

At December 31, 2018, estimated undiscounted asset retirement obligations were \$1,785.1 million (December 31, 2017 – \$1,752.0 million and January 1, 2017 - \$212.3 million), which have been discounted using a weighted average credit-adjusted risk-free rate of 7.5 percent (December 31, 2017 – 7.0 percent and January 1, 2017 – 10.0 percent) and an inflation rate of 2.0 percent (December 31, 2017 – 2.0 percent and January 1, 2017 – 2.0 percent). These obligations will be settled over the useful lives of the assets, which extend up to 50 years.

For the year ended December 31, 2018, the Company recorded a recovery of \$120.2 million (2017 - \$38.0 million) as a result of changes in the carrying value of asset retirement obligations related to properties that had a nil carrying value ascribed to the petroleum and natural gas assets of such properties as at December 31, 2018 and 2017. The changes resulted from changes in discount rates and revisions to the timing and estimated costs of retirement.

### Other Liabilities

Other liabilities include the long-term portion of the provision recorded in respect of the Apache Canada office lease (see Note 6), and the long-term portion of a provision recognized in respect of unoccupied office space. Paramount relocated its corporate offices following the Apache Canada Acquisition and the Trilogy Merger, which resulted in the Company being subject to leases for unoccupied office space. As a result, a \$11.2 million provision was recorded at December 31, 2017 in respect of the remaining obligations under the leases, which expire in 2022. A corresponding \$11.2 million charge was recorded in Transaction and Reorganization costs in respect of the unutilized office space provision.

## 11. 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, 2018, 130,324,943 (December 31, 2017 – 134,712,907 and January 1, 2017 – 105,784,070 ) Common Shares of the Company were outstanding, net of 574,045 (December 31, 2017 – 345,904 and January 1, 2017 – 2,865) Common Shares held in trust under the restricted share unit plan, and no preferred shares were outstanding.

In September 2017, Paramount issued 28,537,134 Common Shares pursuant to the Trilogy Merger (see Note 7).

In January 2019, Paramount implemented a normal course issuer bid (the "2019 NCIB") under which the Company may purchase up to 7,110,667 Common Shares for cancellation. The 2019 NCIB will terminate

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

on the earlier of: (i) January 3, 2020; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2019 NCIB are purchased.

Paramount previously implemented a normal course issuer bid in December 2017 (the "2018 NCIB"). In 2018 the Company purchased and cancelled 4,239,359 Common Shares at a total cost of \$66.4 million under the 2018 NCIB. The 2018 NCIB expired on December 21, 2018.

In December 2016, the Company's Board of Directors declared a dividend of 3.8 million common shares of Seven Generations Energy Ltd. ("7Gen Shares") to holders of record of Paramount's Common Shares on January 9, 2017 (the "January 2017 Dividend"), resulting in an entitlement of approximately 0.036 of a 7Gen Share for each Common Share, subject to rounding for fractions. The dividend was paid on January 16, 2017.

### Weighted Average Common Shares

| Year ended December 31               | 2018                          |           | 2017                          |            |
|--------------------------------------|-------------------------------|-----------|-------------------------------|------------|
|                                      | Wtd. Avg<br>Shares<br>(000's) | Net loss  | Wtd. Avg<br>Shares<br>(000's) | Net income |
| Net income (loss) – basic            | 132,051                       | (367,163) | 114,852                       | 336,893    |
| Dilutive effect of Paramount Options | –                             | –         | 922                           | –          |
| Net income – diluted                 | 132,051                       | (367,163) | 115,774                       | 336,893    |

Outstanding stock options that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. There were 12.5 million options to acquire Paramount Common Shares outstanding at December 31, 2018 (December 31, 2017 – 10.0 million), of which 12.5 million (December 31, 2017 – 8.1 million) were anti-dilutive.

## 12. Reserves

Reserves at December 31, 2018 include unrealized gains and losses related to changes in the market value of 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, 2018                                                            | Unrealized<br>gains (losses)<br>on securities | Contributed<br>surplus | Total<br>reserves |
|-----------------------------------------------------------------------------------------|-----------------------------------------------|------------------------|-------------------|
| Balance, beginning of year                                                              | 15,604                                        | 127,975                | 143,579           |
| Other comprehensive income                                                              | 764                                           | –                      | 764               |
| Reclassification of accumulated losses on securities upon disposition                   | 1,637                                         | –                      | 1,637             |
| Reclassification of accumulated losses on securities on adoption of IFRS 9 (see Note 2) | (117,057)                                     | –                      | (117,057)         |
| Share-based compensation (see Note 13)                                                  | –                                             | 16,116                 | 16,116            |
| Paramount Options exercised                                                             | –                                             | (307)                  | (307)             |
| Balance, end of year                                                                    | (99,052)                                      | 143,784                | 44,732            |



## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

|                                                                 | Unrealized<br>Gains (losses)<br>on securities | Contributed<br>surplus | Total<br>Reserves |
|-----------------------------------------------------------------|-----------------------------------------------|------------------------|-------------------|
| Year ended December 31, 2017                                    |                                               |                        |                   |
| Balance, beginning of year                                      | 31,724                                        | 115,775                | 147,499           |
| Other comprehensive loss                                        | (16,120)                                      | –                      | (16,120)          |
| Share-based compensation                                        | –                                             | 11,743                 | 11,743            |
| Share-based compensation assumed on Trilogy Merger (see Note 7) | –                                             | 3,196                  | 3,196             |
| Paramount Options exercised                                     | –                                             | (2,739)                | (2,739)           |
| Balance, end of year                                            | 15,604                                        | 127,975                | 143,579           |

## 13. Share-Based Compensation

### Options to Acquire Common Shares of Paramount ("Paramount Options")

|                                  | 2018        |                                                        | 2017       |                                                        |
|----------------------------------|-------------|--------------------------------------------------------|------------|--------------------------------------------------------|
|                                  | Number      | Weighted<br>average<br>exercise<br>price<br>(\$/share) | Number     | Weighted<br>average<br>exercise<br>price<br>(\$/share) |
| Balance, beginning of year       | 10,028,920  | 19.12                                                  | 4,322,120  | 13.00                                                  |
| Granted                          | 3,726,500   | 8.18                                                   | 5,475,000  | 20.48                                                  |
| Trilogy Merger <sup>(1)</sup>    | –           | –                                                      | 1,362,375  | 26.75                                                  |
| Exercised <sup>(2)</sup>         | (79,536)    | 9.80                                                   | (734,742)  | 9.27                                                   |
| Cancelled or forfeited           | (1,168,710) | 21.42                                                  | (395,833)  | 15.61                                                  |
| Expired                          | (42,011)    | 26.73                                                  | –          | –                                                      |
| Balance, end of year             | 12,465,163  | 15.67                                                  | 10,028,920 | 19.12                                                  |
| Options exercisable, end of year | 3,620,293   | 18.09                                                  | 1,986,388  | 18.72                                                  |

(1) In connection with the Trilogy Merger, Trilogy Options were amended to provide the holders thereof the right to acquire the number of whole Paramount Common Shares determined by dividing the number of Trilogy common shares subject to such Trilogy Options by 3.75 at an adjusted exercise price approximately equal to the exercise price of such Trilogy Options multiplied by 3.75. As at September 12, 2017, 5.1 million Trilogy Options were outstanding at a weighted average exercise price of \$7.13 per Trilogy Option.

(2) For Paramount Options exercised during the twelve months ended December 31, 2018, the weighted average market price of Paramount's Common Shares on the dates exercised was \$16.70 per share (2017 – \$19.97 per share).

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of December 31, 2018 are as follows:

| Awards Outstanding |            |                                             |                                          | Exercisable |                                             |                                          |
|--------------------|------------|---------------------------------------------|------------------------------------------|-------------|---------------------------------------------|------------------------------------------|
| Exercise Prices    | Number     | Remaining<br>contractual<br>life<br>(years) | Weighted<br>average<br>exercise<br>price | Number      | Remaining<br>contractual<br>life<br>(years) | Weighted<br>average<br>exercise<br>price |
| \$7.28 - \$8.16    | 3,271,500  | 5.3                                         | 7.28                                     | –           | –                                           | –                                        |
| \$8.17 - \$18.23   | 4,004,356  | 2.6                                         | 14.32                                    | 1,996,620   | 2.2                                         | 13.22                                    |
| \$18.24 - \$39.00  | 5,189,307  | 3.8                                         | 22.00                                    | 1,623,673   | 3.4                                         | 24.09                                    |
|                    | 12,465,163 | 3.8                                         | 15.67                                    | 3,620,293   | 2.7                                         | 18.09                                    |

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

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

|                                                                | Options<br>awarded in<br>2018 | Options<br>awarded in<br>2017 |
|----------------------------------------------------------------|-------------------------------|-------------------------------|
| Weighted average exercise price (\$ / share)                   | 8.18                          | 20.48                         |
| Volatility (%)                                                 | 41.6                          | 40.1                          |
| Expected life of share options (years)                         | 3.9                           | 3.6                           |
| Pre-vest annual forfeiture rate (%)                            | 11.4                          | 10.7                          |
| Risk-free interest rate (%)                                    | 2.1                           | 1.6                           |
| Expected dividend yield (%)                                    | nil                           | nil                           |
| Weighted average fair value of awards per option (\$ / option) | 2.77                          | 6.31                          |

The estimated expected life of Paramount Options is based on historical exercise patterns. Volatility is generally estimated based on the historical volatility of the trading price of the Company's Common Shares over the most recent period that is commensurate with the expected term of the option, and may be normalized for significant transactions and other factors.

### Cavalier Options

During the first quarter of 2017, Cavalier granted 5.0 million Cavalier Options, which vest over five years and expire 7.7 years from the grant date. The grant date fair value of Cavalier Options awarded was estimated using the Black-Scholes-Merton model, incorporating the following inputs: expected volatility 57%, expected life 7.7 years, risk-free interest rate of 1.4%, pre-vest forfeiture rate of nil, and expected dividend yield of nil. As Cavalier is a private company, expected volatility was estimated based on the average historical volatility of the trading price of a group of publicly traded oil sands companies over the most recent period that was generally commensurate with the expected term of the option. To December 31, 2018 no Cavalier Options have been exercised.

### Restricted Share Units – Shares Held in Trust

|                                      | 2018              |         | 2017              |         |
|--------------------------------------|-------------------|---------|-------------------|---------|
| Year ended December 31               | Shares<br>(000's) |         | Shares<br>(000's) |         |
| Balance, beginning of year           | 346               | 2,366   | 3                 | 9       |
| Shares purchased                     | 548               | 9,219   | 496               | 11,370  |
| Change in vested and unvested shares | (320)             | (9,376) | (153)             | (9,013) |
| Balance, end of year                 | 574               | 2,209   | 346               | 2,366   |

### Employee Benefit Costs

| Year ended December 31                   | 2018   | 2017   |
|------------------------------------------|--------|--------|
| Stock option plans                       | 16,116 | 11,742 |
| RSU plan                                 | 7,947  | 6,098  |
| Share-based compensation expense         | 24,063 | 17,840 |
| Salaries and benefits, net of recoveries | 40,706 | 32,105 |
|                                          | 64,769 | 49,945 |

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### 14. Income Tax

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

| Year ended December 31                                | 2018             | 2017            |
|-------------------------------------------------------|------------------|-----------------|
| Income (loss) before tax <sup>(1)</sup>               | (560,603)        | 254,856         |
| Effective Canadian statutory income tax rate          | 27.0%            | 27.0%           |
| Expected income tax expense (recovery) <sup>(1)</sup> | (151,363)        | 68,811          |
| Effect on income taxes of:                            |                  |                 |
| Income from equity-accounted investment               | –                | (17,207)        |
| Gain on Apache Canada Acquisition                     | –                | (148,211)       |
| Impairment of investments in securities               | –                | 3,392           |
| Gain on redemption of 2019 Senior Notes               | (1,823)          | –               |
| Change in unrecognized deferred income tax asset      | 521              | 844             |
| Change in tax basis of assets                         | (35,823)         | –               |
| Share-based compensation                              | 4,351            | 3,170           |
| Non-deductible items and other                        | (9,303)          | 7,164           |
| <b>Income tax recovery</b>                            | <b>(193,440)</b> | <b>(82,037)</b> |

(1) 2017 amounts restated, refer to Note 22.

The following table summarizes the components of the deferred income tax asset (liability):

| As at                                                                 | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-----------------------------------------------------------------------|-------------------|-------------------|-----------------|
| Property, plant and equipment <sup>(1)</sup>                          | (434,175)         | (631,476)         | (233,143)       |
| Investments                                                           | (5,662)           | (1,726)           | (2,673)         |
| Asset retirement obligations <sup>(1)</sup>                           | 218,067           | 231,214           | 22,687          |
| Non-capital losses and scientific research & experimental development | 993,681           | 973,064           | 177,474         |
| Other                                                                 | 1,664             | 12,995            | 4,016           |
| <b>Deferred income tax asset (liability) <sup>(1)</sup></b>           | <b>773,575</b>    | <b>584,071</b>    | <b>(31,639)</b> |

(1) 2017 amounts restated, refer to Note 22.

The following table summarizes movements in the deferred income tax asset (liability) during the year:

| Year ended December 31                                                  | 2018           | 2017           |
|-------------------------------------------------------------------------|----------------|----------------|
| Deferred income tax asset (liability), beginning of year <sup>(1)</sup> | 584,071        | (31,639)       |
| Deferred income tax recovery <sup>(1)</sup>                             | 193,440        | 82,037         |
| Deferred income tax recovery (expense) included in OCI                  | (3,938)        | 947            |
| Apache Canada Acquisition and Trilogy Merger                            | –              | 531,771        |
| Other                                                                   | 2              | 955            |
| <b>Deferred income tax asset, end of year <sup>(1)</sup></b>            | <b>773,575</b> | <b>584,071</b> |

(1) 2017 amounts restated, refer to Note 22.

As of December 31, 2018, Paramount has approximately \$3.4 billion (December 31, 2017 – \$3.3 billion and January 1, 2017 - \$0.7 billion) of unused non-capital losses that expire between 2032 and 2036. The Company has \$38.4 million (December 31, 2017 – \$167.3 million and January 1, 2017 – \$311.0 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recorded.

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

**15. Financial Instruments and Risk Management****Financial Instruments**

Financial instruments at December 31, 2018 consist of cash and cash equivalents, accounts receivable, risk management assets, investments in securities, accounts payable and accrued liabilities and the Paramount Facility. The carrying values of these financial instruments approximate their fair values.

**Risk Management**

The Company had the following financial commodity contracts in place as at December 31, 2018:

| Instruments                  | Aggregate notional | Average fixed price           | Fair value | Remaining term               |
|------------------------------|--------------------|-------------------------------|------------|------------------------------|
| Oil – NYMEX WTI Swaps (Sale) | 14,000 Bbl/d       | CDN\$77.05/Bbl                | 64,462     | January 2019 – December 2019 |
| Oil – NYMEX WTI Calls (Sale) | 2,000 Bbl/d        | CDN\$82.00 Bbl <sup>(1)</sup> | (21)       | January 2019 – December 2019 |
|                              |                    |                               | 64,441     |                              |

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN\$82.00 per barrel, for which the Company will receive a premium of CDN\$2.65 per barrel.

The fair values of risk management financial instruments 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.

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

| Year ended December 31        | 2018     | 2017     |
|-------------------------------|----------|----------|
| Fair value, beginning of year | (19,060) | (5,180)  |
| Changes in fair value         | 7,026    | (4,059)  |
| Settlements paid (received)   | 76,475   | (14,426) |
| Assumed on Trilogy Merger     | –        | 4,605    |
| Fair value, end of year       | 64,441   | (19,060) |

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

In 2019, the Company entered into the following floating-to-fixed interest rate swaps:

| Contract Type      | Aggregate notional | Maturity Date | Fixed Contract Rate | Reference           |
|--------------------|--------------------|---------------|---------------------|---------------------|
| Interest Rate Swap | \$250 million      | January 2023  | 2.3%                | CDOR <sup>(1)</sup> |
| Interest Rate Swap | \$250 million      | January 2026  | 2.4%                | CDOR <sup>(1)</sup> |

(1) Canadian Dollar Offered Rate

**Commodity Price Risk**

Paramount uses financial commodity 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.

## **Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

A \$5.00 per barrel increase or decrease in oil prices, assuming all other variables are held constant, would have impacted the value of financial commodity contracts, and consequently, Paramount's earnings for the year ended December 31, 2018 by \$18.7 million.

### *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 for natural gas, crude oil and natural gas liquids and the value of financial commodity contracts denominated in Canadian dollars are determined with reference to US benchmark prices, therefore a weakening of the Canadian dollar relative to the US dollar will increase the revenue received in Canadian dollars for the sale of Company's production and the value of such financial commodity contracts. Approximately 15 percent of the Company's revenue was received in US dollars. Paramount's expenditures are primarily in Canadian dollars, but include equipment and other items sourced from the United States and settled in US dollars.

### *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 maximum credit risk exposure at December 31, 2018 is limited to the carrying value of cash and cash equivalents, accounts receivable, and risk management assets.

Paramount's primary objectives with respect to cash and cash equivalents are to minimize financial risk and maintain high levels of liquidity. The Company's cash and cash equivalents and risk management assets are held with financial institutions with investment grade credit ratings and are highly liquid. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk. The Company manages credit risk by endeavoring to enter into commodity contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing letters of credit and limiting available credit when necessary. As a result of transacting primarily with counterparties with investment grade credit ratings, the change in the fair value of risk management contracts attributable to changes in counterparty credit risk is immaterial.

For the year ended December 31, 2018, the Company had sales to one customer which exceeded ten percent of total revenue. Such sales totaled \$112.0 million.

### *Interest Rate Risk*

Paramount is exposed to interest rate risk on outstanding balances on the Paramount Facility and on interest bearing cash and cash equivalents. A one percent increase in interest rates would have reduced Paramount's net earnings for the year ended December 31, 2018 by approximately \$4.6 million (2017 – \$0.8 million) based on the average floating rate credit facility balances outstanding during the year and a one percent decrease would have had the opposite effect.

### *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.

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

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, cash and cash equivalents, and if required, credit facilities, the sale of assets and capital market transactions.

The Company's contractual obligations related to financial liabilities are as follows:

|                                        | 2019    | 2020 | 2021 | 2022    | Total     |
|----------------------------------------|---------|------|------|---------|-----------|
| Accounts payable & accrued liabilities | 231,228 | –    | –    | –       | 231,228   |
| Paramount Facility <sup>(1)</sup>      | –       | –    | –    | 815,000 | 815,000   |
|                                        | 231,228 | –    | –    | 815,000 | 1,046,228 |

(1) Excluding interest.

**Accounts Payable and Accrued Liabilities**

| As at                                | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--------------------------------------|-------------------|-------------------|-----------------|
| Trade and accrued payables           | 187,654           | 221,888           | 80,869          |
| Joint operation and other payables   | 40,198            | 13,926            | 481             |
| Interest payable and financing costs | 3,376             | 1,367             | 235             |
|                                      | 231,228           | 237,181           | 81,585          |

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

**Accounts Receivable**

| As at                                | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--------------------------------------|-------------------|-------------------|-----------------|
| Revenue receivable                   | 59,336            | 105,897           | 11,586          |
| Joint operation receivable and other | 61,994            | 64,416            | 12,309          |
|                                      | 121,330           | 170,313           | 23,895          |

Revenue and joint operation receivables are non-interest bearing and are generally settled on 30-day terms.

**16. Revenue By Product**

| Year ended December 31    | 2018     | 2017     |
|---------------------------|----------|----------|
| Natural gas               | 267,067  | 132,820  |
| Condensate and oil        | 599,895  | 313,409  |
| Other natural gas liquids | 82,670   | 40,484   |
| Royalty and sulphur       | 15,842   | 4,708    |
| Royalties expense         | (69,183) | (24,649) |
|                           | 896,291  | 466,772  |

**17. Other Income**

| Year ended December 31                             | 2018  | 2017     |
|----------------------------------------------------|-------|----------|
| Interest income                                    | 816   | 4,700    |
| Decrease in market value of securities distributed | –     | (10,450) |
| Impairment of investments in securities            | –     | (12,561) |
| Other                                              | 7,623 | 3,987    |
|                                                    | 8,439 | (14,324) |

**Notes to the Consolidated Financial Statements**

(Tabular amounts stated in \$ thousands, except as noted)

The decrease in the fair value of Paramount's investment in 3.8 million 7Gen Shares of \$10.5 million between the acquisition date and the date of the January 2017 Dividend was reclassified from accumulated other comprehensive income to earnings in January 2017. An associated income tax recovery of \$1.4 million was also reclassified to earnings. The value ascribed to the dividend as at December 31, 2016 of \$119.0 million was reduced by \$19.1 million in January 2017 due to a decrease in the market price of 7Gen Shares prior to distribution, which was recorded as an increase in Retained Earnings.

**18. Consolidated Statement of Cash Flows - Selected Information****Items Not Involving Cash**

| Year ended December 31                                   | 2018      | 2017      |
|----------------------------------------------------------|-----------|-----------|
| Commodity contracts                                      | (83,501)  | 18,485    |
| Share-based compensation                                 | 24,063    | 17,840    |
| Depletion and depreciation <sup>(1)</sup>                | 977,275   | 381,495   |
| Exploration and evaluation <sup>(1)</sup>                | 14,781    | 206,206   |
| Gain on sale of oil and gas assets <sup>(1)</sup>        | (57,413)  | (95,917)  |
| Accretion of asset retirement obligations <sup>(1)</sup> | 57,652    | 25,663    |
| Foreign exchange                                         | (2,455)   | 259       |
| Income from equity-accounted investment                  | —         | (63,729)  |
| Gain on Apache Canada Acquisition                        | —         | (548,931) |
| Change in asset retirement obligations <sup>(1)</sup>    | (120,244) | (37,975)  |
| Impairment of investments in securities                  | —         | 12,561    |
| Decrease in market value of securities distributed       | —         | 10,450    |
| Deferred income tax <sup>(1)</sup>                       | (193,440) | (82,037)  |
| Other                                                    | (648)     | (2,381)   |
|                                                          | 616,070   | (158,011) |

(1) 2017 amounts restated, refer to Note 22.

**Supplemental Cash Flow Information**

| Year ended December 31 | 2018   | 2017   |
|------------------------|--------|--------|
| Interest paid          | 29,014 | 14,629 |

**Components of Cash and Cash Equivalents**

| As at            | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|------------------|-------------------|-------------------|-----------------|
| Cash             | 19,295            | 114,895           | 76,575          |
| Cash equivalents | —                 | 8,434             | 545,297         |
|                  | 19,295            | 123,329           | 621,872         |

**19. Capital Structure**

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

- maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;
- maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives and the repayment of obligations when due; and
- 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

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

Company's underlying assets and operations. Paramount monitors metrics such as the Company's Senior Secured Debt to Consolidated EBITDA, Consolidated EBITDA to Consolidated Interest Expense, 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 Company's capital structure may be adjusted by a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets and participating in joint ventures, the availability of any such means being dependent upon market conditions.

Paramount's capital structure consists of the following:

| As at                                                       | December 31, 2018 | December 31, 2017 | January 1, 2017  |
|-------------------------------------------------------------|-------------------|-------------------|------------------|
| Adjusted working capital deficit / (surplus) <sup>(1)</sup> | 80,962            | (65,508)          | (565,897)        |
| Paramount Facility                                          | 815,000           | 395,000           | –                |
| 2019 Senior Notes                                           | –                 | 306,750           | –                |
| Net Debt (cash)                                             | 895,962           | 636,242           | (565,897)        |
| Share capital                                               | 2,184,608         | 2,249,746         | 1,639,466        |
| Retained earnings (accumulated deficit) <sup>(2)</sup>      | 21,189            | 272,932           | (83,107)         |
| Reserves                                                    | 44,732            | 143,579           | 147,499          |
| <b>Total Capital</b>                                        | <b>3,146,491</b>  | <b>3,302,499</b>  | <b>1,137,961</b> |

(1) Adjusted working capital excludes risk management assets and liabilities and the current portion of asset retirement obligations.

(2) 2017 amounts restated, refer to Note 22.

## 20. Related Party Transactions

### Compensation of Key Management Personnel

| Year ended December 31   | 2018         | 2017         |
|--------------------------|--------------|--------------|
| Salaries and benefits    | 2,504        | 2,948        |
| Share-based compensation | 6,252        | 7,007        |
|                          | <b>8,756</b> | <b>9,955</b> |

## 21. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2018:

|                                                                                    | Within one year | After one year but not more than five years | More than five years |
|------------------------------------------------------------------------------------|-----------------|---------------------------------------------|----------------------|
| Petroleum and natural gas transportation and processing commitments <sup>(1)</sup> | 177,951         | 769,658                                     | 674,467              |
| Operating leases, capital spending commitments and other <sup>(2)</sup>            | 42,860          | 21,735                                      | 229                  |
|                                                                                    | <b>220,811</b>  | <b>791,393</b>                              | <b>674,696</b>       |

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$1.3 million at December 31, 2018 (December 31, 2017 – \$19.8 million and January 1, 2017 - \$5.1 million).

(2) Future lease commitments for corporate office space have been reduced for sublease revenue and the impact of provisions recorded in respect of a market rate adjustment for unoccupied office space.

### Operating Lease Commitment

Paramount's corporate office space leases expire in 2022 and 2023. The Company incurred office lease costs of \$7.9 million in 2018 (2017 – \$7.3 million).



## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

In 2016, a release occurred from a non-operated pipeline in which the Company owned a 50 percent interest. The operator, and owner of the remaining 50 percent, initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately \$60 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually change. 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 amounts may differ materially from amounts estimated and recorded.

### 22. Impact of Accounting Policy Change

As described in Note 1, effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to asset retirement obligations to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The change in accounting policy was applied retrospectively, resulting in changes to amounts recorded as at and for the year ended December 31, 2018 and to previously reported amounts as follows:

#### Consolidated Balance Sheets

| As at                                        | December 31<br>2018 | December 31<br>2017              |                     |           | January 1<br>2017                |                     |          |
|----------------------------------------------|---------------------|----------------------------------|---------------------|-----------|----------------------------------|---------------------|----------|
|                                              | Effect of<br>change | Previous<br>accounting<br>policy | Effect of<br>change | Restated  | Previous<br>accounting<br>policy | Effect of<br>change | Restated |
| Property, plant and<br>equipment, net        | 87,880              | 3,282,542                        | (527,791)           | 2,754,751 | 882,724                          | (32,019)            | 850,705  |
| Deferred income tax<br>asset                 | (42,262)            | 666,404                          | (82,333)            | 584,071   | –                                | –                   | –        |
| Deferred income tax<br>liability             | –                   | –                                | –                   | –         | 6,125                            | 25,514              | 31,639   |
| Asset retirement<br>obligations and<br>other | (68,645)            | 1,661,073                        | (832,731)           | 828,342   | 204,413                          | (126,608)           | 77,805   |
| Retained earnings<br>(accumulated deficit)   | 114,263             | 50,325                           | 222,607             | 272,932   | (152,182)                        | 69,075              | (83,107) |

## Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ thousands, except as noted)

### Consolidated Statement of Comprehensive Income (loss)

| For the year ended December 31              | 2018             | 2017                       |                  |          |
|---------------------------------------------|------------------|----------------------------|------------------|----------|
|                                             | Effect of change | Previous accounting policy | Effect of change | Restated |
| Depletion and depreciation                  | (91,877)         | 434,118                    | (52,623)         | 381,495  |
| Exploration and evaluation                  | –                | 214,776                    | 727              | 215,503  |
| Gain on sale of oil and gas assets          | 13,347           | (123,966)                  | 28,049           | (95,917) |
| Accretion of asset retirement obligations   | 20,568           | 15,970                     | 9,693            | 25,663   |
| Change in asset retirement obligations      | (98,563)         | –                          | (37,975)         | (37,975) |
| ARO Discount Rate Adjustment <sup>(1)</sup> | –                | (158,223)                  | 158,223          | –        |
| Deferred income tax recovery                | 42,262           | (138,857)                  | 56,820           | (82,037) |
| Net income                                  | 114,263          | 183,361                    | 153,532          | 336,893  |
| Net income per common share (\$/share)      |                  |                            |                  |          |
| Basic                                       | 0.87             | 1.60                       | 1.33             | 2.93     |
| Diluted                                     | 0.87             | 1.58                       | 1.33             | 2.91     |

<sup>(1)</sup> In 2017, asset retirement obligations of \$757.2 million and \$110.4 million recognized in the purchase allocations for Apache Canada and Trilogy, respectively, were subsequently remeasured in accordance with Paramount's previous accounting policy to reflect the discounting of such amounts using a risk-free discount rate (the "ARO Discount Rate Adjustment"). Under the Company's new accounting policy, which utilizes a credit-adjusted risk-free discount rate, the ARO Discount Rate Adjustment is not required and the \$158.2 million charge previously recorded to earnings for the year ended December 31, 2017 was reversed.

### Consolidated Statement of Cash Flows

| For the year ended December 31 | 2018             | 2017                       |                  |           |
|--------------------------------|------------------|----------------------------|------------------|-----------|
|                                | Effect of change | Previous accounting policy | Effect of change | Restated  |
| Net income (loss)              | 114,263          | 183,361                    | 153,532          | 336,893   |
| Items not involving cash       | (114,263)        | (4,479)                    | (153,532)        | (158,011) |

# CORPORATE INFORMATION

## EXECUTIVE OFFICERS

**J. H. T. Riddell**

President and Chief Executive Officer  
and Chairman

**B. K. Lee**

Executive Vice President, Finance and  
Chief Financial Officer

**E. M. Shier**

General Counsel and Corporate  
Secretary

**D. B. Reid**

Executive Vice President, Operations

**J. B. Williams**

Executive Vice President, Kaybob  
Region

**P. R. Kinvig**

Vice President Finance, Capital  
Markets

**R. R. Sousa**

Vice President, Corporate  
Development

## DIRECTORS

**J. H. T. Riddell** <sup>(2)</sup>

President and Chief Executive Officer  
and Chairman  
Paramount Resources Ltd.  
Calgary, Alberta

**J. G. M. Bell** <sup>(1) (3) (4)</sup>

President and Chief Executive Officer  
Founders Advantage Capital Corp.  
Calgary, Alberta

**W. A. Gobert** <sup>(3) (4) (5)</sup>

Independent Businessman  
Calgary, Alberta

**J. C. Gorman** <sup>(1) (4) (5)</sup>

Independent Businessman  
Calgary, Alberta

**D. Jungé C.F.A.** <sup>(2) (4)</sup>

Chairman of the Board  
Pitcairn Trust Company  
Bryn Athyn, Pennsylvania

**R. M. MacDonald** <sup>(1) (4)</sup>

Independent Businessman  
Oakville, Ontario

**R. K. MacLeod** <sup>(2) (4) (5)</sup>

Independent Businessman  
Calgary, Alberta

**S. L. Riddell Rose**

President and  
Chief Executive Officer  
Perpetual Energy Inc.  
Calgary, Alberta

**J. B. Roy** <sup>(1) (3) (4)</sup>

Independent Businessman  
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
- (5) Member of Reserves Committee

## CORPORATE OFFICE

2800 TD Canada Trust Tower  
421 Seventh Avenue S.W.  
Calgary, Alberta  
Canada T2P 4K9  
Telephone: (403) 290-3600  
Facsimile: (403) 262-7994  
[www.paramountres.com](http://www.paramountres.com)

## REGISTRAR AND TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
Calgary, Alberta  
Toronto, Ontario

## BANKS

**Bank of Montreal**

**The Bank of Nova Scotia**

**HSBC Bank Canada**

**Royal Bank of Canada**

**Canadian Imperial Bank of  
Commerce**

**National Bank of Canada**

**ATB Financial**

**The Toronto-Dominion Bank**

**Export Development Canada**

## RESERVES EVALUATORS

**McDaniel & Associates  
Consultants Ltd.**  
Calgary, Alberta

## AUDITORS

**Ernst & Young LLP**  
Calgary, Alberta

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
("POU")