



**Paramount**  
*resources ltd.*

**Management's Discussion and Analysis**  
**For the year ended December 31, 2022**

This Management's Discussion and Analysis ("MD&A"), dated March 6, 2023 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, 2022 (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. The Company's accounting policies have been applied consistently to all periods presented. Certain comparative figures have been reclassified to conform to the current year's presentation.

## ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-rich natural gas focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas. Paramount's principal properties are located in Alberta and British Columbia. Paramount commenced operations as a public company in 1978 and has adapted to a multitude of operating and economic climates over the years. The Company's class A common shares ("Common Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "POU". Additional information concerning Paramount, including its Annual Information Form can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Paramount'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 includes the Kaybob North Duvernay development, the Kaybob North Montney oil development and other shale gas and conventional natural gas producing properties; and
- the Central Alberta and Other Region, which includes the Willesden Green Duvernay development in central Alberta and shale gas producing properties in the Horn River Basin in northeast British Columbia.

The Company's assets also include: (i) strategic investments in exploration and pre-development stage assets, including prospective shale gas acreage in the Liard Basin in northeast British Columbia and the Northwest Territories, prospective natural gas and oil acreage in the Mackenzie Delta and Central Mackenzie in the Northwest Territories and interests held by the Company's wholly-owned subsidiary Cavalier Energy Inc. ("Cavalier") prospective for cold flow heavy oil and in-situ thermal oil recovery; (ii) five triple-sized drilling rigs owned by the Company's wholly-owned limited partnership Fox Drilling Limited Partnership ("Fox Drilling"); and (iii) investments in other entities.

## **SPECIFIED FINANCIAL MEASURES, PRODUCT TYPES AND OTHER ADVISORIES**

This MD&A includes references to: (i) "netback" and "netback including risk management contract settlements", which are non-GAAP financial measures; (ii) certain non-GAAP ratios; (iii) "adjusted funds flow", "free cash flow", "net debt" and "net debt to adjusted funds flow", which are capital management measures used by Paramount; and (iv) certain supplementary financial measures. Readers are referred to the Specified Financial Measures section of this MD&A for important additional information concerning these measures.

This MD&A includes references to sales volumes of "natural gas", "condensate and oil", "NGLs", "Other NGLs" and "liquids". "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "NGLs" refers to condensate and Other NGLs combined. "Other NGLs" refers to ethane, propane and butane. "Liquids" refers to condensate and oil and Other NGLs combined. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes and revenues for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

The disclosures in this MD&A include forward-looking information and certain oil and gas measures. Readers are referred to the Advisories section of this MD&A concerning such matters.

## FINANCIAL AND OPERATING HIGHLIGHTS

	2022	2021	2020
<b>FINANCIAL</b>			
<b>Petroleum and natural gas sales</b>	<b>2,252.4</b>	1,383.6	626.7
<b>Net income (loss)</b>	<b>680.6</b>	236.9	(22.7)
Per share – basic (\$/share)	<b>4.83</b>	1.77	(0.17)
Per share – diluted (\$/share)	<b>4.63</b>	1.67	(0.17)
<b>Cash from operating activities</b>	<b>1,049.6</b>	482.1	80.9
Per share – basic (\$/share) <sup>(1)</sup>	<b>7.45</b>	3.61	0.61
Per share – diluted (\$/share) <sup>(1)</sup>	<b>7.14</b>	3.39	0.61
<b>Adjusted funds flow <sup>(1)</sup></b>	<b>1,171.0</b>	499.8	150.0
Per share – basic (\$/share)	<b>8.32</b>	3.74	1.12
Per share – diluted (\$/share)	<b>7.97</b>	3.51	1.12
<b>Free cash flow <sup>(1)</sup></b>	<b>471.1</b>	191.8	(113.7)
Per share – basic (\$/share)	<b>3.35</b>	1.44	(0.85)
Per share – diluted (\$/share)	<b>3.20</b>	1.36	(0.85)
<b>Total assets</b>	<b>4,337.3</b>	3,885.1	3,497.0
<b>Investments in securities</b>	<b>557.1</b>	372.1	59.5
<b>Long-term debt</b>	<b>159.4</b>	386.3	813.5
<b>Net debt <sup>(1)</sup></b>	<b>161.2</b>	456.7	854.1
<b>Total liabilities</b>	<b>959.2</b>	1,278.7	1,459.2
<b>Common shares outstanding (millions) <sup>(2)</sup></b>	<b>142.0</b>	139.2	132.3
<b>OPERATING</b>			
<b>Sales volumes</b>			
Natural gas (MMcf/d)	<b>294.7</b>	275.2	248.7
Condensate and oil (Bbl/d)	<b>33,908</b>	30,989	22,565
Other NGLs (Bbl/d)	<b>5,650</b>	5,147	4,325
<b>Total (Boe/d)</b>	<b>88,672</b>	82,001	68,340
% Liquids	<b>45%</b>	44%	39%
<b>Realized prices <sup>(1)</sup></b>			
Natural gas (\$/Mcf)	<b>6.24</b>	3.72	2.25
Condensate and oil (\$/Bbl)	<b>117.07</b>	81.91	46.47
Other NGLs (\$/Bbl)	<b>55.37</b>	41.84	15.63
<b>Petroleum and natural gas sales (\$/Boe)</b>	<b>69.60</b>	46.23	25.05
<b>Capital expenditures</b>	<b>655.0</b>	274.6	220.2

(1) Adjusted funds flow, free cash flow and net debt are capital management measures used by Paramount. Each measure, other than net income (loss), presented on a \$/share, \$/Bbl, \$/Mcf or \$/Boe basis is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

(2) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (Common Shares): 2022: 0.8 million; 2021: 1.5 million; 2020: 1.9 million.

## 2022 OVERVIEW

Paramount's 2022 financial and operating results were highlighted by record annual production and cash flows. 2022 results included: <sup>(1)</sup>

- Record annual sales volumes of 88,672 Boe/d (45% liquids), an 8% increase relative to 2021.
- Record cash from operating activities of \$1,049.6 million (\$7.45 per basic share), a 118% increase compared to 2021.
- Record annual adjusted funds flow of \$1,171.0 million (\$8.32 per basic share), a 134% increase compared to 2021.
- Capital expenditures of \$655.0 million, largely directed to the Grande Prairie Montney and Kaybob Duvernay developments.
- Record annual free cash flow of \$471.1 million (\$3.35 per basic share), a 146% increase compared to 2021.
- A more than doubling of the Company's regular monthly dividend from \$0.06 to \$0.125 per Common Share, representing the payment of an aggregate of \$160.4 million in dividends in 2022.
- A reduction of net debt by \$295.5 million to \$161.2 million at year end, resulting in net debt to adjusted funds flow of 0.1x compared to 0.9x at December 31, 2021. In October 2022, the Company achieved its net debt target of \$300 million.
- The achievement in September of monthly production in excess of 30,000 Boe/d at Wapiti for the first time.
- Abandonment and reclamation expenditures of \$36.1 million, net of \$10.0 million in funding under the Alberta Site Rehabilitation Program ("ASRP").

Paramount successfully executed its strategy of accretive acquisitions and divestitures in 2022:

- Acquired over 90,000 net acres of Duvernay lands at Willesden Green and 1,300 Boe/d of production (4.0 MMcf/d of shale gas, 580 Bbl/d of NGLs and 60 Bbl/d of tight oil) for approximately \$38 million in the second quarter.
- Acquired approximately 90,000 net acres of Duvernay lands at Willesden Green and 1,700 Boe/d of production (4.6 MMcf/d of shale gas 700 Bbl/d of NGLs and 230 Bbl/d of tight oil) for approximately \$60 million in the third quarter.
- Closed the disposition of non-core infrastructure assets comprised of approximately 60 kilometers of resource roads in the Bigstone area of the Kaybob Region for cash proceeds of approximately \$64 million in the fourth quarter.

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(1) Adjusted funds flow, free cash flow, net debt and net debt to adjusted funds flow are capital management measures used by Paramount. Cash from operating activities per basic share, adjusted funds flow per basic share and free cash flow per basic share are supplementary financial measures. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

In January 2023, Paramount closed the sale of its Kaybob Smoky and Kaybob South Duvernay properties and certain other minor interests in the Kaybob Region for cash proceeds of approximately \$370 million (the "Kaybob Disposition"). These properties had average sales volumes of approximately 4,700 Boe/d (13.8 MMcf/d of shale gas and 2,400 Bbl/d of NGLs) and a netback of approximately \$21 million in the fourth quarter of 2022. <sup>(1)</sup> The assets and liabilities associated with the Kaybob Disposition have been presented as held for sale at December 31, 2022 in the Consolidated Financial Statements.

Following the Kaybob Disposition, in January 2023 Paramount paid a special cash dividend of \$1.00 per Common Share and repaid all remaining drawings under its \$1.0 billion revolving credit facility. At January 31, 2023, Paramount had a cash balance of approximately \$110 million.

Although the Company leveraged robust commodity prices and operational success in 2022 to generate record cash flows, it continues to observe persistent, inflationary cost pressures across its operations. Paramount has responded to these pressures by seeking additional efficiencies in its capital program and operations and through advance planning and ordering aimed at mitigating future cost increases and potential shortages of supplies and services. However, these response measures have not fully offset the inflationary cost pressures that are currently being experienced. See "Risk Factors" in this MD&A for a further description of the risks posed by inflation and other risks that may affect the Company.

## 2022 RESULTS COMPARED TO GUIDANCE

On December 9, 2022, Paramount issued a press release, which is available at [www.sedar.com](http://www.sedar.com) or [www.paramountres.com](http://www.paramountres.com), announcing revised full year 2022 average sales volumes guidance of between 88,000 Boe/d and 90,000 Boe/d (45% liquids) and fourth quarter 2022 sales volumes guidance of between 97,000 Boe/d and 101,000 Boe/d (45% liquids). Full year 2022 average sales volumes were 88,672 Boe/d (45% liquids) and fourth quarter 2022 sales volumes were 97,370 Boe/d (45% liquids), in line with the revised guidance in each case.

Capital expenditures in 2022, which included the pre-ordering of approximately \$25 million in materials for future development, totaled \$655 million versus the \$640 million upper range of previous guidance. Spending was largely directed to the Grande Prairie Montney and Kaybob Duvernay developments.

Free cash flow of \$471.1 million in 2022 was \$28.9 million less than previous guidance of \$500 million, primarily as a result of higher than forecast capital expenditures and unscheduled outages that impacted production.

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(1) Netback is a non-GAAP financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information on this measure.

## REVISED GUIDANCE

Paramount is reaffirming its 2023 sales volumes guidance. Paramount is increasing its 2023 guidance for capital expenditures by \$50 million as a result of anticipated inflationary cost pressures. Capital expenditures in 2023 and 2024 are expected to be evenly split between: (i) sustaining and maintenance capital; and (ii) growth. The Company is revising its 2023 free cash flow expectations to reflect lower natural gas prices, updated capital expenditures in 2023 and revised foreign exchange rates and other assumptions.

### 2023 Guidance

Annual average sales volumes (Boe/d)	100,000 to 105,000 (46% liquids)
First half average sales volumes (Boe/d)	96,000 to 101,000 (45% liquids)
Second half average sales volumes (Boe/d)	104,000 to 109,000 (47% liquids)
Capital expenditures	\$700 to \$750 million (~50% to growth) (\$650 to \$700 million prior guidance)
Abandonment and reclamation expenditures	\$55 million
Free cash flow <sup>(1)</sup>	\$375 million (\$630 million prior guidance)

The Company's midpoint 2023 sustaining and maintenance capital program and regular monthly dividend would remain fully funded down to an average WTI price of about US\$55/Bbl in 2023. The Company's total midpoint 2023 capital program and regular monthly dividend would remain fully funded down to an average WTI price of about US\$71/Bbl in 2023. <sup>(2)</sup> Paramount remains committed to prudently managing its capital resources and has the flexibility to adjust its capital expenditure plans depending on commodity prices, inflationary cost pressures and other factors.

Paramount is reaffirming its preliminary 2024 guidance for sales volumes and capital expenditures. Paramount is revising its preliminary free cash flow expectations for 2024 to reflect lower natural gas prices and updated foreign exchange rates and other assumptions.

### Preliminary 2024 Guidance <sup>(3)</sup>

Annual average sales volumes (Boe/d)	110,000 to 120,000 (48% liquids)
Capital expenditures	\$700 to \$800 million (~50% to growth)
Free cash flow <sup>(4)</sup>	\$465 million (\$620 million prior guidance)

(1) The stated free cash flow forecast is based on the following assumptions for 2023: (i) the midpoint of stated capital expenditures and sales volumes, (ii) \$55 million in abandonment and reclamation costs, (iii) \$7 million in geological and geophysical expenses, (iv) realized pricing of \$55.20/Boe (US\$80.00/Bbl WTI, US\$3.50/MMBtu NYMEX, \$3.08/GJ AECO), (v) a US\$/CAD exchange rate of \$0.755, (vi) royalties of \$8.30/Boe, (vii) operating costs of \$11.40/Boe and (viii) transportation and processing costs of \$3.55/Boe.

(2) Assuming no changes to the other forecast assumptions for 2023.

(3) All 2024 guidance is based on preliminary planning and current market conditions and is subject to change.

(4) The stated free cash flow estimate is based on the following assumptions for 2024: (i) the midpoint of stated capital expenditures and sales volumes, (ii) \$40 million in abandonment and reclamation costs, (iii) \$7 million in geological and geophysical expenses, (iv) realized pricing of \$53.50/Boe (US\$75.00/Bbl WTI, US\$3.50/MMBtu NYMEX, \$3.08/GJ AECO), (v) a US\$/CAD exchange rate of \$0.755, (vi) royalties of \$8.30/Boe, (vii) operating costs of \$10.55/Boe and (viii) transportation and processing costs of \$3.60/Boe.

## FREE CASH FLOW PRIORITIES

Paramount's free cash flow priorities continue to be the maintenance of conservative leverage levels and the delivery of superior shareholder returns through a combination of dividends, investments in growth opportunities and opportunistic share buybacks.

## CONSOLIDATED RESULTS

### Net Income (Loss)

Paramount recorded net income of \$680.6 million for the year ended December 31, 2022 compared to \$236.9 million for the year ended December 31, 2021. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Net income – 2021</b>	<b>236.9</b>
• Higher netback in 2022, mainly due to higher commodity prices and sales volumes	590.2
• Provisions reversal in 2022 compared to an expense in 2021	45.9
• Lower interest and financing expense in 2022	40.7
• Loss on settlement of dissent payment entitlement in 2021	22.6
• Higher depletion, depreciation and impairment reversals expense in 2022	(152.9)
• Higher income tax expense in 2022	(99.6)
• Other	(3.2)
<b>Net income – 2022</b>	<b>680.6</b>

Paramount recorded net income of \$236.9 million for the year ended December 31, 2021 compared to a net loss of \$22.7 million for the year ended December 31, 2020. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Net loss – 2020</b>	<b>(22.7)</b>
• Higher netback in 2021, mainly due to higher commodity prices and sales volumes	604.8
• Gain on the sale of oil and gas assets in 2021 compared to a loss in 2020	80.8
• Settlements in 2021	7.0
• Lower interest and financing expense in 2021	6.6
• Loss on risk management contracts in 2021 compared to a gain in 2020	(198.7)
• Higher depletion, depreciation and net impairment reversals expense in 2021	(112.3)
• Higher income tax expense in 2021	(75.4)
• Loss on settlement of dissent payment entitlement in 2021	(22.6)
• Higher provisions in 2021	(19.3)
• Higher general and administrative expense in 2021, mainly due to the receipt of benefits in 2020 under the Canada Emergency Wage Subsidy ("CEWS") program	(8.7)
• Other	(2.6)
<b>Net income – 2021</b>	<b>236.9</b>

## Cash From Operating Activities

Cash from operating activities for the year ended December 31, 2022 was \$1,049.6 million compared to \$482.1 million for the year ended December 31, 2021. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Cash from operating activities – 2021</b>	<b>482.1</b>
• Higher netback in 2022, mainly due to higher commodity prices and sales volumes	590.2
• Provisions reversal in 2022 compared to an expense in 2021	45.9
• Lower payments on risk management contract settlements in 2022	39.3
• Lower interest and financing expense in 2022	36.3
• Change in non-cash working capital	(131.1)
• Higher asset retirement obligations settled in 2022	(10.7)
• Other	(2.4)
<b>Cash from operating activities – 2022</b>	<b>1,049.6</b>

Cash from operating activities for the year ended December 31, 2021 was \$482.1 million compared to \$80.9 million for the year ended December 31, 2020. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Cash from operating activities – 2020</b>	<b>80.9</b>
• Higher netback in 2021, mainly due to higher commodity prices and sales volumes	604.8
• Change in non-cash working capital	50.6
• Lower interest and financing expense in 2021	10.9
• Lower asset retirement obligations settled in 2021	9.6
• Settlements in 2021	7.0
• Payments on risk management contract settlements in 2021 compared to receipts in 2020	(255.9)
• Higher provisions in 2021	(19.3)
• Higher general and administrative expense in 2021, mainly due to the receipt of benefits in 2020 under the CEWS program	(8.7)
• Other	2.2
<b>Cash from operating activities – 2021</b>	<b>482.1</b>

## Adjusted Funds Flow

The following is a reconciliation of adjusted funds flow to cash from operating activities, the most directly comparable measure disclosed in the primary financial statements of the Company:

Year ended December 31	2022	2021	2020
<b>Cash from operating activities</b>	<b>1,049.6</b>	482.1	80.9
Change in non-cash working capital <sup>(1)</sup>	98.4	(32.7)	17.9
Geological and geophysical expense <sup>(2)</sup>	8.8	8.0	8.5
Asset retirement obligations settled <sup>(1)</sup>	36.1	25.4	35.0
Provisions <sup>(3)</sup>	(21.9)	24.0	4.7
Settlements <sup>(3)</sup>	–	(7.0)	–
Transaction and reorganization costs <sup>(4)</sup>	–	–	3.0
<b>Adjusted funds flow <sup>(5)</sup></b>	<b>1,171.0</b>	499.8	150.0
<b>Adjusted funds flow (\$/Boe) <sup>(6)</sup></b>	<b>36.18</b>	16.70	6.00

(1) Refer to the "Consolidated Statements of Cash Flows" in the Consolidated Financial Statements.

(2) Refer to Note 5 in the Consolidated Financial Statements.

(3) Refer to Note 16 in the Consolidated Financial Statements.

(4) Refer to the "Consolidated Statements of Comprehensive Income (Loss)" in the Company's consolidated financial statements as at and for the year ended December 31, 2021.

(5) Adjusted funds flow is a capital management measure used by Paramount. Refer to the "Specified Financial Measures" section of this MD&A for more information on this measure.

(6) Adjusted funds flow (\$/Boe) is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information.

Adjusted funds flow for the year ended December 31, 2022 was \$1,171.0 million compared to \$499.8 million for the year ended December 31, 2021. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Adjusted funds flow – 2021</b>	<b>499.8</b>
<ul style="list-style-type: none"> <li>• Higher netback in 2022, mainly due to higher commodity prices and sales volumes</li> <li>• Lower payments on risk management contract settlements in 2022</li> <li>• Lower interest and financing expense in 2022</li> <li>• Other</li> </ul>	590.2 39.3 36.3 5.4
<b>Adjusted funds flow – 2022</b>	<b>1,171.0</b>

Adjusted funds flow for the year ended December 31, 2021 was \$499.8 million compared to \$150.0 million for the year ended December 31, 2020. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Adjusted funds flow – 2020</b>	<b>150.0</b>
<ul style="list-style-type: none"> <li>• Higher netback in 2021, mainly due to higher commodity prices and sales volumes</li> <li>• Lower interest and financing expense in 2021</li> <li>• Payments on risk management contracts settlements in 2021 compared to receipts in 2020</li> <li>• Higher general and administrative expense in 2021, mainly due to the receipt of benefits in 2020 under the CEWS program</li> <li>• Other</li> </ul>	604.8 10.9 (255.9) (8.7) (1.3)
<b>Adjusted funds flow – 2021</b>	<b>499.8</b>

## Free Cash Flow

The following is a reconciliation of free cash flow to cash from operating activities, the most directly comparable measure disclosed in the primary financial statements of the Company:

Year ended December 31	2022	2021	2020
<b>Cash from operating activities</b>	<b>1,049.6</b>	482.1	80.9
Change in non-cash working capital <sup>(1)</sup>	98.4	(32.7)	17.9
Geological and geophysical expense <sup>(2)</sup>	8.8	8.0	8.5
Asset retirement obligations settled <sup>(1)</sup>	36.1	25.4	35.0
Provisions <sup>(3)</sup>	(21.9)	24.0	4.7
Settlements <sup>(3)</sup>	–	(7.0)	–
Transaction and reorganization costs <sup>(4)</sup>	–	–	3.0
<b>Adjusted funds flow</b>	<b>1,171.0</b>	499.8	150.0
Capital expenditures <sup>(1)</sup>	(655.0)	(274.6)	(220.2)
Geological and geophysical expense <sup>(2)</sup>	(8.8)	(8.0)	(8.5)
Asset retirement obligations settled <sup>(1)</sup>	(36.1)	(25.4)	(35.0)
<b>Free cash flow <sup>(5)</sup></b>	<b>471.1</b>	191.8	(113.7)

(1) Refer to the "Consolidated Statements of Cash Flows" in the Consolidated Financial Statements.

(2) Refer to Note 5 in the Consolidated Financial Statements.

(3) Refer to Note 16 in the Consolidated Financial Statements.

(4) Refer to the "Consolidated Statements of Comprehensive Income (Loss)" in the Company's consolidated financial statements as at and for the year ended December 31, 2021.

(5) Free cash flow is a capital management measure used by Paramount. Refer to the "Specified Financial Measures" section of this MD&A for more information on this measure.

Free cash flow for the year ended December 31, 2022 was \$471.1 million compared to \$191.8 million for the year ended December 31, 2021. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Free cash flow – 2021</b>	<b>191.8</b>
• Higher adjusted funds flow (described in "Adjusted Funds Flow" section above)	671.2
• Higher capital expenditures in 2022	(380.4)
• Higher asset retirement obligations settled in 2022	(10.7)
• Higher geological and geophysical expense in 2022	(0.8)
<b>Free cash flow – 2022</b>	<b>471.1</b>

Free cash flow for the year ended December 31, 2021 was \$191.8 million compared to (\$113.7) million for the year ended December 31, 2020. Significant factors contributing to the change are shown below:

Year ended December 31	
<b>Free cash flow – 2020</b>	<b>(113.7)</b>
• Change in adjusted funds flow (described in "Adjusted Funds Flow" section above)	349.8
• Lower asset retirement obligations settled in 2021	9.6
• Lower geological and geophysical expense in 2021	0.5
• Higher capital expenditures in 2021	(54.4)
<b>Free cash flow – 2021</b>	<b>191.8</b>

## OPERATING RESULTS

### Netback

Year ended December 31	2022		2021	
		(\$/Boe) <sup>(1)(2)</sup>		(\$/Boe) <sup>(1)(2)</sup>
Natural gas revenue <sup>(3)</sup>	671.1	6.24	373.3	3.72
Condensate and oil revenue <sup>(3)</sup>	1,448.9	117.07	926.5	81.91
Other NGLs revenue <sup>(3)</sup>	114.2	55.37	78.6	41.84
Royalty and other revenue <sup>(3)</sup>	18.2	–	5.2	–
<b>Petroleum and natural gas sales <sup>(4)</sup></b>	<b>2,252.4</b>	<b>69.60</b>	<b>1,383.6</b>	<b>46.23</b>
Royalties <sup>(4)</sup>	(335.3)	(10.36)	(127.0)	(4.24)
Operating expense <sup>(4)</sup>	(407.1)	(12.58)	(340.4)	(11.37)
Transportation and NGLs processing <sup>(4)</sup>	(123.7)	(3.82)	(114.5)	(3.83)
Sales of commodities purchased <sup>(4)</sup>	272.0	8.41	75.5	2.52
Commodities purchased <sup>(4)</sup>	(267.0)	(8.25)	(76.1)	(2.54)
<b>Netback <sup>(5)</sup></b>	<b>1,391.3</b>	<b>43.00</b>	<b>801.1</b>	<b>26.77</b>
Risk management contract settlements <sup>(6)</sup>	(179.0)	(5.53)	(218.3)	(7.29)
<b>Netback including risk management contract settlements <sup>(7)</sup></b>	<b>1,212.3</b>	<b>37.47</b>	<b>582.8</b>	<b>19.48</b>

(1) Natural gas revenue shown per Mcf.

(2) When presented on a \$/Boe or \$/Mcf basis, each of the components of Netback is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

(3) Refer to Note 15 in the Consolidated Financial Statements. Royalty and other revenue for the year ended December 31, 2022 includes \$11.9 million related to proceeds from a business interruption insurance claim.

(4) Refer to "Consolidated Statements of Comprehensive Income" in the Consolidated Financial Statements.

(5) Netback is a non-GAAP financial measure. Netback per \$/Boe is a non-GAAP ratio. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

(6) Refer to Note 14 in the Consolidated Financial Statements.

(7) Netback including risk management contract settlements is a non-GAAP financial measure. Netback including risk management contract settlements per \$/Boe is a non-GAAP ratio. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

Petroleum and natural gas sales were \$2,252.4 million in 2022, an increase of \$868.8 million from the prior year mainly due to higher commodity prices and sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Year ended December 31, 2021	373.3	926.5	78.6	5.2	1,383.6
Effect of changes in prices	271.4	435.1	27.9	–	734.4
Effect of changes in sales volumes	26.4	87.3	7.7	–	121.4
Change in royalty and other revenue	–	–	–	13.0	13.0
<b>Year ended December 31, 2022</b>	<b>671.1</b>	<b>1,448.9</b>	<b>114.2</b>	<b>18.2</b>	<b>2,252.4</b>

Royalty and other revenue for the year ended December 31, 2022 includes \$11.9 million related to proceeds from a business interruption insurance claim arising from outages at the third-party Wapiti natural gas processing plant (the "Wapiti Plant") in 2020 and 2021.

Petroleum and natural gas sales were \$1,383.6 million in 2021, an increase of \$756.9 million from 2020, mainly due to higher commodity prices and sales volumes.

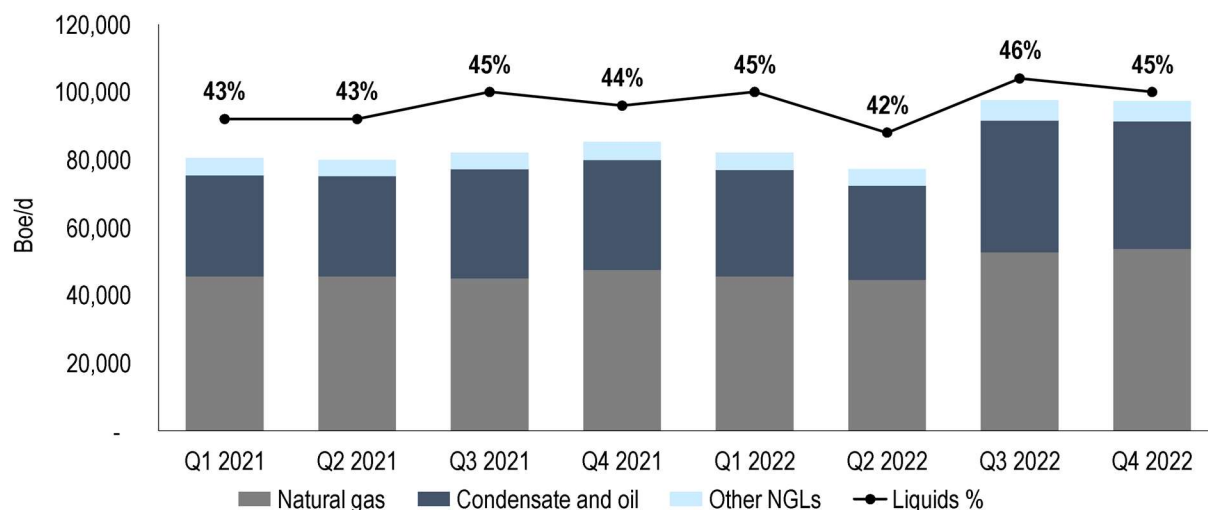
The impact of changes in prices and sales volumes on petroleum and natural gas sales are as follows:

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Year ended December 31, 2020	204.9	383.8	24.7	13.3	626.7
Effect of changes in prices	147.2	400.9	49.3	–	597.4
Effect of changes in sales volumes	21.2	141.8	4.6	–	167.6
Change in royalty and other revenue	–	–	–	(8.1)	(8.1)
<b>Year ended December 31, 2021</b>	<b>373.3</b>	<b>926.5</b>	<b>78.6</b>	<b>5.2</b>	<b>1,383.6</b>

## Sales Volumes

	Year ended December 31											
	Natural gas (MMcf/d) <sup>(1)</sup>			Condensate and oil (Bbl/d) <sup>(1)</sup>			Other NGLs (Bbl/d) <sup>(1)</sup>			Total (Boe/d) <sup>(1)</sup>		
	2022	2021	% Chg	2022	2021	% Chg	2022	2021	% Chg	2022	2021	% Chg
Karr	108.3	109.2	(1)	15,723	17,858	(12)	2,273	2,330	(2)	36,050	38,381	(6)
Wapiti	59.9	31.8	88	11,376	7,400	54	1,121	773	45	22,469	13,488	67
Grande Prairie	168.2	141.0	19	27,099	25,258	7	3,394	3,103	9	58,519	51,869	13
Kaybob	93.5	97.2	(4)	5,519	4,779	15	1,620	1,612	–	22,730	22,588	1
Central Alberta and Other	33.0	37.0	(11)	1,290	952	36	636	432	47	7,423	7,544	(2)
<b>Total</b>	<b>294.7</b>	<b>275.2</b>	<b>7</b>	<b>33,908</b>	<b>30,989</b>	<b>9</b>	<b>5,650</b>	<b>5,147</b>	<b>10</b>	<b>88,672</b>	<b>82,001</b>	<b>8</b>

(1) Readers are referred to the "Product Type Information" section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.



Sales volumes averaged 88,672 Boe/d (45% liquids) for the year ended December 31, 2022, a new annual record for the Company, compared to 82,001 Boe/d (44% liquids) for the year ended December 31, 2021. The increase in annual production was mainly the result of production from new wells brought onstream towards the end of 2021 and during 2022 that more than offset the impact of additional downtime related to turnarounds and outages at third-party midstream facilities and associated infrastructure.

At Karr, 2022 sales volumes averaged 36,050 Boe/d (50% liquids) compared to 38,381 Boe/d (53% liquids) in 2021, largely due to Karr production being shut-in for approximately three weeks in the second quarter of 2022 as a result of planned turnarounds at two third-party midstream facilities in addition to unexpected infrastructure downtime in the fourth quarter of 2022. This impacted 2022 average production by an estimated 3,300 Boe/d. Production from 16 new wells brought onstream in 2022 in addition to 10 new wells brought onstream in the second half of 2021 offset declines.

Average sales volumes at Wapiti increased to 22,469 Boe/d (56% liquids) in 2022 compared to 13,488 Boe/d (61% liquids) in 2021. The increase was mainly due to 27 new wells being brought on production in 2022 in addition to three new wells being brought on production in the fourth quarter of 2021. Production at Wapiti in 2022 was impacted by an estimated 3,100 Boe/d due to a planned turnaround in the second quarter as well as unplanned outages and curtailments at the third-party Wapiti Plant and associated infrastructure at various times during the year.

Kaybob Region sales volumes averaged 22,730 Boe/d (31% liquids) in 2022 compared to 22,588 Boe/d (28% liquids) in 2021 as production from 14 (12.5 net) new wells brought onstream in 2022, including four Kaybob Montney gas wells, four Kaybob Smoky Duvernay wells and three Kaybob North Duvernay wells, more than offset declines.

Sales volumes in the Central Alberta and Other Region averaged 7,423 Boe/d (26% liquids) in 2022 compared to 7,544 Boe/d (18% liquids) in 2021 as the impacts of non-core property dispositions completed in 2021 of approximately 1,300 Boe/d (23% liquids) were mostly offset by additional production at Willesden Green from two acquisitions completed in 2022 that added approximately 1,100 Boe/d (44% liquids) of production.

## Commodity Prices

Year Ended December 31	2022	2021	% Change
<b>Natural Gas <sup>(1)</sup></b>			
Paramount realized natural gas price (\$/Mcf)	6.24	3.72	68
AECO daily spot (\$/GJ)	5.04	3.44	47
AECO monthly index (\$/GJ)	5.27	3.38	56
Dawn (\$/MMBtu)	7.92	4.55	74
NYMEX (US\$/MMBtu)	6.51	3.72	75
Malin daily index (US\$/MMBtu)	8.38	3.94	113
<b>Condensate and Oil <sup>(1)</sup></b>			
Paramount realized condensate & oil price (\$/Bbl)	117.07	81.91	43
Edmonton light sweet oil (\$/Bbl)	119.73	80.31	49
Edmonton condensate (\$/Bbl)	121.28	85.88	41
West Texas Intermediate crude oil (US\$/Bbl)	94.23	67.91	39
<b>Other NGLs <sup>(1)</sup></b>			
Paramount realized Other NGLs price (\$/Bbl)	55.37	41.84	32
Conway – propane (\$/Bbl)	59.63	54.87	9
Belvieu – butane (\$/Bbl)	71.06	61.83	15
<b>Foreign Exchange</b>			
\$CAD / 1 \$US	1.30	1.25	4

(1) Realized prices per Mcf and Bbl are supplementary financial measures. Refer to the "Specified Financial Measures" section of this MD&A for more information.

Paramount's natural gas portfolio primarily consists of sales priced at Alberta, British Columbia, California, Chicago, Ventura and Eastern Canada markets, which are sold in a combination of daily, monthly, seasonal and fixed-priced physical contracts. The Company's natural gas portfolio includes arrangements to sell approximately 60,000 GJ/d of natural gas at Dawn, to sell approximately 20,000 GJ/d of natural gas at Malin and 40,000 GJ/d of natural gas sales priced in the US Midwest.

Realized natural gas prices include the impacts of sales under fixed-price physical contracts. In 2022, a total of 57,000 GJ/d and 12,000 MMBtu/d of natural gas was sold under fixed price physical contracts at prices of CAD\$3.83/GJ and US\$4.03/MMBtu, respectively (2021 – 102,000 GJ/d of natural gas at CAD\$2.72/GJ).

Paramount ships the majority of its condensate and crude oil production on third-party pipelines for sale in Edmonton, Alberta, where volumes generally receive higher prices due to the greater diversity of potential purchasers. A minimal portion of the Company's production is sold at the lease when warranted by economic or operational factors. Sales prices for condensate and oil are based on West Texas Intermediate reference prices, adjusted for transportation, quality and density differentials.

The Company had the following basis differential physical sales contracts at December 31, 2022:

	Volume	Location	Average price	Remaining term
Condensate	5,244 Bbl/d	FSPL <sup>(1)</sup>	WTI + US\$0.50/Bbl	January 2023 – March 2023
Peace sweet crude oil	3,103 Bbl/d	Peace <sup>(2)</sup>	WTI – US\$3.73/Bbl	January 2023 – December 2023

(1) FSPL refers to the Fort Saskatchewan Pipeline at Edmonton.

(2) Peace refers to the Peace Pipeline at Edmonton.

Subsequent to December 31, 2022, the Company entered into the following basis differential physical sales contracts:

	Volume	Location	Average price	Remaining term
Natural gas	20,000 MMBtu/d	AECO	NYMEX – US\$0.94/MMBtu <sup>(1)</sup>	April 2023 – October 2023
Natural gas	10,000 MMBtu/d	Dawn	NYMEX – US\$0.19/MMBtu <sup>(1)</sup>	April 2023 – October 2023

(1) "NYMEX" refers to NYMEX pricing at Henry Hub.

The Company's propane and butane volumes are sold under monthly and long-term contracts. The terms of contracts in place in 2022, along with higher benchmark prices, resulted in an increase in Paramount's realized Other NGLs prices in 2022 compared to 2021.

## Risk Management Contracts

### Commodity Contracts

From time-to-time Paramount uses financial commodity contracts to manage exposure to commodity price volatility. Changes in the fair value of the Company's financial commodity contracts are as follows:

Year ended December 31	2022	2021
Fair value, beginning of year	5.4	(22.7)
Changes in fair value	(160.1)	(190.1)
Settlements paid by Paramount	166.5	218.2
<b>Fair value, end of year</b>	<b>11.8</b>	<b>5.4</b>

For further details on the Company's financial commodity contracts, refer to Note 14 in the Consolidated Financial Statements.

The following table summarizes the Company's financial and physical commodity contracts at March 6, 2023:

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Average Price <sup>(1)</sup>
<b>Oil</b>					
Condensate – Basis (Physical Sale) (Bbl/d)	5,244	–	–	–	WTI + US\$0.50/Bbl
Sweet Crude Oil – Basis (Physical Sale) (Bbl/d)	3,146	3,112	3,078	3,078	WTI – US\$3.73/Bbl
<b>Natural gas</b>					
NYMEX Collars (MMBtu/d)	20,000	–	–	–	US\$7.50/MMBtu (Floor) US\$12.13/MMBtu (Ceiling)
AECO Collars (GJ/d)	20,000	–	–	–	CAD\$7.25/GJ (Floor) CAD\$9.60/GJ (Ceiling)
Chicago Index Swap (Sale) (MMBtu/d) <sup>(2)</sup>	5,000	–	–	–	Daily – US\$0.09/MMBtu
AECO – Basis (Physical Sale) (MMBtu/d)	–	20,000	20,000	6,739	NYMEX – US\$0.94/MMBtu
Dawn – Basis (Physical Sale) (MMBtu/d)	–	10,000	10,000	3,370	NYMEX – US\$0.19/MMBtu

(1) Average price is calculated using a weighted average of notional volumes and prices.

(2) "Chicago Index" refers to Chicago Citygate Index pricing. These contracts convert price exposure of Chicago monthly index to daily index.

#### Foreign Currency Exchange Contracts

Paramount uses foreign currency exchange contracts from time-to-time to manage risks of volatility in foreign currency exchange related to its U.S. dollar denominated petroleum and natural gas sales revenue. Changes in the fair value of the Company's foreign currency exchange contracts are as follows:

Year ended December 31	2022	2021
Fair value, beginning of year	0.4	–
Changes in fair value	(22.7)	0.3
Settlements paid by Paramount	12.5	0.1
<b>Fair value, end of year</b>	<b>(9.8)</b>	<b>0.4</b>

For further details on the Company's foreign currency exchange contracts, refer to Note 14 in the Consolidated Financial Statements.

The Company had the following foreign currency exchange contracts at March 6, 2023:

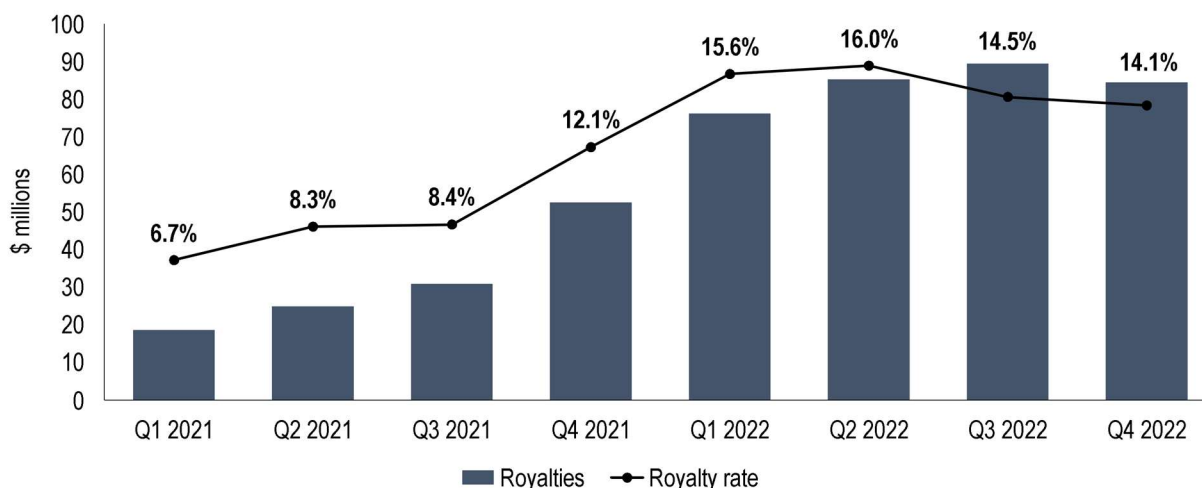
Instruments	Aggregate amount / notional	Average rate <sup>(1)</sup>	Remaining term
Forwards and Swaps (Sale)	US\$60 million / month	1.3199 CAD\$/US\$1.00	January 2023 – June 2023
Swaps (Sale)	US\$40 million / month	1.3427 CAD\$/US\$1.00	July 2023 – December 2023
Swaps (Sale)	US\$30 million / month	1.3433 CAD\$/US\$1.00	January 2024 – June 2024
Swaps (Sale)	US\$10 million / month	1.3400 CAD\$/US\$1.00	July 2024 – December 2024

(1) Average rate is calculated using a weighted average of notional volumes and foreign currency exchange rates.

#### Royalties

Year ended December 31	2022	Rate	2021	Rate
Royalties	335.3	15.0%	127.0	9.2%
<b>\$/Boe <sup>(1)</sup></b>	<b>10.36</b>		<b>4.24</b>	

(1) Royalty rate and royalties per Boe are supplementary financial measures. Refer to the "Specified Financial Measures" section of this MD&A for more information.

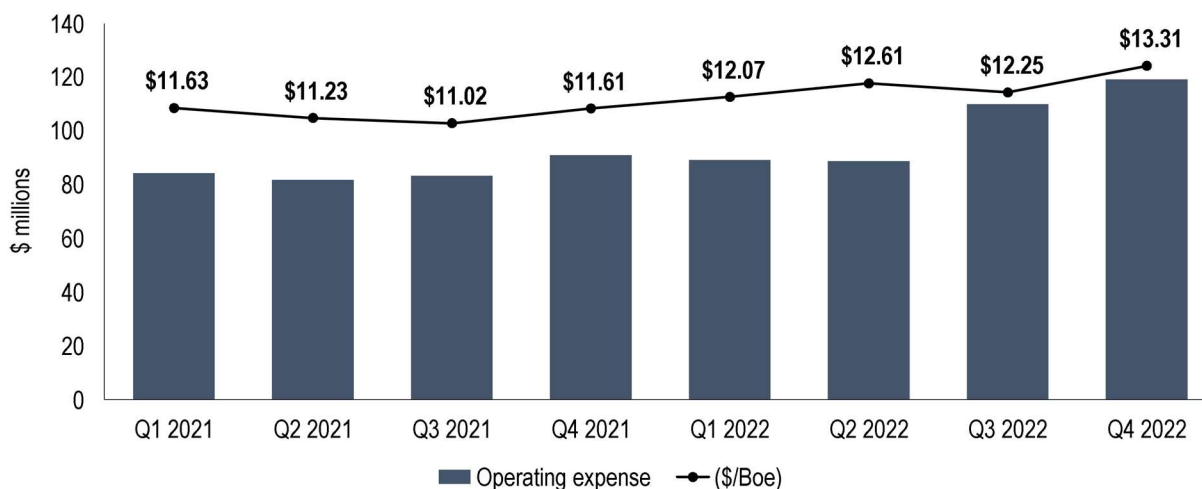


Royalties were \$335.3 million for the year ended December 31, 2022 compared to \$127.0 million in the same period in 2021. Royalties increased in 2022 due to both higher petroleum and natural gas sales revenue and higher royalty rates. Royalty rates increased in 2022 due to higher commodity prices and a greater proportion of Karr and Wapiti wells having fully utilized new well royalty incentives.

### Operating Expense

Year ended December 31	2022	2021	% Change
Operating expense	407.1	340.4	20
\$/Boe <sup>(1)</sup>	12.58	11.37	11

(1) Operating expense per Boe is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information.



Operating expenses were \$407.1 million for the year ended December 31, 2022 compared to \$340.4 million in 2021. Operating expenses were higher in 2022 compared to 2021 due to higher processing fees, mainly related to increased production at Wapiti, increased maintenance activities, including workovers, and higher power and chemical costs. Operating expenses in 2022 include the impact of continued inflationary cost pressures across a number of categories, including processing fees, maintenance activities, chemicals and labour.

Operating costs at Karr were \$149.3 million or \$11.35/Boe for the year ended December 31, 2022 compared to \$134.1 million or \$9.57/Boe in 2021. Per unit operating costs in 2022 at Karr were higher mainly due to higher processing fees, increased maintenance activities, including workovers, as well as lower production in 2022.

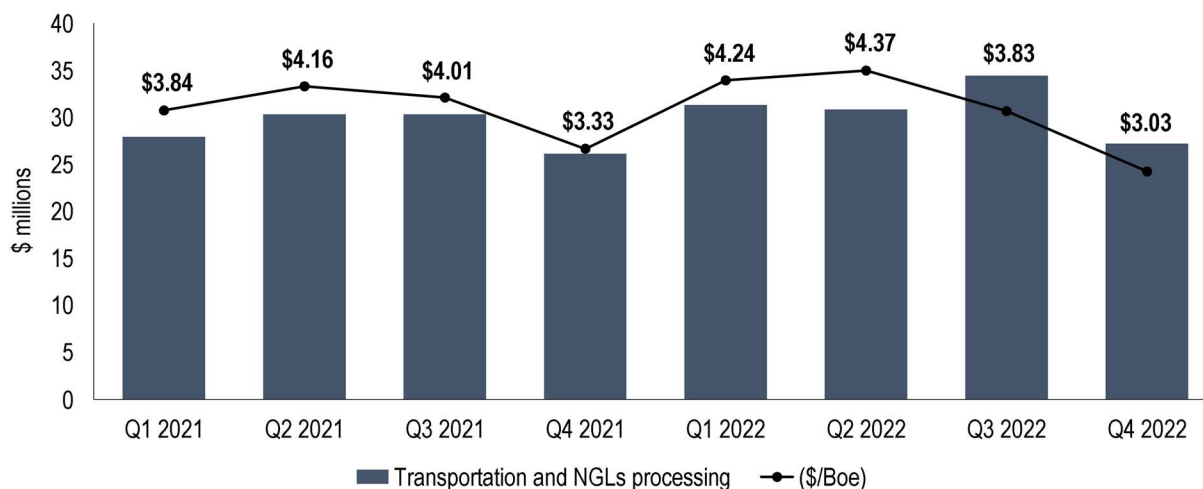
Operating costs at Wapiti were \$98.3 million or \$11.99/Boe for the year ended December 31, 2022 compared to \$71.2 million or \$14.46/Boe in 2021, mainly due to higher production in 2022.

Total Company operating expenses were \$12.58/Boe for the year ended December 31, 2022 compared to \$11.37/Boe in 2021, mainly due to the changes described above.

### Transportation and NGLs Processing

Year ended December 31	2022	2021	% Change
Transportation and NGLs processing	123.7	114.5	8
\$/Boe <sup>(1)</sup>	3.82	3.83	-

(1) Transportation and NGLs processing per Boe is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information.



Transportation and NGLs processing expense was \$123.7 million for the year ended December 31, 2022 compared to \$114.5 million in the same period in 2021. Transportation and NGLs processing costs increased in 2022 mainly as a result of higher production. Fourth quarter transportation and NGLs processing expense includes the impact of 13<sup>th</sup> month adjustments for volumes shipped in the year.

### Sales of Commodities Purchased and Commodities Purchased

Year ended December 31	2022	2021	% Change
Sales of commodities purchased	272.0	75.5	260
Commodities purchased	(267.0)	(76.1)	251

Paramount purchases commodities from third parties to fulfill sales commitments and for blending purposes. For 2022, sales of commodities purchased increased to \$272.0 million compared to \$75.5 million in 2021. Sales of commodities purchased were higher in 2022 compared to 2021 mainly due to more volumes purchased from third parties and higher commodity prices.

## Other Items

Year ended December 31	2022	2021
Depletion and depreciation	335.8	300.5
Change in asset retirement obligations	(39.8)	138.9
ASRP funding	(10.0)	(9.7)
Reversals of petroleum and natural gas asset impairments	–	(296.6)
Exploration and evaluation expense	30.6	38.9
Gain on sale of oil and gas assets	(65.6)	(72.1)
Accretion of asset retirement obligations	44.9	42.6

Depletion and depreciation expense was \$335.8 million in 2022 compared to \$300.5 million in 2021. The increase in depletion and depreciation expense in 2022 was mainly attributable to higher sales volumes.

For the year ended December 31, 2022, the Company recorded a recovery of \$39.8 million (2021 – a charge of \$138.9 million) to earnings related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes were mainly due to revisions in the credit-adjusted risk-free rate used to discount obligations.

Exploration and evaluation expense was \$30.6 million for the year ended December 31, 2022 compared to \$38.9 million in 2021. The decrease in 2022 was primarily due to lower expenses related to expired mineral leases.

In October 2022, the Company closed the sale of approximately 60 kilometers of operated resources roads in the Kaybob cash-generating unit ("CGU") (the "Roads Disposition") for cash proceeds of \$64.2 million. A gain of \$62.4 million was recognized on the sale. Annual operating expenses are expected to increase by approximately \$8 million as a result of the Roads Disposition (approximately \$0.20/Boe based on the midpoint of forecast 2023 sales volumes).

Accretion of asset retirement obligations was \$44.9 million for the year ended December 31, 2022, relatively consistent compared to \$42.6 million for the same period in 2021.

Effective January 1, 2022, Northern CGU petroleum and natural gas assets were combined with the Central Alberta CGU to form the Central Alberta and Other CGU.

Paramount sold its non-operated Birch assets in northeast British Columbia in 2021, which were included in the Central Alberta and Other CGU, for proceeds of approximately \$85 million. A \$14.0 million reversal of previously recorded impairment charges and a gain of \$36.1 million was recognized in 2021 in connection with the sale. These assets had average sales volumes of approximately 2,300 Boe/d (10.7 MMcf/d of shale gas and 524 Bbl/d of NGLs) and a netback of approximately \$3 million in the second quarter of 2021, the last full quarter prior to sale.

The Company also sold certain properties in the Kaybob and Central Alberta and Other CGUs in 2021 for proceeds of approximately \$79 million. A gain of \$39 million was recognized on these sales. These assets had average sales volumes of approximately 2,700 Boe/d (15.4 MMcf/d of conventional natural gas and 142 Bbl/d of NGLs) and a netback of approximately \$1 million in the fourth quarter of 2020, the last full quarter prior to sale.

At September 30, 2021, the Company recorded an aggregate of \$282.6 million in reversals of previously recorded impairment charges to petroleum and natural gas assets, comprised of \$270.3 million related to

the Kaybob CGU and \$12.3 million related to the Northern CGU. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at December 31, 2020. For additional information on impairment reversals in 2021, refer to Note 6 in the Consolidated Financial Statements.

## ASSET RETIREMENT OBLIGATIONS

Paramount's strategy is to utilize the advantages of the Alberta Energy Regulator's area-based closure program to advance its abandonment and reclamation activities in an efficient and cost-effective manner by targeting its efforts in concentrated areas. In 2022 and 2021, Paramount focused its activities in the Zama area, which was shut-in during 2019.

Abandonment and reclamation expenditures for the year ended December 31, 2022 totaled \$36.1 million, net of \$10.0 million in funding under the ASRP. Activities in 2022 included the abandonment of 74 wells, including 42 under the Company's ongoing area-based closure program at Zama.

The Company's budget for abandonment and reclamation activities in 2023 remains unchanged at approximately \$55 million. The majority of 2023 activities will be performed at Zama and Hawkeye.

As at December 31, 2022, estimated undiscounted, uninflated asset retirement obligations were \$1,296.0 million (December 31, 2021 – \$1,318.7 million). As at December 31, 2022, the Company's discounted asset retirement obligations were \$540.1 million (discounted at 8.5 percent per annum and using an inflation rate of 2.0 percent per annum) compared to \$651.1 million as at December 31, 2021 (discounted at 7.0 percent per annum and using an inflation rate of 2.0 percent per annum). For further details concerning the Company's asset retirement obligations, refer to Note 9 in the Consolidated Financial Statements.

## OTHER ASSETS

### Investments in Securities

As at December 31	2022	2021
Level one fair value hierarchy securities ("Level One Securities")	477.3	300.2
Level three fair value hierarchy securities ("Level Three Securities")	79.8	71.9
	557.1	372.1

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indicators of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

At December 31, 2022, the Company owned 37.3 million common shares of NuVista Energy Ltd. ("NuVista Shares") (December 31, 2021 – 39.8 million) having a carrying value of \$464.9 million (December 31, 2021 – \$276.7 million), which were included in Investments in Securities and classified as Level One Securities.

As a result of changes in the fair value estimates of its investments in securities, the Company recorded \$235.3 million, before tax, to other comprehensive income ("OCI") for the year ended December 31, 2022.

In 2022, Paramount disposed of 2.5 million NuVista Shares as well as investments in other Level One and Level Three Securities for aggregate proceeds of \$56.8 million, resulting in \$12.9 million of accumulated net gains, net of tax, being reclassified from reserves to retained earnings.

Changes in the fair value of investments in securities are as follows:

<b>Year ended December 31</b>	<b>2022</b>	<b>2021</b>
Investments in securities, beginning of year	372.1	59.5
Changes in fair value of Level One Securities	222.4	256.0
Changes in fair value of Level Three Securities	12.9	60.8
Changes in fair value of warrants – recorded in earnings	0.4	–
Acquired – cash	1.8	1.0
Acquired – non-cash	4.3	–
Proceeds of dispositions – cash	(52.8)	(5.2)
Proceeds of dispositions – non-cash	(4.0)	–
<b>Investments in securities, end of year</b>	<b>557.1</b>	<b>372.1</b>

### **Fox Drilling**

Fox Drilling owns five triple-sized drilling rigs that are used to drill Company wells, four of which are walking rigs. A fifth walking rig is currently under construction. 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. All of the Fox Drilling rigs are bi-fuel capable, enabling the use of Company-produced natural gas to save costs and reduce emissions compared to diesel engines.

### **Cavalier Energy**

As at December 31, 2022, Cavalier Energy holds approximately 1.357 million gross (1.312 million net) acres of land located primarily in the Athabasca and Peace River regions of Alberta that are prospective for cold flow heavy oil and in-situ thermal oil recovery. Cavalier Energy holds 276,000 net acres with Clearwater and Bluesky cold flow heavy oil potential. 9 (2.0 net) Clearwater wells were drilled on these lands by a third-party in 2022 under farmout arrangements.

### **Other Strategic Investments**

Paramount also holds approximately 104,000 gross (86,000 net) acres of undeveloped land in the Liard Basin in northeast British Columbia and the Northwest Territories prospective for natural gas production from the Besa River shale formation and approximately 483,000 gross (207,000 net) acres of undeveloped land in the Mackenzie Delta and Central Mackenzie in the Northwest Territories prospective for natural gas and oil production.

## CORPORATE

Year ended December 31	2022	2021
General and administrative	42.7	41.6
Share-based compensation	25.3	18.8
Interest and financing	6.4	47.1
Settlement of dissent payment entitlement	–	22.6
Deferred income tax expense	185.2	85.6
Other	(27.5)	16.2

General and administrative expense was \$42.7 million for the year ended December 31, 2022, relatively similar to the same period in 2021.

Interest and financing expense was lower for the year ended December 31, 2022 compared to 2021 mainly due to lower average debt balances under the Company's financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). Interest and financing expense in 2022 was reduced by \$10.2 million related to the impacts of \$500 million of floating-to-fixed interest rate swaps, which were terminated in December 2022 for a payment to the Company of \$10.3 million.

In June 2021, Paramount received \$67 million cash in settlement of dissent proceedings with respect to one of its prior investments. A loss of \$22.6 million was recognized on the settlement.

Deferred income tax expense was \$185.2 million for the year ended December 31, 2022 compared to \$85.6 million recorded in 2021. The Company has tax pools in excess of \$4 billion at December 31, 2022, the majority of which are immediately deductible.

### Other

#### *Provisions*

The Company recorded provisions of \$24.0 million in 2021 and \$1.6 million in the second quarter of 2022 with respect to arrangements with a service provider. Paramount had unsettled claims against the same service provider with respect to certain related matters which were not recognized in the Consolidated Financial Statements.

The Company reached an agreement with the service provider with respect to these arrangements and certain related matters, resulting in a recovery of \$24.0 million being recorded to provisions in the fourth quarter of 2022.

#### *Settlements*

In 2021, Paramount recognized a recovery of \$7.0 million, net of legal fees, in connection with the settlement of outstanding litigation relating to damages to a well.

## CAPITAL EXPENDITURES AND LAND AND PROPERTY ACQUISITIONS

### Capital Expenditures

Year ended December 31	2022	2021
Drilling, completion, equipping and tie-ins	494.6	257.6
Facilities and gathering	97.6	11.0
Drilling rigs	22.1	4.7
Corporate	40.7	1.3
<b>Capital expenditures</b>	<b>655.0</b>	<b>274.6</b>
Grande Prairie Region	453.3	228.6
Kaybob Region	131.2	14.5
Central Alberta and Other Region	2.1	25.2
Fox Drilling and Cavalier	27.7	5.0
Corporate	40.7	1.3
<b>Capital expenditures</b>	<b>655.0</b>	<b>274.6</b>

### Land and Property Acquisitions

Year ended December 31	2022	2021
<b>Land and property acquisitions</b>	<b>145.8</b>	<b>5.4</b>

Capital expenditures totaled \$655.0 million for the year ended December 31, 2022 compared to \$274.6 million in 2021. Expenditures in 2022 were mainly directed to drilling and completion programs in the Grande Prairie and Kaybob Regions. Significant capital program activities in 2022 included the following:

- At Karr, the Company drilled 23 (18.8) net wells, including 5.0 (0.8 net) non-operated wells, and completed and brought-on production 16 (12.6 net) wells, including 4 (0.6 net) non-operated wells. The Company also brought into service one new water disposal well and completed debottlenecking initiatives to support higher production in 2023.
- At Wapiti, Paramount drilled and completed 25 (25.0 net) wells and brought-on production 27 (27.0 net) wells.
- In the Kaybob Region, the Company drilled 13 (11.5 net) wells, completed 15 (13.5 net) wells and brought-on production 14 (12.5 net) wells.
- Fox Drilling and Cavalier capital expenditures included \$16.8 million related to construction of a fifth super-spec walking rig that is expected to be completed and deployed in mid-2023.
- Corporate capital expenditures included \$25.6 million related to the purchases of materials for future development.

For the year ended December 31, 2022, land and property acquisitions included \$98.3 million for acquisitions completed in the Willesden Green Duvernay and \$24.1 million for an asset acquisition in the Grande Prairie Region.

Cavalier entered into a farm-out agreement with Rubellite Energy Inc. ("Rubellite") in 2022 under which Rubellite may earn up to a 60 percent working interest in 61.25 gross sections of Cavalier's Clearwater formation rights in the Peavine area of Alberta by drilling wells or making certain qualifying capital

expenditures. A director and significant shareholder of Paramount is also the President and Chief Executive Officer, a director and significant shareholder of Rubellite.

## LIQUIDITY AND CAPITAL RESOURCES

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

- i. ensure liquidity to fund ongoing operations and capital programs, the settlement of obligations when due and the payment of regular monthly dividends;
- ii. preserve financial flexibility and access to capital markets, including for the pursuit of strategic initiatives; and
- iii. maximize shareholder returns considering the risk environment.

Paramount monitors and assesses its capital structure for alignment with its current and long-term business plans and will, guided by its primary capital management objectives, seek to adjust the structure as necessary in response to changes in its business plans, plans for shareholder returns, economic and operating conditions, financial and operating results, strategic initiatives and the Company's assessment of the risk environment. Paramount may adjust its capital structure through a number of means, including by modifying capital spending programs, seeking to issue or repurchase shares, altering debt levels, modifying dividend levels or acquiring or disposing of assets.

The key capital management measures used by the Company in monitoring and assessing its capital structure are net debt, adjusted funds flow, the ratio of net debt to adjusted funds flow and free cash flow. These measures are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities. Readers are referred to the Specified Financial Measures section of this MD&A and Note 18 – Capital Structure of the Consolidated Financial Statements for important additional information concerning these measures.

As at December 31	2022	2021
Cash and cash equivalents	(2.5)	(1.7)
Accounts receivable <sup>(1)</sup>	(216.5)	(139.7)
Prepaid expenses and other	(9.1)	(7.3)
Accounts payable and accrued liabilities	229.9	219.1
Long-term debt	159.4	386.3
<b>Net Debt</b>	<b>161.2</b>	<b>456.7</b>

(1) Excludes accounts receivable relating to lease incentives and subleases (December 31, 2022 – \$6.7 million, December 31, 2021 – \$2.2 million).

Net debt does not account for the \$557.1 million carrying value of the Company's investments in securities as at December 31, 2022.

Paramount's operations are capital intensive and adequate sources of liquidity are required to fund ongoing exploration and development activities, discharge asset retirement obligations and satisfy its other contractual obligations and commitments. Paramount's available capital resources include cash from operating activities, available capacity under the Paramount Facility, the terms of which are described further below, and, from time to time, cash and cash equivalents.

Based on the forecasts of 2023 sales volumes and the pricing assumptions set out in this MD&A under "Revised Guidance", Paramount expects to fully fund budgeted 2023 capital expenditures and abandonment and reclamation expenditures from cash from operating activities. Paramount may utilize borrowing capacity under the Paramount Facility for liquidity from time to time to temporarily fund

operations during certain periods should expenditures exceed cash from operating activities and cash and cash equivalents.

The ability of cash from operating activities to satisfy the Company's funding requirements in 2023 and future years is dependent on a number of factors, including commodity prices, sales volumes, royalties, operating and transportation costs, general and administrative and interest expenses and foreign currency exchange rates.

Paramount may also determine to divest of assets or investments in securities from time to time to reduce indebtedness or fund operations. In the first quarter of 2022, Paramount sold a portion of its investments in securities for aggregate cash proceeds of \$51.0 million and, in October 2022, the Company completed the Roads Disposition for cash proceeds of \$64.2 million. Proceeds from these dispositions were used to reduce indebtedness under the Paramount Facility. In January 2023, Paramount completed the Kaybob Disposition for cash proceeds of \$370 million and repaid all remaining drawings under the Paramount Facility. Subject to market conditions and availability, proceeds from new debt and/or equity financings may also provide additional sources of capital from time to time.

### **Paramount Facility**

The Paramount Facility is a \$1.0 billion financial covenant-based senior secured revolving bank credit facility. The maturity date of the Paramount Facility is May 3, 2026. At Paramount's request, the credit limit of the Paramount Facility can be increased by up to \$250 million pursuant to an accordion feature in the facility, subject to incremental lender commitments.

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, Canadian Dollar Offered Rates, or Adjusted Term SOFR, as selected by the Company, plus an applicable margin which varies based on 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 the Company and its subsidiaries.

Paramount is subject to the following two financial covenants under the Paramount Facility which are tested at the end of each fiscal quarter and calculated on a trailing twelve-month basis:

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

Senior Secured Debt currently consists of amounts drawn on the Paramount Facility.

Consolidated EBITDA 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 gains or losses on dispositions of oil and gas assets, unrealized mark-to-market amounts on derivatives, unrealized foreign exchange gains and losses, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by customary adjustments including interest income.

The Paramount Facility also contains a covenant requiring prior lender consent for the payment of dividends and other distributions if the Senior Secured Debt to Consolidated EBITDA ratio is greater than 2.50 to 1.00 *pro forma* the payment of the distribution.

Paramount was in compliance with the financial covenants under the Paramount Facility at December 31, 2022.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling \$2.2 million at December 31, 2022 (December 31, 2021 – \$2.3 million) that reduce the amount available to be drawn on the facility.

### Unsecured Letter of Credit Facility

The Company has a \$70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada. The PSG is valid to June 30, 2023. At December 31, 2022, \$24.2 million in undrawn letters of credit were outstanding under the LC Facility (December 31, 2021 – \$38.7 million).

### Convertible Debentures

In January 2021, the Company completed a private placement of \$35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased \$25.0 million of the Convertible Debentures. The Convertible Debentures had a maturity date of January 31, 2024 (the "Maturity Date"), bore interest at 7.50 percent per annum and were convertible by the holder into Common Shares and redeemable by Paramount, in whole or in part, at any time prior to the Maturity Date.

In November 2021, Paramount delivered notices to redeem all \$35.0 million of the Convertible Debentures at a redemption price of 107.50 percent of the principal amount effective December 3, 2021 (the "Redemption Date"). Prior to the Redemption Date, all holders exercised their right to convert their Convertible Debentures into Common Shares. An aggregate of 5.2 million Common Shares were issued on conversion of the debentures, including 3.8 million Common Shares issued on conversion of \$25.0 million principal amount of debentures by an entity controlled by Paramount's President and Chief Executive Officer and Chairman. For the year ended December 31, 2021, \$2.2 million in interest payments were made on the Convertible Debentures.

### Cash Flow Hedges

The Company had the following electricity swaps at December 31, 2022:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference	Fair value
Electricity Swaps	240 MWh/d <sup>(1)</sup>	January 2023 – December 2023	\$84.00/MWh	AESO Pool Price <sup>(2)</sup>	7.9
Electricity Swaps	240 MWh/d <sup>(1)</sup>	January 2024 – December 2024	\$66.13/MWh	AESO Pool Price <sup>(2)</sup>	2.4
Electricity Swaps	120 MWh/d <sup>(1)</sup>	January 2025 – December 2025	\$73.25/MWh	AESO Pool Price <sup>(2)</sup>	0.5
					10.8

(1) "MWh" means megawatt-hour.

(2) Floating hourly rate established by the Alberta Electric System Operator.

In 2022, the Company entered into floating-to-fixed price swaps on 120 MWh/d of electricity, which were designated as cash flow hedges, to manage exposure to variable market prices by fixing the underlying AESO Pool Price on a portion of the Company's anticipated power requirements for 2023, 2024 and 2025 (2021 – floating-to-fixed electricity price swaps on 120 MWh/d of electricity for 2023 and 2024).

The Company has classified its electricity swaps as cash flow hedges and applied hedge accounting. There were no changes to the critical terms of the hedging relationships and no hedge ineffectiveness was identified on the floating-to-fixed electricity swaps.

In December 2022, Paramount terminated all \$500 million notional amount of its floating-to-fixed interest rate swaps for aggregate cash proceeds to the Company of \$10.3 million. For the year ended December 31, 2022, interest and financing expense was reduced by \$10.2 million relating to the impact of the Company's floating-to-fixed interest rate swaps.

### **Share Capital**

At March 3, 2023, Paramount had 142.1 million Common Shares outstanding (net of 0.8 million Common Shares held in trust under the Company's restricted share unit plan) and 11.2 million options to acquire Common Shares outstanding, of which 2.9 million options are exercisable.

For the year ended December 31, 2022, Paramount issued 2.1 million Common Shares on the exercise of stock options to acquire Common Shares.

### **Dividends**

In July 2021, Paramount implemented a regular monthly dividend with respect to its Common Shares. Dividends declared for the year ended December 31, 2022 totaled \$1.13 per Common Share (2021 – \$0.20 per Common Share). The Company paid a special cash dividend of \$1.00 per Common Share on January 25, 2023 to shareholders of record on January 18, 2023 and regular monthly dividends of \$0.125 per Common Share on January 31, 2023 and February 28, 2023 to shareholders of record on January 16, 2023 and February 15, 2023, respectively.

### **Normal Course Issuer Bid**

In June 2022, Paramount implemented a normal course issuer bid (the "2022 NCIB") under which the Company may purchase up to 7.6 million Common Shares for cancellation. The 2022 NCIB will terminate on the earlier of June 29, 2023 and the date on which the maximum number of Common Shares that can be acquired pursuant to the 2022 NCIB are purchased. Any purchases of Common Shares under the 2022 NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase. The Company has not made any purchases of Common Shares under the 2022 NCIB to date.

Paramount previously implemented a normal course issuer bid in June 2021 (the "2021 NCIB") under which the Company purchased and cancelled 197,500 Common Shares at a total cost of \$2.7 million (\$13.69 per share). The 2021 NCIB expired on June 29, 2022.

## FOURTH QUARTER RESULTS

### Netback

Three months ended December 31	2022		2021	
		(\$/Boe) <sup>(1)(2)</sup>		(\$/Boe) <sup>(1)(2)</sup>
Natural gas revenue	194.2	6.56	124.7	4.76
Condensate and oil revenue	375.1	108.50	281.1	94.46
Other NGLs revenue	27.3	48.25	27.4	54.61
Royalty and other revenue	1.1	–	1.3	–
<b>Petroleum and natural gas sales</b>	<b>597.7</b>	<b>66.72</b>	434.5	55.40
Royalties	(84.4)	(9.43)	(52.5)	(6.69)
Operating expense	(119.2)	(13.31)	(91.0)	(11.61)
Transportation and NGLs processing	(27.2)	(3.03)	(26.1)	(3.33)
Sales of commodities purchased	102.7	11.47	22.1	2.82
Commodities purchased	(100.4)	(11.21)	(22.3)	(2.85)
<b>Netback</b> <sup>(3)</sup>	<b>369.2</b>	<b>41.21</b>	264.7	33.74
Risk management contract settlements	(23.0)	(2.57)	(72.4)	(9.23)
<b>Netback including risk management contract settlements</b> <sup>(4)</sup>	<b>346.2</b>	<b>38.64</b>	192.3	24.51

(1) Natural gas revenue shown per Mcf.

(2) When presented on a \$/Boe or \$/Mcf basis, each of the components of Netback is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

(3) Netback is a non-GAAP financial measure. Netback per \$/Boe is a non-GAAP ratio. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

(4) Netback including risk management contract settlements is a non-GAAP financial measure. Netback including risk management contract settlements per \$/Boe is a non-GAAP ratio. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

Fourth quarter 2022 petroleum and natural gas sales were \$597.7 million, an increase of \$163.2 million from the fourth quarter of 2021, mainly due to higher commodity prices and sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Three months ended December 31, 2021	124.7	281.1	27.4	1.3	434.5
Effect of changes in prices	53.2	48.5	(3.6)	–	98.1
Effect of changes in sales volumes	16.3	45.5	3.5	–	65.3
Change in royalty and other revenue	–	–	–	(0.2)	(0.2)
<b>Three months ended December 31, 2022</b>	<b>194.2</b>	<b>375.1</b>	<b>27.3</b>	<b>1.1</b>	<b>597.7</b>

### Sales Volumes

	Three months ended December 31											
	Natural gas (MMcf/d) <sup>(1)</sup>			Condensate and oil (Bbl/d) <sup>(1)</sup>			Other NGLs (Bbl/d) <sup>(1)</sup>			Total (Boe/d) <sup>(1)</sup>		
	2022	2021	% Chg	2022	2021	% Chg	2022	2021	% Chg	2022	2021	% Chg
Karr	111.9	124.0	(10)	15,308	18,521	(17)	2,247	2,449	(8)	36,209	41,629	(13)
Wapiti	78.0	34.9	123	13,838	7,757	78	1,384	827	67	28,225	14,406	96
Grande Prairie	189.9	158.9	20	29,146	26,278	11	3,631	3,276	11	64,434	56,035	15
Kaybob	96.9	92.4	5	6,661	4,539	47	1,671	1,788	(7)	24,477	21,725	13
Central Alberta and Other	35.1	33.5	5	1,773	1,525	16	841	398	111	8,459	7,505	13
<b>Total</b>	<b>321.9</b>	<b>284.8</b>	<b>13</b>	<b>37,580</b>	<b>32,342</b>	<b>16</b>	<b>6,143</b>	<b>5,462</b>	<b>12</b>	<b>97,370</b>	<b>85,265</b>	<b>14</b>

(1) Readers are referred to the "Product Type Information" section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Sales volumes in the fourth quarter of 2022 averaged 97,370 Boe/d (45% liquids) compared to 85,265 Boe/d (44% liquids) in the fourth quarter of 2021.

At Karr, fourth quarter 2022 sales volumes averaged 36,209 Boe/d (48% liquids) compared to 41,629 Boe/d (50% liquids) in the same period in 2021, largely due to unexpected infrastructure downtime and extreme cold weather in the fourth quarter of 2022 that impacted quarterly average production by approximately 2,900 Boe/d. Production from 16 new wells brought onstream in 2022 partially offset declines. In early 2023, four new wells were brought onstream.

Sales volumes at Wapiti increased to 28,225 Boe/d (54% liquids) in the fourth quarter of 2022 compared to 14,406 Boe/d (60% liquids) in the fourth quarter of 2021. The increase mainly resulted from development activities where the Company brought 27 new wells on production in 2022, in addition to three new wells being brought onstream in the fourth quarter of 2021. Production at Wapiti in the fourth quarter of 2022 was impacted by an estimated 3,400 Boe/d due to unplanned outages and curtailments at the third-party Wapiti Plant and associated infrastructure.

Kaybob Region sales volumes were 24,477 Boe/d (34% liquids) in the fourth quarter of 2022, 13 percent higher than the fourth quarter of 2021, mainly due to 14 (12.5 net) new wells being brought on-stream in 2022, including four Kaybob Smoky Duvernay wells, four Kaybob Montney gas wells and three Kaybob North Duvernay wells.

Sales volumes in the Central Alberta and Other Region were 8,459 Boe/d (31% liquids) in the fourth quarter of 2022 compared to 7,505 Boe/d (26% liquids) in the same period in 2021, mainly due to two Willesden Green Duvernay acquisitions completed in 2022 adding approximately 2,800 Boe/d (44% liquids) of production, which more than offset declines.

## Commodity Prices

Three months ended December 31	2022	2021	% Change
<b>Natural Gas <sup>(1)</sup></b>			
Paramount realized natural gas price (\$/Mcf)	6.56	4.76	38
AECO daily spot (\$/GJ)	4.85	4.41	10
AECO monthly index (\$/GJ)	5.29	4.68	13
Dawn (\$/MMBtu)	7.14	5.86	22
NYMEX (US\$/MMBtu)	6.09	4.85	26
Malin daily index (US\$/MMBtu)	14.36	5.36	168
<b>Condensate and Oil <sup>(1)</sup></b>			
Paramount realized condensate & oil price (\$/Bbl)	108.50	94.46	15
Edmonton light sweet oil (\$/Bbl)	108.15	92.14	17
Edmonton condensate (\$/Bbl)	115.50	100.17	15
West Texas Intermediate crude oil (US\$/Bbl)	82.64	77.19	7
<b>Other NGLs <sup>(1)</sup></b>			
Paramount realized Other NGLs price (\$/Bbl)	48.25	54.61	(12)
Conway – propane (\$/Bbl)	46.45	65.95	(30)
Belvieu – butane (\$/Bbl)	55.77	78.18	(29)
<b>Foreign Exchange</b>			
\$CAD / 1 \$US	1.36	1.26	8

(1) Realized prices per Mcf and Bbl are supplementary financial measures. Refer to the "Specified Financial Measures" section of this MD&A for more information.

Realized natural gas prices include the impacts of sales under fixed-price physical contracts. In the fourth quarter of 2022, a total of 27,000 GJ/d and 7,000 MMBtu/d of natural gas was sold under fixed price physical contracts at prices of CAD\$3.78/GJ and US\$4.03/MMBtu, respectively (fourth quarter of 2021 – 117,000 GJ/d at CAD\$3.16/GJ).

The Company's propane and butane volumes are sold under monthly and long-term contracts. The terms of contracts in place in 2022 resulted in a smaller decrease in Paramount's realized Other NGLs prices in the fourth quarter of 2022 relative to changes in benchmark prices.

Royalties were \$84.4 million in the fourth quarter of 2022, \$31.9 million higher than the same period in 2021, primarily as a result of both higher royalty rates and higher petroleum and natural gas sales. Royalty rates increased in 2022 due to higher commodity prices and a greater proportion of Karr and Wapiti wells having fully utilized new well royalty incentives.

Operating expenses were \$119.2 million in the fourth quarter of 2022 compared to \$91.0 million in the same period in 2021. Operating expenses were higher in 2022 compared to 2021 mainly due to higher processing fees related to increased production at Wapiti, higher power costs and increased workover and maintenance activities.

Operating costs at Karr were \$38.5 million or \$11.55/Boe in the fourth quarter of 2022 compared to \$36.0 million or \$9.38/Boe in the same period in 2021. Per unit operating costs at Karr in the fourth quarter of 2022 were higher mainly due to increased processing fees and lower production in 2022.

Operating costs at Wapiti were \$31.4 million or \$12.11/Boe in the fourth quarter of 2022 compared to \$18.9 million or \$14.26/Boe in the same period in 2021, mainly due to higher production in 2022.

Total company per unit operating expenses were \$13.31/Boe in the fourth quarter of 2022 compared to \$11.61/Boe, mainly due to the changes described above.

Transportation and NGLs processing costs were \$27.2 million in the fourth quarter of 2022 compared to \$26.1 million in the same period in 2021, mainly due to higher production volumes.

Sales of commodities purchased were \$102.7 million in the fourth quarter of 2022 compared \$22.1 million in the same period in 2021, mainly due to greater volumes purchased for balancing and blending purposes from third-parties and higher commodity prices.

## Net Income

Three months ended December 31	2022	2021
Petroleum and natural gas sales	597.7	434.5
Royalties	(84.4)	(52.5)
Sales of commodities purchased	102.7	22.1
<b>Revenue</b>	<b>616.0</b>	<b>404.1</b>
<b>Gain on risk management contracts</b>	<b>8.1</b>	<b>14.1</b>
	<b>624.1</b>	<b>418.2</b>
<b>Expenses</b>		
Operating expense	119.2	91.0
Transportation and NGLs processing	27.2	26.1
Commodities purchased	100.4	22.3
General and administrative	13.6	11.9
Share-based compensation	13.1	7.7
Depletion and depreciation	95.2	100.4
Exploration and evaluation	4.7	9.2
Gain on sale of oil and gas assets	(63.7)	–
Interest and financing expense (income)	(2.2)	9.0
Accretion of asset retirement obligations	11.6	10.5
Other	(23.4)	(7.5)
	<b>295.7</b>	<b>280.6</b>
<b>Income before tax</b>	<b>328.4</b>	<b>137.6</b>
<b>Income tax expense</b>		
Deferred	68.5	36.6
	<b>259.9</b>	<b>101.0</b>
<b>Net income</b>	<b>259.9</b>	<b>101.0</b>
<b>Net income per common share (\$/share)</b>		
Basic	1.83	0.75
Diluted	1.76	0.70

Paramount recorded net income of \$259.9 million for the three months ended December 31, 2022 compared to \$101.0 million in the same period in 2021. Significant factors contributing to the change are shown below:

Three months ended December 31	
<b>Net income – 2021</b>	<b>101.0</b>
<ul style="list-style-type: none"> <li>• Higher netback in 2022, mainly due to higher commodity prices and sales volumes</li> <li>• Gain on sale of oil and gas assets in 2022</li> <li>• Provisions reversal in 2022</li> <li>• Interest and financing income in 2022 compared to expense in 2021, mainly due to the termination of interest rate swaps in 2022</li> <li>• Higher income tax expense in 2022</li> <li>• Lower gain on risk management contracts in 2022 compared to 2021</li> <li>• Other</li> </ul>	104.5 63.7 24.0 11.2 (31.9) (6.0) (6.6)
<b>Net income – 2022</b>	<b>259.9</b>

## Cash From Operating Activities

Three months ended December 31	2022	2021
<b>Operating activities</b>		
Net income	259.9	101.0
Add (deduct):		
Items not involving cash	102.7	77.7
Asset retirement obligations settled	(7.0)	(7.0)
Change in non-cash working capital	(48.7)	20.1
<b>Cash from operating activities</b>	<b>306.9</b>	<b>191.8</b>

Cash from operating activities for the three months ended December 31, 2022 was \$306.9 million compared to \$191.8 million for the same period in 2021. Significant factors contributing to the change are shown below:

Three months ended December 31		
<b>Cash from operating activities – 2021</b>		<b>191.8</b>
• Higher netback in 2022, mainly due to higher commodity prices and sales volumes		104.5
• Lower payments on risk management contract settlements in 2022		49.4
• Provisions reversal in 2022		24.0
• Interest and financing income in 2022 compared to expense in 2021, mainly due to the termination of interest rate swaps in 2022		13.5
• Change in non-cash working capital		(68.8)
• Other		(7.5)
<b>Cash from operating activities – 2022</b>		<b>306.9</b>

## Adjusted Funds Flow

The following is a reconciliation of adjusted funds flow to cash from operating activities, the most directly comparable measure disclosed in the primary financial statements of the Company:

Three months ended December 31	2022	2021
<b>Cash from operating activities</b>	<b>306.9</b>	191.8
Change in non-cash working capital	48.7	(20.1)
Geological and geophysical expense	2.1	2.9
Asset retirement obligations settled	7.0	7.0
Provisions	(24.0)	–
Settlements	–	(7.0)
<b>Adjusted funds flow <sup>(1)</sup></b>	<b>340.7</b>	174.6
<b>Adjusted funds flow (\$/Boe) <sup>(2)</sup></b>	<b>38.02</b>	22.25

(1) Adjusted funds flow is a capital management measure used by Paramount. Refer to the "Specified Financial Measures" section of this MD&A for more information on this measure.

(2) Adjusted funds flow (\$/Boe) is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information.

Adjusted funds flow in the fourth quarter of 2022 was \$340.7 million compared to \$174.6 million in the same period in 2021. Significant factors contributing to the change are shown below:

<b>Three months ended December 31</b>	
<b>Adjusted funds flow – 2021</b>	<b>174.6</b>
• Higher netback in 2022, mainly due to higher commodity prices and sales volumes	104.5
• Lower payments on risk management contract settlements in 2022	49.4
• Interest and financing income in 2022 compared to expense in 2021, mainly due to the termination of interest rate swaps in 2022	13.5
• Other	(1.3)
<b>Adjusted funds flow – 2022</b>	<b>340.7</b>

### Free Cash Flow

The following is a reconciliation of free cash flow to cash from operating activities, the most directly comparable measure disclosed in the primary financial statements of the Company:

<b>Three months ended December 31</b>	<b>2022</b>	<b>2021</b>
<b>Cash from operating activities</b>	<b>306.9</b>	191.8
Change in non-cash working capital	48.7	(20.1)
Geological and geophysical expense	2.1	2.9
Asset retirement obligations settled	7.0	7.0
Provisions	(24.0)	–
Settlements	–	(7.0)
<b>Adjusted funds flow</b>	<b>340.7</b>	174.6
Capital expenditures	(169.6)	(65.7)
Geological and geophysical expense	(2.1)	(2.9)
Asset retirement obligation settled	(7.0)	(7.0)
<b>Free cash flow <sup>(1)</sup></b>	<b>162.0</b>	99.0

(1) Free cash flow is a capital management measure used by Paramount. Refer to the "Specified Financial Measures" section of this MD&A for more information on this measure.

Free cash flow in the fourth quarter of 2022 was \$162.0 million compared to \$99.0 million in the same period in 2021. Significant factors contributing to the change are shown below:

<b>Three months ended December 31</b>	
<b>Free cash flow – 2021</b>	<b>99.0</b>
• Higher adjusted funds flow (described in "Adjusted Funds Flow" section above)	166.1
• Higher capital expenditures in 2022	(103.9)
• Lower geological and geophysical expense in 2022	0.8
<b>Free cash flow – 2022</b>	<b>162.0</b>

## Capital Expenditures by Region

Three months ended December 31	2022	2021
Grande Prairie Region	135.8	57.7
Kaybob Region	11.4	3.8
Central Alberta and Other Region	1.0	2.6
Fox and Cavalier	12.1	1.0
Corporate	9.3	0.6
<b>Capital expenditures</b>	<b>169.6</b>	<b>65.7</b>

Capital expenditures in the fourth quarter of 2022 totaled \$169.6 million, with the majority of spending directed towards drilling and completion programs in the Grande Prairie Region.

## QUARTERLY INFORMATION

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Petroleum and natural gas sales</b>	<b>597.7</b>	618.9	536.2	499.6	434.5	369.2	299.8	280.1
<b>Revenue</b>	<b>616.0</b>	607.4	493.7	472.2	404.1	369.6	288.4	270.1
<b>Net income (loss)</b>	<b>259.9</b>	221.9	182.2	16.6	101.0	292.7	(74.3)	(82.5)
Per share – basic (\$/share)	1.83	1.57	1.29	0.12	0.75	2.20	(0.56)	(0.62)
Per share – diluted (\$/share)	1.76	1.51	1.24	0.11	0.70	2.06	(0.56)	(0.62)
<b>Cash from operating activities <sup>(1)</sup></b>	<b>306.9</b>	248.9	318.9	174.9	191.8	97.0	112.1	81.3
Per share – basic (\$/share)	2.17	1.76	2.26	1.25	1.42	0.73	0.84	0.61
Per share – diluted (\$/share)	2.08	1.69	2.16	1.20	1.33	0.68	0.84	0.61
<b>Adjusted funds flow <sup>(1)</sup></b>	<b>340.7</b>	334.3	258.3	237.8	174.6	148.4	86.0	90.9
Per share – basic (\$/share)	2.40	2.37	1.83	1.70	1.29	1.12	0.65	0.69
Per share – diluted (\$/share)	2.31	2.27	1.75	1.63	1.21	1.04	0.65	0.69
<b>Free cash flow <sup>(1)</sup></b>	<b>162.0</b>	137.5	68.3	103.4	99.0	73.8	(2.4)	21.6
Per share – basic (\$/share)	1.14	0.97	0.48	0.74	0.73	0.56	(0.02)	0.16
Per share – diluted (\$/share)	1.10	0.93	0.46	0.71	0.69	0.52	(0.02)	0.16
<b>Dividends declared (\$/share)</b>	<b>0.35</b>	0.30	0.28	0.20	0.14	0.06	–	–
<b>Sales volumes</b>								
Natural gas (MMcf/d)	321.9	315.9	267.2	272.9	284.8	269.7	273.1	273.1
Condensate and oil (Bbl/d)	37,580	38,804	27,750	31,375	32,342	32,177	29,543	29,854
Other NGLs (Bbl/d)	6,143	6,144	5,021	5,276	5,462	5,017	4,938	5,170
Total (Boe/d)	97,370	97,601	77,312	82,137	85,265	82,150	79,995	80,540
Liquids %	45%	46%	42%	45%	44%	45%	43%	43%
<b>Realized prices <sup>(1)</sup></b>								
Natural gas (\$/Mcf)	6.56	6.39	6.75	5.18	4.76	3.89	3.01	3.14
Condensate and oil (\$/Bbl)	108.50	112.56	134.65	117.53	94.46	84.42	77.96	69.20
Other NGLs (\$/Bbl)	48.25	51.20	62.80	61.64	54.61	47.05	32.11	32.29
Petroleum and natural gas (\$/Boe)	66.72	68.92	76.22	67.59	55.40	48.86	41.18	38.64

(1) Adjusted funds flow and free cash flow are capital management measures used by Paramount. Each measure presented on a per share, \$/Bbl, \$/Mcf or \$/Boe basis, other than net income (loss) per share, is a supplementary financial measure. Refer to the "Specified Financial Measures" section of this MD&A for more information on these measures.

## Significant Items Impacting Quarterly Results

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

- Fourth quarter 2022 earnings include deferred income tax expense of \$68.5 million, a provision reversal of \$24.0 million and \$6.9 million related to the impacts of \$500 million of floating-to-fixed interest rate swaps that were terminated in December 2022.
- Third quarter 2022 earnings include the impacts of record production volumes and petroleum and natural gas sales revenue.
- Second quarter 2022 earnings include deferred income tax expense of \$55.5 million, a recovery of \$46.9 million related to changes in the discounted carrying value of asset retirement obligations in respect of properties that had a nil carrying value and a \$41.3 million loss on risk management contracts.
- First quarter 2022 earnings include a \$152.0 million loss on risk management contracts.
- Fourth quarter 2021 earnings include a charge of \$19.9 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value and a \$14.1 million loss on risk management contracts.
- Third quarter 2021 earnings include aggregate impairment reversals of \$282.6 million from previously recorded impairment charges of petroleum and natural gas assets and a \$32.3 million gain on the sale of oil and gas assets, partially offset by a \$47.0 million loss on risk management contracts.
- The second quarter 2021 loss includes a \$75.7 million loss on risk management contracts and a charge of \$42.0 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.
- The first quarter 2021 loss includes an \$81.2 million loss on risk management contracts, a charge of \$69.5 million mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value and a \$41.4 million gain on the sale of oil and gas assets.

## OTHER INFORMATION

### Contractual Obligations

Paramount had the following contractual obligations at December 31, 2022: <sup>(1)</sup>

	Within 1 year	After one year but not more than three years	After three years but not more than five years	More than five years	Total
Paramount Facility	–	–	161.9	–	161.9
Transportation and processing commitments <sup>(2)</sup>	242.9	470.8	421.1	828.0	1,962.8
Asset retirement obligations <sup>(3)</sup>	37.7	71.2	63.5	1,123.7	1,296.1
Finance lease and other commitments <sup>(4)</sup>	18.2	20.5	6.9	24.6	70.2
	<b>298.8</b>	<b>562.5</b>	<b>653.4</b>	<b>1,976.3</b>	<b>3,491.0</b>

(1) Excludes risk management liabilities and accounts payable and accrued liabilities, which are described in Note 14 in the Consolidated Financial Statements.

(2) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$0.7 million at December 31, 2022 (December 31, 2021 – \$13.0 million).

(3) Undiscounted, uninflated asset retirement obligations estimated as at December 31, 2022. Estimated costs and timing of settlement are revised from time-to-time based on new information.

(4) Includes future commitments of \$13.8 million relating to new leases expected to commence in 2023.

Transportation and processing commitments mainly relate to long-term firm service arrangements for the processing and transportation of the Company's sales volumes.

## 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 currently anticipate that these claims will have a material impact on its financial position.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually change. As a result, there are often tax and royalty matters under review by 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.

## NEW AND UPDATED ACCOUNTING POLICIES AND STANDARDS

### Future Changes in Accounting Standards

The International Accounting Standards Board has announced amendments to accounting standards and interpretations and new accounting standards that are effective for annual periods beginning on or after January 1, 2023. These standards and interpretations have not been applied to the Consolidated Financial Statements. Paramount does not expect that these changes will have a material impact on the Company's Consolidated Financial Statements on adoption.

## DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2022, an evaluation of the effectiveness of Paramount's disclosure controls and procedures ("DCP"), 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 under the supervision 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 the Company's DCP are effective as of December 31, 2022.

It should be noted that while the Company's DCP are intended to provide a reasonable level of assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation, disclosure controls and procedures cannot be expected to 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 CONTROL OVER FINANCIAL REPORTING

Management, under the supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting ("ICFR") as defined under NI 52-109 as at December 31, 2022. In making its evaluation, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's ICFR was effective as of December 31, 2022.

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, 2022, there was no change in the Company's ICFR that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## **RISK FACTORS**

Readers should, in conjunction with their review of this MD&A, carefully review the "Risk Factors" section in the Annual Information Form, which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Global economies, including that of Canada, have recently experienced inflation across broad categories of goods and services. In addition, the Russian invasion of the Ukraine has resulted in additional volatility in global financial and commodity markets and has increased the potential for supply chain constraints and disruptions.

The Company continues to monitor its supply chain and the availability and cost of materials and third-party services. While the Company has not, to date, experienced material interruptions in the availability of supplies or services, it is experiencing persistent, inflationary cost pressures across its operations. Paramount has responded to these pressures by seeking additional efficiencies in its capital program and operations and through advance planning and ordering aimed at mitigating future cost increases and potential shortages of supplies and services. However, these response measures have not fully offset the inflationary cost pressures that have been experienced.

The existence and economic impact of these conditions and the response thereto increases the Company's exposure to the risks described in the Risk Factors of the Annual Information Form section under "Volatility of NGLs, Natural Gas and Oil Prices and Price Differentials", "Uncertainty as to Costs", "Availability of Equipment, Materials and Services", "Market Price of Common Shares", "Investment Risk" and "Hedging, Interest Rates and Foreign Currency Exchange Rates".

## **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.

A description of the accounting judgments, estimates and assumptions that are considered significant is set out below.

## **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 result in revisions to the original estimates.

Estimates of reserves impact the assessment of whether a new well has found economically recoverable reserves, depletion rates, the estimated fair value of petroleum and natural gas properties acquired in a business combination and the estimated recoverable amount of petroleum and natural gas properties used for the purposes of impairment and impairment reversal assessments, all of which could have a material impact on earnings.

## **Exploration or Development**

The Company is required to apply judgment when designating a project as exploration and evaluation ("E&E") 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 regulatory, partner or other approvals 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. Factors considered by Management in making this assessment may include: 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. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

## **Estimates of Recoverable Amounts**

Estimates of recoverable amounts used in impairment and impairment reversal assessments often incorporate level three fair value hierarchy inputs, including estimated volumes and future net revenues from proved plus probable reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate fair 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, future development capital and the useful lives of production equipment and gathering systems.

## **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 using available market inputs and other assumptions. Changes in estimates of fair value for such investments could have a material impact on comprehensive income.

## **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 also exercises judgment to determine credit-adjusted risk-free discount and inflation rates at the end of each reporting period which may change in response to numerous market factors. The Company adjusts estimated amounts periodically as assumptions are updated to incorporate new information. The actual amount and timing of payments to settle the obligations may differ materially from estimates.

## **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.

### **Share-Based Payments**

The Company estimates the grant date fair value of stock options awarded using the Black-Scholes model. The inputs used to determine the estimated fair value of the stock options are based on assumptions regarding share price volatility, the life of the options, forfeiture rates, the risk-free interest rate and the dividend yield on the Common Shares. 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 income tax provisions, the carrying value of deferred income tax assets and liabilities and 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 proved plus probable reserves, contingent 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 acquired and liabilities assumed and could have a material impact on earnings.

## PRODUCT TYPE INFORMATION

This MD&A includes references to sales volumes of "natural gas", "condensate and oil", "NGLs", "Other NGLs" and "liquids". "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "NGLs" refers to condensate and Other NGLs combined. "Other NGLs" refers to ethane, propane and butane. "Liquids" refers to condensate and oil and Other NGLs combined. Below is a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. Numbers may not add due to rounding.

	2022				2021				Annual		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2022	2021	2020
<b>SALES VOLUMES – TOTAL COMPANY BY PRODUCT TYPE</b>											
Shale gas (MMcf/d)	260.0	253.8	203.7	213.1	220.4	207.1	205.8	197.8	232.9	207.9	156.7
Conventional natural gas (MMcf/d)	61.9	62.1	63.5	59.8	64.4	62.6	67.3	75.3	61.8	67.3	92.0
<b>Natural gas (MMcf/d)</b>	<b>321.9</b>	315.9	267.2	272.9	284.8	269.7	273.1	273.1	294.7	275.2	248.7
Condensate (Bbl/d)	34,616	35,747	25,374	29,064	29,797	29,670	26,784	27,017	31,228	28,328	19,334
Other NGLs (Bbl/d)	6,143	6,144	5,021	5,276	5,462	5,017	4,938	5,170	5,650	5,147	4,325
<b>NGLs (Bbl/d)</b>	<b>40,759</b>	41,891	30,395	34,340	35,259	34,687	31,722	32,187	36,878	33,475	23,659
Tight oil (Bbl/d)	629	449	402	437	497	475	494	479	480	487	462
Light and medium crude oil (Bbl/d)	2,335	2,608	1,974	1,874	2,048	2,032	2,265	2,358	2,200	2,174	2,768
<b>Crude oil (Bbl/d)</b>	<b>2,964</b>	3,057	2,376	2,311	2,545	2,507	2,759	2,837	2,680	2,661	3,230
<b>Total (Boe/d)</b>	<b>97,370</b>	97,601	77,312	82,137	85,265	82,150	79,995	80,540	88,672	82,001	68,340

### SALES VOLUMES – BY REGION BY PRODUCT TYPE

<b>GRANDE PRAIRIE REGION</b>											
Shale gas (MMcf/d)	188.4	188.2	138.8	151.4	156.5	145.8	132.2	120.6	166.9	138.8	77.2
Conventional natural gas (MMcf/d)	1.5	1.4	1.0	1.1	2.4	2.2	2.1	2.0	1.3	2.2	1.4
<b>Natural gas (MMcf/d)</b>	<b>189.9</b>	189.6	139.8	152.5	158.9	148.0	134.3	122.6	168.2	141.0	78.6
Condensate (Bbl/d)	29,146	30,610	22,511	26,042	26,272	26,639	24,086	23,974	27,095	25,253	15,991
Other NGLs (Bbl/d)	3,631	3,758	2,914	3,267	3,276	3,274	2,874	2,984	3,394	3,103	1,964
<b>NGLs (Bbl/d)</b>	<b>32,777</b>	34,368	25,425	29,309	29,548	29,913	26,960	26,958	30,489	28,356	17,955
Light and medium crude oil (Bbl/d)	–	5	5	6	6	9	4	–	4	5	14
<b>Crude oil (Bbl/d)</b>	<b>–</b>	5	5	6	6	9	4	–	4	5	14
<b>Total (Boe/d)</b>	<b>64,434</b>	65,981	48,736	54,737	56,035	54,586	49,345	47,385	58,519	51,869	31,076

<b>KAYBOB REGION</b>											
Shale gas (MMcf/d)	41.9	38.5	37.9	35.7	35.6	36.9	39.3	42.1	38.5	38.6	43.8
Conventional natural gas (MMcf/d)	55.0	54.8	56.7	53.6	56.8	54.4	58.0	65.8	55.0	58.6	82.1
<b>Natural gas (MMcf/d)</b>	<b>96.9</b>	93.3	94.6	89.3	92.4	91.3	97.3	107.9	93.5	97.2	125.9
Condensate (Bbl/d)	4,354	4,157	2,092	2,130	2,184	2,072	2,319	2,611	3,192	2,295	2,885
Other NGLs (Bbl/d)	1,671	1,666	1,585	1,558	1,788	1,415	1,569	1,677	1,620	1,612	1,812
<b>NGLs (Bbl/d)</b>	<b>6,025</b>	5,823	3,677	3,688	3,972	3,487	3,888	4,288	4,812	3,907	4,697
Tight oil (Bbl/d)	262	208	253	322	355	368	354	342	261	355	301
Light and medium crude oil (Bbl/d)	2,045	2,434	1,946	1,832	2,000	1,979	2,224	2,321	2,066	2,129	2,709
<b>Crude oil (Bbl/d)</b>	<b>2,307</b>	2,642	2,199	2,154	2,355	2,347	2,578	2,663	2,327	2,484	3,010
<b>Total (Boe/d)</b>	<b>24,477</b>	24,021	21,642	20,726	21,725	21,054	22,688	24,938	22,730	22,588	28,685

	2022				2021				Annual		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2022	2021	2020
<b>CENTRAL ALBERTA AND OTHER REGION</b>											
Shale gas (MMcf/d)	29.7	27.1	27.0	26.0	28.2	24.4	34.3	35.1	27.5	30.5	35.7
Conventional natural gas (MMcf/d)	5.4	5.9	5.8	5.1	5.3	6.0	7.2	7.5	5.5	6.5	8.5
<b>Natural gas (MMcf/d)</b>	<b>35.1</b>	33.0	32.8	31.1	33.5	30.4	41.5	42.6	33.0	37.0	44.2
Condensate (Bbl/d)	1,116	980	771	892	1,341	959	379	433	941	781	458
Other NGLs (Bbl/d)	841	720	522	451	398	328	495	509	636	432	549
<b>NGLs (Bbl/d)</b>	<b>1,957</b>	1,700	1,293	1,343	1,739	1,287	874	942	1,577	1,213	1,007
Tight oil (Bbl/d)	367	241	149	115	142	107	140	136	219	131	161
Light and medium crude oil (Bbl/d)	290	169	23	36	42	44	37	37	130	40	46
<b>Crude oil (Bbl/d)</b>	<b>657</b>	410	172	151	184	151	177	173	349	171	207
<b>Total (Boe/d)</b>	<b>8,459</b>	7,599	6,934	6,674	7,505	6,510	7,962	8,217	7,423	7,544	8,579

<b>SALES VOLUMES – KARR BY PRODUCT TYPE</b>											
Shale gas (MMcf/d)	111.5	112.9	94.2	112.8	122.5	113.0	106.3	89.1	107.8	107.9	55.6
Conventional natural gas (MMcf/d)	0.4	0.5	0.4	0.5	1.5	1.4	1.3	1.1	0.5	1.3	0.7
<b>Natural gas (MMcf/d)</b>	<b>111.9</b>	113.4	94.6	113.3	124.0	114.4	107.6	90.2	108.3	109.2	56.3
Condensate (Bbl/d)	15,308	16,799	13,551	17,246	18,521	18,328	18,458	16,095	15,723	17,858	10,028
Other NGLs (Bbl/d)	2,247	2,394	1,978	2,475	2,449	2,477	2,281	2,108	2,273	2,330	1,361
<b>NGLs (Bbl/d)</b>	<b>17,555</b>	19,193	15,529	19,721	20,970	20,805	20,739	18,203	17,996	20,188	11,389
<b>Total (Boe/d)</b>	<b>36,209</b>	38,088	31,295	38,611	41,629	39,878	38,679	33,230	36,050	38,381	20,777

<b>SALES VOLUMES – WAPITI BY PRODUCT TYPE</b>											
Shale gas (MMcf/d)	76.9	75.3	44.6	38.6	34.0	32.8	25.9	31.5	59.1	30.9	21.6
Conventional natural gas (MMcf/d)	1.1	0.9	0.6	0.6	0.9	0.8	0.8	0.9	0.8	0.9	0.7
<b>Natural gas (MMcf/d)</b>	<b>78.0</b>	76.2	45.2	39.2	34.9	33.6	26.7	32.4	59.9	31.8	22.3
Condensate (Bbl/d)	13,838	13,811	8,960	8,796	7,751	8,311	5,628	7,879	11,372	7,395	5,963
Other NGLs (Bbl/d)	1,384	1,364	936	792	827	797	593	876	1,121	773	603
<b>NGLs (Bbl/d)</b>	<b>15,222</b>	15,175	9,896	9,588	8,578	9,108	6,221	8,755	12,493	8,168	6,566
Light and medium crude oil (Bbl/d)	–	5	5	6	6	9	4	–	4	5	14
<b>Crude oil (Bbl/d)</b>	<b>–</b>	5	5	6	6	9	4	–	4	5	14
<b>Total (Boe/d)</b>	<b>28,225</b>	27,893	17,441	16,126	14,406	14,708	10,666	14,155	22,469	13,488	10,299

The Company forecasts that 2023 annual sales volumes will average between 100,000 Boe/d and 105,000 Boe/d (54% shale gas and conventional natural gas combined, 40% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). First half 2023 sales volumes are expected to average between 96,000 Boe/d and 101,000 Boe/d (55% shale gas and conventional natural gas combined, 38% light and medium crude oil, tight oil and condensate combined and 7% other NGLs). Second half 2023 sales volumes are expected to average between 104,000 Boe/d and 109,000 Boe/d (53% shale gas and conventional natural gas combined, 41% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). The Company's preliminary 2024 guidance provides for annual sales volumes that will average between 110,000 Boe/d and 120,000 Boe/d (52% shale gas and conventional natural gas combined, 41% light and medium crude oil, tight oil and condensate combined and 7% other NGLs).

## SPECIFIED FINANCIAL MEASURES

### Non-GAAP Financial Measures

Netback and netback including risk management contract settlements are non-GAAP financial measures. These measures are not standardized measures under IFRS and might not be comparable to similar financial measures presented by other issuers. These measures should not be considered in isolation or construed as alternatives to their most directly comparable measure disclosed in the Company's primary financial statements or other measures of financial performance calculated in accordance with IFRS.

Netback equals petroleum and natural gas sales (the most directly comparable measure disclosed in the Company's primary financial statements) plus sales of commodities purchased less royalties, operating expense, transportation and NGLs processing expense and commodities purchased. Sales of commodities purchased and commodities purchased are treated as corporate items and not allocated to individual regions or properties. Netback is used by investors and Management to compare the performance of the Company's producing assets between periods.

Netback including risk management contract settlements equals netback after including (or deducting) risk management contract settlements received (paid). Netback including risk management contract settlements is used by investors and Management to assess the performance of the producing assets after incorporating Management's risk management strategies. Refer to "Operating Results – Netback" and "Fourth Quarter Results – Netback" in this MD&A for calculations of netback and netback including risk management contract settlements for the years ended December 31, 2022 and 2021 and for the three months ended December 31, 2022 and 2021.

### **Non-GAAP Ratios**

Netback and netback including risk management contract settlements presented on a \$/Boe basis are non-GAAP ratios as they each have a non-GAAP financial measure (netback and netback including risk management contract settlements, respectively) as a component. These measures are not standardized measures under IFRS and might not be comparable to similar financial measures presented by other issuers. These measures should not be considered in isolation or construed as alternatives to their most directly comparable measure disclosed in the Company's primary financial statements or other measures of financial performance calculated in accordance with IFRS.

Netback on a \$/Boe basis is calculated by dividing netback for the applicable period by the total production during the period in Boe. Netback including risk management contract settlements on a \$/Boe basis is calculated by dividing netback including risk management contract settlements for the applicable period by the total production during the period in Boe. These measures are used by investors and Management to assess netback and netback including risk management contract settlements on a unit of production basis.

### **Capital Management Measures**

Adjusted funds flow, free cash flow, net debt and net debt to adjusted funds flow are capital management measures that Paramount utilizes in managing its capital structure. These measures are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities. Refer to Note 18 – Capital Structure in the Consolidated Financial Statements for a description of the composition and use of these measures. Refer also to "Liquidity and Capital Resources" in this MD&A.

A reconciliation of adjusted funds flow to cash from operating activities, the most directly comparable measure disclosed in the Company's primary financial statements, for the (i) the years ended December 31, 2022, 2021 and 2020 is provided in this MD&A under "Consolidated Results – Adjusted Funds Flow" and (ii) the three months ended December 31, 2022, and 2021 is provided in this MD&A under "Fourth Quarter Results – Adjusted Funds Flow".

A reconciliation of free cash flow to cash from operating activities, the most directly comparable measure disclosed in the Company's primary financial statements, for the (i) the years ended December 31, 2022, 2021 and 2020 is provided in this MD&A under "Consolidated Results – Free Cash Flow" and (ii) the three months ended December 31, 2022, and 2021 is provided in this MD&A under "Fourth Quarter Results – Free Cash Flow".

A calculation of net debt as at December 31, 2022 and 2021 is provided in this MD&A under "Liquidity and Capital Resources". At December 31, 2022, Paramount's net debt to adjusted funds flow (determined on a trailing four quarter basis) was 0.1x (December 31, 2021 – 0.9x).

### **Supplementary Financial Measures**

This MD&A contains supplementary financial measures expressed as: (i) cash from operating activities, adjusted funds flow and free cash flow on a per share – basic and per share – diluted basis, (ii) petroleum and natural gas sales, adjusted funds flow, revenue, royalties, operating expenses, transportation and NGLs processing expenses, sales of commodities purchased and commodities purchased on a \$/Bbl, \$/Mcf or \$/Boe basis and (iii) royalty rate.

Cash from operating activities, adjusted funds flow and free cash flow on a per share – basic basis are calculated by dividing the cash from operating activities, adjusted funds flow or free cash flow, as applicable, over the referenced period by the weighted average basic shares outstanding during the period determined under IFRS. Cash from operating activities, adjusted funds flow and free cash flow on a per share – diluted basis are calculated by dividing the cash from operating activities, adjusted funds flow or free cash flow, as applicable, over the referenced period by the weighted average diluted shares outstanding during the period determined under IFRS.

Petroleum and natural gas sales, adjusted funds flow, revenue, royalties, operating expenses, transportation and NGLs processing expenses, sales of commodities purchased and commodities purchased on a \$/Bbl, \$/Mcf or \$/Boe basis are calculated by dividing petroleum and natural gas sales, adjusted funds flow, revenue, royalties, operating expenses, transportation and NGLs processing expenses, sales of commodities purchased and commodities purchased, as applicable, over the referenced period by the aggregate units (Bbl, Mcf or Boe) produced during such period.

Royalty rate is calculated by dividing royalties by petroleum and natural gas sales less royalty and other revenue.

## ADVISORIES

### Forward-looking Information

Certain statements in this MD&A 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:

- forecast sales volumes for 2023 and certain periods therein;
- planned capital expenditures in 2023 and the allocation thereof;
- forecast free cash flow in 2023;
- planned abandonment and reclamation expenditures and activities in 2023;
- preliminary 2024 sales volumes, capital expenditure and free cash flow guidance;
- the expected impact on operating expenses of the Roads Disposition;
- the expectation that the Company will be able to fund budgeted capital expenditures and net abandonment and reclamation expenditures in 2023 with cash from operating activities;
- the expectation that changes to accounting standards and interpretations will not have a material impact on the Company's Consolidated Financial Statements on adoption;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position;
- the potential payment of future dividends; and
- the potential impacts of inflation and the Russian invasion of the Ukraine.

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 commodity prices;
- the impact of the Russian invasion of the Ukraine;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates, interest rates and the rate and impacts of inflation;
- general business, economic and market conditions;
- the performance of wells and facilities;
- the availability to Paramount of the required capital to fund its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, materials, services and personnel in a timely manner and at expected and acceptable costs to carry out its activities;
- the ability of Paramount to secure adequate processing, transportation, fractionation and storage capacity on acceptable terms and the capacity and reliability of facilities;
- the ability of Paramount to market its production successfully;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, product 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, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities, and facility turnarounds and maintenance).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this MD&A, 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:

- those risks set out in this MD&A under "Risk Factors";
- fluctuations in commodity prices;
- changes in capital spending plans and planned exploration and development activities;
- the potential for changes to preliminary 2024 sales volumes, capital expenditures and free cash flow guidance prior to finalization;
- changes in foreign currency exchange rates, interest rates and the rate of inflation;
- the uncertainty of estimates and projections relating to future production, revenue, free cash flow, reserves additions, product yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting sales volumes, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, materials, services and personnel in a timely manner and at expected and acceptable costs, including the potential effects of inflation and supply chain disruptions;
- 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 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 from operating activities to fund, or to otherwise finance planned exploration, development and operational activities and meet current and future commitments and obligations (including processing, transportation, 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;
- uncertainties as to the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding Indigenous 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.

There are risks that may result in the Company changing, suspending or discontinuing its monthly dividend program, including changes to free cash flow, operating results, capital requirements, financial position, market conditions or corporate strategy and the need to comply with requirements under debt agreements and applicable laws respecting the declaration and payment of dividends. There are no assurances as to the continuing declaration and payment of future dividends or the amount or timing of any such dividends.

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, 2022, 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.

Certain forward-looking information in this MD&A, including forecast free cash flow in 2023 and future periods, may also constitute a "financial outlook" within the meaning of applicable securities laws. A financial outlook involves statements about Paramount's prospective financial performance or position and is based on and subject to the assumptions and risk factors described above in respect of forward-looking information generally as well as any other specific assumptions and risk factors in relation to such financial outlook noted in this MD&A. Such assumptions are based on management's assessment of the relevant information currently available and any financial outlook included in this MD&A is provided for the purpose of helping readers understand Paramount's current expectations and plans for the future. Readers are cautioned that reliance on any financial outlook may not be appropriate for other purposes or in other circumstances and that the risk factors described above or other factors may cause actual results to differ materially from any financial outlook.

## 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

<b>Liquids</b>		<b>Natural Gas</b>	
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	Gigajoules
Condensate	Pentane and heavier hydrocarbons	GJ/d	Gigajoules per day
WTI	West Texas Intermediate	MMBtu	Millions of British Thermal Units
		MMBtu/d	Millions of British Thermal Units per day
<b>Oil Equivalent</b>		NYMEX	New York Mercantile Exchange
Boe	Barrels of oil equivalent	AECO	AECO-C reference price
Boe/d	Barrels of oil equivalent per day		

This MD&A contains disclosures expressed as "Boe", "\$/Boe" 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, 2022, the value ratio between crude oil and natural gas was approximately 23:1. 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.