



Paramount
resources ltd.

**Annual Information Form
For the Year Ended December 31, 2016**

March 8, 2017

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INTRODUCTORY INFORMATION

In this annual information form, unless otherwise specified or the context otherwise requires, references to "Paramount" or to the "Company" mean Paramount Resources Ltd., including subsidiaries and partnerships directly and indirectly owned by Paramount Resources Ltd. Information herein is presented as at December 31, 2016, unless otherwise noted.

Unless otherwise indicated, all financial information included in this annual information form has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Paramount's audited consolidated financial statements as at and for the year ended December 31, 2016 can be found under the Company's profile on the SEDAR website at www.sedar.com.

This annual information form contains disclosure expressed as "Boe" (barrels of oil equivalent), "MBoe" (thousands of barrels of oil equivalent), "MMBoe" (millions of barrels of oil equivalent), "Boe/d" (barrels of oil equivalent per day), "Bbl" (barrels), "MBbl" (thousands of barrels), "MMBbl" (millions of barrels), "Bbl/d" (barrels per day), "Mcf" (thousands of cubic feet equivalent), "Mcf" (thousands of cubic feet), "MMcf" (millions of cubic feet), "Bcf" (billions of cubic feet), "MMcf/d" (millions of cubic feet per day), "Btu" (British thermal units) and "MMBtu" (millions of British thermal units). The term "Liquids" is used to represent oil and natural gas liquids ("NGLs"), including pentanes-plus (or condensate) ("C5+"). The term "Other NGLs" means ethane ("C2"), propane ("C3") and butane ("C4"). All crude oil and natural gas information includes tight oil and shale gas, respectively, unless such product type is presented on a separate basis. References to the Company's "Deep Basin lands" include the Musreau, Resthaven and Smoky properties in the Kaybob Corporate Operating Unit ("COU") and the Karr-Gold Creek property in the Grande Prairie COU. Some natural gas processing plants are able to remove more NGLs than others. Natural gas processing plants that remove a C2 to C5+ mix are referred to as deep cut plants. Plants that remove a C3 to C5+ mix are referred to as refrigeration plants. Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. During the year ended December 31, 2016, the value ratio between oil and natural gas was approximately 27:1. 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. In this document "Funds flow from operations" and "Netback", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS. Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. Netback equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with IFRS, or other measures of financial performance calculated in accordance with IFRS. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers. Unless otherwise indicated, references herein to "Cavalier Energy" mean, collectively, Cavalier Energy Inc., its subsidiaries and respective predecessors and successors.

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS AND ADVISORIES

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

- projected production and sale volumes;
- exploration, development and associated operational plans and strategies (including planned drilling and completion programs and facility expansions, and the anticipated timing, costs, sources of funding for and results thereof, including in terms of increased well productivity and reserves);
- estimated reserves and the undiscounted and discounted present value of future net revenues therefrom;
- future taxes payable or owing;
- the potential outcome and timing of any legal claims, audits, assessments or other regulatory matters or proceedings;
- the potential expiry of leases;
- the timing and cost of future abandonment and reclamation obligations;
- anticipated third-party processing constraints; and
- general business strategies and objectives.

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

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

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

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

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

CORPORATE STRUCTURE

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

Paramount Resources ("PR Partnership"), an Alberta general partnership directly and indirectly wholly-owned by Paramount Resources Ltd., had annual revenues that exceeded 10 percent of Paramount's consolidated annual revenues for the year ended December 31, 2016. In August 2016, Paramount completed a reorganization such that PR Partnership ceased to exist and Paramount Resources Ltd. ultimately became the owner of PR Partnership's assets and became liable for PR Partnership's liabilities and other obligations. The Company's remaining subsidiaries and partnerships each accounted for (i) less than 10 percent of the Company's consolidated assets as at December 31, 2016 and (ii) less than 10 percent of the Company's consolidated revenues for the year ended December 31, 2016. In aggregate, these remaining unidentified subsidiaries and partnerships did not exceed 20 percent of the Company's total consolidated assets or total consolidated revenues as at and for the year ended December 31, 2016.

GENERAL DEVELOPMENT OF THE BUSINESS

Paramount is an independent, publicly traded, Canadian energy company that explores and develops unconventional and conventional petroleum and natural gas prospects, including long-term unconventional exploration and pre-development projects, and holds a portfolio of investments in other entities. The Company commenced operations as a public company in December 1978, with an initial public offering that raised \$4.7 million and a share exchange with a private company, Paramount Oil & Gas Ltd., for certain crude oil and natural gas assets with a book value of \$341,000. Paramount has adapted to a multitude of operating climates over the years, and has grown into a company with a market capitalization of approximately \$1.8 billion as of March 3, 2017. In addition, Paramount has spun-out three public entities: (i) Paramount Energy Trust in February 2003 (Paramount Energy Trust subsequently converted to Perpetual Energy Inc.); (ii) Trilogy Energy Trust in April 2005 (Trilogy Energy Trust subsequently converted to Trilogy Energy Corp. ("Trilogy")); and (iii) MGM Energy Corp. ("MGM Energy") in January 2007. In December 2011, the Company reorganized its oil sands and carbonate bitumen assets into a new wholly-owned subsidiary named Cavalier Energy Inc. In June 2014, Paramount re-acquired MGM Energy by purchasing all of the outstanding MGM Energy common shares that it did not already own.

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

Paramount's Principal Properties are divided into four COUs:

- the Grande Prairie COU, which includes Karr-Gold Creek, Valhalla and other properties in the Peace River Arch area of Alberta;
- the Kaybob COU, which includes Smoky/Resthaven and other properties in west central Alberta;
- the Northern COU, which includes Birch and other properties in northeast British Columbia and northern Alberta; and
- the Southern COU, which includes Willesden Green and other properties in southern Alberta.

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

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

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

2014

In the first quarter of 2014, Paramount sold its coal bed methane properties in the Chain-Delia area within the Southern COU in exchange for \$11.7 million in shares of Marquee Energy Ltd. ("Marquee").

In June 2014, Paramount acquired all 338.3 million issued and outstanding common shares of MGM Energy not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy. Through this acquisition, Paramount added undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and undeveloped land in the Mackenzie Delta prospective for natural gas.

In June 2014, Paramount sold a 50 percent working interest in its Birch property in exchange for \$91.5 million cash.

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

In October 2014, Fox Drilling's \$57.0 million non-revolving demand loan facility (the "Fox Drilling Facility") was amended to add a second \$27.0 million tranche to partially fund the construction of two new drilling rigs.

Paramount's bank credit facility (the "Credit Facility") was increased in 2014 from \$600 million to \$900 million.

In 2014, Paramount's development activities primarily focused on drilling and completing wells in the Musreau/Kakwa area in the Deep Basin and advancing its Deep Basin infrastructure developments. The new 200 MMcf/d deep cut natural gas processing facility at Musreau (the "Musreau Deep Cut Facility") commenced operations in August 2014. The Musreau Deep Cut Facility was constructed adjacent to Paramount's existing 50 MMcf/d refrigeration natural gas processing facility at Musreau (the "Refrigeration Facility" and collectively with the Musreau Deep Cut Facility, the "Musreau Complex"). In addition, the deep cut expansion of the non-operated natural gas processing facility at Smoky/Resthaven (the "Smoky Facility") was completed in September 2014. This expansion increased the processing capacity of the Smoky Facility from 100 MMcf/d to 300 MMcf/d, with Paramount owning over 40 MMcf/d of capacity in the expanded facility.

Paramount drilled 66 (58 net) wells in 2014. As at December 31, 2014 both Principal Properties proved reserves and proved plus probable reserves increased 159 percent over 2013 levels to 226.8 MMBoe and 347.1 MMBoe, respectively.

Paramount's average sales volumes increased to approximately 24,500 Boe/d in 2014, 17 percent higher than 2013, and averaged approximately 34,500 Boe/d in the fourth quarter of 2014. Liquids sales volumes increased to 25 percent of total sales volumes in 2014, from 15 percent in 2013, as more Montney wells were brought onto production. Outages and apportionments of transportation and fractionation capacity during the year continued to impact Paramount's sales volumes. Paramount's per barrel operating costs decreased 15 percent in 2014 as compared to 2013, mainly as a result of lower-cost Kaybob COU volumes becoming a greater proportion of the Company's overall production.

2015

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of CEE at a price of \$41.35 per share for gross proceeds of \$37.2 million.

In June 2015, Paramount issued US\$450 million principal amount of 6 $\frac{7}{8}$ percent senior unsecured notes due 2023 (the "2023 Notes") at a price of US\$995.33 per US\$1,000 principal amount, of which US\$9.0 million principal amount was purchased by entities controlled by the Company's Executive Chairman. The net proceeds were used to redeem all \$370 million aggregate principal amount of 8 $\frac{1}{4}$ percent senior unsecured notes due 2017, for capital expenditures and for general corporate purposes, including the temporary repayment of indebtedness under the Credit Facility.

Paramount's Credit Facility was increased in 2015 from \$900 million to \$1.0 billion.

During 2015 the Company completed two additional modules of the Musreau Complex that enabled incremental production volumes to be processed at the facility. The first was a 15,000 Bbl/d condensate stabilizer expansion which commenced operations in May 2015, and the second was an amine processing train which started up in September 2015 to treat sour gas production at the facility.

The sharply lower commodity prices that persisted throughout 2015 resulted in Paramount having lower netbacks in 2015 as compared to 2014 despite the Company's average sales volumes increasing by 80 percent to 44,130 Boe/d, largely as a result of a 107 percent increase in Kaybob COU sales volumes. The Company's operating costs were \$5.59 per Boe in 2015, a 30 percent decrease from 2014 mainly as a result of lower-cost Kaybob COU volumes becoming a greater proportion of the Company's overall production.

Capital spending in 2015 totaled approximately \$493.2 million, 85 percent lower than 2014. Paramount drilled 34 (31 net) wells in 2015. As at December 31, 2015, Principal Properties proved reserves totaled approximately 226 MMBoe, unchanged from 2014. Principal Properties proved plus probable reserves as at December 31, 2015 totaled 338 MMBoe, three percent lower than 2014.

In response to low commodity prices, the Company significantly reduced its 2015 capital spending from 2014 levels, implemented various cost cutting measures and focused on improving operational efficiencies.

The cost cutting measures included a number of initiatives to reduce general and administrative expense including:

- a five percent reduction to senior management salaries;
- an effective reduction of employee salaries by 20 percent during the summer months through 17 days of office closure;
- a reduction of the Company's permanent workforce by approximately 15 percent;
- the elimination of most corporate consultant positions; and
- a reduction in rates for remaining consultants by 10 to 15 percent.

2016

In 2016, further cost cutting measures were implemented in response to persistently low commodity prices, including a five percent salary reduction for all employees, effective January 1, 2016 (including members of senior management who had received a five percent salary reduction in 2015), and a 15

percent reduction in annual retainers and fees payable to the Company's directors. In addition, the Company once again instituted unpaid Friday office closures during the summer months, resulting in a further 20 percent reduction in employee salaries during the summer months of 2016.

In April 2016, Paramount sold its Musreau Complex and related midstream assets for net cash proceeds of approximately \$560 million (the "Midstream Sale"). The Midstream Sale included the 50 MMcf/d Refrigeration Facility, the 200 MMcf/d Deep Cut Facility, the Condensate Stabilizer, the Amine Train and the gas sales pipeline connecting the Musreau Complex to TCPL, as well as the majority of Paramount's larger-diameter gathering system in the Musreau/Kakwa area. In connection with the Midstream Sale, the Company entered into a long-term natural gas processing arrangement with the purchaser (the "Processing Arrangement") that secured Paramount priority access to the sold capacity at the Musreau Complex. Under the Processing Agreement, the Company was required to pay a fixed capital fee per Mcf of raw gas delivered to the Musreau Complex, plus operating expenses.

In April 2016, proceeds from the Midstream Sale were used to pay down Paramount's Credit Facility.

In June 2016, Cavalier Energy's limited recourse demand credit facility was repaid and cancelled.

In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area of west central Alberta (the "Musreau Assets") to Seven Generations Energy Ltd. ("Seven Generations") pursuant to a purchase and sale agreement dated July 6, 2016 (the "PSA") between the parties for total consideration of approximately \$2.1 billion (the "Musreau Disposition"), subject to customary post-closing adjustments. The Musreau Assets also included minor related facilities and gathering systems. In connection with the Musreau Disposition, Seven Generations assumed Paramount's processing and transportation commitments relating to the Musreau Assets, including the Processing Arrangement. Paramount provided certain indemnities to Seven Generations in the PSA related to the Musreau Assets which survive for a number of years and are subject to the thresholds, limits and other terms and conditions set forth in the PSA. The PSA is available under Paramount's profile on SEDAR and is not incorporated by reference herein.

Consideration received by Paramount at closing for the Musreau Assets was comprised of: (i) \$496 million in cash; (ii) 33.5 million Class A common shares of Seven Generations ("7Gen Shares") having a market value of approximately \$972 million based on the closing market price of the shares on the day prior to closing; (iii) the assumption by Seven Generations of all US\$450 million principal amount of Paramount's 2023 Notes; and (iv) certain oil and gas properties of Seven Generations valued at approximately \$6 million.

In connection with the Musreau Disposition:

- (i) the Company repaid the remaining balance owing on its Credit Facility;
- (ii) the Company paid \$1.4 million to holders of its \$450 million aggregate principal amount of 7% percent senior unsecured notes due 2019 (the "2019 Notes") that provided consent to the Musreau Disposition (the "Consent Payment");
- (iii) the Company redeemed \$163.4 million aggregate principal amount of its 2019 Notes, paying \$169.6 million plus accrued and unpaid interest to the redemption date; and
- (iv) Paramount was discharged and released from all obligations and covenants under the 2023 Notes indenture and the 2023 Notes.

The Musreau Assets included approximately 450 (310 net) sections of land. Sales volumes in 2016 from the Musreau Assets totaled approximately 7.4 MMBoe to August 18, 2016, the closing date of the sale. Paramount's proved reserves were reduced by approximately 193 MMBoe and Paramount's proved plus probable reserves were reduced by approximately 287 MMBoe as a result of the Musreau Disposition.

In September 2016, the Fox Drilling Facility was repaid and cancelled.

In December 2016, Paramount redeemed all remaining \$286.6 million outstanding principal amount of 2019 Notes at a redemption price of 102.542 percent of the principal amount of such notes.

In December 2016, Cavalier Energy sold a royalty (the "Cavalier Royalty") to an unrelated third-party on its oil sands properties (the "Oil Sands Lands") for cash consideration of \$100 million. For further details concerning the Cavalier Royalty see "STRATEGIC INVESTMENTS – CAVALIER ENERGY".

In 2016, Paramount realized net cash proceeds of approximately \$861 million through the sale of 29.7 million of the 7Gen Shares it received through the Musreau Disposition. In December 2016, the Company declared a dividend of its remaining 3.8 million 7Gen Shares, which were distributed to Paramount's shareholders in January 2017.

Following the Musreau Disposition, the Company reduced the size of its Credit Facility to \$100 million, which was undrawn as of March 3, 2017. The Company did not have any debt outstanding as at December 31, 2016 and had cash and cash equivalents of approximately \$622 million. Additional information concerning Paramount's Credit Facility is included in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2016, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

For reserves and related information as at December 31, 2016, see "NARRATIVE DESCRIPTION OF THE BUSINESS – RESERVES AND OTHER OIL AND GAS INFORMATION".

NARRATIVE DESCRIPTION OF THE BUSINESS

OVERVIEW

Paramount's Principal Properties are located primarily in Alberta and British Columbia. Approximately 55 percent of the Company's production in 2016 was natural gas. Excluding the results of the Musreau Assets, approximately 69 percent of Paramount's production in 2016 was natural gas.

The Company's ongoing exploration, development and production activities are intended to establish new reserves and increase the productive capacity of existing fields. From time-to-time, Paramount enhances its exploration, development and production operations through strategic acquisitions of petroleum and natural gas assets and companies, farm-ins, farm-outs, joint ventures and dispositions.

At December 31, 2016, approximately 84 percent of Paramount's Principal Properties proved plus probable reserves and 100 percent of its probable bitumen reserves were located in Alberta.

PRINCIPAL PROPERTIES

Paramount retained independent qualified reserves engineers to prepare a report on its natural gas, NGLs, crude oil and bitumen reserves. McDaniel & Associates Consultants Ltd. ("McDaniel") evaluated 98 percent and reviewed 2 percent of the net present value (discounted at 10 percent, before tax, using

forecast prices and costs) of the Company's proved plus probable reserves as at December 31, 2016 and reported on them in their report dated March 8, 2017. Approximately 82 percent of Paramount's proved reserves and 73 percent of Paramount's proved plus probable reserves (excluding probable bitumen reserves, which are related to Hoole Grand Rapids Phase 1) as at December 31, 2016 were attributable to Karr-Gold Creek.

The Company's reserves volumes, production and petroleum and natural gas sales for the years ended December 31, 2016 and 2015 are summarized below. Results of operations relating to the Musreau Assets are included in Paramount's results to August 18, 2016, the closing date of the Musreau Disposition. In this AIF, results that are stated to be in respect of Paramount's "Ongoing Operations" means results of operations in respect of Paramount excluding the Musreau Assets.

	2016	2015
Principal Properties Reserves ⁽¹⁾		
Proved		
Shale Gas (Bcf)	210.7	616.6
Conventional Natural Gas (Bcf)	27.3	94.0
NGLs (MMBbl)	19.1	107.1
Oil (MMBbl)	0.9	0.8
Total (MMBoe)	59.6	226.3
Proved plus Probable		
Shale Gas (Bcf)	428.9	946.3
Conventional Natural Gas (Bcf)	34.4	119.4
NGLs (MMBbl)	36.7	158.9
Oil (MMBbl)	1.2	1.1
Total (MMBoe)	115.2	337.6
Production ⁽²⁾		
Shale Gas (MMcf/d)	59.9	80.5
Conventional Natural Gas (MMcf/d)	44.8	80.2
NGLs (Bbl/d)	13,959	16,771
Oil (Bbl/d)	443	574
Total Production (Boe/d)	31,860	44,130
Production Operated	90%	93%
Total Production – Ongoing Operations (Boe/d)	11,656	12,316
Petroleum and natural gas sales (\$ millions)		
Shale gas revenue	46.8	81.1
Conventional natural gas revenue	35.3	85.1
NGLs revenue	157.9	196.2
Oil revenue	7.6	11.0
Royalty and sulphur revenue	1.2	3.4
Petroleum and natural gas sales	248.8	376.8
Petroleum and natural gas sales – Ongoing Operations	98.9	112.7
Wells Drilled		
Gross ⁽³⁾	23	34
Net ⁽⁴⁾	23	31

(1) Excludes 93.5 MMBbl of probable bitumen reserves related to Hoole Grand Rapids Phase I.

(2) Sales volumes measured in marketable quantities, after processing and shrinkage.

(3) "Gross" is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.

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

Since the Musreau Disposition, the Company's development activities have been mainly directed towards Karr-Gold Creek, and to a lesser extent, Smoky/Resthaven, Valhalla, Birch and Willesden Green.

Karr-Gold Creek – Grande Prairie COU

The Company's development activities at Karr-Gold Creek are focused on the Montney formation, which is prospective for natural gas and NGLs. The Company held approximately 92 (77 net) sections of Montney rights at Karr-Gold Creek as at December 31, 2016. These lands have exhibited similar geological characteristics to offsetting competitor lands and the Musreau Assets. The Karr-Gold Creek lands are located approximately six miles to the north of the Musreau Assets. Sales volumes at Karr-Gold Creek in 2016 averaged 4,743 Boe/d, comprised of 18.2 MMcf/d of natural gas, 1,493 Bbl/d of oil and condensate and 214 Bbl/d of Other NGLs. The Company is the operator of all of its production at Karr-Gold Creek. Approximately 82 percent of Paramount's proved reserves and 73 percent of Paramount's proved plus probable reserves (excluding probable bitumen reserves, which are related to Hoole Grand Rapids Phase 1) as at December 31, 2016 were attributable to Karr-Gold Creek.

Paramount is currently executing a planned 27 (27.0 net) well horizontal Montney drilling and completion program at Karr-Gold Creek, which commenced in mid-2016 (the "Karr Program"). Wells in the Karr Program have been designed with longer horizontal laterals, higher intensity completions, tighter frack spacing, and different completion fluids compared to prior years. The new well design is expected to significantly increase well productivity and recoverable reserves compared to the previous designs.

Production at Karr-Gold Creek is gathered through a Company-owned gas gathering system and compressed and dehydrated at the 40 MMcf/d 6-18 compression and dehydration facility (the "6-18 Facility"). Volumes are then shipped via pipeline to a third-party natural gas processing facility (the "Third-party Facility") under a long-term firm-service arrangement to provide sales specification natural gas, condensate and C3+. The 6-18 Facility has been configured to facilitate the trucking-out of liquids so that volumes in excess of capacity at the Third-party Facility can be transported for processing at alternate locations. In addition, the 6-18 Facility is pipeline connected to an alternate third-party facility in the area, which provides the Company with access to incremental natural gas processing capacity on an interruptible basis in the event there is insufficient capacity at the Third-party Facility during periods of maintenance downtime, temporary constraints or other service disruptions. Karr-Gold Creek sales volumes are anticipated to be impacted by a September 2017 planned shut-down of the Third-party Facility for the majority of the month.

The Company is doubling the capacity of the 6-18 Facility to 80 MMcf/d, which is on-schedule to be completed in the second quarter of 2017. The total cost of this expansion is estimated to be approximately \$35 million, of which \$20 million had been incurred to December 31, 2016.

Smoky/Resthaven – Kaybob COU

Paramount's development activities at Smoky/Resthaven are focused on the Montney formation as well as multiple prospective Cretaceous targets, including the Dunvegan, Falher, Wilrich and Gething formations. These targets are prospective for natural gas and NGLs. At Smoky/Resthaven, the Company held 116 (85 net) sections of Cretaceous rights and approximately 80 (78 net) sections of Montney rights largely underlying its Cretaceous formation rights as at December 31, 2016. In 2016, sales volumes at Smoky/Resthaven averaged 2,780 Boe/d, comprised of 12.8 MMcf/d of natural gas, 318 Bbl/d of oil and condensate and 331 Bbl/d of Other NGLs. The Company is the operator of the majority of its production at Smoky/Resthaven.

Since 2013, the Company has drilled 12 (12.0 net) wells at Smoky/Resthaven, where drilling activities have focused on preserving mineral rights and delineating the Montney and Cretaceous formations. Paramount's 2017 capital program at Smoky/Resthaven includes a six-well exploration and delineation program targeting various Cretaceous zones.

Production at Smoky/Resthaven is gathered through a gas gathering system and processed at one of two third-party operated gas plants in which Paramount owns an interest. Paramount owns 54 MMcf/d of processing capacity in the Smoky Facility, a deep cut facility, and 10 MMcf/d of refrigeration processing capacity in another facility in the area.

Valhalla – Grande Prairie COU

At Valhalla, the Company held 63 (47 net) sections of Montney rights and 57 (43 net) sections of Doig rights as at December 31, 2016. A total of 17 (13.4 net) Montney and Doig wells are currently tied in. In 2016, sales volumes at Valhalla averaged 727 Boe/d, comprised of 4.1 MMcf/d of natural gas, 34 Bbl/d of oil and condensate and 16 Bbl/d of Other NGLs. The Company is the operator of the majority of its production at Valhalla. Valhalla production is processed at a third-party facility.

The Company recently completed the 14-22 exploratory Montney well at Valhalla (the "14-22 Well") with a high-intensity frack, placing approximately 2,000 tonnes of proppant over 20 stages in the 1,300 meter lateral (1.5 tonnes per meter). Prior to 2016, wells at Valhalla were completed with lower intensities of proppant over fewer stages. The Company is evaluating the potential economics of the opportunity at Valhalla based on the results of the 14-22 Well completion, results from offsetting operators and various alternatives to access natural gas processing infrastructure.

Birch – Northern COU

The Company's development activities at the non-operated Birch property in northeast British Columbia are focused on the Montney formation, which is prospective for natural gas and NGLs. The Company held approximately 60 (30 net) sections of Montney rights at Birch as at December 31, 2016. Sales volumes at Birch in 2016 averaged 1,124 Boe/d, comprised of 4.8 MMcf/d of natural gas, 188 Bbl/d of oil and condensate and 131 Bbl/d of Other NGLs. In 2016, Paramount drilled 1 (0.5 net) wells in the area.

Activities at Birch have mainly focused on drilling delineation wells to evaluate the reservoir. A newly constructed compression facility (the "Birch Facility") was commissioned in the fourth quarter of 2015, following which three (1.5 net) Montney wells were brought on production. The Company's planned 2017 capital program includes nine (4.5 net) Montney wells at Birch, and an expansion of the capacity of the Birch Facility to 40 MMcf/d (20 MMcf/d net).

Willesden Green – Southern COU

The Company's activities at Willesden Green in southern Alberta are focused on delineating and confirming the commerciality of the Duvernay formation in the area, which is prospective for natural gas, NGLs and oil. The Company held approximately 92 (92 net) sections of Duvernay rights at Willesden Green as at December 31, 2016. Sales volumes at Willesden Green in 2016 averaged 293 Boe/d, comprised of 0.5 MMcf/d of natural gas, 185 Bbl/d of oil and condensate and 26 Bbl/d of Other NGLs. In 2016, Paramount drilled 1 (1 net) wells in the area.

A total of five Duvernay wells have been drilled on Paramount's lands to date, with three of the wells completed and on production as of December 31, 2016. A fourth well, the 102/13-5 well, was completed

in the fourth quarter of 2016. The well was fracked using slickwater and 4,600 tonnes of proppant placed over 26 stages in the 2,000 meter lateral wellbore (2.3 tonnes per meter). Following completion, the well was flow-tested over an extended timeframe to obtain data for analysis of long-term reservoir performance. The Company continues to evaluate further development of the Duvernay formation at Willesden Green, including the preparation of a full-field development plan.

STRATEGIC INVESTMENTS

General

As of December 31, 2016, the Company's Strategic Investments included:

- i. investments in the shares of Trilogy, Seven Generations, MEG Energy Corp. and certain other public and private corporations, including Marquee, RMP Energy Inc. and Strategic Oil & Gas Ltd.;
- ii. oil sands and carbonate bitumen interests owned by Cavalier Energy, including at Hoole, in the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta;
- iii. seven triple-sized drilling rigs, including four built-for-purpose walking rigs, which are owned and operated by Fox Drilling; and
- iv. shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories.

Trilogy Energy Corp.

Paramount spunout Trilogy in April 2005. Trilogy is a public Canadian energy company with producing oil and natural gas assets primarily in the Kaybob area of Alberta. As at December 31, 2016, Paramount owned approximately 12.8 million common shares of Trilogy and 6.4 million non-voting shares of Trilogy, representing an equity interest of approximately 15 percent. The market value of Paramount's investment in Trilogy was approximately \$145 million as of December 31, 2016, based on the closing market price of Trilogy's shares on the TSX as of that date.

Seven Generations

As at December 31, 2016, Paramount owned 3.8 million 7Gen Shares. These shares were distributed to Paramount's shareholders by way of dividend in January 2017. For additional information concerning the dividend, see "DIVIDENDS".

Cavalier Energy

Cavalier Energy Inc. was created in 2011 to be a self-funding entity that would develop the Company's Oil Sands Lands. Cavalier Energy held approximately 220,000 net acres of Crown leases in the Western Athabasca region of Alberta as at December 31, 2016.

Cavalier Energy's initial focus has been on the Grand Rapids formation in its 100 percent owned in-situ oil sands leases at Hoole, which is located 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately \$112 million has been invested in land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this project (the "Hoole Project") to a stage capable of

development. Front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Grand Rapids Phase 1") has been completed and the Alberta Energy Regulator/AER approved the Hoole Grand Rapids Phase 1 project in the second quarter of 2014. However, given the current commodity-price environment no significant additional expenditures are planned for the Hoole Grand Rapids Phase 1 project in the near term. Development of the project is contingent upon Cavalier obtaining financing and certain additional regulatory approvals.

In December 2016, Cavalier Energy granted the Cavalier Royalty on the Oil Sands Lands to an unrelated third-party for cash consideration of \$100 million. The agreement governing the Cavalier Royalty does not impose any development commitments on Cavalier Energy in respect of the Hoole Project or any of its other Oil Sands Lands, nor does it impose any terms or conditions on the use of the consideration paid for the Cavalier Royalty. Production from the Oil Sands Lands will not be subject to any royalty when the Western Canadian Select ("WCS") price is below US\$50 per barrel. At a WCS price of US\$50 per barrel, the royalty rate will be 2 percent and the rate will increase linearly to a maximum of 20 percent at a WCS price of US\$140 per barrel. As of December 31, 2016, the WCS price was US\$37.62 per barrel. The Cavalier Royalty will be payable based on Cavalier Energy's realized bitumen price, net of diluent, transportation and storage costs. The Cavalier Royalty is secured by a lien over the Oil Sands Lands.

As at December 31, 2016, McDaniel attributed 93.5 million barrels of probable undeveloped bitumen reserves to Hoole Grand Rapids Phase 1.

The Oil Sands Lands are prospective for in-situ bitumen recovery development but are at the early stages of their evaluation and development. The Oil Sands Lands currently have no production and there are no assurances that any of Cavalier Energy's properties will commence production, generate earnings, operate profitably or provide a return on investment in the future.

Fox Drilling

Fox Drilling owns seven triple-sized rigs, including two new walking rigs that were commissioned and brought into service in 2016. The Fox Drilling rigs are designed to drill the deep horizontal wells that industry is currently focusing on. All seven rigs were deployed on the Company's lands at the end of 2016, drilling wells at Karr-Gold Creek and Smoky/Resthaven.

Shale Gas

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 134 net sections of land as at December 31, 2016, with potential for natural gas production from the Besa River shale formation.

In 2015, the Company completed drilling operations at the Dunedin d-71-G vertical exploratory shale gas well and then moved to the c-37-D well at La Biche, where drilling operations continued until spring break-up. Drilling operations resumed at c-37-D in December 2015, and the well was drilled to target depth in March 2016. With the completion of drilling operations for the c-37-D well, the Company has secured its mineral rights in the region for up to another 10 years. The Company has drilled a total of 4 (4.0 net) exploration wells in the Liard Basin for play delineation and land retention, including the d-71-G and c-37-D wells.

RESERVES AND OTHER OIL AND GAS INFORMATION

The reserves and other oil and gas information contained herein is dated March 8, 2017, with an effective date of December 31, 2016. The reserves information provided below is derived from the McDaniel's reports dated March 8, 2017 for Paramount's Principal Properties reserves and for bitumen reserves held through Cavalier Energy as of December 31, 2016 (collectively the "McDaniel Report"). The preparation date of the McDaniel Report was March 8, 2017. The evaluation or review, as applicable, by McDaniel was prepared in accordance with the standards included in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101.

The following tables set forth information relating to Paramount's working interest share of reserves, net reserves after royalties, and estimated future net revenue as at December 31, 2016. The reserves are reported using forecast prices and costs. Columns and rows may not add due to rounding.

All evaluations of future net revenue are stated prior to any provisions for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for incomplete wells to which reserves have been assigned. It should not be assumed that estimated future net revenue is representative of the fair market value of Paramount's oil and gas properties. There is no assurance that price and cost assumptions will not differ materially from actual results. The reserves volumes of natural gas, NGLs, crude oil and bitumen provided herein are estimates only and there is no guarantee that the volumes will be recovered. Actual volumes of natural gas, NGLs, crude oil and bitumen reserves recovered may be greater than or less than the estimates provided herein.

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

Reserves Information

Reserves Data

The following table summarizes Paramount's reserves at December 31, 2016.

Reserves Category	Shale Gas		Conventional Natural Gas		Light & Medium Crude & Tight Oil		NGLs		Total Principal Properties Reserves		Bitumen ⁽³⁾		Total Company Reserves	
	Gross ⁽¹⁾ (Bcf)	Net ⁽²⁾ (Bcf)	Gross ⁽¹⁾ (Bcf)	Net ⁽²⁾ (Bcf)	Gross ⁽¹⁾ (MBbl)	Net ⁽²⁾ (MBbl)	Gross ⁽¹⁾ (MBbl)	Net ⁽²⁾ (MBbl)	Gross ⁽¹⁾ (MBoe)	Net ⁽²⁾ (MBoe)	Gross ⁽¹⁾ (MBbl)	Net ⁽²⁾ (MBbl)	Gross ⁽¹⁾ (MBoe)	Net ⁽²⁾ (MBoe)
Proved														
Developed Producing	38.5	35.2	27.2	25.8	630	521	3,605	2,810	15,187	13,508	-	-	15,187	13,508
Developed Non-producing	0.5	0.5	-	-	253	215	26	20	368	319	-	-	368	319
Undeveloped	171.6	157.8	0.1	0.1	-	-	15,469	13,353	44,089	39,662	-	-	44,089	39,662
Total Proved	210.7	193.6	27.3	25.9	882	736	19,100	16,183	59,645	53,489	-	-	59,645	53,489
Total Probable	218.3	184.1	7.1	6.6	337	270	17,636	13,961	55,529	46,016	93,468	75,276	148,997	121,292
Total Proved plus Probable	428.9	377.7	34.4	32.5	1,219	1,006	36,736	30,144	115,173	99,505	93,468	75,276	208,641	174,781

(1) Gross working interest volumes before royalties.

(2) Working interest volumes net of royalty volumes.

(3) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

Net Present Value of Future Net Revenue

The following table summarizes the net present values of future net revenue attributable to Paramount's reserves as at December 31, 2016. The net present values are reported before income tax and after income tax and have been discounted using rates of 0 percent, 5 percent, 10 percent, 15 percent and 20 percent and on a net unit value basis at a discount rate of 10 percent before income taxes. Future Net Revenue does not represent fair market value.

Reserves Category	Net Present Value of Future Net Revenues (\$ millions)										Unit Value Before Income Tax Discounted at 10% (\$/boe)
	Before Income Tax (discounted at)					After Income Tax ⁽²⁾ (discounted at)					
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%	
Principal Properties Reserves											
Proved											
Developed Producing	199	172	151	135	123	199	172	151	135	123	11.17
Developed Non-producing	9	8	6	6	5	9	8	6	6	5	20.17
Undeveloped	559	382	266	189	135	559	382	266	189	135	6.72
Total Proved	767	561	424	329	262	767	561	424	329	262	7.92
Total Probable	858	555	386	285	220	664	446	320	243	192	8.39
Total Proved plus Probable	1,625	1,116	810	614	482	1,431	1,006	744	573	454	8.14
Bitumen ⁽¹⁾											
Proved											
Developed Producing	-	-	-	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-	-	-	-
Total Probable	1,248	435	108	(29)	(87)	866	265	25	(73)	(112)	1.43
Total Proved plus Probable	1,248	435	108	(29)	(87)	866	265	25	(73)	(112)	1.43
Total Company Reserves											
Total Proved	767	561	424	329	262	767	561	424	329	262	7.92
Total Probable	2,106	990	494	256	133	1,530	711	345	170	80	4.08
Total Proved plus Probable	2,873	1,551	918	585	395	2,297	1,272	769	499	342	5.25

(1) Bitumen reserves relate to Cavalier's Grand Rapids Phase 1.

(2) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon.

Future Net Revenue

The following table summarizes the total undiscounted future net revenue attributable to Paramount's reserves as at December 31, 2016.

	Reserves Category (\$ millions)					
	Proved			Proved plus Probable		
	Principal Properties Reserves	Bitumen ⁽¹⁾	Total Company	Principal Properties Reserves	Bitumen ⁽¹⁾	Total Company
Revenue	2,308	-	2,308	4,460	6,392	10,852
Royalties ⁽²⁾	288	-	288	694	1,289	1,982
Operating Costs	719	-	719	1,353	2,102	3,455
Development Costs	492	-	492	736	1,630	2,366
Well Abandonment & Reclamation Costs ⁽³⁾	42	-	42	53	122	175
Future Net Revenue Before Income Tax	767	-	767	1,625	1,248	2,873
Income Taxes ⁽⁴⁾	-	-	-	194	382	576
Future Net Revenue After Income Tax	767	-	767	1,431	866	2,297

(1) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

(2) Royalties include crown royalties, freehold royalties, overriding royalties, the Cavalier Royalty, mineral taxes and net profit interest payments.

(3) See "NARRATIVE DESCRIPTION OF THE BUSINESS – RESERVES AND OTHER OIL AND GAS INFORMATION" for further information regarding abandonment and reclamation costs.

(4) Estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of Paramount's tax pools and the sequences of claims and rates of claim thereon.

Future Net Revenue by Product Type

The following table summarizes the net present value of future net revenue by product type on a unit value basis, before income tax, attributable to Paramount's net reserves evaluated at December 31, 2016. Amounts have been discounted at 10 percent.

Reserves Category	Product Type	Future Net Revenue Before Income Tax (discounted at 10%) (\$ millions)	Unit Value Before Income Tax (discounted at 10%) (\$ / unit)
Proved	Principal Properties Reserves		
	Shale Gas (including by-products)	369	\$1.91 / Mcf
	Conventional Natural Gas (including by-products)	39	\$1.54 / Mcf
	Light and Medium Crude & Tight Oil (including solution gas and other by-products)	16	\$21.18 / Bbl
	Bitumen Reserves ⁽¹⁾		
	Bitumen	–	–
Total Proved		424	
Proved plus Probable	Principal Properties Reserves		
	Shale Gas (including by-products)	741	\$1.96 / Mcf
	Conventional Natural Gas (including by-products)	50	\$1.59 / Mcf
	Light and Medium Crude & Tight Oil (including solution gas and other by-products)	19	\$18.74 / Bbl
	Bitumen Reserves ⁽¹⁾		
	Bitumen	108	\$1.43 / Bbl
Total Proved plus Probable		918	

(1) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

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

- (a) Reserves are classified according to the degree of certainty associated with the estimates:
- i. **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
 - ii. **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

- (b) Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories:
- i. **Developed Reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
 - ii. **Developed Producing Reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - iii. **Developed Non-producing Reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
 - iv. **Undeveloped Reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

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

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

Summary of Pricing and Inflation Rate Assumptions

Pricing and inflation rate assumptions used in the McDaniel Report in calculating the net present value of future net revenue attributable to Paramount's reserves as of December 31, 2016 are as follows:

Forecast Prices and Costs		2017	2018	2019	2020	2021	2022	2023	2024	Thereafter
U.S. Henry Hub Gas	(US\$ / MMBtu)	3.40	3.20	3.35	3.65	4.00	4.05	4.15	4.25	+1 to 2% / year
AECO Spot	(Cdn\$ / MMBtu)	3.40	3.15	3.30	3.60	3.90	3.95	4.10	4.25	+1 to 2% / year
Natural Gas at Plantgate	(Cdn\$ / MMBtu)	3.20	2.95	3.10	3.40	3.70	3.75	3.85	4.00	+1 to 2% / year
WTI Crude Oil	(US\$ / Bbl)	55.00	58.70	62.40	69.00	75.80	77.30	78.80	80.40	+2% / year
Edmonton Light Crude Oil	(Cdn\$ / Bbl)	69.80	72.70	75.50	81.10	86.60	88.30	90.00	91.80	+2% / year
Edmonton Cond. & Natural Gasolines	(Cdn\$ / Bbl)	72.80	75.80	78.60	84.30	89.80	91.60	93.40	95.20	+2% / year
Edmonton Butane	(Cdn\$ / Bbl)	43.50	47.90	49.80	56.40	63.40	64.70	65.90	67.30	+2% / year
Edmonton Propane	(Cdn\$ / Bbl)	23.30	23.70	26.20	28.30	30.30	30.90	31.50	32.20	+2% / year
Ethane	(Cdn\$ / Bbl)	12.80	11.80	12.40	13.60	14.80	15.00	15.40	16.00	+1 to 2% / year
Edmonton Diluent High TAN DilBit at Hardisty	(Cdn\$ / Bbl)	73.80	76.82	79.64	85.36	90.88	92.70	94.53	96.35	+2% / year
Netback Bitumen at Fieldgate	(Cdn\$ / Bbl)	36.79	41.86	45.77	49.72	53.61	54.65	55.69	56.87	+2% / year
Inflation Rate	(% / year)	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0% / year
Exchange Rate	(US\$ / Cdn\$)	0.75	0.78	0.80	0.83	0.85	0.85	0.85	0.85	0.85

Paramount's 2016 weighted average realized prices before the settlement of commodity contracts were \$2.13/Mcf for shale gas, \$2.15/Mcf for conventional natural gas, \$46.77/Bbl for oil and \$30.91/Bbl for NGLs. Additional information on commodity contracts is included in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2016, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

The price of natural gas, NGLs and oil are determined by negotiations between buyers and sellers. The sales price received depends on quality, prices of competing fuels, distance to market, value of refined products, supply/demand balance and contract terms. The export of natural gas and oil is subject to rules and regulations set by the National Energy Board of Canada and the governments of Alberta and British Columbia.

Paramount's natural gas portfolio primarily consists of sales priced at the Alberta, California and Chicago markets and is sold in a combination of daily and monthly contracts. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines typically receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized volumes, and are adjusted for applicable transportation, quality and density differentials. Unstabilized condensate volumes trucked to terminals typically receive prices based on the Edmonton Light Sweet oil price, which are generally lower than prices for stabilized volumes, and are adjusted for applicable transportation, quality and density differentials.

In addition, the Company may purchase and sell third-party products to provide operational flexibility in transportation, processing, or fractionation commitments, or at particular delivery points, and for customer diversification.

Reserves Reconciliation

The following table reconciles Paramount's gross reserves by principal product type for the year ended December 31, 2016.

	Shale Gas (Bcf) ⁽²⁾	Conventional Natural Gas (Bcf)	Light & Medium Crude & Tight Oil (MBbl)	Natural Gas Liquids (MBbl)	Total Principal Properties Reserves (MBoe)	Bitumen ⁽¹⁾ (MBbl)	Total Company Reserves (MBoe)
Proved							
January 1, 2016	616.6	94.0	788	107,125	226,340	-	226,340
Extensions and Improved Recoveries	97.5	-	253	8,564	25,068	-	25,068
Technical Revisions	55.2	9.9	161	2,588	13,604	-	13,604
Economic Factors	(3.0)	(2.1)	(23)	(118)	(982)	-	(982)
Acquisitions	0.2	-	86	31	155	-	155
Dispositions	(534.0)	(58.1)	(219)	(93,981)	(192,879)	-	(192,879)
Production	(21.9)	(16.4)	(162)	(5,109)	(11,661)	-	(11,661)
December 31, 2016	210.7	27.3	882	19,100	59,645	-	59,645
Probable							
January 1, 2016	329.7	25.4	287	51,809	111,293	93,468	204,761
Extensions and Improved Recoveries	176.8	-	145	13,265	42,884	-	42,884
Technical Revisions	(16.5)	(0.8)	(9)	(2,088)	(4,986)	-	(4,986)
Economic Factors	0.1	(0.1)	(25)	(3)	(25)	-	(25)
Acquisitions	-	-	14	9	34	-	34
Dispositions	(271.9)	(17.5)	(75)	(45,356)	(93,671)	-	(93,671)
Production	-	-	-	-	-	-	-
December 31, 2016	218.3	7.1	337	17,636	55,529	93,468	148,997
Proved plus Probable							
January 1, 2016	946.3	119.4	1,074	158,934	337,633	93,468	431,101
Extensions and Improved Recoveries	274.4	-	398	21,829	67,952	-	67,952
Technical Revisions	38.7	9.1	151	500	8,617	-	8,617
Economic Factors	(2.9)	(2.1)	(48)	(121)	(1,007)	-	(1,007)
Acquisitions	0.2	0.1	100	40	189	-	189
Dispositions	(805.9)	(75.6)	(293)	(139,337)	(286,550)	-	(286,550)
Production	(21.9)	(16.4)	(162)	(5,109)	(11,661)	-	(11,661)
December 31, 2016	428.9	34.4	1,219	36,736	115,173	93,468	208,641

(1) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

(2) The Company's Montney and Duvernay formation natural gas reserves are classified as shale gas.

Additional Information Relating to Reserves Data

Proved Undeveloped Reserves

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

Product Type	2014		2015		2016	
	First Attributed	Total	First Attributed	Total	First Attributed	Total
Principal Properties Reserves						
Shale Gas (Bcf)	419.6	494.6	-	509.7	97.3	171.7
Conventional Natural Gas (Bcf)	8.2	8.2	-	0.2	-	-
Light and Medium Crude & Tight Oil (MBbl)	78	78	-	76	-	-
NGLs (MBbl)	71,486	82,921	-	80,078	8,555	15,649

Reserves are classified as proved undeveloped if they meet the requirements prescribed by the COGE Handbook, and if they are expected to be recovered from known accumulations on previously undrilled acreage or they are reserves from existing wells where significant expenditure is required to render them capable of production.

Probable Undeveloped Reserves

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

Product Type	2014		2015		2016	
	First Attributed	Total	First Attributed	Total	First Attributed	Total
Principal Properties Reserves						
Shale Gas (Bcf)	277.0	308.8	3.8	295.1	176.7	208.4
Conventional Natural Gas (Bcf)	4.6	4.6	-	0.1	-	-
Light and Medium Crude & Tight Oil (MBbl)	31	31	-	31	-	-
NGLs (MBbl)	40,506	45,818	642	43,381	13,259	16,140
Bitumen Reserves ⁽¹⁾						
Bitumen (MBbl)	-	93,468	-	93,468	-	93,468

(1) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

Reserves are classified as probable undeveloped when they are less certain to be recovered than proved undeveloped reserves as prescribed by the COGE Handbook.

In November 2012, Cavalier Energy submitted a regulatory application with the Energy Resources Conservation Board ("ERCB") and Alberta Environment and Sustainable Resources Development for the initial development of approximately two sections of land at its Hoole oil sands property. The submission allowed for the reclassification of approximately 93 million barrels of economic contingent resources to probable undeveloped reserves in 2013. In 2014 Cavalier Energy received regulatory approval for the initial 10,000 Bbl/d development at Hoole.

Significant Factors or Uncertainties Affecting Reserves Data

Estimating reserves is a complex process requiring significant judgments based on available geological, geophysical, engineering and economic data. As additional data from development activities, including production results, becomes available and as internal or external economic conditions change, reserves estimates may change substantially. Paramount's reserves can be materially affected by changes in internal and external factors, including, without limitation: commodity prices; access to processing, fractionation (including de-ethanization) and transportation capacity; well performance; royalties; capital, operating, transportation and other costs; regulatory approvals and requirements; and available capital.

The Company's undeveloped reserves are primarily related to wells in the Grande Prairie and Northern COUs that are expected to be drilled within the next five years, in the case of proved undeveloped reserves and within the next seven years, in the case of probable undeveloped reserves. The development of these undeveloped reserves will depend upon, among other things, future commodity prices, access to processing, fractionation and transportation capacity, well performance, costs and availability of capital.

See "RISK FACTORS - RESERVE ESTIMATES", in particular, as well as the other risk factors herein.

Future Development Costs

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

Reserve Category	Future Development Costs (undiscounted, \$ millions)						Total
	2017E	2018E	2019E	2020E	2021E	Remainder	
Proved							
Principal Properties Reserves	172	90	83	73	74	-	492
Bitumen Reserves ⁽¹⁾	-	-	-	-	-	-	-
Total Proved	172	90	83	73	74	-	492
Proved plus Probable							
Principal Properties Reserves	215	104	94	80	85	158	736
Bitumen Reserves ⁽¹⁾	-	-	95	216	193	1,127	1,630
Total Proved plus Probable	215	104	189	296	278	1,285	2,366

(1) Bitumen reserves relate to Hoole Grand Rapids Phase 1.

Paramount expects that funding for future development costs associated with its Principal Properties will come from the Company's cash and cash equivalents, funds flow from operations, and if required, credit facilities, the sale of non-core assets and capital market transactions.

No significant near-term expenditures are planned on the Hoole Grand Rapids Phase 1 project. The development of the project is contingent upon Cavalier Energy obtaining financing and customary regulatory approvals to construct facilities and commence operations. Significant amounts of capital will be required to fund the costs of development for Hoole Grand Rapids Phase 1. In addition, oil sands projects have historically experienced capital cost overruns due to a variety of factors and operating costs to produce bitumen from oil sands or carbonate may be substantially higher than operating costs to produce conventional crude oil. There are no assurances that the Hoole Grand Rapids Phase 1 project will ever be developed and, if it is, whether capital will be obtained under favourable terms or at all, whether current construction and operations schedules will proceed as planned without any delays or cost overruns or at all,

and whether bitumen will be recovered in economic quantities and at the costs anticipated. See also "RISK FACTORS - CAVALIER ENERGY'S OIL SANDS AND CARBONATE BITUMEN PROPERTIES AND BITUMEN RESERVES", in particular, as well as the other risk factors herein

Other Oil and Gas Information

Oil and Gas Properties and Wells

For a description of Paramount's significant properties, plants and facilities, see "NARRATIVE DESCRIPTION OF THE BUSINESS – PRINCIPAL PROPERTIES". As at December 31, 2016, Paramount had an interest in 903 gross (428 net) producing and non-producing⁽¹⁾ oil and natural gas wells as follows:

	Producing		Non-producing ⁽¹⁾	
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾
Crude oil wells				
Alberta	79	33.7	47	27.5
British Columbia	1	-	1	0.6
Saskatchewan	-	-	1	1.0
Northwest Territories	-	-	3	1.2
Subtotal	80	33.7	52	30.3
Natural gas wells				
Alberta	393	175.3	257	132.5
British Columbia	33	9.4	40	23.9
Saskatchewan	4	-	4	3.0
Northwest Territories	-	-	40	20.3
Subtotal	430	184.7	341	179.7
Total	510	218.4	393	210.0

(1) "Non-producing" wells are wells which Paramount considers capable of production but which, for a variety of reasons including, but not limited to, a lack of markets and lack of development, cannot be placed on production at the present time.

(2) "Gross" wells means the number of wells in which Paramount has a working or a royalty interest.

(3) "Net" wells means Paramount's gross wells multiplied by Paramount's percentage working interest therein.

Properties With and Without Attributed Reserves

The following table sets forth Paramount's land position at December 31, 2016. The Company's holdings at December 31, 2016 totaled 2,259,712 (1,213,454 net) acres. Gross acreage is calculated only once per lease or license of petroleum and natural gas rights ("Lease") regardless of whether or not Paramount holds a working and/or royalty interest, or whether or not the Lease includes multiple prospective formations. If Paramount holds more than one Lease under the same geographical area, Paramount records acreage for both Leases.

	Acreage Assigned Reserves		Undeveloped Acreage	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Alberta				
Paramount	264,101	138,032	620,486	376,013
Cavalier Energy	1,440	1,440	212,803	212,803
British Columbia	10,038	6,071	168,440	111,212
Saskatchewan	3,210	640	4,969	3,693
Northwest Territories				
Paramount	10,430	6,762	73,565	24,030
MGM Energy	-	-	890,230	332,758
Total	289,219	152,945	1,970,493	1,060,509

(1) "Gross" acres means the total acreage in which Paramount has an interest.

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

As of December 31, 2016, Paramount held approximately 354,000 (156,000 net) acres of land due to expire in 2017 of which approximately 212,000 (53,000 net) acres is held by MGM Energy. The actual acreage that will expire in 2017 may be less than these amounts to the extent Paramount is able to continue leases through drilling, farm outs or other activities prior to their expiry.

Paramount has approximately 113,000 (90,000 net) acres prospective for shale gas in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories as at December 31, 2016.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

Paramount's undeveloped acreage in the Northwest Territories and shale gas acreage in the Liard and Horn River Basins will require significant capital to develop. In addition, the Company may experience operational challenges and higher costs due to the geographic location, weather conditions, formation depths and limited infrastructure in this region. There are no assurances that this acreage will ever be developed and, if they are, whether they will operate profitably or provide a return on investment. For additional information on the Company's shale gas holdings, see "NARRATIVE DESCRIPTION OF THE BUSINESS – STRATEGIC INVESTMENTS".

For oil sands and carbonate acreage other than Hoole Grand Rapids Phase 1, the development of this acreage will require financing and regulatory approvals to construct facilities and commence operations. These assets are at an even earlier stage of development when compared to the Hoole Grande Rapids Phase 1 and are subject to similar risks described under "NARRATIVE DESCRIPTION OF THE BUSINESS – CAVALIER ENERGY'S OIL SANDS AND CARBONATE BITUMEN PROPERTIES AND BITUMEN RESERVES" for the Hoole Project plus additional risks associated with exploration, delineation, establishing technological and commercial feasibility and other required activities to advance these assets to a stage ready for regulatory submission and approval.

Abandonment and Reclamation Costs

Abandonment and reclamation costs related to Paramount's working interest in wells, facilities, pipelines, and associated surface leases and roads are estimated by incorporating assumptions regarding expected costs of remediation, decommissioning, abandonment and reclamation. Costs are estimated for individual assets and aggregated to determine the total net liability. In estimating these costs, reference is made to historical costs and values, internal estimates, third-party environmental reports, and publications including the Alberta Energy Regulator's Directives 006 and 011, as well as the Material Price Catalogue (published by the Petroleum Accountants Society of Canada). Where third-party estimates are believed to be inappropriate, internally generated estimates are used based on previous Company experience.

During 2016, Paramount incurred approximately \$1.8 million on environmental, remediation, reclamation and regulatory compliance activities.

The Company's estimates of abandonment and reclamation costs for surface leases, wells, facilities, pipelines, and roads are \$212.3 million (undiscounted) and \$85.6 million (discounted at 10 percent). The estimated future net revenue of the Company's reserves disclosed in this annual information form does not include an allowance for abandonment and reclamation costs for surface leases, facilities, pipelines or roads.

For the Company's Principal Properties, the McDaniel Report deducted \$53 million (undiscounted) and \$10 million (discounted at 10 percent) for estimated down hole abandonment and surface reclamation costs for wells, on a total proved plus probable basis. For Hoole Grand Rapids Phase 1, the McDaniel Report deducted \$122 million (undiscounted) and \$10 million (discounted at 10 percent) for future abandonment and reclamation costs.

Additional information concerning abandonment and reclamation costs is included in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2016, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Forward Contracts

The nature of Paramount's operations results in exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Paramount monitors and, from time-to-time, utilizes derivative financial instruments and/or physical forward delivery contracts to hedge its exposure to these risks. Paramount's derivative contracts and/or future commitments are disclosed in its audited consolidated financial statements as at and for the year ended December 31, 2016 which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Pipeline Transportation and Production Processing Commitments

As part of normal business operations, the Company has entered into firm-service agreements for the processing and transportation of natural gas and NGLs. The Company renews or amends existing agreements and enters into new agreements from time-to-time based on forecast capacity requirements.

Based on forecast production volumes in the McDaniel Report, over the next five years the Company's transportation commitments exceed forecast production of the Company's proved reserves by an average of approximately 8,000 Boe/d and processing commitments exceed forecast production of the Company's proved reserves by an average of approximately 1,000 Boe/d. If the Company's sales volumes were equivalent to the forecast production of proved reserves, the aggregate fees in respect of the differences described above would average approximately \$9 million per year over the next five years. Forecast production of the Company's proved plus probable reserves per the McDaniel Report is approximately 45 percent higher than forecast production from proved reserves used for the purposes of calculating the differences and fees described above. If the Company's sales volumes were equivalent to the forecast production of proved plus probable reserves, the aggregate fees in respect of such differences would average approximately \$5 million per year over the next five years.

The production, processing and transportation of natural gas and NGLs are interdependent and the Company's ability to fulfill each commitment could be impacted by well performance and disruptions and constraints at the Company's and/or at third-party facilities and pipelines. The Company could experience

a financial loss and its operations could be adversely affected if Paramount is unable to fulfill its commitments through its operations or, where necessary, amend its commitments or assign any excess capacity to one or more third-parties. Additional disclosure related to such commitments can be found in the Company's audited consolidated financial statements as at and for the year ended December 31, 2016, which can be found under the Company's profile on the SEDAR website at www.sedar.com.

Tax Horizon

Based on the current tax regime, current commodity prices, the Company's available tax pools, assumptions of production and anticipated future net revenue from such production and capital expenditures, Paramount does not expect to be cash taxable in the near future. Taxable income varies depending on total income and expenses and Paramount's estimate is sensitive to assumptions regarding commodity prices, production, funds flow from operations, capital spending levels and acquisition and disposition transactions.

Additional information concerning Paramount's tax pools is included in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2016 which can be found under the Company's profile on the SEDAR website at www.sedar.com. Also, see "RISK FACTORS – GOVERNMENT REGULATION".

Costs Incurred

The following table summarizes the costs incurred by Paramount for property acquisitions and exploration and development activities in 2016.

Cost Type ⁽¹⁾ (\$ millions)	2016
Acquisitions (corporate and property)	
Proved properties	8.0
Unproved properties	7.1
Exploration	38.2
Development (including facilities)	148.0
Strategic Investments – Cavalier Energy	0.5
Total	201.8

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

Exploration and Development Activities

The following table summarizes the results of Paramount's drilling activity for the year ended December 31, 2016. The working interest in certain of these wells may change after payout.

	Gross ⁽¹⁾⁽³⁾	Net ⁽²⁾⁽³⁾
Development Wells ⁽⁴⁾		
Gas	22	22.0
Oil	-	-
Exploratory Wells ⁽⁵⁾		
Gas	1	0.5
Oil	-	-
Total Wells	23	22.5

- (1) "Gross" is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) "Net" is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.
(3) In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area. Results of the Musreau Assets are included in Paramount's results to August 18, 2016, the closing date of the sale. For further details, see "GENERAL DEVELOPMENT OF THE BUSINESS – 2016".
(4) "Development Well" is a well drilled within or in close proximity to a discovered pool of petroleum or natural gas.
(5) "Exploratory Well" is a well drilled either in search of a new and as yet undiscovered pool of petroleum or natural gas or with the expectation of significantly extending the limit of a pool that is partly discovered.

For a description of the Company's current and likely exploration and development activities, see NARRATIVE DESCRIPTION OF BUSINESS – PRINCIPAL PROPERTIES.

Production Estimates

The following table summarizes the total estimated gross production for 2017 from the McDaniel Report.

	Estimated Production (Gross)	
	Proved	Probable
Shale Gas (MMcf)	17,522	6,854
Conventional Natural Gas (MMcf)	5,313	167
Light and Medium Crude & Tight Oil (MBbl)	171	14
NGLs (MBbl)	2,157	741
Total Production (MBoe)	6,134	1,925

McDaniel's estimated gross production in 2017 from the Karr-Gold Creek field is 4,083 MBoe (Proved) and 1,045 MBoe (Probable). McDaniel's estimated gross production in 2017 from the Birch field is 233 MBoe (Proved) and 754 MBoe (Probable).

Production History

The following table summarizes daily sales volumes for Paramount before the deduction of royalties on a quarterly and annual basis for 2016.

Sales ⁽¹⁾	2016 ⁽²⁾	Q4	Q3 ⁽²⁾	Q2	Q1
Shale Gas (MMcf/d)	59.9	24.2	56.7	72.8	86.4
Conventional Natural Gas (MMcf/d)	44.8	23.3	31.9	57.1	67.5
Light and Medium Crude & Tight Oil (Bbl/d)	443	376	461	490	446
NGLs (Bbl/d)	13,958	3,612	9,561	18,764	24,058

- (1) Sales volumes measured in marketable quantities, after processing and shrinkage.
(2) In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area. Results of the Musreau Assets are included in Paramount's results to August 18, 2016, the closing date of the sale. For further details, see "GENERAL DEVELOPMENT OF THE BUSINESS – 2016".

The following table summarizes Paramount's average per-unit netbacks, by principal product, on a quarterly and annual basis for 2016.

	Netback – 2016 ⁽¹⁾				
	2016 ⁽⁴⁾	Q4	Q3 ⁽⁴⁾	Q2	Q1
Shale gas (including by-products) ⁽²⁾ (\$/Mcf)					
Revenue	3.94	4.58	4.73	3.74	3.60
Royalties	(0.00)	0.14	0.04	0.04	(0.09)
Operating costs ⁽³⁾	(2.12)	(2.15)	(2.87)	(2.51)	(1.50)
Netback	1.81	2.58	1.90	1.28	2.01
Conventional natural gas ⁽²⁾ (including by-products) (\$/Mcf)					
Revenue	2.59	5.19	1.61	2.31	2.57
Royalties	(0.04)	(0.13)	(0.01)	0.05	(0.11)
Operating costs ⁽³⁾	(2.29)	(2.49)	(2.50)	(2.60)	(1.81)
Netback	0.26	2.57	(0.90)	(0.24)	0.66
Oil (including by-products) (\$/Boe)					
Revenue	37.96	42.56	42.31	35.04	32.72
Royalties	(5.47)	(6.01)	(6.38)	(4.03)	(5.03)
Operating costs ⁽³⁾	(17.74)	(19.02)	(18.01)	(15.39)	(19.26)
Netback	14.74	17.54	17.92	15.62	8.44

(1) The Company's production volumes are generally gathered and processed through common gathering systems, processing facilities and transportation pipelines. As a result, operating and other costs have been allocated to each product type based on volume equivalencies and other reasonable methods of allocation.

(2) Based on sales volumes measured in marketable quantities, after processing and shrinkage.

(3) Operating costs include all costs related to the operation of wells, Paramount's facilities and gathering systems, transportation and NGLs processing. Processing revenue earned from Company facilities has been deducted from these costs.

(4) In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area. Results of the Musreau Assets are included in Paramount's results to August 18, 2016, the closing date of the sale. For further details, see "GENERAL DEVELOPMENT OF THE BUSINESS – 2016".

The Company realized \$45.6 million from the settlement of commodity contracts in fiscal 2016. These proceeds have not been reflected in the Netback amounts above.

The following table summarizes sales volumes by significant property for the year ended December 31, 2016.

	Shale Gas (MMcf)	Conventional Natural Gas (MMcf)	Light and Medium & Tight Oil (MBbl)	Natural Gas Liquids (MBbl)
Ongoing Operations				
Karr-Gold Creek	6,301	366	-	625
Resthaven / Smoky	1,183	3,495	2	236
Valhalla	790	695	-	18
Birch	1,726	41	-	117
Willesden Green	94	86	67	34
Other	599	2,398	108	115
Ongoing Operations	10,694	7,080	176	1,145
Musreau Assets ⁽¹⁾	11,231	9,334	-	3,963
Total	21,925	16,414	176	5,109

(1) In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area. Results of the Musreau Assets are included in Paramount's results to August 18, 2016, the closing date of the sale. For further details, see "GENERAL DEVELOPMENT OF THE BUSINESS – 2016".

GENERAL

Competitive Conditions, Seasonality, and Trends

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

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

The oil and gas industry continues to develop new technologies that increase the recoverability of natural gas, NGLs, oil and bitumen and/or improve returns, particularly longer multi-stage hydraulically-fractured horizontal wells incorporating higher intensities of proppant per stage and more fracs per well. Reservoir floods, polymer injection, water or oil based fractionation fluids, and carbon dioxide ("CO₂") injection techniques have also been used to increase recoveries.

Alberta Royalties

On January 1, 2017, the Government of Alberta implemented a modernized royalty framework (the "Modernized Framework") based on recommendations of the Royalty Review Advisory Panel. The Modernized Framework will apply to all conventional wells spud on or after January 1, 2017. The Modernized Framework does not apply to oil sands production, which has its own separate royalty framework. Wells spud prior to July 13, 2016 will continue to operate under the previous royalty framework (the "Old Framework"). Wells spud between such dates may elect to opt-in to the Modernized Framework if certain criteria are met. After December 31, 2026, all wells will be subject to the Modernized Framework.

Under the Modernized Framework, royalties are determined on a "revenue-minus-costs" basis, with the cost component based on a drilling and completion cost allowance formula for each well, which is dependent on the vertical depth, horizontal length of the well and proppant placed. The formula is based on the industry's average drilling and completion costs as determined by the Alberta Department of Energy ("ADOE") on an annual basis. The cost component attempts to incentivize innovation to reduce costs by allowing wells that operate under the average cost to remain at a lower rate of royalty even after recovering actual costs. Producers pay a flat royalty rate of five percent of gross revenue from each well that is subject to the Modernized Framework until the well reaches payout. Payout for a well is the point at which cumulative revenues from the well equals the drilling and completion cost allowance for the well set by the ADOE. After payout, producers pay an increased post-payout royalty on revenues determined by reference to the then current commodity prices of the various hydrocarbons and rates of production from the well. Similar to the Old Framework, the post-payout royalty rate under the Modernized Framework varies with commodity prices. Once production in a mature well drops below a threshold level where the rate of production is too low to sustain the full royalty burden, its royalty rate will be adjusted downward as the mature well's production declines, to a minimum of five percent. The drilling and completion cost allowance formula, post-payout royalty rates and production thresholds for mature wells came into effect on January 1, 2017.

As part of the Modernized Framework, the Alberta government announced two new strategic royalty programs to encourage oil and gas producers to boost production and explore resources in new areas:

the Enhanced Hydrocarbon Recovery Program and the Emerging Resources Program. These programs will take into account the higher costs associated with development of emerging resources and enhanced recovery methods when calculating royalty rates.

Employees

At December 31, 2016, Paramount had 136 full-time head office employees, 28 full-time field employees and 140 employees of Fox Drilling. The Company also engages a number of contractors and service providers.

Environment, Health and Safety

Paramount's oil and gas operations are governed by environmental requirements under Canadian federal, provincial, territorial and municipal laws that, among other things, restrict and/or prohibit the release of emissions or pollutants, regulate the storage, handling, transportation and disposal of various substances produced or utilized in association with oil and gas industry operations, and require Paramount to remedy the effect of its activities on the environment at current and former operating sites (including through the proper abandonment and decommissioning of wells, pipelines, facilities, and roads and the remediation and reclamation of associated lands). See "NARRATIVE DESCRIPTION OF THE BUSINESS – RESERVES AND OTHER OIL AND GAS INFORMATION" AND "RISK FACTORS – COMPLIANCE WITH AND CHANGES TO ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS". Paramount is also required to comply with a wide range of regulatory requirements designed to ensure the health and safety of its workers and other stakeholders who may be impacted by its operations. Paramount has implemented monitoring, reporting and compliance programs to address environmental, health and safety issues in its operations, and conducts ongoing inspections and assessments, in an effort to ensure that applicable regulatory standards are met. In addition, contingency and response plans have been put in place to deal with environmental incidents and other emergency situations.

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

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

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

- review and monitor the environmental, health and safety policies and activities of Paramount on behalf of the Board of Directors;
- recommend actions for developing policies, programs and procedures to ensure that the principles contained in the HSE Policy are being adhered to and achieved;
- review with management any material environmental, health and safety issues that have arisen in the course of the Company's operations to determine, on behalf of the Board of Directors, that Paramount is taking all necessary steps and exercising all necessary due diligence both in respect of these specific issues and in carrying out its environmental, health and safety responsibilities generally; and
- review and report to the Board of Directors on the sufficiency of the resources available to fulfill the environmental, health and safety responsibilities of the Company.

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

During 2016 one primary area of focus for Paramount's Health, Safety and Environment group was the development (in conjunction with Paramount's drilling and operating departments) of a Water Management Policy which is designed to help ensure the Company has continued access to, and properly manages, the water supplies required for its hydraulic fracturing operations. Pursuant to this policy a company-wide Water Management Strategy has been implemented, as well as individual Water Management Plans for each of Paramount's COUs.

Greenhouse Gas Reporting Obligations

Compliance Obligations – Alberta

The Alberta government currently imposes greenhouse gas ("GHG") emission intensity limits on industrial facilities that emit more than 100,000 tonnes of Carbon dioxide equivalent ("tCO_{2e}") per year pursuant to the *Specified Gas Emitters Regulations* (the "SGER"). As Paramount does not currently operate any facilities that emit more than 100,000 tCO_{2e} per year it does not have any compliance obligations under the SGER.

In 2016, the Alberta government passed the *Carbon Leadership Act* and enacted the *Carbon Leadership Regulation* pursuant to which an economy-wide carbon tax on emissions from transportation and heating fuels has been imposed effective January 1, 2017 at an initial rate of \$20 per tCO_{2e} (and with a scheduled increase to \$30 per tCO_{2e} on January 1, 2018).

Emissions from flaring at oil and gas wells, pipelines and facilities, and from produced natural gas that is used by oil and gas companies as fuel gas in operating oil and gas wells, pipelines and facilities, will become subject to the \$30 per tCO_{2e} tax commencing January 1, 2023 (unless the facility is already

subject to compliance obligations under the SGER, or its replacement, in which case the facility operator will receive a rebate in respect of any carbon levies paid).

It is proposed that the \$30 per tCO_{2e} levy will increase at a rate equal to the rate of inflation plus two percent per year so long as it does not significantly exceed carbon prices in comparable jurisdictions, or that are imposed by any national carbon pricing scheme.

Methane emissions reduction in the oil and gas industry is also a key element of Alberta's GHG reduction plan. Under Directive 60 published by the Alberta Energy Regulator, oil and gas companies are required to detect and repair fugitive leaks of methane and other hydrocarbons. In addition, the Alberta government has set a target of reducing methane emissions from the oil and gas industry by 45 percent by 2025. This target is to be achieved by:

- putting in place by mid-2018 more stringent methane emissions design standards for new oil and gas facilities; and
- utilizing a multi-stakeholder joint initiative to identify and implement methane emission reduction measures at existing oil and gas facilities (with regulated emission standards for existing facilities to be implemented as a backstop by 2020).

A further component of Alberta's climate change strategy is the imposition of a 100 megatonne limit on GHG emissions from provincial oil sands production. This limit has been given force of law in the *Oil Sands Emissions Limit Act*, but until regulations setting out how the emissions cap will work are enacted it is unclear how it might impact the future development of the oil sands properties held by Cavalier Energy. Currently, emissions from the province's oil sands sector are well below the 100 megatonne limit.

Compliance Obligations – British Columbia

In 2008, British Columbia implemented a carbon tax that applies to the purchase or use of fossil fuels by end users in the province and is designed to encourage individuals, businesses and industries to consume less fossil fuel and thus reduce the emission of GHG. Accordingly, to the extent Paramount consumes fossil fuel as part of its exploration, development and production operations in British Columbia, the Company is required to pay a carbon tax.

Compliance Obligations – Federal

In November 2015, Canada participated in the twenty first session of the Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France, which resulted in the adoption of the Paris Agreement. The Paris Agreement is intended to provide the foundation for coordinated international action to attempt to hold the increase in the global average temperature to well below 2°C above pre-industrial levels, and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

On June 29, 2016, Canada joined the United States and Mexico in agreeing to reduce methane emissions from the oil and gas sector by up to 45 percent by 2025 by developing and implementing federal regulations for both existing and new sources of vented and fugitive methane emissions. The federal methane regulations are expected to be published in 2017. Until these draft regulations are released it is unclear how they will operate in conjunction with the Alberta government's methane-emission reduction measures which have a similar reduction target and timeline.

On October 3, 2016, the Government of Canada announced its intention to implement a national carbon pricing system. Under the federal plan Canadian provinces and territories will have one year to introduce carbon pricing schemes consisting of either a carbon tax or an emissions cap and trade program that meet prescribed standards, failing which the federal government will begin to levy its own carbon tax on a broad set of emission sources. The initial default carbon tax is expected to begin at \$10 per tCO_{2e} on January 1, 2018 and increase by \$10 per tCO_{2e} per year until it reaches \$50 per tCO_{2e} in 2022. While further details of the federal plan still need to be disclosed, there is a risk that the Company may find itself subject to payment obligations under the federal carbon tax system that are incremental to those that will be imposed on it under the Alberta *Carbon Leadership Regulation*.

See "RISK FACTORS – COMPLIANCE WITH AND CHANGES TO ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS".

DIRECTORS AND EXECUTIVE OFFICERS

The following information is provided for each director and executive officer of Paramount as at the date of this annual information form. Each director will serve until the next annual meeting of Shareholders or until his or her respective successor is elected or appointed.

DIRECTORS

Name and Municipality of Residence	Director Since	Principal Occupation for Past Five Years
Clayton H. Riddell ⁽¹⁾ Calgary, Alberta, Canada	1978	Executive Chairman, Paramount; previously Chairman and Chief Executive Officer, Paramount
James H.T. Riddell ^{(1) (3) (6)} Calgary, Alberta, Canada	2000	President and Chief Executive Officer, Paramount; previously President and Chief Operating Officer, Paramount
James G.M. Bell ^{(2) (4) (5)} Calgary, Alberta, Canada	2011	Chief Operating Officer and General Counsel, Founders Advantage Capital Corp.; previously General Counsel, Olympia Financial Group Inc. (a TSX listed company) and Olympia Trust Company (a non-deposit taking trust company)
John C. Gorman ^{(2) (4) (5)} Calgary, Alberta, Canada	2002	Independent Businessman
Dirk Jungé, CFA ^{(5) (6)} Bryn Athyn, Pennsylvania, United States	2000	Chairman of the Board, Pitcairn Trust Company (a private trust company)
David M. Knott ^{(1) (5)} Syosset, New York, United States	1998	Managing General Partner, Knott Partners, L.P. (a private investment firm), and Chief Executive Officer of Dorset Management Corp. (a private investment firm)
Susan L. Riddell Rose ⁽¹⁾ Calgary, Alberta, Canada	2000	President and Chief Executive Officer, Perpetual Energy Inc. (a public oil and natural gas exploration and development company) and its predecessor Paramount Energy Trust
John B. Roy ^{(1) (2) (4) (5) (6)} Calgary, Alberta, Canada	1981	Independent Businessman

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

(2) Member of the Compensation Committee.

(3) Mr. J. H. T. Riddell was a director of Sonde Resources Corp. ("Sonde") and Great Prairie Energy Services Inc. ("Great Prairie"), both public oil and gas companies, within one year of Sonde becoming bankrupt and Great Prairie having a receiver-manager appointed to manage its assets, undertakings and properties.

(4) Member of the Audit Committee.

(5) Member of the Corporate Governance Committee.

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

EXECUTIVE OFFICERS

Name and Municipality of Residence	Office	Principal Occupation for Past Five Years
Clayton H. Riddell Calgary, Alberta, Canada	Executive Chairman	Executive Chairman of Paramount; previously Chairman and Chief Executive Officer of Paramount
James H.T. Riddell Calgary, Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of Paramount; previously President and Chief Operating Officer of Paramount
Bernard K. Lee Calgary, Alberta, Canada	Chief Financial Officer	Chief Financial Officer of Paramount
Darrel S. Purdy Calgary, Alberta, Canada	Corporate Operating Officer, Kaybob	Corporate Operating Officer, Kaybob of Paramount
E. Mitchell Shier Calgary, Alberta, Canada	General Counsel and Corporate Secretary, Manager, Land	General Counsel and Corporate Secretary, Manager, Land of Paramount

As at December 31, 2016, the directors and executive officers of the Company as a group beneficially owned or controlled, directly or indirectly, 50,612,028 Common Shares, representing approximately 48 percent of the 105,786,935 Common Shares outstanding at such date.

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

AUDIT COMMITTEE INFORMATION

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

COMPOSITION OF THE AUDIT COMMITTEE

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

J. C. Gorman

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

J. G. M. Bell

Mr. Bell has been a director of the Company since 2011. Mr. Bell is currently Chief Operating Officer and General Counsel for Founders Advantage Capital Corp., a public investment company listed on the TSXV. From 2010 to 2016, Mr. Bell was General Counsel for Olympia Financial Group Inc. (a TSX listed company) and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company). Prior thereto, Mr. Bell practiced securities and corporate commercial law as Partner at an international law firm until December 31, 2009. Mr. Bell has acted as legal counsel in connection with private placements, prospectus offerings, take-over bids, plans of arrangement and general securities and corporate finance matters. Mr. Bell graduated from the University of Saskatchewan with a Bachelor of Laws degree in 1999.

J. B. Roy

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

PRE-APPROVAL POLICIES AND PROCEDURES

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

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

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

EXTERNAL AUDITOR SERVICE FEES

The following table provides information about the fees billed to the Company for professional services rendered by Ernst & Young LLP in respect of the financial years ended December 31, 2016 and December 31, 2015:

(\$ thousands)	2016	2015
Audit Fees ⁽¹⁾	182	266
Audit-Related Fees ⁽²⁾	225	262
Tax Fees	-	-
All Other Fees ⁽³⁾	5	45
Total	412	573

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

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

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

DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital as of the date hereof consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As of December 31, 2016, 105,786,935 Common Shares were issued and outstanding and no preferred shares were issued and outstanding.

COMMON SHARES

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

PREFERRED SHARES, ISSUABLE IN SERIES

Preferred shares are non-voting and may be issued in one or more series. The board of directors may determine the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares before the issue of such series. As of December 31, 2016, no preferred shares were issued and outstanding.

NORMAL COURSE ISSUER BID

Paramount implemented a normal course issuer bid ("NCIB") on October 13, 2016. The NCIB will terminate on the earlier of: (i) October 12, 2017; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Purchases of Common Shares under the NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase. Paramount may purchase up to 5,441,602 Common Shares under the NCIB. Pursuant to the rules of the TSX, the maximum number of Common Shares that the Company may purchase under the NCIB in any one day is 188,705 Common Shares. Paramount may also make one block purchase per calendar week which exceeds such daily purchase restriction, subject to the rules of the TSX. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Company. Any shareholder may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the TSX by contacting the Company at 403-290-3600.

In 2016, the Company purchased and cancelled 622,900 Common Shares pursuant to the NCIB at a cost of \$9.7 million.

CREDIT RATINGS

The following table outlines the current credit rating of the Company:

	Standard & Poor's Rating Services ("S&P")
Company Rating	B-
Outlook	Stable

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

S&P's credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. On February 24, 2017, S&P affirmed Paramount's corporate credit rating as B-, with a stable outlook. According to S&P's rating system, an obligation rated "B" is more vulnerable to non-payment than those rated "BB", but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standing within the major rating categories. In addition, S&P may add a rating outlook of "positive", "negative" or "stable" which assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

Following the redemption of the Company's remaining 2019 Notes, Paramount has no senior unsecured notes outstanding. As a result, on December 19, 2016, S&P withdrew its credit ratings concerning Paramount's senior unsecured notes and Moody's Investors Service ("Moody's") withdrew all of its credit ratings concerning Paramount on December 21, 2016.

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

In 2015 and 2016, the Company made payments to S&P and Moody's in connection with annual monitoring and surveillance fees as well as ratings in connection with the June 2015 issuance of the 2023 Notes.

MARKET FOR SECURITIES

Paramount's Common Shares are listed on the TSX under the trading symbol "POU". The following table outlines the trading price range and volume of the Common Shares traded by month in 2016.

2016	Price Range (\$ per share)		Trading Volume
	High	Low	
January	6.64	2.86	30,916,367
February	5.97	3.63	24,873,926
March	9.75	5.88	37,517,783
April	9.87	5.79	23,076,610
May	9.22	7.34	12,880,091
June	10.88	7.95	18,990,144
July	13.23	10.50	21,781,042
August	14.01	11.55	8,442,765
September	15.79	13.64	10,691,717
October	17.64	14.67	11,009,609
November	17.94	13.43	8,694,850
December	19.25	17.34	6,409,055

DIVIDENDS

In December 2016, the Company's board of directors declared a dividend of 3.8 million 7Gen Shares to holders of record of Paramount's Common Shares on January 9, 2017 (the "January 2017 Dividend"), resulting in an entitlement of approximately 0.036 of a 7Gen Share for each Common Share, subject to rounding for fractions. The dividend was paid on January 16, 2017. The closing trading price of the 7Gen Shares on the TSX on January 13, 2017, the last trading day before the dividend was paid, was \$26.27.

Other than the January 2017 Dividend, Paramount has not declared a dividend in the last three fiscal years. Paramount currently has no plans to pay a dividend in the future. Any future dividends will be dependent upon the financial requirements of the Company to reinvest earnings, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate.

LEGAL PROCEEDINGS

The Company is involved in various claims and litigation arising in the normal course of business both as a plaintiff and defendant. The Company does not currently believe that the outcome of any pending or threatened proceedings, individually or collectively, or the amounts which the Company may be required to pay by reason thereof, would have a material adverse impact on its financial position, results of operations or liquidity, or exceed 10 percent of its current assets.

RISK FACTORS

Set forth below are the most significant risk factors related to Paramount which you should carefully consider. If any event arising from these risk factors occurs, the Company could be materially adversely

affected including in respect of its business, prospects, financial condition, results of operations, cash flows, reputation and the market price of its securities.

VOLATILITY OF OIL AND NATURAL GAS PRICES AND PRICE DIFFERENTIALS

Paramount's financial performance and condition are substantially dependent on the prices of natural gas, NGLs and oil. Low natural gas, NGLs and oil prices adversely affect the Company's cash flows and the value and amount of its reserves, and could have a number of other negative consequences including the delay or cancellation of drilling programs and other potential projects, the curtailment or shutting-in of production and unutilized firm service transportation and processing commitments. Natural gas prices are determined primarily by North American supply and demand, weather conditions, transportation and infrastructure constraints and by prices of alternate sources of energy (including refined products, coal, and renewable energy). Factors that affect oil prices include international and domestic supply and demand, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), world economic conditions, government regulation, political stability in the Middle East and elsewhere, the price of foreign imports, the availability of alternate fuel sources, transportation and infrastructure constraints and weather conditions. Historically, NGLs prices have generally been correlated with oil prices, and are determined based on supply and demand in international and domestic NGLs markets.

Oil and NGLs prices suffered a serious and sustained decline commencing in 2014 as a result of increases in United States shale oil production and OPEC's refusal to make supply cuts to stabilize the market. Natural gas prices have also been under significant pressure in recent years as a result of large increases in United States shale gas production.

In the longer term, prices for fossil fuels could be impacted by global climate change initiatives that have the stated goal of transitioning the world to a low carbon energy system.

Natural gas and oil producers in North America, and particularly in Canada, currently receive discounted prices for their production relative to certain international prices due to constraints on their ability to transport and sell such production to international markets. A failure to resolve such constraints will result in Canadian producers continuing to be subject to discounted or reduced commodity prices. In addition, the prices individual producers, including Paramount, receive could be subject to additional discounts as a result of various factors including regional supply and demand issues, infrastructure capacity constraints, location and quality.

EXPLORATION FOR AND DEVELOPMENT OF OIL AND NATURAL GAS RESERVES

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

The cost of drilling, completing and operating wells is often uncertain. The Company may experience unexpected cost increases, overruns, delays or cancellations of projects in their entirety as a result of numerous factors, many of which are beyond its control, including, but not limited to, increased labour costs, higher costs of inputs, weather conditions, required compliance with laws and regulations, the ability to obtain stakeholder support and approvals, and shortages or delays in the delivery of equipment and services.

The North American oil and gas industry has achieved significant reductions in its cost structure in response to the material and sustained decline in commodity prices that has been experienced in recent

years. If third-party service and other costs materially increase as industry activity regains momentum, this could materially adversely affect the Company. There is the risk that Paramount's exploration activities will not encounter commercially productive reservoirs, that Paramount will not recover all or any portion of its investment, and that Paramount's reserves, revenues and cash flow will decline. Paramount cannot provide any assurances that it will be able to find and develop additional reserves at an acceptable cost or at all.

The successful development of oil and natural gas properties requires an assessment of recoverable reserves, future natural gas, NGLs and oil prices, operating and capital costs, potential environmental and other liabilities, and the expected productivity of future wells. These assessments are inexact and, if actual results differ materially from these assessments, the Company may not recover the purchase price or development costs of a property

ACCESS TO NECESSARY INFRASTRUCTURE

Paramount's ability to produce and sell its natural gas, NGLs and oil requires it to have access to both Company constructed and owned, as well as third-party, infrastructure, including gathering systems, compression and dehydration facilities, processing facilities, pipelines and NGLs fractionation facilities. The costs and timing of constructing, expanding and maintaining such infrastructure, is often uncertain. Construction projects may experience unexpected cost increases, overruns and delays as a result of numerous factors, including, but not limited to, labour shortages, increased labour costs, higher cost of inputs, weather conditions, required compliance with government laws and regulations, the ability to obtain stakeholder support and approvals, and shortages or delays in the delivery of equipment and services.

There is also the risk that such infrastructure may not operate as designed or at the expected capacity levels and that actual operating and other costs are materially higher than estimated due to maintenance issues or for other reasons. In addition, there is a risk that processing facilities may be unable to produce products that meet the specification requirements of interconnected facilities or that there is a limited or no market for products produced. Maintenance of, or repairs to, Company and third-party infrastructure (as well as apportionments and other capacity constraints) may result in unbudgeted or unexpected costs and lower production and cash flow.

Paramount has entered into firm-service processing, transportation and NGLs fractionation commitments covering a substantial portion of its natural gas and NGLs production. If Paramount is unable to meet its obligations under these firm-service agreements, it will be required to pay for the unutilized capacity thereunder, and may be exposed to other liabilities. To the extent Paramount does not either currently, or in the future, have sufficient Company-owned or firm-service capacity in place, it will have to utilize interruptible capacity on third-party infrastructure (and/or in the case of insufficient NGLs transportation capacity, trucking or rail options). There is no guarantee that such interruptible capacity, or other NGLs transportation options, will be available, or if they are, that they can be obtained or utilized at a reasonable cost. For additional information, see "NARRATIVE DESCRIPTION OF THE BUSINESS – RESERVES AND OTHER OIL AND GAS INFORMATION".

FAILURE TO REALIZE ANTICIPATED BENEFITS OF ACQUISITIONS

Paramount completes acquisitions of oil and gas assets (and occasionally oil and gas companies) in the ordinary course of its business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as being able to realize the anticipated growth opportunities and synergies from combining the

acquired businesses and operations. The integration of acquired businesses may require substantial management effort, time and resources, diverting management's focus from other strategic opportunities and operational matters. Acquisitions could also result in difficulties in being able to hire, train or retain qualified personnel to manage and operate such properties.

Acquiring oil and natural gas properties requires the Company to assess reservoir and infrastructure characteristics, including estimated recoverable reserves, type curve performance and future production, commodity prices, revenues, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain and, as such, the acquired properties may not produce as expected, may not have the anticipated reserves and may be subject to increased costs and liabilities.

Although the acquired properties are reviewed prior to completion of an acquisition, such reviews are not capable of identifying all existing or potentially adverse conditions. This risk may be magnified where the acquired properties are in geographic areas where the Company has not historically operated or in new or emerging formations. New or emerging formations and areas often have limited or no production history and the Company may be less able to predict future drilling and production results over the life-cycles of the wells in such areas.

FUNDING OF EXPLORATION, DEVELOPMENT AND OPERATIONAL ACTIVITIES

Paramount may not be able to obtain, through operations, financings, asset dispositions or otherwise, on terms acceptable to the Company or at all, the necessary capital to fund its future exploration and development activities and other operations. The failure to obtain necessary capital when it is required could result in Paramount being unable to develop its existing reserves and resources, discover new reserves and make acquisitions. It could also among other things result in Paramount being unable to retain oil and gas licenses and leases, and satisfy contractual commitments to third-parties.

As of December 31, 2016, the Company had a \$100 million revolving Credit Facility. From time to time, the Company may incur indebtedness, including under credit facilities, pursuant to the issuance of senior unsecured notes, and/or by other means. There is a risk that the Company will not be able to meet the covenants associated with its indebtedness, repay all or part of any indebtedness, or refinance all or part of any indebtedness on commercially reasonable terms. There is a risk that the Credit Facility will not be extended or renewed with the same borrowing capacity or on similar terms. The maximum amount that Paramount may borrow under the Credit Facility is subject to periodic review and is dependent upon a number of factors, including the Company's reserves, lenders' projections of future commodity prices and the value attributed by lenders to Paramount's other property. A decision by the lenders to either reduce the amount Paramount may borrow under the Credit Facility from its current level, or conversely to not increase it if and when that may be necessary in order to fund Paramount's future growth plans, could have a material adverse effect on the Company.

INDUSTRY COMPETITION

The oil and gas industry is highly competitive. Paramount competes with other industry participants in searching for, acquiring and developing natural gas, NGLs and oil reserves, and processing, transporting and marketing these products. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and reserves. and in pursuing technological advancements to enhance well productivity and reduce drilling and completion costs. Other oil and gas companies may have greater financial, technical and human resources than Paramount that gives them a competitive advantage over the Company in these areas.

OPERATING RISKS AND INSURANCE

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

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

The occurrence of a significant event against which Paramount is not fully insured could have a material adverse effect on the Company.

DEPENDENCE ON CERTAIN SENIOR OFFICERS

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

GOVERNMENT REGULATION

Paramount's operations are governed by numerous laws and regulations at the municipal, provincial, territorial and federal levels. These laws and regulations cover a wide range of issues including, without limitation, royalties, taxes (including income taxes), land tenure, drilling practices and obligations, production rates, the development and abandonment of oil and gas fields, the export of petroleum and natural gas and environmental protection. In addition, regulatory approval processes often involve numerous stakeholders including aboriginal groups (who must be consulted with respect to potential impacts on treaty or other actual or asserted aboriginal rights) and other resource and surface rights holders. Changes to, or the failure to comply with, laws and regulations, potential regulatory interventions by stakeholders and delays in obtaining regulatory approvals could have a material adverse effect on the Company.

Paramount's income tax and royalty filings are subject to reassessment by government entities. The reassessment of filings could result in additional obligations for income tax, royalties, interest and penalties which could have a material adverse effect on the Company.

COMPLIANCE WITH AND CHANGES TO ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS

Paramount's operations are subject to extensive federal, provincial, territorial and local laws and regulations that address environmental, health and safety matters relating to the exploration, development and production of oil and gas including the release of emissions or pollutants, the storage, handling, transportation and disposal of hazardous and other substances, the remediation of environmental damage, the protection of environmentally sensitive areas and of endangered and

protected species and worker and operational safety. Compliance with these laws and regulations may impose substantial costs on Paramount and may subject Paramount to significant potential liabilities. Future changes in such legislation could result in stricter standards and enforcement, larger fines and increased costs of compliance, all of which could have a material adverse effect on Paramount's financial condition or results of operations.

Environmental laws may require parties to undertake or pay for remedial action or to pay damages regardless of fault. Environmental laws may also impose liability with respect to divested or terminated operations, even if the operations were divested or terminated many years ago.

Paramount's operations may also result in the occurrence of spills, pipeline releases, or the discharge of hazardous materials which could result in the Company being subject to remediation and clean-up obligations and exposure to potential liabilities for personal injuries and property and environmental claims. Environmental laws may impose liability on Paramount for environmental damages caused by previous owners. As a result, substantial liabilities to third-parties or government entities may be incurred, and the payment of such liabilities could have a material adverse effect on Paramount's financial condition and results of operations. In addition, the release of harmful substances in the environment or other environmental damage caused by Paramount's activities could result in the suspension or revocation of operating and environmental permits.

As previously discussed in the section "NARRATIVE DESCRIPTION OF THE BUSINESS – GENERAL", both the Alberta and British Columbia governments have imposed carbon taxes and taken other steps to regulate GHG emissions. Further, the Government of Canada has introduced its own carbon pricing plan that calls for a carbon tax that will increase to \$50 per tCO_{2e} by 2022, and that will apply in those provinces that have not adopted equivalent measures. If Alberta's and British Columbia's current carbon taxes and associated GHG reduction measures are not considered equivalent to the federal plan, Paramount could be subject to incremental obligations and costs under the federal plan. In addition, the ability of Cavalier Energy to develop its oil sands properties could be impacted by the 100 megatonne limit the Alberta government has recently imposed on GHG emissions from the oil sands sector.

These provincial and federal GHG reduction measures, together with any further regulatory steps Alberta, British Columbia and the federal government may choose to take in this area could materially impact the oil and gas industry, including Paramount.

POTENTIAL ENVIRONMENTAL RISKS ASSOCIATED WITH HYDRAULIC FRACTURING

The Company utilizes horizontal, multi-stage hydraulic fracturing, and other technologies in its drilling and completion activities. Public concern over the hydraulic fracturing process has focused on a number of issues including the completion fluids used in the fracturing process and their potential effect on fresh water aquifers, the use and disposal of water in connection with fracturing operations and the potential for fracturing operations to contribute to low level seismic events (particularly in proximity to existing faults). The Canadian Association of Petroleum Producers, an industry group, has issued guidelines on hydraulic fracturing in shale gas and other tight gas or oil reservoirs.

If new regulations are enacted regulating water usage, the types of completion fluids that can be used in fracturing operations, or that otherwise impose new requirements for, or restrictions on, hydraulic fracturing, the Company may experience increases in its costs, and have its assets, operations and prospects negatively impacted.

ROYALTY REGULATION

On several occasions over the past decade, the Governments of Alberta and British Columbia have amended their legislation governing Crown royalty rates paid by oil and natural gas producers. Any further changes to this legislation that increases royalties would reduce the Company's cash flow and earnings, and could make future capital investments, or the Company's operations and assets, less economic.

SURFACE ACCESS

The development and exploration of natural gas, NGLs and oil reserves requires ongoing access to sites where wells are to be drilled and produced, and where gathering systems, pipelines and other facilities and infrastructure are to be constructed and operated. In recent years, the regulatory process for obtaining surface access rights for Crown land has become increasingly complex and time consuming, particularly in environmentally sensitive areas and where stakeholder consultation (including with aboriginal groups) is required. In addition, surface access rights may be granted subject to conditions that restrict operations to prescribed areas or times of year for various environmental reasons (including the protection of wildlife and wildlife habitat). There is a risk that certain areas may be completely closed to oil and gas activity due to environmental concerns. Road bans are frequently imposed during the spring breakup period and at other times because of wet conditions, snow, mud and rock slides, wild fires, wildlife migrations and other events, which can result in the Company being temporarily unable to access well sites and production facilities. If Paramount is unable to obtain required surface access rights on a timely basis, and on acceptable terms, or such access is restricted, interrupted or terminated, this could have a material adverse effect on the Company.

CONTROL OF OPERATIONS

Paramount does not operate all of its properties, and to the extent a third-party operator fails to conduct operations in a timely or proper manner, Paramount could be adversely affected.

ESSENTIAL EQUIPMENT AND PERSONNEL

Oil and natural gas exploration and development activities depend upon the availability of qualified personnel and drilling and related equipment. Shortages of qualified personnel or equipment may delay Paramount's exploration and development activities.

RESERVES ESTIMATES

Estimates of natural gas, NGLs and oil reserves require numerous assumptions including, but not limited to, the price at which such natural gas, NGLs and oil can be sold, the costs of recovering, processing, transporting and selling such products, the availability of enhanced recovery techniques and governmental and other regulatory factors, such as royalty rates, taxes and environmental laws.

A change in one or more of these factors, or other factors, could result in quantities of natural gas, NGLs, and oil previously estimated as reserves becoming unrecoverable. For example, a decline in the market price of natural gas, NGLs or oil to an amount that is less than the cost of recovering them at a particular location would make the production of the affected natural gas, NGLs and oil reserves commercially uneconomic.

In addition, if estimates of reserves and the anticipated future net revenues associated with them are prepared by different independent engineers, or by the same engineers at different times, the results may vary substantially.

Furthermore, under IFRS, Paramount could be required to write-down the carrying value of its oil and natural gas properties if future natural gas, NGLs, crude oil prices become depressed, or if there are substantial downward revisions to Paramount's quantities of reserves. A write-down would result in a charge to net income and a reduction of shareholders' equity. Write-downs may also be required to be reversed if there is an increase in future natural gas, NGLs, crude oil prices, or if there are substantial upward revisions to Paramount's quantities of reserves

MARKET PRICE OF COMMON SHARES

The trading price of Paramount's Common Shares, and other securities of the Company outstanding from time to time, have experienced significant historical volatility and the prices of such securities could be subject to significant volatility in the future. Market price fluctuations in Paramount's securities may occur due to factors both related and unrelated to the Company, including but not limited to the Company's operating and financial results, the Company's financial condition, the Company's business prospects, the Company's results failing to meet forecasts or the expectations of analysts or investors, downward revisions in analysts' estimates, governmental regulatory action, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, macroeconomic developments, domestic and global commodity prices, current perceptions of the oil and gas industry and other factors, including, without limitation, those set forth above under the section titled "Note Regarding Forward-Looking Statements and Advisories"

HEDGING, INTEREST RATES AND FOREIGN EXCHANGE RATES

The nature of Paramount's operations and capital structure exposes it to risks from fluctuations in commodity prices, foreign exchange rates and interest rates. Paramount monitors and, from time-to-time, utilizes derivative and/or physical forward delivery contracts to manage its exposure to these risks. Paramount could be required to make cash payments to settle outstanding contracts or lose the cost of derivative premiums paid. In addition, contracts with a fixed or ceiling price could result in Paramount not receiving the full benefit of commodity price increases, changes in the value of the Canadian dollar or changes in interest rates. Paramount may suffer financial loss if it is unable to produce sufficient natural gas or oil to fulfill its obligations under commodity hedging arrangements, and may be required to pay Crown royalties based on a market or reference price that is higher than the fixed or ceiling price under such arrangements. Paramount may also be required to pay margin calls under, or amounts to settle, derivative contracts. In addition, Paramount may be exposed to credit related losses in the event of non-performance by a counterparty to a derivative contract.

Changes in commodity prices and changes in the \$US / \$CDN dollar exchange rate can have a material impact on the Company's revenues. Changes in market interest rates can have a material impact on interest expense related to any floating rate debt and the market value of any fixed rate debt outstanding from time to time. Changes in the \$US / \$CDN dollar exchange rate may also impact the Company's Canadian dollar equivalent interest costs related to any \$US denominated debt outstanding from time to time and the principal amount of such debt, which may have a material impact on the Company's debt service costs and the cost of repaying principal amounts.

INVESTMENT RISK

Paramount holds investments in the shares of both public and private entities. Any adverse change in the financial position, business or operations of the entities in which Paramount holds an investment may have a material adverse effect on the value of such investments and, as a result, on the Company's return on such investments. Aggregate write-downs of \$11.2 million were recorded in the Company's consolidated financial statements related to the carrying value of certain of these investments for the year ended December 31, 2016 (see the Company's audited consolidated financial statements as at and for the year ended December 31, 2016, which can be found under the Company's profile on the SEDAR website at www.sedar.com). There is no assurance as to the ability of Paramount to sell these investments or the price Paramount would receive if and when it chose to sell its investments. Decreases in the value of Paramount's investments or the inability to sell investments could have a material adverse effect on the Company.

UNFORESEEN TITLE DEFECTS, EXPIRATION OF LICENSES AND LEASES, AND LAND CLAIMS

Unforeseen title defects may result in the loss of entitlement to production and reserves. The Company conducts title reviews in accordance with industry practice when it acquires oil and gas properties, however such reviews do not guarantee that an unforeseen defect in the chain of title will not arise and defeat the Company's title to the assets.

The Company's properties are held in the form of working interests in oil and gas licenses and leases. Failure to meet the rental, drilling and other requirements of such licenses or leases will result in their termination or expiry. To the extent Paramount fails, or is financially unable, to continue prospective oil and gas licenses this could have a material adverse effect on the Company.

Aboriginal groups have recognized aboriginal rights over a significant portion of Paramount's oil and gas properties. Accordingly, consultation with such groups is required in connection with Paramount's exploration and development activities, and in certain cases accommodations may be required for infringements of these aboriginal rights. In addition, there are outstanding claims to aboriginal title affecting areas in Northeast British Columbia and the Northwest Territories where Paramount's Liard Basin shale gas properties are located. If these claims are successful, it is possible that Paramount's interests in these properties could be adversely affected.

CAVALIER ENERGY'S OIL SANDS AND CARBONATE BITUMEN PROPERTIES AND BITUMEN RESERVES

Cavalier Energy's Oil Sands Lands are prospective for in-situ bitumen recovery development but are at the early stages of their evaluation and development. The Oil Sands Lands currently have no production and there are no assurances that any of these lands will commence production, generate earnings, operate profitably or provide a return on investment at any time in the future. Any decision to develop any portion of the Oil Sands Lands would require bitumen prices to be at a level that could support the payment of the Cavalier Royalty.

Cavalier Energy's bitumen reserves attributed to Hoole Grand Rapids Phase I are subject to all the same factors, uncertainties and risks as Paramount's conventional natural gas, NGLs and oil reserves as set out above under the heading "RESERVES ESTIMATES". Additional factors that would reduce the net present value of the anticipated future net revenues from Cavalier Energy's bitumen reserves (and could potentially render them uneconomic depending on the market price of bitumen) are: (a) the Cavalier

Royalty; and (b) an increase in the market price for natural gas and NGLs which are used as inputs for oil sands and carbonate bitumen operations.

THIRD-PARTY CREDIT RISK

Paramount is exposed to third-party credit risk through its contractual arrangements, including in respect of its investments of cash and cash equivalents and with marketers of its natural gas, NGLs and oil production and its current and future joint venture partners. If any of these third-parties fail or are unable to meet their contractual obligations to the Company, this could have a material adverse effect on the Company. In addition, poor credit conditions in the industry may affect a joint venture partner's willingness to participate in the Company's capital programs, potentially delaying such programs and impacting the results thereof.

VANDALISM AND TERRORISM

Oil and gas industry participants, including Paramount, are a potential target for vandals and terrorists. The possibility that the Company's or third-party infrastructure facilities may be direct targets of, or indirect casualties of, an act of vandalism or terrorism and the implementation of security measures as a precaution against such attacks may result in increased cost to our business. If any of the Company's properties, wells or facilities or those of third-parties that the Company utilizes are the subject of a serious act of vandalism, or a terrorist attack, it may have a material adverse effect on the Company.

INFORMATION SECURITY

The Company's information technology systems are subject to cyber security risks. While the Company invests in security systems to prevent and detect inappropriate or illegal access to its key systems and regularly reviews its policies, procedures and protocols for data and system integrity, there can be no assurance that critical systems will not be breached or compromised. Targeted attacks on Paramount's systems (or on systems of third-parties that it relies on), the failure or non-availability of a key information technology system or a breach of security measures designed to protect Paramount's information technology systems could result in the theft, misuse, modification or destruction of information, including trade secrets and confidential business information, and cause disruptions to various systems and equipment (which could potentially include wells, production facilities or pipelines, creating risks of production loss, environmental damage and personal injury).

LITIGATION

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 and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company. Even if Paramount prevails in any such legal proceedings, they could be costly and time-consuming and divert the attention of management and key personnel from the Company's core business operations.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

INTEREST OF EXPERTS

The Company's auditors are Ernst & Young LLP, Chartered Professional Accountants, Suite 2200, 215 – 2nd Street SW, Calgary, Alberta, T2P 1M4. Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

Information relating to Paramount's and Cavalier Energy's reserves in this annual information form was prepared by McDaniel as an independent qualified reserves evaluator.

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

ADDITIONAL INFORMATION

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

Additional information, including directors' and officers' remuneration, principal holders of Paramount's securities, and options to purchase securities, is included in the information circular for Paramount's most recent annual meeting of shareholders that involves the election of directors. Additional financial information is contained in Paramount's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2016.

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

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

1. We have evaluated and reviewed the Company's reserves data as at December 31, 2016. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2016 estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation and review.
3. We carried out our evaluation and review in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "COGE Handbook") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation and review to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation and review also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated and reviewed for the year ended December 31, 2016, and identifies the respective portions thereof that we have evaluated, reviewed and reported on to the Company's Management:

Independent Qualified Reserves Evaluator	Effective Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue - \$M (before income taxes, 10% discount rate)			Total
			Audited	Evaluated	Reviewed	
McDaniel & Associates	December 31, 2016	Canada	-	796,234	13,695	809,929

6. In our opinion, the reserves data respectively evaluated and reviewed by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the effective date of our report.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

/s/ P.A. Welch, P. Eng
 President & Managing Director

Calgary, Alberta
 March 8, 2017

APPENDIX B
REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR –
CAVALIER ENERGY

To the boards of directors of Cavalier Energy ("Cavalier"), a wholly owned subsidiary of Paramount Resources Ltd. ("Paramount") and Paramount:

1. We have evaluated Cavalier's reserves data as at December 31, 2016. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2016 estimated using forecast prices and costs.
2. The reserves data are the responsibility of Cavalier's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "COGE Handbook") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Cavalier evaluated for the year ended December 31, 2016, and identifies the respective portions thereof that we have evaluated and reported on to Cavalier's management:

Independent Qualified Reserves Evaluator	Effective Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue - \$M (before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
McDaniel & Associates	December 31, 2016	Canada	-	108,371	-	108,371

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the effective date of our report.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

/s/ P.A. Welch, P. Eng
 President & Managing Director

Calgary, Alberta
 March 8, 2017

APPENDIX C
REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Management of Paramount Resources Ltd. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data.

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

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

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

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

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing the reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the reports of the independent qualified reserves evaluators on the reserves data; and
- (c) the content and filing of this report.

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

/s/ James H.T. Riddell
President and Chief Executive Officer

/s/ Bernard K. Lee
Chief Financial Officer

/s/ John B. Roy
Director

/s/ John C. Gorman
Director

March 8, 2017

APPENDIX D
PARAMOUNT RESOURCES LTD. (THE "CORPORATION")
AUDIT COMMITTEE CHARTER

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

A. PURPOSE

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

B. COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the Board of Directors (the "Board"), all of whom shall be "independent", as that term is defined in Sections 1.4 and 1.5 of National Instrument 52-110, *Audit Committees*⁽¹⁾ and who meet the requirements of Section 3.5(1) of National Instrument 51-101⁽¹⁾ - *Standards of Disclosure for Oil and Gas Activities*.
2. All of the members of the Committee shall be "financially literate" (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of those of the Corporation and that can be reasonably expected to be raised by the Corporation's financial statements).
3. The Board shall appoint the members of the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
4. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their members.
5. The Corporate Secretary of the Corporation shall be the secretary of the Committee, unless otherwise determined by the Committee.
6. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
7. The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors, and to such information respecting the Corporation, as it considers necessary or advisable in order to perform its duties and responsibilities.
8. Meetings of the Committee shall be conducted as follows:
 - (a) The Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
 - (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee; and

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

President and Chief Executive Officer

Chief Financial Officer

Controller

Corporate Secretary

- (d) other management representatives shall be invited to attend as necessary.
9. The external auditors shall report directly to the Committee and the external auditors and internal auditors (if any) shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee of the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.
10. The Committee may retain, at the Corporation's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties and may set and pay the compensation for any advisor engaged. The Committee will notify the Chairman of the Corporate Governance Committee whenever independent consultants are engaged.

C. ROLES AND RESPONSIBILITIES

1. The overall duties and responsibilities of the Committee shall be as follows:
- (a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements and management's discussion and analysis;
 - (b) to establish and maintain a direct line of communication with the Corporation's internal (if any) and external auditors and assess their performance;
 - (c) to ensure that the management of the Corporation has designed, implemented and is maintaining an effective system of internal financial controls and disclosure controls and procedures;
 - (d) to periodically review the audit and non-audit services pre-approval policy and recommend to the Board any changes which the Committee deems appropriate;
 - (e) to periodically consider whether there is a need to outsource internal audit functions or create an internal audit department;
 - (f) to assist the Board in the discharge of its responsibilities relating to the evaluation and disclosure of its oil and gas reserves and oil and gas activities and the approval and filing of all necessary statements and reports related thereto;
 - (g) to receive and review complaints received pursuant to the Corporation's Whistleblower Policy and oversee and provide direction on the investigation and resolution of such concerns and to periodically review the said policy and recommend to the Board changes which the Committee may deem appropriate;
 - (h) to report regularly to the Board on the fulfillment of its duties and responsibilities;

- (i) to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation; and
 - (j) to review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
- (a) to be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;
 - (b) to recommend to the Board a firm of external auditors to be nominated for appointment by the shareholders of the Corporation, and to monitor and verify the independence of such external auditors;
 - (c) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
 - (d) to review the audit plan of the external auditors prior to the commencement of the audit;
 - (e) to review with the external auditors, upon completion of their audit, the:
 - i contents of their report;
 - ii scope and quality of the audit work performed;
 - iii adequacy of the Corporation's financial and auditing personnel;
 - iv co-operation received from the Corporation's personnel during the audit;
 - v internal resources used;
 - vi significant transactions outside of the normal business of the Corporation;
 - vii significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
 - viii non-audit services provided by the external auditors, as pre-approved pursuant to the audit and non-audit services pre-approval policy;
 - (f) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles;
 - (g) to review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and
 - (h) to implement structures and procedures to ensure that the Committee meets with the external auditors on a regular basis in the absence of management.
3. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those

relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management;

- (b) review compliance under the Corporation's Code of Business Conduct Policy with those matters addressed in the policy which affect the financial integrity of the Corporation and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate; and
- (c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal accounting staff or by the external auditors have been implemented.

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

- (a) review and recommend to the Board for its approval, the Corporation's and its subsidiaries, partnerships and joint venturers, as applicable, annual financial statements, management's discussion and analysis, annual information form and annual earnings press releases before the Corporation publicly discloses this information;
- (b) review and approve the Corporation's and its subsidiaries, partnerships and joint venturers, as applicable, interim financial statements, interim management's discussion and analysis including the impact of unusual items and changes in accounting principles and estimates and report to the Board in due course with respect thereto and to review and approve the Corporation's interim earnings press releases before the Corporation publicly discloses this information;
- (c) review and approve the financial sections of:
 - i the annual report to shareholders;
 - ii the annual information form;
 - iii prospectuses;
 - iv other public reports requiring approval by the Board; and
 - v press releases related there to, and report to the Board with respect thereto;
- (d) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
- (e) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
- (f) review and report on the integrity of the Corporation's consolidated financial statements;
- (g) review the minutes of any audit committee meeting of any subsidiary of the Corporation;
- (h) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;
- (i) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts; and

- (j) develop a calendar of activities to be undertaken by the Committee for each ensuing year related to the Committee's duties and responsibilities as set forth in this Charter and to submit the calendar in the appropriate format to the Board of Directors within a reasonable period of time following each annual general meeting of shareholders.
5. The duties and responsibilities of the Committee as they relate to the Corporation's oil and gas reserves estimates are to:
- (a) review, with reasonable frequency, the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the disclosure requirements and restrictions of all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto;
 - (b) review the appointment of the independent engineering firm responsible for evaluating the Corporation's reserves, and in the case of any proposed change in such appointment, determine the reasons for the proposal and whether there have been disputes between the appointed reserves evaluator and Management of the Corporation;
 - (c) review, with reasonable frequency, the Corporation's procedures for providing information to the reserves evaluator;
 - (d) before recommending the approval of the filing of reserves data and the report of the reserves evaluator as required under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto, meet with Management and the reserves evaluator to:
 - i determine whether any restrictions affect the ability of the reserves evaluator to report on reserves data without reservation, and
 - ii review the reserves data and the report of the reserves evaluator;
 - (e) review, discuss with and make recommendations to the Board with respect to:
 - i approving the content and filing of the reserves statement;
 - ii the filing of the report of the reserves evaluator; and
 - iii the content and filing of the report of Management and Directors;as required or specified under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto.

D. ANNUAL REVIEW AND ASSESSMENT

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

(1) Definitions from National Instrument 52-110, National Instrument 51-101 have been omitted.