



**Paramount**  
*resources ltd.*

**Management's Discussion and Analysis**  
**For the year ended December 31, 2017**

This Management's Discussion and Analysis ("MD&A"), dated March 7, 2018, should be read in conjunction with the audited consolidated financial statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the year ended December 31, 2017 (the "Consolidated Financial Statements"). Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

## ABOUT PARAMOUNT

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

Paramount completed two major transactions in 2017, expanding its footprint in the Montney and Duvernay Deep Basin resource plays and materially increasing its inventory of undeveloped acreage in Western Canada. The Company has organized its expanded operations into three regions:

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

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

## 2017 FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)(2)</sup>

	2017	2016	2015
<b>FINANCIAL</b>			
<b>Petroleum and natural gas sales</b>	<b>491.4</b>	248.8	376.8
<b>Net income (loss)</b>	<b>183.4</b>	1,165.3	(901.3)
<i>per share – basic (\$/share)</i>	<b>1.60</b>	10.98	(8.52)
<i>per share – diluted (\$/share)</i>	<b>1.58</b>	10.95	(8.52)
<b>Adjusted funds flow</b>	<b>218.7</b>	35.7	93.2
<i>per share – basic (\$/share)</i>	<b>1.90</b>	0.34	0.88
<i>per share – diluted (\$/share)</i>	<b>1.89</b>	0.34	0.88
<b>Exploration and Development Capital <sup>(3)</sup></b>	<b>527.6</b>	187.5	457.3
<b>Investments in other entities – market value <sup>(4)</sup></b>	<b>53.3</b>	208.7	130.8
<b>Total assets</b>	<b>5,090.7</b>	2,059.0	2,781.0
<b>Long-term debt</b>	<b>701.8</b>	–	1,750.2
<b>Net debt (cash)</b>	<b>636.2</b>	(565.9)	1,904.6
<b>OPERATIONAL</b>			
<b>Sales volumes</b>			
Natural gas (MMcf/d)	<b>161.3</b>	104.8	160.7
Condensate and oil (Bbl/d)	<b>13,956</b>	7,733	8,610
Other NGLs (Bbl/d) <sup>(5)</sup>	<b>4,138</b>	6,668	8,735
<b>Total (Boe/d)</b>	<b>44,970</b>	31,860	44,130
<b>Net wells drilled <sup>(6)</sup></b>	<b>36</b>	12	11
<b>ADJUSTED FUNDS FLOW (\$/Boe)</b>			
Petroleum and natural gas sales	<b>29.94</b>	21.34	23.39
Royalties	<b>(1.50)</b>	(0.19)	(0.64)
Operating expense	<b>(10.11)</b>	(8.32)	(5.59)
Transportation and NGLs processing <sup>(7)</sup>	<b>(3.11)</b>	(4.84)	(4.08)
<b>Netback</b>	<b>15.22</b>	7.99	13.08
Commodity contract settlements	<b>0.88</b>	3.91	0.78
<b>Netback including commodity contract settlements</b>	<b>16.10</b>	11.90	13.86
General and administrative	<b>(2.50)</b>	(2.22)	(1.48)
Interest and financing expense	<b>(0.66)</b>	(6.74)	(6.73)
Other	<b>0.39</b>	0.12	0.14
<b>Adjusted funds flow</b>	<b>13.33</b>	3.06	5.79

- (1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted funds flow, Exploration and Development Capital, Investments in other entities – market value, Net debt (cash) and Netback.
- (2) The results of operations and net assets of Apache Canada Ltd. are included in Paramount's results following the Apache Canada Acquisition on August 16, 2017. The results of operations and net assets of Trilogy Energy Corp. are included in Paramount's results following the closing of the Trilogy Merger on September 12, 2017.
- (3) Exploration and Development Capital consists of property, plant and equipment and exploration expenditures excluding spending related to land and property acquisitions and corporate assets.
- (4) Based on the period-end closing prices of publicly-traded investments and the book value of remaining investments.
- (5) Other NGLs include ethane, propane and butane.
- (6) Excludes wells drilled on lands associated with the disposed Musreau/Kakwa properties.
- (7) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

## CONSOLIDATED RESULTS

### Net Income

Paramount recorded net income of \$183.4 million for the year ended December 31, 2017 compared to net income of \$1,165.3 million in the same period in 2016. Significant factors contributing to the change are shown below:

Year ended December 31, 2017	
<b>Net income – 2016</b>	<b>1,165.3</b>
• Gain on Apache Canada Acquisition	548.9
• Income tax recovery in 2017 compared to income tax expense in 2016	295.0
• Higher Netback	156.8
• Lower interest and financing expense due to lower average debt during 2017	69.5
• Revaluation gain on Trilogy Shares owned by Paramount immediately prior to the Trilogy Merger	61.8
• Debt extinguishment expense in 2016	27.6
• Lower gain on sale of oil and gas assets in 2017 primarily due to the Musreau area asset sales in 2016	(1,256.0)
• Higher depletion and depreciation mainly due to higher sales volumes and net impairment charges of \$89.9 million in 2017 compared to impairment reversals totaling \$133.2 million in 2016	(357.7)
• Exploration and evaluation expense in 2017, including write-downs of \$184.6 million related to the Shale Gas Project compared to income in 2016, which included a \$99.2 million gain in respect of the Cavalier Royalty	(286.8)
• ARO Discount Rate Adjustment related to the Apache Canada Acquisition	(158.2)
• Foreign exchange loss in 2017; the 2016 gain mainly related to US\$450 million senior notes	(44.0)
• Transaction and reorganization costs in 2017 related to the Apache Canada Acquisition and Trilogy Merger	(30.5)
• Other	(8.3)
<b>Net income – 2017</b>	<b>183.4</b>

On August 16, 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada") for total cash consideration of \$486.9 million (the "Apache Canada Acquisition"). Apache Canada was a wholly-owned subsidiary of a publicly traded U.S. based international oil and gas company. Apache Canada's primary oil and gas assets were located at Wapiti, Kaybob and in Central Alberta.

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

Following the completion of the Apache Canada Acquisition, Apache Canada became a direct wholly-owned subsidiary of Paramount and upon completion of the Trilogy Merger, Trilogy became a direct wholly-owned subsidiary of Paramount. Paramount continued its operations on a combined basis with the operations of Apache Canada (renamed Paramount Resources (ACL) Ltd.) and Trilogy (renamed Paramount Resources (TEC) Ltd.), for the remainder of 2017. In January 2018, Paramount Resources Ltd. amalgamated with Paramount Resources (ACL) Ltd. and Paramount Resources (TEC) Ltd., with the amalgamated corporation continuing as Paramount Resources Ltd.

In April 2016, the Company sold its processing facilities at Musreau/Kakwa (the "Musreau Complex") and in August 2016, the Company sold the majority of its Musreau/Kakwa oil and gas properties (the "Musreau Assets"). In May 2017, Paramount closed the sale of its oil and gas properties in the Valhalla area (the

"Valhalla Assets"). When used herein, "Sold Assets" refers to the Musreau Complex, the Musreau Assets, the Valhalla Assets and other non-core property dispositions.

Paramount's 2017 results include the results of operations of Paramount Resources (ACL) Ltd. (formerly Apache Canada) from August 16 (138 days) and Paramount Resources (TEC) Ltd.'s (formerly Trilogy) results of operations from September 12, 2017 (111 days).

Paramount recorded net income of \$1,165.3 million for the year ended December 31, 2016 compared to a net loss of \$901.3 million in the same period in 2015. Significant factors contributing to the change are shown below:

<b>Year ended December 31, 2016</b>	
<b>Net Loss – 2015</b>	(901.3)
• Gain on the sale of oil and gas assets primarily due to the Musreau area asset sales in 2016	1,389.0
• Lower depletion and depreciation due to impairment reversals totaling \$133.2 million and asset dispositions in 2016 and because 2015 included impairment charges of \$263.7 million	547.5
• Exploration and evaluation income in 2016 because of a \$99.2 million gain recognized on the sale of the Cavalier Royalty compared to an expense in 2015 which included \$184.1 million of impairment charges	281.1
• Foreign exchange gain in 2016 compared to a loss in 2015, primarily related to the US\$450 million senior notes	104.8
• Lower write-downs of investments in securities	70.6
• Lower interest and financing expense due to lower average debt balances in 2016	30.3
• Income tax expense in 2016 compared to a recovery in 2015	(168.6)
• Lower Netback in 2016 mainly due to lower sales volumes and lower commodity prices	(117.6)
• Lower gain on commodity contracts	(52.5)
• Other	(18.0)
<b>Net Income – 2016</b>	<b>1,165.3</b>

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

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

	2017	2016	2015
Cash from operating activities	126.3	45.7	84.3
Change in non-cash working capital	31.1	(15.9)	(3.8)
Transaction and reorganization costs	30.5	–	–
Geological and geophysical expenses	9.3	4.1	6.1
Asset retirement obligations settled	21.5	1.8	6.6
<b>Adjusted funds flow</b>	<b>218.7</b>	<b>35.7</b>	<b>93.2</b>
<b>Adjusted funds flow (\$/Boe)</b>	<b>13.33</b>	<b>3.06</b>	<b>5.79</b>

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

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

Year ended December 31, 2017	
<b>Adjusted funds flow – 2016</b>	<b>35.7</b>
• Higher Netback in 2017 mainly due to higher sales volumes and higher commodity prices	156.8
• Lower interest and financing expense due to lower average debt during 2017	67.8
• Lower receipts from commodity contract settlements in 2017	(31.2)
• Higher general and administrative expense mainly due to the Apache Canada Acquisition and Trilogy Merger	(15.2)
• Other	4.8
<b>Adjusted funds flow – 2017</b>	<b>218.7</b>

Adjusted funds flow for the year ended December 31, 2016 was \$35.7 million compared to \$93.2 million in 2015. Significant factors contributing to the change are shown below:

Year ended December 31, 2016	
<b>Adjusted funds flow – 2015</b>	<b>93.2</b>
• Lower Netback in 2016 mainly due to lower sales volumes and lower commodity prices	(117.6)
• Higher receipts from commodity contract settlements in 2016	33.0
• Lower interest and financing expense due to lower average debt balances in 2016	29.9
• Other	(2.8)
<b>Adjusted funds flow – 2016</b>	<b>35.7</b>

## OPERATING RESULTS

### Netback

	2017		2016	
		(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>
Natural gas revenue	132.8	2.26	82.1	2.14
Condensate and oil revenue	313.4	61.52	138.1	48.78
Other NGLs revenue <sup>(2)</sup>	40.5	26.80	27.4	11.24
Royalty and sulphur revenue	4.7	–	1.2	–
<b>Petroleum and natural gas sales</b>	<b>491.4</b>	<b>29.94</b>	<b>248.8</b>	<b>21.34</b>
Royalties	(24.6)	(1.50)	(2.2)	(0.19)
Operating expense	(165.9)	(10.11)	(97.0)	(8.32)
Transportation and NGLs processing <sup>(3)</sup>	(51.0)	(3.11)	(56.5)	(4.84)
<b>Netback</b>	<b>249.9</b>	<b>15.22</b>	<b>93.1</b>	<b>7.99</b>
Commodity contract settlements	14.4	0.88	45.6	3.91
<b>Netback including commodity contract settlements</b>	<b>264.3</b>	<b>16.10</b>	<b>138.7</b>	<b>11.90</b>

(1) Natural gas revenue shown per Mcf.

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

(3) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Petroleum and natural gas sales were \$491.4 million in 2017, an increase of \$242.6 million from the prior year due to higher sales volumes and higher commodity prices. Petroleum and natural gas sales from Paramount Resources (ACL) Ltd. (formerly Apache Canada) and Paramount Resources (TEC) Ltd. (formerly Trilogy) since the closing date of each transaction to December 31, 2017 were \$123.0 million and \$66.4 million, respectively.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and Sulphur	Total
Year ended December 31, 2016	82.1	138.1	27.4	1.2	248.8
Effect of changes in sales volumes	43.9	110.4	(10.5)	–	143.8
Effect of changes in prices	6.8	64.9	23.6	–	95.3
Change in royalty and sulphur revenue	–	–	–	3.5	3.5
<b>Year ended December 31, 2017</b>	<b>132.8</b>	<b>313.4</b>	<b>40.5</b>	<b>4.7</b>	<b>491.4</b>

## Sales Volumes

	Year ended December 31											
	Natural gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Grande Prairie	59.5	33.4	78	9,062	1,860	387	1,746	604	189	20,717	8,023	158
Kaybob	60.2	1.0	NM	3,160	146	NM	885	11	NM	14,073	323	NM
Central Alberta & Other	36.7	5.8	533	1,610	412	291	1,424	166	758	9,129	1,537	494
	156.4	40.2	289	13,832	2,418	472	4,055	781	419	43,919	9,883	344
Sold Assets	4.9	64.6	(92)	124	5,315	(98)	83	5,887	(99)	1,051	21,977	(95)
<b>Total</b>	<b>161.3</b>	<b>104.8</b>	<b>54</b>	<b>13,956</b>	<b>7,733</b>	<b>80</b>	<b>4,138</b>	<b>6,668</b>	<b>(38)</b>	<b>44,970</b>	<b>31,860</b>	<b>41</b>

NM Not meaningful

Sales volumes for the year ended December 31, 2017 increased 41 percent to 44,970 Boe/d compared to 31,860 Boe/d in 2016. The increase was primarily due to incremental sales volumes resulting from the Apache Canada Acquisition and the Trilogy Merger and new production at Karr in the Grande Prairie Region, partially offset by lower sales volumes as a result of the dispositions of the Sold Assets. The increase in sales volumes in the Grande Prairie Region is primarily due to production from new Montney wells brought on production since late-2016. Sales volumes from the properties acquired through the Apache Canada Acquisition and Trilogy Merger totalled 7.8 MMMBoe (approximately 21,430 Boe/d on an annual basis) since the closing of these transactions.

Paramount expects sales volumes to average approximately 100,000 Boe/d in 2018 with a 40-percent liquids weighting. The Company's sales volumes are anticipated to remain at this level until production at Wapiti begins to increase in the spring of 2019 when 150 MMcf/d of new third-party gas processing capacity is scheduled to come on-stream. Operating costs through the 2018 period are estimated to be approximately \$10.00 per Boe, with transportation costs expected to average \$3.10 per Boe.

## Commodity Prices

	2017	2016	% Change
<b>Natural Gas</b>			
Paramount realized price (\$/Mcf)	2.26	2.14	6
AECO daily spot (\$/GJ)	2.04	2.05	-
AECO monthly index (\$/GJ)	2.31	1.97	17
NYMEX (US\$/MMbtu)	3.02	2.55	18
Malin (US\$/MMbtu)	2.79	2.38	17
<b>Crude Oil</b>			
Paramount average realized condensate & oil price (\$/Bbl)	61.52	48.78	26
Edmonton Light Sweet (\$/Bbl)	61.84	52.80	17
West Texas Intermediate (US\$/Bbl)	50.95	43.32	18
<b>Foreign Exchange</b>			
\$CDN / 1 \$US	1.30	1.33	(2)

Paramount's average realized natural gas price increased six percent in 2017 compared to the same period in 2016. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta, California and Eastern Canada markets and is sold in a combination of daily and monthly contracts. The Company has arrangements in place to transport and sell approximately 21,000 GJ/d of natural gas in California at prices based on the \$US Malin reference prices. In the fourth quarter of 2017, the Company secured firm service transportation capacity for approximately 60,000 GJ/d of natural gas for delivery to the Dawn natural gas hub in Ontario, which is sold at \$US NYMEX reference prices.

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 condensate volumes, and are adjusted for applicable transportation, quality and density differentials. Prices for unstabilized condensate volumes trucked to terminals are based on crude oil or condensate prices quoted at Edmonton, depending on the terminal to which volumes are delivered, and are adjusted for transportation, quality and density differentials.

The Company's average realized condensate and oil price increased 26 percent in 2017 compared to the same period in 2016. The increase in Paramount's realized price was greater than increases in benchmark prices mainly as a result of the addition of condensate and oil production from Apache Canada and Trilogy since the closing of these transactions in the third quarter of 2017, which coincided with an increase to benchmark prices in the fourth quarter of 2017 compared to the first three quarters of 2017.

## Commodity Price Management

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

Year ended December 31	2017	2016
Fair value, beginning of period	(5.2)	40.2
Changes in fair value, net	(4.1)	0.2
Settlements received	(14.4)	(45.6)
Assumed on Trilogy Merger	4.6	–
<b>Fair value, end of period</b>	<b>(19.1)</b>	<b>(5.2)</b>

At December 31, 2017 the Company had the following financial commodity contracts outstanding:

Instruments	Aggregate notional	Average fixed price	Fair Value	Term
Oil – NYMEX WTI Swaps (Sale)	16,000 Bbl/d	CDN\$71.06/Bbl	(19.1)	January 2018 – December 2018

Subsequent to December 31, 2017, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN\$71.23/Bbl	January 2019 – December 2019

## Royalties

Year ended December 31	2017	Rate	2016	Rate
Royalties	24.6	5.0%	2.2	0.9%
\$/Boe	1.50		0.19	

Royalties increased \$22.4 million to \$24.6 million in 2017 compared to \$2.2 million in 2016, primarily due to the Apache Canada Acquisition and the Trilogy Merger and increased production at Karr. Applicable royalty rates for Apache Canada and Trilogy sales volumes are higher than Paramount's average royalty rates prior to the transactions, resulting in an increase to overall royalty rates for the Company in 2017. Following the Apache Canada Acquisition and Trilogy Merger, a lower proportion of the Company's sales volumes benefit from royalty incentive programs.

## Operating Expense

Year ended December 31	2017	2016	% Change
Operating expense	165.9	97.0	71
\$/Boe	10.11	8.32	22

Operating expense increased by \$68.9 million in 2017 to \$165.9 million compared to \$97.0 million in 2016. This increase was primarily due to incremental operating expenses in 2017 as a result of the Apache Canada Acquisition and Trilogy Merger and higher production at Karr, partially offset by lower operating costs due to the dispositions of the Sold Assets in 2016.

## Transportation and NGLs Processing

Year ended December 31	2017	2016	% Change
Transportation and NGLs processing	51.0	56.5	(10)
\$/Boe	3.11	4.84	(36)

Transportation and NGLs processing includes the costs of downstream natural gas, NGLs and oil transportation and NGLs fractionation costs incurred by the Company.

Transportation and NGLs processing was \$51.0 million in 2017, a decrease of \$5.5 million compared to 2016. The decrease was primarily as a result of the sale of the Musreau Assets in 2016, partially offset by higher current year pipeline and trucking costs at Karr due to increased production and the impact of the Apache Canada Acquisition and the Trilogy Merger. Paramount expects the majority of liquids production at Karr to be trucked until mid-2018, when the expansion of condensate stabilization capacity at a third-party facility is completed. The Company has contracted a dedicated fleet of trucks and 24-hour logistical services over this period to provide egress for liquids production.

## Other Operating Items

Year ended December 31	2017	2016
Depletion and depreciation (excluding impairment / de-impairment)	(344.3)	(209.7)
(Impairment) de-impairment of property plant and equipment	(89.9)	133.2
Gain on sale of oil and gas assets	124.0	1,380.0
Exploration and evaluation expense (excluding write-downs)	(18.2)	(24.1)
Exploration and evaluation income – Cavalier Royalty	–	99.2
Exploration and evaluation – write-down	(196.6)	(3.0)

Depletion and depreciation expense increased to \$344.3 million (\$20.98 per Boe) in 2017 compared to \$209.7 million (\$17.98 Boe) in 2016, primarily due to higher sales volumes and higher depletion rates in 2017.

At December 31, 2017, the Company recorded an impairment write-down of \$122.1 million related to petroleum and natural gas assets for the northern properties within the Central Alberta and Other region (the "Northern CGU"). The impairment write-down was recorded because the carrying value of the Northern CGU exceeded its recoverable amount, which was estimated based on expected net discounted future cash flows from the production of proved and probable reserves. The impairments resulted from a combination of decreases in estimated future net revenues due to lower forecasted natural gas prices and higher well costs than reserves values assigned.

The Company also recorded a \$42.1 million reversal of previously recorded impairment charges in the first quarter of 2017 related to the Valhalla area prior to the sale of the property in May 2017. The reversal represented the amount required to increase the carrying value of the Valhalla Assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

For the year ended December 31, 2016, the Company recorded a \$133.2 million reversal of previously recorded impairment charges related to petroleum and natural gas assets in Grande Prairie. The impairment reversal was primarily due to increased development activities at Karr, including enhanced well performance and improved economic conditions and other factors.

Paramount closed the sale of the Valhalla Assets in May 2017 for gross cash proceeds of \$151.3 million, resulting in the recognition of a gain on sale of \$81.4 million. The Valhalla Assets encompassed approximately 94 (74 net) sections of land and had average sales volumes of approximately 1,400 Boe/d in 2017 prior to being sold. In September 2017, Paramount closed the sale of its oil and gas properties in the Saddle Hills/Mirage area of Alberta for cash and other proceeds of \$8.2 million and recorded a gain on sale of \$27.4 million.

In April 2016, Paramount sold the Musreau Complex and recorded a gain of \$125.7 million. In August 2016, Paramount sold the Musreau Assets and recorded a gain on sale of \$1.2 billion.

In December 2016, Cavalier granted a royalty (the "Cavalier Royalty") on its oil sands lands to an unrelated third-party for cash consideration of \$100 million. A gain on sale of \$99.2 million was recorded in respect of the sale, which is included in the exploration and evaluation expense (income) for the year ended December 31, 2016.

Exploration and evaluation ("E&E") write-downs for the year ended December 31, 2017 included \$184.6 million of write-downs resulting from the de-recognition of the carrying value of the E&E assets related to the Shale Gas Project. The write-down of the Shale Gas Project was due to, among other factors, the suspension of development activities by the Company and other operators in the region and delays and cancellations of proposed downstream third-party liquid natural gas terminals to transport shale gas production to international markets.

## INVESTMENTS IN SECURITIES

Paramount's investments in other entities are summarized as follows:

As at December 31	Carrying Value		Market Value <sup>(1)</sup>	
	2017 <sup>(2)</sup>	2016	2017 <sup>(2)</sup>	2016
Trilogy <sup>(2)</sup>	–	44.1	–	144.5
MEG	19.0	34.2	19.0	34.2
Other <sup>(3)</sup>	34.3	30.0	34.3	30.0
<b>Total</b>	<b>53.3</b>	<b>108.3</b>	<b>53.3</b>	<b>208.7</b>

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

(2) On September 12, 2017, Paramount acquired all of the outstanding Trilogy Shares not already owned by it pursuant to the Trilogy Merger. As a result, no carrying value or market value is shown as at December 31, 2017, as Trilogy's results of operations and net assets have been reflected in Paramount's consolidated financial statements.

(3) Includes investments in Blackbird Energy Inc., Marquee Energy Ltd., Storm Resources Ltd., Strategic Oil & Gas Ltd. and other public and private corporations.

## OTHER ASSETS

### Fox Drilling

Fox Drilling owns seven triple-sized rigs, including four walking rigs. The walking rigs have the capability of moving across a lease with the derrick and drill pipe remaining vertical, significantly increasing efficiencies on multi-well pads. The Fox Drilling rigs are being deployed on the Company's lands in 2018.

### Shale Gas Project

With the completion of the Company's drilling program at the Shale Gas Project in 2016, Paramount 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 delineation and land retention purposes. Future development

activities at the Shale Gas Project will depend upon the advancement of proposed downstream third-party liquid natural gas terminals, project economics and other factors.

### Cavalier Energy

Cavalier was created in 2011 to be a self-funding entity that would develop the Company's oil sands resources. Cavalier held approximately 206,000 net acres of Crown leases in the Western Athabasca region of Alberta as at December 31, 2017.

No significant additional expenditures are planned for Cavalier in the near term. Cavalier's oil sands resources are at the early stages of their evaluation and development, currently have no production, and there are no assurances that Cavalier will commence production, generate earnings, operate profitably or provide a return on investment at any time in the future.

The agreement governing the Cavalier Royalty does not impose any development commitments on Cavalier, nor does it impose any terms or conditions on the use of the consideration paid for the Cavalier Royalty.

## CORPORATE

Year ended December 31	2017	2016
General and administrative	(41.1)	(25.9)
Share-based compensation	(17.8)	(27.8)
Interest and financing	(10.8)	(80.3)
Debt extinguishment	–	(27.6)
Foreign exchange	0.3	(43.7)
Revaluation of Trilogy Shares	61.8	–
Income (loss) from equity-accounted investments	1.9	(14.3)
Write-down of investments in securities	(12.6)	(11.2)
Decrease in market value of securities distributed	(10.5)	–
Transaction and reorganization costs	(30.5)	–
Gain on Apache Canada Acquisition	548.9	–
ARO Discount Rate Adjustment	(158.2)	–

General and administrative expenses were higher in 2017 primarily as a result of the impact of the Apache Canada Acquisition and the Trilogy Merger. Share-based compensation expense in 2016 included \$13.8 million related to options cancelled in the second quarter of 2016.

Interest and financing expense was \$10.8 million in 2017, a decrease of \$69.5 million from 2016, primarily as a result of lower average debt balances. Debt extinguishment expense of \$27.6 million was recorded in 2016 due to the redemption of the Company's \$450 million 7<sup>5</sup>/<sub>8</sub> percent senior notes due 2019 and the assumption of the Company's US\$450 million 6<sup>7</sup>/<sub>8</sub> percent senior notes due 2023 (the "2023 Notes") by the acquirer of the Musreau Assets.

The foreign exchange gain in 2016 mainly related to the 2023 Notes, which were outstanding until August 2016.

The carrying value of the 19.1 million Trilogy shares held by Paramount immediately prior to the Trilogy Merger was increased to fair value, resulting in the recognition of a gain of \$61.8 million in 2017. The Company recorded equity earnings of \$1.9 million prior to the closing of the Trilogy Merger.

The aggregate write-downs of investments in securities of \$12.6 million in 2017 and \$11.2 million in 2016 resulted from decreases in the market value of certain of the Company's publicly traded investments.

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

Transaction and reorganization costs in 2017 relate to costs incurred in respect of the Apache Canada Acquisition and the Trilogy Merger and the recognition of a provision for unutilized office space due to the relocation of Paramount's corporate office following these transactions.

The \$548.9 million gain recognized in respect of the Apache Canada Acquisition is substantially attributable to the undiscounted nature of the deferred tax asset recognized in the purchase allocation. Asset retirement obligations in respect of Apache Canada and Trilogy were initially recognized based on a credit adjusted discount rate and subsequently re-measured in accordance with Paramount's accounting policy to reflect the discounting of such amounts using a risk-free discount rate (the "ARO Discount Rate Adjustment"). The ARO Discount Rate Adjustment resulted in an increase to the carrying value of property, plant and equipment, except for properties with a nil carrying value, where the corresponding amount related to the ARO Discount Rate Adjustment was recorded as a charge to net income. As a result of the ARO Discount Rate Adjustment, a charge of \$158.2 million was recorded in net income for the year ended December 31, 2017.

### Tax Pools

As of December 31, 2017, Paramount had tax pools of approximately \$3.5 billion in respect of non-capital losses and scientific research and experimental development, \$1.3 billion in respect of Canadian resource pools and undepreciated capital cost and \$0.1 billion in respect of financing costs and other.

## PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	2017	2016
Drilling, completion and tie-ins	451.7	167.9
Facilities and gathering	75.9	19.6
<b>Exploration and Development Capital <sup>(1)</sup></b>	<b>527.6</b>	187.5
Land and property acquisitions	13.3	11.0
<b>Exploration and Development Capital including land &amp; property acquisitions</b>	<b>540.9</b>	198.5
<b>Corporate</b>	<b>4.2</b>	2.5
	<b>545.1</b>	201.0

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

Exploration and Development Capital was \$527.6 million in 2017 compared to \$187.5 million in 2016. Current year expenditures include \$37.0 million related to Apache Canada and \$41.7 million related to Trilogy following the closing of each of the transactions.

Expenditures in 2017 were mainly related to drilling and completion programs at Karr, Resthaven and Birch, and the 6-18 compression and dehydration facility (the "6-18 Facility") expansion at Karr. Expenditures in 2017 related to properties acquired with Apache Canada and Trilogy primarily related to drilling and completion programs at the Montney oil field in the Kaybob Region and at Wapiti in the Grande Prairie Region.

Development activities in 2017 were primarily focused on the 27 (27.0) well horizontal Montney drilling and completion program at Karr in the Grande Prairie Region, which commenced in mid-2016 (the Karr Program") and the expansion of the 6-18 Facility. All 27(27.0 net) wells from the Karr Program were drilled and completed by the end of 2017. In April 2017, Paramount completed the expansion of the 6-18 Facility, doubling its capacity to 80 MMcf/d. The total cost of the expansion was approximately \$40 million.

At Resthaven / Jayar, the 2016/17 program included five (4.5 net) Cretaceous wells and one (1.0 net) Montney well. Because of the exploratory nature of this program, drilling operations took longer than planned, resulting in approximately \$10 million of additional drilling costs. The Company completed the Montney well, which was drilled in the northern portion of the Resthaven property, and brought it on production. The Company is monitoring the longer-term performance of this well and may accelerate the development of the Montney in this area.

At the Kaybob South Duvernay property, the Company completed a new six (3.1 net) well pad that had been drilled by Apache Canada prior to the closing of the Apache Canada Acquisition and brought it on production.

At the non-operated Birch property in northeast British Columbia, drilling operations concluded with nine (4.5 net) Montney wells being rig released. The expansion of the Birch compression and dehydration facility to 40 MMcf/d (20 MMcf/d net) was completed in the third quarter of 2017.

Capital expenditures for 2018 are expected to be approximately \$600 million including exploration, optimization and maintenance programs, excluding acquisitions, divestitures and abandonment and reclamation activities. Approximately \$200 million of the 2018 capital program is related to projects that will bring new production on-stream in 2019, including \$142 million to drill and complete wells in the Wapiti area in preparation for the startup of the third-party Wapiti natural gas processing plant in 2019. In addition, the Company intends to spend approximately \$28 million on abandonment and reclamation activities in 2018.

Wells drilled were as follows:

	2017		2016	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Natural gas	35	28	12	12
Oil	8	8	–	–
<b>Total</b>	<b>43</b>	<b>36</b>	12	12

(1) Gross is the number of wells in which Paramount has a working interest. Excludes wells drilled on lands associated with the disposed Musreau Assets.

(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest. Excludes wells drilled on lands associated with the disposed Musreau Assets.

## LIQUIDITY AND CAPITAL RESOURCES

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

Year ended December 31	2017	2016
Cash and cash equivalents	(123.3)	(621.9)
Accounts receivable	(170.3)	(23.9)
Prepaid expenses and other	(9.1)	(1.7)
Accounts payable and accrued liabilities	237.2	81.6
Adjusted working capital surplus <sup>(1)</sup>	(65.5)	(565.9)
Paramount Facility	395.0	–
2019 Senior Notes (\$300 million principal amount)	306.7	–
<b>Net Debt (Cash) <sup>(2)</sup></b>	<b>636.2</b>	<b>(565.9)</b>
Share Capital	2,249.8	1,639.5
Retained earnings (accumulated deficit)	50.3	(152.2)
Reserves	143.6	147.5
<b>Total Capital</b>	<b>3,079.9</b>	<b>1,068.9</b>

(1) Adjusted working capital excludes risk management liabilities, investments in securities for distribution and related dividend payable (December 31, 2016 - \$119.0 million) and the current portion of asset retirement obligations.

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

The change in net debt (cash) in 2017 is primarily due to the payment of the purchase price for the Apache Canada Acquisition, the assumption of Trilogy's indebtedness through the Trilogy Merger and capital expenditures, partially offset by cash flow from operations and proceeds from sales of oil and gas assets. Paramount expects to fund its 2018 operations, obligations and capital expenditures with cash flow from operations and available capacity under its bank credit facility.

### Paramount Facility

As at December 31, 2017, the Company had a \$700 million financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 6, 2021, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders.

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

As at December 31, 2017, Paramount was subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

- i. Senior Secured Debt to Consolidated EBITDA to be 3.00 to 1.00 or less (or 3.50 to 1.00 or less for two full fiscal quarters after completion of a material acquisition); and
- ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

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

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

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

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

At December 31, 2017, \$395.0 million was drawn on the Paramount Facility. Paramount had undrawn letters of credit outstanding totaling \$36.6 million at December 31, 2017 that reduce the amount available to be drawn on the Paramount Facility.

In March 2018, the Paramount Facility was increased by \$500 million to \$1.2 billion and the Senior Secured Debt to Consolidated EBITDA financial covenant in such facility was amended as follows:

- Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less (or 4.00 to 1.00 or less for two full fiscal quarters after completion of a material acquisition).

At Paramount's request, the size of the Paramount Facility can be further increased by up to \$300 million (to \$1.5 billion) pursuant to an accordion feature in such facility, subject to securing incremental lender commitments.

In March 2018, the Company delivered a redemption notice to redeem all \$300 million outstanding principal amount of its 7¼% senior unsecured notes due December 2019 (the "2019 Senior Notes"). The redemption will be funded using the upsized Paramount Facility and completed in early April 2018.

### **Senior Unsecured Notes**

Paramount has \$300 million outstanding principal amount of senior unsecured notes due 2019. The 2019 Senior Notes were issued by Trilogy in late 2012 and became Paramount's notes through its acquisition of, and subsequent amalgamation with, Trilogy.

The 2019 Senior Notes bear interest at 7¼% per annum, payable semi-annually in arrears on June 13 and December 13 of each year, and mature on December 13, 2019.

As of January 1, 2018, the 2019 Senior Notes were direct senior unsecured obligations of Paramount. The 2019 Senior Notes are redeemable in whole or in part at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

### **Trilogy Facility**

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

## Share Capital

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

On December 19, 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company can purchase up to 7,497,530 Common Shares for cancellation. Any shareholder may obtain, for no charge, a copy of the notice in respect of the 2018 NCIB filed with the TSX by contacting the Company at 403-290-3600. Between January 1, 2018 and March 7, 2018, the Company purchased and cancelled 1,454,100 Common Shares at a total cost of \$27.4 million under the 2018 NCIB. The 2018 NCIB terminates on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired are purchased.

Paramount previously implemented a normal course issuer bid on October 12, 2016 (the "2016 NCIB"). The Company purchased and cancelled 622,900 Common Shares in 2016 at a total cost of \$9.7 million under the 2016 NCIB. The 2016 NCIB expired on October 12, 2017.

At December 31, 2017, Paramount had 134,712,907 Common Shares outstanding (net of 345,904 Common Shares held in trust under the Company's restricted share unit plan) and 10,028,920 options to acquire Common Shares outstanding, of which 1,986,388 options are exercisable.

## FOURTH QUARTER 2017 RESULTS

### Netback

Three months ended December 31	2017		2016	
		(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>
Natural gas revenue	69.9	2.11	13.5	3.10
Condensate and oil revenue	161.2	66.65	16.4	60.49
Other NGLs revenue <sup>(2)</sup>	25.4	30.15	2.1	22.16
Royalty and sulphur revenue	2.4	–	0.3	–
<b>Petroleum and natural gas sales</b>	<b>258.9</b>	<b>29.49</b>	32.3	29.52
Royalties	(16.8)	(1.92)	(0.1)	(0.08)
Operating expense	(86.1)	(9.81)	(10.9)	(10.00)
Transportation and NGLs processing <sup>(3)</sup>	(24.3)	(2.77)	(4.3)	(3.91)
<b>Netback</b>	<b>131.7</b>	<b>14.99</b>	17.0	15.53
Commodity contract settlements	3.7	0.42	8.2	7.54
<b>Netback including commodity contract settlements</b>	<b>135.4</b>	<b>15.41</b>	25.2	23.07

(1) Natural gas revenue shown per Mcf.

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

(3) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Fourth quarter 2017 petroleum and natural gas sales were \$258.9 million, an increase of \$226.6 million from the fourth quarter of 2016, primarily due to higher sales volumes and higher liquids prices, partially offset by lower natural gas prices.

The increases in sales volumes, royalties, operating expense and transportation and NGLs processing in the fourth quarter of 2017 compared to the same period in 2016 were primarily due to incremental production resulting from the Apache Canada Acquisition and the Trilogy Merger and new production at Karr in the Grande Prairie region.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and Sulphur	Total
Three months ended December 31, 2016	13.5	16.4	2.1	0.3	32.3
Effect of changes in sales volumes	89.0	129.9	16.5	–	235.4
Effect of changes in prices	(32.6)	14.9	6.8	–	(10.9)
Change in royalty and sulphur revenue	–	–	–	2.1	2.1
<b>Three months ended December 31, 2017</b>	<b>69.9</b>	<b>161.2</b>	<b>25.4</b>	<b>2.4</b>	<b>258.9</b>

## Sales Volumes

	Three months ended December 31											
	Natural gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Grande Prairie	93.7	31.9	194	13,146	2,263	481	3,026	784	286	31,791	8,357	280
Kaybob	176.3	0.8	NM	9,531	121	NM	2,625	10	NM	41,531	271	NM
Central Alberta & Other	89.9	4.8	NM	3,608	373	NM	3,498	145	NM	22,090	1,312	NM
	359.9	37.5	860	26,285	2,757	853	9,149	939	874	95,412	9,940	860
Sold Assets	–	10.0	(100)	–	186	(100)	–	107	(100)	–	1,961	(100)
<b>Total</b>	<b>359.9</b>	<b>47.5</b>	<b>658</b>	<b>26,285</b>	<b>2,943</b>	<b>793</b>	<b>9,149</b>	<b>1,046</b>	<b>775</b>	<b>95,412</b>	<b>11,901</b>	<b>702</b>

NM Not meaningful

Sales volumes increased 702 percent to 95,412 Boe/d in the fourth quarter of 2017 compared to 11,901 Boe/d in the same period in 2016. The increase was primarily due to incremental sales volumes resulting from the Apache Canada Acquisition and the Trilogy Merger and new production at Karr in the Grande Prairie Region.

## Commodity Prices

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

Three months ended December 31	2017	2016	% Change
<b>Natural Gas</b>			
Paramount realized price (\$/Mcf)	2.11	3.10	(32)
AECO daily spot (\$/GJ)	1.60	2.93	(45)
AECO monthly index (\$/GJ)	1.85	2.62	(29)
NYMEX (US\$/MMbtu)	2.92	3.18	(8)
Malin (US\$/MMbtu)	2.70	3.02	(11)
<b>Crude Oil</b>			
Paramount average realized condensate & oil price (\$/Bbl)	66.65	60.49	10
Edmonton Light Sweet (\$/Bbl)	65.68	60.76	8
West Texas Intermediate (US\$/Bbl)	55.40	49.29	12
<b>Foreign Exchange</b>			
\$CDN / 1 \$US	1.27	1.33	(5)

## Net Income (Loss)

Three months ended December 31	2017	2016
Petroleum and natural gas sales	258.9	32.4
Royalties	(16.8)	(0.1)
<b>Revenue</b>	<b>242.1</b>	<b>32.3</b>
Loss on financial commodity contracts	(21.5)	(6.3)
	<b>220.6</b>	<b>26.0</b>
<b>(Expenses) Income</b>		
Operating expense	(86.1)	(10.9)
Transportation and NGLs processing	(24.3)	(4.3)
General and administrative	(18.7)	(6.5)
Share-based compensation	(9.3)	(3.6)
Depletion and depreciation	(309.5)	112.0
Exploration and evaluation	(208.0)	93.6
Gain on sale of oil and gas assets	10.0	9.6
Interest and financing	(8.5)	(5.5)
Accretion of asset retirement obligations	(9.3)	(1.0)
Foreign exchange	0.4	(0.2)
Debt extinguishment	–	(9.3)
Transaction and reorganization costs	(16.1)	–
Gain on Apache Canada Acquisition	182.9	–
ARO Discount Rate Adjustment	65.2	–
Loss from equity-accounted investments	–	(2.7)
Gain on sale of investment in securities	–	3.4
Income tax recovery	102.0	11.1
Other	2.5	0.7
	<b>(326.8)</b>	<b>186.4</b>
<b>Net income (loss)</b>	<b>(106.2)</b>	<b>212.4</b>

Paramount recorded a net loss of \$106.2 million for the three months ended December 31, 2017, which included \$184.6 million of write-downs related to the Shale Gas Project and \$132.0 million of impairment charges related to petroleum and natural gas assets in the Northern CGU. Net income of \$212.4 million was recorded in the same period of 2016. Significant factors contributing to the change are shown below:

<b>Three months ended December 31, 2017</b>	
<b>Net income – 2016</b>	<b>212.4</b>
• Gain on Apache Canada Acquisition	182.9
• Higher Netback primarily due to higher sales volumes	114.7
• Higher income tax recovery in 2017	90.9
• ARO Discount Rate Adjustment related to the Apache Canada Acquisition	65.2
• Higher depletion and depreciation mainly due to higher sales volumes and impairment charges totaling \$132.0 million in 2017 compared to impairment reversals totaling \$133.2 million in 2016	(421.6)
• Exploration and evaluation expense in 2017 including the \$184.6 million write-down related to the Shale Gas Project compared to income in 2016 which included a \$99.2 million gain in respect of the Cavalier Royalty	(301.7)
• Transaction and reorganization costs in 2017 related to the Apache Canada Acquisition and Trilogy Merger	(16.1)
• Higher loss on commodity contracts in 2017	(15.2)
• Higher general and administrative costs mainly due to the Apache Canada Acquisition and Trilogy Merger	(12.2)
• Other	(5.5)
<b>Net loss – 2017</b>	<b>(106.2)</b>

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

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

<b>Three months ended December 31</b>	<b>2017</b>	<b>2016</b>
Cash from (used in) operating activities	43.4	(6.4)
Change in non-cash working capital	36.8	19.6
Transaction and reorganization costs	16.1	–
Geological and geophysical expenses	4.8	0.2
Asset retirement obligations settled	9.0	0.9
<b>Adjusted funds flow</b>	<b>110.1</b>	<b>14.3</b>
<b>Adjusted funds flow (\$/Boe)</b>	<b>12.55</b>	<b>13.10</b>
<b>Adjusted funds flow (\$/share - diluted)</b>	<b>0.82</b>	<b>0.13</b>

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

Adjusted funds flow in the fourth quarter of 2017 was \$110.1 million compared to \$14.3 million in the same period in 2016. Significant factors contributing to the change are shown below:

<b>Three months ended December 31, 2017</b>	
<b>Adjusted funds flow – 2016</b>	<b>14.3</b>
• Higher Netback in 2017 primarily due to higher sales volumes	114.7
• Higher general and administrative expense mainly due to the Apache Canada Acquisition and Trilogy Merger	(12.2)
• Lower receipts from commodity contracts settlements in 2017	(4.5)
• Higher interest and financing expense due to higher average debt in 2017	(3.0)
• Other	0.8
<b>Adjusted funds flow – 2017</b>	<b>110.1</b>

## Exploration and Development Capital

Exploration and Development Capital in the fourth quarter of 2017 totalled \$150.4 million, with the majority of spending directed towards the Karr development in the Grande Prairie region, advancing the 6-18 Facility expansion at Karr and drilling and completion programs at the Montney oil field in the Kaybob region and at Wapiti in the Grande Prairie region.

Exploration and Development Capital in the fourth quarter of 2017 was higher than planned, primarily as a result of incurring some 2018 expenditures in late-2017 to accelerate well completions and facilities expansion work at Karr, initiate drilling operations at Smoky River, Kaybob South and Karr and accelerate work on water management facilities for 2018 well completions.

## QUARTERLY INFORMATION

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Petroleum and natural gas sales</b>	<b>258.9</b>	<b>116.5</b>	<b>61.3</b>	<b>54.7</b>	32.3	51.7	73.6	91.2
<b>Net income (loss)</b>	<b>(106.2)</b>	<b>223.5</b>	<b>45.3</b>	<b>20.7</b>	212.4	1,029.4	(30.6)	(46.0)
<i>Per share – basic (\$/share)</i>	<i>(0.79)</i>	<i>1.99</i>	<i>0.43</i>	<i>0.20</i>	2.01	9.69	(0.29)	(0.43)
<i>Per share – diluted (\$/share)</i>	<i>(0.79)</i>	<i>1.97</i>	<i>0.42</i>	<i>0.19</i>	1.99	9.64	(0.29)	(0.43)
<b>Adjusted funds flow</b>	<b>110.1</b>	<b>45.3</b>	<b>35.2</b>	<b>28.0</b>	14.3	3.8	(4.9)	22.4
<i>Per share – basic (\$/share)</i>	<i>0.82</i>	<i>0.40</i>	<i>0.33</i>	<i>0.26</i>	0.14	0.04	(0.05)	0.21
<i>Per share – diluted (\$/share)</i>	<i>0.82</i>	<i>0.40</i>	<i>0.33</i>	<i>0.26</i>	0.13	0.04	(0.05)	0.21
<b>Sales volumes</b>								
Natural gas (MMcf/d)	<b>359.9</b>	<b>177.2</b>	<b>53.0</b>	<b>51.4</b>	47.5	88.6	129.8	153.9
Condensate and oil (Bbl/d)	<b>26,285</b>	<b>14,845</b>	<b>8,118</b>	<b>6,348</b>	2,943	5,335	9,490	13,245
Other NGLs (Bbl/d)	<b>9,149</b>	<b>4,641</b>	<b>1,414</b>	<b>1,255</b>	1,046	4,687	9,764	11,259
Total (Boe/d)	<b>95,412</b>	<b>49,023</b>	<b>18,367</b>	<b>16,163</b>	11,901	24,786	40,890	50,161
<b>Average realized price</b>								
Natural gas (\$/Mcf)	<b>2.11</b>	<b>1.89</b>	<b>3.24</b>	<b>3.55</b>	3.10	2.65	1.49	2.09
Condensate and oil (\$/Bbl)	<b>66.65</b>	<b>54.30</b>	<b>57.95</b>	<b>61.75</b>	60.49	51.15	52.83	42.28
Other NGLs (\$/Bbl)	<b>30.15</b>	<b>23.05</b>	<b>20.09</b>	<b>23.69</b>	22.16	11.11	11.19	10.31
Total (\$/Boe)	<b>29.49</b>	<b>25.84</b>	<b>36.69</b>	<b>37.61</b>	29.52	22.66	19.79	19.98

## Significant Items Impacting Quarterly Results

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

- Fourth quarter 2017 earnings include \$184.6 million of write-downs related to the Shale Gas Project, a \$182.9 million gain related to the Apache Canada Acquisition and \$132.0 million of aggregate impairment write-downs of property, plant and equipment in the Northern CGU.
- Third quarter 2017 earnings include a \$366.1 million gain related to the Apache Canada Acquisition, a \$223.4 million charge related to the ARO Discount Rate Adjustment and a \$61.8 million gain related to a fair value adjustment in respect of the Trilogy Shares held prior to the Trilogy Merger.
- Second quarter 2017 earnings include a \$80.9 million gain on the sale of oil and gas assets primarily related to the sale of the Valhalla Assets.

- First quarter 2017 earnings include a \$42.1 million reversal of impairments of oil and gas assets recorded in prior years related to the Valhalla Assets and a \$10.5 million loss due to changes in the fair value of 3.8 million 7Gen Shares distributed to Paramount shareholders by way of dividend.
- Fourth quarter 2016 earnings include a \$133.2 million reversal of impairments of oil and gas assets recorded in prior years, a \$99.2 million gain recorded in respect of the Cavalier Royalty and the recognition of \$61.0 million of previously unrecognized deferred tax assets.
- Third quarter 2016 earnings include the impact of the sale of the Musreau Assets, including a \$1.2 billion gain on sale, lower depletion and depreciation expense, higher income tax expense and lower netback.
- Second quarter 2016 earnings include a \$131.8 million gain on the sale of oil and gas assets primarily in respect of the sale of the Musreau Complex, partially offset by \$17.7 million of share-based compensation expense.
- First quarter 2016 earnings include a foreign exchange gain of \$40.3 million related to the 2023 Notes and a \$13.7 million gain on commodity contracts.

## OTHER INFORMATION

### Contractual Obligations

Paramount had the following long-term contractual obligations at December 31, 2017:

	Within 1 year	After one year but not more than three years	After three years but not more than five years	More than five years	Total
Paramount Facility <sup>(1)</sup>	–	–	395.0	–	395.0
2019 Senior Notes <sup>(2)</sup>	21.8	320.6	–	–	342.4
Transportation and processing commitments <sup>(3)</sup>	121.3	371.3	279.3	537.7	1,309.6
Asset retirement obligations <sup>(4)</sup>	28.0	81.6	80.7	1,561.7	1,752.0
Operating leases and other <sup>(5)</sup>	9.5	9.1	3.4	0.2	22.2
	<b>180.6</b>	<b>782.6</b>	<b>758.4</b>	<b>2,099.6</b>	<b>3,821.2</b>

(1) Excluding interest.

(2) Including interest.

(3) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$20 million at December 31, 2017 (December 31, 2016 - \$5.1 million).

(4) Asset retirement obligations estimated as at December 31, 2017. Estimated costs and timing of settlement are revised from time-to-time based on new information.

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

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

### Contingencies

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

In 2016, a release occurred from a non-operated pipeline in which the Company owns a 50 percent interest. The operator, and owner of the remaining 50 percent, has initiated response, containment and

remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately \$60 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

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

## **Risk Factors**

A description of the most significant risk factors related to Paramount and its business is contained in Paramount's current Annual Information Form under the heading "Risk Factors".

The Company cannot fully protect against all of these potential risks. Some of them cannot be insured against, and the coverage that can be obtained with respect to those that are insurable will be subject to exclusions 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.

## **CHANGE IN ACCOUNTING POLICIES**

There were no new or amended accounting standards adopted by the Company for the year ended December 31, 2017.

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

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control of goods is transferred to the purchaser or services are provided. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company has evaluated the expected impact of the new standard and has concluded that it is not expected to have a material impact on the Company's Consolidated Financial Statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and certain contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has evaluated the impact of the new standard and determined that it is not expected to have a material impact on the Company's Consolidated Financial Statements, except for the measurement and presentation of investments in securities. The new standard provides that changes in the fair value of investments in securities can be recognized in earnings or be accumulated in other comprehensive income ("OCI"). The adoption of IFRS 9 is applied retroactively. Depending on whether the Company elects to record changes in the fair value of investments in securities in earnings or in OCI, the impact may result in material adjustments to the Company's Consolidated Financial Statements.

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of

assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has initiated a project to identify and review lease contracts to determine the extent of the potential impact. Paramount expects that the adoption of the standard will have a material impact on the Consolidated Financial Statements.

## DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2017, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined by the rules of the Canadian Securities Administrators, was performed by the Company's management with the oversight of the chief executive officer and chief financial officer. Based upon that evaluation, the Company's chief executive officer and chief financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law; and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has assessed the effectiveness of the Company's internal controls over financial reporting ("ICFR") as defined under National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" as at December 31, 2017. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the effectiveness of the Company's ICFR. Based on this assessment, Management has concluded that the Company's ICFR was effective as of December 31, 2017.

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

### Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2017, there was no change in the Company's ICFR that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Paramount closed the Apache Canada Acquisition on August 16, 2017 and the Trilogy Merger on September 12, 2017. Management has limited the scope of their design of disclosure controls and procedures and ICFR to exclude the controls, policies and procedures of Apache Canada and Trilogy, pursuant to Section 3.3(1)(b) of National Instrument 52-109. Amounts in respect of Apache Canada and Trilogy included in Paramount's Consolidated Financial Statements as at and for the year ended December 31, 2017 are as follows:

	<b>Apache Canada</b>	<b>Trilogy</b>
Sales Volumes (Boe/d)	14,882	6,548
Petroleum and natural gas sales	123.0	66.4
Current Assets	96.0	32.2
Current Liabilities	65.0	56.7

Non-current assets and non-current liabilities related to Apache Canada and Trilogy were impracticable to determine separately from Paramount's consolidated non-current assets and non-current liabilities as at December 31, 2017. For additional financial information regarding the Apache Canada Acquisition and the Trilogy Merger, refer to notes 4 and 5 of the Company's Consolidated Financial Statements.

## **CRITICAL ACCOUNTING ESTIMATES**

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

### **Exploration or Development**

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

### **Exploration and Evaluation Projects**

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

If hydrocarbons are encountered, but further appraisal activity is required, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the petroleum and natural gas is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional exploratory activities are carried out or the Company seeks government, regulatory or partner approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected quantities of petroleum and natural gas, expected production techniques, drilling results, estimated capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

## **Reserves Estimates**

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

Estimates of reserves impact: (i) the assessment of whether a new well has found economically recoverable reserves; (ii) depletion rates; (iii) the estimated fair value of petroleum and natural gas acquired in a business combination, and (iv) the estimated recoverable amount of petroleum and natural gas properties used from time-to-time in impairment and impairment reversal assessments, all of which could have a material impact on earnings.

## **Business Combinations**

Management is required to exercise judgment in determining whether assets acquired and liabilities assumed constitute a business. A business consists of an integrated set of assets and activities, comprised of inputs and processes, that is capable of being conducted and managed as a business by a market participant.

Business combinations are accounted for using the acquisition method of accounting, where-by the net identifiable assets acquired are recorded at fair value. The fair value of individual assets is often required to be estimated, which may involve estimating the fair values of reserves and resources, tangible assets, undeveloped land, intangible assets and other assets. These estimates incorporate assumptions using indicators of fair value, as determined by Management. Changes in any of the estimates or assumptions used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned to assets and liabilities acquired and could have a material impact on earnings.

## **Estimates of Recoverable Amounts**

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

## **Determination of CGUs**

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

estimated recoverable amounts used in impairment assessments and could have a material impact on earnings.

### **Equity Accounted Investments**

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

### **Investments in Securities**

The Company's investments in securities are accounted for as available-for-sale financial instruments and are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment in determining whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized. Management is also required to exercise judgment in estimating the fair value of investments in the securities of private corporations that are not publicly traded.

### **Provisions**

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

### **Asset Retirement Obligations**

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. Management adjusts estimated amounts periodically as assumptions are updated to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

### **Share-Based Payments**

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

### **Income Taxes**

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments and estimates related to the application of tax law, the timing of temporary difference reversals and the likelihood of realizing deferred income tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and

judgments, and changes related to them, impact current and deferred tax provisions, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

## ADVISORIES

### Forward-looking Information

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

- projected production and sales volumes (including the liquids component) and the timing thereof;
- forecast capital expenditures, operating costs per Boe, abandonment and reclamation costs and transportation costs per Boe;
- exploration, development, and associated operational plans and strategies;
- the timing and source of funds for the redemption of Paramount's 2019 senior notes; 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 and liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas and liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; 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 them as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

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

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

### **Non-GAAP Measures**

In this document "Adjusted funds flow", "Netback", "Net Debt (Cash)", "Adjusted working capital", "Exploration and Development Capital" and "Investments in other entities – market value", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

**Adjusted funds flow** refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by

management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Operating Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Net Debt (Cash)** is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the calculation of Net Debt (Cash) and **Adjusted working capital. Exploration and Development Capital** consists of the Company's spending on wells, infrastructure projects, and other property, plant and equipment and excludes spending related to land and property acquisitions and corporate assets. The Exploration and Development Capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof for the year ended December 31, 2017 and 2016. The following is the calculation of Exploration and Development Capital from the nearest GAAP measure for the three months ended December 31, 2017 and December 31, 2016:

Three months ended December 31	2017	2016
Property, plant and equipment and exploration	158.8	78.8
Land and property acquisitions	(6.0)	(0.2)
Corporate	(2.4)	(0.5)
Exploration and Development Capital	150.4	78.1

**Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. MEG Energy Corp, Blackbird Energy Inc., Marquee Energy Ltd., Storm Resources Ltd., Strategic Oil & Gas Ltd., Trilogy (2016) and others), and investments in all other entities at book value. Refer to the Investments in Securities section of the Company's Management's Discussion and Analysis and Consolidated Financial Statements as at and for the year ended December 31, 2017 for information on carrying and market values.

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

## Oil and Gas Measures and Definitions

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

### Abbreviations

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

Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the year ended December 31, 2017, the value ratio between crude 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.