



Paramount
resources ltd.

Consolidated Financial Statements
As at December 31, 2017 and 2016 and for the years then ended

MANAGEMENT'S REPORT

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

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

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

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

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

/s/ B.K. Lee
B.K. Lee
Executive Vice President, Finance and
Chief Financial Officer

March 7, 2018

INDEPENDENT AUDITORS' REPORT

To the shareholders of Paramount Resources Ltd.

We have audited the accompanying consolidated financial statements of Paramount Resources Ltd. which comprise the consolidated balance sheets as at 31 December, 2017 and 2016, and the consolidated statements of comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

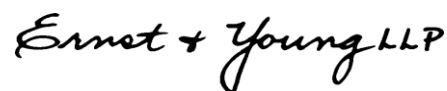
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Paramount Resources Ltd. as at December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada

March 7, 2018

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEET

(\$ thousands)

As at December 31	Note	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	17	123,329	621,872
Investments in securities for distribution	11, 16	–	118,978
Accounts receivable	15	170,313	23,895
Prepaid expenses and other		9,047	1,715
		302,689	766,460
Exploration and evaluation	6	785,764	301,530
Property, plant and equipment, net	7	3,282,542	882,724
Equity-accounted investment	5	–	44,053
Investments in securities	8	53,315	64,193
Deferred income tax	14	666,404	–
		5,090,714	2,058,960
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Dividend payable	11	–	118,978
Accounts payable and accrued liabilities	15	237,181	81,585
Risk management	15	19,060	5,180
Current portion of asset retirement obligations	10	28,000	7,896
		284,241	213,639
Long-term debt	9	701,750	–
Asset retirement obligations and other	10	1,661,073	204,413
Deferred income tax	14	–	6,125
		2,647,064	424,177
Commitments and contingencies	20		
Shareholders' equity			
Share capital	11	2,249,746	1,639,466
Retained earnings (accumulated deficit)		50,325	(152,182)
Reserves	12	143,579	147,499
		2,443,650	1,634,783
		5,090,714	2,058,960

See the accompanying notes to these Consolidated Financial Statements.

On behalf of the Board of Directors

/s/ C.H. Riddell
C.H. Riddell, Director

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

March 7, 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$ thousands, except as noted)

Year ended December 31	Note	2017	2016
Petroleum and natural gas sales		491,421	248,828
Royalties		(24,649)	(2,211)
Revenue		466,772	246,617
Gain (loss) on commodity contracts	15	(4,059)	253
		462,713	246,870
Expenses			
Operating expense		165,893	97,040
Transportation and NGLs processing		50,985	56,465
General and administrative		41,102	25,877
Share-based compensation	13	17,840	27,771
Depletion and depreciation	7	434,118	76,415
Exploration and evaluation	6	214,776	(72,071)
Gain on sale of oil and gas assets	7	(123,966)	(1,379,965)
Interest and financing		10,783	80,324
Accretion of asset retirement obligations	10	15,970	4,622
Transaction and reorganization costs	4,5,10	30,529	–
Debt extinguishment	9	–	27,575
Foreign exchange		292	(43,727)
		858,322	(1,099,674)
Income (loss) from equity-accounted investment	5	63,729	(14,316)
Gain on Apache Canada Acquisition	4	548,931	–
ARO Discount Rate Adjustment	10	(158,223)	–
Other	16	(14,324)	(10,859)
Income before tax		44,504	1,321,369
Income tax expense (recovery)	14		
Deferred		(138,857)	156,094
		(138,857)	156,094
Net income		183,361	1,165,275
Other comprehensive income (loss), net of tax			
Items that may be reclassified to net income (loss):			
Change in market value of securities		(40,078)	13,128
Reclassification of accumulated losses on securities to net income (loss)		23,011	11,235
Deferred tax on other comprehensive income (loss) related to securities		947	(1,276)
Comprehensive income		167,241	1,188,362
Net income per common share (\$/share)	11		
Basic		1.60	10.98
Diluted		1.58	10.95

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ thousands)

Year ended December 31	Note	2017	2016
Operating activities			
Net income		183,361	1,165,275
Add (deduct):			
Items not involving cash	17	(4,479)	(1,161,287)
Asset retirement obligations settled	10	(21,450)	(1,753)
Debt extinguishment		–	27,575
Change in non-cash working capital		(31,137)	15,942
Cash from operating activities		126,295	45,752
Financing activities			
Net repayment of limited-recourse demand facilities		–	(100,911)
Net draw (repayment) of revolving long-term debt	9	392,535	(693,045)
Repayment of Trilogy Facility	9	(155,901)	–
Redemption of senior notes	9	–	(463,521)
Common shares issued, net of issue costs		6,623	1,462
Common shares purchased under restricted share unit plan	13	(11,370)	–
Common shares repurchased under NCIB	11	–	(9,704)
Other		–	(3,194)
Cash from (used in) financing activities		231,887	(1,268,913)
Investing activities			
Property, plant and equipment and exploration		(545,109)	(200,992)
Proceeds on sale of oil and gas assets		158,370	1,177,437
Proceeds on sale of investments, net of costs		–	862,931
Corporate acquisition	4	(486,852)	–
Cash acquired on corporate acquisition	4	25,468	–
Change in non-cash working capital		(7,121)	(5,978)
Cash from (used in) investing activities		(855,244)	1,833,398
Net increase (decrease)		(497,062)	610,237
Foreign exchange on cash and cash equivalents		(1,481)	(306)
Cash and cash equivalents, beginning of year		621,872	11,941
Cash and cash equivalents, end of year		123,329	621,872

Supplemental cash flow information

17

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(\$ thousands, except as noted)

Year ended December 31	Note	2017		2016	
		Shares (000's)		Shares (000's)	
Share Capital					
Balance, beginning of year		105,784	1,639,466	106,212	1,646,984
Issued	11	735	9,552	176	2,060
Issued on Trilogy Merger, net of issuance costs	5	28,537	603,085	–	–
Common shares purchased under NCIB		–	–	(623)	(9,704)
Change in vested and unvested common shares for restricted share unit plan	13	(343)	(2,357)	19	126
Balance, end of year		134,713	2,249,746	105,784	1,639,466
Retained Earnings (Accumulated Deficit)					
Balance, beginning of year			(152,182)		(1,197,627)
Net income			183,361		1,165,275
Dividend			–		(119,830)
Decrease in value of securities prior to distribution	16		19,146		–
Balance, end of year			50,325		(152,182)
Reserves					
Balance, beginning of year	12		147,499		99,337
Other comprehensive income (loss)			(16,120)		23,087
Contributed surplus			12,200		25,075
Balance, end of year			143,579		147,499
Total Shareholders' Equity			2,443,650		1,634,783

See the accompanying notes to these Consolidated Financial Statements.

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

1. Significant Accounting Policies

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

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 2800, 421 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy ("Cavalier") and MGM Energy.

These consolidated financial statements of the Company, as at December 31, 2017 and December 31, 2016 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 7, 2018.

Basis of Preparation

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

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

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

a) Revenue Recognition

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

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

b) Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost and are comprised of cash in operating bank accounts, term deposits, certificates of deposit and other highly liquid investments.

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

c) Trade and Other Receivables

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

d) Exploration and Evaluation

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

The Company's E&E assets include shale gas properties in the Liard and Horn River basins and oil sands and carbonate bitumen properties. Net cash flows from the sale of production from Shale Gas Project wells are applied against the capitalized costs of the properties until the overall project is deemed commercially viable. All direct costs related to pre-development activities in connection with oil sands properties are considered pre-operating and are capitalized, including the costs to acquire mineral rights, conduct delineation and pre-production drilling, and design and construct plant and equipment.

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

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

e) Property, Plant and Equipment

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

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

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

Depletion and Depreciation

The capitalized costs of proved oil and gas properties are depleted over estimated volumes of proved developed reserves using the unit-of-production method. For purposes of these calculations, volumes of

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

natural gas production and reserves are converted to barrels on an energy equivalent basis. Depletion rates are revised annually, or more frequently when events dictate. E&E costs are not depleted.

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

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

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

f) Impairment of Non-Financial Assets

The carrying values of the Company's non-financial assets are reviewed at each reporting date to determine whether any indicators of impairment are present, or whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. For the purpose of impairment testing, non-financial assets are tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Following two significant acquisitions in 2017, the Company's conventional operations have been re-grouped into four new CGUs: the Grande Prairie CGU, the Kaybob CGU, the Central Alberta CGU and the Northern CGU. The Company's non-conventional E&E assets associated with the Shale Gas Project form a fifth CGU for the purposes of impairment testing.

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

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

g) Joint Arrangements

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

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

Interests in joint ventures are accounted for using the equity method of accounting. The Company does not currently have any interests in joint arrangements that are classified as joint ventures.

h) Equity-Accounted Investments

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

Under the equity method, an investment is recognized at cost on acquisition, with the carrying amount being subsequently increased or decreased to reflect the investor's proportionate share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment.

i) Business Combinations and Goodwill

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

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

j) Capitalized Borrowing Costs

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

k) Provisions

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

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

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

l) Asset Retirement Obligations

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

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

m) Foreign Currency Translation

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

n) Estimates of Fair Value

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

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

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

- a) quoted prices for similar assets or liabilities in active markets;
- b) quoted prices for identical or similar assets or liabilities in markets that are not active;
- c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - i. interest rates and yield curves observable at commonly quoted intervals;
 - ii. implied volatilities; and
 - iii. credit spreads; and
- d) market-corroborated inputs.

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

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

o) Financial Instruments and Other Comprehensive Income

Financial Instruments

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

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments.

Paramount's risk management assets and liabilities are classified as fair value through profit or loss (held for trading). Fair value through profit or loss financial instruments are measured at fair value, with changes in their fair values over time being recognized in net earnings. The fair values of the Company's risk management assets and liabilities are estimated using a market approach incorporating level two fair value hierarchy inputs, including forward market curves and price quotes for similar instruments provided by financial institutions.

Investments in securities are classified as available-for-sale. Available-for-sale financial assets are measured at fair value, with changes in such fair values being accumulated in other comprehensive income ("OCI") until the asset is realized or impaired, at which time a gain or loss is recognized in earnings. Investments in publicly-traded securities are carried at their period-end trading price (level one fair value hierarchy estimate). Investments in the securities of private entities are carried at fair value, which is estimated using values based on equity issuances and other indications of value from time-to-time (level two and level three fair value hierarchy estimates).

Long-term debt balances outstanding from time-to-time are classified as financial liabilities. Financial liabilities, including related transaction costs, are measured at amortized cost using the effective interest method.

Other Comprehensive Income

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

An impairment charge is recognized in respect of an investment where its fair value decreases below its carrying value, and the decline is considered to be significant or prolonged. A subsequent increase in the fair value of an investment is recognized in OCI.

p) Income Taxes

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

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

realized or liabilities are settled, with adjustments being recognized in deferred tax expense in the period in which the change occurs.

Deferred income tax assets are recognized to the extent future realization is considered probable. The carrying value of deferred income tax assets is reviewed at each reporting date taking into consideration historical and expected future taxable income, expected reversals of temporary differences, anticipated timing of realization, tax basis carry-forward periods and other factors. Deferred income tax assets are de-recognized to the extent that estimated future taxable earnings are not sufficient to result in the asset being recovered.

q) Share-Based Compensation

Paramount Stock Option Plan

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

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

Cavalier Stock Option Plan

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

Restricted Share Unit Plan

Paramount's restricted share unit plan ("RSU") provides that rights to Common Shares may be awarded to employees annually. Common Shares are purchased in the open market and held by an independent trustee until the completion of the vesting period. Generally, the awards vest over two years. The unvested portion of an award is initially recorded as a reduction of Paramount's Share Capital. The cost of such awards is then recognized over the vesting period as share-based compensation expense, with a corresponding increase to Share Capital.

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

r) Net Income Per Share

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

2. Significant Accounting Estimates, Assumptions & Judgments

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

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.

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

Reserves Estimates

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

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

Business Combinations

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

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

Estimates of Recoverable Amounts

Estimates of recoverable amounts used in impairment and impairment reversal 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

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

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

Equity Accounted Investments

Prior to the merger with Trilogy Energy Corp. ("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

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

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.

3. Changes in Accounting Standards

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 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 election 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 this standard may have a material impact on the Consolidated Financial Statements.

4. Apache Canada Ltd. Acquisition

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

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

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

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

The purchase allocation is based on Management's best estimate of fair value and has been retrospectively adjusted to reflect new information obtained about conditions that existed at the acquisition date. As a result of these adjustments, the purchase price allocation includes an increase of \$45.0 million to property, plant and equipment, an increase of \$45.0 million to asset retirement obligations, an increase of \$182.9 million to deferred income tax asset and an increase of \$182.9 million to the gain recorded on acquisition.

The following table summarizes the net assets acquired:

Cash consideration	\$ 486,852
Cash	\$ 25,468
Accounts receivable	36,113
Prepays	5,015
Exploration and evaluation	295,095
Property, plant and equipment	870,329
Deferred income tax asset	633,503
Accounts payable	(59,632)
Asset retirement obligations (see also - note 10)	(757,196)
Provision	(12,912)
Net assets acquired	1,035,783
Gain on Apache Canada Acquisition	(548,931)
	\$ 486,852

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

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

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

5. Trilogy Energy Corp. Merger

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

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

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

The purchase allocation is based on Management's best estimate of fair value and has been retrospectively adjusted to reflect new information obtained about conditions that existed at the acquisition date. As a result of these adjustments, the purchase price allocation includes a decrease of \$23.7 million to exploration and evaluation assets, an increase of \$35.1 million to property, plant and equipment and an increase of \$11.5 million to asset retirement obligations.

The following table summarizes the net assets acquired:

Share consideration – Common Shares	\$ 603,275
Fair value of Trilogy Shares held immediately before the Trilogy Merger	107,783
Share-based compensation – Trilogy Options	3,196
Total consideration	\$ 714,254
Accounts receivable	\$ 18,513
Risk management assets	4,605
Prepays	2,321
Exploration and evaluation	405,992
Property, plant and equipment	1,011,509
Accounts payable	(51,033)
Bank credit facility	(158,716)
7¼ percent senior unsecured notes due 2019	(306,750)
Asset retirement obligations (see also - note 10)	(110,395)
Deferred income tax liability	(101,792)
Net assets acquired	\$ 714,254

Pursuant to the Trilogy Merger, Paramount issued 28.5 million Common Shares which were ascribed a value of \$21.14 per share based on the closing market price of the shares on the day immediately preceding the closing of the Trilogy Merger. The carrying value of the 19.1 million Trilogy Shares held by Paramount immediately prior to the Trilogy Merger was increased to fair value, resulting in the recognition of a gain of \$61.8 million. Equity income of \$1.9 million was recorded to September 12, 2017 in respect of Paramount's investment in Trilogy (twelve months ended December 31, 2016 - \$14.3 million equity loss).

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

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

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

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

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

If the Apache Canada Acquisition and the Trilogy Merger had been completed on January 1, 2017, Paramount's revenue for the twelve months ended December 31, 2017 would have been approximately \$845 million (unaudited). Paramount's revenue less transportation, NGLs processing and operating expenses would have been approximately \$420 million (unaudited) for the twelve months ended December 31, 2017. The impact of the Apache Canada Acquisition and the Trilogy Merger on net income for the period is impracticable to determine.

This pro forma information is not necessarily indicative of results that would have been obtained if the Apache Canada Acquisition and the Trilogy Merger had actually occurred on January 1, 2017.

6. Exploration and Evaluation

Year ended December 31	2017	2016
Balance, beginning of year	301,530	363,724
Additions	14,276	48,141
Apache Canada Acquisition and Trilogy Merger	701,087	–
Change in asset retirement provision	4,304	2,942
Transfers to property, plant and equipment	(6,283)	(23,700)
Dry hole	–	(13,811)
Expired lease costs	(8,869)	(6,194)
Write-downs	(196,610)	(2,969)
Dispositions	(23,671)	(66,603)
Balance, end of year	785,764	301,530

Exploration and Evaluation Expense (Income)

Year ended December 31	2017	2016
Geological and geophysical	9,297	4,115
Dry hole	–	13,811
Expired lease costs	8,869	6,194
Write-down of exploration and evaluation assets	196,610	2,969
Gain on sale of Cavalier Royalty	–	(99,160)
	214,776	(72,071)

Write-downs of exploration and evaluation assets for the year ended December 31, 2017 include \$184.6 million related to the de-recognition of the carrying value of shale gas properties in the Liard and Horn River basins (the "Shale Gas Project"). The 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 liquid natural gas terminals to transport shale gas production to international markets.

In 2016, Cavalier granted a royalty (the "Cavalier Royalty") on its oil sands properties (the "Oil Sands Lands") to an unrelated third party for cash consideration of \$100 million. A gain of \$99.2 million was recorded in respect of the sale of the Cavalier Royalty in 2016, which was included in exploration and evaluation expense (income). The Cavalier Royalty is secured by a lien over the Oil Sands Lands.

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

7. Property, Plant and Equipment

	Petroleum and natural gas assets	Drilling rigs	Other	Total
Year ended December 31, 2017				
Cost				
Balance, December 31, 2016	1,982,438	156,437	30,435	2,169,310
Additions	532,511	716	3,526	536,753
Apache Canada Acquisition and Trilogy Merger	1,881,838	–	–	1,881,838
ARO Discount Rate Adjustment (see note 10)	507,775	–	–	507,775
Transfers from exploration and evaluation	6,283	–	–	6,283
Dispositions	(324,299)	–	(253)	(324,552)
Change in asset retirement provision	(16,418)	–	–	(16,418)
Cost, December 31, 2017	4,570,128	157,153	33,708	4,760,989
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2016	(1,208,652)	(55,442)	(22,492)	(1,286,586)
Depletion and depreciation	(335,516)	(12,398)	(1,854)	(349,768)
Write-downs	(89,860)	–	–	(89,860)
Dispositions	247,562	–	205	247,767
Accumulated depletion, depreciation and write-downs, December 31, 2017	(1,386,466)	(67,840)	(24,141)	(1,478,447)
Net book value, December 31, 2016	773,786	100,995	7,943	882,724
Net book value, December 31, 2017	3,183,662	89,313	9,567	3,282,542

	Petroleum and natural gas assets	Drilling rigs	Other	Total
Year ended December 31, 2016				
Cost				
Balance, December 31, 2015	3,655,956	155,107	29,166	3,840,229
Additions	166,930	1,330	2,761	171,021
Transfers from exploration and evaluation	23,700	–	–	23,700
Dispositions	(1,873,123)	–	(1,492)	(1,874,615)
Change in asset retirement provision	8,975	–	–	8,975
Cost, December 31, 2016	1,982,438	156,437	30,435	2,169,310
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2015	(1,741,988)	(42,677)	(21,211)	(1,805,876)
Depletion and depreciation	(203,706)	(12,765)	(1,520)	(217,991)
Reversal of prior-years' write-downs	133,246	–	–	133,246
Dispositions	603,796	–	239	604,035
Accumulated depletion, depreciation and write-downs, December 31, 2016	(1,208,652)	(55,442)	(22,492)	(1,286,586)
Net book value, December 31, 2015	1,913,968	112,430	7,955	2,034,353
Net book value, December 31, 2016	773,786	100,995	7,943	882,724

At December 31, 2017, \$119.0 million (December 31, 2016 – \$99.2 million) of capitalized costs related to incomplete development wells and infrastructure projects were not subject to depletion or depreciation.

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.

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

In May 2017, Paramount closed the sale of its oil and gas properties in the Valhalla area of Alberta (the "Valhalla Assets") for gross cash proceeds of \$151.3 million. A gain of \$81.4 million was recorded in respect of the sale of the Valhalla Assets.

In April 2016, Paramount closed the sale of its natural gas processing facility and related midstream assets at Musreau/Kakwa for net cash proceeds of \$560.3 million, resulting in the recognition of a gain on sale of \$125.7 million. In August 2016, Paramount sold the majority of its oil and gas properties in the Musreau/Kakwa area for total consideration of approximately \$2.1 billion (the "Musreau Disposition"). A gain on sale of approximately \$1.2 billion was recorded in respect of the Musreau Disposition.

Depletion and Depreciation

Year ended December 31	2017	2016
Depletion and depreciation	344,258	209,661
Write-downs of property, plant and equipment (reversal of prior-years' write-downs)	89,860	(133,246)
	434,118	76,415

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

At December 31, 2017, the Company recorded an impairment write-down of \$132.0 million related to petroleum and natural gas assets in the Northern CGU. The impairment write-down was recorded because the carrying value of the CGU exceeded its recoverable amount, which was estimated on a value in use basis based on expected net discounted future cash flows from the production of proved and probable reserves. The 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.

Recoverable amounts were estimated using a discounted cash flow method (level three fair value hierarchy estimate). Cash flows were projected over the expected remaining productive life of the Northern CGU's reserves, at an after-tax discount rate of 10.5 percent, resulting in an estimated recoverable amount of \$22.1 million. Reserve estimates were prepared by Paramount's independent qualified reserves evaluator. The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2018	2019	2020	2021	2022	2023-2032	Thereafter
Natural Gas							
AEEO (\$/MMBtu)	2.25	2.65	3.05	3.40	3.60	3.65 – 4.35	+2%/yr
Henry Hub (US\$/MMBtu)	3.00	3.05	3.25	3.55	3.80	3.85 – 4.60	+2%/yr
Crude Oil							
Edmonton Light (\$/Bbl)	70.10	71.30	74.90	80.50	82.80	84.40 – 100.90	+2%/yr
WTI (US\$/Bbl)	58.50	58.70	62.40	69.00	73.10	74.50 – 89.10	+2%/yr
Foreign Exchange							
\$US / 1 \$CDN	0.79	0.79	0.80	0.83	0.85	0.85	0.85

For the twelve months 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 the Grande Prairie CGU (as constituted in 2016 prior to the Apache Canada Acquisition and the Trilogy Merger). The impairment reversal resulted from an increase in the estimated recoverable amount of the Grande Prairie

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

CGU at December 31, 2016 compared to December 31, 2015 as a result of an increase in development activities at Karr, improved well performance and improved economics.

8. Investments in Securities

As at December 31	2017		2016	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	19,018	3,700	34,151
Other ⁽¹⁾		34,297		30,042
		53,315		64,193

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

Investments in publicly traded securities are carried at their period-end trading prices, which are level one fair value hierarchy inputs. The estimated fair value of the Company's investments in the shares of private oil and gas companies are based on equity issuances and other indications of value from time-to-time (level three fair value hierarchy inputs).

For the twelve months ended December 31, 2017 aggregate unrealized losses of \$12.6 million related to the Company's investments in MEG Energy Corp., Blackbird Energy Inc., Marquee Energy Ltd., Storm Resources Ltd., and other securities previously recorded in OCI were charged to net income as a result of significant decreases in the market prices of the securities. For the twelve months ended December 31, 2016, aggregate unrealized losses of \$11.2 million related to the Company's investments in MEG Energy Corp., Marquee Energy Ltd., and other securities previously recorded in OCI were charged to earnings.

9. Long-Term Debt

As at December 31	2017	2016
Paramount Facility	395,000	-
2019 Senior Notes (\$300 million principal amount)	306,750	-
	701,750	-

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

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

- 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.

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.

Senior Unsecured Notes

Paramount has \$300 million outstanding principal amount of senior unsecured notes due 2019 (the "2019 Senior Notes"). 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.

At December 31, 2017, the 2019 Senior Notes had a market value of 102.0% of their principal amount. The market value of the 2019 Senior Notes was estimated using a market approach based on prices quoted by financial institutions, which are level two fair value hierarchy inputs.

In 2016, the Company redeemed all \$450 million aggregate principal amount of its 7½% senior unsecured notes due 2019 and was discharged and released from all obligations and covenants relating to such notes. In connection with the Musreau Disposition in 2016, the acquiror assumed all US\$450 million aggregate principal amount of Paramount's 6⅞% senior unsecured notes due 2023 (the "2023 Notes") and the Company was discharged and released from all obligations and covenants relating to such notes. Debt extinguishment expense for the year ended December 31, 2016 includes aggregate redemption premiums totaling \$13.5 million and \$13.9 million of unamortized financing fees related to such notes.

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.

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

10. Asset Retirement Obligations and Other

Year ended December 31	2017	2016
Asset retirement obligations – long-term	1,642,194	204,413
Other liabilities	18,879	–
	1,661,073	204,413

Asset Retirement Obligations

Year ended December 31	2017	2016
Asset retirement obligations, beginning of year	212,309	273,580
Retirement obligations incurred	6,003	6,616
Apache Canada Acquisition and Trilogy Merger	867,591	–
ARO Discount Rate Adjustment	665,998	–
Revisions to estimated retirement costs	(20,421)	5,301
Obligations settled	(21,450)	(1,753)
Dispositions	(55,806)	(76,057)
Accretion expense	15,970	4,622
Asset retirement obligations, end of year	1,670,194	212,309
Asset retirement obligations – current	28,000	7,896
Asset retirement obligations – long-term	1,642,194	204,413
	1,670,194	212,309

At December 31, 2017, estimated undiscounted asset retirement obligations were \$1,752.0 million (December 31, 2016 – \$212.3 million), which have been discounted using a weighted average risk-free rate of 2.25 percent (December 31, 2016 – 2.0 percent) and an inflation rate of 2.0 percent (December 31, 2016 – 2.0 percent). These obligations will be settled over the useful lives of the assets, which extend up to 53 years.

Asset retirement obligations of \$757.2 million and \$110.4 million recognized in the purchase allocations in respect of Apache Canada and Trilogy, respectively, were subsequently remeasured in accordance with Paramount's accounting policy to reflect the discounting of such amounts using a weighted average risk-free discount rate of 2.25 percent (the "ARO Discount Rate Adjustment"). As a result of the ARO Discount Rate Adjustment, the carrying value of the estimated asset retirement obligations recorded in the purchase price allocations was subsequently increased by an aggregate of \$666.0 million.

The ARO Discount Rate Adjustment resulted in a corresponding 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, the carrying value of property, plant and equipment was increased by \$507.8 million and a charge of \$158.2 million was recorded to net income.

Other Liabilities

Other liabilities include the long-term portion of the provision recorded in respect of the Apache Canada office lease (see note 4), and the long-term portion of a provision recognized in respect of unoccupied office space. Paramount relocated its corporate offices following the closing of the Apache Canada Acquisition and the Trilogy Merger, which resulted in the Company being subject to leases for unoccupied office space. As a result, a \$11.2 million provision was recorded at December 31, 2017 in respect of the remaining

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

obligations under the leases, which expire in 2022. A corresponding \$11.2 million charge was recorded in Transaction and Reorganization costs in respect of the unutilized office space provision.

11. Share Capital

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2017, 134,712,907 (December 31, 2016 – 105,784,070) Common Shares of the Company were outstanding, net of 345,904 (December 31, 2016 – 2,865) Common Shares held in trust under the restricted share unit plan, and no preferred shares were outstanding.

In September 2017, Paramount issued 28,537,134 Common Shares pursuant to the Trilogy Merger (see note 5).

In December 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company may purchase up to 7,497,530 Common Shares for cancellation. Between January 1, 2018 and March 7, 2018, the Company has purchased and cancelled 1,454,100 Common Shares at a total cost of \$27.4 million under the 2018 NCIB. The 2018 NCIB will terminate on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2018 NCIB are purchased.

Paramount previously implemented a normal course issuer bid in October 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 in October 2017.

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

Weighted Average Common Shares

Year ended December 31	2017		2016	
	Wtd. Avg Shares (000's)	Net income	Wtd. Avg Shares (000's)	Net income
Net income – basic	114,852	183,361	106,157	1,165,275
Dilutive effect of Paramount Options	922	–	235	–
Net income – diluted	115,774	183,361	106,392	1,165,275

Outstanding stock options that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. There were 10.0 million options to acquire Paramount Common Shares outstanding at December 31, 2017 (December 31, 2016 – 4.3 million), of which 8.1 million (December 31, 2016 – 2.3 million) were anti-dilutive.

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

12. Reserves

Reserves at December 31, 2017 include unrealized gains and losses related to changes in the market value of investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

Year ended December 31, 2017	Unrealized gains on securities	Contributed surplus	Total reserves
Balance, beginning of year	31,724	115,775	147,499
Other comprehensive loss	(16,120)	–	(16,120)
Share-based compensation	–	11,743	11,743
Share-based compensation assumed on Trilogy Merger (see Note 5)	–	3,196	3,196
Options exercised	–	(2,739)	(2,739)
Balance, end of year	15,604	127,975	143,579

Year ended December 31, 2016	Unrealized gains on securities	Contributed surplus	Total reserves
Balance, beginning of year	8,637	90,700	99,337
Other comprehensive income	23,087	–	23,087
Share-based compensation	–	25,674	25,674
Options exercised	–	(599)	(599)
Balance, end of year	31,724	115,775	147,499

13. Share-Based Compensation

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

	2017		2016	
	Number	Weighted average exercise price (\$/share)	Number	Weighted average exercise price (\$/share)
Balance, beginning of period	4,322,120	13.00	7,238,650	34.66
Granted	5,475,000	20.48	4,565,100	12.74
Trilogy Merger ⁽¹⁾	1,362,375	26.75	–	–
Exercised ⁽²⁾	(734,742)	9.27	(175,840)	8.34
Cancelled	(395,833)	15.61	(6,227,300)	35.41
Forfeited	–	–	(148,040)	21.05
Expired	–	–	(930,450)	29.83
Balance, end of year	10,028,920	19.12	4,322,120	13.00
Options exercisable, end of year	1,986,388	18.72	811,740	8.26

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

(2) For Paramount Options exercised during the twelve months ended December 31, 2017, the weighted average market price of Paramount's Common Shares on the dates exercised was \$19.97 (2016 – \$16.41).

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

Share-based compensation expense for the year ended December 31, 2016 includes \$13.8 million related to Paramount Options cancelled in the year.

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of December 31, 2017 are as follows:

Exercise Prices	Awards Outstanding		
	Number	Remaining contractual life (years)	Weighted average exercise price
\$8.17 - \$18.23	3,914,350	3.4	14.29
\$18.24 - \$19.94	3,145,000	5.3	19.94
\$19.95 - \$39.00	2,969,570	4.1	24.63
	10,028,920	4.2	19.12

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

	Options awarded in 2017	Options awarded in 2016
Weighted average exercise price (\$ / share)	20.48	12.74
Volatility (%)	40.1	53.9
Expected life of share options (years)	3.6	3.7
Pre-vest annual forfeiture rate (%)	10.7	6.1
Risk-free interest rate (%)	1.6	0.7
Expected dividend yield (%)	nil	nil
Weighted average fair value of awards per option (\$ / option)	6.31	4.79

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

Cavalier Options

During the first quarter of 2017, Cavalier granted 5.0 million Cavalier Options, which vest over five years and expire 7.7 years from the grant date.

The grant date fair value of Cavalier Options awarded was estimated using the Black-Scholes-Merton model, incorporating the following inputs: expected volatility 57%, expected life 7.7 years, risk-free interest rate of 1.4%, pre-vest forfeiture rate of nil, and expected dividend yield of nil.

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

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

Restricted Share Unit Plan – Shares Held in Trust

Year ended December 31	2017		2016	
	Shares (000's)		Shares (000's)	
Balance, beginning of year	3	9	22	135
Shares purchased	496	11,370	–	–
Change in vested and unvested shares	(153)	(9,013)	(19)	(126)
Balance, end of year	346	2,366	3	9

Employee Benefit Costs

Year ended December 31	2017	2016
Stock option plans	11,743	25,674
Restricted share unit plan	6,098	2,097
Share-based compensation expense	17,841	27,771
Salaries and benefits, net of recoveries	32,104	18,015
	49,945	45,786

14. Income Tax

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

Year ended December 31	2017	2016
Income before tax	44,504	1,321,369
Effective Canadian statutory income tax rate	27.0%	27.0%
Expected income tax expense	12,016	356,770
Effect on income taxes of:		
Gain on sale of oil and gas assets	–	(11,610)
(Income) loss from equity-accounted investment	(17,207)	3,865
Gain on Apache Canada Acquisition	(148,211)	–
Write-down of investments in securities	3,392	3,034
Change in unrecognized deferred income tax asset	844	(186,657)
Share-based compensation	3,170	6,932
Unrealized foreign exchange on 2023 Notes	–	(13,995)
Non-deductible items and other	7,139	(2,245)
Income tax expense (recovery)	(138,857)	156,094

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

As at December 31	2017	2016
Property, plant and equipment	(773,979)	(241,779)
Asset retirement obligations	456,050	56,837
Non-capital losses and scientific research & experimental development	973,064	177,474
Other	11,269	1,343
Deferred income tax asset (liability)	666,404	(6,125)

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

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

Year ended December 31	2017	2016
Deferred income tax asset (liability), beginning of year	(6,125)	154,823
Deferred income tax recovery (expense)	138,857	(156,094)
Deferred income tax recovery (expense) included in OCI	947	(1,276)
Flow-through share renunciations	–	(4,065)
Apache Canada Acquisition and Trilogy Merger	531,711	–
Other	1,014	487
Deferred income tax asset (liability), end of year	666,404	(6,125)

As of December 31, 2017, Paramount has approximately \$3.3 billion (2016 – \$0.7 billion) of unused non-capital losses that expire between 2032 and 2037. The Company has \$167.3 million (2016 – \$311.0 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recorded.

15. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at December 31, 2017 consisted of cash and cash equivalents, accounts receivable, investments in securities, accounts payable and accrued liabilities, risk management liabilities and long-term debt.

Risk Management

The Company had the following financial commodity contracts in place as at December 31, 2017:

Instruments	Aggregate notional	Average fixed price	Fair value	Term
Oil – NYMEX WTI Swaps (Sale)	16,000 Bbl/d	CDN\$71.06/Bbl	(19,060)	January 2018 – December 2018

The fair values of risk management financial instruments are estimated using a market approach incorporating level two fair value hierarchy inputs, including forward market curves and price quotes for similar instruments, provided by financial institutions.

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

Year ended December 31	2017	2016
Fair value, beginning of year	(5,180)	40,207
Changes in fair value	(4,059)	253
Settlements received	(14,426)	(45,640)
Assumed on Trilogy Merger (see Note 5)	4,605	–
Fair value, end of year	(19,060)	(5,180)

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

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

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

Commodity Price Risk

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

A \$5.00 per barrel increase or decrease in oil prices, assuming all other variables are held constant, would have impacted Paramount's net earnings for the year ended December 31, 2017 by \$29.2 million.

Foreign Currency Risk

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

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

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company manages credit risk by endeavoring to enter into contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing letters of credit and limiting available credit when necessary. The maximum credit risk exposure at December 31, 2017 is limited to the carrying value of cash and cash equivalents and accounts receivable.

Paramount's primary objectives with respect to cash and cash equivalents are to minimize financial risk and maintain high liquidity. The Company's cash and cash equivalents are deposited with financial institutions with investment grade credit ratings and are highly liquid. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk.

For the year ended December 31, 2017, the Company had sales to four customers which exceeded ten percent of total revenue. Such sales totaled \$83.0 million, \$64.6 million, \$62.0 million and \$48.2 million respectively.

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

Interest Rate Risk

Paramount is exposed to interest rate risk from time-to-time on outstanding balances on its floating rate bank credit facilities and on interest bearing cash and cash equivalents. A one percent increase or decrease in interest rates would have impacted Paramount's net earnings for the year ended December 31, 2017 by approximately \$0.8 million (2016 – \$2.9 million) based on the average floating rate credit facility balances outstanding during the year. Paramount's senior notes bear interest at fixed rates and are subject to fair value changes as market interest rates change.

Liquidity Risk

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

The Company forecasts cash flows for a period of at least 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, cash and cash equivalents, and if required, credit facilities, the sale of assets and capital market transactions.

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

	2018	2019	2020	2021	Total
Accounts payable & accrued liabilities	237,181	–	–	–	237,181
Risk management liabilities	19,060	–	–	–	19,060
Credit Facility ⁽¹⁾	–	–	–	395,000	395,000
2019 Senior Notes ⁽²⁾	21,750	320,618	–	–	342,368
	277,991	320,618	–	395,000	993,609

(1) Excluding interest.

(2) Including interest.

Accounts Payable and Accrued Liabilities

As at December 31	2017	2016
Trade and accrued payables	221,888	80,869
Joint operation and other payables	13,926	481
Interest payable and financing costs	1,367	235
	237,181	81,585

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

Accounts Receivable

As at December 31	2017	2016
Revenue receivable	105,897	11,586
Joint operation receivable and other	64,416	12,309
	170,313	23,895

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

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

In estimating the recoverability of joint operation receivables, the Company performs a risk analysis considering the type and age of the outstanding receivables and the credit worthiness of the counterparties. The Company has determined that there was no impairment of joint operation receivables as at December 31, 2017.

16. Other Income (Loss)

Year ended December 31	2017	2016
Interest income	4,700	955
Decrease in market value of securities distributed	(10,450)	–
Write-down of investments in securities	(12,561)	(11,235)
Other	3,987	(579)
	(14,324)	(10,859)

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

17. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

Year ended December 31	2017	2016
Commodity contracts	18,485	45,387
Share-based compensation	17,840	27,771
Depletion and depreciation	434,118	76,415
Exploration and evaluation	205,479	(76,186)
Gain on sale of oil and gas assets	(123,966)	(1,379,965)
Accretion of asset retirement obligations	15,970	4,622
Foreign exchange	259	(43,154)
(Income) loss from equity-accounted investments	(63,729)	14,316
Gain on Apache Canada Acquisition	(548,931)	–
ARO Discount Rate Adjustment	158,223	–
Write-down of investments in securities	12,561	11,235
Decrease in market value of securities distributed	10,450	–
Deferred income tax	(138,857)	156,094
Other	(2,381)	2,178
	(4,479)	(1,161,287)

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

Supplemental Cash Flow Information

Year ended December 31	2017	2016
Interest paid	14,629	71,070

Components of cash and cash equivalents

As at December 31	2017	2016
Cash	114,895	76,575
Cash equivalents	8,434	545,297
	123,329	621,872

18. Capital Structure

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

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

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

Paramount's capital structure consists of the following:

As at December 31	2017	2016
Adjusted working capital surplus ⁽¹⁾	(65,508)	(565,897)
Paramount Facility	395,000	-
2019 Senior Notes	306,750	-
Net debt (cash)	636,242	(565,897)
Share capital	2,249,746	1,639,466
Retained earnings (accumulated deficit)	50,325	(152,182)
Reserves	143,579	147,499
Total Capital	3,079,892	1,068,886

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

19. Related Party Transactions

Compensation of Key Management Personnel

Year ended December 31	2017	2016
Salaries and benefits	2,554	3,038
Share-based compensation	6,439	9,018
	8,993	12,056

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

20. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2017:

	Within one year	After one year but not more than five years	More than five years
Petroleum and natural gas transportation and processing commitments ⁽¹⁾	121,345	650,585	537,671
Operating leases and other ⁽²⁾	9,515	12,537	189
	130,860	663,122	537,860

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$19.8 million at December 31, 2017 (December 31, 2016 – \$5.1 million).

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

Operating Lease Commitment

Paramount's corporate office space leases expire in 2022 and 2023. The Company incurred office lease costs of \$7.3 million in 2017 (2016 – \$3.7 million).

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.

21. Subsequent Event

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.

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

In March 2018, the Company delivered a redemption notice to redeem all \$300 million outstanding principal amount of its 2019 Senior Notes. The redemption will be funded using the upsized Paramount Facility and completed in early April 2018.