



Consolidated Financial Statements
As at December 31, 2022 and 2021 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 fulfills this responsibility through the Audit Committee, which is comprised entirely of non-Management directors. The Audit Committee meets regularly with Management and the independent auditors to ensure that Management's responsibilities are properly discharged and to review the Consolidated Financial Statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual Consolidated Financial Statements for issuance. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the independent auditors.

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

/s/ J.H.T. Riddell

J.H.T. Riddell

President and Chief Executive Officer and Chairman

/s/ P.R. Kinvig

P.R. Kinvig

Chief Financial Officer

March 6, 2023

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Paramount Resources Ltd.

Opinion

We have audited the consolidated financial statements of Paramount Resources Ltd. and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years ended December 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of level three investments in securities

As discussed in notes 1(m) and 7 in the consolidated financial statements, the Company measures its Level 1 and Level 3 investments in securities at fair value with the corresponding fair value change recognized in other comprehensive income. The valuation is performed by the Company using a fair value hierarchy: Level 1 are valuations based on quoted prices (unadjusted) in active markets; and level 3 are valuations based on unobservable inputs for the assets. As at December 31, 2022, the Company held level three investments in securities of \$79.8 million. The level three investments in securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indicators of value based on equity transactions of the entities and other indicators of value including financial and operational results of the entities. The valuation of the level three investments in securities is a key audit matter given the inherently subjective nature of significant unobservable inputs that require judgment.

To test the Company's estimated valuation of level three investments in securities, we performed the following audit procedures, amongst others:

- We involved our internal valuation specialists to evaluate the appropriateness of the underlying valuation methodology used for each significant investment.
- Our internal valuation specialists assessed the implied valuation metrics derived from the Company's valuation conclusions for each investment against that of observable public company and transactions, as appropriate.
- Confirmed the number of shares owned in securities with the entities.
- We evaluated the completeness and accuracy of the Company's disclosures relating to investments to assess appropriateness and completeness with IFRS disclosure requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Alberta
March 6, 2023

CONSOLIDATED BALANCE SHEETS

(\$ millions)

As at December 31	Note	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	17	2.5	1.7
Accounts receivable	14	223.2	141.9
Risk management – current	14	19.7	5.8
Prepaid expenses and other		9.1	7.3
Assets held for sale	4	251.7	–
		506.2	156.7
Lease receivable	9	–	0.5
Investments in securities	7	557.1	372.1
Risk management – long-term	14	2.9	0.7
Exploration and evaluation	5	485.7	539.9
Property, plant and equipment, net	6	2,456.3	2,269.7
Deferred income tax	13	329.1	545.5
		4,337.3	3,885.1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	14	229.9	219.1
Risk management – current	14	9.8	6.5
Asset retirement obligations and other – current	9	40.7	30.4
Liabilities associated with assets held for sale	4	2.0	–
		282.4	256.0
Long-term debt	8	159.4	386.3
Risk management – long-term	14	–	3.1
Asset retirement obligations and other – long-term	9	517.4	633.3
		959.2	1,278.7
Commitments and contingencies	20		
Shareholders' equity			
Share capital	10	2,267.1	2,251.9
Retained earnings (accumulated deficit)		517.6	(15.5)
Reserves	11	593.4	370.0
		3,378.1	2,606.4
		4,337.3	3,885.1

See the accompanying notes to these Consolidated Financial Statements

On behalf of the Board of Directors

/s/ J.H.T Riddell
J.H.T. Riddell, Director

/s/ K. Lynch Proctor
K. Lynch Proctor, Director

March 6, 2023

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ millions, except as noted)

Year ended December 31	Note	2022	2021
Petroleum and natural gas sales		2,252.4	1,383.6
Royalties		(335.3)	(127.0)
Sales of commodities purchased		272.0	75.5
Revenue	15	2,189.1	1,332.1
Loss on risk management contracts	14	(182.7)	(189.8)
		2,006.4	1,142.3
Expenses			
Operating expense		407.1	340.4
Transportation and NGLs processing		123.7	114.5
Commodities purchased		267.0	76.1
General and administrative		42.7	41.6
Share-based compensation	12	25.3	18.8
Depletion, depreciation and impairment reversals	6	286.0	133.1
Exploration and evaluation	5	30.6	38.9
Gain on sale of oil and gas assets	5,6	(65.6)	(72.1)
Interest and financing	8,14	6.4	47.1
Accretion of asset retirement obligations	9	44.9	42.6
Settlement of dissent payment entitlement	7	–	22.6
Other	16	(27.5)	16.2
		1,140.6	819.8
Income before tax		865.8	322.5
Income tax expense			
Deferred	13	185.2	85.6
		185.2	85.6
Net income		680.6	236.9
Other comprehensive income, net of tax	11		
<i>Items that will be reclassified to net income</i>			
Change in fair value of cash flow hedges, net of tax		20.4	8.9
Reclassification to net income, net of tax		(6.8)	7.7
<i>Items that will not be reclassified to net income</i>			
Change in fair value of securities, net of tax	7	208.3	284.8
Comprehensive income		902.5	538.3
Net income per common share (\$/share)	10		
Basic		4.83	1.77
Diluted		4.63	1.67

See the accompanying notes to these Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ millions)

Year ended December 31	Note	2022	2021
Operating activities			
Net income		680.6	236.9
Add (deduct):			
Items not involving cash	17	503.5	237.9
Asset retirement obligations settled	9	(36.1)	(25.4)
Change in non-cash working capital		(98.4)	32.7
Cash from operating activities		1,049.6	482.1
Financing activities			
Net repayment of revolving long-term debt	8	(229.5)	(430.2)
Lease liabilities – principal repayments	9	(7.3)	(7.7)
Convertible debentures issued, net of issue costs	8	–	34.9
Dividends	10	(160.4)	(27.4)
Common Shares issued, net of issue costs	10	21.2	10.6
Common Shares repurchased under NCIB	10	–	(2.7)
Common Shares purchased under RSU plan	12	(17.2)	(10.8)
Cash used in financing activities		(393.2)	(433.3)
Investing activities			
Capital expenditures	5,6	(655.0)	(274.6)
Land and property acquisitions	5,6	(145.8)	(5.4)
Proceeds of disposition	6,7	119.1	170.7
Investments	7	(1.8)	(1.0)
Proceeds from dissent payment entitlement, net	7	–	66.8
Change in non-cash working capital		29.5	(8.2)
Cash used in investing activities		(654.0)	(51.7)
Net increase (decrease)		2.4	(2.9)
Foreign exchange on cash and cash equivalents		(1.6)	–
Cash and cash equivalents, beginning of year		1.7	4.6
Cash and cash equivalents, end of year		2.5	1.7

See the accompanying notes to these Consolidated Financial Statements

Supplemental cash flow information

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ millions, except as noted)

Year ended December 31	Note	2022		2021	
		Shares (millions)		Shares (millions)	
Share capital					
Balance, beginning of year		139.2	2,251.9	132.3	2,207.4
Issued on exercise of Paramount Options	10,12	2.1	27.9	1.5	13.7
Issued on conversion of convertible debentures	8,10	–	–	5.2	35.5
Common Shares repurchased and cancelled under NCIB	10	–	–	(0.2)	(2.7)
Change in Common Shares for RSU plan	12	0.7	(12.7)	0.4	(2.0)
Balance, end of year		142.0	2,267.1	139.2	2,251.9
Retained earnings (accumulated deficit)					
Balance, beginning of year			(15.5)		(235.1)
Net income			680.6		236.9
Dividends	10		(160.4)		(27.4)
Recognition of deferred income tax asset	13		–		9.5
Reclassification of accumulated gain on securities	7,11		12.9		0.6
Balance, end of year			517.6		(15.5)
Equity component of convertible debentures					
Balance, beginning of year	8,10		–		–
Issued			–		1.7
Conversion of convertible debentures			–		(1.7)
Balance, end of year			–		–
Reserves					
Balance, beginning of year	11		370.0		65.5
Other comprehensive income			221.9		301.4
Contributed surplus			14.4		3.7
Reclassification of accumulated gain on securities	7		(12.9)		(0.6)
Balance, end of year			593.4		370.0
Total Shareholders' Equity			3,378.1		2,606.4

See the accompanying notes to these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

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

1. Significant Accounting Policies

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, liquids-rich natural gas focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas. The Company also pursues longer-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 the Company's registered office is Suite 4700, 888 – 3rd Street SW, Calgary, Alberta T2P 5C5. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy Inc. ("Cavalier") and MGM Energy.

These consolidated financial statements, as at December 31, 2022 and 2021 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 6, 2023.

Basis of Preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented. Amounts in these Consolidated Financial Statements are stated in millions of Canadian dollars, unless otherwise noted. Certain comparative figures have been reclassified to conform to 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 3.

a) Revenue Recognition

Revenue from petroleum and natural gas sales are recognized when control of the volumes produced is transferred to the purchaser, which generally occurs when the purchaser obtains the legal right to possession of such volumes, assumes the risks and rewards of ownership and payment from the purchaser is reasonably assured.

Paramount purchases commodities from third parties from time-to-time to fulfill sales commitments and for blending purposes. The Company sells these products to its customers. These transactions are presented as separate revenue and expense items in the consolidated statements of comprehensive income.

The Company accounts for its forward physical delivery sales contracts, which are entered into and continue to be held for the purpose of delivery of non-financial items, as executory contracts in accordance with expected sales requirements. These contracts are not considered derivative financial instruments.

Notes to the Consolidated Financial Statements

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

Settlements of these physical contracts are recognized in revenue over the term of the contracts as physical delivery occurs.

b) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in bank accounts and, from time to time, term deposits, certificates of deposit and other highly liquid investments.

c) Trade and Other Receivables

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

d) Exploration and Evaluation

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

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

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

e) Property, Plant and Equipment

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

Paramount's drilling rigs (the "Rigs") are carried at cost, net of accumulated depreciation and impairment. 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 derecognized.

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

Depletion and Depreciation

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

Notes to the Consolidated Financial Statements

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

of these calculations, volumes of natural gas production and reserves are converted to barrels of oil equivalent using a ratio of six thousand cubic feet of natural gas to one barrel (6:1). Depletion rates are revised annually, or more frequently when events dictate. E&E assets are not depleted.

Capitalized costs of the majority of Paramount's production equipment and gathering systems are depleted on a unit-of-production basis over the volume of estimated proved plus probable reserves ascribed to the property 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 and Impairment Reversal of Non-Financial Assets

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 are any indicators 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 generally grouped together into cash-generating units ("CGU"), which consist of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company's developed oil and gas properties have been grouped into three CGUs: Grande Prairie, Kaybob and Central Alberta and Other. The Company's E&E assets, consisting mainly of undeveloped land, are aggregated together into a single group for the purpose of impairment testing.

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

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

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 revenues, expenses, assets and liabilities of such joint operations.

Notes to the Consolidated Financial Statements

(Tabular amounts stated in \$ millions, 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) 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 the acquisition date, except for deferred income tax amounts. Any excess of the consideration paid over the value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred compared to the value of the net identifiable assets acquired is recognized in earnings. Costs incurred to complete the business combination are expensed. When an acquisition does not qualify as a business combination, the assets are measured at the fair value of the consideration paid (including any liabilities assumed) on the acquisition date.

i) Provisions

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

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

j) Asset Retirement Obligations

Asset retirement obligations arise from legal and/or constructive obligations to abandon and reclaim petroleum and natural gas assets, including oil and gas wells, gathering systems and facilities 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 settlement can be made. The present value of the obligation is determined using the applicable credit-adjusted risk-free discount rate, after applying an estimated cost inflation factor, and is adjusted for the passage of time, which is recognized as accretion expense. The present values of estimated future asset retirement costs are capitalized as part of the carrying value of the related petroleum and natural gas assets and are depleted on the same basis as the underlying assets. Revisions to the timing, anticipated cost, discount rate and inflation rate relating to the estimated liability are accounted for prospectively by recording an adjustment to the asset retirement obligation liability, with a corresponding adjustment to the carrying value of the related asset. Where changes to asset retirement obligations relate to properties which have a nil carrying value, the corresponding change is recorded in depletion, depreciation and impairment reversals.

Actual costs incurred on settlement are applied against the asset retirement obligation liability. Differences between the actual costs incurred and the liability accrued are recognized in earnings when the abandonment and reclamation of a property is complete.

k) Foreign Currency Translation

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

Notes to the Consolidated Financial Statements

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

l) Estimates of Fair Value

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

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

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

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

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

m) Financial Instruments and Other Comprehensive Income

Financial Instruments

The Company is exposed to market risks from changes in commodity prices, interest rates, foreign currency exchange rates, credit risk and liquidity risk. From time-to-time, Paramount enters into derivative financial instruments to manage certain of these risks.

Financial instruments are measured at fair value on initial recognition. The measurement of a financial instrument in subsequent periods is dependent upon whether it has been classified as "fair value through profit or loss", "fair value through other comprehensive income ("OCI")" or "amortized cost".

Paramount's risk management assets and liabilities relating to financial commodity contracts, foreign currency exchange contracts and other derivatives not accounted for as cash flow hedges are classified as fair value through profit or loss. Fair value through profit or loss financial instruments are measured at fair value, with changes in their fair values over time being recognized in net earnings. The fair values of the Company's risk management assets and liabilities relating to these 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.

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

Notes to the Consolidated Financial Statements

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

Investments in level one fair value hierarchy securities are carried at their period-end trading price (level one fair value hierarchy estimate). Estimates of fair values for investments in level three fair value hierarchy securities are based on valuation techniques that incorporate unobservable inputs (level three fair value hierarchy inputs). The valuation techniques utilize market-based metrics of comparable companies and transactions, indicators of value based on equity transactions of the entities and other indicators of value including financial and operational results of the entities. Fair value estimates of level three fair value hierarchy securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques. Changes in assumptions, as well as changes in judgments regarding comparable transactions and entities, could result in a material change in the estimated fair values of investments in level three fair value hierarchy securities in future periods.

The dissent payment entitlement as described in Note 7 was a financial instrument measured at amortized cost and was recorded based on the estimated fair value determined at the close of business on the day prior to the Company exercising its right of dissent, using valuation techniques and assumptions that incorporated unobservable inputs (level three fair value hierarchy inputs), including market-based metrics of comparable companies and transactions and other indicators of value.

Financial liabilities, including related transaction costs, are measured at amortized cost using the effective interest method.

Hedge Accounting

Paramount's risk management assets and liabilities related to floating-to-fixed interest rate and electricity swaps are generally accounted for as cash flow hedges using hedge accounting. The Company applies hedge accounting to certain financial instruments when such instruments are formally documented and designated at inception as qualifying hedging relationships. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the hedging relationship will be assessed to meet hedge effectiveness requirements.

Hedge effectiveness is evaluated by assessing the critical terms of the hedging relationship at inception, at the end of each reporting date and upon a significant change in the circumstances affecting hedge effectiveness. For a cash flow hedge, the effective portion of the change in the unrealized fair value of the hedging instrument is recognized in OCI. Accumulated gains or losses are reclassified from OCI to earnings as amounts are settled throughout the term of the arrangement. Any portion of the change in the fair value of the hedging instrument related to hedge ineffectiveness is recognized in earnings or reclassified from OCI to earnings when applicable.

In certain circumstances, financial instruments originally designated for hedge accounting may be de-designated for hedge accounting, in which case changes in their fair values over time are recognized in net earnings.

Other Comprehensive Income

For Paramount, OCI is comprised of changes in the fair value of investments in securities and changes in the fair value of financial instruments where hedge accounting is applied (effective portion of hedge). Amounts recorded in OCI each period are presented in the consolidated statement of comprehensive

Notes to the Consolidated Financial Statements

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

income. Cumulative changes in OCI are included in Reserves, which is presented within shareholders' equity in the consolidated balance sheet.

Compound Financial Instruments

In January 2021, the Company issued convertible debentures, all of which were converted into class A common shares of Paramount ("Common Shares") in the fourth quarter of 2021. These convertible debentures were compound financial instruments that contained both a liability and an equity component, which were initially recognized at fair value. The fair value of the liability component was determined on the date of issuance using the effective interest method, discounted using the estimated interest rate of a debt instrument having similar terms but without a conversion feature. The fair value of the conversion feature was determined on the date of issuance as the difference between the principal amount and the fair value of the liability component on the date of issue, and was classified within shareholders' equity. The liability component was carried at amortized cost and accreted over the term of the convertible debentures to the principal amount using the effective interest method. This accretion, along with interest on the convertible debentures, was recorded as interest and financing expense. The equity component was not remeasured subsequent to initial recognition. The accreted liability and equity components of the convertible debentures were reclassified to share capital on their conversion into Common Shares in the fourth quarter of 2021.

n) Impairment of Financial Assets

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

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

p) 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 ("Paramount Options") to key employees and directors. Paramount Options generally vest over five years and expire within six years of the grant date. The provisions of the plan permit the Company to settle the Paramount Options in Common Shares of the Company or in cash.

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

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 model, and such value is not adjusted in future periods. The amount of share-based compensation expense recognized each period reflects the portion of the vesting term that has elapsed and the estimated number of options that are expected to vest. That estimate is adjusted each period such that the cumulative amount recognized on the vesting date reflects the actual number of Paramount Options that ultimately vest. Upon the exercise of a Paramount Option, the Company transfers the cumulative amount recognized in Contributed Surplus in respect of that option to Share Capital.

Cavalier Stock Option Plan

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

Restricted Share Unit Plan

Paramount's cash bonus and restricted share unit ("RSU") plan provides that rights to Common Shares may be awarded to employees annually. An independent trustee purchases Common Shares in the open market and holds such shares until completion of the vesting period. Generally, the awards vest over two years. The unvested portion of awards is initially recorded as a reduction to 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 Contributed Surplus. Upon vesting of awards, the related Contributed Surplus is reclassified to Share Capital.

q) 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 net income and the weighted average number of Common Shares outstanding for the effects of dilution related to Paramount Options and any convertible debentures outstanding during the period. For Paramount Options, the number of dilutive Common Shares is determined using the treasury stock method. For convertible debentures that were outstanding in 2021, net income was increased by the after-tax interest and financing expense on the convertible debentures and the number of diluted Common Shares was increased by shares issuable on conversion of the convertible debentures, when dilutive to the calculation of diluted net income per share.

r) Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the date of inception and upon modifications. An arrangement is a lease when the terms of the agreement relate to the use of a specific asset and the lessee has the right to control the use of the specified asset.

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

Lessee

On the date a leased asset is first available for use by the Company, a right-of-use ("ROU") asset and a corresponding lease liability are recognized. The ROU asset is depreciated over the lease term and the lease liability is reduced as payments are made under the agreement. Each lease payment is allocated between a principal repayment and an interest component.

Assets and liabilities recognized in respect of leases are recorded on a discounted basis. Lease liabilities consist of the net present value of the aggregate future contractual lease payments. Where the rate implicit in a lease is not readily determinable, lease payments are discounted using the Company's incremental borrowing rate. ROU assets are recognized at the amount corresponding to the amount of the initial lease liability. Lease payments in respect of short-term leases with terms of less than twelve months, or in respect of leases for which the underlying asset is of low value, are expensed as incurred.

Lessor

As a lessor, contractual arrangements which transfer substantially all of the risks and benefits of ownership of an asset to the lessee are accounted for as finance leases. Under a finance lease, the present value of the minimum lease payments receivable from the lessee are recorded as an account receivable. Lease payments received are applied against the receivable balance, with an interest component recognized as interest revenue.

If substantially all of the risks and benefits of ownership of an asset are not transferred to the lessee, the lease is classified as an operating lease and lease payments received are recognized as income over the term of the agreement.

s) Government Grants

Government grants are recognized when there is reasonable assurance that the relevant conditions of the grant are met and the grant will be received. The Company records the grant in the Consolidated Financial Statements with the related expenditure in the period in which the eligible costs are incurred. Asset retirement obligation settlements approved for funding under government programs are recorded as a reduction in depletion, depreciation and impairment reversals expense in the consolidated statement of comprehensive income for the year in which the related eligible costs are incurred.

t) Assets Held for Sale

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered through sale instead of continuing use. This condition is met when the sale is highly probable and the assets are available for immediate sale in their present condition. For the sale to be highly probable, Management must be at least committed to a plan to sell the assets and have initiated an active program to locate a buyer. The assets must also be actively marketed for sale at a price that is reasonable in relation to their current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and recoverable amount, with impairments or impairment reversals recognized in the consolidated statement of comprehensive income. Non-current assets classified as held for sale and their associated liabilities are presented in current assets and current liabilities within the consolidated balance sheet and are not depleted, depreciated or amortized.

Notes to the Consolidated Financial Statements

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

2. New and Updated Accounting Policies and Standards

Future Changes in Accounting Standards

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

3. Significant Accounting Estimates, Assumptions & Judgments

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

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

Reserves Estimates

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

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

Exploration or Development

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

Exploration and Evaluation Projects

The accounting for E&E projects requires Management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of petroleum and natural gas, which requires

Notes to the Consolidated Financial Statements

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

the quantity and realizable value of such petroleum and natural gas to be estimated. Previous estimates are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable petroleum and natural gas, the costs are written-off as E&E expense.

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

Estimates of Recoverable Amounts

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

Determination of CGUs

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

Depletion

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

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

Investments in Securities

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

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. Management also exercises judgment to determine credit-adjusted risk-free discount and inflation rates at the end of each reporting period which may change in response to numerous market factors. The Company adjusts estimated amounts periodically as assumptions are updated to incorporate new information. The actual amount and timing of payments to settle the obligations may differ materially from estimates.

Provisions

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

Share-Based Payments

The Company estimates the grant date fair value of stock options awarded using the Black-Scholes model. The inputs used to determine the estimated fair value of the stock options are based on assumptions regarding share price volatility, the life of the options, forfeiture rates, the risk-free interest rate and the dividend yield on the Common Shares. By their nature, these inputs are subject to measurement uncertainty and require Management to exercise judgment.

Income Taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments and estimates related to the application of tax law, the timing of temporary difference reversals and the likelihood of realizing deferred income tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments, and changes related to them, impact current and deferred income tax provisions, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

Business Combinations

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

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

4. Assets Held for Sale

In December 2022, Paramount entered into an agreement to sell its Kaybob Smoky and Kaybob South Duvernay properties and certain other minor interests in the Kaybob region, all of which were included in the Kaybob CGU, for gross proceeds of \$375 million before customary closing adjustments. The transaction closed in January 2023.

The assets and liabilities associated with the sale have been presented as held for sale at December 31, 2022, as follows:

As at December 31	2022
Property, plant and equipment, net	217.7
Exploration and evaluation	34.0
Assets held for sale	251.7
Asset retirement obligations	2.0
Liabilities associated with assets held for sale	2.0

5. Exploration and Evaluation

Year ended December 31	2022	2021
Balance, beginning of year	539.9	612.1
Additions	0.4	1.3
Land acquisitions	34.7	8.9
Change in asset retirement provision	(0.2)	1.3
Transfers to property, plant and equipment	(33.1)	(14.0)
Expired lease costs	(21.8)	(29.8)
Dry hole	–	(1.1)
Dispositions	(0.2)	(38.8)
Transfer to assets held for sale (see Note 4)	(34.0)	–
Balance, end of year	485.7	539.9

Cavalier entered into a farm-out agreement with Rubellite Energy Inc. ("Rubellite") in 2022 under which Rubellite may earn up to a 60 percent working interest in 61.25 gross sections of Cavalier's Clearwater formation rights in the Peavine area of Alberta by drilling wells or making certain qualifying capital expenditures. A director and significant shareholder of Paramount is also the President and Chief Executive Officer, a director and significant shareholder of Rubellite.

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

Exploration and Evaluation Expense

Year ended December 31	2022	2021
Geological and geophysical expense	8.8	8.0
Dry hole expense	–	1.1
Expired lease costs	21.8	29.8
	30.6	38.9

At December 31, 2022, the Company assessed its E&E assets for indicators of potential impairment or impairment reversal and none were identified.

6. Property, Plant and Equipment

Year ended December 31, 2022	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, December 31, 2021	4,317.6	167.1	16.1	50.7	4,551.5
Additions	623.5	22.0	9.0	15.0	669.5
Land and property acquisitions	116.1	–	–	–	116.1
Transfers	36.7	(3.6)	–	–	33.1
Dispositions	(9.9)	(3.9)	(0.1)	–	(13.9)
Derecognition	–	(28.6)	(0.2)	(6.2)	(35.0)
Change in asset retirement provision	(67.4)	–	–	–	(67.4)
Transfer to assets held for sale (see Note 4)	(359.3)	–	–	–	(359.3)
Cost, December 31, 2022	4,657.3	153.0	24.8	59.5	4,894.6
Accumulated depletion and depreciation					
Balance, December 31, 2021	(2,119.6)	(109.5)	(11.7)	(41.0)	(2,281.8)
Depletion and depreciation	(325.6)	(9.5)	(3.5)	(3.5)	(342.1)
Dispositions	5.3	3.6	0.1	–	9.0
Derecognition	–	28.6	0.2	6.2	35.0
Transfer to assets held for sale (see Note 4)	141.6	–	–	–	141.6
Accumulated depletion and depreciation, December 31, 2022	(2,298.3)	(86.8)	(14.9)	(38.3)	(2,438.3)
Net book value, December 31, 2021	2,198.0	57.6	4.4	9.7	2,269.7
Net book value, December 31, 2022	2,359.0	66.2	9.9	21.2	2,456.3

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

Year ended December 31, 2021	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, December 31, 2020	4,125.0	162.5	15.4	48.1	4,351.0
Additions	270.0	4.6	1.0	2.6	278.2
Acquisitions	1.0	–	–	–	1.0
Transfers from exploration and evaluation	14.0	–	–	–	14.0
Dispositions	(183.8)	–	(0.3)	–	(184.1)
Change in asset retirement provision	91.4	–	–	–	91.4
Cost, December 31, 2021	4,317.6	167.1	16.1	50.7	4,551.5
Accumulated depletion, depreciation and impairment					
Balance, December 31, 2020	(2,245.7)	(99.9)	(8.6)	(37.2)	(2,391.4)
Depletion and depreciation	(287.9)	(9.6)	(3.3)	(3.8)	(304.6)
Impairment reversals	296.6	–	–	–	296.6
Dispositions	117.4	–	0.2	–	117.6
Accumulated depletion and depreciation, December 31, 2021	(2,119.6)	(109.5)	(11.7)	(41.0)	(2,281.8)
Net book value, December 31, 2020	1,879.3	62.6	6.8	10.9	1,959.6
Net book value, December 31, 2021	2,198.0	57.6	4.4	9.7	2,269.7

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

In 2022, the Company closed two property acquisitions in the Willesden Green area of Alberta, which is included in the Central Alberta and Other CGU, for total cash consideration of \$98.3 million. Both of these acquisitions were accounted for as asset acquisitions, with an aggregate \$91.1 million being allocated to property, plant and equipment, \$9.5 million allocated to exploration and evaluation assets and \$2.3 million allocated to asset retirement obligations.

In October 2022, the Company closed the sale of approximately 60 kilometers of operated resources roads in the Kaybob CGU for cash proceeds of \$64.2 million. A gain of \$62.4 million was recognized on the sale.

In the fourth quarter of 2022, Fox Drilling permanently decommissioned two of its conventional drilling rigs. A charge of \$2.6 million was recorded to depletion and depreciation expense to derecognize the carrying value of the rigs.

Paramount sold its non-operated Birch assets in northeast British Columbia in 2021, which were included in the Central Alberta and Other CGU, for proceeds of approximately \$85 million. A \$14.0 million reversal of previously recorded impairment charges and gain of \$36.1 million was recognized in 2021 in connection with the sale.

The Company also sold certain properties in the Kaybob and Central Alberta and Other CGUs in 2021 for proceeds of approximately \$79 million. A gain of \$39 million was recognized on these sales.

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Depletion, Depreciation and Impairment Reversal

Year ended December 31	2022	2021
Depletion and depreciation	335.8	300.5
Change in asset retirement obligations	(39.8)	138.9
Alberta site rehabilitation program funding	(10.0)	(9.7)
Reversals of petroleum and natural gas asset impairments	–	(296.6)
	286.0	133.1

At December 31, 2022, the Company assessed its property, plant and equipment assets for indicators of potential impairment and none were identified.

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

At September 30, 2021, the Company recorded an aggregate of \$282.6 million in reversals of previously recorded impairment charges to petroleum and natural gas assets, comprised of \$270.3 million related to the Kaybob CGU and \$12.3 million related to the Northern CGU. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at December 31, 2020.

The \$282.6 million in aggregate impairment reversals represented the amount to bring the carrying values of the Kaybob and Northern CGUs to the amounts, net of depletion and amortization, had no impairment charges been recognized in prior periods. The increase in the estimated recoverable amount of these CGUs was mainly due to higher and sustained forecasted condensate, crude oil and natural gas prices and the increase in the Company's market capitalization since the prior impairment assessment performed at December 31, 2020.

The recoverable amount of the Kaybob and Northern CGUs as at September 30, 2021 was estimated on a FVLCD basis, using a discounted cash flow method (level 3 fair value hierarchy estimate). After-tax cash flows were projected over the expected remaining productive life of the proved plus probable reserves assigned to the Kaybob and Northern CGUs at discount rates of 11.0 percent and 13.0 percent, respectively. The after-tax net cash flows from the proved plus probable reserves estimated by Paramount's independent qualified reserves evaluator as at December 31, 2020 were mechanically updated by Management to September 30, 2021, including to reflect commodity price estimates at October 1, 2021. The reserves evaluation process is inherently subjective and involves considerable estimation uncertainty.

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

The following table sets out the forecast benchmark commodity prices and exchange rates used to determine the estimated recoverable amounts at September 30, 2021:⁽¹⁾

(Average for the period)	Oct-Dec 2021	2022	2023	2024	2025	2026-2033	Thereafter
Natural Gas ⁽²⁾							
AECO (\$/MMBtu)	4.57	3.83	3.26	2.99	3.05	3.12 – 3.72	+2%/yr
Henry Hub (US\$/MMBtu)	5.40	4.25	3.44	3.17	3.24	3.30 – 3.95	+2%/yr
Crude Oil and Condensate ⁽²⁾							
Edmonton Condensate (\$/Bbl)	94.79	88.36	83.33	80.56	82.16	83.81 – 100.16	+2%/yr
WTI (US\$/Bbl)	75.17	71.00	67.77	65.57	66.88	68.22 – 81.52	+2%/yr
Foreign Currency Exchange							
\$US / 1 \$CDN	0.795	0.798	0.80	0.80	0.80	0.80	0.80

(1) Average of forecasts published by: (i) McDaniel & Associates Consultants Ltd. and GLJ Petroleum Consultants Ltd. at October 1, 2021 and (ii) Sproule Associates Ltd. at September 30, 2021.

(2) Forecast benchmark prices are adjusted for quality differentials, heat content, distance to market and other factors in determining estimated recoverable amounts.

7. Investments in Securities

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

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

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

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

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

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

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Settlement of Dissent Payment Entitlement

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

8. Long-Term Debt

As at December 31	2022	2021
Paramount Facility ⁽¹⁾	159.4	386.3

(1) Presented net of \$2.4 million in unamortized transaction costs (December 31, 2021 – \$2.8 million).

Paramount Facility

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

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, Canadian Dollar Offered Rates or Adjusted Term SOFR, as selected by the Company, plus an applicable margin which varies based on the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of the Company and its subsidiaries.

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

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

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

Consolidated EBITDA is adjusted for material acquisitions and dispositions and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including gains or losses on dispositions of oil and gas assets, unrealized mark-to-market amounts on derivatives, unrealized foreign exchange gains and losses, share-based compensation expense and accretion.

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

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

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

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

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

Unsecured Letter of Credit Facility

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

Convertible Debentures

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

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

9. Asset Retirement Obligations and Other

As at December 31, 2022	Current	Long-term	Total
Asset retirement obligations	37.7	502.4	540.1
Lease liabilities	3.0	15.0	18.0
Asset retirement obligations and other	40.7	517.4	558.1

As at December 31, 2021	Current	Long-term	Total
Asset retirement obligations	20.4	630.7	651.1
Lease liabilities	10.0	2.6	12.6
Asset retirement obligations and other	30.4	633.3	663.7

Asset Retirement Obligations

Year ended December 31	2022	2021
Asset retirement obligations, beginning of year	651.1	419.5
Additions	4.7	1.3
Change in estimates	(16.3)	23.8
Change in discount rate	(95.7)	206.4
Obligations settled – cash	(36.1)	(25.4)
Obligations settled – funding under Alberta site rehabilitation program	(10.0)	(9.7)
Dispositions	(0.5)	(7.4)
Transfer to liabilities associated with assets held for sale (see Note 4)	(2.0)	–
Accretion expense	44.9	42.6
Asset retirement obligations, end of year	540.1	651.1

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

As at December 31, 2022, estimated undiscounted, uninflated asset retirement obligations were \$1,296.0 million (December 31, 2021 – \$1,318.7 million). Asset retirement obligations have been determined using a credit-adjusted risk-free discount rate of 8.5 percent per annum (December 31, 2021 – 7.0 percent per annum) and an inflation rate of 2.0 percent per annum (December 31, 2021 – 2.0 percent per annum). These obligations are expected to be settled over the next 50 years.

Lease Liabilities

Paramount has lease liabilities in respect of office space and vehicles, which have been recognized at the discounted value of the remaining fixed lease payments. A weighted average incremental borrowing rate of approximately 5.6 percent was used to determine the discounted amount of the liabilities in 2022 (2021 – 5.4 percent). For the year ended December 31, 2022, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were \$7.6 million, (2021 – \$8.4 million) of which \$0.3 million (December 31, 2021 – \$0.7 million) was recognized in interest and financing expense.

For the year ended December 31, 2022, expenses related to arrangements containing variable operating costs, short-term and low value leases which have not been included in the lease liability were approximately \$2.5 million (2021 – \$2.5 million).

At December 31, 2022, \$0.4 million (December 31, 2021 – \$2.7 million) was receivable by the Company in respect of sublease arrangements for Paramount's office space, of which \$0.4 million (December 31, 2021 – \$2.2 million) was classified as current and \$nil (December 31, 2021 – \$0.5 million) was classified as non-current. For the year ended December 31, 2022, \$2.3 million (2021 – \$2.6 million) was received in respect of office sublease arrangements, of which \$0.1 million (2021 – \$0.2 million) was recognized in interest revenue.

In 2022, Paramount recognized a lease liability of \$14.0 million and a lease incentive receivable of \$6.3 million related to a new 14 year lease.

At December 31, 2022, the undiscounted minimum cash lease payments payable by the Company under lease arrangements and receivable amounts due to the Company in respect of sublease arrangements are as follows:

	Lease Payments	Sublease Receivables
Within one year	2.9	0.4
After one year but not more than five years	7.5	–
More than five years	15.3	–
	25.7	0.4

10. 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, 2022, 142.0 million (December 31, 2021 – 139.2 million) Common Shares were outstanding, net of 0.8 million (December 31, 2021 – 1.5 million) Common Shares held in trust under the RSU plan and no preferred shares were outstanding.

In July 2021, Paramount implemented a regular monthly dividend with respect to its Common Shares. Dividends paid for the year ended December 31, 2022 totaled \$160.4 million (2021 – \$27.4 million) or \$1.13 per Common Share (2021 – \$0.20 per Common Share). Subsequent to December 31, 2022, the Company

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

declared and paid a special cash dividend of \$1.00 per Common Share totaling \$142.9 million and two months of regular monthly dividends totaling \$0.25 per Common Share or \$35.7 million.

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

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

For the year ended December 31, 2022, Paramount issued 2.1 million Common Shares on the exercise of Paramount Options (see Note 12).

Weighted Average Common Shares and Diluted Net Income

Year ended December 31	2022		2021	
	Wtd. Avg. Shares (millions)	Net income	Wtd. Avg. Shares (millions)	Net income
Net income – basic	140.8	680.6	133.6	236.9
Dilutive effect of Convertible Debentures	–	–	4.8	2.2
Dilutive effect of Paramount Options	6.2	–	4.4	–
Net income – diluted	147.0	680.6	142.8	239.1

Paramount Options and Convertible Debentures that can be exchanged for Common Shares are potentially dilutive and are included in the diluted per share calculations when they are dilutive to net income per share. Common Shares held in trust under the RSU plan are not included in the calculation of weighted average shares outstanding.

For the year ended December 31, 2022, 2.5 million Paramount Options were anti-dilutive (2021 – 3.8 million).

11. Reserves

Reserves at December 31, 2022 include unrealized gains and losses on cash flow hedges, 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.

Notes to the Consolidated Financial Statements

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

The changes in reserves are as follows:

Year ended December 31, 2022	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	(5.3)	204.5	170.8	370.0
Other comprehensive income, before tax	17.8	235.3	–	253.1
Deferred tax	(4.2)	(27.0)	–	(31.2)
Reclassification of accumulated gain on securities, net of tax (see Note 7)	–	(12.9)	–	(12.9)
Share-based compensation (see Note 12)	–	–	21.1	21.1
Paramount Options exercised	–	–	(6.7)	(6.7)
Balance, end of year	8.3	399.9	185.2	593.4

Year ended December 31, 2021	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	(21.9)	(79.7)	167.1	65.5
Other comprehensive income, before tax	21.7	316.8	–	338.5
Deferred tax	(5.1)	(32.0)	–	(37.1)
Reclassification of accumulated gain on securities	–	(0.6)	–	(0.6)
Share-based compensation (see Note 12)	–	–	6.8	6.8
Paramount Options exercised	–	–	(3.1)	(3.1)
Balance, end of year	(5.3)	204.5	170.8	370.0

12. Share-Based Compensation

Paramount Options

	2022		2021	
	Paramount Options (millions)	Weighted average exercise price (\$/share)	Paramount Options (millions)	Weighted average exercise price (\$/share)
Balance, beginning of year	11.0	9.55	9.7	6.91
Granted	2.5	28.65	3.2	16.31
Exercised ⁽¹⁾	(2.1)	10.73	(1.5)	7.03
Cancelled or forfeited	(0.1)	10.90	(0.3)	8.49
Expired	–	–	(0.1)	15.97
Balance, end of year	11.3	13.55	11.0	9.55
Options exercisable, end of year	3.1	8.28	2.7	9.23

(1) For Paramount Options exercised during the year ended December 31, 2022, the weighted average market price of Common Shares on the dates exercised was \$30.12 per share (2021 – \$17.05 per share).

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

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as at December 31, 2022 are as follows:

Exercise Price	Paramount Options Outstanding			Paramount Options Exercisable		
	Number (millions)	Remaining contractual life (years)	Weighted average exercise price	Number (millions)	Remaining contractual life (years)	Weighted average exercise price
\$1.64 – \$6.99	3.6	3.0	4.56	1.1	3.0	4.70
\$7.00 – \$15.99	2.3	1.8	7.42	1.4	1.8	7.39
\$16.00 – \$23.99	2.9	4.3	16.31	0.6	3.9	16.63
\$24.00 – \$36.12	2.5	5.3	28.61	–	4.3	30.23
	11.3	3.6	13.55	3.1	2.6	8.28

The grant date fair value of Paramount Options and related weighted average inputs, estimated using the Black-Scholes model, are as follows:

	Options awarded in 2022	Options awarded in 2021
Weighted average exercise price (\$ / share)	28.65	16.31
Volatility (%)	45	44
Expected life of share options (years)	3.9	4.3
Pre-vest annual forfeiture rate (%)	11.5	12.9
Risk-free interest rate (%)	3.1	0.8
Dividend yield (%)	5.3	1.5
Weighted average fair value of awards per option (\$ / option)	7.19	5.18

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

Cavalier Options

In 2017, Cavalier granted 5.0 million Cavalier Options, which vested over five years and expire in September 2024. As at December 31, 2022, there were 3.7 million Cavalier Options outstanding and no Cavalier Options have been exercised.

Restricted Share Unit Plan – Shares Held in Trust

Year ended December 31	2022		2021	
	Shares (millions)	Shares (millions)	Shares (millions)	Shares (millions)
Balance, beginning of year	1.5	3.5	1.9	1.5
Shares purchased	0.5	17.2	1.1	10.8
Change in vested and unvested shares	(1.2)	(4.5)	(1.5)	(8.8)
Balance, end of year	0.8	16.2	1.5	3.5

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Employee Benefit Costs

Year ended December 31	2022	2021
Stock option plans	8.4	6.8
RSU plan	16.9	12.0
Share-based compensation expense	25.3	18.8
Salaries and benefits	55.6	52.6
	80.9	71.4

13. Income Tax

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

Year ended December 31	2022	2021
Income before tax	865.8	322.5
Effective statutory income tax rate ⁽¹⁾	23.0%	23.1%
Expected income tax expense	199.1	74.5
Effect on income taxes of:		
Change in statutory and other rates	1.0	2.2
Share-based compensation	1.9	1.6
Gain on sale of oil and gas assets	(6.5)	(0.1)
Settlement of dissent payment entitlement	–	2.6
Change in unrecognized deferred income tax asset	(9.5)	0.5
Non-deductible items and other	(0.8)	4.3
Income tax expense	185.2	85.6

(1) Combined federal and provincial statutory tax rates for the Company. The change in the effective statutory income tax rate results from variations in income by province.

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

As at December 31	2022	2021
Property, plant and equipment	(409.4)	(412.8)
Investments in securities	(52.5)	(32.5)
Asset retirement obligations	124.2	149.4
Non-capital losses and scientific research & experimental development	665.3	821.4
Other	1.5	20.0
Deferred income tax asset	329.1	545.5

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

Year ended December 31	2022	2021
Deferred income tax asset, beginning of year	545.5	658.8
Deferred income tax expense	(185.2)	(85.6)
Deferred income tax expense included in OCI	(31.2)	(37.1)
Deferred income tax recovery recognized in accumulated deficit	–	9.5
Other	–	(0.1)
Deferred income tax asset, end of year	329.1	545.5

For the year ended December 31, 2021, the Company recognized \$82.0 million of deductible temporary differences for which no deferred income tax asset had been previously recorded as a result of taxable temporary differences arising in the year in respect of investments in securities. The deferred income tax asset was increased by \$9.5 million, the tax effected amount of such temporary differences, and the

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

accumulated deficit was reduced by a corresponding amount as the previously unrecognized temporary differences relate to disposed or derecognized investments in securities.

The Company has \$154.1 million (December 31, 2021 – \$151.3 million) of deductible temporary differences and unused tax losses that expire between 2029 and 2042 for which no deferred income tax asset has been recorded.

14. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at December 31, 2022 consist of accounts receivable, risk management assets and liabilities, investments in securities, accounts payable and the Paramount Facility. The carrying values of these financial instruments approximate their fair values.

Risk Management

From time-to-time, Paramount enters into derivative financial instruments to manage commodity price, interest rate and foreign currency exchange risks.

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 for the year ended December 31, 2022 are as follows:

Year ended December 31, 2022	Financial commodity contracts	Foreign currency exchange contracts	Interest rate swaps	Electricity swaps	Total
Fair value of asset (liability), December 31, 2021	5.4	0.4	(9.6)	0.7	(3.1)
Changes in fair value – profit or loss ⁽¹⁾	(160.1)	(22.7)	5.0	–	(177.8)
Changes in fair value – OCI	–	–	12.9	10.1	23.0
Risk management contract settlements paid (received) ⁽²⁾	166.5	12.5	(8.3)	–	170.7
Fair value of asset (liability), December 31, 2022	11.8	(9.8)	–	10.8	12.8
Risk management asset – current	11.8	–	–	7.9	19.7
Risk management asset – long-term	–	–	–	2.9	2.9
Risk management asset, December 31, 2022	11.8	–	–	10.8	22.6
Risk management liability – current	–	(9.8)	–	–	(9.8)
Risk management liability, December 31, 2022	–	(9.8)	–	–	(9.8)

(1) Changes in fair value of (\$182.8) million related to financial commodity and foreign currency exchange contracts are recorded as loss on risk management contracts. Changes in fair value of \$5.0 million related to interest rate swaps not accounted for as cash flow hedges are recorded in interest and financing expense.

(2) Payments on risk management contract settlements related to financial commodity and foreign currency exchange contracts totaled \$179.0 million. Risk management contract settlements relating to interest rate swap and electricity swap contracts, where hedge accounting is applied, are recorded in interest and financing and operating expense, respectively.

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

Changes in the fair value of risk management assets and liabilities for the year ended December 31, 2021 are as follows:

Year ended December 31, 2021	Financial commodity contracts	Foreign currency exchange contracts	Interest rate swaps	Electricity swaps	Total
Fair value of asset (liability), December 31, 2020	(22.7)	–	(29.0)	0.4	(51.3)
Changes in fair value – profit or loss ⁽¹⁾	(190.1)	0.3	(1.9)	–	(191.7)
Changes in fair value – OCI	–	–	11.6	2.5	14.1
Risk management contract settlements paid (received) ⁽²⁾	218.2	0.1	9.7	(2.2)	225.8
Fair value of asset (liability), December 31, 2021	5.4	0.4	(9.6)	0.7	(3.1)
Risk management asset – current	5.4	0.4	–	–	5.8
Risk management asset – long-term	–	–	–	0.7	0.7
Risk management asset, December 31, 2021	5.4	0.4	–	0.7	6.5
Risk management liability – current	–	–	(6.5)	–	(6.5)
Risk management liability – long-term	–	–	(3.1)	–	(3.1)
Risk management liability, December 31, 2021	–	–	(9.6)	–	(9.6)

(1) Changes in fair value of (\$189.8) million related to financial commodity and foreign currency exchange contracts are recorded as loss on risk management contracts. Changes in fair value of (\$1.9) million related to interest rate swaps not accounted for as cash flow hedges are recorded in interest and financing expense.

(2) Payments on risk management contract settlements related to financial commodity and foreign currency exchange contracts totaled \$218.3 million. Risk management contract settlements relating to interest rate swap and electricity swap contracts, where hedge accounting is applied, are recorded in interest and financing and operating expense, respectively.

The Company had the following risk management contracts as at December 31, 2022:

Instruments	Aggregate amount / notional	Average price or rate	Remaining term
Financial Commodity Contracts ⁽¹⁾			
<i>Natural Gas</i>			
NYMEX Collars	20,000 MMBtu/d	US\$7.50/MMBtu (Floor) US\$12.13/MMBtu (Ceiling)	January 2023 – March 2023
AECO Collars	20,000 GJ/d	CAD\$7.25/GJ (Floor) CAD\$9.60/GJ (Ceiling)	January 2023 – March 2023
Chicago Index Swap (Sale) ⁽²⁾	5,000 MMBtu/d	Daily – US\$0.09/MMBtu	January 2023 – March 2023
Foreign Currency Exchange Contracts			
Forwards and Swaps	US\$40 million / month	1.2953 CAD\$/US\$1.00	January 2023 – March 2023
Forwards	US\$20 million / month	1.3025 CAD\$/US\$1.00	April 2023 – June 2023
Electricity Contracts ⁽³⁾			
Swaps	240 MWh/d ⁽⁴⁾	\$84.00/MWh	January 2023 – December 2023
Swaps	240 MWh/d ⁽⁴⁾	\$66.13/MWh	January 2024 – December 2024
Swaps	120 MWh/d ⁽⁴⁾	\$73.25/MWh	January 2025 – December 2025

(1) "NYMEX" means New York Mercantile Exchange.

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

(3) Reference electricity rate: Floating hourly rate established by the Alberta Electric System Operator.

(4) "MWh" means megawatt-hour.

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Subsequent to December 31, 2022, the Company entered into the following foreign currency exchange contracts:

Instruments	Aggregate amount / notional	Average price or rate	Remaining term
Swaps	US\$20 million / month	1.3375 CAD\$/US\$1.00	February 2023 – December 2023
Swaps	US\$20 million / month	1.3479 CAD\$/US\$1.00	March 2023 – December 2023
Swaps	US\$30 million / month	1.3433 CAD\$/US\$1.00	January 2024 – June 2024
Swaps	US\$10 million / month	1.3400 CAD\$/US\$1.00	July 2024 – December 2024

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

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

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

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 impact the market values of the contracts and ultimately the amounts received or paid upon settlement.

The following table summarizes the sensitivity of the fair value of Paramount's financial commodity contracts outstanding at December 31, 2022 to independent fluctuations in commodity prices, with all other variables held constant. The impact of fluctuating commodity prices on the Company's December 31, 2022 open financial commodity contract positions would have resulted in an unrealized gain (loss) impacting income before income tax as follows: ⁽¹⁾

	Increase in Commodity Price	Decrease in Commodity Price
	NYMEX	NYMEX
	Henry Hub	Henry Hub
Income before income tax	(1.6)	1.6

(1) Sensitivities are based on a US\$0.50 per MMBtu increase or decrease in the price of NYMEX Henry Hub natural gas, assuming all other variables are constant.

Foreign Currency Exchange Risk

Paramount uses foreign currency exchange contracts from time-to-time to manage risks of volatility in foreign currency exchange rates related to its U.S. dollar denominated petroleum and natural gas sales revenue.

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The following table summarizes the sensitivity of the fair value of Paramount's foreign currency exchange contracts, U.S. dollar denominated and other financial instruments outstanding at December 31, 2022 to independent fluctuations in foreign currency exchange rates, with all other variables held constant. The impact of fluctuating foreign currency exchange rates on the Company's December 31, 2022 open foreign currency exchange contracts, U.S. dollar denominated and other financial instruments would have resulted in an unrealized gain (loss) impacting income before income tax as follows: ⁽¹⁾

	Increase in C\$/US\$ Foreign Currency Exchange Rate	Decrease in C\$/US\$ Foreign Currency Exchange Rate
Income before income tax	(6.7)	6.7

(1) Sensitivities are based on a C\$0.05 increase or decrease in C\$/US\$ foreign currency exchange rates at December 31, 2022, assuming all other variables are constant.

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The maximum credit risk exposure at December 31, 2022 is limited to the carrying value of accounts receivable and risk management assets.

Paramount's primary objectives with respect to financial assets are to minimize credit and other financial risks and to maintain adequate levels of liquidity. The Company's risk management contracts are held with financial institutions with investment grade credit ratings. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk. The Company manages credit risk by endeavoring to sell its production to and enter into risk management contracts with counterparties that possess high credit ratings, employing net settlement agreements, obtaining letters of credit and limiting available credit when necessary. The change in the fair value of risk management contracts attributable to changes in counterparty credit risk is immaterial, as the counterparties to such contracts have investment grade credit ratings.

Interest Rate Risk

Paramount is exposed to interest rate risk on outstanding balances on the Paramount Facility and on interest bearing cash and cash equivalents. From time-to-time, the Company may enter into interest rate swaps to manage exposure to changes in interest rates on long-term debt.

Liquidity Risk

Liquidity risk is the risk that Paramount will be unable to meet its financial obligations as they become due. 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 regularly updates its forecasts of short-term and longer-term cash flows to identify financial requirements. These requirements are met through a combination of cash flows from operating activities, cash and cash equivalents, and if required, credit facilities, the sale of assets and capital market transactions.

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

The Company's contractual obligations related to financial liabilities are as follows: ⁽¹⁾

	2023	2024	2025	2026	Total
Accounts payable & accrued liabilities	229.9	–	–	–	229.9
Paramount Facility	–	–	–	161.8	161.8
	229.9	–	–	161.8	391.7

(1) Excludes lease liabilities (see Note 9) and risk management liabilities

Accounts Payable and Accrued Liabilities

As at December 31	2022	2021
Trade and accrued payables	222.8	209.9
Joint operation and other payables	7.1	9.2
	229.9	219.1

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	2022	2021
Revenue receivable	202.2	118.1
Joint operation and other receivables	21.0	23.8
	223.2	141.9

Revenue, joint operation and other receivables are non-interest bearing and are generally settled within 30 days. Accounts receivable that share similar credit risk characteristics are assessed for expected credit losses at each reporting date, including for changes in historical default rates, ages of balances outstanding and counterparty credit metrics. The total expected credit loss on the Company's accounts receivable was approximately 1 percent as at December 31, 2022 (December 31, 2021 – 3 percent).

For the year ended December 31, 2022, the Company had sales to one customer totaling \$487.7 million, which exceeded ten percent of total sales. The customer has an investment grade credit rating.

15. Revenue By Product

Year ended December 31	2022	2021
Natural gas	671.1	373.3
Condensate and oil	1,448.9	926.5
Other natural gas liquids	114.2	78.6
Royalty and other	18.2	5.2
Royalties	(335.3)	(127.0)
Sales of commodities purchased	272.0	75.5
	2,189.1	1,332.1

Royalty and other revenue for the year ended December 31, 2022 includes \$11.9 million related to the Company's business interruption insurance claim arising from outages that occurred at a third-party natural gas processing facility in 2020 and 2021.

Notes to the Consolidated Financial Statements

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

16. Other

Year ended December 31	2022	2021
Provisions	(21.9)	24.0
Settlements	–	(7.0)
Other	(5.6)	(0.8)
	(27.5)	16.2

Provisions

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

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

Settlements

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

17. Consolidated Statement of Cash Flows – Selected Information

Items Not Involving Cash

Year ended December 31	2022	2021
Risk management contracts	3.7	(28.5)
Share-based compensation	25.3	18.8
Depletion, depreciation and impairment reversals	286.0	133.1
Exploration and evaluation	21.8	30.9
Gain on sale of oil and gas assets	(65.6)	(72.1)
Accretion of asset retirement obligations	44.9	42.6
Settlement of dissent payment entitlement	–	22.6
Deferred income tax	185.2	85.6
Other	2.2	4.9
	503.5	237.9

Supplemental Cash Flow Information

Year ended December 31	2022	2021
Interest paid ⁽¹⁾	2.1	36.7

(1) Interest paid in 2022 is net of \$7.8 million received on settlement of interest rate swaps. Interest paid in 2021 includes \$9.7 million paid on settlement of interest rate swaps.

Notes to the Consolidated Financial Statements

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

Components of Cash and Cash Equivalents

As at December 31	2022	2021
Cash	2.5	1.7
Cash equivalents	–	–
	2.5	1.7

18. Capital Structure

Paramount's capital structure consists of shareholders' equity plus net debt.

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

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

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

The key capital management measures used by the Company in monitoring and assessing its capital structure are net debt, adjusted funds flow, the ratio of net debt to adjusted funds flow and free cash flow. The use and composition of each of these measures is described below. These measures are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

Net Debt

Net debt, in conjunction with capacity under existing credit facilities, is used to monitor and assess liquidity by providing Management and investors with a measure of the Company's overall leverage position.

The calculation of net debt is as follows:

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

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

Notes to the Consolidated Financial Statements

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

Adjusted Funds Flow

Adjusted funds flow is used to monitor and assess liquidity and the flexibility of the Company's capital structure by providing Management and investors with a measure of the cash flows generated by the Company's assets available to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations.

The calculation of adjusted funds flow is as follows:

Year ended December 31	2022	2021
Cash from operating activities	1,049.6	482.1
Change in non-cash working capital	98.4	(32.7)
Geological and geophysical expense	8.8	8.0
Asset retirement obligations settled	36.1	25.4
Closure costs	–	–
Provisions	(21.9)	24.0
Settlements	–	(7.0)
Transaction and reorganization costs	–	–
Adjusted funds flow	1,171.0	499.8

Net Debt to Adjusted Funds Flow Ratio

The ratio of net debt to adjusted funds flow is used to monitor and assess liquidity and the flexibility of the Company's capital structure by showing the relation of the cash flows generated by the Company's assets to its overall leverage position.

The net debt to adjusted funds flow ratio is calculated as the period end net debt divided by adjusted funds flow for the trailing four quarters.

	2022	2021
Net debt, as at December 31	161.2	456.7
Adjusted funds flow, trailing four quarters ended December 31	1,171.0	499.8
Net debt to adjusted funds flow ratio, December 31	0.1x	0.9x

Free Cash Flow

Free cash flow is used to monitor and assess liquidity, the flexibility of the Company's capital structure and the financial capacity to maximize shareholder returns by providing Management and investors with a measure of the internally generated cash available, after funding capital programs and asset retirement obligation settlements, to service the Company's financial obligations, pay dividends, repurchase Common Shares and fund additional growth opportunities.

Notes to the Consolidated Financial Statements

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

The calculation of free cash flow is as follows:

Year ended December 31	2022	2021
Cash from operating activities	1,049.6	482.1
Change in non-cash working capital	98.4	(32.7)
Geological and geophysical expense	8.8	8.0
Asset retirement obligations settled	36.1	25.4
Closure costs	–	–
Provisions	(21.9)	24.0
Settlements	–	(7.0)
Transaction and reorganization costs	–	–
Adjusted funds flow	1,171.0	499.8
Capital expenditures	(655.0)	(274.6)
Geological and geophysical expense	(8.8)	(8.0)
Asset retirement obligations settled	(36.1)	(25.4)
Free cash flow	471.1	191.8

19. Compensation of Key Management Personnel

Year ended December 31	2022	2021
Salaries and benefits	2.9	1.9
Share-based compensation	7.6	3.8
	10.5	5.7

20. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2022:

	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⁾	242.9	891.9	828.0
Other commitments ⁽²⁾	15.8	19.8	9.4
	258.7	911.7	837.4

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

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

Commitments – Physical Sales Contracts

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

Contingencies

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

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