Paramount resources ltd.

2019 Annual Results

Paramount Resources Ltd. Reports 2019 Annual Results and Provides 2020 Guidance

Calgary, Alberta – March 4, 2020

HIGHLIGHTS

- Annual sales volumes averaged 82,394 Boe/d (39 percent liquids) in 2019. Fourth quarter 2019 sales volumes averaged 85,411 Boe/d (42 percent liquids).[1]
- Cash from operating activities was $256 million in 2019. Adjusted funds flow in 2019 was $299 million or $2.29 per share. Fourth quarter 2019 adjusted funds flow was $93.5 million or $0.71 per share.[2]
- Strong execution and a continued focus on cost control resulted in lower per well capital costs at both Karr and Wapiti. This allowed the Company to accelerate the drilling of two five-well pads and a water disposal well at Karr into the fourth quarter of 2019 (from the first quarter of 2020) and construct a crude oil terminal in the Kaybob Region in 2019, while still maintaining its 2019 base capital budget of $350 million. [2]
- Base capital spending in 2019 totalled $351 million. The Company spent $29 million on abandonment and reclamation activities in 2019 compared to guidance of $32 million. Net cash proceeds from dispositions in 2019 totalled $393 million.
- At Karr, 5 (5.0 net) new Montney wells on the 4-24 pad were brought on production in the third quarter of 2019, averaging 1,047 Bbl/d per well of raw wellhead liquids (1,635 Boe/d raw wellhead total) over the first five months of production, resulting in an average condensate to gas ratio ("CGR") of 298 Bbl/MMcf.[3] In the fourth quarter of 2019, 3 (3.0 net) new Montney wells on the 1-19 pad were brought on production, averaging 1,542 Boe/d per well of gross peak 30-day production, with an average CGR of 486 Bbl/MMcf.[3] Fourth quarter sales volumes at Karr averaged 24,943 Boe/d (54 percent liquids).
- At Wapiti, 11 (11.0 net) new Montney wells on the 9-3 pad were brought on production in 2019, but at restricted rates due to continued intermittent operations at the third-party Wapiti natural gas processing facility (the "Wapiti Plant"). All 12 (12.0 net) new Montney wells on the 5-3 pad were temporarily brought-on production through inline test facilities to recover completion fluids in late 2019. Two of these wells were later brought on production through permanent facilities. Currently, six of these wells are on production. Fourth quarter sales volumes at Wapiti averaged 11,498 Boe/d (66 percent liquids).

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(1) See "Oil and Gas Measures and Definitions" in the Advisories section.
(2) "Adjusted funds flow" and "base capital" are Non-GAAP measures. See "Non-GAAP Measures" in the Advisories section.
(3) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 10 percent and wellhead liquids sales volumes are lower by approximately 12 percent due to shrinkage, under normalized operations. Excludes days when the wells did not produce. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. CGRs calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes. See Oil and Gas Measures and Definitions in the Advisories section.

- To date, average well performance at Wapiti has exhibited higher liquids production and lower natural gas production than originally anticipated. As a consequence, additional debottlenecking activities are planned for the second half of 2020 in order to accommodate higher fluid handling requirements.
- Sales volumes have been, and continue to be, impacted by curtailment and reliability issues at the Wapiti Plant. The Company has lowered its run-time assumptions to account for this in 2020.

- Paramount completed the construction of a crude oil terminal in the Kaybob Region in the fourth quarter of 2019. This terminal is pipeline connected and has been commissioned and placed into service. It will provide Paramount the opportunity to increase netbacks for its Kaybob area crude and condensate volumes (including volumes which were until recently being trucked to third-party terminals) and capture incremental value in price differentials. Total capital expenditures associated with this project were approximately $13 million.
- Paramount closed the sale of its Karr 6-18 facility for gross cash proceeds of $332 million in August 2019. In December 2019, Paramount also closed the sale of certain natural gas-weighted properties in West Central Alberta for gross cash proceeds of $52 million.
- In 2019, the Company commenced its first area-based closure ("ABC") abandonment and reclamation projects at both Hawkeye and Zama. Economies of scale gained under the ABC programs have resulted in significantly lower costs than prior estimates. In addition, property dispositions coupled with additional abandonment and reclamation spending in 2019 further reduced the Company's asset retirement obligations ("ARO"). Paramount's discounted ARO liability at December 31, 2019 was approximately $238 million lower than at year-end 2018.

2020 GUIDANCE

- The Company's capital budget for 2020 is expected to range between $350 million and $450 million, excluding land acquisitions and abandonment and reclamation activities, assuming average benchmark commodity prices of US$55.00/Bbl for WTI and CDN$1.80/GJ for AECO natural gas and a $0.76 CDN/US exchange rate. The capital plan remains flexible, with the lower end of the range reflecting the deferral of capital expenditures largely associated with production benefits in 2021. Activities denoted as "contingent" in the descriptions below highlight these activities. The 2020 program is largely focused on the ongoing development of Karr and Wapiti, where the Company plans to continue to grow its Montney production, resulting in higher liquids contribution and per-unit netbacks. Recently, world oil prices have been adversely affected by uncertainty surrounding the economic impact of the COVID-19 (Coronavirus) outbreak. The Company is committed to prudently managing its capital resources and may adjust its capital plans depending on commodity prices and other factors. Paramount may also determine to divest of assets or investments in securities to raise capital to reduce indebtedness or fund operations.
  - Activities at Karr in 2020 will focus on drilling and completion operations. Drilling operations on two five-well pads commenced in late 2019, with drilling of a third five-well pad and a contingent four-well pad planned in 2020. These 19 (19.0 net) new Montney wells (4 (4.0 net) of which are contingent) are planned to be staged and brought on production starting in the third quarter of 2020 following the completion of the Karr 6-18 facility expansion by the third-party owner. Paramount also plans to bring into service 3 (3.0 net) water disposal wells at Karr.
  - At Wapiti, Paramount plans to drill a total of 13 (13.0 net) new Montney wells and complete and bring onstream a five-well pad and a contingent eight-well pad. A tenure well that was drilled and completed in 2015 is also scheduled to be brought onstream in 2020. Drilling operations on 6 (6.0 net) additional new Montney wells on the contingent 6-27 pad are planned

to commence in late 2020. In addition, several liquids debottlenecking initiatives are planned to alleviate second half 2020 fluid handling constraints.

- Paramount's December 2019 sales volumes averaged approximately 80,000 Boe/d following the December 2019 disposition of Central Alberta and Other Region assets that had sales volumes of approximately 8,350 Boe/d.
- Paramount's 2020 annual sales volumes are expected to average between 75,000 Boe/d and 80,000 Boe/d (43 percent liquids).
    - Sales volumes are anticipated to average between 70,000 Boe/d and 74,000 Boe/d in the first half of 2020. Early 2020 production was impacted by extremely cold weather conditions that resulted in unscheduled third-party outages and well freeze offs. More significantly, Wapiti sales volumes were impacted by the unscheduled full shut-down of the Wapiti Plant (due to an electrical failure) for approximately two weeks in January and are expected to be further impacted by an additional scheduled 7-day outage in March. There are two significant scheduled expansion-related outages, totaling two weeks, during the second quarter at the third-party Karr 6-18 facility. Production from a number of older pads at Karr has been temporarily backed out, which is also contributing to lower first half production. Paramount plans to install compression and pumping to minimize these impacts for the second half of 2020. There are also four scheduled turnarounds at other facilities in the Kaybob and Central Alberta and Other Regions planned during the second quarter of 2020.
    - Paramount expects production growth to resume in the second half of the year as volumes ramp up at Karr following the completion of the third-party Karr 6-18 facility expansion and as additional wells are brought onstream at Wapiti. Fourth quarter sales volumes are expected to average between 84,000 Boe/d and 90,000 Boe/d.
    - Average annual sales volumes would be impacted by approximately 1,000 Boe/d by the deferral of contingent capital expenditures.
- The Company has budgeted $39 million for abandonment and reclamation activities in 2020, the majority of which will be directed to Hawkeye and Zama. Over the course of the year, approximately 238 inactive wells are planned to be abandoned.

RESERVES [(1)]

- Despite the disposition of assets in the Central Alberta and Other Region in December 2019, Paramount's 2019 proved plus probable ("P+P") reserves were relatively unchanged at 632 MMBoe compared to 634 MMBoe in 2018. The liquids weighting of the Company's 2019 P+P reserves increased to 47 percent (from 43 percent in 2018).
- Paramount's proved reserves decreased 14 percent to 335 MMBoe in 2019 compared to 391 MMBoe in 2018. The decrease was primarily a result of dispositions and changes in future development capital (primarily in the Kaybob Region).
- The Company's reserves replacement ratio was 1.5 times for P+P reserves, net of dispositions.
- Total proved plus probable developed reserves were 151 MMBoe in 2019, with an estimated net present value of future net revenue of $1.2 billion (discounted at 10 percent, before tax).
- P+P finding and development costs were $10.28 per Boe in 2019.

(1) Readers are referred to the advisories concerning "Reserves Data" and "Oil and Gas Measures and Definitions" in the Advisories section of this document. Reserves evaluated by McDaniel & Associates Consultants Ltd. ("McDaniel") as of December 31, 2019 and December 31, 2018 in accordance with National Instrument 51-101 definitions, standards and procedures. Reserves are gross reserves representing working interest before royalties. Net present values of future net revenue were determined using forecast prices and costs and do not represent fair market value.

- The Company's estimated net present value of future net revenue at December 31, 2019 totalled \$4.5 billion for P+P reserves, up approximately eight percent from December 31, 2018, and \$2.4 billion for proved reserves, up approximately 14 percent from December 31, 2018 (in each case discounted at 10 percent, before tax). The increase in net present value of future net revenue is mainly attributed to the Company's higher liquids weighting and the optimization of future capital spending.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

- Paramount is committed to creating value for our shareholders and stakeholders in an environmentally and socially responsible manner. Environmental, Social and Governance ("ESG") information with respect to Paramount can be found on our website at http://www.paramountres.com. As part of our ESG program:
    - Paramount participates in the ABC program introduced by the Alberta Energy Regulator that allows companies to undertake abandonment and reclamation activities in an efficient and cost-effective manner by targeting efforts in concentrated areas. Pursuant to this program Paramount has permanently suspended operations at its legacy Zama and Hawkeye fields and commenced abandonment and reclamation activities in both these areas. The Company abandoned 104 wells in 2019, 84 of which were at Zama and Hawkeye. The Company plans to abandon 238 wells in 2020, including 93 wells at Zama and the remaining 135 wells at Hawkeye.
    - In 2018 and 2019 Paramount replaced approximately 1,700 high-bleed controllers at various sites with modern low-bleed units, eliminating approximately 120,000 tonnes per year of GHG emissions.

CORPORATE

- Paramount's average realized natural gas sales price was \$2.36/Mcf in 2019, 45 percent higher than AECO monthly index prices for the year, as a result of the Company's natural gas diversification strategy.
- Paramount's natural gas sales diversification strategy includes arrangements to sell approximately 60,000 GJ/d of natural gas at Dawn, approximately 22,000 GJ/d of natural gas at Malin, and 40,000 GJ/d of natural gas sales priced in the US Midwest. The Company also has AECO fixed-price physical contracts in place to sell 50,000 GJ/d of natural gas at \$2.36/GJ for winter 2020 and 80,000 GJ/d of natural gas at \$1.61/GJ for summer 2020.
- Paramount has 4,000 Bbl/d of oil hedged in 2020 at an average price of CDN\$80.11/Bbl.
- In November 2019, Paramount completed a private placement of approximately 5.9 million common shares, issued on a "flow-through" basis in respect of Canadian development expenses, at a price of \$6.65 per share for gross proceeds of approximately \$39.2 million.
- The Company's long-term debt balance at December 31, 2019 was \$632 million. Paramount has a \$1.5 billion covenant-based bank credit facility that matures in November 2022.
- The Company purchased a total of 2.6 million common shares for cancellation under its 2019 normal course issuer bid program at an average price of \$5.47 per share. In January 2020, Paramount implemented a new normal course issuer bid program under which the Company may purchase up to 7.0 million common shares for cancellation.

FINANCIAL AND OPERATING RESULTS [1]

($ millions, except as noted)

	Three months ended December 31		Twelve months ended December 31	
	2019	2018	2019	2018
Net income (loss)	(31.1)	(170.5)	(87.9)	(367.2)
per share – basic and diluted ($/share)	*(0.24)*	*(1.31)*	*(0.67)*	*(2.78)*
Cash from operating activities	70.5	12.4	255.7	223.4
per share – basic and diluted ($/share)	*0.54*	*0.10*	*1.96*	*1.69*
Adjusted funds flow	93.5	45.5	299.0	263.9
per share – basic and diluted ($/share)	*0.71*	*0.35*	*2.29*	*2.00*
Total assets			3,531.3	4,118.1
Long-term debt			632.3	815.0
Net debt			703.5	896.0
Common shares outstanding *(thousands)* (2)			133,337	130,326
Sales volumes				
Natural gas (MMcf/d)	299.0	315.2	303.3	325.9
Condensate and oil (Bbl/d)	28,516	24,898	25,079	24,238
Other NGLs (Bbl/d) (3)	7,064	7,059	6,767	7,386
Total (Boe/d)	85,411	84,495	82,394	85,941
% liquids	*42%*	*37%*	*39%*	*37%*
Grande Prairie Region (Boe/d)	36,789	26,976	29,040	26,059
Kaybob Region (Boe/d)	33,167	37,262	35,500	39,004
Central Alberta and Other Region (Boe/d)	15,455	20,257	17,854	20,878
Total (Boe/d)	85,411	84,495	82,394	85,941

Netback		*$/Boe (4)*		*$/Boe (4)*		*$/Boe (4)*		*$/Boe (4)*
Natural gas revenue	75.1	*2.73*	79.2	*2.73*	261.0	*2.36*	267.1	*2.25*
Condensate and oil revenue	175.0	*66.70*	104.3	*45.54*	610.2	*66.66*	599.9	*67.81*
Other NGLs revenue (3)	8.5	*13.03*	20.4	*31.39*	37.7	*15.24*	82.7	*30.67*
Royalty and sulphur revenue	1.3	—	3.5	—	6.0	—	15.8	—
Petroleum and natural gas sales	259.9	*33.08*	207.4	*26.68*	914.9	*30.42*	965.5	*30.78*
Royalties	(17.2)	*(2.19)*	(8.0)	*(1.03)*	(63.3)	*(2.10)*	(69.2)	*(2.21)*
Operating expense	(105.0)	*(13.36)*	(103.2)	*(13.28)*	(376.0)	*(12.50)*	(381.0)	*(12.15)*
Transportation and NGLs processing (5)	(22.8)	*(2.90)*	(24.2)	*(3.11)*	(94.7)	*(3.15)*	(93.0)	*(2.96)*
Netback	114.9	*14.63*	72.0	*9.26*	380.9	*12.67*	422.3	*13.46*
Commodity contract settlements	4.7	*0.60*	(9.3)	*(1.20)*	13.2	*0.44*	(76.5)	*(2.44)*
Netback including commodity contract settlements	119.6	*15.23*	62.7	*8.06*	394.1	*13.11*	345.8	*11.02*

Base Capital (6)				
Grande Prairie Region	60.7	48.1	256.7	265.7
Kaybob Region	9.5	35.6	80.7	215.7
Central Alberta and Other Region	0.6	16.3	7.6	40.9
Corporate	—	2.5	6.0	10.8
Total	70.8	102.5	351.0	533.1
Asset retirement obligations settlements	18.0	8.9	29.4	29.4

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document. This table contains the following Non-GAAP measures: Adjusted Funds Flow, Net Debt, Netback, and Base Capital.
(2) Common shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of common shares): 2019: 857.9; 2018: 574.0.
(3) Other NGLs means ethane, propane and butane.
(4) Natural gas revenue presented as $/Mcf.
(5) Includes downstream transportation costs and NGLs fractionation costs.
(6) Excludes spending related to the expansion of the Karr 6-18 facility prior to its sale, land and property acquisitions

RESERVES [1]

	Proved			Proved plus Probable		
	2019	2018	*% Change*	**2019**	2018	*% Change*
Natural gas (Bcf)	**1,059.5**	1,366.6	*(22)*	**1,993.8**	2,169.2	*(8)*
NGLs (MBbl) [2]	**141,238**	146,791	*(4)*	**264,917**	238,325	*11*
Crude oil (MBbl)	**16,997**	16,130	*5*	**34,875**	34,550	*1*
Total (MBoe)	**334,817**	390,688	*(14)*	**632,097**	634,403	—
Future Net Revenue NPV$_{10}$ ($ millions)	**2,427**	2,136	*14*	**4,478**	4,134	*8*

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(2) Includes ethane, propane, butane, pentanes-plus, and condensate.

APPOINTMENT OF CHIEF FINANCIAL OFFICER

The Board of Directors of Paramount is pleased to announce the appointment of Paul Kinvig to the role of Chief Financial Officer. Paul has most recently served as Paramount's Vice President Finance, Capital Markets and has held roles of increasing responsibility in Paramount's finance area throughout his 15 years with the Company. Bernie Lee will continue to serve as Executive Vice President, Finance of the Company. The Board recognizes and appreciates the significant contributions that Bernie Lee has made as Chief Financial Officer to Paramount's success over the last 17 years and looks forward to his continuing contributions.

Forward-Looking Statements and Information

This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the year ended December 31, 2019 contained herein which also includes supplemental advisories related to additional information included in this document.

REVIEW OF OPERATIONS

In 2019, Paramount achieved several key milestones:

- Safely and successfully commenced production at its Wapiti property
- Completed two strategic dispositions, for gross cash proceeds of approximately $384 million, to fund the Company's growth plans at Karr and Wapiti
- Delivered on the Company's 2019 capital expenditure and production guidance
- The Company's discounted ARO liability at December 31, 2019 was approximately $238 million lower than at year-end 2018
- Invested in new equipment to reduce GHG emissions, as part of our ESG program (select ESG information is now available on our website)

The Company's capital spending remains focused on its two large-scale Montney developments in the Grande Prairie Region at Karr and Wapiti. The Company also continues to advance its liquids-rich Duvernay and Montney oil plays in the Kaybob and Willesden Green areas.

Company sales volumes averaged 82,394 Boe/d (39 percent liquids) in 2019 and 85,411 Boe/d (42 percent liquids) in the fourth quarter of 2019.(1) Liquids weighted volumes increased in the second half of 2019 as Wapiti was brought on stream and new wells were tied-in at Karr. In the fourth quarter of 2019, production from the Grande Prairie Region comprised 43% of Company sales volumes, averaging 36,789 Boe/d (58% liquids). The Company's netback (including commodity contract settlements) was approximately $394 million in 2019 and base capital expenditures totaled approximately $351 million.(2)

Paramount is focused on profitably increasing production at both Karr and Wapiti while maintaining financial prudence. Capital investment on other longer-term projects is expected to be limited until the Company realizes free cash flow at Karr and Wapiti. Once this is achieved, the Company will have the flexibility to invest in other opportunities within its top tier inventory of Montney and Duvernay plays or to consider delivering shareholder returns in other forms.

The Company also continues to focus on enhancing netbacks by improving reliability across its portfolio, optimizing field operations and lowering operating costs, while continuing to prioritize safety and operational integrity.

The Company's capital budget for 2020 is expected to range between $350 million and $450 million, excluding land acquisitions and abandonment and reclamation activities, assuming average benchmark commodity prices of US$55.00/Bbl for WTI and CDN$1.80/GJ for AECO natural gas and a $0.76 CDN/US exchange rate. The capital plan remains flexible, with the lower end of the range reflecting the deferral of capital expenditures largely associated with production benefits in 2021. Activities denoted as "contingent" in the descriptions below highlight these activities. The 2020 program is largely focused on the ongoing development of Karr and Wapiti, where the Company plans to continue to grow its Montney production, resulting in higher liquids contribution and per-unit netbacks. Recently, world oil prices have been adversely affected by uncertainty surrounding the economic impact of the COVID-19 (Coronavirus) outbreak. The Company is committed to prudently managing its capital resources and may adjust its capital plans depending on commodity prices and other factors. Paramount may also determine to divest of assets or investments in securities to raise capital to reduce indebtedness or fund operations.

(1) See "Oil and Gas Measures and Definitions" in the Advisories section of this document.
(2) "Netback" and "base capital" are Non-GAAP measures. See "Non-GAAP Measures" in the Advisories section of this document.

Paramount's December 2019 sales volumes averaged approximately 80,000 Boe/d following the December 2019 disposition of Central Alberta and Other Region assets that had sales volumes of approximately 8,350 Boe/d. Paramount's 2020 annual sales volumes are expected to average between 75,000 Boe/d and 80,000 Boe/d (43 percent liquids). This range would be impacted by approximately 1,000 Boe/d by the deferral of contingent capital expenditures.

Sales volumes are anticipated to average between 70,000 Boe/d and 74,000 Boe/d in the first half of 2020. Early 2020 production was impacted by extremely cold weather conditions that resulted in unscheduled third-party outages and well freeze offs. More significantly, Wapiti sales volumes were impacted by the unscheduled full shut-down of the Wapiti Plant (due to an electrical failure) for approximately two weeks in January and are expected to be further impacted by an additional scheduled 7-day outage in March. There are two significant scheduled expansion-related outages, totaling two weeks, during the second quarter at the third-party Karr 6-18 facility. Production from a number of older pads at Karr has been temporarily backed out, which is also contributing to lower first half production. Paramount plans to install compression and pumping to minimize these impacts for the second half of 2020. There are also four scheduled turnarounds at various facilities in the Kaybob and Central Alberta and Other Regions planned during the second quarter of 2020. Paramount expects production growth to resume in the second half of the year as volumes ramp up at Karr following the completion of the third-party Karr 6-18 facility expansion and as additional wells are brought on stream at Wapiti. Fourth quarter sales volumes are expected to average between 84,000 Boe/d and 90,000 Boe/d.

Paramount has budgeted $39 million for abandonment and reclamation activities in 2020, the majority of which will be directed to Hawkeye and Zama. Over the course of the year, approximately 238 inactive wells are planned to be abandoned. The Company expects to continue to spend approximately $30 million to $40 million per year on abandonment and reclamation activities on a go forward basis.

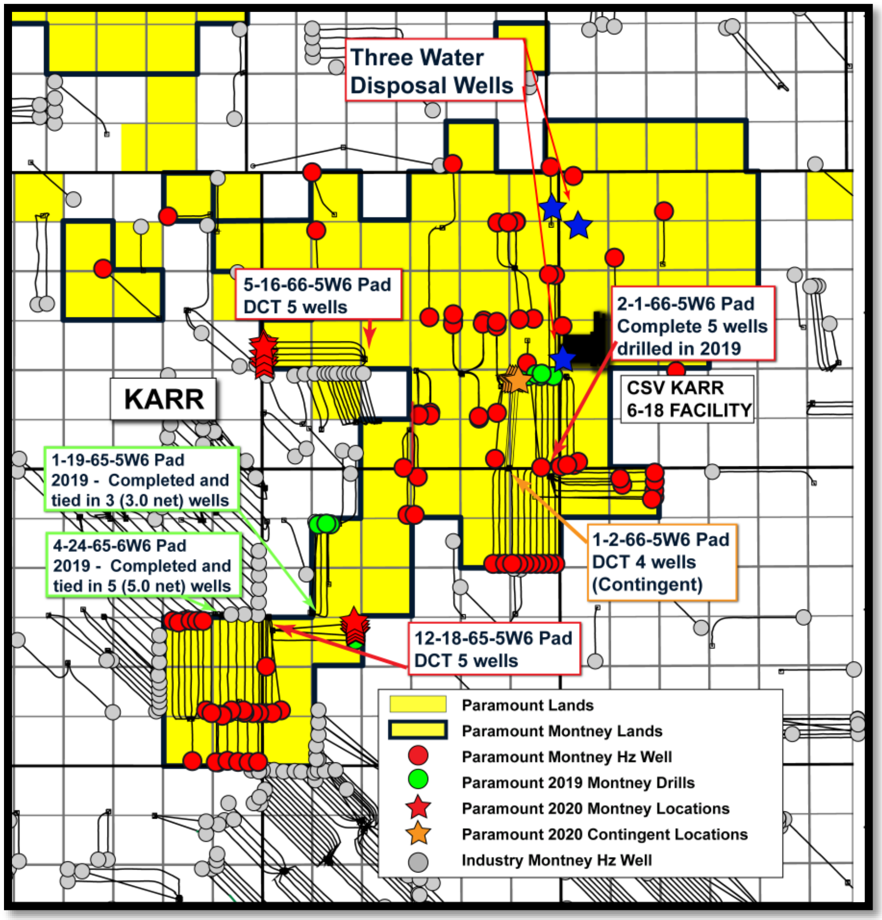
GRANDE PRAIRIE REGION

At December 31, 2019, Paramount held approximately 98,000 net acres of Montney rights.

Development activities in the Grande Prairie Region are focused at the Karr and Wapiti properties, located south of Grande Prairie, Alberta, in the over-pressured liquids-rich Deep Basin Montney trend. There are three potential development layers in the Montney formation at Karr and Wapiti, only one of which is currently being developed.

Grande Prairie Region sales volumes averaged 29,040 Boe/d in 2019, the majority of which was liquids-rich production from the Karr development. Base capital investment in 2019 in the Grande Prairie Region totalled approximately $257 million, which was focused primarily on drilling and completion operations at both Karr and Wapiti.

Karr



Cash flows at Karr benefit from a liquids-rich product mix. Karr sales volumes and netbacks are summarized below:

Year ended December 31	2019		2018		% Change
Sales volumes					
Natural gas (MMcf/d)		**67.7**		63.4	7
Condensate and oil (Bbl/d)		**10,024**		10,967	*(9)*
Other NGLs (Bbl/d)		**1,453**		1,270	*14*
Total (Boe/d)		**22,755**		22,807	—
% liquids		***50%***		*54%*	
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**316.8**	***38.14***	349.3	*41.96*	*(9)*
Royalties	**(29.7)**	***(3.58)***	(22.3)	*(2.68)*	*33*
Operating expense	**(99.8)**	***(12.01)***	(75.0)	*(9.01)*	*33*
Transportation and NGLs processing	**(26.1)**	***(3.14)***	(27.8)	*(3.33)*	*(6)*
	161.2	***19.41***	224.2	*26.94*	*(28)*

The 2019 capital program at Karr focused on completing and bringing on production 5 (5.0 net) wells on the 4-24 pad (that were drilled in 2018) and drilling, completing and bringing on production 3 (3.0 net) wells on the 1-19 pad. These pads were tied-in in late September and November, respectively. The Company also drilled 5 (5.0 net) wells on the 2-1 pad, commenced the drilling of 5 (5.0 net) wells on the 12-18 pad and commenced the drilling of a water disposal well. The 2-1 and 12-18 pads, as well as the water disposal well, were originally scheduled to be drilled in 2020.

Paramount's focus on continuous improvement resulted in stronger capital cost efficiencies at Karr in 2019, with drilling costs of several wells coming in below budgeted Karr drilling costs of $4.0 million per well, including a new pacesetter well with a drilling cost of $2.7 million. In addition, average completion costs for the wells on the 4-24 pad came in at $6.9 million per well, compared to budgeted completion costs of $7.7 million per well.

2019 Karr sales volumes were relatively flat compared to 2018 as no new production was brought on stream until the end of September. Fourth quarter 2019 Karr sales volumes increased 28% to 24,943 Boe/d compared to an average of 19,542 Boe/d in the third quarter. As a result of higher pressures from the 4-24 and 1-19 pads, production from certain existing wells was backed-out in late-2019, impacting Karr sales volumes by approximately 1,700 Boe/d in the fourth quarter of 2019. Paramount plans to install compression and pumping to minimize these impacts for the second half of 2020.

The decrease in Karr netbacks in 2019 relative to 2018 is the result of lower commodity prices, higher royalty rates, incremental third-party processing fees, and higher water disposal costs. In 2020, the Company is expecting a reduction in water disposal costs as water disposal wells are put into service, reducing the need to truck water to third party service providers for disposal. Royalty rates increased in 2019 compared to 2018 as more wells fully utilized new well royalty incentives. The Company expects royalty rates to decline in 2020 as new wells are brought on at Karr.

The following table summarizes the performance of the wells on the 1-19 and 4-24 pads, as well as the five wells drilled in 2018 and the 27 wells drilled in the 2016/2017 capital program at Karr:

	Peak 30-Day (1)			Cumulative (2)			Days on Production
	Total	Wellhead Liquids	CGR (3)	Total	Wellhead Liquids	CGR (3)	
	(Boe/d)	(Bbl/d)	(Bbl/MMcf)	(MBoe)	(MBbl)	(Bbl/MMcf)	
01-19 Pad							
03/13-29-065-05W6/0	1,704	1,209	407	129	90	386	82
04/13-29-065-05W6/0	1,566	1,170	493	116	86	476	81
03/14-29-065-05W6/0	1,357	1,067	611	88	68	553	76
Avg. per well	**1,542**	**1,149**	**486**	**111**	**81**	**457**	**80**
04-24 Pad							
00/01-11-065-06W6/0	1,878	1,271	349	210	132	283	142
00/02-12-065-06W6/0	1,836	1,308	413	175	122	381	142
00/03-12-065-06W6/0	2,307	1,583	365	288	188	315	156
00/04-12-065-06W6/0	2,097	1,329	289	282	172	262	149
02/03-12-065-06W6/0	2,029	1,308	302	254	161	289	149
Avg. per well	**2,029**	**1,360**	**338**	**242**	**155**	**298**	**148**
2018 Wells							
5 wells (Avg. per well)	1,877	1,121	247	558	296	189	486
2016/2017 Wells							
27 wells (Avg. per well)	1,969	1,171	245	685	347	171	726

(1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately 10 percent lower and Wellhead Liquids sales volumes are approximately 12 percent lower due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to January 31, 2020. Natural gas sales volumes are approximately 10 percent lower and Wellhead Liquids sales volumes are approximately 12 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(3) CGRs calculated by dividing raw Wellhead Liquids volumes by raw wellhead natural gas volumes.

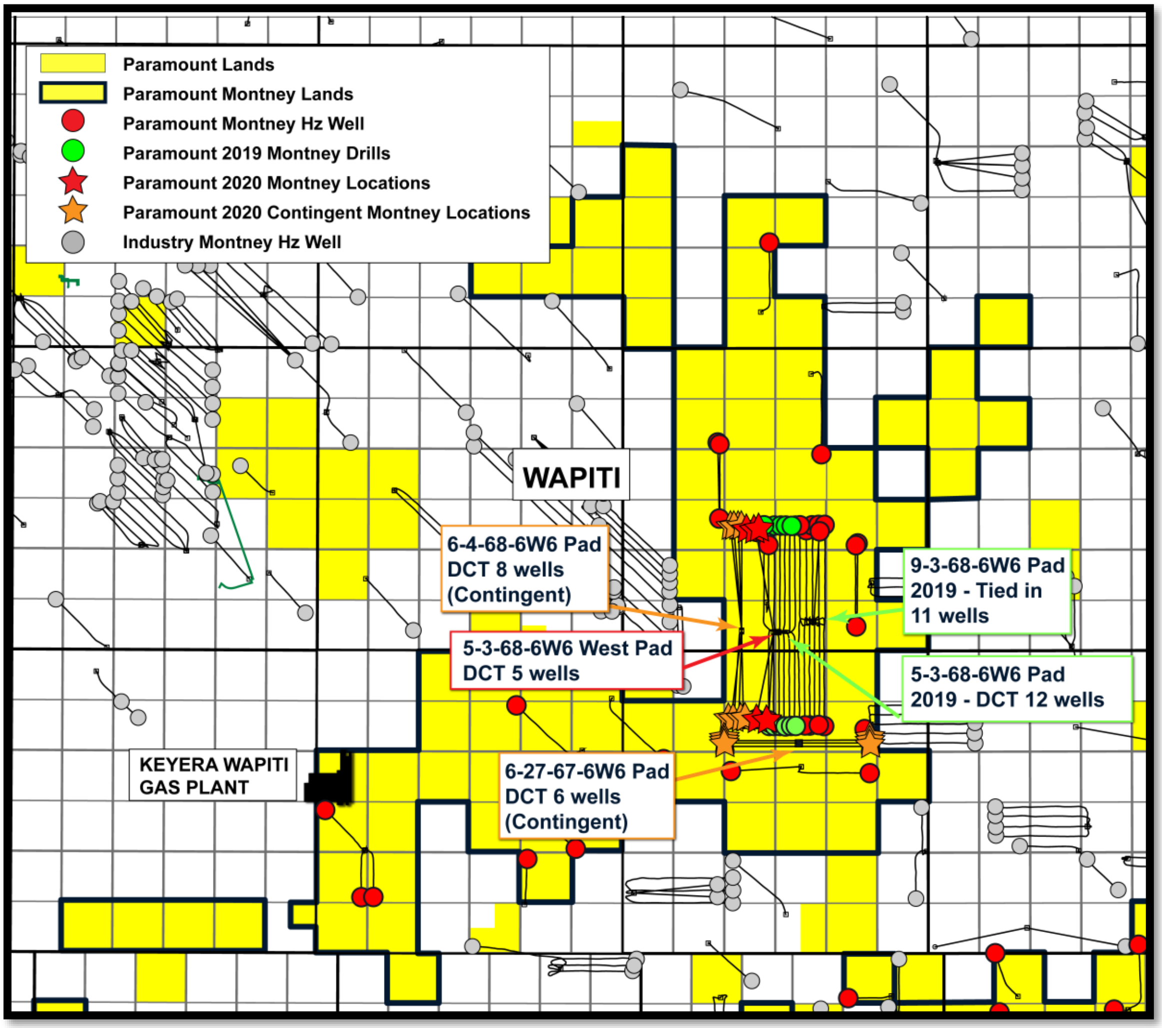
Both the 4-24 and 1-19 pads, in addition to the 1-2 pad drilled in 2018, include one Lower Montney well. The results of these three Lower Montney wells will be incorporated into Paramount's assessment of its total Montney well location inventory, in the context of optimizing recoveries and capital efficiencies.

In August 2019, the Company closed the sale of the Karr 6-18 facility to an affiliate of CSV Midstream Solutions Corp. for gross cash proceeds of $332 million plus a capital commitment by the purchaser to complete and fund the expansion of the facility. The expansion of the Karr 6-18 facility, which is expected to be complete in the second half of 2020, increases the raw gas handling capacity of the Karr 6-18 facility to 150 MMcf/d (from 100 MMcf/d), including 70 MMcf/d of sour raw gas processing, and raw hydrocarbon liquids handling capacity to 30,000 Bbl/d (from 15,000 Bbl/d).

Activities at Karr in 2020 will focus on drilling and completion operations. Drilling operations on two five-well pads commenced in late 2019, with drilling of a third five-well pad and a contingent four-well pad planned in 2020. These 19 (19.0 net) new Montney wells (4 (4.0 net) of which are contingent) are planned to be staged and brought on production starting in the third quarter of 2020 following the completion of the 6-18 facility expansion by the third-party owner.

Paramount also plans to bring into service 3 (3.0 net) water disposal wells at Karr which are expected to reduce operating costs. The Company expects that these disposal wells can support the planned ramp in Karr sales volumes following the completion of the 6-18 facility expansion.

Wapiti



In 2019, Paramount safely and successfully commenced production at Wapiti by bringing on-stream 11 (11.0 net) wells from the 9-3 pad that were drilled in 2018. The 2019 capital program at Wapiti also included the drilling and completion of 12 (12.0 net) wells on the 5-3 pad. All wells on the 5-3 pad were brought on production through inline test facilities to recover completion fluids and two of these wells were then brought on production through permanent facilities.

The Company realized cost efficiencies at Wapiti in 2019 with completion costs for the 9-3 pad averaging $5.5 million per well, compared to budgeted completion costs of $7.8 million per well. The Company also achieved a new pacesetter drill cost of approximately $2.4 million for one of the wells on the 5-3 pad, compared to budgeted drilling costs of $3.5 million.

First sales at Wapiti occurred in May, and despite intermittent operations following the start-up of the Wapiti Plant, sales volumes ramped up over the course of the year, averaging 6,082 Boe/d in 2019. Fourth quarter sales volumes increased by 40 percent to 11,498 Boe/d from 8,163 Boe/d in the third quarter of 2019. Notwithstanding the operational challenges at the Wapiti Plant that have led to production restrictions and significant variability, the wells on the 9-3 and 5-3 pads have exhibited higher liquids production and lower natural gas production than originally anticipated.

The following table summarizes the performance of wells on the 9-3 and 5-3 pads:

	Peak 30-Day (1) Total	Peak 30-Day (1) Wellhead Liquids	Peak 30-Day (1) CGR (3)	Cumulative (2) Total	Cumulative (2) Wellhead Liquids	Cumulative (2) CGR (3)	Days on Production
	(Boe/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(MBoe)*	*(MBbl)*	*(Bbl/MMcf)*	
5-3 Pad							
03/11-27-067-06W6/0	2,226	1,412	289	107	68	288	52
04/06-15-068-06W6/0	-	-	-	39	26	356	27
02/09-28-067-06W6/0	1,776	1,110	278	64	41	291	43
02/11-27-067-06W6/0	2,076	1,344	306	91	59	302	46
00/12-27-067-06W6/0	-	-	-	24	17	398	14
02/12-27-067-06W6/0	-	-	-	34	22	310	16
00/09-28-067-06W6/0	-	-	-	37	26	384	20
03/06-15-068-06W6/0	-	-	-	38	27	419	25
00/05-15-068-06W6/0	-	-	-	24	18	473	17
02/05-15-068-06W6/0	-	-	-	41	29	399	23
00/08-16-068-06W6/0	-	-	-	31	22	395	20
02/08-16-068-06W6/0	-	-	-	21	16	494	10
Avg. per well	**2,026**	**1,289**	**291**	**46**	**31**	**344**	**26**
9-3 Pad							
00/11-27-067-06W6/0	1,360	880	306	150	95	289	157
03/08-15-068-06W6/0	962	689	421	132	97	458	196
04/09-27-067-06W6/0	1,536	1,102	423	247	157	292	240
03/09-27-067-06W6/0	1,268	794	279	231	148	295	240
02/06-15-068-06W6/0	1,511	1,088	429	134	96	422	113
02/09-27-067-06W6/0	1,094	769	395	197	128	314	225
03/07-15-068-06W6/0	1,042	787	516	156	108	372	221
02/10-27-067-06W6/0	1,137	779	362	185	121	317	206
03/10-27-067-06W6/0	1,111	749	345	188	116	267	225
02/08-15-068-06W6/0	969	693	419	143	97	354	198
02/07-15-068-06W6/0	1,192	815	360	137	95	371	171
Avg. per well	**1,198**	**831**	**378**	**173**	**114**	**327**	**199**

(1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately 11 percent lower and Wellhead Liquids sales volumes are approximately 3 percent lower due to shrinkage under normalized operations. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to January 31, 2020. Natural gas sales volumes are approximately 11 percent lower and Wellhead Liquids sales volumes are approximately 3 percent lower due to shrinkage under normalized operating conditions. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(3) CGRs calculated by dividing raw Wellhead Liquids volumes by raw wellhead natural gas volumes.

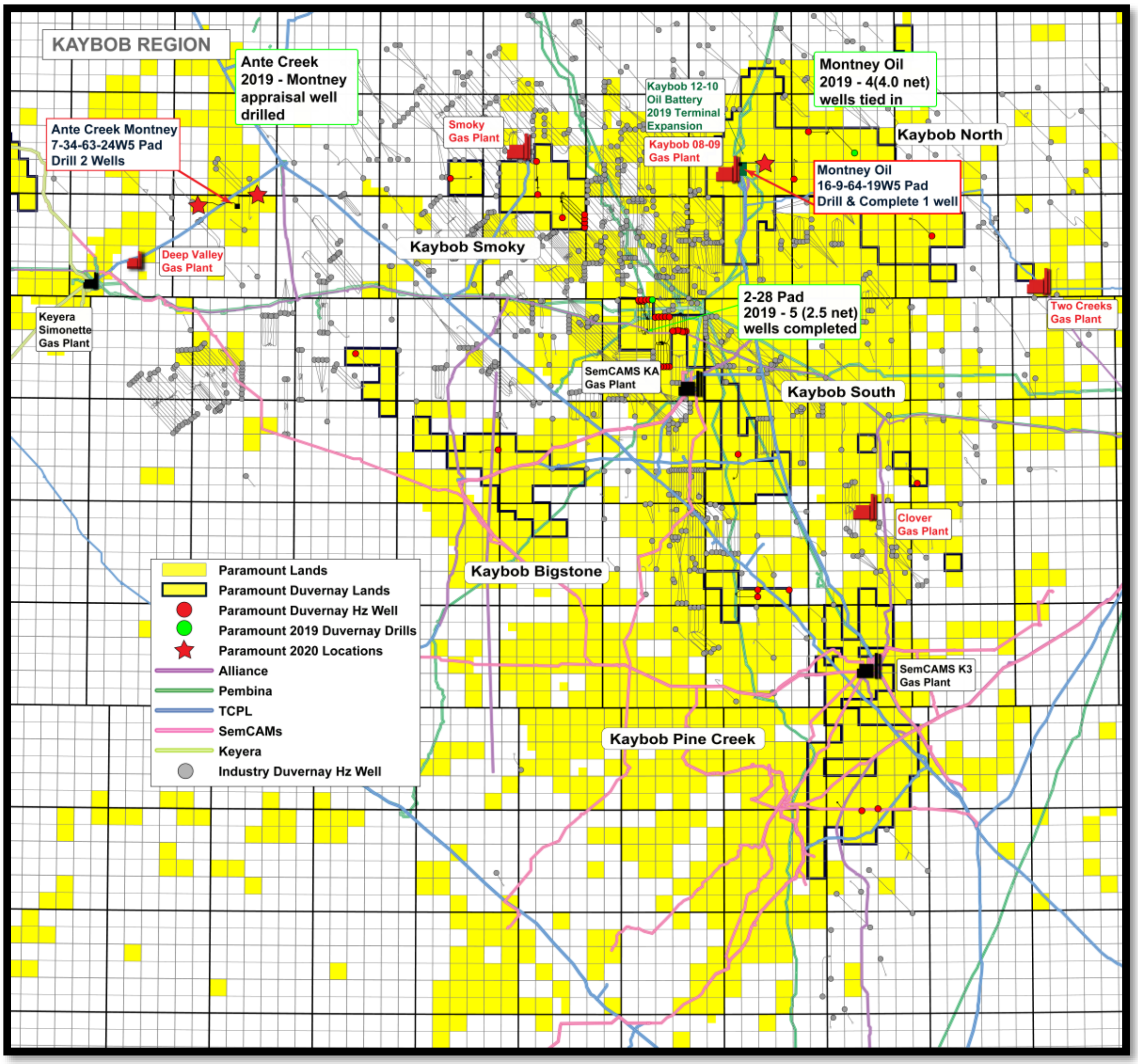
Production at Wapiti is currently restricted because of the capacity of an emulsion line upstream of the Wapiti Plant as well as lower run time. The emulsion capacity in the gathering system is expected to increase in the spring of 2020 as the operator of the Wapiti Plant is twinning the line and installing associated pumps, allowing the Company to bring on additional wells.

In 2020, Paramount plans to drill a total of 13 (13.0 net) new Montney wells and complete and bring on-stream a five-well pad and a contingent eight-well pad. A tenure well that was drilled and completed in 2015 is also scheduled to be brought on stream in 2020. Drilling operations on 6 (6.0 net) additional new Montney wells on the contingent 6-27 pad are planned to commence in late 2020. In addition, several liquids debottlenecking initiatives are planned to alleviate second half 2020 fluid handling constraints.

KAYBOB REGION

Paramount has a large portfolio of resource plays in the Kaybob Region, including approximately 202,000 net acres of Duvernay rights and approximately 275,000 net acres of Montney rights.

The Company's key development areas include the Smoky Duvernay, Kaybob South Duvernay, Montney Oil and Ante Creek Montney properties.



Kaybob Region sales volumes averaged 35,500 Boe/d in 2019. Base capital investment totaled approximately $81 million, including approximately $13 million to construct a crude oil terminal. Development activities in 2019 were focused on the development of the Kaybob South Duvernay and the Ante Creek Montney plays, as well as bringing new Montney oil wells on production and drilling a tenure well in the North Kaybob Duvernay. To preserve financial flexibility, development activities at Kaybob in

2020 will be limited. The 2020 program for the Kaybob Region will be directed towards drilling activity at Kaybob Montney Oil and Ante Creek.

Kaybob Smoky Duvernay

In the fourth quarter of 2018, the Company brought 4 (4.0 net) new wells on production from the 10-35 pad through Paramount's Smoky 06-16 gas plant. The following table summarizes the performance of the four wells on the 10-35 pad:

	Peak 30-Day (1)			Cumulative (2)			Days on Production
	Total	Wellhead Liquids	CGR (3)	Total	Wellhead Liquids	CGR (3)	
	(Boe/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(MBoe)*	*(MBbl)*	*(Bbl/MMcf)*	
10-35 Pad							
02/01-25-063-21W5/0	1,303	728	211	399	230	226	413
00/08-25-063-21W5/0	1,345	897	334	325	187	225	456
00/16-25-063-21W5/0	1,452	998	366	268	170	290	417
00/09-25-063-21W5/2	1,150	779	349	238	147	269	395
Avg. per well	**1,313**	**851**	**307**	**308**	**184**	**247**	**420**

(1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately 12 percent lower and Wellhead Liquids sales volumes are approximately 3 percent lower due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to January 31, 2020. Natural gas sales volumes are approximately 12 percent lower and Wellhead Liquids sales volumes are approximately 3 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(3) CGRs calculated by dividing raw Wellhead Liquids volumes by raw wellhead natural gas volumes.

Kaybob South Duvernay

In the Kaybob South Duvernay, 5 (2.5 net) new wells on the 2-28 pad were drilled between June 2018 and January 2019 and completed in the spring of 2019. The following table summarizes the performance of the five wells on the 2-28 pad:

	Peak 30-Day (1)			Cumulative (2)			Days on Production
	Total	Wellhead Liquids	CGR (3)	Total	Wellhead Liquids	CGR (3)	
	(Boe/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(MBoe)*	*(MBbl)*	*(Bbl/MMcf)*	
02-28 Pad							
03/13-33-062-20W5/0	1,218	609	166	189	90	152	204
03/16-33-062-20W5/0	1,103	537	158	145	66	140	209
03/14-33-062-20W5/0	1,317	708	194	194	92	150	215
04/15-33-062-20W5/0	1,188	576	157	146	69	149	215
03/15-33-062-20W5/0	1,284	662	178	174	84	155	208
Avg. per well	**1,222**	**618**	**171**	**170**	**80**	**150**	**210**

(1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately 9 percent lower and Wellhead Liquids sales volumes are approximately 22 percent lower due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to January 31, 2020. Natural gas sales volumes are approximately 9 percent lower and Wellhead Liquids sales volumes are approximately 22 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(3) CGRs calculated by dividing raw Wellhead Liquids volumes by raw wellhead natural gas volumes.

Kaybob Montney Oil

At the Montney Oil development, 4 (4.0 net) new wells were brought on production in 2019. Paramount plans to drill and complete 1 (1.0 net) new well off an existing pad in 2020.

Ante Creek Montney

The Kaybob Region drilling program for 2019 included an initial Montney appraisal well at Ante Creek. This well was completed and brought on production in September, with gross peak 30-day production of 779 Boe/d (66% oil).[1] In 2020, Paramount plans to drill 2 (2.0 net) Montney oil wells at Ante Creek.

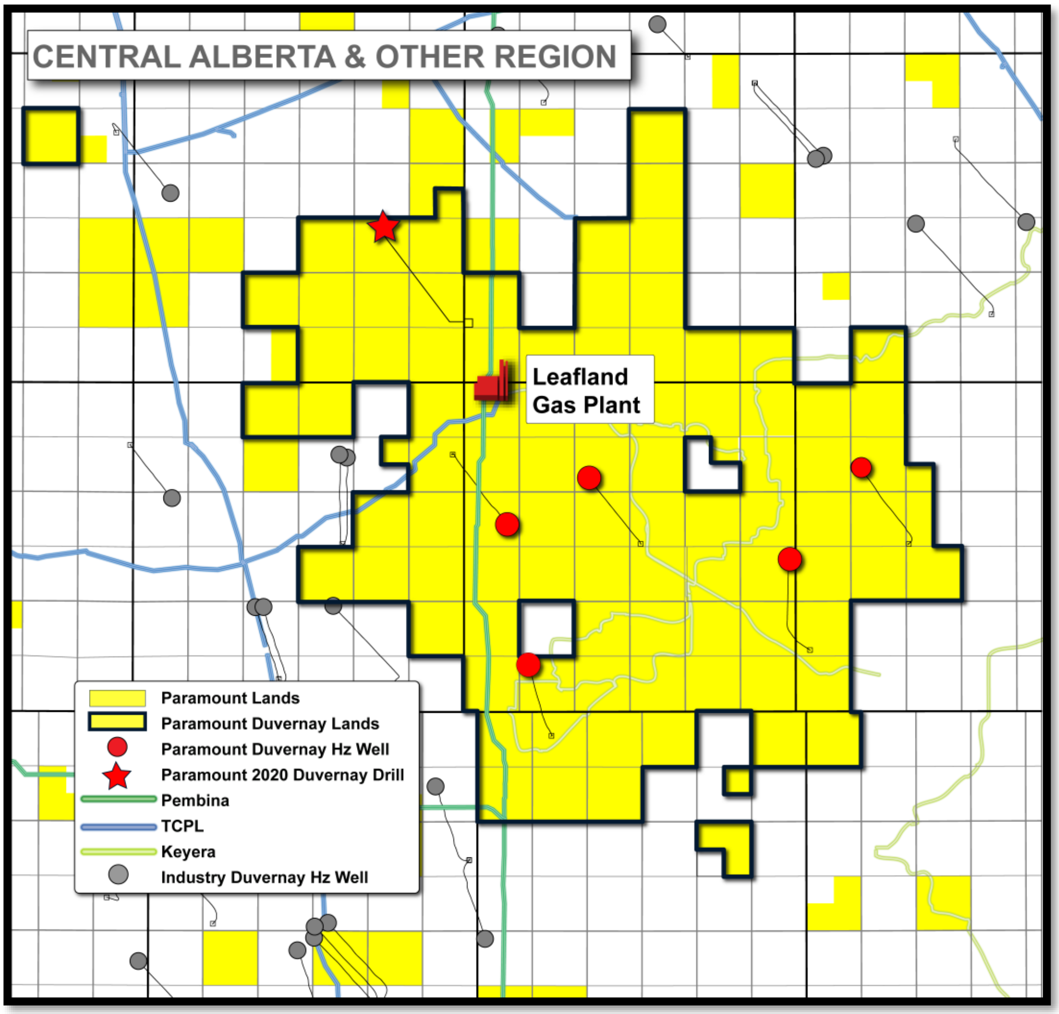
Crude Oil Terminal

In 2019, Paramount completed the construction of a crude oil terminal in the Kaybob Region for approximately $13 million. This terminal is pipeline connected and has been commissioned and placed into service. It will provide Paramount the opportunity to increase netbacks for its Kaybob area crude and condensate volumes (including volumes which were until recently being trucked to third party terminals) and capture incremental value in price differentials. In addition, Paramount will be providing terminal services to third-party producers in the area. Volumes continue to ramp-up through this facility in the first quarter of 2020.

(1) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 7 percent and wellhead oil sales volumes are lower by approximately 0 percent due to shrinkage, under normalized operations. Excludes days when the wells did not produce. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. See "Oil and Gas Measures and Definitions" in the Advisories.

CENTRAL ALBERTA AND OTHER REGION

The Central Alberta and Other Region includes multiple land and resource plays, including approximately 68,000 net acres of Duvernay rights at Willesden Green, additional Duvernay acreage in the East Shale Basin, as well as Cardium, Glauconite and Ellerslie rights, lands and production in British Columbia and approximately 180,000 net acres of fee simple lands across these resource plays. The map below highlights the Company’s land position at Willesden Green.



Central Alberta and Other Region sales volumes averaged 17,854 Boe/d in 2019. Base capital investment totalled approximately $8 million. The limited capital program in 2019 in the Central Alberta and Other Region focused largely on bringing on new wells at Birch and maintenance activities.

Paramount completed the full shut-down of Zama area production in June 2019. The closure program will continue into 2020 and beyond to permanently abandon all facilities and over 2,000 kilometers of pipelines. The closure of Zama is expected to reduce the Company’s total operating expenses by approximately $27 million per year.

The Company also commenced its first ABC abandonment and reclamation projects at Hawkeye and Zama in 2019. Economies of scale gained under the ABC programs have resulted in significantly lower costs than prior estimates. In addition, property dispositions coupled with additional abandonment and reclamation spending in 2019 further reduced the Company's ARO liability. Paramount's discounted ARO liability at December 31, 2019 was approximately $238 million lower than at year-end 2018.

In December 2019, the Company disposed of certain natural gas-weighted properties in West Central Alberta for gross cash proceeds of approximately $52 million, while retaining all of its Duvernay assets in Willesden Green and the East Shale Basin, as well as its fee title and royalty lands. The transaction significantly reduced the complexity of Paramount's operations, as the Company disposed of approximately 320,000 net acres and associated wells and facilities south of township 53 in Alberta.

In 2020, the Company plans to drill, complete and tie-in 1 (1.0 net) lease retention Duvernay well at Willesden Green and complete 1 (0.5 net) well at Birch. The Company will also continue to focus on its abandonment and reclamation efforts at Hawkeye and Zama.

GREENHOUSE GAS REDUCTION INITIATIVE

As part of Paramount's continued commitment to responsible energy development, the Company has been participating in GHG emission reduction programs and investing in new equipment to reduce the emission of GHGs from its operations. The Company has further reduced its total emissions with the retirement of three facilities at Zama in 2019.

In the Kaybob and Central Alberta and Other Regions, Paramount has recently completed a GHG project, under budget and ahead of schedule, which included the replacement of approximately 1,700 high-bleed controllers at various sites with modern low-bleed units, eliminating approximately 120,000 tonnes per year of GHG emissions. The project is anticipated to generate approximately $7 million in GHG credits under current regulations through 2022.

Planning has also commenced for upgrades to the Company's remaining high-bleed controllers and certain other equipment to reduce emissions of GHGs, including methane, carbon dioxide, and nitrogen oxides.

RESERVES AND FINDING AND DEVELOPMENT COSTS [1]

Despite the disposition of assets in the Central Alberta and Other Region in December 2019, Paramount's proved plus probable ("P+P") reserves were relatively unchanged at 632 MMBoe in 2019 compared to 634 MMBoe in 2018. The liquids weighting of the Company's 2019 P+P reserves increased to 47 percent (from 43 percent in 2018).

Paramount's proved reserves decreased 14 percent to 335 MMBoe in 2019 compared to 391 MMBoe in 2018. The decrease was primarily a result of dispositions and changes in future development capital (primarily in the Kaybob region).

The Company's reserves replacement ratio was 1.5 times for P+P reserves, net of dispositions. Total P+P developed reserves for the Company were 151 MMBoe in 2019, with an estimated net present value of future net revenue of $1.2 billion (discounted at 10 percent, before tax).

Reserves by Product

Total Company gross reserves at December 31, 2019 and 2018 are as follows:

	Proved (1)			Proved plus Probable (1)		
	2019	2018	*% Change*	**2019**	2018	*% Change*
Natural gas (Bcf)	**1,059.5**	1,366.6	*(22)*	**1,993.8**	2,169.2	*(8)*
NGLs (MBbl) (2)	**141,238**	146,791	*(4)*	**264,917**	238,325	*11*
Crude oil (MBbl)	**16,997**	16,130	*5*	**34,875**	34,550	*1*
Total (MBoe)	**334,817**	390,688	*(14)*	**632,097**	634,403	—

(1) Readers are referred to the advisories concerning Oil and Gas Measures and Definitions in the Advisories section of this document. Reserves evaluated by McDaniel and Associates Consultants Ltd. ("McDaniel") as of December 31, 2019 and December 31, 2018 in accordance with National Instrument 51-101 definitions, standards and procedures. Working interest reserves before royalties.

(2) Includes ethane, propane, butane, pentanes-plus and condensate.

Reserves by Category

The following table summarizes the Company's gross proved and proved plus probable developed reserves and undeveloped reserves as at December 31, 2019 and the net present value of future net revenue of such reserves before income taxes, undiscounted and discounted at 10%.

	Proved (1)			Proved plus Probable (1)		
	Gross Reserves	**Future Net Revenue NPV Before Tax** ($ millions)		**Gross Reserves**	**Future Net Revenue NPV Before Tax** ($ millions)	
	(MBoe)	0%	10%	(MBoe)	0%	10%
Developed	**111,502**	198	912	**151,474**	917	1,249
Undeveloped	**223,315**	3,536	1,514	**480,623**	8,768	3,229
Total	**334,817**	**3,733**	**2,427**	**632,097**	**9,684**	**4,478**

(1) Columns and rows may not add due to rounding.

(1) Readers are referred to the advisories concerning Reserves Data and Oil and Gas Measures and Definitions in the Advisories section of this document. Reserves evaluated by McDaniel and Associates Consultants Ltd. ("McDaniel") as of December 31, 2019 and December 31, 2018 in accordance with National Instrument 51-101 definitions, standards and procedures. Working interest reserves before royalty deductions.

Reserves Reconciliation

The following table provides a reconciliation of Paramount's gross reserves for the year ended December 31, 2019.

	Proved (1)			Proved plus Probable (1)		
	Natural Gas	Liquids (2)	Total	Natural Gas	Liquids (2)	Total
	(Bcf)	(MBbl)	(MBoe)	(Bcf)	(MBbl)	(MBoe)
December 31, 2018	**1,366.6**	**162,921**	**390,688**	**2,169.2**	**272,875**	**634,403**
Extensions & discoveries	87.8	16,654	**31,284**	327.8	54,783	**109,414**
Technical revisions	(217.1)	(3,668)	**(39,858)**	(304.4)	(8,207)	**(58,937)**
Economic factors	(16.6)	(429)	**(3,199)**	(22.2)	(700)	**(4,397)**
Dispositions	(50.4)	(5,620)	**(14,024)**	(65.9)	(7,335)	**(18,313)**
Production	(110.7)	(11,624)	**(30,074)**	(110.7)	(11,624)	**(30,074)**
December 31, 2019	**1,059.5**	**158,235**	**334,817**	**1,993.8**	**299,792**	**632,097**

(1) Columns and rows may not add due to rounding.
(2) Crude oil and NGLs.

Finding and Development Costs

The following table provides a calculation of the Company's finding and development ("F&D") costs for the year ended December 31, 2019:

	2019 (1)				
	Net Capital (2)	Change in FDC (3)	Total F&D Capital	Reserves Additions (4)	F&D
	($ millions)	($ millions)	($ millions)	(MMBoe)	($/Boe)
TOTAL COMPANY					
Proved plus Probable	345.0	128.6	473.6	46.1	**10.28**

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Total base capital expenditures for the year excluding corporate expenditures.
(3) Change in estimated future development capital from December 31, 2018 (excluding those associated with the Karr 6-18 facility expansion) to December 31, 2019.
(4) Net changes to reserves from the prior year before production.

LAND

Paramount's land position includes:

	December 31, 2019		December 31, 2018	
(thousands of acres)	**Gross (1)**	**Net (2)**	Gross (1)	Net (2)
Acreage assigned reserves	**938**	**569**	1,212	724
Acreage not assigned reserves	**3,107**	**1,844**	3,384	2,083
Total	**4,045**	**2,412**	4,596	2,807

(1) "Gross" acres means the total acreage in which Paramount has an interest. Gross acreage is calculated only once per lease or license of petroleum and natural gas rights ("Lease") regardless of whether or not Paramount holds a working and/or royalty interest, or whether or not the Lease includes multiple prospective formations. If Paramount holds interests in different formations beneath the same surface location pursuant to separate Leases, the acreage set out in each Lease is counted. Excludes oil sands lands associated with Cavalier Energy.
(2) "Net" acres means gross acres multiplied by Paramount's working interest therein. Excludes oil sands lands associated with Cavalier Energy.

CORPORATE

Paramount's average realized natural gas sales price was $2.36/Mcf in 2019, 45 percent higher than AECO monthly index prices for the year, as a result of the Company's natural gas diversification strategy. The Company has arrangements in place to sell approximately 60,000 GJ/d of natural gas at Dawn, approximately 22,000 GJ/d of natural gas at Malin, and 40,000 GJ/d of natural gas sales priced in the US Midwest. The Company also has AECO fixed-price physical contracts to sell 50,000 GJ/d of natural gas at $2.36/GJ for winter 2020 and 80,000 GJ/d of natural gas at $1.61/GJ for summer 2020.

Paramount also has 4,000 Bbl/d of oil hedged in 2020 at an average price of CDN$80.11/Bbl.

In November 2019, Paramount completed a private placement of approximately 5.9 million common shares, issued on a "flow-through" basis in respect of Canadian development expenses, at a price of $6.65 per share for gross proceeds of approximately $39.2 million.

The Company purchased a total of 2.6 million common shares for cancellation under its 2019 normal course issuer bid program at an average price of $5.47 per share. In January 2020, Paramount implemented a new normal course issuer bid program under which the Company may purchase up to 7.0 million common shares for cancellation.

Management's Discussion and Analysis
For the year ended December 31, 2019

This Management's Discussion and Analysis ("MD&A"), dated March 3, 2020, should be read in conjunction with the audited Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the year ended December 31, 2019 (the "Consolidated Financial Statements"). Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented, except for changes as a result of adopting IFRS – 16 Leases ("IFRS 16") effective January 1, 2019, which are described in the Changes in Accounting Policies section of this document. Effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to the discounting of asset retirement obligations. As a result, certain comparative information has been restated in this MD&A. Refer to the Company's audited consolidated financial statements as at and for the year ended December 31, 2018 for a description of the changes and the impact on the Company's financial statements.

The disclosures in this document include forward-looking information, non-GAAP measures and certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources. 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. The Company's Class A common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

The Company's operations are organized into the following three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;

- the Kaybob Region, located in west-central Alberta, which is focused on Montney and Duvernay developments at Kaybob, Smoky River, Pine Creek and Ante Creek; and

- the Central Alberta and Other Region, which includes Duvernay development plays in Central Alberta at Willesden Green and the East Shale Basin, lands and production in British Columbia and approximately 180,000 acres of fee simple land and various associated royalty interests.

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

FINANCIAL AND OPERATING HIGHLIGHTS (1)(2)

	2019	2018	2017
FINANCIAL			
Petroleum and natural gas sales	**914.9**	965.5	491.4
Net income (loss)	**(87.9)**	(367.2)	336.9
per share – basic ($/share)	***(0.67)***	*(2.78)*	*2.93*
per share – diluted ($/share)	***(0.67)***	*(2.78)*	*2.91*
Cash from operating activities	**255.7**	223.4	126.3
per share – basic ($/share)	***1.96***	*1.69*	*1.10*
per share – diluted ($/share)	***1.96***	*1.69*	*1.09*
Adjusted funds flow	**299.0**	263.9	218.7
per share – basic ($/share)	***2.29***	*2.00*	*1.90*
per share – diluted ($/share)	***2.29***	*2.00*	*1.89*
Total assets	**3,531.3**	4,118.1	4,480.6
Long-term debt	**632.3**	815.0	701.8
Net debt	**703.5**	896.0	636.2
Common shares outstanding (thousands) (3)	**133,337**	130,326	134,713
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	**303.3**	325.9	161.3
Condensate and oil (Bbl/d)	**25,079**	24,238	13,956
Other NGLs (Bbl/d) (4)	**6,767**	7,386	4,138
Total (Boe/d)	**82,394**	85,941	44,970
% Liquids	***39%***	*37%*	*40%*
Realized prices			
Natural gas revenue ($/Mcf)	**2.36**	2.25	2.26
Condensate and oil revenue ($/Bbl)	**66.66**	67.81	61.52
Other NGLs revenue ($/Bbl) (4)	**15.24**	30.67	26.80
Petroleum and natural gas sales ($/Boe)	**30.42**	30.78	29.94
Total capital expenditures	**404.1**	580.2	545.1

(1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted funds flow, Net debt and Total capital expenditures.

(2) The results of operations and net assets of Apache Canada Ltd. are included in Paramount's results following the Apache Canada Ltd. acquisition on August 16, 2017. The results of operations and net assets of Trilogy Energy Corp. are included in Paramount's results following the closing of the merger with Trilogy Energy Corp. on September 12, 2017.

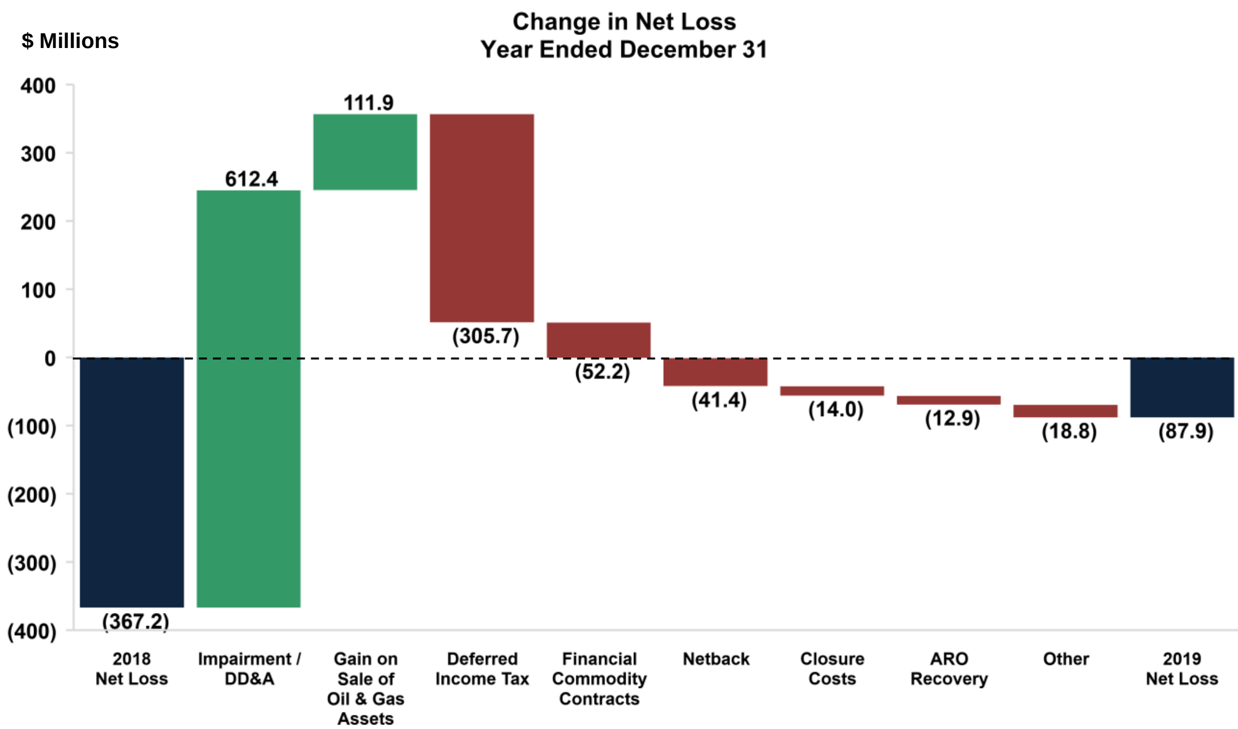
(3) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2019: 860; 2018: 574; 2017: 346.

(4) Other NGLs means ethane, propane and butane.

CONSOLIDATED RESULTS

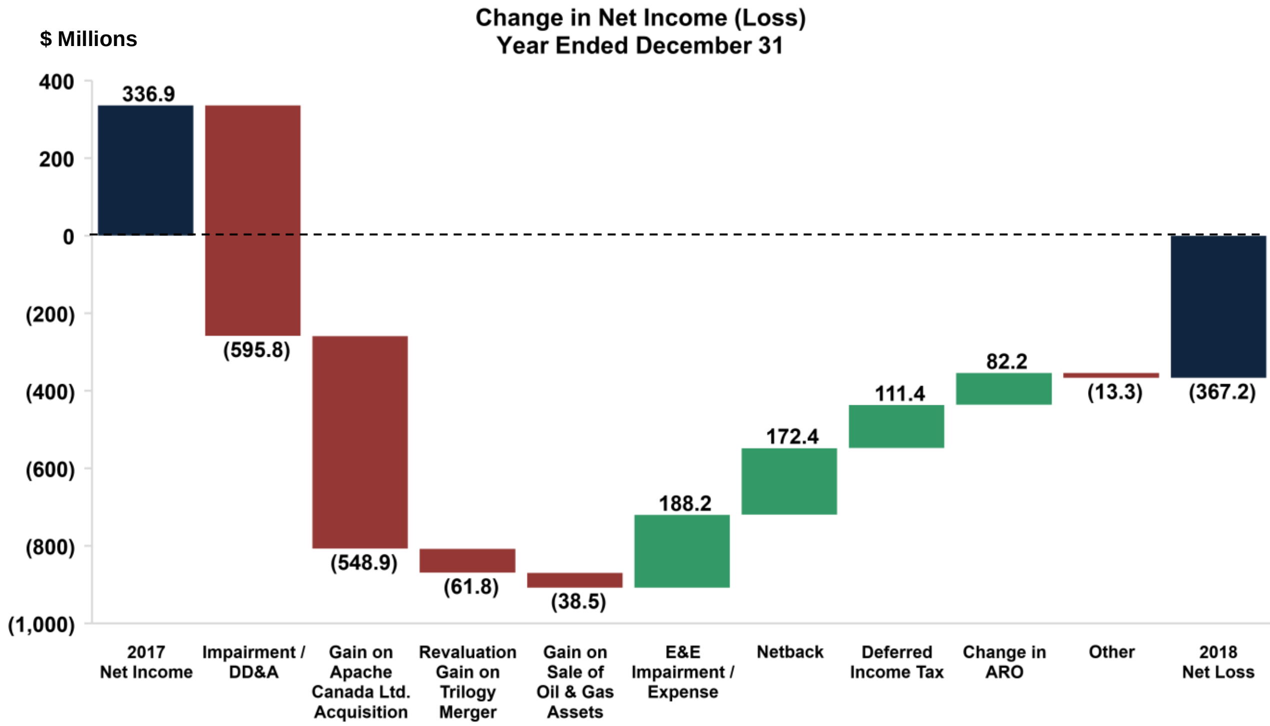
Net Loss – 2019 versus 2018

Paramount recorded a net loss of $87.9 million for the year ended December 31, 2019 compared to a net loss of $367.2 million in the same period in 2018, primarily as a result of lower impairment, depletion and depreciation expense and higher gains on the sale of oil and gas assets in 2019; partially offset by deferred income tax expense in 2019 compared to a recovery in 2018, a loss on financial commodity contracts in 2019 compared to a gain in 2018, a lower netback in 2019, the incurrence of closure costs related to the Company's Zama properties in 2019 and a lower recovery related to changes in asset retirement obligations in 2019.



Net Income (Loss) – 2018 versus 2017

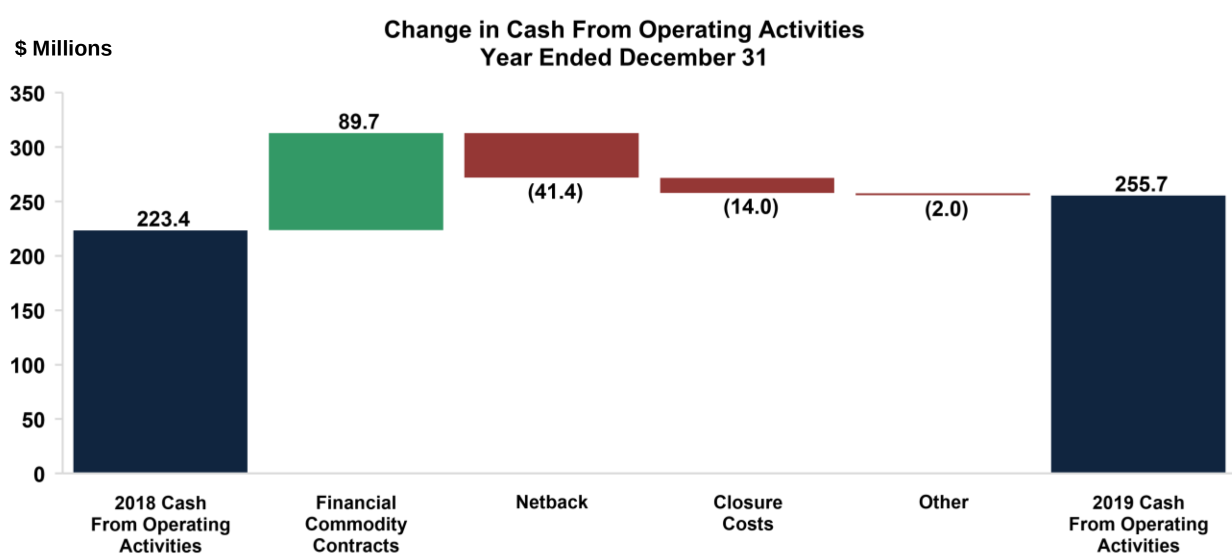
Paramount recorded a net loss of $367.2 million for the year ended December 31, 2018 compared to net income of $336.9 million in the same period in 2017, primarily as a result of higher impairment, depletion and depreciation expense in 2018, a gain on the Apache Canada Ltd. ("Apache Canada") acquisition and Trilogy Energy Corp. ("Trilogy") revaluation in 2017 and lower gains on the sale of oil and gas assets in 2018; partially offset by an impairment charge included in exploration and evaluation expense in 2017, a higher netback in 2018, a higher deferred income tax recovery in 2018 and a higher recovery in 2018 related to changes in asset retirement obligations.



In August 2017, Paramount acquired all of the outstanding shares of Apache Canada. In September 2017, the Company completed a merger transaction with Trilogy (the "Trilogy Merger"), under which Paramount acquired all of the outstanding shares of Trilogy not already owned by Paramount. Paramount's results include the results of Apache Canada from August 16, 2017 and Trilogy from September 12, 2017.

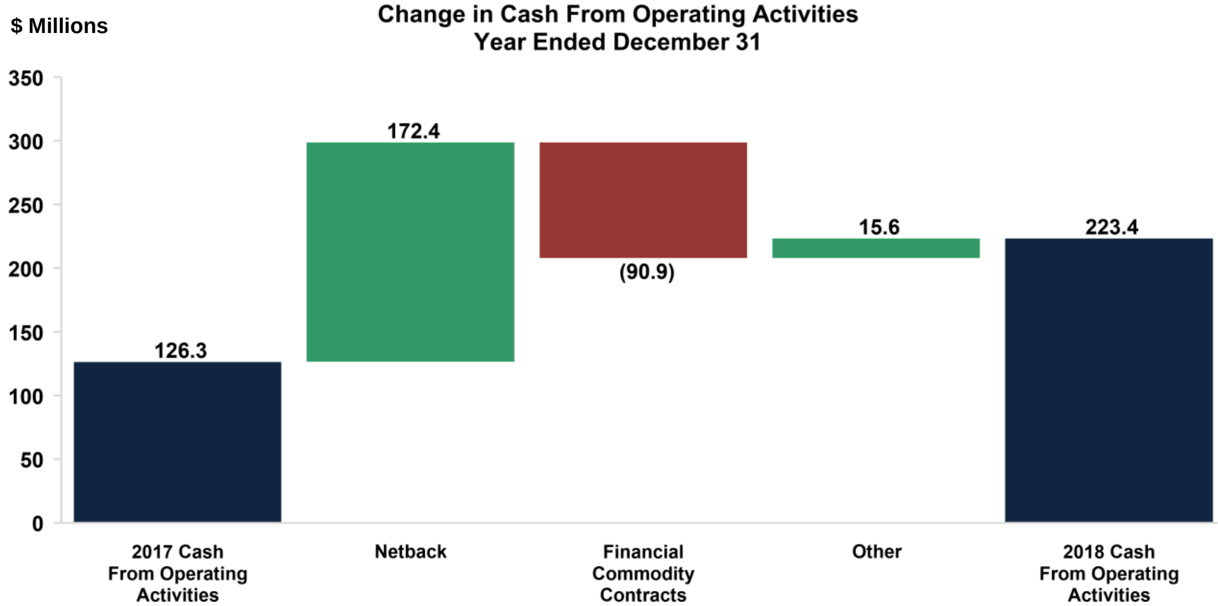
Cash From Operating Activities – 2019 versus 2018

Cash from operating activities for the year ended December 31, 2019 was $255.7 million compared to $223.4 million for the same period in 2018, primarily as a result of receipts on the settlement of financial commodity contracts in 2019 compared to payments made in 2018, partially offset by a lower netback and the incurrence of closure costs related to the Company's Zama properties in northern Alberta in 2019.



Cash From Operating Activities – 2018 versus 2017

Cash from operating activities for the year ended December 31, 2018 was $223.4 million compared to $126.3 million for the same period in 2017, primarily as a result of a higher netback in 2018, partially offset by payments on the settlement of financial commodity contracts in 2018 compared to receipts in 2017.



Adjusted Funds Flow (1)

The following table reconciles cash from operating activities to adjusted funds flow:

Year ended December 31	2019	2018	2017
Cash from operating activities	**255.7**	223.4	126.3
Change in non-cash working capital	**(15.9)**	(7.0)	31.1
Geological and geophysical expenses	**11.0**	12.5	9.3
Asset retirement obligations settled	**29.4**	29.4	21.5
Closure costs	**14.0**	–	–
Dispute settlements	**2.5**	–	–
Transaction and reorganization costs	**2.3**	5.6	30.5
Adjusted funds flow	**299.0**	263.9	218.7
Adjusted funds flow (*$/Boe*)	**9.94**	8.41	13.33

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

Adjusted funds flow for the year ended December 31, 2019 was $299.0 million compared to $263.9 million for the year ended 2018. The increase in adjusted funds flow was primarily due to receipts on financial commodity contract settlements in 2019 compared to payments made in 2018, partially offset by a lower netback and higher interest and financing expense in 2019.

Adjusted funds flow for the year ended December 31, 2018 was $263.9 million compared to $218.7 million for the same period in 2017. The increase in adjusted funds flow was primarily due to a higher netback partially offset by payments made on financial commodity contract settlements in 2018 compared to receipts in 2017 and higher interest and financing expense and general and administrative expenses in 2018.

OPERATING RESULTS

Netback [1]

Year ended December 31	2019	($/Boe) [2]	2018	($/Boe) [2]
Natural gas revenue	261.0	2.36	267.1	2.25
Condensate and oil revenue	610.2	66.66	599.9	67.81
Other NGLs revenue [3]	37.7	15.24	82.7	30.67
Royalty and sulphur revenue	6.0	–	15.8	–
Petroleum and natural gas sales	914.9	30.42	965.5	30.78
Royalties	(63.3)	(2.10)	(69.2)	(2.21)
Operating expense	(376.0)	(12.50)	(381.0)	(12.15)
Transportation and NGLs processing [4]	(94.7)	(3.15)	(93.0)	(2.96)
Netback	380.9	12.67	422.3	13.46
Commodity contract settlements	13.2	0.44	(76.5)	(2.44)
Netback including commodity contract settlements	394.1	13.11	345.8	11.02

(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.
(2) Natural gas revenue shown per Mcf.
(3) Other NGLs means ethane, propane and butane.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs.

Petroleum and natural gas sales were $914.9 million in 2019, a decrease of $50.6 million from the prior year mainly due to lower liquids prices and lower natural gas and other NGLs sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and Sulphur	Total
Year ended December 31, 2018	267.1	599.9	82.7	15.8	965.5
Effect of changes in sales volumes	(18.5)	20.8	(6.9)	–	(4.6)
Effect of changes in prices	12.4	(10.5)	(38.1)	–	(36.2)
Change in royalty and sulphur revenue	–	–	–	(9.8)	(9.8)
Year ended December 31, 2019	261.0	610.2	37.7	6.0	914.9

Sales Volumes

	Year ended December 31											
	Natural gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Grande Prairie	79.5	76.2	4	13,973	11,419	22	1,814	1,945	(7)	29,040	26,059	11
Kaybob	146.2	162.2	(10)	8,650	9,523	(9)	2,476	2,450	1	35,500	39,004	(9)
Central Alberta & Other	77.6	87.5	(11)	2,456	3,296	(25)	2,477	2,991	(17)	17,854	20,878	(14)
Total	303.3	325.9	(7)	25,079	24,238	3	6,767	7,386	(8)	82,394	85,941	(4)

Sales volumes were 82,394 Boe/d for the year ended December 31, 2019, 4 percent lower than the same period in 2018. The decrease was primarily due to lower production in the Kaybob and Central Alberta and Other Regions as a result of natural declines and scheduled maintenance outages at processing facilities, the disposition of the Resthaven/Jayar properties in 2018, the closure of the Zama and Hawkeye fields and the sale of certain natural gas-weighted properties in West Central Alberta (the "West Central Alberta Assets") on December 4, 2019. These decreases were partially offset by higher sales volumes at Wapiti in the Grande Prairie Region following start-up of the new third-party Wapiti natural gas processing plant in the second quarter of 2019 and at Smoky Duvernay and South Duvernay in the Kaybob Region as a result of new wells being brought-on production.

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar in the Grande Prairie Region for gross proceeds of $340 million (the "Resthaven/Jayar Sale"). Total consideration included $170 million cash, 85 million common shares and 8.5 million warrants of the purchaser, Strath Resources Ltd. ("Strath"). The Resthaven/Jayar properties encompassed approximately 201 (152 net) sections of land, had sales volumes of approximately 5,000 Boe/d in the first half of 2018 and generated a netback of approximately $10 million in 2018 prior to the date of sale.

Paramount permanently shut down its dry gas Hawkeye property in late-2018 and its Zama property in the first half of 2019 due to challenging economics. The Company has permanently shut-in approximately 2,100 Boe/d of uneconomic production since the fourth quarter of 2018.

On December 4, 2019, Paramount closed the sale of the West Central Alberta Assets for gross cash proceeds of approximately $52.4 million. The West Central Alberta Assets were included in the Central Alberta & Other Region and had average sales volumes of approximately 8,500 Boe/d (60 percent natural gas) and a netback of approximately $22.5 million in 2019 prior to the date of sale.

Paramount's annual 2019 sales volumes were 82,394 Boe/d, within the Company's annual guidance range of between 81,000 Boe/d and 85,000 Boe/d. The Company's sales volumes in the fourth quarter of 2019 were 85,411 Boe/d, less than the fourth quarter guidance range of between 87,000 Boe/d and 90,000 Boe/d disclosed in the MD&A for the three and nine months ended September 30, 2019, but within the revised guidance range of between 84,500 Boe/d and 87,500 Boe/d provided in conjunction with the sale of the West Central Alberta Assets on December 4, 2019. That sale impacted Paramount's fourth quarter average sales volumes by approximately 2,500 Boe/d.

Paramount's 2020 annual sales volumes are expected to average between 75,000 Boe/d and 80,000 Boe/d (43 percent liquids). Sales volumes are anticipated to average between 70,000 Boe/d and 74,000 Boe/d in the first half of 2020. Early 2020 production was impacted by extremely cold weather conditions that resulted in unscheduled third-party outages and well freeze offs. More significantly, Wapiti sales volumes were impacted by the unscheduled full shut-down of the third-party Wapiti natural gas processing facility (due to an electrical failure) for approximately two weeks in January and are expected to be further impacted by an additional scheduled 7-day outage in March. There are two significant scheduled expansion-related outages, totaling two weeks, during the second quarter at the third-party Karr 6-18 natural gas facility (the "6-18 Facility"). Production from a number of older pads at Karr has been temporarily backed out, which is also contributing to lower first half production. Paramount plans to install compression and pumping to minimize these impacts for the second half of 2020. There are also four scheduled turnarounds at other facilities in the Kaybob and Central Alberta and Other Regions planned during the second quarter of 2020. Paramount expects production growth to resume in the second half of 2020 as volumes ramp up at Karr following the completion of the 6-18 Facility expansion and as additional wells are brought onstream at Wapiti. Fourth quarter sales volumes are expected to average between 84,000 Boe/d and 90,000 Boe/d.

Commodity Prices

Year Ended December 31	2019	2018	% Change
Natural Gas			
Paramount realized natural gas price ($/Mcf)	**2.36**	2.25	5
AECO daily spot ($/GJ)	**1.67**	1.42	*18*
AECO monthly index ($/GJ)	**1.54**	1.45	6
Dawn ($/MMbtu)	**3.22**	4.08	*(21)*
NYMEX (US$/MMbtu)	**2.53**	3.07	*(18)*
Malin – monthly index (US$/MMbtu)	**2.67**	2.69	*(1)*
Condensate and Oil			
Paramount realized condensate & oil price ($/Bbl)	**66.66**	67.81	*(2)*
Edmonton Light Sweet ($/Bbl)	**68.87**	68.49	*1*
West Texas Intermediate (US$/Bbl)	**57.02**	64.77	*(12)*
Other NGLs (1)			
Paramount realized Other NGLs price ($/Bbl) (1)	**15.24**	30.67	*(50)*
Conway – propane ($/Bbl)	**26.43**	39.25	*(33)*
Belvieu – butane ($/Bbl)	**35.95**	53.10	*(32)*
Foreign Exchange			
$CDN / 1 $US	**1.33**	1.30	*2*

(1) Other NGLs means ethane, propane and butane.

Paramount's natural gas portfolio primarily consists of sales at Alberta, California, Chicago, Ventura and Eastern Canada markets, which are sold in a combination of daily and monthly contracts. The Company's natural gas portfolio includes arrangements to sell approximately 60,000 GJ/d of natural gas at Dawn, approximately 22,000 GJ/d of natural gas at Malin, and 40,000 GJ/d of natural gas sales priced in the US Midwest.

As at December 31, 2019, the Company also had AECO fixed-price physical contracts in place to sell 50,000 GJ/d of natural gas at a price of $2.36/GJ from January 2020 to March 2020 and 60,000 GJ/d of natural gas at a price of $1.56/GJ from April 2020 to October 2020. In January 2020 the Company entered into additional fixed price physical contracts to sell 20,000 GJ/d of natural gas at a price of $1.75/GJ from April 2020 to October 2020.

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

The Company's butane and propane volumes are sold under contracts that are renewed annually. Depressed local demand for butane and propane, combined with elevated storage levels during the renewal period in early 2019 resulted in wider price differentials from the prior year and a corresponding decrease of 50 percent in the Company's realized Other NGLs prices in 2019.

Commodity Price Management

From time-to-time, Paramount uses financial commodity contracts to manage exposure to commodity price volatility. The Company had the following financial commodity contracts in place at December 31, 2019:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN$80.11/Bbl	6.1	January 2020 – December 2020

Changes in the fair value of the Company's financial commodity contracts are as follows:

Year ended December 31	2019	2018
Fair value, beginning of year	64.4	(19.1)
Changes in fair value	(45.1)	7.0
Settlements paid (received)	(13.2)	76.5
Fair value, end of year	6.1	64.4

Royalties

Year ended December 31	2019	Rate	2018	Rate
Royalties	63.3	7.0%	69.2	7.3%
$/Boe	*2.10*		*2.21*	

Royalties expense was $63.3 million for the year ended December 31, 2019, $5.9 million lower than the same period in 2018. Royalties decreased in 2019 primarily as a result of lower liquids prices and lower natural gas and Other NGLs production, partially offset by higher royalties at Karr, as a number of wells have fully utilized new well royalty incentives, and at Wapiti due to new well production.

Operating Expense

Year ended December 31	2019	2018	% Change
Operating expense	376.0	381.0	*(1)*
$/Boe	*12.50*	*12.15*	*3*

Operating expense was $376.0 million for the year ended December 31, 2019, $5.0 million lower than the same period in 2018. The decrease in operating expenses is primarily due to lower well workover and maintenance activity in the Kaybob and Central Alberta and Other Regions and the closure of the Zama property. Operating costs in the Grande Prairie Region were also lower because of the disposition of the Resthaven/Jayar properties in the third quarter of 2018. These decreases were partially offset by higher operating costs at Karr due to incremental natural gas processing fees following the sale of the Company's 6-18 Facility located in the Grande Prairie Region (the "Midstream Transaction") and higher water disposal costs and at Wapiti related to new production.

Transportation and NGLs Processing

Year ended December 31	2019	2018	% Change
Transportation and NGLs processing	94.7	93.0	2
$/Boe	*3.15*	*2.96*	*6*

Transportation and NGLs processing expense was $94.7 million for the year ended December 31, 2019 compared to $93.0 million in 2018. Transportation and NGLs processing costs increased in 2019 as a result of new production at Wapiti and higher contracted NGLs fractionation and transportation capacity, partially offset by lower transportation costs in the Grande Prairie Region as a result of the disposition of the Resthaven/Jayar properties in the third quarter of 2018.

Other Operating Items

Year ended December 31	2019	2018
Depletion and depreciation (excluding impairment / impairment reversals)	(364.8)	(474.7)
Impairment of property plant and equipment	–	(502.5)
Gain on sale of oil and gas assets	169.3	57.4
Exploration and evaluation expense	(22.4)	(27.3)

Depletion and depreciation expense was $364.8 million for the year ended December 31, 2019, $109.9 million lower than in 2018. In the fourth quarter of 2018, the Company modified the method of determining depletion rates to better reflect the usage pattern in which its oil and gas assets are depleted. Refer to the Critical Accounting Estimates – Depletion section of this document.

At December 31, 2018, the Company recorded impairments of $457.0 million and $40.7 million related to petroleum and natural gas assets in the Kaybob and Central Alberta cash generating units ("CGUs"), respectively. The impairments were recorded because the carrying value of the CGUs exceeded their recoverable amounts, which were estimated based on expected net cash flows from the production of reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues due to changes in economic factors, timing of development and estimated reserves volumes.

In August 2019, Paramount closed the Midstream Transaction for gross cash proceeds of $331.6 million. The cash proceeds included the reimbursement of capital expenditures related to the expansion of the 6-18 Facility. In connection with the sale, the Company entered into a midstream services agreement that includes a fee-for-service arrangement and a take-or-pay volume commitment that ends approximately 20 years following the completion of an expansion to the facility, which is scheduled to be completed in 2020. A gain of $153.6 million was recognized on the sale. Proceeds from the Midstream Transaction were used to reduce amounts drawn on Paramount's bank credit facility (the "Paramount Facility").

In July 2018, Paramount closed the Resthaven/Jayar Sale. A gain of $47.5 million was recognized on the sale.

INVESTMENTS IN SECURITIES

As at December 31	2019	2018
Level one fair value hierarchy securities	68.5	36.0
Level three fair value hierarchy securities	88.4	195.7
	156.9	231.7

Paramount holds equity investments in a number of publicly-traded and private corporations as part of its portfolio of investments.

Investments that are categorized as level one fair value hierarchy securities are carried at their period-end value based on the trading prices of the security quoted in an active market. Estimates of fair value for investments that are categorized as level three fair value hierarchy securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of level three 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 the fair value of investments in securities are as follows:

Year ended at December 31	2019 (1)	2018
Investments in securities, beginning of year	231.7	53.3
Changes in fair value of level one fair value hierarchy securities – recorded in OCI	6.3	0.6
Changes in fair value of level three fair value hierarchy securities (2) – recorded in OCI	(118.1)	4.1
Changes in fair value of Strath warrants – recorded in earnings	(9.2)	–
Acquired – cash	55.1	4.1
Acquired – non-cash	4.5	170.0
Dispositions	(13.6)	(0.4)
Investments in securities, end of year	**156.9**	231.7

(1) Column does not add due to rounding.
(2) Primarily related to the change in fair value of 85 million Strath common shares and excluding Strath warrants.

For the year ended December 31, 2019, the Company recorded a charge of $111.8 million to other comprehensive income ("OCI") as a result of changes in the fair value estimates for investments in securities. For the twelve months ended December 31, 2019, $9.2 million was charged to earnings related to the change in estimated fair value of the Strath warrants.

In October 2019, Paramount sold a portion of its investment in MEG Energy Corp. ("MEG") for cash proceeds of $13.6 million. As a result of the sale, $61.8 million of accumulated losses were reclassified from accumulated OCI to retained earnings.

OTHER ASSETS

Fox Drilling

Fox Drilling owns seven triple-sized drilling rigs, including four walking rigs, that are used to drill Company wells. The walking rigs have the capability of moving across a lease with the derrick and drill pipe remaining vertical, significantly increasing efficiencies when drilling multi-well pads.

Cavalier Energy

Cavalier Energy was created in 2011 to develop the Company's oil sands lands. Cavalier Energy owns approximately 1,306,000 net acres of land located primarily in the Athabasca and Peace River oil sands regions of Alberta.

CORPORATE

Year ended December 31	2019	2018
General and administrative	(52.6)	(58.6)
Share-based compensation	(18.5)	(24.1)
Interest and financing	(40.2)	(31.0)
Accretion of asset retirement obligations	(56.7)	(57.7)
Change in asset retirement obligations	107.3	120.2
Closure costs	(14.0)	–
Dispute settlements	(2.5)	–
Deferred income tax (expense) recovery	(112.3)	193.4

Interest and financing expense was $40.2 million in 2019, an increase of $9.2 million compared to 2018, as a result of higher average debt balances in 2019 prior to the Midstream Transaction.

The Company recorded a recovery of $107.3 million in 2019 ($120.2 million – 2018), 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 in such amounts resulted from revisions to the estimated costs of future obligations and anticipated settlement dates thereof.

As of December 31, 2019, the Company's undiscounted, uninflated estimated asset retirement obligations were $1,381.5 million compared to $1,785.1 million as at December 31, 2018. As of December 31, 2019, the Company's discounted asset retirement obligations were $569.9 million compared to $807.9 million as at December 31, 2018. For further details concerning the changes in the Company's asset retirement obligations, refer to the Consolidated Financial Statements.

In early 2019, Paramount made the decision to cease production operations at its Zama property in northern Alberta, which is included in the Central Alberta and Other Region. Sales volumes at Zama averaged approximately 1,200 Boe/d in the fourth quarter of 2018. The closure of Zama is expected to reduce the Company's total operating expenses by approximately $27 million per year. The Company recognized a provision of $14.0 million in 2019 in respect of the expected costs of the Zama closure program, of which the full $14.0 million has been incurred to December 31, 2019.

Subsequent to December 31, 2019, Paramount reached an agreement to settle its dispute with respect to an alleged obligation to contribute to the costs related to the remediation of a release from a non-operated pipeline. Also subsequent to December 31, 2019, but unrelated to this settlement, the Company reached an agreement to settle a legal action involving the Company as plaintiff against a third-party supplier respecting defective products and services provided to the Company. The Company has recognized a charge of $2.5 million in 2019 in respect of these settlements.

Deferred income tax expense for 2019 included a charge of approximately $101.2 million related to a reduction in Alberta income tax rates.

Tax Pools

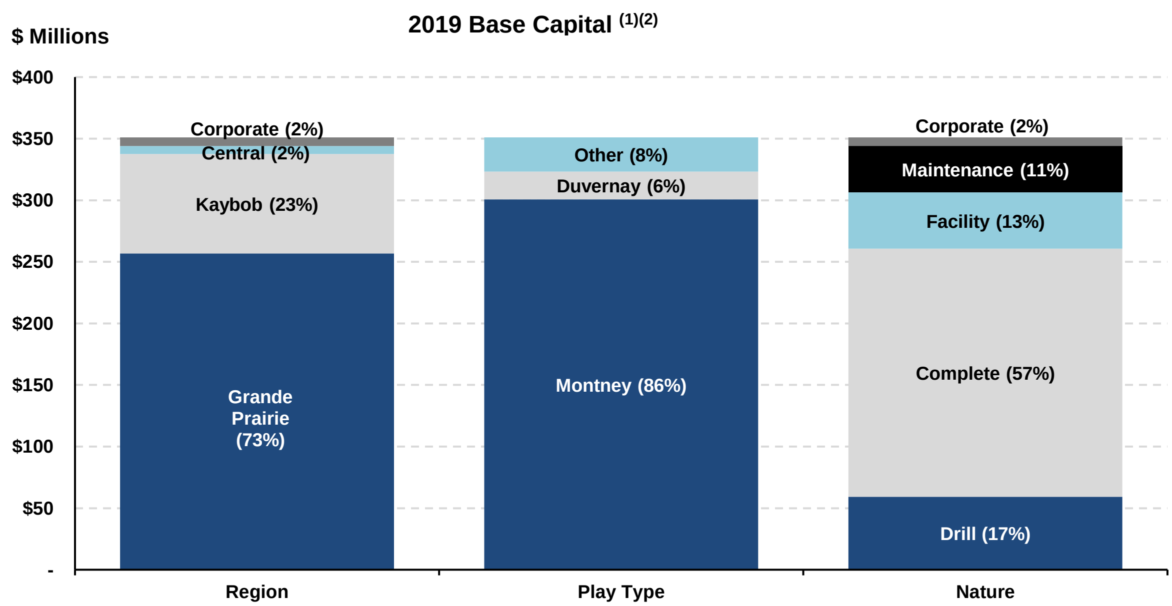
At December 31, 2019, Paramount's tax pools included approximately $3.6 billion of non-capital losses and scientific research and experimental development, $1.1 billion of Canadian resource pools and undepreciated capital cost and $0.1 billion of financing costs and other.

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

Year ended December 31	2019	2018
Drilling, completion and tie-ins	297.7	437.0
Facilities and gathering	47.3	85.3
Corporate	6.0	10.8
Base capital (1)	**351.0**	533.1
6-18 Facility expansion	45.5	35.9
Land and property acquisitions	7.6	11.2
Total capital expenditures (1)	**404.1**	580.2
Base capital (1)		
Grande Prairie Region	256.7	265.7
Kaybob Region	80.7	215.7
Central Alberta and Other Region	7.6	40.9
Corporate	6.0	10.8
Total base capital	**351.0**	533.1

(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.

The table below summarizes the Company's base capital expenditures for the year ended December 31, 2019 by region, play type and nature:



(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.
(2) Central means Central Alberta and Other Region

Total capital expenditures in 2019 were mainly directed to drilling and completion programs in the Grande Prairie and Kaybob Regions.

In the Grande Prairie Region at Karr, Paramount completed the drilling of 8 (8.0 net) wells, commenced the drilling of another 5 (5.0 net) wells and completed and brought on production 8 (8.0 net) wells, 5 (5.0 net) of which had been drilled in 2018 and 3 (3.0 net) of which had been drilled in 2019. Paramount also commenced the drilling of a water disposal well. Paramount incurred $45.5 million in 2019 related to the 6-18 Facility expansion, which was not included in the Company's $350 million base capital budget. The cash proceeds from the Midstream Transaction included the reimbursement of capital expenditures related to the 6-18 Facility expansion.

In the Grande Prairie Region at Wapiti, the Company brought on production 11 (11.0 net) wells from an eleven well pad that were drilled and completed in 2018. The Company also drilled and completed 12 (12.0 net) wells on a twelve well pad, two of which were brought on production.

In the Kaybob Region, Paramount drilled 3 (3.0 net) new Montney Oil wells. Two of these wells, plus two wells drilled in 2018, were brought on production in 2019. The Company also completed and brought on production 5 (2.5 net) South Duvernay wells that were drilled in 2018 and early 2019 and drilled, completed and brought on production 1 (1.0 net) well at Ante Creek. In addition, Paramount completed the construction of a crude oil terminal for approximately $13 million. This terminal is pipeline connected and has been fully commissioned for service.

In the Central Alberta and Other Region, the Company participated in one (0.5 net) well at Birch in northeast British Columbia, which was completed and brought-on production in the second quarter of 2019.

Paramount has budgeted capital expenditures for 2020, excluding land acquisitions and abandonment and reclamation activities, of between $350 million and $450 million. The budgeted expenditures are largely focused on the ongoing development of Karr and Wapiti. The Company's capital expenditure plans remain flexible, with the lower end of the range reflecting the deferral of capital expenditures largely associated with production benefits in 2021. Average annual sales volumes would be impacted by approximately 1,000 Boe/d by the deferral of such capital expenditures. The Company is committed to prudently managing its capital resources and may, as further discussed below under Liquidity and Capital Resources, adjust its capital expenditure plans depending on commodity prices and other factors.

LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31	**2019**	**2018**
Cash and cash equivalents	**(6.0)**	(19.3)
Accounts receivable [(1)]	**(116.6)**	(121.3)
Prepaid expenses and other	**(11.0)**	(9.6)
Accounts payable and accrued liabilities	**204.8**	231.2
Adjusted working capital deficit [(1)] [(2)]	**71.2**	81.0
Paramount Facility	**632.3**	815.0
Net debt [(2)]	**703.5**	896.0
Share capital	**2,207.5**	2,184.6
Retained earnings (accumulated deficit)	**(128.5)**	21.2
Reserves	**4.2**	44.7
Total Capital	**2,786.7**	3,146.5

(1) Adjusted working capital excludes current risk management assets and liabilities, current accounts receivable relating to subleases (December 31, 2019 - $2.0 million, December 31, 2018 – nil) and the current portion of asset retirement obligations and other.
(2) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.

Paramount's operations are capital intensive and adequate sources of liquidity are required to fund ongoing exploration and development activities, discharge asset retirement obligations and satisfy contractual commitments. Paramount's available capital resources include adjusted funds flow and borrowing capacity under the Paramount Facility, the terms of which are described further below. Paramount may also determine to divest of assets or investments in securities to raise capital to reduce indebtedness or fund operations. Subject to market conditions and availability, proceeds from new debt or equity financings may also provide additional sources of capital from time to time. In 2019 Paramount realized net cash proceeds of $379.7 million through asset divestitures, $38.8 million through the issuance of Common Shares and $13.6 million through the sale of investments in securities. In 2018, Paramount realized net cash proceeds of $182.4 million through asset divestitures, $0.8 million through the issuance of Common Shares and $0.4 million through the sale of investments in securities.

In assessing its 2020 funding requirements and available capital resources, Paramount has assumed average benchmark commodity prices of US$55.00/Bbl for WTI and CDN$1.80/GJ for AECO natural gas and a $0.76 CDN/US exchange rate. Based on these assumptions, Paramount expects in 2020 that adjusted funds flow and borrowing capacity under the Paramount Facility will provide sufficient liquidity to fund the Company's operations, including the $350 million to $450 million capital budget, $39 million in budgeted expenditures on asset retirement obligation settlements and the Company's adjusted working capital deficit. The relative contribution of adjusted funds flow to satisfy the Company's funding requirements in 2020 and in future years is variable and dependent on a number of factors, including commodity prices, sales volumes, royalties, operating, transportation, general and administrative and interest expenses and foreign exchange rates. Recently, world oil prices have been adversely affected by uncertainty surrounding the economic impact of the COVID-19 (Coronavirus) outbreak. The market price for WTI as of February 28, 2020 was approximately US$45.00/Bbl. If these pricing conditions persist for a sustained period of time, Paramount expects to revise its capital expenditure plans.

Paramount Facility

The Company has a $1.5 billion financial covenant-based senior secured revolving bank credit facility. The maturity date of the Paramount Facility is currently November 16, 2022, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders.

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

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and

ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

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

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

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

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

Paramount had letters of credit outstanding under the Paramount Facility totaling $2.9 million at December 31, 2019 that reduce the amount available to be drawn on the Paramount Facility.

Unsecured Letter of Credit Facility

In 2019, Paramount entered into a new $40 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 ("EDC"). The PSG is valid to July 31, 2020 and may be extended from time-to-time at the option of Paramount and with the agreement of EDC. As at December 31, 2019, letters of credit totaling $33.3 million were outstanding under the LC Facility.

Interest Rate Swaps

In the first quarter of 2019, Paramount entered into interest rate swap contracts to manage the uncertainty of variable interest rates by fixing the underlying Canadian Dollar Offered Rate ("CDOR") of interest on a portion of the Company's long-term debt. The Company classified these arrangements as cash flow hedges and has applied hedge accounting. There is an economic relationship between the hedged items and hedging instruments as the timing and amount of the cash flows received from the interest rate swaps matched the terms of the expected highly probable forecast transactions, which is the underlying CDOR amount of interest paid on $500 million of the Company's long-term debt. A hedge ratio of 1 to 1 was established as the underlying risk of the interest rate swaps were identical to the hedged risk components. As at December 31, 2019, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

The Company had the following floating-to-fixed interest rate swaps in place at December 31, 2019:

Contract type	Aggregate notional	Maturity date	Fixed contract rate	Reference	Fair value
Interest Rate Swap	$250 million	January 2023	2.3%	CDOR	**(2.5)**
Interest Rate Swap	$250 million	January 2026	2.4%	CDOR	**(5.5)**
					(8.0)

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding 7¼ percent senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes. The 2019 Senior Notes were issued by Trilogy in 2012 and became Paramount's obligation through the Trilogy Merger.

Share Capital

In November 2019, Paramount issued 5.9 million Common Shares on a "flow-through" basis in respect of Canadian development expenses at a price of $6.65 per share for gross proceeds of $39.2 million pursuant to a private placement (the "Private Placement"). An entity controlled by the Company's Chairman and President and Chief Executive Officer acquired 3.8 million of the Common Shares under the private placement for $24.9 million. A liability of $2.6 million was recognized in asset retirement obligations and other on the issuance of the flow-through shares in respect of the Company's obligation to renounce qualifying expenditures. The Company incurred $0.4 million of transaction costs in respect of these equity offerings, net of tax benefits of $0.1 million.

Paramount implemented a normal course issuer bid program in January 2020 (the "2020 NCIB"). The 2020 NCIB will terminate on the earlier of: (i) January 5, 2021; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2020 NCIB are purchased. Purchases of Common Shares under the 2020 NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase.

Paramount may purchase up to 7,044,289 Common Shares under the 2020 NCIB. Pursuant to the rules of the TSX, the maximum number of Common Shares that the Company may purchase under the 2020 NCIB in any one day is 84,660 Common Shares. Paramount may also make one block purchase per calendar week which exceeds such daily purchase restriction, subject to the rules of the TSX. Any Common Shares purchased pursuant to the 2020 NCIB will be cancelled by the Company. Any shareholder may obtain, for no charge, a copy of the notice in respect of the 2020 NCIB filed with the TSX by contacting the Company at 403-290-3600.

The Company previously implemented a normal course issuer bid program in January 2019 (the "2019 NCIB"). In 2019, the Company purchased and cancelled 2,622,200 Common Shares at a total cost of $14.4 million under the 2019 NCIB. The 2019 NCIB expired on January 3, 2020. These purchases were mainly funded by the disposition of a portion of the Company's investment in MEG. Paramount also implemented a normal course issuer bid program in December 2017 (the "2018 NCIB"). In 2018, the Company purchased and cancelled 4,239,359 Common Shares at a total cost of $66.4 million under the 2018 NCIB. The 2018 NCIB expired on December 21, 2018.

At March 2, 2020, Paramount had 133,346,365 Common Shares outstanding (net of 852,352 Common Shares held in trust under the Company's restricted share unit plan) and 12,164,002 options to acquire Common Shares outstanding, of which 4,379,604 options are exercisable.

FOURTH QUARTER RESULTS

Netback [1]

Three months ended December 31	2019		2018	
		($/Boe) [2]		($/Boe) [2]
Natural gas revenue	75.1	2.73	79.2	2.73
Condensate and oil revenue	175.0	66.70	104.3	45.54
Other NGLs revenue [3]	8.5	13.03	20.4	31.39
Royalty and sulphur revenue	1.3	–	3.5	–
Petroleum and natural gas sales	259.9	33.08	207.4	26.68
Royalties	(17.2)	(2.19)	(8.0)	(1.03)
Operating expense	(105.0)	(13.36)	(103.2)	(13.28)
Transportation and NGLs processing [4]	(22.8)	(2.90)	(24.2)	(3.11)
Netback	114.9	14.63	72.0	9.26
Commodity contract settlements	4.7	0.60	(9.3)	(1.20)
Netback including commodity contract settlements	119.6	15.23	62.7	8.06

(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.
(2) Natural gas revenue shown per Mcf.
(3) Other NGLs means ethane, propane and butane.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs.

Fourth quarter 2019 petroleum and natural gas sales were $259.9 million, an increase of $52.5 million from the fourth quarter of 2018, primarily due to higher condensate and oil prices and sales volumes.

Royalties increased $9.2 million in the fourth quarter of 2019 compared to the same period in 2018, primarily as a result of higher condensate and oil prices and sales volumes.

Operating expense increased $1.8 million to $105.0 million in the fourth quarter of 2019 compared to $103.2 million in the same period in 2018, primarily due to higher processing fees and water handling costs associated with higher production at Karr and Wapiti, partially offset by lower repairs and maintenance costs in the Kaybob and Central Alberta and Other Regions and the closure of the Company's Zama property.

On December 4, 2019, Paramount closed the sale of the West Central Alberta Assets. The West Central Alberta Assets had average sales volumes of approximately 8,500 Boe/d (60 percent natural gas) in 2019 prior to the date of sale. The sale of the West Central Alberta Assets impacted Paramount's fourth quarter average sales volumes by approximately 2,500 Boe/d.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and Sulphur	Total
Three months ended December 31, 2018	79.2	104.3	20.4	3.5	207.4
Effect of changes in sales volumes	(4.0)	15.2	–	–	11.2
Effect of changes in prices	(0.1)	55.5	(11.9)	–	43.5
Change in royalty and sulphur revenue	–	–	–	(2.2)	(2.2)
Three months ended December 31, 2019	75.1	175.0	8.5	1.3	259.9

Sales Volumes

	Three months ended December 31											
	Natural gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2019	2018	*% Change*	**2019**	2018	*% Change*	**2019**	2018	*% Change*	**2019**	2018	*% Change*
Grande Prairie	**93.4**	77.3	*21*	**18,851**	12,339	*53*	**2,376**	1,754	*35*	**36,789**	26,976	*36*
Kaybob	**137.4**	154.0	*(11)*	**7,771**	9,268	*(16)*	**2,504**	2,334	*7*	**33,167**	37,262	*(11)*
Central Alberta & Other	**68.2**	83.9	*(19)*	**1,894**	3,291	*(42)*	**2,184**	2,971	*(26)*	**15,455**	20,257	*(24)*
Total	**299.0**	315.2	*(5)*	**28,516**	24,898	*15*	**7,064**	7,059	–	**85,411**	84,495	*1*

Sales volumes in the fourth quarter of 2019 averaged 85,411 Boe/d compared to 84,495 Boe/d in the fourth quarter of 2018. The increase in sales volumes in the fourth quarter of 2019 was primarily due to higher sales volumes at Wapiti in the Grande Prairie Region following the second quarter 2019 start-up of the new third-party Wapiti natural gas processing plant and at Ante Creek and South Duvernay in the Kaybob Region as a result of new wells being brought-on production. These increases were offset by lower production in the Kaybob and Central Alberta and Other Regions as a result of natural declines, the closure of the Zama and Hawkeye properties in the Central Alberta and Other Region and the sale of the West Central Alberta Assets.

Commodity Prices

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

Three months ended December 31	2019	2018	% Change
Natural Gas			
Paramount realized price ($/Mcf)	**2.73**	2.73	–
AECO daily spot ($/GJ)	**2.35**	1.48	*59*
AECO monthly index ($/GJ)	**2.21**	1.80	*23*
Dawn ($/MMbtu)	**2.99**	5.07	*(41)*
NYMEX (US$/MMbtu)	**2.42**	3.74	*(35)*
Malin – monthly index (US$/MMbtu)	**2.65**	3.90	*(32)*
Condensate and Oil			
Paramount realized condensate & oil price ($/Bbl)	**66.70**	45.54	*46*
Edmonton Light Sweet ($/Bbl)	**66.77**	48.27	*38*
West Texas Intermediate (US$/Bbl)	**56.96**	58.81	*(3)*
Other NGLs (1)			
Paramount realized Other NGLs price ($/Bbl) (1)	**13.03**	31.39	*(59)*
Conway – propane ($/Bbl)	**26.05**	38.22	*(32)*
Belvieu – butane ($/Bbl)	**39.85**	49.61	*(20)*
Foreign Exchange			
$CDN / 1 $US	**1.32**	1.32	–

(1) Other NGLs means ethane, propane and butane.

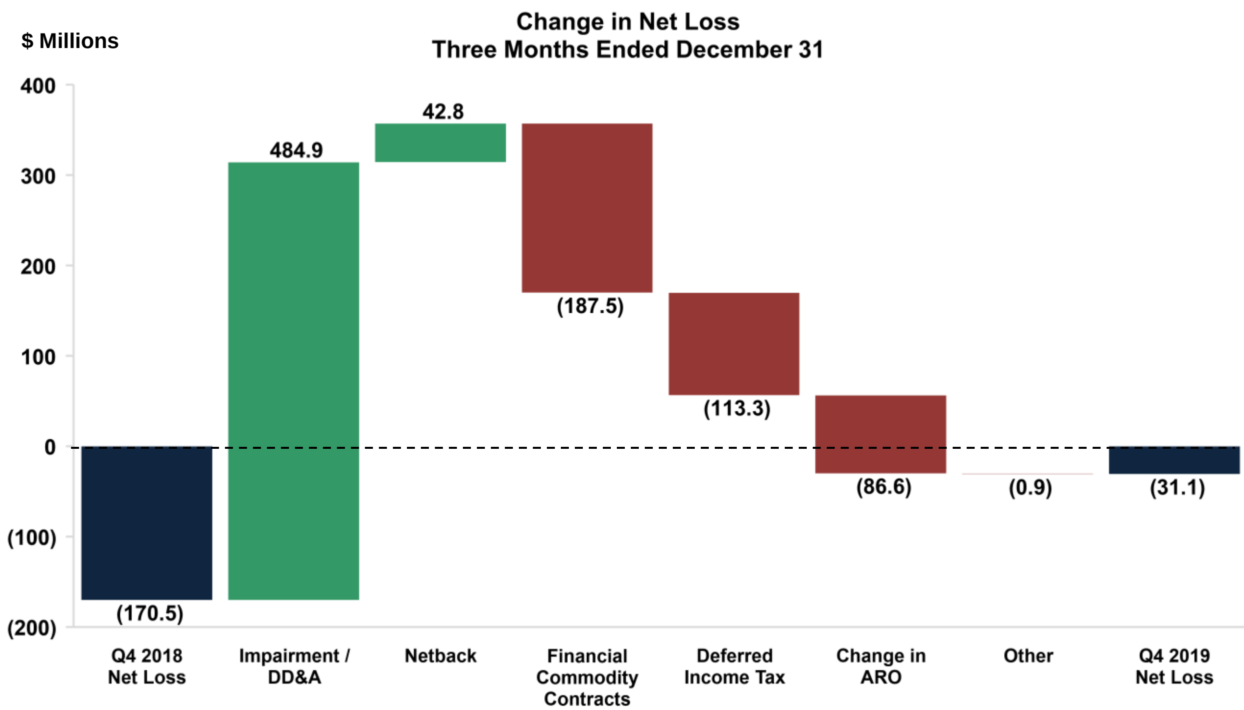
Realized condensate and crude oil prices in the fourth quarter of 2019 increased 46 percent compared to the fourth quarter of 2018. The continuance of the Alberta government-mandated, province-wide crude oil production curtailments, along with modest pipeline egress improvements and increasing exports of crude-by-rail contributed to improved local market balance and narrower differentials to WTI versus the fourth quarter of 2018.

Depressed local demand for butane and propane, combined with elevated storage levels during the renewal period in early 2019 resulted in wider price differentials from the prior year and a decrease of 59 percent in the Company's realized Other NGLs prices in the fourth quarter 2019 versus the fourth quarter of 2018.

Net Loss

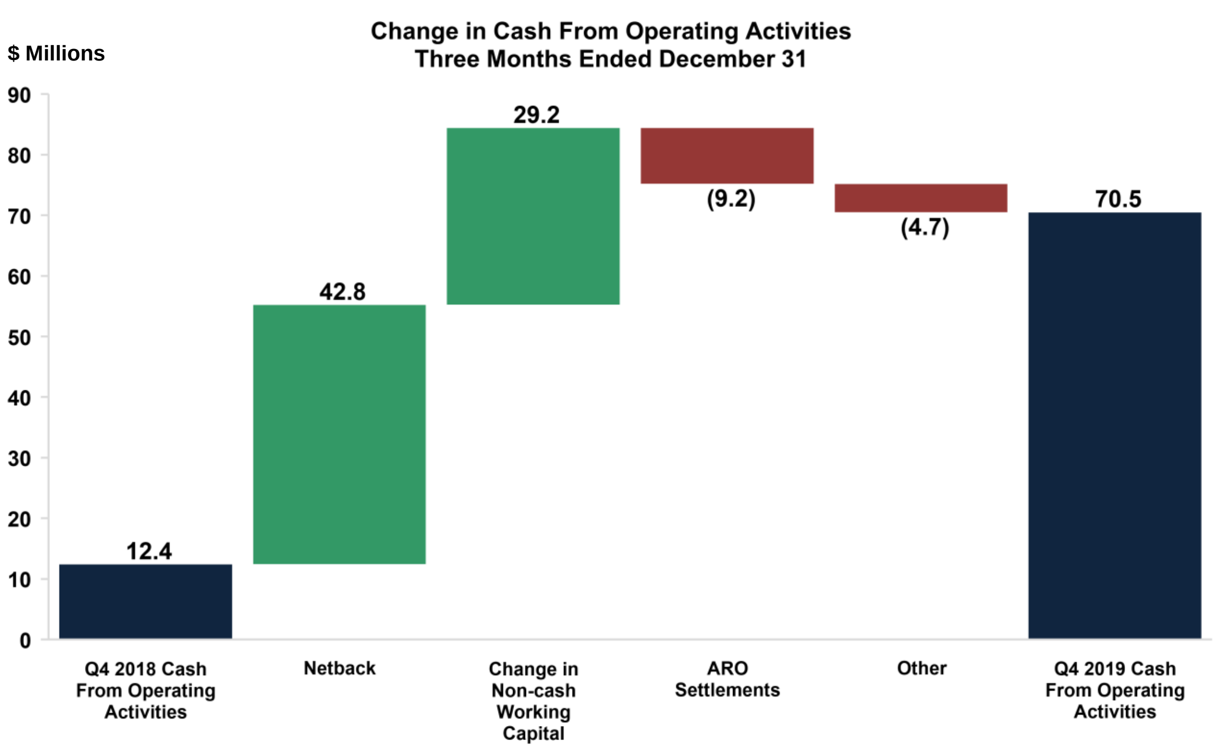
Three months ended December 31	2019	2018
Petroleum and natural gas sales	259.9	207.4
Royalties	(17.2)	(8.0)
Revenue	242.7	199.4
Gain (loss) on commodity contracts	(17.2)	170.3
	225.5	369.7
(Expenses) Income		
Operating expense	(105.0)	(103.2)
Transportation and NGLs processing	(22.8)	(24.2)
General and administrative	(12.6)	(16.8)
Share-based compensation	(4.2)	(7.2)
Depletion and depreciation	(116.1)	(601.0)
Exploration and evaluation	(4.4)	(11.9)
Gain on sale of oil and gas assets	4.2	3.0
Interest and financing	(10.2)	(8.7)
Accretion of asset retirement obligations	(12.2)	(14.6)
Change in asset retirement obligations	33.8	120.4
Closure costs	(0.5)	–
Transaction and reorganization costs	(2.3)	(1.1)
Foreign exchange	–	0.7
Income tax recovery	2.9	116.2
Other	(7.2)	8.2
	(256.6)	(540.2)
Net loss	(31.1)	(170.5)

Paramount recorded a net loss of $31.1 million for the three months ended December 31, 2019 compared to a net loss of $170.5 million in the same period in 2018, primarily as a result of lower impairment, depletion and depreciation expense and a higher netback in 2019, partially offset by a loss on financial commodity contracts in 2019 compared to a gain in 2018, a lower deferred income tax recovery in 2019 and a lower recovery in 2019 related to changes in estimated asset retirement obligations.



Cash From Operating Activities

Cash from operating activities for the three months ended December 31, 2019 was $70.5 million compared to $12.4 million for the same period in 2018, primarily as a result of a higher netback due to higher condensate and oil prices and volumes and changes in non-cash working capital in 2019, partially offset by higher ARO settlements in 2019.



Adjusted Funds Flow [(1)]

The following table reconciles cash from operating activities to adjusted funds flow:

Three months ended December 31	2019	2018
Cash from operating activities	**70.4**	12.4
Change in non-cash working capital	**(7.9)**	21.2
Geological and geophysical expenses	**3.5**	1.9
Asset retirement obligations settled	**18.0**	8.9
Closure costs	**4.7**	–
Dispute settlements	**2.5**	–
Transaction and reorganization costs	**2.3**	1.1
Adjusted funds flow	**93.5**	45.5
Adjusted funds flow ($/Boe)	**11.89**	5.85

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

Adjusted funds flow in the fourth quarter of 2019 was $93.5 million compared to $45.5 million in the same period in 2018. The increase in adjusted funds flow was primarily due to a higher netback in 2019 and receipts on settlement of financial commodity contracts in 2019 compared to payments made in 2018.

Base Capital [(1)]

Three months ended December 31	2019	2018
Base capital	**70.8**	102.5
6-18 Facility expansion	**–**	23.9
Land and property acquisitions	**1.4**	1.2
Total capital expenditures	**72.2**	127.6

(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.

Base Capital in the fourth quarter of 2019 totaled $70.8 million, with the majority of spending directed towards drilling and completion programs at Karr and Wapiti.

QUARTERLY INFORMATION

	2019				2018			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	**259.9**	199.8	209.2	246.1	207.4	248.5	239.7	269.8
Net income (loss)	**(31.1)**	141.0	(121.0)	(76.7)	(170.5)	(13.1)	(119.0)	(64.6)
per share – basic & diluted ($/share)	***(0.24)***	*1.08*	*(0.93)*	*(0.59)*	*(1.31)*	*(0.10)*	*(0.90)*	*(0.48)*
Cash from operating activities	**70.5**	48.6	48.1	88.5	12.4	73.8	52.0	85.2
per share – basic & diluted ($/share)	***0.54***	*0.37*	*0.37*	*0.68*	*0.10*	*0.56*	*0.39*	*0.64*
Adjusted funds flow	**93.5**	50.9	54.2	100.5	45.5	58.2	62.6	97.6
per share – basic & diluted ($/share)	***0.71***	*0.39*	*0.41*	*0.77*	*0.35*	*0.44*	*0.47*	*0.73*
Sales volumes								
Natural gas (MMcf/d)	**299.0**	296.6	309.7	308.0	315.2	303.8	334.1	351.1
Condensate and oil (Bbl/d)	**28,516**	24,761	23,312	23,679	24,898	22,868	23,815	25,391
Other NGLs (Bbl/d)	**7,064**	6,851	6,859	6,284	7,059	6,963	7,242	8,298
Total (Boe/d)	**85,411**	81,046	81,793	81,296	84,495	80,471	86,741	92,203
Average realized price								
Natural gas ($/Mcf)	**2.73**	1.58	1.76	3.37	2.73	1.93	1.71	2.59
Condensate and oil ($/Bbl)	**66.70**	65.73	71.02	63.26	45.54	79.83	77.25	70.10
Other NGLs ($/Bbl)	**13.03**	9.78	11.01	28.55	31.39	32.16	27.35	31.68
Total ($/Boe)	**33.08**	26.80	28.10	33.63	26.68	33.57	30.37	32.51

Significant Items Impacting Quarterly Results

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

- The fourth quarter 2019 loss includes a recovery of $33.8 million 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.
- Third quarter 2019 earnings include a $157.3 million gain on the sale of oil and gas assets, primarily related to the Midstream Transaction and a recovery of $73.5 million 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 second quarter 2019 loss includes $102.1 million of deferred income tax expense, primarily related to a reduction in Alberta income tax rates and a $27.6 million gain on financial commodity contracts.
- The first quarter 2019 loss includes a $72.6 million loss on financial commodity contracts.
- The fourth quarter 2018 loss includes a $502.5 million impairment of petroleum and natural gas assets, partially offset by a $170.3 million gain on financial commodity contracts and a recovery of $120.4 million 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 third quarter 2018 loss includes a $48.8 million gain on the sale of oil and gas assets, primarily related to the sale of the Resthaven/Jayar properties, and a $31.1 million loss on commodity contracts.
- The second quarter 2018 loss includes an $84.6 million loss on financial commodity contracts.
- The first quarter 2018 loss includes a $47.6 million loss on financial commodity contracts.

OTHER INFORMATION

Contractual Obligations

Paramount had the following long-term contractual obligations at December 31, 2019:

	Within 1 year	After one year but not more than three years	After three years but not more than five years	More than five years	Total
Paramount Facility (1)	–	632.3	–	–	**632.3**
Transportation and processing commitments (2)	252.6	475.3	427.2	1,357.2	**2,512.3**
Asset retirement obligations (3)	29.0	46.8	57.5	1,248.2	**1,381.5**
Finance lease and other commitments (4)	13.6	22.9	1.7	0.1	**38.3**
	295.2	**1,177.3**	**486.4**	**2,605.5**	**4,564.4**

(1) Excluding interest.
(2) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $10.2 million at December 31, 2019 (December 31, 2018 - $1.3 million).
(3) Asset retirement obligations estimated as at December 31, 2019. Estimated costs and timing of settlement are revised from time-to-time based on new information.
(4) Undiscounted finance lease payments in respect of office and vehicle commitments have been reduced by sublease revenue amounts receivable.

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

Contingencies

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

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 relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

Risk Factors

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

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

CHANGES IN ACCOUNTING POLICIES

IFRS 16 – Leases

The Company adopted IFRS 16, which replaced *IAS 17 – Leases* and related interpretations, effective January 1, 2019, utilizing the modified retrospective approach. The modified retrospective approach does not require prior period comparative information to be restated, rather the cumulative effect of the change is recorded as of the date of adoption. Paramount has established its accounting policy in accordance with IFRS 16 as follows:

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. 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.

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 fixed lease payments, as defined by IFRS 16. 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.

Adoption

On adoption of IFRS 16, the Company elected to use the following practical expedients permitted under the standard:

- to rely on its previous assessment of whether leases are onerous by applying *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review;
- to apply a single discount rate to a portfolio of leases with similar characteristics;
- to account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and

- to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value, as defined by IFRS 16.

As at January 1, 2019, the total carrying value of Paramount's lease liabilities was $39.3 million. On adoption of IFRS 16, the Company recognized net ROU assets of $9.5 million and aggregate accounts receivable amounts related to office subleases of $8.6 million. The unamortized carrying amount of $17.8 million relating to provisions previously recorded in respect of the Company's office leases was applied against the carrying value of the ROU asset upon adoption.

The following table summarizes the impact of adopting IFRS 16 on the Company's balance sheet as at January 1, 2019:

As at	December 31, 2018	Effect of change	January 1, 2019
Accounts receivable	121.3	1.7	123.0
Lease receivable	–	6.9	6.9
Property, plant, and equipment, net	2,178.2	9.5	2,187.7
Accounts payable and accrued liabilities	231.2	(7.6)	223.6
Asset retirement obligations and other – current	32.0	8.9	40.9
Asset retirement obligations and other – long-term	789.3	16.8	806.1

IFRIC 23 – Uncertainty over Income Tax Treatments

Effective January 1, 2019, the Company adopted International Financial Reporting Interpretation Committee ("IFRIC") 23 – Uncertainty over Income Tax Treatments. IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes ("IAS 12"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The adoption of IFRIC 23 did not have a material impact on the Consolidated Financial Statements.

Future Changes in Accounting Standards

In September 2019, the IASB issued amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* to provide relief from the potential effects of the uncertainty arising from the phase out of interest rate benchmarks, the Interbank Offered Rate ("IBOR") reform. These amendments are effective for years beginning on or after January 1, 2020. These amendments modify hedge accounting, allowing the Company to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are not impacted as a result of IBOR reform, thereby allowing hedge accounting to continue. The amendments require the provision of specific disclosures for the affected hedging relationship. The Company is in the process of evaluating the impact of these amendments.

DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2019, an evaluation of the effectiveness of Paramount's disclosure controls and procedures ("DCP"), as defined under National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" ("NI 52-109"), was performed by the Company's management with the oversight of the Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's DCP are effective as of December 31, 2019.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management, with the oversight of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal controls over financial reporting ("ICFR") as defined under NI 52-109 as at December 31, 2019. In making its evaluation, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's ICFR was effective as of December 31, 2019.

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

Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2019, there was no change in the Company's ICFR that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Exploration or Development

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

Exploration and Evaluation Projects

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

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

Reserves Estimates

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

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

Business Combinations

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

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

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 petroleum and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. By their nature, such estimates are subject to measurement uncertainty. Changes in such estimates, and differences between actual and estimated amounts, could have a material impact on earnings.

Determination of CGUs

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

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 and the useful lives of production equipment and gathering systems.

Prior to the fourth quarter of 2018, the capitalized costs of the Company's developed oil and gas properties, production equipment and gathering systems were depleted over estimated volumes of proved developed reserves, using the unit-of-production method. In the fourth quarter of 2018, the method of determining Paramount's depletion rates was modified to better reflect the expected usage pattern of Paramount's petroleum and natural gas assets.

The change in determining depletion rates was applied prospectively and resulted in a reduction to depletion expense of approximately $39.6 million in the fourth quarter of December 31, 2018.

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 the Company's assessment of available market inputs and other assumptions. Changes in estimates of fair value for such investments could have a material impact on comprehensive income.

Provisions

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

Asset Retirement Obligations

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

Share-Based Payments

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

Income Taxes

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

ADVISORIES

Forward-looking Information

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

- expectations that capital investments on other longer-term projects will be limited until the Company realizes free cash flow at Karr and Wapiti;
- planned capital expenditures in 2020 and potential changes thereto;
- planned continued growth of Montney production at Karr and Wapiti, including increasing liquids contribution and per unit netbacks;
- expected average sales volumes for 2020 and certain periods within 2020;
- planned exploration, development and production activities, included the expected timing of completing and bringing new wells on production;
- planned facility outages and turnarounds;
- planned abandonment and reclamation activities and expenditures for 2020 and beyond;
- the expectation that the Company will continue to spend approximately $30 to $40 million per year on abandonment and reclamation activities;

- expected reductions in water disposal costs and royalty rates at Karr;

- the expected timing of the completion of the expansion of the Karr 6-18 facility;
- the expected ability of additional water disposal wells at Karr to reduce operating costs and support the planned ramp up of Karr sales volumes following the completion of the Karr 6-18 facility expansion;
- the timing of the expected increase in emulsion handling capacity at Wapiti;
- the expected reduction in total operating expenses resulting from the closure of Zama;
- the expectation that adjusted funds flow and borrowing capacity under the Paramount Facility will provide sufficient liquidity to fund the Company's operations; and
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position.

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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

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

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

- fluctuations in natural gas and liquids prices;

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

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in Paramount's annual information form for the year ended December 31, 2019, which is available on SEDAR at www.sedar.com. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

In this document, "Adjusted funds flow", "Netback", "Net debt", “Adjusted working capital”, "Base capital" and "Total capital expenditures", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

“Adjusted funds flow” refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements, closure cost expenditures, dispute settlements and transaction and reorganization costs. Adjusted funds flow is used to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the calculation thereof.

"Base capital" consists of the Company's spending on wells, infrastructure projects, other property, plant and equipment and exploration and evaluation assets and excludes spending related to the expansion of the Karr 6-18 facility prior to its sale and land and property acquisitions. The base capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof.

"Netback" equals petroleum and natural gas sales less royalties, operating costs, transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Operating Results section of the Company's Management's Discussion and Analysis for the calculation thereof.

"Net debt" is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the calculation of "Net debt" and "Adjusted working capital".

"Total capital expenditures" refers to the Company's property, plant and equipment and exploration expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof.

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

Reserves Data

Reserves data set forth in this document is based upon an evaluation of the Company's reserves prepared by McDaniel & Associates Consultants Ltd. ("McDaniel") dated March 3, 2020 and effective December 31, 2019 (the "McDaniel Report"). The price forecast used in the McDaniel Report is an average of the January 1, 2020 price forecasts for McDaniel and GLJ Petroleum Consultants Ltd. and the December 31, 2019 price forecast of Sproule Associates Ltd. The estimates of reserves contained in the McDaniel Report and referenced in this document are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided in the McDaniel Report and referenced in this document. Estimates of future net revenues contained in the McDaniel Report and referenced in this document do not represent fair market value. There is no assurance that the forecast prices and costs assumptions used in the McDaniel Report will be attained, and variances could be material. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to effects of aggregations. Readers should refer to the Company's annual information form for the year ended December 31, 2019, which is available on SEDAR at www.sedar.com, for a complete description of the McDaniel Report and the material assumptions, limitations and risk factors pertaining thereto.

Oil and Gas Measures and Definitions

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

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
NGLs	Natural gas liquids
Condensate	Pentane and heavier hydrocarbons

Oil Equivalent	
Boe	Barrels of oil equivalent
MMBoe	Millions of Barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day

Natural Gas	
Mcf	Thousands of cubic feet
MMcf/d	Millions of cubic feet per day
GJ	Gigajoule
MMbtu	Millions of British thermal units
AECO	AECO-C reference price
NYMEX	New York Mercantile Exchange
WTI	West Texas Intermediate

This document contains disclosures expressed as "Boe", "$/Boe", "MMBoe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the year ended December 31, 2019, the value ratio between crude oil and natural gas was approximately 45:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

This document contains metrics commonly used in the oil and natural gas industry. Each of these metrics is determined by the Company as set out below or elsewhere in this press release. The metrics are “CGR”, "reserves replacement ratio" and "finding and development costs". These metrics do not have standardized meanings and may not be comparable to similar measures presented by other companies. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare the Company's performance over time; however, such measures are not reliable indicators of the Company's future performance and future performance may not compare to the performance in previous periods and therefore should not be unduly relied upon.

“CGR” means condensate to gas ratio and is calculated by dividing wellhead raw liquids volumes by wellhead raw natural gas volumes.

“Reserves replacement ratio” is calculated by dividing: (i) the aggregate changes in reserves from the prior year from extensions and discoveries, technical revisions and economic factors, by (ii) the aggregate production during the year. Reserves replacement ratio is a measure commonly used by management and investors to assess the rate at which reserves depleted by production are being replaced by reserves added through operations.

"Finding and development costs" are calculated by dividing: (i) the sum of the total base capital expenditures for the year, excluding corporate expenditures, and net changes in estimated future development costs from the prior year, excluding those associated with the Karr 6-18 Facility, by (ii) the net changes to reserves from the prior year before production. Finding and development costs are a measure commonly used by management and investors to assess the relationship between capital invested in oil and gas exploration and development projects and reserve additions associated with such projects.

Additional information respecting the Company's oil and gas properties and operations, including a breakdown of 2019 annual and quarterly production volumes by product type, is provided in the Company's annual information form for the year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

Consolidated Financial Statements
As at December 31, 2019 and 2018 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
Chairman and President and Chief Executive Officer

/s/ P.R. Kinvig
P.R. Kinvig
Chief Financial Officer

March 3, 2020

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 (the Company), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 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.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

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 & 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.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

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.

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Alberta
March 3, 2020

CONSOLIDATED BALANCE SHEETS

($ thousands)

As at December 31	Note	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	16	6,016	19,295
Accounts receivable	13	118,632	121,330
Risk management – current	13	6,062	64,441
Prepaid expenses and other		10,975	9,641
		141,685	214,707
Lease receivable	8	4,768	–
Exploration and evaluation	4	650,414	719,908
Property, plant and equipment, net	5	1,914,074	2,178,181
Investments in securities	6	156,889	231,732
Deferred income tax	12	663,475	773,575
		3,531,305	4,118,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	204,818	231,228
Risk management – current	13	1,757	–
Asset retirement obligations and other – current	8	40,288	32,000
		246,863	263,228
Long-term debt	7	632,300	815,000
Risk management – long-term	13	6,275	–
Asset retirement obligations and other – long-term	8	562,687	789,346
		1,448,125	1,867,574
Commitments and contingencies	19		
Shareholders' equity			
Share capital	9	2,207,485	2,184,608
Retained earnings (accumulated deficit)		(128,487)	21,189
Reserves	10	4,182	44,732
		2,083,180	2,250,529
		3,531,305	4,118,103

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

March 3, 2020

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

($ thousands, except as noted)

Year ended December 31	Note	2019	2018
Petroleum and natural gas sales		914,881	965,474
Royalties		(63,319)	(69,183)
Revenue	14	851,562	896,291
Gain (loss) on commodity contracts	13	(45,169)	7,026
		806,393	903,317
Expenses			
Operating expense		375,962	380,985
Transportation and NGLs processing		94,691	92,996
General and administrative		52,573	58,586
Share-based compensation	11	18,495	24,063
Depletion and depreciation	5	364,761	977,275
Exploration and evaluation	4	22,378	27,279
Gain on sale of oil and gas assets	5	(169,279)	(57,413)
Interest and financing		40,183	31,011
Accretion of asset retirement obligations	8	56,658	57,652
Change in asset retirement obligations	8	(107,301)	(120,244)
Closure costs	8	13,965	–
Transaction and reorganization costs		2,272	5,573
Foreign exchange		(13)	(2,278)
		765,345	1,475,485
Change in fair value of securities – warrants	6	(9,162)	–
Other income (loss)	15	(7,462)	11,565
Income (loss) before tax		24,424	(560,603)
Income tax expense (recovery)	12		
Deferred		112,280	(193,440)
		112,280	(193,440)
Net loss		(87,856)	(367,163)
Other comprehensive income (loss), net of tax	10		
Items that will be reclassified to net income (loss)			
Change in fair value of interest rate swaps, net of tax		(7,338)	–
Reclassification to net income (loss), net of tax		1,178	–
Items that will not be reclassified to net income (loss)			
Change in fair value of securities, net of tax	6	(110,442)	764
Comprehensive loss		(204,458)	(366,399)
Net loss per common share ($/share)	9		
Basic and diluted		(0.67)	(2.78)

See the accompanying notes to these Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ thousands)

Year ended December 31	Note	2019	2018
Operating activities			
Net loss		(87,856)	(367,163)
Add (deduct):			
Items not involving cash	16	357,070	616,070
Asset retirement obligations settled	8	(29,441)	(29,390)
Gain on debt extinguishment	7	–	(3,126)
Change in non-cash working capital		15,921	7,022
Cash from operating activities		255,694	223,413
Financing activities			
Net draw (repayment) of revolving long-term debt	7	(182,700)	420,000
Lease liabilities – principal repayments	8	(7,457)	–
Redemption of 2019 Senior Notes	7	–	(303,624)
Common Shares issued, net of issue costs	9	38,845	779
Common Shares purchased under restricted share unit plan	11	(4,516)	(9,219)
Common Shares repurchased under NCIB	9	(14,391)	(66,381)
Cash from (used in) financing activities		(170,219)	41,555
Investing activities			
Property, plant and equipment and exploration		(404,118)	(580,239)
Proceeds on sale of oil and gas assets	5	379,698	182,379
Investments	6	(55,143)	(4,139)
Proceeds on sale of investment in securities	6	13,551	423
Change in non-cash working capital		(32,487)	30,118
Cash used in investing activities		(98,499)	(371,458)
Net decrease		(13,024)	(106,490)
Foreign exchange on cash and cash equivalents		(255)	2,456
Cash and cash equivalents, beginning of year		19,295	123,329
Cash and cash equivalents, end of year		6,016	19,295
Supplemental cash flow information	16		

See the accompanying notes to these Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY

($ thousands, except as noted)

Year ended December 31	Note	2019		2018	
		Shares (000’s)		*Shares (000’s)*	
Share Capital					
Balance, beginning of year		*130,326*	2,184,608	*134,713*	2,249,746
Issued	9	*5,919*	36,447	*80*	1,086
Common Shares purchased under NCIB	9	*(2,622)*	(14,391)	*(4,239)*	(66,381)
Change in vested and unvested Common Shares for restricted share unit plan	11	*(286)*	821	*(228)*	157
Balance, end of year		*133,337*	2,207,485	*130,326*	2,184,608
Retained Earnings (Accumulated Deficit)					
Balance, beginning of year			21,189		389,989
Net loss			(87,856)		(367,163)
Reclassification of accumulated losses on securities sold	6		(61,820)		(1,637)
Balance, end of year			(128,487)		21,189
Reserves	10				
Balance, beginning of year			44,732		26,522
Other comprehensive income (loss)			(116,602)		764
Contributed surplus			14,232		15,809
Reclassification of accumulated losses on securities sold	6		61,820		1,637
Balance, end of year			4,182		44,732
Total Shareholders’ Equity			2,083,180		2,250,529

See the accompanying notes to these Consolidated Financial Statements

1. Significant Accounting Policies

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources. 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 its registered office is 2800, 421 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy ("Cavalier") and MGM Energy.

These consolidated financial statements of the Company, as at December 31, 2019 and 2018 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 3, 2020.

Basis of Preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented, except for changes in Paramount's accounting policies as a result of the adoption of *IFRS 16 – Leases* ("IFRS 16"), which are described in Note 2. Amounts included in these Consolidated Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted.

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

Petroleum and natural gas sales are recognized when the customer assumes control of the product. The transfer of control of petroleum and natural gas volumes generally coincides with the purchaser obtaining physical possession and title to such volumes.

Revenue for drilling services is recognized when the performance of services has been completed and the Company has a right to collect consideration commensurate with the value of the services provided. When the Company's drilling rigs (the "Rigs") drill on a property owned by Paramount, the Company capitalizes its working interest share of the drilling expenses and eliminates the associated drilling revenue.

b) Cash and Cash Equivalents

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

Other property, plant and equipment, 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 capital amounts ascribed to such reserves are included in the numerator. For purposes 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 costs 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 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 tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company's developed oil and gas properties include four CGUs: the Grande Prairie CGU, the Kaybob CGU, the Central Alberta CGU and the Northern CGU. The Company's E&E assets, consisting of undeveloped land, are aggregated together as a group of assets 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 and its value in use. In assessing fair value less costs of disposal, the Company estimates the value a potential purchaser would ascribe to an asset or CGU. For oil and gas properties, fair value less costs of disposal is generally estimated based on expected after-tax future net cash flows from the production of proved and probable reserves volumes using forecast commodity prices and costs, discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

g) Joint Arrangements

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

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.

i) Capitalized Borrowing Costs

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

j) Provisions

Provisions are 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 remaining term of the contract.

k) Asset Retirement Obligations

Asset retirement obligations arise from legal and/or constructive obligations to retire 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 retirement 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 long-lived asset and depreciated on the same basis as the underlying asset. Revisions to the timing, anticipated cost, discount rate and inflation rate relating to the estimated liability are accounted for prospectively by recording an adjustment to the asset retirement obligation liability, with a corresponding adjustment to the carrying value of the related asset. Where changes to asset retirement obligations relate to properties which have a nil carrying value ascribed to petroleum and natural gas assets, the corresponding change is recorded in earnings.

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

l) Foreign Currency Translation

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

m) 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.

n) Financial Instruments and Other Comprehensive Income

Financial Instruments

The Company is exposed to market risks from changes in commodity prices, interest rates, foreign currency rates, credit risk and liquidity risk. From time-to-time, Paramount enters into derivative financial instruments, such as interest rate swaps and financial commodity contracts, to manage 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 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 financial commodity contracts 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 investments in securities, amounts previously recorded in OCI in respect of such an investment are reclassified to retained earnings.

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, indications of value based on equity transactions of the entities and other indicators of values 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.

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

Hedge Accounting

Paramount's risk management liabilities related to floating-to-fixed interest rate swaps are 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.

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 Income (Loss). Cumulative changes in OCI are included in Reserves, which is presented within Shareholders' Equity in the Consolidated Balance Sheet.

o) 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.

p) Income Taxes

Paramount follows the liability method of accounting for income taxes. Under this method, a deferred income tax asset or liability is recognized in respect of any temporary difference between the carrying amount of an asset or liability reported in the Consolidated Financial Statements and its respective tax basis, using substantively enacted income tax rates. Deferred income tax balances are adjusted to reflect changes in substantively enacted income tax rates expected to apply when the underlying assets are 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 more likely than not that the carrying value of the asset will be realized.

q) Flow-Through Shares

The proceeds of flow-through share issuances are allocated between the sale of Paramount's class A common shares ("Common Shares") and the sale of tax benefits associated with the flow-through feature of the securities. Proceeds are first allocated to share capital based on the market price of Common Shares on the date the offering is priced, with the balance recorded in asset retirement obligations and other based on the difference between the issue price and the market price of Common Shares. As qualifying expenditures intended for renunciation to subscribers are incurred, the Company recognizes a deferred tax liability, reduces the liability recorded in asset retirement obligations and other and records any difference as deferred tax expense.

r) 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.

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

Cavalier Stock Option Plan

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

Restricted Share Unit Plan

Paramount's 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 an award is initially recorded as a reduction of Paramount's Share Capital. The cost of such awards is then recognized over the vesting period as share-based compensation expense, with a corresponding increase to Share Capital.

s) Net Income Per Share

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

2. Changes in Accounting Standards

IFRS 16 – Leases

The Company adopted IFRS 16, which replaced *IAS 17 – Leases* and related interpretations, effective January 1, 2019, utilizing the modified retrospective approach. The modified retrospective approach does not require prior period comparative information to be restated, rather the cumulative effect of the change is recorded as of the date of adoption. Paramount has established its accounting policy in accordance with IFRS 16 as follows:

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. 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.

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 fixed lease payments, as defined by IFRS 16. 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.

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

Adoption

On adoption of IFRS 16, the Company elected to use the following practical expedients permitted under the standard:

- to rely on its previous assessment of whether leases are onerous by applying *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review;
- to apply a single discount rate to a portfolio of leases with similar characteristics;
- to account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value, as defined by IFRS 16.

As at January 1, 2019, the total carrying value of Paramount's lease liabilities was $39.3 million. On adoption of IFRS 16, the Company recognized net ROU assets of $9.5 million and aggregate accounts receivable amounts related to office subleases of $8.6 million. The unamortized carrying amount of $17.8 million relating to provisions previously recorded in respect of the Company's office leases was applied against the carrying value of the ROU asset upon adoption.

The following table summarizes the impact of adopting IFRS 16 on the Company's balance sheet as at January 1, 2019:

As at	December 31, 2018	Effect of change	January 1, 2019
Accounts receivable	121,330	1,690	123,020
Lease receivable	–	6,933	6,933
Property, plant, and equipment, net	2,178,181	9,531	2,187,712
Accounts payable and accrued liabilities	231,228	(7,541)	223,687
Asset retirement obligations and other – current	32,000	8,941	40,941
Asset retirement obligations and other – long-term	789,346	16,754	806,100

Refer to Note 8 for further details regarding the Company's lease and sublease arrangements.

IFRIC 23 – Uncertainty over Income Tax Treatments

Effective January 1, 2019, the Company adopted International Financial Reporting Interpretation Committee ("IFRIC") 23 – *Uncertainty over Income Tax Treatments.* IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes ("IAS 12"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The adoption of IFRIC 23 did not have a material impact on the Consolidated Financial Statements.

Future Changes in Accounting Standards

In September 2019, the IASB issued amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* to provide relief from the potential effects of the uncertainty arising from the phase out of interest rate benchmarks, the Interbank Offered Rate ("IBOR") reform. These amendments are effective for years beginning on or after January 1, 2020. These amendments modify hedge accounting, allowing the Company to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are not impacted as a result of IBOR reform, thereby allowing hedge accounting to continue. The amendments require the provision of specific disclosures for the affected hedging relationship. The Company is in the process of evaluating the impact of these amendments.

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. The following is a description of the accounting judgments, estimates and assumptions that are considered significant.

Exploration or Development

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

Exploration and Evaluation Projects

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

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

Reserves Estimates

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

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

Business Combinations

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

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

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 petroleum and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. By their nature, such estimates are subject to measurement uncertainty. Changes in such estimates, and differences between actual and estimated amounts, could have a material impact on earnings.

Determination of CGUs

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

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 and the useful lives of production equipment and gathering systems.

Prior to the fourth quarter of 2018, the capitalized costs of the Company's developed oil and gas properties, production equipment and gathering systems were depleted over estimated volumes of proved developed reserves, using the unit-of-production method. In the fourth quarter of 2018, the method of determining Paramount's depletion rates was modified to better reflect the expected usage pattern of Paramount's petroleum and natural gas assets.

The change in determining depletion rates was applied prospectively and resulted in a reduction to depletion expense of approximately $39.6 million in the fourth quarter of December 31, 2018.

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 the Company's assessment of available market inputs and other assumptions. Changes in estimates of fair value for such investments could have a material impact on comprehensive income.

Provisions

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

Asset Retirement Obligations

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

Share-Based Payments

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

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

Income Taxes

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

4. Exploration and Evaluation

Year ended December 31	2019	2018
Balance, beginning of year	719,908	785,764
Additions	5,643	8,300
Acquisitions	6,127	–
Change in asset retirement provision	(392)	–
Transfers to property, plant and equipment	(66,961)	(34,388)
Expired lease costs	(10,173)	(14,781)
Dispositions	(3,738)	(24,987)
Balance, end of year	650,414	719,908

Exploration and Evaluation Expense

Year ended December 31	2019	2018
Geological and geophysical	11,016	12,498
Expired lease costs and other	11,362	14,781
	22,378	27,279

At December 31, 2019, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

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

5. Property, Plant and Equipment

Year ended December 31, 2019	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, December 31, 2018	4,041,098	159,817	–	46,574	4,247,489
Right-of-use assets [(1)]	–	–	13,965	(4,434)	9,531
Balance, January 1, 2019	4,041,098	159,817	13,965	42,140	4,257,020
Additions	397,100	3,888	1,995	5,083	408,066
Transfers from exploration and evaluation	66,961	–	–	–	66,961
Dispositions	(411,872)	(2,516)	–	(521)	(414,909)
Change in asset retirement provision	(97,180)	–	–	–	(97,180)
Cost, December 31, 2019	**3,996,107**	**161,189**	**15,960**	**46,702**	**4,219,958**
Accumulated depletion, depreciation and impairment					
Balance, December 31, 2018	(1,961,290)	(78,865)	–	(29,153)	(2,069,308)
Right-of-use assets [(1)]	–	–	(2,158)	2,158	–
Balance, January 1, 2019	(1,961,290)	(78,865)	(2,158)	(26,995)	(2,069,308)
Depletion and depreciation	(343,781)	(13,327)	(3,138)	(6,223)	(366,469)
Dispositions	127,318	2,321	–	254	129,893
Accumulated depletion, depreciation and impairment, December 31, 2019	**(2,177,753)**	**(89,871)**	**(5,296)**	**(32,964)**	**(2,305,884)**
Net book value, December 31, 2018	2,079,808	80,952	–	17,421	2,178,181
Net book value, December 31, 2019	**1,818,354**	**71,318**	**10,664**	**13,738**	**1,914,074**

(1) Recognized on adoption of IFRS 16, see Note 2

Year ended December 31, 2018	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2017 [(1)]	3,928,455	157,153	33,708	**4,119,316**
Additions	564,227	2,664	13,447	**580,338**
Transfers from exploration and evaluation	34,388	–	–	**34,388**
Dispositions	(557,122)	–	(581)	**(557,703)**
Change in asset retirement provision	71,150	–	–	**71,150**
Cost, December 31, 2018	4,041,098	159,817	46,574	**4,247,489**
Accumulated depletion, depreciation and impairment				
Balance, December 31, 2017 [(1)]	(1,272,584)	(67,840)	(24,141)	**(1,364,565)**
Depletion and depreciation	(463,006)	(11,025)	(5,466)	**(479,497)**
Impairment	(502,540)	–	–	**(502,540)**
Dispositions	276,840	–	454	**277,294**
Accumulated depletion, depreciation and impairment, December 31, 2018	(1,961,290)	(78,865)	(29,153)	**(2,069,308)**
Net book value, December 31, 2017	2,655,871	89,313	9,567	**2,754,751**
Net book value, December 31, 2018	2,079,808	80,952	17,421	**2,178,181**

(1) Effective December 31, 2018, Paramount voluntarily changed its accounting policy with respect to asset retirement obligations ("ARO") to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of its ARO. The Company previously utilized a risk-free rate. The change in accounting policy was applied retrospectively.

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

In December 2019, Paramount closed the sale of certain of its natural gas-weighted properties in West Central Alberta (the "West Central Alberta Assets") for gross cash proceeds of $52.4 million. A gain of $2.3 million was recognized on the sale. The West Central Alberta Assets were included in the Central Alberta CGU.

In August 2019, Paramount closed the sale of its Karr 6-18 natural gas facility and related midstream assets located in the Grande Prairie CGU for gross cash proceeds of $331.6 million. In connection with the sale, the Company entered into a midstream services agreement that includes a fee-for-service arrangement and a take-or-pay volume commitment that ends approximately 20 years following the completion of an expansion to the facility, which is scheduled to be completed in 2020. A gain of $153.6 million was recognized on the sale.

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar (the "Resthaven/Jayar Assets") for gross proceeds of $340 million. Total consideration included $170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath"), and 10-year warrants to acquire 8.5 million Strath common shares at an exercise price of $2.00 per share. A gain of $47.5 million was recognized on the sale. The Resthaven/Jayar Assets were included in the Grande Prairie CGU.

In February 2018, Paramount closed the sale of non-core assets in the Central Alberta CGU for cash proceeds of $5.3 million, resulting in the recognition of a gain on sale of $6.8 million.

Depletion and Depreciation

Year ended December 31	2019	2018
Depletion and depreciation	364,761	474,735
Impairment of petroleum and natural gas assets	–	502,540
	364,761	977,275

At December 31, 2019, the Company assessed its petroleum and natural gas assets for indicators of potential impairment or impairment reversal and none were identified.

At December 31, 2018, the Company recorded impairments of $457.0 million and $40.7 million related to petroleum and natural gas assets in the Kaybob and Central Alberta CGUs, respectively. The impairments were recorded because the carrying value of the CGUs exceeded their recoverable amounts, which were estimated based on expected net cash flows from the production of reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues due to changes in economic factors, timing of development and estimated reserves volumes.

6. Investments in Securities

As at December 31	2019	2018
Level one fair value hierarchy securities	68,450	36,017
Level three fair value hierarchy securities	88,439	195,715
	156,889	231,732

For the year ended December 31, 2019, the Company recorded a charge of $111.8 million to OCI as a result of changes in the fair value estimates for investments in securities. For the twelve months ended December 31, 2019, $9.2 million was charged to earnings related to the change in estimated fair value of the Strath warrants.

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

In October 2019, Paramount sold a portion of its investment in MEG Energy Corp. for cash proceeds of $13.6 million. As a result of the sale, $61.8 million of accumulated losses were reclassified from accumulated OCI to retained earnings.

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

Year ended December 31	2019	2018
Investments in securities, beginning of year	231,732	53,315
Changes in fair value of level one fair value hierarchy securities – recorded in OCI	6,330	631
Changes in fair value of level three fair value hierarchy securities(1) – recorded in OCI	(118,104)	4,070
Changes in fair value of Strath warrants – recorded in earnings	(9,162)	–
Acquired – cash	55,143	4,139
Acquired – non-cash	4,501	170,000
Dispositions	(13,551)	(423)
Investments in securities, end of year	156,889	231,732

(1) Primarily related to the change in fair value of 85 million Strath common shares and excluding Strath warrants.

7. Long-Term Debt

As at December 31	2019	2018
Paramount Facility	632,300	815,000

Paramount Facility

The Company has a $1.5 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 16, 2022, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders.

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

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and

ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

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

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

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

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

Paramount is in compliance with all financial covenants under the Paramount Facility as at December 31, 2019.

Paramount had letters of credit outstanding under the Paramount Facility totaling $2.9 million at December 31, 2019 that reduce the amount available to be drawn on the Paramount Facility.

Unsecured Letter of Credit Facility

In 2019, Paramount entered into a new $40 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 ("EDC"). The PSG is valid to July 31, 2020 and may be extended from time-to-time at the option of Paramount and with the agreement of EDC. As at December 31, 2019, letters of credit totaling $33.3 million were outstanding under the LC Facility.

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding 7¼ percent senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes. The 2019 Senior Notes were issued by Trilogy Energy Corp. ("Trilogy") in 2012 and became Paramount's obligation through the merger with Trilogy in 2017.

8. Asset Retirement Obligations and Other

As at December 31, 2019	Current	Long-term	Total
Asset retirement obligations	29,000	540,897	569,897
Lease liabilities (see note 2)	9,851	21,790	31,641
Flow-through share renunciation obligations (see note 9)	1,437	–	1,437
Asset retirement obligations and other	**40,288**	**562,687**	**602,975**

As at December 31, 2018	Current	Long-term	Total
Asset retirement obligations	32,000	775,921	807,921
Lease provision (see note 2)	–	13,425	13,425
	32,000	**789,346**	**821,346**

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

Asset Retirement Obligations

Year ended December 31	2019	2018
Asset retirement obligations, beginning of year	807,921	837,463
Additions	11,705	6,020
Change in estimates (1)	(171,404)	(4,038)
Change in discount rate	(33,269)	(50,910)
Obligations settled	(29,441)	(29,390)
Dispositions	(72,273)	(8,876)
Accretion expense	56,658	57,652
Asset retirement obligations, end of year	**569,897**	**807,921**

(1) Relates to changes in estimated costs and anticipated settlement dates of asset retirement obligations.

As at December 31, 2019, estimated undiscounted, uninflated asset retirement obligations were $1,381.5 million (December 31, 2018 – $1,785.1 million). Asset retirement obligations have been determined using a weighted average credit-adjusted risk-free discount rate of 8.0 percent (December 31, 2018 – 7.5 percent) and an inflation rate of 2.0 percent (December 31, 2018 – 2.0 percent). These obligations will be settled over the next 50 years.

For the year ended December 31, 2019, the Company recorded a recovery of $107.3 million (2018 - $120.2 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 resulted from revisions to the estimated costs and anticipated settlement dates.

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 nine percent was used to determine the discounted amount of the liabilities. For the year ended December 31, 2019, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were $9.0 million, of which $1.5 million was recognized as interest and financing expense.

For the twelve months ended December 31, 2019,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 $5.0 million.

As at December 31, 2019, $6.8 million is due to the Company in respect of sublease arrangements for Paramount's office space, of which $2.0 million was classified as current and $4.8 million was classified as non-current. For the year ended December 31, 2019, $2.3 million was received in respect of office sublease arrangements, of which $0.5 million was recognized as interest revenue.

The minimum cash lease payments payable by the Company under these lease arrangements and receivable amounts due to the Company in respect of sublease arrangements are as follows:

	Lease Payments	Sublease Receivables
2020	11,446	2,375
2021	11,050	2,375
2022	10,136	2,253
2023	1,971	502
	34,603	7,505

Closure costs

In the first quarter of 2019, the Company made the decision to cease its production operations at the Zama property in northern Alberta. The Zama closure program commenced in the first quarter of 2019. The Company recognized a provision of $14.0 million in respect of the expected costs of the program, of which the full $14.0 million has been incurred to December 31, 2019.

9. 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, 2019, 133,337,058 (December 31, 2018 – 130,324,943) Common Shares of the Company were outstanding, net of 859,659 (December 31, 2018 – 574,045) Common Shares held in trust under the RSU plan, and no preferred shares were outstanding.

In November 2019, Paramount issued 5.9 million Common Shares on a "flow-through" basis in respect of Canadian development expenses at a price of $6.65 per share for gross proceeds of $39.2 million pursuant to a private placement (the "Private Placement"). An entity controlled by the Company's Chairman and President and Chief Executive Officer acquired 3.8 million of the Common Shares under the private placement for $24.9 million. A liability of $2.6 million was recognized in asset retirement obligations and other on the issuance of the flow-through shares in respect of the Company's obligation to renounce qualifying expenditures. The Company incurred $0.4 million of transaction costs in respect of these equity offerings, net of tax benefits of $0.1 million.

In January 2019, Paramount implemented a normal course issuer bid program (the "2019 NCIB") under which the Company was permitted to purchase up to 7,110,667 Common Shares for cancellation. In 2019, the Company purchased and cancelled 2.6 million Common Shares at a total cost of $14.4 million under the 2019 NCIB. The 2019 NCIB expired on January 3, 2020.

Paramount previously implemented a normal course issuer bid program in December 2017 (the "2018 NCIB"). In 2018, the Company purchased and cancelled 4.2 million Common Shares at a total cost of $66.4 million under the 2018 NCIB. The 2018 NCIB expired on December 21, 2018.

Weighted Average Common Shares

Year ended December 31	2019		2018	
	Wtd. Avg Shares (000's)	**Net loss**	*Wtd. Avg Shares (000's)*	Net loss
Net loss – basic	***130,564***	**(87,856)**	*132,051*	(367,163)
Dilutive effect of Paramount Options	**–**	**–**	–	–
Net loss – diluted	***130,564***	**(87,856)**	*132,051*	(367,163)

Outstanding stock options that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. There were 12.3 million Paramount Options outstanding at December 31, 2019 (December 31, 2018 – 12.5 million), of which 12.3 million (December 31, 2018 – 12.5 million) were anti-dilutive.

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

10. Reserves

Reserves at December 31, 2019 include unrealized losses on interest rate swaps, unrealized gains and losses related to changes in the market value of investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

Year ended December 31, 2019	Unrealized losses on interest rate swaps	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	–	(99,052)	143,784	44,732
Other comprehensive loss, before tax	(8,032)	(111,774)	–	(119,806)
Deferred tax	1,872	1,332	–	3,204
Reclassification of accumulated losses on securities upon disposition, net of tax	–	61,820	–	61,820
Share-based compensation (see note 11)	–	–	14,296	14,296
Paramount Options exercised	–	–	(64)	(64)
Balance, end of year	**(6,160)**	**(147,674)**	**158,016**	**4,182**

Year ended December 31, 2018	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	15,604	127,975	143,579
Other comprehensive income	764	–	764
Reclassification of accumulated losses on securities upon disposition	1,637	–	1,637
Reclassification of accumulated losses on securities on adoption of IFRS 9	(117,057)	–	(117,057)
Share-based compensation (see note 11)	–	16,116	16,116
Paramount Options exercised	–	(307)	(307)
Balance, end of year	**(99,052)**	**143,784**	**44,732**

11. Share-Based Compensation

Paramount Options

	2019		2018	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of year	*12,465,163*	15.67	*10,028,920*	19.12
Granted	*3,565,930*	6.66	*3,726,500*	8.18
Exercised (1)	*(21,430)*	7.84	*(79,536)*	9.80
Cancelled or forfeited	*(3,683,801)*	18.73	*(1,168,710)*	21.42
Expired	*(14,400)*	11.90	*(42,011)*	26.73
Balance, end of year	***12,311,462***	**12.16**	*12,465,163*	15.67
Options exercisable, end of year	***4,442,966***	**15.00**	*3,620,293*	18.09

(1) For Paramount Options exercised during the twelve months ended December 31, 2019, the weighted average market price of Paramount's Common Shares on the dates exercised was $8.55 per share (2018 – $16.70 per share).

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as at December 31, 2019 are as follows:

	Awards Outstanding			Exercisable		
Exercise Prices	Number	Remaining contractual life (years)	Weighted average exercise price	Number	Remaining contractual life (years)	Weighted average exercise price
$5.29 - $7.31	5,093,000	4.8	6.79	567,100	4.3	7.27
$7.32 - $19.09	3,993,152	2.8	11.41	2,273,573	1.6	11.64
$19.10 - $39.00	3,225,310	2.8	21.58	1,602,293	2.6	22.50
	12,311,462	**3.6**	**12.16**	**4,442,966**	2.3	**15.00**

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

	Options awarded in 2019	Options awarded in 2018
Weighted average exercise price ($ / share)	**6.66**	8.18
Volatility (%)	**42.1**	41.6
Expected life of share options (years)	**3.8**	3.9
Pre-vest annual forfeiture rate (%)	**11.3**	11.4
Risk-free interest rate (%)	**1.6**	2.1
Expected dividend yield (%)	**Nil**	Nil
Weighted average fair value of awards per option ($ / option)	**2.19**	2.77

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

Cavalier Options

In 2017, Cavalier granted 5.0 million Cavalier Options, which vest over five years and expire approximately 8 years from the grant date. To December 31, 2019, no Cavalier Options have been exercised.

Restricted Share Units – Shares Held in Trust

	2019		2018	
Year ended December 31	*Shares (000's)*		*Shares (000's)*	
Balance, beginning of year	***574***	**2,209**	*346*	2,366
Shares purchased	***713***	**4,516**	*548*	9,219
Change in vested and unvested shares	***(427)***	**(5,337)**	*(320)*	(9,376)
Balance, end of year	***860***	**1,388**	*574*	2,209

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

Employee Benefit Costs

Year ended December 31	2019	2018
Stock option plans	14,296	16,116
RSU plan	4,199	7,947
Share-based compensation expense	18,495	24,063
Salaries and benefits, net of recoveries	37,949	40,706
	56,444	64,769

12. Income Tax

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

Year ended December 31	2019	2018
Income (loss) before tax	24,424	(560,603)
Effective Canadian statutory income tax rate	26.5%	27.0%
Expected income tax expense (recovery)	6,472	(151,363)
Effect on income taxes of:		
Change in statutory and other rates	101,200	–
Gain on sale of oil and gas assets	(17,019)	–
Change in value of investments	2,428	–
Gain on redemption of 2019 Senior Notes	–	(1,823)
Change in unrecognized deferred income tax asset	1,867	521
Change in tax basis of assets	–	(35,823)
Share-based compensation	3,788	4,351
Flow-through share renunciations	2,914	–
Non-deductible items and other	10,630	(9,303)
Income tax expense (recovery)	112,280	(193,440)

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

As at December 31	2019	2018
Property, plant and equipment	(336,024)	(434,175)
Investments	(2,765)	(5,662)
Asset retirement obligations	130,568	218,067
Non-capital losses and scientific research & experimental development	861,338	993,681
Other	10,358	1,664
Deferred income tax asset	663,475	773,575

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

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

As at December 31	2019	2018
Deferred income tax asset, beginning of year	773,575	584,071
Deferred income tax recovery (expense)	(112,280)	193,440
Deferred income tax recovery (expense) included in OCI	3,204	(3,938)
Flow-through share renunciation	(1,158)	–
Share issuance costs	133	–
Other	1	2
Deferred income tax asset, end of year	663,475	773,575

As of December 31, 2019, Paramount had approximately $3.4 billion (December 31, 2018 – $3.4 billion) of unused non-capital losses that expire between 2032 and 2036. The Company has $154.9 million (December 31, 2018 – $38.4 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recorded.

13. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at December 31, 2019 consist of cash and cash equivalents, accounts receivable, risk management assets and liabilities, investments in securities, accounts payable and accrued liabilities and the Paramount Facility. The carrying values of these financial instruments approximate their fair values.

Risk Management

As at December 31	2019	2018
Financial commodity contracts – current	6,062	64,441
Risk management asset	6,062	64,441

As at December 31	2019	2018
Interest rate swaps – current	(1,757)	–
Interest rate swaps – long-term	(6,275)	–
Risk management liability	(8,032)	–

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

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

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

Year ended December 31	2019	2018
Fair value, beginning of year	64,441	(19,060)
Changes in fair value – financial commodity contracts	(45,169)	7,026
Changes in fair value – interest rate swaps	(9,568)	–
Settlements paid (received) – financial commodity contracts	(13,210)	76,475
Settlements paid (received) – interest rate swaps	1,536	–
Fair value, end of year	(1,970)	64,441

The Company had the following financial commodity contracts in place at December 31, 2019:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN$80.11/Bbl	6,062	January 2020 – December 2020
			6,062	

The Company had the following floating-to-fixed interest rate swaps in place as at December 31, 2019:

Contract Type	Aggregate notional	Maturity Date	Fixed Contract Rate	Reference	Fair value
Interest Rate Swaps	$250 million	January 2023	2.3%	CDOR (1)	(2,510)
Interest Rate Swaps	$250 million	January 2026	2.4%	CDOR (1)	(5,522)
					(8,032)

(1) Canadian Dollar Offered Rate

In the first quarter of 2019, Paramount entered into interest rate swap contracts to manage the uncertainty of variable interest rates by fixing the underlying Canadian dollar offered rate ("CDOR") of interest on a portion of the Company's long-term debt. The Company classified these arrangements as cash flow hedges and has applied hedge accounting. There is an economic relationship between the hedged items and hedging instruments as the timing and amount of the cash flows received from the interest rate swaps matched the terms of the expected highly probable forecast transactions, which is the underlying CDOR amount of interest paid on $500 million of the Company's long-term debt. A hedge ratio of 1 to 1 was established as the underlying risk of the interest rate swaps were identical to the hedged risk components. As at December 31, 2019, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

Commodity Price Risk

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

A $5.00 per barrel increase or decrease in oil prices, assuming all other variables are held constant, would have impacted the value of financial commodity contracts by $7.3 million and Paramount's net loss for the year ended December 31, 2019 by $5.4 million.

Foreign Currency Risk

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

Sales prices for natural gas, crude oil and natural gas liquids and the value of financial commodity contracts denominated in Canadian dollars are determined with reference to US benchmark prices, therefore a weakening of the Canadian dollar relative to the US dollar will increase the revenue received in Canadian dollars for the sale of Company's production and the value of such financial commodity contracts. Approximately 22 percent of the Company's revenue was received in US dollars. Paramount's expenditures are primarily in Canadian dollars, but include equipment and other items sourced from the United States and settled in US dollars.

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The maximum credit risk exposure at December 31, 2019 is limited to the carrying value of cash and cash equivalents, accounts receivable, and risk management assets.

Paramount's primary objectives with respect to cash and cash equivalents are to minimize financial risk and maintain high levels of liquidity. The Company's cash and cash equivalents and risk management assets are held with financial institutions with investment grade credit ratings and are highly liquid. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk. The Company manages credit risk by endeavoring to enter into commodity contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing 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.

A one percent increase in interest rates would have reduced Paramount's net earnings for the year ended December 31, 2019 by approximately $1.7 million based on the average floating rate credit facility balances and floating-to-fixed interest rate swaps outstanding during the year. A one percent increase in interest rates would have reduced Paramount's net earnings for the year ended December 31, 2018 by approximately $4.6 million based on the average floating rate credit facility balances outstanding during the year. A one percent decrease would have had the opposite effect.

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.

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

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

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

	2020	2021	2022	Total
Accounts payable & accrued liabilities	204,818	–	–	204,818
Paramount Facility	–	–	632,300	632,300
	204,818	**–**	**632,300**	**837,118**

Accounts Payable and Accrued Liabilities

As at December 31	2019	2018
Trade and accrued payables	**178,105**	187,654
Joint operation and other payables	**26,713**	40,198
Other	**–**	3,376
	204,818	231,228

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

Revenue and joint operation receivables are non-interest bearing and are generally settled on 30-day terms. Accounts receviable that share similar credit risk charactersistics 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 average expected credit loss on the Company's accounts receivable was approximately 2 percent as at December 31, 2019 (December 31, 2018 – 1 percent).

For the year ended December 31, 2019, the Company had sales to two customers which exceeded ten percent of total revenue. Sales to such customers totaled $178.2 million and $100.4 million respectively.

As at December 31	2019	2018
Revenue receivable	**86,362**	59,336
Joint operation receivable and other	**32,270**	61,994
	118,632	121,330

14. Revenue By Product

Year ended December 31	2019	2018
Natural gas	**261,006**	267,067
Condensate and oil	**610,203**	599,895
Other natural gas liquids	**37,651**	82,670
Royalty and sulphur	**6,021**	15,842
Royalties expense	**(63,319)**	(69,183)
	851,562	896,291

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

15. Other Income (Loss)

Year ended December 31	2019	2018
Interest income	324	816
Dispute settlements	(2,513)	–
Gain on debt extinguishment (see note 7)	–	3,126
Other	(5,273)	7,623
	(7,462)	11,565

Dispute Settlements

Subsequent to December 31, 2019, Paramount reached an agreement to settle its dispute with respect to an alleged obligation to contribute to the costs related to the remediation of a release from a non-operated pipeline. Also subsequent to December 31, 2019, but unrelated to this settlement, the Company reached an agreement to settle a legal action involving the Company as plaintiff against a third-party supplier respecting defective products and services provided to the Company. The Company has recognized a charge of $2.5 million in 2019 in respect of these settlements.

16. Consolidated Statements of Cash Flows - Selected Information

Items Not Involving Cash

Year ended December 31	2019	2018
Commodity contracts	58,379	(83,501)
Share-based compensation	18,495	24,063
Depletion and depreciation	364,761	977,275
Exploration and evaluation	11,362	14,781
Gain on sale of oil and gas assets	(169,279)	(57,413)
Accretion of asset retirement obligations	56,658	57,652
Foreign exchange	254	(2,455)
Change in asset retirement obligations	(107,301)	(120,244)
Deferred income tax	112,280	(193,440)
Change in fair value of securities - warrants	9,162	–
Other	2,299	(648)
	357,070	616,070

Supplemental Cash Flow Information

Year ended December 31	2019	2018
Interest paid	36,402	29,014

Components of Cash and Cash Equivalents

As at December 31	2019	2018
Cash	6,016	19,295
Cash equivalents	–	–
	6,016	19,295

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

17. Capital Structure

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

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

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

Paramount's capital structure consists of the following:

As at December 31	2019	2018
Adjusted working capital deficit (1)	71,217	80,962
Paramount Facility	632,300	815,000
Net Debt	703,517	895,962
Share capital	2,207,485	2,184,608
Retained earnings (accumulated deficit)	(128,487)	21,189
Reserves	4,182	44,732
Total Capital	2,786,697	3,146,491

(1) Adjusted working capital excludes risk management assets and liabilities, current accounts receivable relating to subleases (December 31, 2019 – $2.0 million, December 31, 2018 – nil) and the current portion of asset retirement obligations and other.

18. Compensation of Key Management Personnel

Year ended December 31	2019	2018
Salaries and benefits	2,225	2,504
Share-based compensation	3,497	6,252
	5,722	8,756

19. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2019:

	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)	252,633	902,546	1,357,158
Other commitments	4,565	6,551	92
	257,198	909,097	1,357,250

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $10.2 million at December 31, 2019 (December 31, 2018 – $1.3 million)

As at December 31, 2019 the Company had AECO fixed-price physical contracts in place to sell 50,000 GJ/d of natural gas at a price of $2.36/GJ from January 2020 to March 2020 and 60,000 GJ/d of natural gas at a price of $1.56/GJ from April 2020 to October 2020. In January 2020 the Company entered into additional fixed price physical contracts to sell 20,000 GJ/d of natural gas at a price of $1.75/GJ from April 2020 to October 2020.

Flow-Through Shares

As a result of the flow-through share issuance in 2019, Paramount is required to incur and renounce, on or before December 31, 2020, $39.2 million of Canadian development expenses, of which $17.5 million was incurred as of December 31, 2019.

Contingencies

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

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 relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

20. Subsequent Event

In January 2020, Paramount implemented a normal course issuer bid (the "2020 NCIB") under which the Company may purchase up to 7,044,289 Common Shares for cancellation. The 2020 NCIB will terminate on the earlier of: (i) January 5, 2021; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2020 NCIB are purchased.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

J. H. T. Riddell
Chairman and President and Chief Executive Officer

B. K. Lee
Executive Vice President, Finance

P. R. Kinvig
Chief Financial Officer

E. M. Shier
General Counsel, Corporate Secretary and Vice President, Land

D. B. Reid
Executive Vice President, Operations

R. R. Sousa
Executive Vice President, Corporate Development and Planning

J. B. Williams
Executive Vice President, Kaybob Region

DIRECTORS

J. H. T. Riddell (2)
Chairman and President and Chief Executive Officer
Paramount Resources Ltd.
Calgary, Alberta

J. G. M. Bell (1) (3) (4)
President and Chief Executive Officer
Founders Advantage Capital Corp.
Calgary, Alberta

W. A. Gobert (3) (4) (5)
Independent Businessman
Calgary, Alberta

J. C. Gorman (1) (4) (5)
Independent Businessman
Calgary, Alberta

D. Jungé C.F.A. (2) (4)
Independent Businessman
Bryn Athyn, Pennsylvania

R. M. MacDonald (1) (4)
Independent Businessman
Oakville, Ontario

R. K. MacLeod (2) (4) (5)
Independent Businessman
Calgary, Alberta

S. L. Riddell Rose
President and Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

J. B. Roy (1) (3) (4)
Independent Businessman
Calgary, Alberta

(1) Member of Audit Committee
(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee
(5) Member of Reserves Committee

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Royal Bank of Canada

Canadian Imperial Bank of Commerce

National Bank of Canada

ATB Financial

The Toronto-Dominion Bank

Export Development Canada

RESERVES EVALUATORS

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AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)