Form 51-102F4

BUSINESS ACQUISITION REPORT

Item 1 – Identity of Company

1.1 Name and Address of Company

Paramount Resources Ltd. (**Paramount**)
Suite 4700, 888 – 3rd Street S.W.
Calgary, Alberta T2P 5C5

1.2 Executive Officer

For further information, contact Bernard K. Lee, the Executive Vice President, Finance and Chief Financial Officer of Paramount, at (403) 290-3600.

Item 2 – Details of Acquisitions

2.1 Nature of Businesses Acquired

On August 16, 2017, Paramount, through a wholly-owned subsidiary, completed the acquisition (the **Apache Canada Acquisition**) of all of the outstanding shares of Apache Canada Ltd. (**Apache Canada**). Apache Canada was, prior to the completion of the Apache Canada Acquisition, an indirect, wholly-owned subsidiary of Apache Corporation, a United States public oil and gas company. Apache Canada's primary oil and gas assets were located at Wapiti, Kaybob/Ante Creek and in Central Alberta. Additional information concerning Apache Canada and its business and assets is included in Appendix J to the joint information circular of Paramount and Trilogy Energy Corp. (**Trilogy**) dated August 8, 2017 (the **Circular**) and in the section of the Circular titled "*Information Relating to Paramount After the Apache Canada Acquisition and the Merger*" (excluding the subsections "*Pro Forma Financial Information*" and "*Pro Forma Consolidated Capitalization*" therein). The Circular is available on SEDAR at www.sedar.com under the issuer profile of Paramount and Appendix J and such section of the Circular (with the exclusions noted above) are incorporated by reference into this Business Acquisition Report.

On September 12, 2017, Paramount completed a merger (the **Merger**) with Trilogy pursuant to an arrangement under the *Business Corporations Act* (Alberta). Trilogy was, prior to the completion of the Merger, a Canadian public oil and gas company. Trilogy's primary oil and gas assets were located in the Kaybob and Grande Prairie areas of Alberta. Additional information concerning Trilogy and its business and assets is included in that section of Appendix I to the Circular titled "*Reserves and Other Oil and Gas Information*" and in the section of the Circular titled "*Information Relating to Paramount After the Apache Canada Acquisition and the Merger*" (excluding the subsections "*Pro Forma Financial Information*" and "*Pro Forma Consolidated Capitalization*" therein). The Circular is available on SEDAR at www.sedar.com under the issuer profile of Paramount and such section of Appendix I and such section of the Circular (with the exclusions noted above) are incorporated by reference into this Business Acquisition Report.

2.2 Acquisition Dates

The Apache Canada Acquisition was completed on August 16, 2017 and the Merger was completed on September 12, 2017.

2.3 Consideration

Paramount acquired all of the outstanding shares of Apache Canada for the total cash consideration of $486.9 million. Paramount funded the Apache Canada Acquisition with cash on hand and no debt was assumed.

Under the Merger, Paramount acquired all of the outstanding Trilogy shares not already owned by it in exchange for Paramount shares, on the basis of one Paramount share for every 3.75 Trilogy shares. A total of 28,537,134 Class A Common Shares of Paramount were issued in connection with the Merger.

2.4 Effect on Financial Position

Following completion of the Apache Canada Acquisition, Apache Canada became a direct wholly-owned subsidiary of Paramount and upon completion of the Merger, Trilogy became a direct wholly-owned subsidiary of Paramount. Since closing of the transactions, Paramount has continued its operations, together with the operations of Apache Canada (renamed Paramount Resources (ACL) Ltd.) and Trilogy (renamed Paramount Resources (TEC) Ltd.), on a combined basis.

For additional information on the effect of the Apache Canada Acquisition and the Merger on the financial position of Paramount, see the unaudited *pro forma* financial statements of Paramount attached as Schedule A to this Business Acquisition Report.

Paramount does not presently have any plans or proposals for material changes in its business affairs or the affairs of Paramount Resources (ACL) Ltd. or Paramount Resources (TEC) Ltd. which may have a significant effect on the financial performance and financial position of Paramount.

2.5 Prior Valuations

To the knowledge of Paramount, there has not been any valuation opinion obtained within the last 12 months by Paramount or Apache Canada required by securities legislation or a Canadian exchange or market to support the consideration paid by Paramount under the Apache Canada Acquisition.

In connection with the Merger and pursuant to Multilateral Instrument 61-101 – *Protection of Minority Shareholders in Special Transactions*, formal valuations of both the Paramount shares and the Trilogy shares were required to be obtained. Paramount and Trilogy jointly retained Deloitte LLP as an independent valuator to provide such valuations. The valuation conclusions of Deloitte LLP and a description of the methodologies used in the valuations are contained in the section of the Circular titled *"The Merger – Formal Valuations and Fairness Opinions*", which section of the Circular is incorporated by reference into this Business Acquisition Report.

2.6 Parties to Transactions

The Apache Canada Acquisition was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 -- *Continuous Disclosure Obligations*), associate or affiliate of Paramount.

Prior to the Merger, Paramount was an associate of Trilogy due to its shareholdings in Trilogy.

2.7 Other

Although certain parts of the Circular and Appendix J have been incorporated by reference herein, no other appendixes to the Circular or documents incorporated by reference into the Circular are incorporated into or form part of this Business Acquisition Report.

2.8 Date of Report

October 30, 2017

Item 3 – Financial Statements and Other Information

The following financial statements of Apache Canada, which are attached to the Circular as Appendix K, are incorporated by reference into this Business Acquisition Report:

(a) the consolidated financial statements of Apache Canada as at and for the years ended December 31, 2016 (audited) and 2015 (unaudited), together with the notes thereto and the auditors' report thereon; and

(b) the unaudited interim consolidated financial statements of Apache Canada as at and for the three and six months ended June 30, 2017 and 2016, together with the notes thereto.

The following financial statements of Trilogy, filed under the SEDAR profile of Trilogy (now Paramount Resources (TEC) Ltd.) at www.sedar.com, are incorporated by reference into this Business Acquisition Report:

(a) the audited consolidated financial statements of Trilogy as at and for the years ended December 31, 2016 and 2015, together with the notes thereto and the auditors' report thereon; and

(b) the unaudited interim consolidated financial statements of Trilogy as at and for the three and six months ended June 30, 2017 and 2016, together with the notes thereto.

The following are attached as Schedule A to this Business Acquisition Report:

(a) the unaudited *pro forma* consolidated balance sheet of Paramount as at June 30, 2017 and the unaudited *pro forma* consolidated statements of net income (loss) of Paramount for the six months ended June 30, 2017 and year ended December 31, 2016, including *pro forma* net income (loss) per share, after giving effect to the Apache Canada Acquisition and the Merger.

SCHEDULE A

Pro Forma Financial Statements
As at and for the six months ended June 30, 2017 and for the year ended December 31, 2016

PRO FORMA CONSOLIDATED BALANCE SHEET (unaudited)

($ thousands)

As at June 30, 2017	Paramount Resources Ltd.	Apache Canada Ltd. ($US)	Foreign Exchange Translation *Note 3C*	Pro Forma Adjustments	*Note*	Subtotal Paramount & Apache Canada	Trilogy Energy Corp.	Pro Forma Adjustments	*Note*	Pro Forma Paramount
ASSETS										
Current assets										
Cash and cash equivalents	565,621	41,714	12,418	(515,516)	*3A(i)&(vi)*	104,237	—	—		104,237
Accounts receivable	50,407	54,820	16,320	(35,028)	*3A(vi)*	86,519	33,700	(15,187)	*3B(viii)*	105,032
Prepaid expenses and other	1,936	12,368	3,682	(11,034)	*3A(vi)*	6,952	4,310	(1,989)	*3B(viii)*	9,273
Risk management	11,048	—	—	—		11,048	7,842	(3,237)	*3B(viii)*	15,653
Assets held for sale	—	184,697	54,984	(239,681)	*2A*	—	—	—		—
	629,012	293,599	87,404	(801,259)		208,756	45,852	(20,413)		234,195
Oil and gas assets	1,326,662	941,336	280,236	254,820	*3A / 3D*	2,803,054	967,246	556,146	*3B / 3D*	4,326,446
Equity-accounted investment	48,988	—	—	—		48,988	—	(48,988)	*3B(iii)*	—
Investments in securities	47,167	—	—	—		47,167	—	—		47,167
Deferred income tax	—	—	—	510,945	*3A / 3D*	510,945	46,156	(185,363)	*3B(vii)*	371,738
Goodwill	—	—	—	—		—	74,133	(74,133)	*3F*	—
	2,051,829	1,234,935	367,640	(35,494)		3,618,910	1,133,387	227,249		4,979,546
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities										
Accounts payable and accrued liabilities	110,003	110,363	32,855	(82,122)	*3A (vi) / 3G*	171,099	53,635	1,442	*3B / 3G*	226,176
Liabilities associated with assets held for sale	—	105,362	31,366	(136,728)	*2A*	—	—	—		—
	110,003	215,725	64,221	(218,850)		171,099	53,635	1,442		226,176
Long-term debt	—	5,975,611	1,778,939	(7,754,550)	*3E*	—	459,092	6,374	*3B(v)*	465,465
Asset retirement obligations	196,218	656,902	195,560	439,077	*3A(iii) / 3D*	1,487,757	222,239	(5,953)	*3B(vi) / 3D*	1,704,043
Deferred income tax	37,415	—	—	—		37,415	—	(37,415)	*3B(v)*	—
Provisions	—	46,763	13,921	(47,772)	*3A(iv)*	12,912	—	—		12,912
	343,636	6,895,001	2,052,641	(7,582,095)		1,709,183	734,966	(35,552)		2,408,596
Shareholders' equity										
Share capital	1,644,375	(5,660,066)	(1,685,001)	7,345,067		1,644,375	1,105,694	(502,419)	*3B(i)*	2,247,650
Retained earnings (accumulated deficit)	(66,967)	—	—	201,534	*3A(v) / 3G / 3D*	134,567	(776,693)	831,445	*3B(ii) / 3G*	189,319
Reserves	130,785	—	—	—		130,785	69,420	(66,224)	*3B(iii)*	133,981
	1,708,193	(5,660,066)	(1,685,001)	7,546,601		1,909,727	398,421	262,802		2,570,950
	2,051,829	1,234,935	367,640	(35,494)		3,618,910	1,133,387	227,249		4,979,546

See the accompanying notes to these pro forma consolidated financial statements.

PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME (LOSS) (unaudited)

($ thousands, except as noted)

Year ended December 31, 2016	Paramount Resources Ltd.	Apache Canada Ltd. ($US)	Foreign Exchange Translation *Note 4A*	Pro Forma Adjustments	*Note*	Subtotal Paramount & Apache Canada	Trilogy Energy Corp.	Pro Forma Adjustments	*Note*	Pro Forma Paramount
Petroleum and natural gas sales	248,828	343,240	111,487	(139,387)	*2A / 4B*	564,168	195,036	—		759,204
Royalties	(2,211)	—	—	(14,507)	*2A / 4B*	(16,718)	(12,572)	—		(29,290)
Revenue	246,617	343,240	111,487	(153,894)		547,450	182,464	—		729,914
Gain (loss) on commodity contracts	253	—	—	—		253	(7,278)	—		(7,025)
	246,870	343,240	111,487	(153,894)		547,703	175,186	—		722,889
Expenses										
Operating expense	97,040	201,417	65,422	(15,391)	*2A / 4B*	348,488	69,226	—		417,714
Transportation and NGLs processing	56,465	68,216	22,157	(70,271)	*2A / 4B*	76,567	22,080	—		98,647
General and administrative	25,877	36,331	11,801	(18,379)	*4B*	55,630	12,390	—		68,020
Share-based compensation	27,771	—	—	18,379	*4B*	46,150	9,373	—		55,523
Depletion and depreciation	209,661	183,271	59,527	(3,069)	*4C*	449,390	141,670	1,784	*4C*	592,844
Impairment (reversal of prior-year write-downs)	(133,246)	366,932	119,182	—		352,868	(210)	—		352,658
Exploration and evaluation	(72,071)	88,066	28,604	(1,304)	*2A*	43,295	978	—		44,273
Gain on sale of oil and gas assets	(1,379,965)	(18,955)	(6,157)	—		(1,405,077)	(919)	—		(1,405,996)
Interest and financing	80,324	66,180	21,496	(87,676)	*4E*	80,324	33,894	—		114,218
Environmental remediation	—	—	—	—		—	6,000	—		6,000
Accretion of asset retirement obligations	4,622	47,044	15,280	(36,493)	*2A / 4F*	30,453	4,572	—		35,025
Foreign exchange	(43,727)	—	—	—		(43,727)	751	—		(42,976)
Debt extinguishment	27,575	—	—	—		27,575	—	—		27,575
	(1,099,674)	1,038,502	337,312	(214,204)		61,936	299,805	1,784		363,525
Loss from equity-accounted investment	(14,316)	—	—	—		(14,316)	—	14,316	*3B*	—
Decrease in market value of securities distributed	(11,235)	—	—	—		(11,235)	—	—		(11,235)
Other	376	11,343	3,684	—		15,403	111	—		15,514
Income (loss) before tax	1,321,369	(683,919)	(222,141)	60,310		475,619	(124,508)	12,532		363,643
Income tax expense (recovery)										
Current	—	319	104	—		423	—	—		423
Deferred	156,094	543	176	(219,307)	*4D*	(62,494)	(31,107)	(482)	*4D*	(94,083)
	156,094	862	280	(219,307)		(62,071)	(31,107)	(482)		(93,660)
Net income (loss)	1,165,275	(684,781)	(222,421)	279,617		537,690	(93,401)	13,014		457,303
Net income per common share ($/share)										
Basic *(4G)*	10.98					5.07				3.40
Diluted *(4G)*	10.95					5.05				3.39

See the accompanying notes to these pro forma consolidated financial statements.

PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME (LOSS) (unaudited)

($ thousands, except as noted)

Six months ended June 30, 2017	Paramount Resources Ltd.	Apache Canada Ltd. ($US)	Foreign Exchange Translation *Note 4A*	Pro Forma Adjustments	*Note*	Subtotal Paramount & Apache Canada	Trilogy Energy Corp.	Pro Forma Adjustments	*Note*	Pro Forma Paramount
Petroleum and natural gas sales	116,031	195,312	65,293	(70,607)	2A / 4B	306,029	137,369	—		443,398
Royalties	(2,805)	—	—	(13,857)	2A / 4B	(16,662)	(10,848)	—		(27,510)
Revenue	113,226	195,312	65,293	(84,464)		289,367	126,521	—		415,888
Gain on commodity contracts	20,863	—	—	—		20,863	23,492	—		44,355
	134,089	195,312	65,293	(84,464)		310,230	150,013	—		460,243
Expenses										
Operating expense	32,057	89,091	29,783	(14,573)	2A / 4B	136,358	39,824	—		176,182
Transportation and NGLs processing	14,312	30,325	10,138	(29,190)	2A / 4B	25,585	7,498	—		33,083
General and administrative	11,694	15,458	5,168	(9,474)	4B	22,846	4,475	—		27,321
Share-based compensation	5,431	—	—	9,474	4B	14,905	1,913	—		16,818
Depletion and depreciation	76,981	75,547	25,255	8,785	4C	186,568	77,246	1,996	4C	265,810
Impairment (reversal of prior-year write-downs)	(42,111)	39	13	—		(42,059)	(27,415)	—		(69,474)
Exploration and evaluation	5,296	9,215	3,081	(196)	2A	17,396	803	—		18,199
(Gain) loss on sale of oil and gas assets	(88,346)	52,533	17,562	(70,095)	2A	(88,346)	(23,686)	—		(112,032)
Interest and financing	440	30,929	10,340	(41,269)	4E	440	16,588	—		17,028
Accretion of asset retirement obligations	1,949	22,953	7,673	(17,711)	2A / 4F	14,864	2,509	—		17,373
Environmental remediation	—	—	—	—		—	2,000	—		2,000
Foreign exchange	190	—	—	—		190	—	—		190
Transaction costs	4,737	—	—	—		4,737	1,537	—		6,274
	22,630	326,090	109,013	(164,249)		293,484	103,292	1,996		398,772
Income from equity-accounted investment	4,935	—	—	—		4,935	—	(4,935)	3B	—
Decrease in market value of securities distributed	(10,450)	—	—	—		(10,450)	—	—		(10,450)
Write-down of investments in securities	(11,030)	—	—	—		(11,030)	—	—		(11,030)
Other	3,895	1,612	539	—		6,046	182	—		6,228
Income (loss) before tax	98,809	(129,166)	(43,181)	79,785		6,247	46,903	(6,931)		46,219
Income tax expense (recovery)										
Current	—	364	122	—		486	—	—		486
Deferred	32,740	64	21	(22,519)	4D	10,306	14,355	(539)	4D	24,122
	32,740	428	143	(22,519)		10,792	14,355	(539)		24,608
Net income (loss)	66,069	(129,594)	(43,324)	102,304		(4,545)	32,548	(6,392)		21,611
Net income per common share ($/share)										
Basic *(4G)*	0.62					(0.04)				0.16
Diluted *(4G)*	0.62					(0.04)				0.16

See the accompanying notes to these pro forma consolidated financial statements.

1. BASIS OF PRESENTATION

These unaudited pro forma consolidated financial statements (the "Pro Forma Information") of Paramount Resources Ltd. ("Paramount" or the "Company") have been prepared by Paramount's Management in connection with (i) the acquisition of Apache Canada Ltd. ("Apache Canada" and the "Apache Canada Acquisition") on August 16, 2017 and (ii) the merger with Trilogy Energy Corp. ("Trilogy" and the "Trilogy Merger") on September 12, 2017, collectively the ("Transactions").

The Pro Forma Information has been prepared for illustrative purposes only on a basis consistent with Paramount's accounting policies under International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all dollar amounts are expressed in thousands of Canadian dollars "$CAD". References to "$US" mean United States dollars.

The pro forma consolidated balance sheet as at June 30, 2017 gives effect to the Transactions and assumptions described herein as if they had occurred on June 30, 2017. The pro forma consolidated statements of net income (loss) for the year ended December 31, 2016 and for the six months ended June 30, 2017 give effect to the Transactions and assumptions described herein as if they had occurred on January 1, 2016.

The Pro Forma Information has been prepared from information derived from and should be read in conjunction with:

- Paramount's audited consolidated financial statements as at and for the year ended December 31, 2016, together with the accompanying notes thereto, and the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2017, together with the accompanying notes thereto, in each case prepared in accordance with IFRS.

- Apache Canada's audited consolidated financial statements as at and for the year ended December 31, 2016, together with the accompanying notes thereto, and Apache Canada's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2017, together with the accompanying notes thereto, in each case prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

- Trilogy's audited consolidated financial statements as at and for the year ended December 31, 2016, together with the accompanying notes thereto, and Trilogy's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2017, together with the accompanying notes thereto, in each case prepared in accordance with IFRS.

Pro forma adjustments have been made to conform Apache Canada's and Trilogy's financial statements to Paramount's accounting and presentation policies under IFRS to the extent the adjustments materially impact the pro forma amounts. No material differences were identified in respect of Apache Canada's financial statements as a result differences between US GAAP and IFRS.

This Pro Forma Information may not be indicative of the results that would have occurred if the events reflected herein had been in effect on the dates indicated or of the results which may be obtained in the future. No adjustments have been made to reflect the operating synergies and administrative cost savings that could result from the combination of these entities. The allocation of the total consideration to the net assets acquired in each of the Transactions is preliminary and based on estimates of fair value and other amounts and such estimates may be adjusted in the future.

2. THE TRANSACTIONS

A. Apache Canada Acquisition

On August 16, 2017, Paramount acquired Apache Canada for total cash consideration of $486.9 million. Apache Canada sold its Midale and House Mountain properties in the second quarter of 2017 and sold its Provost properties on August 15, 2017 (collectively the "Excluded Assets"). Because the Excluded Assets were sold prior to Paramount acquiring Apache Canada, pro forma adjustments have been made to remove the assets, liabilities and results of operations associated with the Excluded Assets for all periods.

B. Trilogy Merger

On September 12, 2017, Paramount and Trilogy completed the Trilogy Merger under which Paramount acquired all of the outstanding shares of Trilogy ("Trilogy Shares") not already owned by it in exchange for class A common shares of Paramount ("Paramount Shares"), on the basis of one Paramount Share for every 3.75 Trilogy shares. Paramount issued approximately 28.5 million Paramount Shares pursuant to the Trilogy Merger.

Prior to the Trilogy Merger, Paramount owned approximately 15 percent of the outstanding Trilogy Shares. The acquisition of the remaining Trilogy Shares has been accounted for as a step acquisition, with Paramount's interest in Trilogy Shares before the Trilogy Merger being revalued to fair value. Upon completion of the Trilogy Merger, Paramount had approximately 134.8 million Paramount Shares outstanding.

Trilogy's $300 million principal amount of 7¼ percent senior unsecured notes due December 2019 (the "2019 Notes") remain outstanding following the completion of the Trilogy Merger. The terms of the indenture governing the 2019 Notes did not require a change of control payment as a result of the Trilogy Merger.

3. PRO FORMA CONSOLIDATED BALANCE SHEET

The Transactions have been accounted for using the acquisition method of accounting, in accordance with *IFRS 3, Business Combinations ("IFRS 3"),* whereby the assets acquired and the liabilities assumed are recognized at their fair value, except for deferred tax amounts. The allocation of the total consideration to the net assets acquired in each of the Transactions is preliminary and based on estimates of fair value and other amounts and such estimates may be adjusted in the future.

A. Apache Canada Acquisition

The following table summarizes the total consideration and the value ascribed to each major class of assets and liabilities recognized in respect of the Apache Canada Acquisition. The amounts have been determined as of August 16, 2017, the closing date of the transaction.

($ thousands, except as noted)

Cash consideration	$ 486,852
Working capital, net	6,964
Oil and gas assets	1,120,404
Deferred income tax asset	450,634
Asset retirement obligations	(712,176)
Provision	(12,912)
Net assets acquired	852,914
Gain on acquisition	(366,062)
	$ 486,852

i. Cash consideration of $486.9 million was satisfied with Paramount's cash on hand.

ii. The allocation of amounts between property, plant and equipment and exploration and evaluation assets has not been finalized. These items are included in the "Oil and gas assets" line item above. The estimated value of Apache Canada's property, plant and equipment and exploration and evaluation assets does not include amounts related to the Excluded Assets.

iii. The estimated asset retirement obligations for Apache Canada reflect Paramount's cost estimates, are discounted using a credit-adjusted discount rate of approximately 6 percent, and do not include amounts related to the Excluded Assets.

iv. The $12.9 million provision was recorded as a result of the difference between current market rates and rates associated with Apache Canada's head office lease.

v. It is anticipated that a $366.1 million gain on acquisition will be recognized, substantially attributable to the undiscounted nature of the deferred tax asset recognized in the purchase allocation. The gain has not been included in the pro forma statements of net income (loss).

vi. Working capital amounts were estimated as of August 16, 2017, the closing date of the transaction.

B. Trilogy Merger

The following table summarizes the total consideration and the value ascribed to each major class of assets and liabilities recognized in respect of the Trilogy Merger. The amounts have been determined as of September 12, 2017, the closing date of the transaction.

Share consideration – Paramount Shares	$ 603,275
Paramount investment in Trilogy Shares	107,783
Share-based compensation – Trilogy Options	3,196
Total consideration	714,254
Working capital, net	(25,594)
Oil and gas assets	1,406,042
Deferred income tax liability	(101,792)
Long term debt	(465,466)
Asset retirement obligations	(98,936)
Net assets acquired	$ 714,254

i. Pursuant to the Trilogy Merger, Paramount issued one Paramount Share for every 3.75 Trilogy Shares not already owned by the Company. Share consideration of $603.3 million has been determined based on 28.5 million Paramount Shares issued and the September 11, 2017 closing price of Paramount Shares of $21.14 per share.

ii. The allocation of amounts between property, plant and equipment and exploration and evaluation assets has not been finalized. These items are included in the "Oil and gas assets" line item above.

iii. Paramount's investment in 19.1 million Trilogy Shares is included in the total consideration at a value of $107.8 million based on the closing market price of Trilogy Shares on September 11, 2017 of $5.63 per share. An increase in retained earnings of $58.8 million was recorded in the pro forma balance sheet as at June 30, 2017 in respect of the increase to the carrying value of Paramount's investment that will be recorded in connection with the Trilogy Merger. An adjustment related to the gain has not been included in the pro forma statements of net income (loss).

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

v. The 2019 Notes were recorded at fair value, resulting in an $8.3 million increase to their carrying amount.

vi. The estimated asset retirement obligations for Trilogy are discounted using a credit-adjusted discount rate of approximately 6 percent.

vii. Paramount's $37.4 million deferred tax liability and Trilogy's pro forma $101.8 million deferred tax liability were reclassified and netted against the pro forma deferred tax asset recognized in respect of Apache Canada.

viii. Working capital and revolving debt amounts were estimated as of September 12, 2017, the closing date of the transaction.

C. Foreign Exchange Translation

The Apache Canada balance sheet as at June 30, 2017 was translated into Canadian dollars at an exchange rate of 1.00 $US / 1.2977 $CAD.

D. Asset Retirement Obligations

Asset retirement obligations of $712.2 million and $98.9 million recognized in respect of Apache Canada and Trilogy, respectively, were subsequently remeasured in accordance with Paramount's accounting policy to reflect the discounting of such amounts using a risk-free discount rate of 2.25 percent (the "Re-measurement"). As a result of the Re-measurement, the carrying value of the estimated asset retirement obligations recorded in the purchase price allocations in respect of Apache Canada and Trilogy were increased by an aggregate of $696.9 million in the pro forma balance sheet as at June 30, 2017.

The Re-measurement resulted in a corresponding increase to the carrying value of property, plant and equipment, except for properties with a nil carrying value, where the corresponding amount related to the Re-measurement was recorded as a charge to net income. As a result of the Re-measurement, the carrying value of property, plant and equipment was increased by $473.5 million and a charge of $223.4 million was recorded in retained earnings in the pro forma consolidated balance sheet. A deferred tax impact was also recorded as a result of the Re-measurement, with the deferred tax asset being increased by $60.3 million and a corresponding deferred tax recovery being recorded in retained earnings. An adjustment related to the Re-measurement has not been included in the pro forma statements of net income (loss).

These obligations will be settled over the expected useful lives of the assets, which exceed 40 years.

E. Long-term Debt

Apache Canada's long-term intercompany debt was settled prior to the closing of the Apache Canada Acquisition and accordingly, such debt reflected on Apache Canada's balance sheet as at June 30, 2017 has been eliminated.

F. Trilogy Goodwill

Trilogy's goodwill asset, having a carrying amount of $74.1 million as at June 30, 2017, will not be recognized by Paramount under IFRS 3 and therefore the balance has been excluded from the Company's pro forma assets.

G. Transaction Costs

Accounts payable and accrued liabilities have been increased by approximately $5.5 million in respect of transaction costs related to the Apache Canada Acquisition and the Trilogy Merger, in addition to amounts recognized as at June 30, 2017. Transaction costs include legal, accounting, consulting and other costs associated with the completion of the Transactions.

4. PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME (LOSS)

Pro forma adjustments have been made to deduct the results of operations associated with the Excluded Assets from the pro forma statement of net income (loss).

A. Foreign Exchange

The Apache Canada statement of net loss for the year ended December 31, 2016 was translated at an exchange rate of 1.00 $US / 1.3248 $CAD, the average rate for the period. The Apache Canada statement of net loss for the six months ended June 30, 2017 was translated at an exchange rate of 1.00 $US / 1.3343 $CAD, the average rate for the period.

B. Presentation Adjustments

Royalties expense of $14.5 million for the year ended December 31, 2016 and $13.9 million for the six months ended June 30, 2017, presented as a reduction of revenue in Apache Canada's statement of net loss under US GAAP, have been reclassified to royalties expense, consistent with the Company's financial statement presentation under IFRS. Gathering and transportation expenses related to field operations of $68.3 million for the year ended December 31, 2016 and $29.0 million for the six months ended June 30, 2017, presented as transportation and NGLs processing expense in Apache Canada's statements of net loss, have been reclassified to operating expenses. Share-based compensation expense of $18.4 million for the year ended December 31, 2016 and $9.5 million for the six months ended June 30, 2017, presented as general and administrative expense in Apache Canada's statements of net loss, have been reclassified to share-based compensation.

C. Depletion and Depreciation

Depletion amounts recognized in the statement of net income (loss) have been adjusted to reflect the expected adjustment to the carrying value of depletable oil and gas assets as a result of the allocation of the purchase price for each of the Transactions and the adjustment to the carrying value of asset retirement obligations as a result of applying a risk-free discount rate consistent with Paramount’s accounting policy. Depletion and depreciation for Apache Canada was adjusted to $239.7 million for the year ended December 31, 2016 and $109.6 million for the six months ended June 30, 2017. Depletion and depreciation for Trilogy was adjusted to $143.5 million for the year ended December 31, 2016 and $79.2 million for the six months ended June 30, 2017.

D. Deferred Income Tax

Deferred income tax expense has been adjusted to include the deferred tax impact of the pro forma adjustments, and in the case of Apache Canada, to record the deferred tax impacts of its current period results excluding any reserves. Income taxes applicable to such adjustments are calculated at a combined Canadian federal and provincial statutory rate of 27 percent.

E. Interest Expense

Interest and financing expense for Apache Canada was adjusted to eliminate intercompany interest of $87.7 million for the year ended December 31, 2016 and $41.3 million for the six months ended June 30, 2017. See note 3E.

F. Accretion

Accretion expense for Apache Canada was adjusted to reflect the amount that would have been recorded based on the carrying amount of asset retirement obligations after being adjusting to reflect Paramount's cost estimates and applying a risk-free rate consistent with Paramount’s accounting policies. Accretion expense for Apache Canada was adjusted to $25.8 million for the year ended December 31, 2016 and $12.9 million for the six months ended June 30, 2017. An adjustment was not required for Trilogy.

G. Weighted Average Shares

Pro forma basic and diluted net income (loss) per share was calculated in respect of the combined pro forma net income of Paramount, Apache Canada and Trilogy based on the number of Paramount Shares outstanding after giving effect to the Trilogy Merger as if it occurred on January 1, 2016.

(thousands)	**Six Months ended June 30, 2017**	**Year ended December 31, 2016**
Basic weighted average number of Paramount Shares	106,145	106,157
Paramount Shares issued – Trilogy Merger	28,537	28,537
Basic – pro forma weighted average number of shares	**134,682**	**134,694**
Diluted – weighted average number of Paramount Shares	107,036	106,392
Paramount Shares issued – Trilogy Merger	28,537	28,537
Dilutive shares – Trilogy Options	121	—
Diluted – pro forma weighted average number of shares	**135,694**	**134,929**

Pro forma basic and diluted net income (loss) per share for Paramount and Apache Canada (excluding Trilogy) was calculated based on the weighted average number of Paramount Shares outstanding before giving effect to the Trilogy Merger.