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.

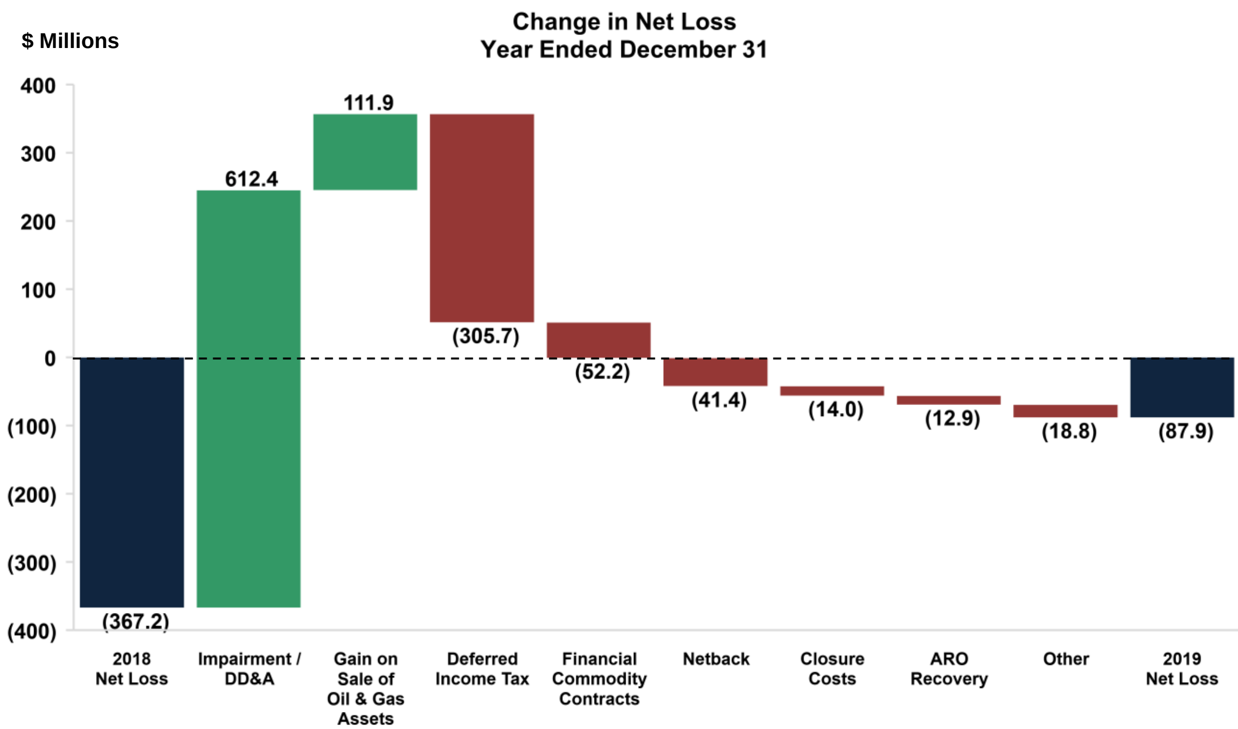
(3) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2019: 860; 2018: 574; 2017: 346.

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

CONSOLIDATED RESULTS

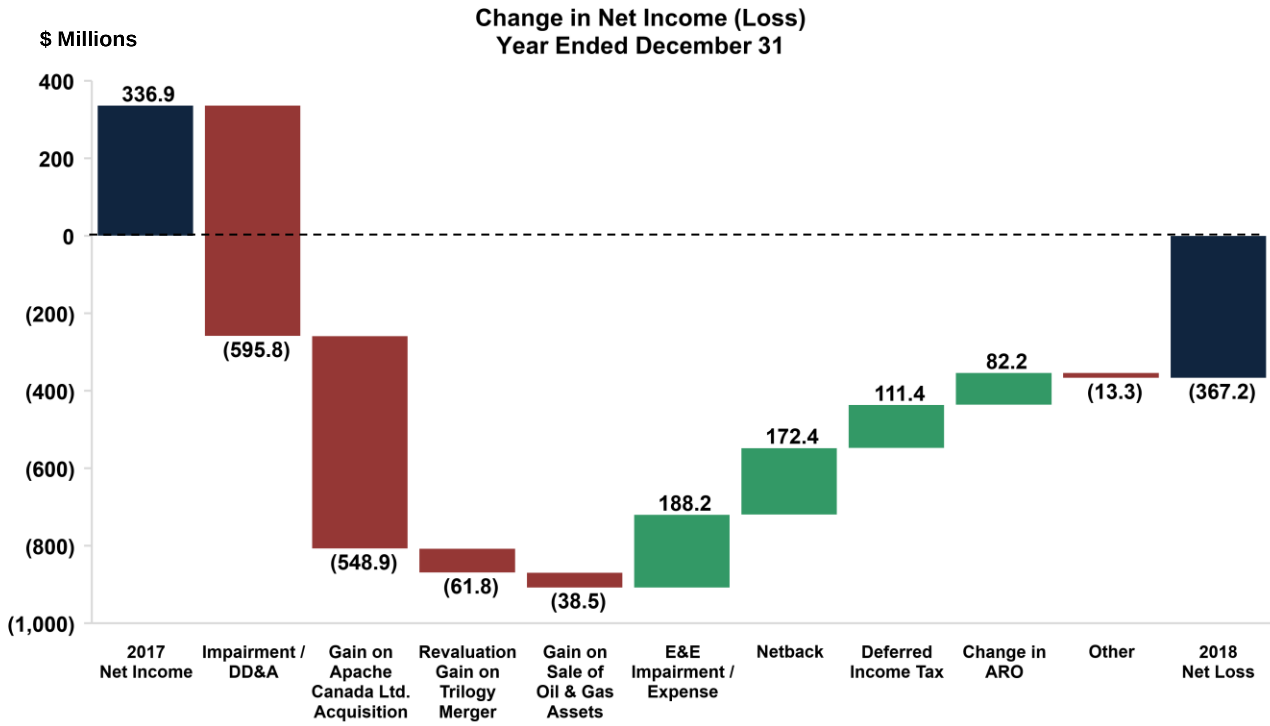
Net Loss – 2019 versus 2018

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

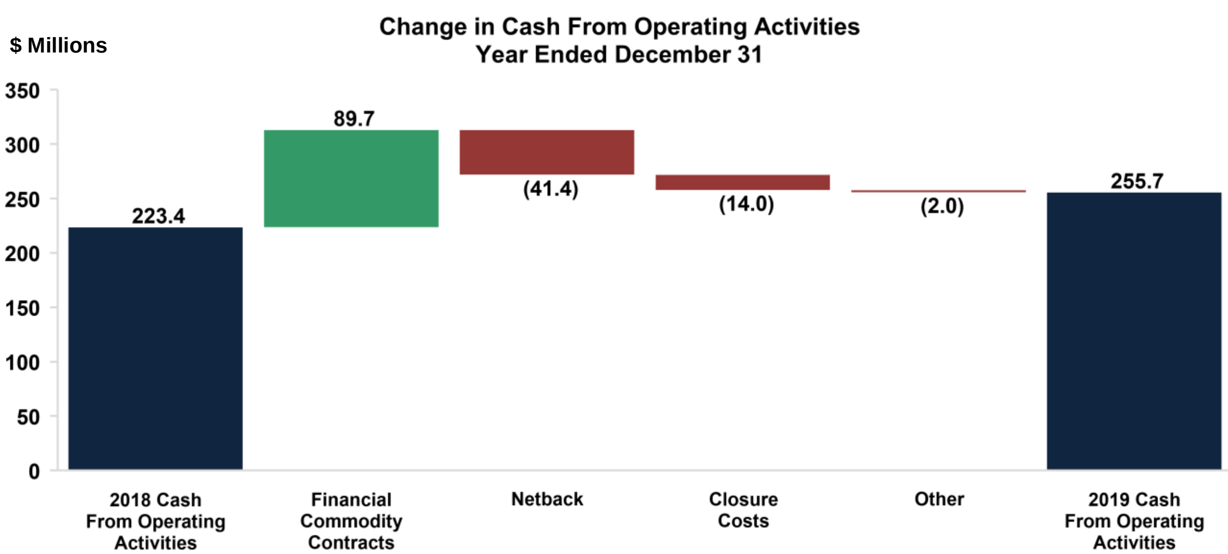
Paramount recorded a net loss of $367.2 million for the year ended December 31, 2018 compared to net income of $336.9 million in the same period in 2017, primarily as a result of higher impairment, depletion and depreciation expense in 2018, a gain on the Apache Canada Ltd. ("Apache Canada") acquisition 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.

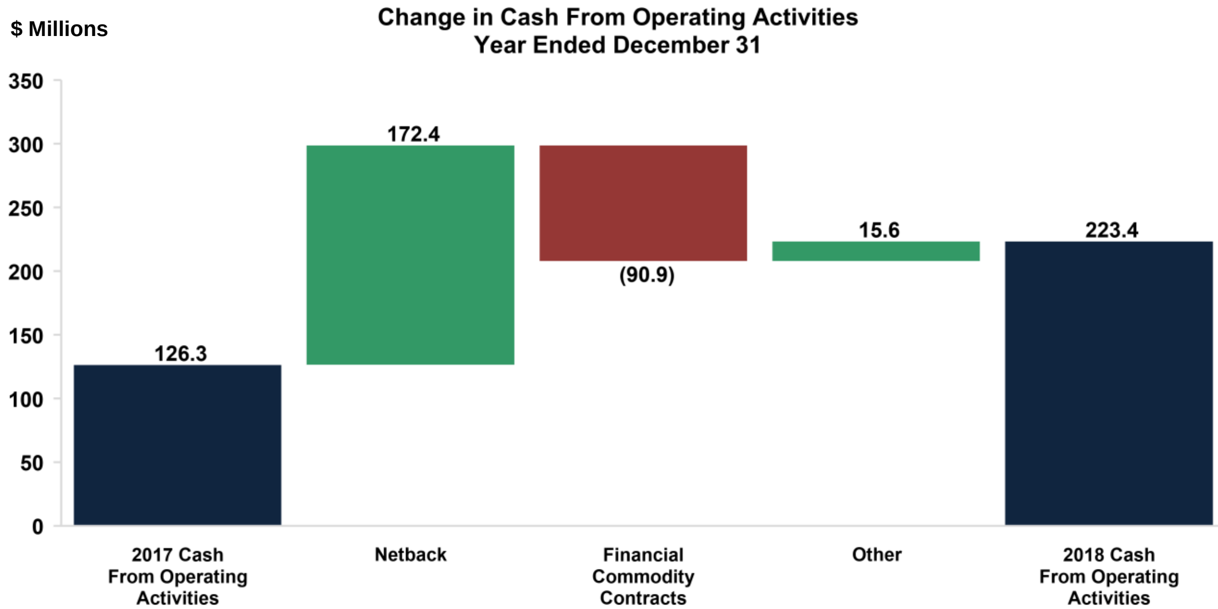
Cash From Operating Activities – 2019 versus 2018

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

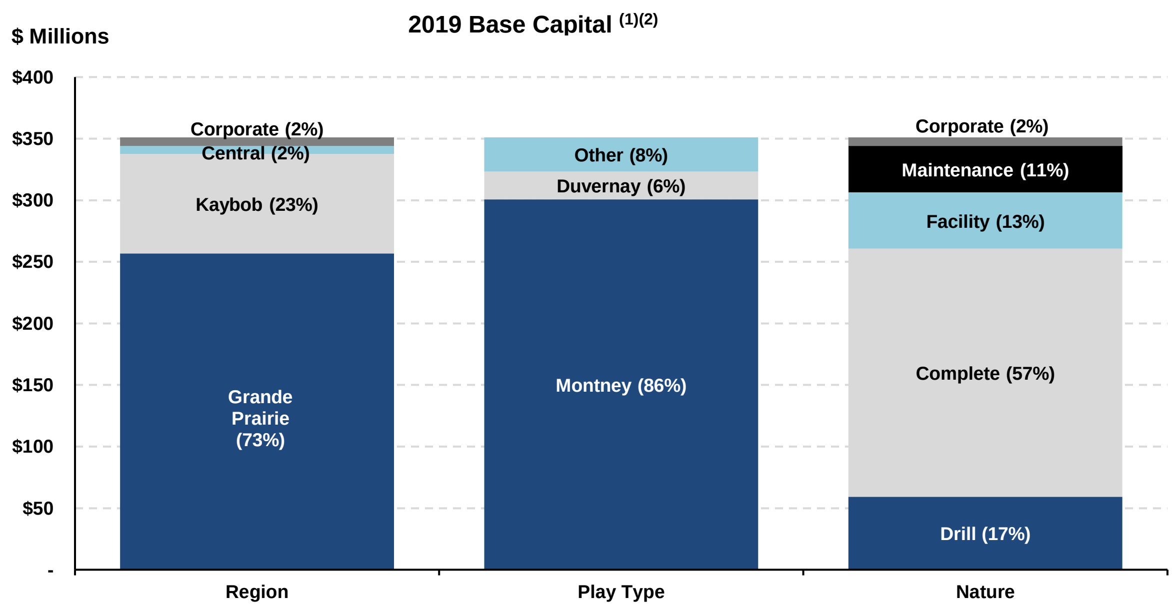
At December 31, 2019, Paramount's tax pools included approximately $3.6 billion of non-capital losses and scientific research and experimental development, $1.1 billion of Canadian resource pools and undepreciated capital cost and $0.1 billion of financing costs and other.

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.

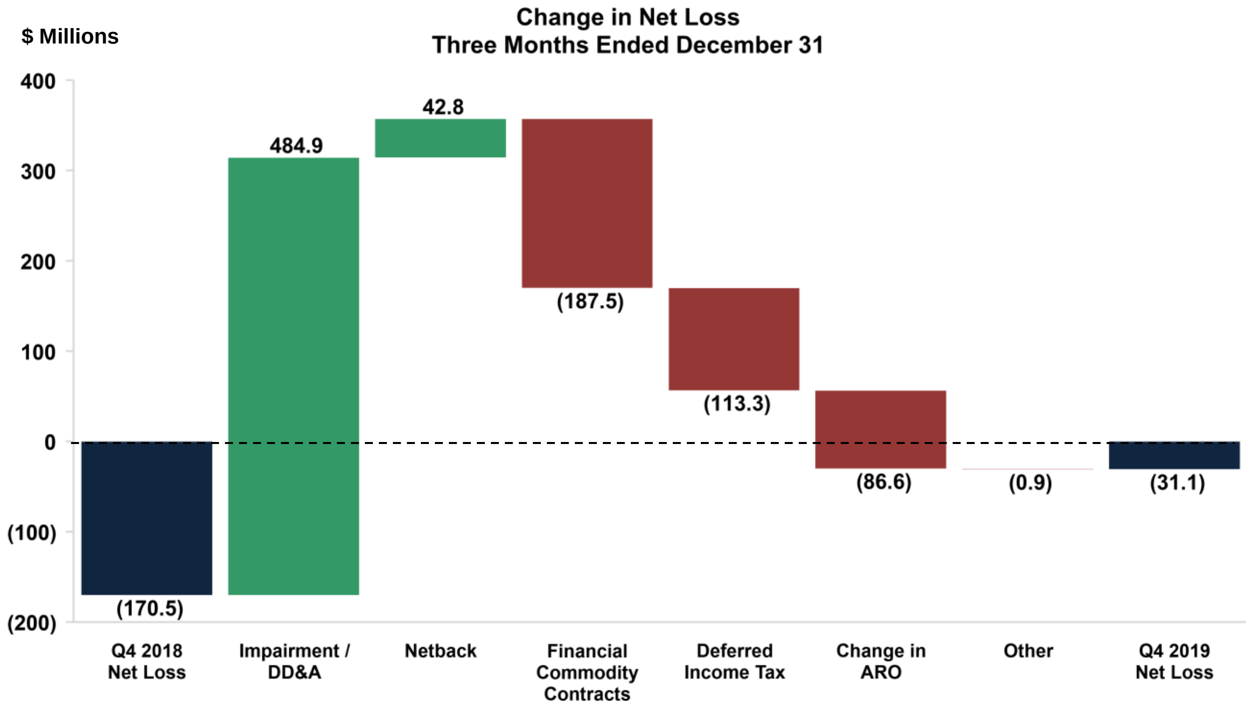
Realized condensate and crude oil prices in the fourth quarter of 2019 increased 46 percent compared to the fourth quarter of 2018. The continuance of the Alberta government-mandated, province-wide crude oil production curtailments, along with modest pipeline egress improvements and increasing exports 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

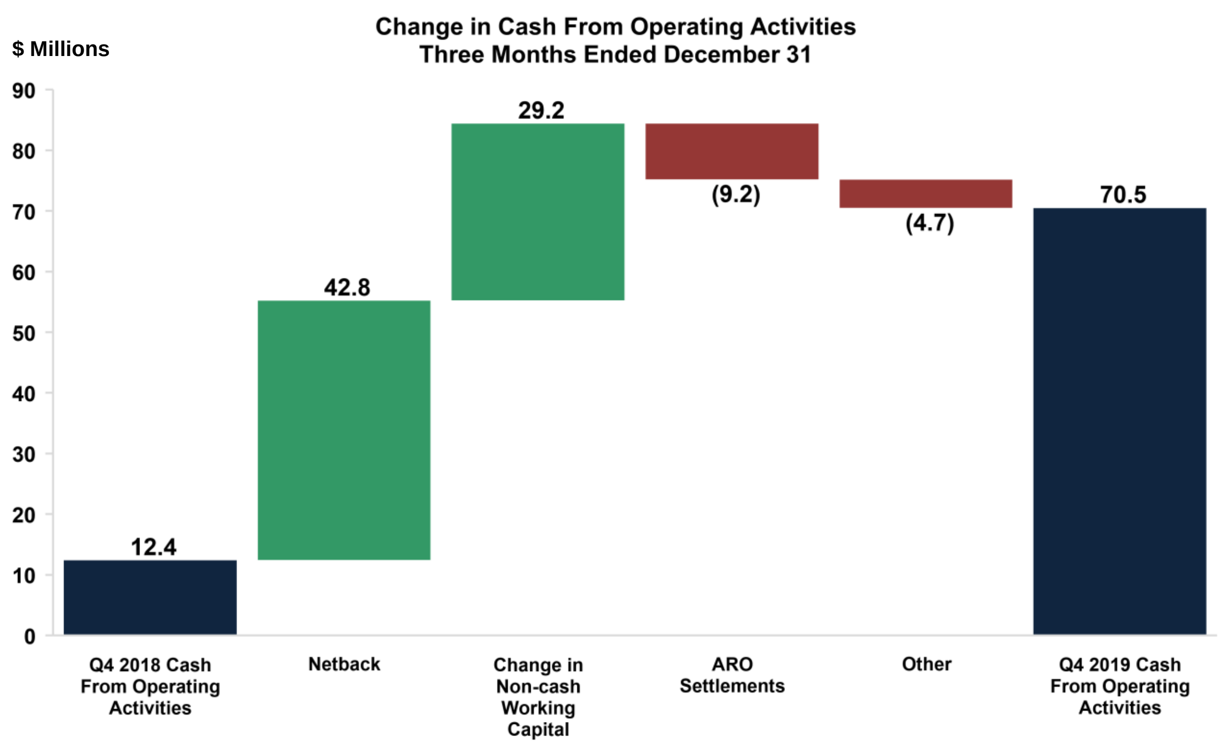
Three months ended December 31	2019	2018
Petroleum and natural gas sales	259.9	207.4
Royalties	(17.2)	(8.0)
Revenue	242.7	199.4
Gain (loss) on commodity contracts	(17.2)	170.3
	225.5	369.7
(Expenses) Income		
Operating expense	(105.0)	(103.2)
Transportation and NGLs processing	(22.8)	(24.2)
General and 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 MD&A 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:

- planned capital expenditures in 2020 and potential changes thereto;
- 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 expenditures for 2020;
- the expected timing of the completion of the expansion of the 6-18 Facility;
- 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.

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 MD&A, 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, reserves 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 this MD&A 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 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 separate from land

and property acquisition activity. Refer to the Property, Plant and Equipment and Exploration Expenditures section of this MD&A 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 this MD&A 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 this MD&A 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 this MD&A 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.

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 MD&A 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.

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.