Paramount Resources Ltd.

Paramount Resources Ltd. Enters Into an Agreement to Sell 310 Net Sections of Its Deep Basin Musreau/Kakwa Assets to Seven Generations Energy Ltd. for Total Consideration of $1.9 Billion

CALGARY, ALBERTA - July 6, 2016 /CNW/ - Paramount Resources Ltd. (TSX:POU) ("Paramount" or the "Company") is pleased to announce that it has entered into a purchase and sale agreement (the "Agreement") with Seven Generations Energy Ltd. ("Seven Generations") pursuant to which Seven Generations will acquire 310 net sections of Paramount's Deep Basin oil & gas properties in the Musreau/Kakwa area of west Central Alberta (the "Assets") for total consideration of approximately $1.9 billion, subject to customary post-closing adjustments.

The consideration is comprised of: (i) C$475 million in cash; (ii) 33.5 million class A common shares ("7G Shares") of Seven Generations (having a value of approximately C$837 million based on the 10 day VWAP of the 7G Shares ended at the close of markets yesterday of $24.99 per share); and (iii) Seven Generations' assumption of Paramount's senior unsecured notes due 2023 in the principal amount of US$450 million (approximately C$584 million). In connection with the transaction, Seven Generations will also assume Paramount's processing and transportation commitments relating to the Assets.

The Assets encompass approximately 450 (310 net) sections of land and had (i) proved and proved plus probable reserves of approximately 200 MMboe and 295 MMboe, respectively as at December 31, 2015 (based on the evaluation by Paramount's independent reserves evaluator, McDaniel & Associates Consultants Ltd.) and (ii) estimated sales volumes of approximately 30,000 Boe/d for the three month period ended June 30, 2016. The Assets also include minor facilities and gathering systems related to the oil and gas properties being sold.

"We believe this transaction provides a compelling opportunity to realize premium value on a portion of our Montney acreage for our shareholders. While allowing for significant deleveraging of our balance sheet, the unique structure of this transaction provides Paramount shareholders continued exposure to the considerable upside associated with the Assets through the Company's significant shareholdings in Seven Generations. The pure play Kakwa Montney asset base of Seven Generations provides Paramount shareholders the closest proxy for continued ownership of the disposed assets while significantly reducing our indebtedness", said Jim Riddell, President and Chief Executive Officer of Paramount. "Following the completion of the transaction, Paramount will be well positioned to continue the development of our other Deep Basin properties at Karr/Gold Creek, Smoky/Resthaven and Valhalla, which include Montney and multiple stacked Cretaceous horizons, our Montney play at Birch in northeast British Columbia and our Duvernay play at Willesden Green, as well as improved liquidity to capitalize on new opportunities."

Transaction Details

The effective date of the transaction is June 1, 2016 and closing is expected to occur in August 2016, subject to approval of Paramount's shareholders, the receipt of all necessary regulatory approvals and the satisfaction of other customary closing conditions. The transaction was unanimously approved by both companies' boards of directors.

Pursuant to the Agreement, Seven Generations provided Paramount with a $80 million deposit, non-refundable except for certain instances as specified in the Agreement. Paramount has agreed to customary non-solicitation covenants and has granted Seven Generations the right to match any competing acquisition proposals received by Paramount prior to closing. The Agreement provides for a $80 million termination fee payable by Paramount to Seven Generations in certain circumstances if the transaction is not completed, including termination by Paramount to accept an alternative acquisition proposal.

Shareholder Approval

The Assets comprise a substantial portion of Paramount's production and reserves and, accordingly, Paramount will be seeking approval of the transaction by its shareholders at a special meeting of Paramount's shareholders expected to take place in August 2016. The approval threshold will be 66 2/3 percent of the votes cast by Paramount's shareholders at the meeting.

Concurrent with entering into the Agreement, Mr. Clayton H. Riddell, Paramount's Executive Chairman, has entered into a voting support agreement with Seven Generations pursuant to which he agreed to vote all of the class A common shares of Paramount owned or controlled by him (representing approximately 37 percent of Paramount's outstanding shares) in favour of the transaction. However, such agreement does not affect or impede Mr. Riddell's obligations or duties as a director and officer and terminates upon Paramount accepting an alternative acquisition proposal in accordance with the terms of the Agreement.

Revised Credit Facilities

A Canadian chartered bank has committed to provide the Company with a new $410 million credit facility (the "New Facility") upon the Closing of the Transaction. This New Facility will amend and replace Paramount's existing credit facility. The New Facility will have two tranches, an extendible borrowing base tranche and a one year non-extendible margin tranche. The New Facility will be secured by all of the assets of the Company, including the 7G Shares. The margin tranche will be subject to customary sweep provisions and will also be subject to reduction by an amount equivalent to the principal amount of the Company's senior unsecured notes due 2019 and Fox Drilling credit facility that remains outstanding after the completion of the transaction. The proceeds of the New Facility will be used for working capital and general corporate purposes, including consolidation of other subsidiary debt (if required). As of June 30, 2016, approximately $212 million was drawn under Paramount's existing credit facility and, after closing the transaction and certain transitional matters, Paramount expects to have approximately $25 million of letters of credit outstanding.

2019 Notes

Paramount intends to commence a conditional consent solicitation in early to mid July with regards to its senior unsecured notes due 2019 (the "2019 Notes"). Such consent solicitation will be conditional on, among other things (a) closing of the Transaction and (b) a minimum acceptance from noteholders holding at least $100 million of 2019 Notes, with a maximum of $300 million. The consent solicitation will request that holders of the 2019 Notes (the "2019 Noteholders") agree to retain their 2019 Notes and consent to the Transaction as an exception to certain covenants of the 2019 Notes indenture. In addition, the consent solicitation will request that the 2019 Noteholders agree to certain amendments that will reduce Paramount's capacity to make restricted payments under the restricted payments builder basket in the indenture. There will be no change to the tenure, coupon or redemption schedule of the 2019 Notes. A consent fee of 50 bps will be offered to those 2019 Noteholders who provide their consent under the consent solicitation. The 2019 Noteholders who do not provide their consent will have their 2019 Notes redeemed, conditional on the closing of the Transaction, at a price of $1,038.13 for every $1,000 principal amount of 2019 Notes. Details of the proposed consent solicitation will be set forth in the consent solicitation documents to be delivered to the 2019 Noteholders.

The transaction will be completed regardless of the result of the consent solicitation process, as the 2019 Notes of all non-consenting 2019 Noteholders will be redeemed.

Post Transaction Strategy

The sale of the Assets is a transformational event for Paramount and is consistent with Paramount's long historical track record of early stage resource capture and delineation followed by strategic and creative value realization. Post-closing, Paramount will have the financial resources to continue with this strategy on its remaining Montney, Duvernay and other resource properties. In addition, Paramount intends to be an active participant in the market for acquisitions as the Company will have extensive financial flexibility and access to capital markets, providing a significant competitive advantage.

Following the transaction, Paramount will hold approximately 10 percent of the outstanding 7G Shares and will have approximately 10,500 Boe/d of production (67 percent natural gas), primarily focused on its retained Montney lands and approximately 43 MMboe of proved plus probable reserves (based on the McDaniel & Associates Consultants Ltd. independent reserve report as at December 31, 2015). Paramount will continue to have a land base (excluding emerging plays and strategic investments) of over 660,000 net acres of land, including 380,000 net acres of Montney rights. The Company plans to continue the development of its liquids-rich Deep Basin plays, comprised of:

- Karr/Gold Creek Montney;
- Smoky/Resthaven Cretaceous and Montney;
- Valhalla Montney;
- Birch/Umbach northeast British Columbia Montney; and
- Willesden Green Duvernay.

Paramount will also continue to hold a significant portfolio of emerging plays and strategic investments, including:

- exploratory shale gas assets in the Liard Basin;
- northern frontier assets in Central Mackenzie and the Mackenzie Delta;
- oil sands assets held through its wholly-owned subsidiary Cavalier Energy Inc.;
- seven triple-sized rigs held through its wholly-owned subsidiary Fox Drilling Limited Partnership; and
- investments in other public and private oil and gas companies (including, among others, Trilogy Energy Corp., MEG Energy Corp., Strategic Oil & Gas Ltd., Marquee Energy Ltd. and RMP Energy Inc.).

Following the transaction, Paramount's financial portfolio, including its 7G Shares acquired through the transaction, is estimated to be worth approximately $1 billion (or approximately $9.40 per Paramount share), based on current market prices.

Initial capital spending for the pro forma company will be focused on expanding the Company's existing 4,500 Boe/d Karr/Gold Creek development. Upon closing, the Company intends to initiate a two rig drilling program for the remainder of 2016. Karr/Gold Creek encompasses approximately 110 net sections of land directly north of the divested Kakwa/Musreau assets and boasts condensate yields of approximately 76 Bbl/MMcf and per well economics similar to that of the Kakwa/Musreau Montney.

Advisors and Fairness Opinion

BMO Capital Markets is acting as financial advisor to Paramount on the transaction and has provided an opinion to the Paramount board of directors to the effect that the consideration to be received by Paramount under the transaction is fair, from a financial point of view, to Paramount. Norton Rose Fulbright Canada LLP is acting as legal counsel to Paramount on the transaction.

Further Information

Further information regarding the transaction will be contained in an information circular that Paramount will prepare, file and mail in due course to its shareholders in connection with the special meeting of Paramount's shareholders. The Agreement will also be available on SEDAR at www.sedar.com.

About Paramount

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's properties are primarily located in Alberta, British Columbia and the Northwest Territories. Paramount's class A common shares are listed on the Toronto Stock Exchange under the symbol "POU".

About Seven Generations

Seven Generations is a low-supply-cost, high-growth Canadian natural gas developer generating long-life value from its liquids-rich Kakwa River Project, located about 100 kilometres south of its operations headquarters in Grande Prairie, Alberta. Seven Generations' corporate headquarters are in Calgary and its shares trade on the Toronto Stock Exchange under the symbol "VII".

Advisories

Forward Looking Information

Certain statements in this news release 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 news release includes, but is not limited to:

- The anticipated closing date of the transaction with Seven Generations;
- the total value of the consideration to be received by Paramount for the Assets;
- Paramount's assets and projected production, reserves and land holdings following the completion of the transaction;
- Paramount's business plans and strategy following the transaction, including its planned drilling program for the remainder of 2016;
- the estimated value, based on current market prices, of Paramount's financial portfolio (including the 7G Shares) following the closing of the transaction;
- the processing and transportation commitments that will be assigned to Seven Generations if the transaction is completed;
- the anticipated benefits of the transaction to Paramount and its shareholders;
- Paramount's reduced indebtedness and increased financial flexibility following the transaction;
- the New Facility that will be available to Paramount upon completion of the transaction, the terms thereof and the planned use of proceeds from such facility;
- the terms and timing of a conditional consent solicitation with respect to the 2019 Notes, the redemption of non-consenting holders and related matters; and
- general business strategies and objectives of Paramount.

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

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 news release:

- the terms of the transaction and the other matters disclosed herein in relation to the transaction;
- the timely receipt of shareholder and regulatory approvals for the completion of the transaction;
- applicable post-closing adjustments in relation to the transaction;
- the scope and effect of the expected benefits from the transaction;
- 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 economic and business 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, de-ethanization, 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;
- anticipated timelines and budgets being met in respect of drilling programs and other operations; and
- general business, economic and market conditions.

Although Paramount believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on it 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:

- the transaction and the other matters disclosed herein in relation to the transaction will not be completed on the terms anticipated or at all;
- the conditions to the completion of the transaction not being satisfied;
- the expected benefits of the transaction not being realized;
- fluctuations in natural gas and liquids prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing natural gas and liquids;
- 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, de-ethanization and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resources 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, de-ethanization, fractionation and similar commitments and debt 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;

- 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 news release 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 current annual information form. The forward-looking information contained in this news release 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.

Oil and Gas Measures

This news release contains disclosures expressed in "Boe/d" and "MMboe".

Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. 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. The term "liquids" is used to represent oil, condensate and Other NGLs. The term "Other NGLs" means ethane, propane and butane.

During the six months ended June 30, 2016, the value ratio between crude oil and natural gas was approximately 28:1. 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.

For further information: Paramount Resources Ltd., J.H.T. (Jim) Riddell, President and Chief Executive Officer (403) 290-3600 / Paramount Resources Ltd., B.K. (Bernie) Lee, Chief Financial Officer (403) 290-3600, www.paramountres.com

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