



**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2020**

This Management's Discussion and Analysis ("MD&A"), dated November 4, 2020 should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three and nine months ended September 30, 2020 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2019 (the "Annual Financial Statements"). Financial information 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.

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. Certain comparative figures have been reclassified to conform to the current years' presentation. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://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 fee simple land and various associated royalty interests located in Alberta.

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 Inc. 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.

## FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)</sup>

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
<b>FINANCIAL</b>				
<b>Petroleum and natural gas sales</b>	<b>138.8</b>	199.8	<b>424.0</b>	655.0
<b>Net income (loss)</b>	<b>(23.3)</b>	141.0	<b>(334.1)</b>	(56.7)
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>(0.17)</b>	1.08	<b>(2.50)</b>	(0.44)
<b>Cash from operating activities</b>	<b>11.4</b>	48.6	<b>27.7</b>	185.2
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>0.09</b>	0.37	<b>0.21</b>	1.42
<b>Adjusted funds flow</b>	<b>29.5</b>	50.9	<b>82.1</b>	205.5
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>0.22</b>	0.39	<b>0.61</b>	1.58
<b>Total assets</b>			<b>3,041.9</b>	3,771.1
<b>Long-term debt</b>			<b>792.7</b>	720.9
<b>Net debt</b>			<b>836.5</b>	777.9
<b>Common shares outstanding (thousands) <sup>(2)</sup></b>			<b>133,784</b>	130,020
<b>OPERATIONAL</b>				
<b>Sales volumes</b>				
Natural gas (MMcf/d)	<b>224.0</b>	296.6	<b>246.1</b>	304.7
Condensate and oil (Bbl/d)	<b>19,782</b>	24,761	<b>21,495</b>	23,921
Other NGLs (Bbl/d) <sup>(3)</sup>	<b>3,952</b>	6,851	<b>4,102</b>	6,667
<b>Total (Boe/d)</b>	<b>61,064</b>	81,046	<b>66,621</b>	81,377
<i>% Liquids</i>	<b>39%</b>	39%	<b>38%</b>	38%
<b>Realized prices</b>				
Natural gas revenue (\$/Mcf)	<b>1.94</b>	1.58	<b>2.05</b>	2.23
Condensate and oil revenue (\$/Bbl)	<b>48.74</b>	65.73	<b>44.23</b>	66.64
Other NGLs revenue (\$/Bbl) <sup>(3)</sup>	<b>18.10</b>	9.78	<b>13.60</b>	16.04
<b>Petroleum and natural gas sales (\$/Boe)</b>	<b>24.70</b>	26.80	<b>23.23</b>	29.49
<b>Total capital expenditures</b>	<b>50.5</b>	127.5	<b>155.8</b>	331.9

(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) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2020: 414 and 2019: 860.

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

## IMPACT OF COVID-19 PANDEMIC AND PARAMOUNT'S RESPONSE

The erosion of global demand for crude oil and petroleum products in connection with the COVID-19 pandemic, combined with disputes among members of OPEC+ concerning production levels, led to a material deterioration in oil and condensate prices received by the Company in the latter part of the first quarter of 2020. Despite the resolution of the OPEC+ disputes in the latter part of the second quarter of 2020, adverse pricing conditions have persisted as a result of the continuing impact of the COVID-19 pandemic. Paramount's response to these conditions has included cost reduction initiatives and the shut-in of certain production. At September 30, the Company has now exceeded its previously announced 2020 cost reduction targets of \$25 million in operating costs and \$15 million in general and administrative expenses. Paramount has largely brought back production that was previously shut-in due to the deterioration of commodity prices in the second quarter.

Paramount has implemented a corporate pandemic response plan aimed at ensuring the health and safety of its staff and contractors and the people they come in contact with. Paramount is ensuring its operations are being conducted in compliance with public health requirements and guidelines, including by providing additional personal protective equipment and restricting access to its work sites to critical personnel. At the beginning of June, Paramount implemented a plan to safely transition its Calgary head office employees from remote work back to the office.

Paramount continues to monitor the effect of the COVID-19 pandemic on its supply chain and the availability of third party services. To date, the Company has not observed a material interruption in supplies or services related to the pandemic.

The course of the COVID-19 pandemic and its ultimate economic impact remain highly uncertain. Paramount will continue to proactively respond to the pandemic and the risks that it poses to the Company, including the risks described in this MD&A under "Risk Factors".

## CONSOLIDATED RESULTS

### Net Loss

Paramount recorded a net loss of \$23.3 million for the three months ended September 30, 2020 compared to net income of \$141.0 million in the same period in 2019. Significant factors contributing to the change are shown below:

Three months ended September 30	
<b>Net income – 2019</b>	<b>141.0</b>
• Loss on the sale of oil and gas assets in 2020 compared to a gain in 2019	(165.3)
• Lower recovery related to changes in asset retirement obligations in 2020	(47.9)
• Lower netback in 2020, mainly due to lower sales volumes and lower condensate and oil prices	(23.9)
• Loss on commodity contracts in 2020 compared to a gain in 2019	(19.1)
• Income tax recovery in 2020 compared to an expense in 2019	45.5
• Lower depletion and depreciation in 2020, mainly due to lower sales volumes and lower depletion rates following impairment charges of \$191.8 million recorded in the first quarter of 2020	28.7
• Change in the fair value of securities - warrants in 2019	5.5
• Lower exploration and evaluation expense in 2020	8.6
• Other	3.6
<b>Net loss – 2020</b>	<b>(23.3)</b>

Paramount recorded a net loss of \$334.1 million for the nine months ended September 30, 2020 compared to a net loss of \$56.7 million in the same period in 2019. Significant factors contributing to the change are shown below:

<b>Nine months ended September 30</b>	
<b>Net loss – 2019</b>	<b>(56.7)</b>
• Loss on the sale of oil and gas assets in 2020 compared to a gain in 2019	(173.7)
• Lower netback in 2020, mainly due to lower commodity prices and lower sales volumes	(155.7)
• Higher depletion, depreciation and impairment in 2020, due to impairment charges of \$191.8 million partially offset by lower depletion expense in 2020	(132.2)
• Gain on commodity contracts in 2020 compared to a loss in 2019	61.0
• Higher recovery related to changes in asset retirement obligations in 2020	47.5
• Lower income tax expense in 2020	40.5
• Lower general and administrative expenses in 2020	16.3
• Closure program provision recognized in 2019 in respect of the Zama property	13.4
• Lower accretion of asset retirement obligations in 2020	12.4
• Other	(6.9)
<b>Net loss – 2020</b>	<b>(334.1)</b>

### Cash From Operating Activities

Cash from operating activities for the three months ended September 30, 2020 was \$11.4 million compared to cash from operating activities of \$48.6 million for the same period in 2019. Significant factors contributing to the change are shown below:

<b>Three months ended September 30</b>	
<b>Cash from operating activities – 2019</b>	<b>48.6</b>
• Change in non-cash working capital	(24.3)
• Lower netback in 2020, mainly due to lower sales volumes and lower condensate and oil prices	(23.9)
• Higher interest and financing expenses in 2020	(6.8)
• Lower general and administrative expenses in 2020	5.0
• Closure program expenditures in 2019	4.9
• Higher receipts on commodity contract settlements in 2020	4.1
• Other	3.8
<b>Cash from operating activities – 2020</b>	<b>11.4</b>

Cash from operating activities for the nine months ended September 30, 2020 was \$27.7 million compared to \$185.2 million for the same period in 2019. Significant factors contributing to the change are shown below:

<b>Nine months ended September 30</b>	
<b>Cash from operating activities – 2019</b>	<b>185.2</b>
• Lower netback in 2020, mainly due to lower commodity prices and lower sales volumes	(155.7)
• Higher asset retirement obligation settlements in 2020	(23.5)
• Change in non-cash working capital	(13.3)
• Higher interest and financing expenses in 2020	(5.3)
• Higher receipts on commodity contract settlements in 2020	21.2
• Lower general and administrative expenses in 2020	16.3
• Closure program expenditures in 2019	9.3
• Other	(6.5)
<b>Cash from operating activities – 2020</b>	<b>27.7</b>

## Adjusted Funds Flow <sup>(1)</sup>

The following is a reconciliation of adjusted funds flow to the nearest GAAP measure:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cash from operating activities	11.4	48.6	27.7	185.2
Change in non-cash working capital	15.6	(8.7)	5.4	(7.9)
Geological and geophysical expenses	1.7	2.5	6.2	7.5
Asset retirement obligations settled	0.7	3.6	34.9	11.4
Closure program expenditures	–	4.9	–	9.3
Provision and other	0.1	–	4.9	–
Reorganization costs	–	–	3.0	–
<b>Adjusted funds flow</b>	<b>29.5</b>	<b>50.9</b>	<b>82.1</b>	<b>205.5</b>
<b>Adjusted funds flow (\$/Boe)</b>	<b>5.25</b>	<b>6.83</b>	<b>4.50</b>	<b>9.25</b>

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

Adjusted funds flow was \$29.5 million in the third quarter of 2020 compared to \$50.9 million in the third quarter of 2019. Significant factors contributing to the change are shown below:

Three months ended September 30	
Adjusted funds flow – 2019	50.9
<ul style="list-style-type: none"> <li>• Lower netback in 2020, mainly due to lower sales volumes and lower condensate and oil prices</li> <li>• Higher interest and financing expenses in 2020</li> <li>• Lower general and administrative expenses in 2020</li> <li>• Higher receipts on commodity contract settlements in 2020</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>(23.9)</li> <li>(6.8)</li> <li>5.0</li> <li>4.1</li> <li>0.2</li> </ul>
<b>Adjusted funds flow – 2020</b>	<b>29.5</b>

Adjusted funds flow for the nine months ended September 30, 2020 was \$82.1 million compared to \$205.5 million for the same period in 2019. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Adjusted funds flow – 2019	205.5
<ul style="list-style-type: none"> <li>• Lower netback in 2020, mainly due to lower commodity prices and lower sales volumes</li> <li>• Higher interest and financing expenses in 2020</li> <li>• Higher receipts on commodity contract settlements in 2020</li> <li>• Lower general and administrative expenses in 2020</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>(155.7)</li> <li>(5.3)</li> <li>21.2</li> <li>16.3</li> <li>0.1</li> </ul>
<b>Adjusted funds flow – 2020</b>	<b>82.1</b>

## OPERATING RESULTS

### Netback <sup>(1)</sup>

	Three months ended				Nine months ended			
	September 30				September 30			
	2020		2019		2020		2019	
	(\$/Boe) <sup>(2)</sup>		(\$/Boe) <sup>(2)</sup>		(\$/Boe) <sup>(2)</sup>		(\$/Boe) <sup>(2)</sup>	
Natural gas revenue	40.0	1.94	43.1	1.58	138.2	2.05	185.9	2.23
Condensate and oil revenue	88.7	48.74	149.7	65.73	260.5	44.23	435.2	66.64
Other NGLs revenue <sup>(3)</sup>	6.6	18.10	6.2	9.78	15.3	13.60	29.2	16.04
Royalty and other revenue	3.5	–	0.8	–	10.0	–	4.7	–
<b>Petroleum and natural gas sales</b>	<b>138.8</b>	<b>24.70</b>	199.8	26.80	<b>424.0</b>	<b>23.23</b>	655.0	29.49
Royalties	(4.3)	(0.77)	(12.1)	(1.62)	(19.6)	(1.07)	(46.1)	(2.08)
Operating expense	(62.4)	(11.10)	(93.8)	(12.58)	(217.3)	(11.90)	(270.9)	(12.19)
Transportation and NGLs processing <sup>(4)</sup>	(27.8)	(4.95)	(25.7)	(3.45)	(76.7)	(4.20)	(71.9)	(3.24)
<b>Netback</b>	<b>44.3</b>	<b>7.88</b>	68.2	9.15	<b>110.4</b>	<b>6.06</b>	266.1	11.98
Commodity contract settlements	9.8	1.75	5.7	0.76	29.7	1.62	8.5	0.38
<b>Netback including commodity contract settlements</b>	<b>54.1</b>	<b>9.63</b>	73.9	9.91	<b>140.1</b>	<b>7.68</b>	274.6	12.36

(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 \$138.8 million in the third quarter of 2020, a decrease of \$61.0 million from the third quarter of 2019. Petroleum and natural gas sales were \$424.0 million for the nine months ended September 30, 2020, a decrease of \$231.0 million compared to the same period in 2019.

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 Other	Total
Three months ended September 30, 2019	43.1	149.7	6.2	0.8	199.8
Effect of changes in sales volumes	(10.6)	(30.1)	(2.6)	–	(43.3)
Effect of changes in prices	7.5	(30.9)	3.0	–	(20.4)
Change in royalty and other revenue	–	–	–	2.7	2.7
<b>Three months ended September 30, 2020</b>	<b>40.0</b>	<b>88.7</b>	<b>6.6</b>	<b>3.5</b>	<b>138.8</b>

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Other	Total
Nine months ended September 30, 2019	185.9	435.2	29.2	4.7	655.0
Effect of changes in sales volumes	(35.2)	(42.7)	(11.2)	–	(89.1)
Effect of changes in prices	(12.5)	(132.0)	(2.7)	–	(147.2)
Change in royalty and other revenue	–	–	–	5.3	5.3
<b>Nine months ended September 30, 2020</b>	<b>138.2</b>	<b>260.5</b>	<b>15.3</b>	<b>10.0</b>	<b>424.0</b>

## Sales Volumes

	Three months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Grande Prairie	67.3	72.1	(7)	13,960	14,330	(3)	2,060	1,587	30	27,237	27,927	(2)
Kaybob	113.8	144.2	(21)	5,142	8,130	(37)	1,363	2,450	(44)	25,477	34,615	(26)
Central Alberta & Other	42.9	80.3	(47)	680	2,301	(70)	529	2,814	(81)	8,350	18,504	(55)
<b>Total</b>	<b>224.0</b>	<b>296.6</b>	<b>(24)</b>	<b>19,782</b>	<b>24,761</b>	<b>(20)</b>	<b>3,952</b>	<b>6,851</b>	<b>(42)</b>	<b>61,064</b>	<b>81,046</b>	<b>(25)</b>

Sales volumes in the third quarter of 2020 were 61,064 Boe/d compared to 81,046 Boe/d in the third quarter of 2019. The decrease was primarily due to the sale of certain natural gas-weighted properties in West Central Alberta (the "West Central Alberta Assets") in 2019, natural declines in the Kaybob Region and an approximate six-week unplanned outage (the "Q3 Wapiti Outage") at the third-party Wapiti natural gas processing plant (the "Wapiti Plant"). These decreases were partially offset by incremental new well production at Karr and Wapiti in the Grande Prairie Region.

Paramount is pursuing a claim under its contingent business interruption insurance policy related to the Q3 Wapiti Outage. The policy has a 30-day waiting period and recoveries are expected to exceed \$5 million.

In December 2019, Paramount closed the sale of the West Central Alberta Assets. The West Central Alberta Assets were included in the Central Alberta & Other Region and had average sales volumes of approximately 8,900 Boe/d (61 percent natural gas) and a netback of approximately \$2.7 million for the three months ended September 30, 2019.

	Nine months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Grande Prairie	73.4	74.9	(2)	14,786	12,329	20	1,807	1,625	11	28,824	26,429	9
Kaybob	128.5	149.2	(14)	6,058	8,947	(32)	1,765	2,466	(28)	29,232	36,286	(19)
Central Alberta & Other	44.2	80.6	(45)	651	2,645	(75)	530	2,576	(79)	8,565	18,662	(54)
<b>Total</b>	<b>246.1</b>	<b>304.7</b>	<b>(19)</b>	<b>21,495</b>	<b>23,921</b>	<b>(10)</b>	<b>4,102</b>	<b>6,667</b>	<b>(38)</b>	<b>66,621</b>	<b>81,377</b>	<b>(18)</b>

Sales volumes were 66,621 Boe/d in the nine months ended September 30, 2020 compared to 81,377 Boe/d in the same period in 2019. The decrease was primarily due to the sale of the West Central Alberta Assets in 2019, natural declines in the Kaybob Region and four outages at the Wapiti Plant (three unscheduled outages and one scheduled outage) which amounted to approximately ten weeks of downtime. These decreases were partially offset by incremental new well production at Wapiti and Karr in the Grande Prairie Region.

For the nine months ended September 30, 2019, the West Central Alberta Assets had average sales volumes of approximately 8,600 Boe/d (60 percent natural gas) and a netback of approximately \$16.9 million.

## Commodity Prices

	Three months ended September 30			Nine months ended September 30		
	2020	2019	% Change	2020	2019	% Change
<b>Natural Gas</b>						
Paramount realized price (\$/Mcf)	1.94	1.58	23	2.05	2.23	(8)
AECO daily spot (\$/GJ)	2.12	0.86	147	1.98	1.44	38
AECO monthly index (\$/GJ)	2.04	0.99	106	1.96	1.31	50
Dawn (\$/MMbtu)	2.44	2.83	(14)	2.36	3.29	(28)
NYMEX (US\$/MMbtu)	2.13	2.33	(9)	1.92	2.57	(25)
Malin – monthly index (US\$/MMbtu)	1.90	1.97	(4)	1.90	2.68	(29)
<b>Condensate and Oil</b>						
Paramount realized condensate and oil price (\$/Bbl)	48.74	65.73	(26)	44.23	66.64	(34)
Edmonton Light Sweet (\$/Bbl)	49.05	69.26	(29)	44.13	69.58	(37)
West Texas Intermediate (US\$/Bbl)	40.93	56.47	(28)	38.32	57.04	(33)
<b>Other NGLs <sup>(1)</sup></b>						
Paramount realized Other NGLs price (\$/Bbl)	18.10	9.78	85	13.60	16.04	(15)
Conway – propane (\$/Bbl)	26.02	19.94	30	23.00	26.56	(13)
Belvieu – butane (\$/Bbl)	30.23	29.55	2	28.61	34.65	(17)
<b>Foreign Exchange</b>						
\$CDN / 1 \$US	1.33	1.32	1	1.35	1.33	2

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

Paramount's natural gas portfolio primarily consists of sales priced 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.

The Company had the following AECO fixed-price physical contracts in place at September 30, 2020:

Quantity	Location	Average fixed price	Remaining term
90,000 GJ/d	AECO	CDN\$1.66/GJ	October 2020
10,000 GJ/d	AECO	CDN\$2.45/GJ	October 2020 - December 2020
40,000 GJ/d	AECO	CDN\$2.68/GJ	November 2020 - March 2021
50,000 GJ/d	AECO	CDN\$2.51/GJ	January 2021 - December 2021

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 generally sold under contracts that are renewed annually in April each year. The contracts in place in the second and third quarter of 2020 have more favorable differentials than the comparable periods in 2019, which partially offset the deterioration in West Texas Intermediate reference prices in those periods.

## Commodity Price Management

From time-to-time Paramount uses financial commodity contracts to manage exposure to commodity price volatility. The following table summarizes the Company's financial commodity contracts in place at September 30, 2020:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN\$80.11/Bbl	9.6	October 2020 – December 2020
Oil – NYMEX WTI Swaps (Sale)	9,674 Bbl/d	US\$43.22/Bbl	3.1	October 2020 – December 2020
Oil – NYMEX WTI Swaps (Sale)	5,000 Bbl/d	US\$44.10/Bbl	4.0	January 2021 – December 2021
Gas – Swaps (Sale) <sup>(1)</sup>	60,109 MMBtu/d	US\$2.58/MMBtu	(0.5)	October 2020 – December 2020
Gas – NYMEX Swaps (Sale)	67,397 MMBtu/d	US\$2.73/MMBtu	(6.8)	January 2021 – December 2021
			9.4	

(1) Includes NYMEX swaps and contracts to swap physical sales of Alberta natural gas production from Chicago and Ventura index pricing to fixed prices.

For further details on the Company's financial commodity contracts, refer to Note 12 of the Interim Financial Statements.

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

	Nine months ended September 30, 2020	Twelve months ended December 31, 2019
Fair value, beginning of period	6.1	64.4
Changes in fair value	33.0	(45.1)
Settlements received	(29.7)	(13.2)
<b>Fair value, end of period</b>	<b>9.4</b>	6.1

Subsequent to September 30, 2020, the Company entered into the following financial commodity contracts:

Instruments	Volume	Differential	Remaining term
Oil – Edmonton Condensate WTI Differential Swap (Sale)	1,000 Bbl/d	WTI + US\$0.50/Bbl	January 2021 – March 2021

## Royalties

	Three months ended September 30				Nine months ended September 30			
	2020	Rate	2019	Rate	2020	Rate	2019	Rate
Royalties	4.3	3.2%	12.1	6.1%	19.6	4.7%	46.1	7.1%
\$/Boe	0.77		1.62		1.07		2.08	

Royalties were \$4.3 million in the third quarter of 2020, \$7.8 million lower than the same period in 2019. Royalties for the nine months ended September 30, 2020 were \$19.6 million compared to \$46.1 million in the first nine months of 2019. Royalties decreased in the three and nine months ended September 30, 2020 primarily as a result of lower commodity prices and decreased sales volumes.

## Operating Expense

	Three months ended September 30			Nine months ended September 30		
	2020	2019	% Change	2020	2019	% Change
Operating expense	62.4	93.8	(33)	217.3	270.9	(20)
\$/Boe	11.10	12.58	(12)	11.90	12.19	(2)

Operating expenses decreased \$31.4 million to \$62.4 million in the third quarter of 2020 compared to \$93.8 million in the same period in 2019. Operating expenses were \$217.3 million in the first nine months of 2020 compared to \$270.9 million in the same period in 2019.

Operating costs in the third quarter of 2020 were lower compared to the same period in 2019 primarily as a result of lower production in the Central and Other and Kaybob Regions, cost reductions from new water disposal wells, reduced maintenance activities, decreased labour and power costs, and the impact of the Q3 Wapiti Outage. Fourth quarter operating costs are anticipated to average approximately \$11.50/Boe as a result of higher fourth quarter production and the Company's continued efforts in sustainably improving its cost structure.

Operating costs for the nine months ended September 30, 2020 were lower compared to the same period in 2019 primarily as a result of lower production in the Central and Other and Kaybob Regions, cost reductions from new water disposal wells, reduced maintenance activities, decreased labour and power costs, supplier cost reductions unique to the second quarter and equalizations related to prior periods.

The decreases in operating expenses in the third quarter of 2020 and the first nine months of 2020 were partially offset by higher operating costs in the Grande Prairie Region as a result of incremental processing fees following the start-up of the Wapiti Plant in May 2019 and the sale of the Karr 6-18 natural gas facility in August 2019 (the "Midstream Transaction").

## Transportation and NGLs Processing

	Three months ended September 30			Nine months ended September 30		
	2020	2019	% Change	2020	2019	% Change
Transportation and NGLs processing	27.8	25.7	8	76.7	71.9	7
\$/Boe	4.95	3.45	43	4.20	3.24	30

Transportation and NGLs processing was \$27.8 million and \$76.7 million for the three and nine months ended September 30, 2020, respectively, compared to \$25.7 million and \$71.9 million for the corresponding periods in 2019. Transportation and NGLs processing costs increased in the three and nine months ended September 30, 2020 mainly as a result of higher contracted transportation capacity for Wapiti and Karr, partially offset by lower production in the Kaybob and Central and Other Regions.

## Other Operating Items

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Depletion and depreciation (excluding impairment)	(54.6)	(83.3)	(189.1)	(248.7)
Impairment of petroleum and natural gas assets	–	–	(191.8)	–
Gain (loss) on sale of oil and gas assets	(8.0)	157.3	(8.7)	165.0
Exploration and evaluation expense	(1.7)	(10.3)	(25.2)	(18.0)

Depletion and depreciation expense decreased to \$54.6 million in the third quarter of 2020 compared to \$83.3 million in the same period of 2019. Depletion and depreciation expense decreased to \$189.1 million in the nine months ended September 30, 2020 compared to \$248.7 million in the same period in 2019. The decrease in depletion and depreciation expense for the three and nine months ended September 30, 2020 was mainly due to lower sales volumes and lower depletion rates following impairment charges of \$191.8 million recorded in the first quarter of 2020.

At March 31, 2020, the Company recorded impairments of \$188.3 million and \$3.5 million related to petroleum and natural gas assets in the Kaybob and Northern cash generating units ("CGUs"), respectively. The impairments were recorded because the carrying value of the CGUs exceeded their estimated recoverable amount, 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, mainly due to lower forecasted oil and natural gas prices.

Recoverable amounts were estimated on a fair value less cost of disposal basis using a discounted cash flow method (level three fair value hierarchy estimate). Cash flows were determined based on internally estimated after-tax discounted future net cash flows from the production of proved plus probable reserves assigned to the Kaybob and Northern CGUs, at discount rates of 11.5 percent and 13.5 percent, respectively. The net cash flows from the reserves estimated by Paramount's independent qualified reserves evaluator as at December 31, 2019 were internally updated by Management to reflect commodity price estimates at March 31, 2020 and for changes to certain operating and capital assumptions to reflect the prevailing economic environment. The reserves process is inherently subjective and involves considerable estimation uncertainty.

The following table sets out the forecast benchmark commodity prices and exchange rates used to determine estimated recoverable amounts at March 31, 2020 <sup>(1)</sup>:

	(Apr-Dec) 2020	2021	2022	2023	2024	2025-2032	Thereafter
Natural Gas <sup>(2)</sup>							
AECO (\$/MMBtu)	1.74	2.20	2.38	2.45	2.53	2.60-3.04	+2%/yr
Henry Hub (US\$/MMBtu)	2.10	2.58	2.79	2.86	2.93	3.00-3.45	+2%/yr
Liquids <sup>(2)</sup>							
Edmonton Condensate (\$/Bbl)	34.35	50.72	62.80	68.49	71.73	73.16-84.23	+2%/yr
WTI (US\$/Bbl)	29.17	40.45	49.17	53.28	55.66	56.87-65.33	+2%/yr
Foreign Exchange							
\$US / 1 \$CDN	0.71	0.73	0.75	0.75	0.75	0.75	0.75

(1) Average of forecasts published by: (i) McDaniel & Associates Consultants Ltd. and GLJ Petroleum Consultants Ltd. at April 1, 2020 and (ii) Sproule Associates Ltd. at March 31, 2020.

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

The gain on sale of oil and gas assets in 2019 primarily related to the Midstream Transaction, which closed in the third quarter of 2019. Gross cash proceeds were \$331.6 million, which resulted in a gain of \$153.7 million.

Exploration and evaluation expense was \$25.2 million for the nine months ended September 30, 2020, an increase of \$7.2 million compared to the same period in 2019, primarily due to higher expenses for expired mineral leases.

## CORPORATE

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
General and administrative	(7.8)	(12.8)	(23.7)	(40.0)
Share-based compensation	(5.6)	(6.8)	(6.2)	(14.3)
Interest and financing	(17.1)	(9.7)	(35.9)	(30.0)
Accretion of asset retirement obligations	(11.0)	(15.1)	(32.1)	(44.5)
Change in asset retirement obligations	25.6	73.5	121.0	73.5
Closure costs	–	–	–	(13.4)
Deferred income tax (expense) recovery	18.5	(27.0)	(74.6)	(115.1)

General and administrative and share-based compensation expenses were lower for the three and nine months ended September 30, 2020 compared to the same periods in 2019 primarily due to cost reduction initiatives, including workforce and salary reductions and the suspension or elimination of a number of benefits and incentive compensation programs. General and administrative expense in 2020 is also lower because of the impact of the temporary Canada Emergency Wage Subsidy program.

For the nine months ended September 30, 2020, the Company recorded a recovery of \$121.0 million (nine months ended September 30, 2019 - \$73.5 million) to earnings related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. In 2020, the changes mainly resulted from revisions in the weighted average credit-adjusted risk-free rate used to discount obligations. The changes in 2019 were a result of revisions to the estimated costs and timing of retirement.

In the first quarter of 2019, the Company made the decision to cease its production operations at the Zama property in northern Alberta and commenced a closure program at the property. The Company recognized a provision of \$13.4 million in the first quarter of 2019 in respect of the expected costs of the closure program.

At each reporting date, Paramount assesses the recoverability of the deferred income tax asset to determine whether it is more likely than not that the carrying value of the asset will be realized. In the first quarter of 2020, the Company determined that a portion of the carrying value of the deferred income tax asset was not probable of realization and, accordingly, \$130.0 million of the deferred income tax asset was derecognized.

## PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Drilling, completion and tie-ins	44.8	108.3	135.3	236.6
Facilities and gathering <sup>(1)</sup>	4.2	14.0	15.7	83.1
Corporate	1.5	3.3	4.2	6.0
Land and property acquisitions	–	1.9	0.6	6.2
<b>Total capital expenditures <sup>(2)</sup></b>	<b>50.5</b>	<b>127.5</b>	<b>155.8</b>	<b>331.9</b>
Grande Prairie Region <sup>(1)</sup>	46.1	106.6	132.6	241.5
Kaybob Region	2.7	14.6	14.6	71.2
Central Alberta and Other Region	0.2	1.1	3.8	7.0
Corporate	1.5	3.3	4.2	6.0
Land and property acquisitions	–	1.9	0.6	6.2
<b>Total capital expenditures <sup>(2)</sup></b>	<b>50.5</b>	<b>127.5</b>	<b>155.8</b>	<b>331.9</b>

(1) Total capital expenditures for the nine months ended September 30, 2019 includes \$45.5 million of capital spending related to the Karr 6-18 natural gas facility prior to its sale (three months ended September 30, 2019 – nil).

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

Total capital expenditures were \$50.5 million in the third quarter of 2020 compared to \$127.5 million in the third quarter of 2019. Total capital expenditures totaled \$155.8 million for the nine months ended September 30, 2020 compared to \$331.9 million in the same period in 2020. Activities in 2020 mainly related to drilling and completion programs in the Grande Prairie Region. Significant capital program activities undertaken in the nine months ended September 30, 2020 are described below:

- At Karr, the Company finished the drilling, completion and tie-in of the 5 (5.0 net) well 12-18 pad and the drilling of the 5 (5.0 net) well 5-16 pad, completed and brought on production the 5 (5.0 net) well 2-1 pad and commenced the drilling of 6 (6.0 net) wells on the 3-10 pad. Paramount brought into service two new water disposal wells that have decreased operating costs by reducing the need to truck and dispose of water at third-party facilities. In addition, gas lift and related compression at pads near the southwest terminus of the Karr gathering system were installed to mitigate the impact from new higher-pressure wells upstream.
- At Wapiti, Paramount completed the drilling of 5 (5.0 net) wells on the 5-3 West pad and completed the drilling of 2 (2.0 net) Montney wells at the 6-4 pad.
- In the Kaybob Region, the Company completed the drilling of 1 (1.0 net) oil well at Ante Creek for land retention purposes.

## GUIDANCE

The Company announced revisions to its previously provided sales volumes forecast and capital guidance in a press release issued on September 14, 2020, a copy of which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). As a result of the impact of the Q3 Wapiti Outage, the average sales volumes forecast for the second half of the year was reduced by 2,500 Boe/d to a range of between 62,500 Boe/d and 67,500 Boe/d, with forecast third quarter 2020 sales volumes of 60,000 to 62,000 Boe/d and fourth quarter 2020 sales volumes of 67,000 to 72,000 Boe/d. 2020 Capital guidance was increased to \$225 million from \$165 million, reflecting the acceleration of development projects at Karr and Wapiti to grow 2021 Montney production at those properties.

The Company has now revised its forecasted averages sales volume for the fourth quarter of 2020 to a range of between 70,000 Boe/d and 72,000 Boe/d, reflecting the Company's confidence in the onstream timing of new wells. The Company's 2020 capital guidance remains at \$225 million.

## 2021 CAPITAL PROGRAM

Based on preliminary planning and current market conditions, Paramount anticipates 2021 capital spending, excluding land acquisitions and abandonment and reclamation activities, to range between \$225 million and \$275 million. A capital program in this range would be expected to result in:

- 2021 annual average sales volumes of between 77,500 Boe/d and 82,500 Boe/d (45% liquids); and
- adjusted funds flow that exceeds capital spending by approximately \$100 million, assuming the midpoint of the capital spending and production ranges, realized pricing of \$32.00/Boe, operating costs of \$11.25/Boe and transportation and processing costs of \$4.00/Boe.

Paramount has not yet finalized its 2021 capital budget and related guidance and the foregoing preliminary anticipated expenditures and expected results are subject to change.

## DISSENT PAYMENT ENTITLEMENT

As at	September 30, 2020	December 31, 2019
Dissent Payment Entitlement	89.3	–

Paramount held 85 million common shares of Strath Resources Ltd. ("Strath") prior to its amalgamation with Cona Resources Ltd. in August 2020 to form Strathcona Resources Ltd. ("Strathcona"). Paramount objected to the amalgamation and exercised its right of dissent under section 191 of the Business Corporations Act (Alberta) (the "ABCA") with respect to its Strath shares. As a result, the Company is entitled to be paid in cash the fair value of its Strath shares, determined as of the close of business on July 24, 2020 (the "Dissent Payment Entitlement").

The amount of the Dissent Payment Entitlement and the timing of the payment thereof are uncertain. Paramount has applied to the Court of Queen's Bench of Alberta (the "Court") seeking Strathcona's payment of the Dissent Payment Entitlement. Strathcona made a statutorily required offer with respect to the Dissent Payment Entitlement in the amount of \$45 million (the "Offered Amount"). Paramount has rejected such offer and applied to the Court for an interim payment of the Offered Amount pending final determination of the amount of the Dissent Payment Entitlement. In the event the parties are unable to agree on the amount of the Dissent Payment Entitlement, the final amount will be determined by the Court. Any payment of the Dissent Payment Entitlement will be subject to the satisfaction by Strathcona of the solvency tests provided in the ABCA.

The Dissent Payment Entitlement is a financial instrument measured at amortized cost and was recorded based on valuation techniques and assumptions that incorporate unobservable inputs (level three fair value hierarchy inputs), including market-based metrics of comparable companies and transactions and other indicators of value.

## INVESTMENTS IN SECURITIES

As at	September 30, 2020	December 31, 2019
Level one fair value hierarchy securities	24.5	88.4
Level three fair value hierarchy securities	6.4	68.5
	30.9	156.9

For the three months ended September 30, 2020 and the nine months ended September 30, 2020, the Company recorded a charge of \$1.4 million and a charge of \$36.1 million, respectively, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of investments in level one fair value hierarchy securities ("Level One Securities") and investments in level three fair value hierarchy securities ("Level Three Securities"). For the three and nine months ended September 30, 2020, the Company recorded losses of \$3.3 million and \$1.7 million, respectively, related to a change in the estimated fair value of warrants. Accumulated losses of \$69.9 million were reclassified from accumulated OCI to accumulated deficit related to the Company's exercise of its Strath dissent rights.

On September 30, 2020, the Company executed a block trade to acquire 17.3 million common shares of NuVista Energy Ltd. ("NuVista Shares") at a price of \$0.61 per share for an aggregate purchase price of \$10.6 million. The block trade settled in October 2020. As at September 30, 2020, the Company owned 22.4 million NuVista Shares that were included in Investments in Securities and classified as Level One Securities. Immediately following settlement of the block trade, Paramount owned 39.8 million NuVista Shares, representing 17.6 percent of the outstanding NuVista Shares.

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

	Nine months ended September 30, 2020 <sup>(1)</sup>	Twelve months ended December 31, 2019 <sup>(1)</sup>
Investments in securities, beginning of period	156.9	231.7
Changes in fair value of Level One Securities – recorded in OCI	(64.9)	6.3
Changes in fair value of Level Three Securities <sup>(2)</sup> – recorded in OCI	28.8	(118.1)
Transfer to Dissent Payment Entitlement	(89.3)	–
Changes in fair value of warrants <sup>(3)</sup> – recorded in earnings	(1.7)	(9.2)
Acquired – cash	1.0	55.1
Acquired – non-cash	–	4.5
Dispositions	–	(13.6)
<b>Investments in securities, end of period</b>	<b>30.9</b>	<b>156.9</b>

(1) Column does not add due to rounding.

(2) Primarily related to the change in fair value of Strath common shares.

(3) Strathcona warrants (previously the Strath warrants).

## ASSET RETIREMENT OBLIGATIONS

Asset retirement obligation settlements for the nine months ended September 30, 2020 totaled \$34.9 million. Activities in 2020 were focused on the abandonment of 248 wells, 224 of which were abandoned under the area-based closure program at Hawkeye and Zama. Planned abandonment and reclamation activities for 2020 are now largely complete other than as described below.

Paramount, in collaboration with its vendors, has received approval for up to approximately \$10 million of funding under the Alberta Site Rehabilitation Program ("ASRP") to date. It is anticipated that approximately \$4 million of abandonment and reclamation work under the ASRP will occur in the fourth quarter of 2020, with the remainder to occur in 2021.

## 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	September 30, 2020	December 31, 2019
Cash and cash equivalents	(1.1)	(6.0)
Accounts receivable	(74.6)	(116.6)
Prepaid expenses and other	(14.4)	(11.0)
Accounts payable and accrued liabilities	133.9	204.8
Adjusted working capital deficit <sup>(1)</sup>	43.8	71.2
Long-term debt	792.7	632.3
<b>Net debt <sup>(2)</sup></b>	<b>836.5</b>	<b>703.5</b>
Share capital	2,207.6	2,207.5
Accumulated deficit	(546.5)	(128.5)
Reserves	44.4	4.2
<b>Total capital</b>	<b>2,542.0</b>	<b>2,786.7</b>

(1) Adjusted working capital excludes risk management assets and liabilities, current accounts receivable amounts relating to subleases (September 30, 2020 - \$2.3 million, December 31, 2019 - \$2.0 million) 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 available capacity under its senior secured revolving bank credit facility (the "Paramount Facility"), the terms of which are described further below. The relative contribution of adjusted funds flow to satisfy the Company's funding requirements for the remainder of 2020 and in future years is variable and dependent on a number of factors, including commodity prices; sales volumes; royalties; operating and transportation costs; general and administrative and interest expenses; and foreign exchange rates. 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 and/or equity financings may also provide additional sources of capital from time to time.

The Company's 2020 capital guidance is \$225 million. Total capital expenditures for the nine months ended September 30, 2020 were \$155.8 million. Paramount expects that adjusted funds flow and borrowing capacity under the Paramount Facility should provide sufficient liquidity to fund the Company's operations and remaining capital expenditures for 2020.

Based on preliminary planning and current market conditions, Paramount anticipates 2021 capital spending, excluding land acquisitions and abandonment and reclamation activities, may range between \$225 million and \$275 million. Paramount has not yet finalized its 2021 capital budget and the foregoing preliminary anticipated capital expenditures are subject to change.

The Company is committed to prudently managing its capital resources and has the flexibility to adjust its capital expenditure plans depending on commodity prices and other factors.

## Paramount Facility

The Paramount Facility is a financial covenant-based senior secured revolving bank credit facility.

Reflective of the macro economic environment and significant reduction in commodity prices, in June 2020, the Paramount Facility was amended, which amendments included:

- a period of financial covenant relief to and including June 30, 2021 (the "Covenant Relief Period"), providing for a full waiver of the Senior Secured Debt to Consolidated EBITDA covenant and a reduction of the Consolidated EBITDA to Consolidated Interest Expense covenant in certain periods; and
- a decrease in the size of the Paramount Facility to \$1.0 billion.

Availability of the Paramount Facility in excess of \$900 million is subject to the Company raising junior capital and obtaining required levels of lender approval. Availability will be increased by \$5 million for each \$10 million of junior capital raised, subject to certain limits.

During the Covenant Relief Period, Paramount is subject to the following financial covenant, tested at the end of each fiscal quarter:

Consolidated EBITDA to Consolidated Interest Expense to be:

- 2.50 to 1.00 or greater for the quarter ending September 30, 2020, calculated on a trailing twelve-month basis;
- 1.75 to 1.00 or greater for the quarter ending December 31, 2020, calculated on a trailing twelve-month basis; and
- 1.75 to 1.00 or greater for the quarters ending March 31, 2021 and September 30, 2021, calculated on a current quarter basis.

After the Covenant Relief Period, Paramount will be subject to the following financial covenants, tested at the end of each fiscal quarter and calculated on a trailing twelve-month basis:

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

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

Consolidated EBITDA is adjusted for material acquisitions and dispositions and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment, 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.

Paramount was in compliance with the financial covenant under the Paramount Facility at September 30, 2020.

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 a margin within a graduated range depending on the Company's prevailing Senior Secured Debt to Consolidated EBITDA ratio. Following the June 2020 amendments, margin levels were increased and will remain at the highest end of the graduated range until the Covenant Relief Period ends. The Covenant Relief Period may be terminated prior to its expiry at the Company's election.

The Paramount Facility is secured by a charge over substantially all of the assets of Paramount. The maturity date of the Paramount Facility is November 16, 2022, which may be extended at the option of Paramount and with the agreement of the lenders.

Paramount had letters of credit outstanding under the Paramount Facility totaling \$2.8 million at September 30, 2020 that reduce the amount available to be drawn on the Paramount Facility.

### Unsecured Letter of Credit Facility

In July 2020 the capacity under Paramount's unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank was increased to \$70 million.

Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The term of the PSG was also extended to June 30, 2021 and may be further extended at the option of Paramount and with the agreement of EDC. At September 30, 2020, \$40.8 million in letters of credit were outstanding under the LC Facility.

### Cash Flow Hedges

The Company had the following floating-to-fixed interest rate and electricity swaps in place at September 30, 2020:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	\$250 million	October 2020 - January 2023	2.3%	CDOR <sup>(1)</sup>	(9.9)
Interest Rate Swaps	\$250 million	October 2020 - January 2026	2.4%	CDOR <sup>(1)</sup>	(21.7)
Electricity Swaps	5 MWh/d <sup>(2)</sup>	January 2021 - December 2021	\$51.68/MWh	AESO Pool Price <sup>(3)</sup>	-
					(31.6)

(1) Canadian Dollar Offered Rate.

(2) "MWh" means MegaWatt hour.

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

The Company has classified these arrangements as cash flow hedges and applied hedge accounting. As at September 30, 2020, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

## Share Capital

Paramount implemented a normal course issuer bid program in January 2020. The Company has not purchased any Common Shares under the program to date.

As at October 31, 2020, Paramount had 132,412,223 Common Shares outstanding (net of 1,786,494 Common Shares held in trust under the Company's restricted share unit plan) and 6,681,895 options to acquire Common Shares outstanding, of which 2,432,370 options are exercisable.

## QUARTERLY INFORMATION

	2020			2019			2018	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Petroleum and natural gas sales</b>	<b>138.8</b>	113.2	172.1	259.9	199.8	209.2	246.1	207.4
<b>Net income (loss)</b>	<b>(23.3)</b>	(75.7)	(235.1)	(31.1)	141.0	(121.0)	(76.7)	(170.5)
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>(0.17)</b>	(0.57)	(1.76)	(0.24)	1.08	(0.93)	(0.59)	(1.31)
<b>Cash from (used in) operating activities</b>	<b>11.4</b>	(14.2)	30.5	70.5	48.6	48.1	88.5	12.4
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>0.09</b>	(0.11)	0.23	0.54	0.37	0.37	0.68	0.10
<b>Adjusted funds flow</b>	<b>29.5</b>	19.0	33.5	93.5	50.9	54.2	100.5	45.5
<i>Per share – basic &amp; diluted (\$/share)</i>	<b>0.22</b>	0.14	0.25	0.71	0.39	0.41	0.77	0.35
<b>Sales volumes</b>								
Natural gas (MMcf/d)	<b>224.0</b>	253.2	261.5	299.0	296.6	309.7	308.0	315.2
Condensate and oil (Bbl/d)	<b>19,782</b>	22,823	21,898	28,516	24,761	23,312	23,679	24,898
Other NGLs (Bbl/d)	<b>3,952</b>	3,817	4,539	7,064	6,851	6,859	6,284	7,059
Total (Boe/d)	<b>61,064</b>	68,839	70,022	85,411	81,046	81,793	81,296	84,495
<b>Realized prices</b>								
Natural gas (\$/Mcf)	<b>1.94</b>	1.94	2.25	2.73	1.58	1.76	3.37	2.73
Condensate and oil (\$/Bbl)	<b>48.74</b>	29.05	55.92	66.70	65.73	71.02	63.26	45.54
Other NGLs (\$/Bbl)	<b>18.10</b>	12.28	10.75	13.03	9.78	11.01	28.55	31.39
Total (\$/Boe)	<b>24.70</b>	18.07	27.01	33.08	26.80	28.10	33.63	26.68

## Significant Items Impacting Quarterly Results

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

- The third quarter 2020 loss includes a recovery of \$25.6 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 2020 loss includes a recovery of \$13.6 million related to deferred income tax.
- The first quarter 2020 loss includes a \$191.8 million impairment of petroleum and natural gas assets, and a derecognition of \$130.0 million of the deferred income tax asset, partially offset by a recovery of \$94.8 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.

- 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 third 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.

## OTHER INFORMATION

### 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.

### Provision

In the first quarter of 2020, a provision of \$4.7 million was recorded related to a pending partner dispute.

## CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2020, the Company adopted the amendments to IFRS 9 – *Financial Instruments*, IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures*. These amendments provide relief on hedge accounting from the potential effects of the uncertainty arising from the phase-out of interest rate benchmarks, the Interbank Offered Rate ("IBOR") reform. The Company's floating-to-fixed interest rate swaps, which are described in Note 12 of the Interim Financial Statements, are impacted by these amendments as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments.

## Government Grants

Government grants are recognized when there is reasonable assurance that the relevant conditions of the grant are met and that the grant will be received. The Company records the grant in the Interim Financial Statements with the related expenditure in the period in which the eligible costs are incurred. For the three and nine months ended September 30, 2020, the Company recognized \$3.1 million and \$9.4 million, respectively, relating to the Canada Emergency Wage Subsidy ("CEWS"). In the nine months ended September 30, 2020, general and administrative expenses were reduced by \$5.5 million and operating expenses were reduced by \$3.4 million related to the CEWS.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended September 30, 2020, there was no change in the Company's internal control over financial reporting ("ICFR") that materially affected, or is reasonably likely to materially affect, the Company's ICFR. Paramount does not believe that process changes adopted in connection with the COVID-19 pandemic have materially affected ICFR.

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.

## 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 erosion of global demand for crude oil and petroleum products in connection with the COVID-19 pandemic, combined with disputes among members of OPEC+ concerning production levels, led to a material deterioration in oil and condensate prices received by the Company in the latter part of the first quarter of 2020. Despite the resolution of the OPEC+ disputes in the latter part of the second quarter of 2020, adverse pricing conditions have persisted as a result of the continuing impact of the COVID-19 pandemic. The course of the COVID-19 pandemic and its ultimate economic impact remain highly uncertain. The ultimate impact of the pandemic on Paramount's future operations and financial performance is unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of Management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of the Interim Financial Statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future periods as additional information becomes available.

Note 3 to the Annual Financial Statements contains a description of the accounting judgments, estimates and assumptions that are considered significant. Conditions in 2020 have increased the complexity in making judgments, estimates and assumptions used to prepare the Interim Financial Statements, particularly related to: (i) estimating recoverable amounts used in impairment and impairment reversal assessments; (ii) estimating the fair value of the Company's investments in securities of corporations that are not publicly traded; (iii) estimating the weighted average credit-adjusted risk-free discount rate used to discount asset retirement obligations; and (iv) assessing the likelihood of realizing deferred income tax assets.

## RISK FACTORS

The following risk factor supplements the "Risk Factors" section in the Company's Annual Information Form for the year ended December 31, 2019, which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The COVID-19 pandemic and current adverse pricing conditions for condensate and oil increase the Company's exposure to many of the risks described under "Risk Factors" in the Company's 2019 Annual Information Form, including, but not limited to, the risks described therein under "Volatility of Oil, NGLs and Natural Gas Prices and Price Differentials", "Credit Facility and Indebtedness", "Access to Capital and Funding of Expenditures" and "Reserves Estimates". Readers are encouraged to review such Risk Factors in conjunction with the disclosure contained in this MD&A.

There is a risk that the COVID-19 pandemic and the response thereto may result in a prolonged continuation of adverse pricing conditions for commodities, storage constraints, increased volatility in financial markets and foreign currency exchange rates, significantly depressed share prices, health restrictions or guidelines adversely affecting the ability of Paramount or third parties to efficiently conduct operations and/or an overall slowdown in the national and global economies. These and other risks associated with the COVID-19 pandemic could result in events and circumstances that have a material adverse impact on Paramount's business, assets, financial condition and results of operations, including, but not limited to: (i) reductions in revenue and adjusted funds flow; (ii) reduced liquidity; (iii) the shut-in or curtailment of production; (iv) reductions in capital expenditures; (v) the recording of impairments of petroleum and natural gas assets and derecognitions of deferred tax assets; (vi) reductions in reserves volumes and values; (vii) supply chain interruptions; (viii) restricted access to capital and/or increased costs of capital; (ix) the delay of planned operations; (x) non-compliance with the financial covenants under the Paramount Facility; (xi) counterparties being unable to fulfill their contractual obligations; and (xii) disruptions to the availability of required processing and transportation capacity.

The course of the COVID-19 pandemic remains highly uncertain. The extent to which COVID-19 impacts Paramount's business, assets, financial condition and results of operations will depend on future developments which are currently unknown and are difficult to predict, including, but not limited to, the duration and severity of the pandemic, the impact of the pandemic on economic growth, commodity prices and financial and capital markets and governmental responses and restrictions. Even after the COVID-19 pandemic has subsided, Paramount may continue to experience materially adverse effects as a result of the pandemic's global economic impact.

## 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:

- expected recoveries under Paramount's contingent business interruption insurance related to the Q3 Wapiti Outage;
- planned capital expenditures in 2020;
- anticipated sales volumes in the fourth quarter of 2020;
- preliminary anticipated capital expenditures in 2021 and the resulting expected 2021 average sales volumes and excess of adjusted funds flow over such expenditures;
- planned abandonment and reclamation expenditures using funding under the Alberta Site Rehabilitation Program;
- anticipated operating costs in the fourth quarter of 2020;
- planned exploration, development and production activities;
- the expectation that adjusted funds flow and borrowing capacity under the Paramount Facility will provide sufficient liquidity to fund the Company's operations and remaining capital expenditures for 2020;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position; and
- COVID-19 pandemic response measures and the potential impacts of the pandemic.

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 and the continued impact of the COVID-19 pandemic thereon;
- the continued impact of the COVID-19 pandemic on operations;
- the ability to realize expected cost savings;
- 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 and the capacity and reliability of facilities;
- 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 receipt of benefits under government programs;

- the merits of outstanding and pending legal proceedings;
- the application of Paramount's contingent business interruption insurance policy to the Q3 Wapiti Outage; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities, and facility turnarounds and maintenance).

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:

- those risks set out in this MD&A under "Risk Factors";
- fluctuations in natural gas and liquids prices, including in relation to the impact of the COVID-19 pandemic;
- changes in capital spending plans and planned exploration and development activities;
- the potential for changes to preliminary anticipated 2021 capital expenditures prior to finalization and changes to the resulting expected 2021 average sales volumes and excess of adjusted funds flow over such expenditures;
- 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 to obtain 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, insurance claims, 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](http://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" 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 (used in) operating activities before net changes in non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements, closure program expenditures, provision and other 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 significantly 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 (used in) operating activities as determined in accordance with IFRS. Refer to the Consolidated Results section of this MD&A for the calculation thereof.

"Netback" equals petroleum and natural gas sales less royalties, operating expense, 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		Natural Gas	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids	GJ	Gigajoule
Condensate	Pentane and heavier hydrocarbons	MMbtu	Millions of British thermal units
		AECO	AECO-C reference price
		NYMEX	New York Mercantile Exchange
		WTI	West Texas Intermediate
Oil Equivalent			
Boe	Barrels of oil equivalent		
Boe/d	Barrels of oil equivalent per day		

This MD&A contains disclosures expressed as "Boe", "\$/Boe" 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 nine months ended September 30, 2020, the value ratio between crude oil and natural gas was approximately 23:1. 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.