Paramount resources ltd.

Q3

Third Quarter Report 2015

PARAMOUNT ANNOUNCES THIRD QUARTER 2015 RESULTS; AVERAGE SALES VOLUMES INCREASE 128% TO 50,000 BOE/D; CONDENSATE SALES VOLUMES INCREASE 118% TO 10,000 BBL/D

November 4, 2015 Calgary, Alberta

OIL AND GAS OPERATIONS

- Third quarter 2015 sales volumes averaged 49,990 Boe/d, 128 percent higher than the third quarter of 2014. Sales volumes in September were impacted by nine days of downtime at the Musreau Deep Cut Facility due to the start-up of the amine processing train.

- Third quarter 2015 liquids sales volumes totaled 19,697 Bbl/d, 211 percent higher than the same period in 2014, including 10,214 Bbl/d of condensate. Liquids sales represented 54 percent of total revenue and 39 percent of total sales volumes in the third quarter of 2015.

- The Kaybob COU's third quarter 2015 operating expense was $3.38/Boe. Paramount's corporate operating expense was $5.67/Boe in the third quarter of 2015, 26 percent lower than the third quarter of 2014.

- Netbacks including realized hedging increased 28 percent to $69.9 million in the third quarter of 2015 compared to $54.6 million in the same period in 2014, despite average realized prices decreasing by 42 percent.

- During the third quarter, the Company completed and brought-on three multi-well pads at Musreau consisting of nine (9.0 net) Montney wells. Seven (6.3 net) additional new wells at Musreau and Karr-Gold Creek were also brought on production.

- Paramount's Montney well completions have evolved to use a lower-cost foamed water system. This design was successfully used for two completions in the third quarter and will be used for 12 additional well completions before the end of the year.

- The Company is migrating its 2016 drilling program towards a combination of 1.0 and 1.5 mile lateral length wells. These longer wells are expected to deliver higher natural gas and liquids production at a lower cost per meter of wellbore.

- Construction of the non-operated compression facility at Birch in northeast British Columbia was completed in October, and six (3.0 net) Montney wells are expected to be brought on production in the fourth quarter.

STRATEGIC INVESTMENTS

- Fox Drilling's two new triple-sized built-for-purpose walking rigs are expected to be completed and available for service before the end of the year.

- Drilling operations are scheduled to resume at the c-37-D La Biche shale gas well in the Liard Basin in December. Upon completing drilling operations in the 2015 / 2016 winter drilling season, the Company will have secured its mineral rights in the region for another 10 years.

CORPORATE

- As of October 30, 2015, the Company had borrowings outstanding of $647 million under its bank credit facility, a reduction of $53 million compared to June 30, 2015.

- In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

- The Company continues to have liquids hedging contracts in place for 3,000 Bbl/d for the remainder of 2015 at an average WTI price of C$74.06/Bbl and 6,000 Bbl/d for calendar 2016 at an average WTI price of C$75.72/Bbl.

OUTLOOK

The Company has accelerated completion operations for two "Ultra-Rich" six-well pads at Musreau to November 2015 to secure lower pricing for services and materials. These 12 wells were previously scheduled to be completed in the first quarter of 2016. Paramount's 2015 capital spending is anticipated to be $490 million, primarily related to incremental spending in the Kaybob area due to the accelerated well completions, higher third quarter completion costs as a result of higher intensity oil-based fracks and higher facilities costs, and additional costs for the La Biche Shale gas project.

Paramount was impacted by a scheduled third-party NGLs pipeline outage that required the majority of its Kaybob area wells to be shut in on October 20th. The third-party NGLs pipeline has resumed service and the Company is in the process of restarting the Musreau Deep Cut Facility and bringing its wells back on production. Sales volumes are expected to increase as the Company resumes Kaybob area production, brings on Montney wells at Birch through the new compression facility and begins to bring on new Ultra-Rich wells at Musreau. Paramount's 2015 sales volumes are expected to average approximately 45,000 Boe/d.

FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

	Three months ended September 30			Nine months ended September 30		
	2015	2014	*% Change*	2015	2014	*% Change*
Sales volumes						
Natural gas (MMcf/d)	181.8	93.6	*94*	161.7	99.2	*63*
Condensate and oil (Bbl/d)	10,214	4,690	*118*	8,144	3,537	*130*
Other NGLs (Bbl/d) [2]	9,483	1,643	*477*	8,587	1,118	*668*
Total (Boe/d)	49,990	21,936	*128*	43,680	21,186	*106*
% Liquids	*39%*	*29%*		*38%*	*22%*	
Petroleum and natural gas sales	110.7	84.4	*31*	285.5	250.6	*14*
Average realized price ($/Boe)	24.07	41.80	*(42)*	23.94	43.33	*(45)*
Operating expense ($/Boe)	5.67	7.65	*(26)*	5.63	8.48	*(34)*
Netback including realized hedges	69.9	54.6	*28*	169.3	158.8	*7*
$/Boe	*15.23*	*27.06*		*14.20*	*27.46*	
Funds flow from operations	36.9	36.4	*1*	72.2	99.4	*(27)*
per share – diluted ($/share)	*0.35*	*0.35*		*0.68*	*0.98*	
Net income (loss)	(171.8)	(9.4)	*nm*	(302.3)	34.8	*nm*
per share – diluted ($/share)	*(1.62)*	*(0.09)*		*(2.86)*	*0.34*	
Principal Properties Capital [3]	90.5	222.7	*(59)*	366.9	589.3	*(38)*
Investments in other entities – market value [4]				131.4	667.1	*(80)*
Total assets				3,367.8	3,090.9	*9*
Net Debt				1,830.8	1,256.7	*46*
Common shares outstanding (*thousands*)				106,212	104,614	*2*

(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. 'nm' means not meaningful.
(2) Other NGLs means ethane, propane and butane.
(3) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(4) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.

Forward-Looking Statements and Information

This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2015 contained herein which also includes supplemental advisories related to additional information included in this document.

REVIEW OF OPERATIONS

FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

		Q3 2015		Q2 2015	% Change
Sales volumes					
Natural gas (MMcf/d)		181.8		154.4	18
Condensate and oil (Bbl/d)		10,214		7,595	34
Other NGLs (Bbl/d) [2]		9,483		9,282	2
Total (Boe/d)		49,990		42,604	17
Liquids proportion		*39%*		*40%*	
Sales volumes by COU (Boe/d)					
Kaybob		41,018		35,473	16
Grande Prairie		7,762		5,645	38
Other		1,210		1,486	(19)
Total		49,990		42,604	17
Netback	*$/Boe [3]*		*$/Boe [3]*		*% change in $/Boe*
Natural gas revenue	*3.01*	50.3	*2.74*	38.5	10
Condensate and oil revenue	*52.43*	49.3	*65.66*	45.4	(20)
Other NGLs revenue [2]	*11.42*	10.0	*12.18*	10.3	(6)
Royalty and sulphur revenue	—	1.1	—	0.4	—
Petroleum and natural gas sales	*24.07*	110.7	*24.40*	94.6	(1)
Royalties	*(0.60)*	(2.8)	*(0.36)*	(1.4)	67
Operating expense	*(5.67)*	(26.1)	*(5.81)*	(22.5)	(2)
Transportation and NGLs processing [4]	*(4.23)*	(19.5)	*(4.23)*	(16.4)	–
Commodity contract settlements	*1.66*	7.6	—	—	100
Netback including commodity contract settlements	*15.23*	69.9	*14.00*	54.3	9
Capital Expenditures [5]					
Wells and exploration		71.6		61.4	17
Facilities and gathering		18.9		26.7	(29)
Principal Properties Capital [6]		90.5		88.1	3
Strategic Investments		8.0		12.8	(38)
		98.5		100.9	(2)
Principal Properties Capital By COU					
Kaybob		59.3		36.6	62
Grande Prairie		15.5		26.8	(42)
Other		15.7		24.7	(36)
		90.5		88.1	3

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Other NGLs means ethane, propane and butane.
(3) Natural gas revenue shown per Mcf.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.
(5) Includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties and Strategic Investments, and excludes land and property acquisitions, capitalized interest and corporate capital expenditures.
(6) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.

PRINCIPAL PROPERTIES

Paramount's sales volumes averaged 49,990 Boe/d in the third quarter of 2015, an increase of 17 percent from the second quarter. Third quarter condensate and oil sales volumes increased 34 percent to 10,214 Bbl/d, over 20 percent of total third quarter sales volumes.

Paramount's third quarter sales volumes were reduced by approximately 5,300 Boe/d at Musreau as a result of a nine-day scheduled maintenance outage in September at the Musreau Deep Cut Facility, which included the final tie-in of the amine processing train, and as a result of the facility operating at higher than design temperatures, which reduced Other NGLs volumes. Third quarter sales volumes were also reduced by approximately 700 Boe/d due to an unscheduled third-party natural gas pipeline outage, which shut-in production at Karr-Gold Creek for 11 days in August.

Paramount was impacted by a scheduled third-party NGLs pipeline outage that required the majority of its Kaybob area wells to be shut in on October 20th. The third-party NGLs pipeline has resumed service and the Company is in the process of restarting the Musreau Deep Cut Facility and bringing its wells back on production. During the outage, Paramount completed maintenance at the Musreau Deep Cut Facility which is expected to enable the plant to operate at lower temperatures, increasing NGLs recoveries.

Paramount's netbacks including hedging settlements increased 29 percent to $69.9 million in the third quarter of 2015 compared to $54.3 million in the previous quarter primarily as a result of higher sales volumes and higher natural gas prices, partially offset by lower liquids prices and increased operating and transportation costs related to higher production. Third quarter operating expenses were $3.38 per Boe for the Kaybob area and $5.67 per Boe for the total Company.

Principal Properties Capital spending was $366.9 million for the first nine months of 2015. The majority of well capital was focused on Montney drilling and completion programs in the Musreau and Karr-Gold Creek areas. Facilities and gathering expenditures were primarily related to the completion of the condensate stabilizer expansion at Musreau, expansions to Kaybob area gathering systems and the construction of a new compression facility at Birch in northeast British Columbia.

Kaybob – Musreau, Resthaven, Smoky

In the third quarter of 2015, Musreau area Montney production increased to approximately 50 percent of total Company sales volumes. As new 100 percent working interest Montney wells have been brought on production, the Company's share of total volumes processed through the Musreau Deep Cut Facility has increased. Paramount's share of volumes processed through the facility in the third quarter of 2015 was 86 percent of the natural gas and 96 percent of the condensate. Because Montney wells produce higher volumes of condensate than Cretaceous wells, which generally have a lower working interest, Paramount's share of condensate volumes is higher than its share of natural gas volumes.

Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Despite negative market prices for propane at times in 2015 due to a supply and demand imbalance, the Company's liquids-rich natural gas project continues to be economic. Propane represented approximately seven percent of total sales volumes in the third quarter of 2015, and is expected to comprise a smaller proportion of overall volumes as condensate production increases.

The Company has accelerated completion operations for two previously drilled "Ultra-Rich" six-well Montney pads at Musreau to November 2015 from the first quarter of 2016 to secure lower pricing for services and materials. These pads have already been tied-in, and the first of the 12 wells are expected to be brought on production in December 2015. The Company will bring on the remaining wells in early 2016 as it manages peak flow rates from these wells, which impacts downstream gathering systems and processing facilities.

Paramount completed and started-up nine (9.0 net) new wells at Musreau on three multi-well pads in the third quarter. Two of these wells were fracked with foamed water and 125 tonnes of proppant per stage, while the remaining wells were fracked with oil-based fluids and 100 tonnes of proppant per stage. The 12 wells scheduled to be completed in the fourth quarter will all be fracked using foamed water and 125 tonnes of proppant per stage. This water-based completion approach is expected to achieve well performance that is comparable to oil-based fracks, while reducing completion costs.

Paramount's Musreau area wells have generally been drilled with horizontal sections of approximately 1.0 mile. The Company is migrating its 2016 drilling program towards a combination of 1.0 and 1.5 mile lateral length wells, depending on location and other factors. These longer wells are expected to deliver higher natural gas and liquids production due to the longer horizontal sections and an increased number of frack stages. The Company estimates that 1.5 mile lateral wells will recover approximately 50 percent more resources while reducing drilling and completion costs per horizontal meter of wellbore by approximately 15 percent.

The high liquids content of the Company's Musreau area Montney wells has resulted in fluid loading in the vertical section of some wellbores, impacting production rates. To optimize long-term production, the Company is installing additional production equipment and surface facilities at some of its pad sites to maintain and enhance production rates. Certain of the affected wells are flowing at reduced rates and three wells have been temporarily shut-in until equipment modifications can be completed later in the fourth quarter.

Kaybob Montney Wells

Since 2010, Paramount has drilled a total of 73 Montney wells on its Kaybob area lands. Initially, delineation wells were drilled at Musreau, Smoky and Resthaven to evaluate the resource base. As the play has evolved, the Company has focused its drilling on the northern portion of its land base at Musreau where condensate yields are the highest. The following table summarizes the initial production rates and wellhead condensate-gas ratios ("CGRs") for the Company's 73 Kaybob area Montney wells. Most of these wells have been produced intermittently and/or at restricted rates as processing and transportation capacity was restricted until the final components of Paramount's owned and contracted downstream infrastructure were completed earlier this year.

KAYBOB MONTNEY WELLS – ALL AREAS (1)					
	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Total	Wells
	(MMcf/d)	(Bbl/d)	(Bbl/MMcf)	(Boe/d)	
IP 30	4.4	617	139	1,350	43
IP 90	3.6	423	117	1,023	37
IP 180	2.6	312	118	745	27
IP 270	2.4	231	98	631	17
Less than 30 days on production					14
Wells in progress(4)					16
Total wells					73

(1) To October 20, 2015. Onstream dates of wells range from January 2012 to September 2015.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 producing days commencing from the day after load oil volumes were completely recovered for wells completed with oil-based fluids and the first producing day for wells completed with water-based fluids (the "Initial Production Period"). Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total wellhead liquid hydrocarbon volumes by total natural gas volumes during such period.
(4) Wells in progress include wells that have been drilled but have not been tied-in and / or completed.

Of the 73 total Kaybob Montney wells, 64 (62.3 net) wells are located in the northern portion of the Company's lands at Musreau. The following table summarizes the average production rates and CGRs for these 64 wells over their Initial Production Periods:

MUSREAU (1)															
	Rich Wells					Ultra-Rich Wells					Total Rich & Ultra-Rich Wells				
	Natural Gas (2)	Well-Head Liquids(2)	CGR (3)	Total	Wells	Natural Gas (2)	Well-Head Liquids(2)	CGR (3)	Total	Wells	Natural Gas (2)	Well-Head Liquids(2)	CGR (3)	Total	Wells
	(MMcf/d)	(Bbl/d)	(Bbl/MMcf)	(Boe/d)		(MMcf/d)	(Bbl/d)	(Bbl/MMcf)	(Boe/d)		(MMcf/d)	(Bbl/d)	(Bbl/MMcf)	(Boe/d)	
IP 30	5.0	606	122	1,436	32	2.3	824	364	1,200	8	4.4	650	147	1,389	40
IP 90	4.1	408	99	1,098	26	1.9	581	313	890	8	3.6	449	125	1,049	34
IP 180	3.1	278	91	790	16	1.5	458	296	715	8	2.6	338	132	765	24
IP 270	2.4	185	77	587	10	1.8	456	258	751	4	2.2	262	118	634	14
Less than 30 days on production					3					7					10
Wells in progress(4)					1					13					14
Total wells					36					28					64

(1) To October 20, 2015. Onstream dates of wells range from January 2012 to September 2015.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 days of the Initial Production Period for each well. Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total wellhead liquid hydrocarbon volumes by total natural gas volumes during such period.
(4) Wells in progress include wells that have been drilled but have not been tied-in and / or completed.

Eight of the Company's Ultra-Rich wells have Initial Production Periods exceeding 30 days, with IP 30 total production averaging 1,200 Boe/d and IP 30 CGRs averaging 364 Bbl/MMcf. Thirty-two of the Rich wells have Initial Production Periods exceeding 30 days, with IP 30 total production averaging 1,436 Boe/d and IP 30 CGRs averaging 122 Bbl/MMcf.

The Company has a total of 14 Montney wells in progress at Musreau as of October 31, 2015 awaiting completion. As noted above, 12 of the Ultra-Rich wells have been drilled and tied-in and will be completed in the fourth quarter of 2015. The remaining two wells are scheduled to be completed and brought on production in 2016.

Future Montney Development

Paramount is continuing to plan for the construction of the next natural gas processing plant and related infrastructure at Musreau. The new facility is being designed with refrigeration processing capacity of 100 MMcf/d and will include oversized condensate stabilization, amine processing and infrastructure components to allow for future expansion. The Company is currently evaluating financing alternatives, with construction to commence when arrangements are finalized.

Grande Prairie – Karr

Sales volumes in the Grande Prairie area increased 38 percent to 7,762 Boe/d in the third quarter compared to 5,645 Boe/d in the prior quarter, as three (3.0 net) new wells were brought-on production and wells that had been temporarily shut-in for wellsite equipment installation were restarted. Third quarter sales volumes were reduced by approximately 700 Boe/d due to an unplanned third party pipeline outage, which shut-in production at Karr-Gold Creek for 11 days in August.

Paramount has drilled and completed 25 (23.5 net) middle-Montney wells at Karr-Gold Creek between 2013 and 2015. The following table summarizes the average production rates and wellhead CGRs for these wells over their Initial Production Periods. Most of these wells have been produced at restricted rates and/or intermittently at times during their initial production periods to manage reservoir pressures and because of processing and transportation constraints.

KARR-GOLD CREEK MIDDLE MONTNEY WELLS (1)

	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Total	*Wells*
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*	
IP 30	2.6	291	111	724	*24*
IP 90	2.0	201	100	534	*20*
IP 180	2.1	183	88	533	*9*
IP 270	1.9	163	88	480	*4*
Less than 30 days on production					*1*
Total wells					*25*

(1) To October 20, 2015. Onstream dates of wells range from May 2013 to August 2015.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 days of the Initial Production Period for each well. Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total liquid hydrocarbon volumes by total natural gas volumes during such period.

Construction activities and equipment deliveries for the 40 MMcf/d expansion of the Karr-Gold Creek compression and dehydration facility are scheduled to commence in the first quarter of 2016. The additional capacity is expected to be available in 2016.

Other Areas

Paramount has drilled a total of five (3.0 net) Duvernay wells at Willesden Green in southern Alberta, with three of the wells currently on production. The Company has completed its earning obligations and now holds the rights to 100 (54 net) sections of Duvernay rights at Willesden Green.

Construction of the non-operated compression facility at Birch in northeast British Columbia was completed in October, and six (3.0 net) Montney wells are expected to be brought on production in the fourth quarter.

STRATEGIC INVESTMENTS

Fox Drilling's two new triple-sized built-for-purpose walking rigs are expected to be completed and available for service before the end of the year.

Drilling operations are scheduled to resume at the c-37-D La Biche shale gas well in the Liard Basin in December. Upon completing drilling operations in the 2015 / 2016 winter drilling season, the Company will have secured its mineral rights in the region for another 10 years.

CORPORATE

As of October 30, 2015, the Company had borrowings outstanding of $647 million under its bank credit facility, a reduction of $53 million compared to June 30, 2015.

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million. The Company continues to have liquids hedging contracts in place for 3,000 Bbl/d for the remainder of 2015 at an average WTI price of C$74.06/Bbl and 6,000 Bbl/d for calendar 2016 at an average WTI price of C$75.72/Bbl.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis ("MD&A"), dated November 4, 2015, 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, 2015 and Paramount’s audited Consolidated Financial Statements as at and for the year ended December 31, 2014. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company’s accounting policies have been applied consistently to all periods presented.

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 amounts 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.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of 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 ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount’s operations are divided into three business segments which have been established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount’s Principal Properties are divided into four Corporate Operating Units ("COUs"):

- the Kaybob COU, which includes properties in west central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in southern Alberta; and
- the Northern COU, which includes properties in northeast British Columbia and northern Alberta.

Strategic Investments include: (i) investments in other entities, including affiliates; (ii) investments in exploration and development stage assets, where there is no near-term expectation of commercial production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation, including oil sands and carbonate bitumen interests held by Paramount’s wholly-owned subsidiary Cavalier Energy Inc. ("Cavalier"), and prospective shale gas acreage; and (iii) drilling rigs owned by Paramount’s wholly-owned subsidiary, Fox Drilling Limited Partnership ("Fox Drilling").

The Corporate segment is comprised of income and expense items, including general and administrative expense and interest expense, which have not been specifically allocated to Principal Properties or Strategic Investments.

FINANCIAL AND OPERATING HIGHLIGHTS [1]

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
FINANCIAL				
Petroleum and natural gas sales	110.7	84.4	285.5	250.6
Funds flow from operations	36.9	36.4	72.2	99.4
per share – basic ($/share)	*0.35*	*0.35*	*0.68*	*1.00*
per share – diluted ($/share)	*0.35*	*0.35*	*0.68*	*0.98*
Net income (loss)	(171.8)	(9.4)	(302.3)	34.8
per share – basic ($/share)	*(1.62)*	*(0.09)*	*(2.86)*	*0.35*
per share – diluted ($/share)	*(1.62)*	*(0.09)*	*(2.86)*	*0.34*
Principal Properties Capital [2]	90.5	222.7	366.9	589.3
Investments in other entities – market value [3]			131.4	667.1
Total assets			3,367.8	3,090.9
Long-term debt			1,678.3	1,026.9
Net debt			1,830.8	1,256.7
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	181.8	93.6	161.7	99.2
Condensate and oil (Bbl/d)	10,214	4,690	8,144	3,537
Other NGLs (Bbl/d) [4]	9,483	1,643	8,587	1,118
Total (Boe/d)	49,990	21,936	43,680	21,186
Net wells drilled	2	17	31	51
FUNDS FLOW FROM OPERATIONS ($/Boe)				
Petroleum and natural gas sales	24.07	41.80	23.94	43.33
Royalties	(0.60)	(1.74)	(0.61)	(2.22)
Operating expense	(5.67)	(7.65)	(5.63)	(8.48)
Transportation and NGLs processing [5]	(4.23)	(5.21)	(4.14)	(4.22)
Netback	13.57	27.20	13.56	28.41
Commodity contract settlements	1.66	(0.14)	0.64	(0.95)
Netback including commodity contract settlements	15.23	27.06	14.20	27.46
General and administrative – corporate	(0.63)	(2.03)	(1.16)	(2.27)
General and administrative – strategic investments	(0.34)	(0.85)	(0.36)	(0.96)
Interest and financing	(6.26)	(7.86)	(6.68)	(8.26)
Dividends from investments	–	1.00	–	1.04
Other	0.02	0.69	0.06	0.17
Funds flow from operations	8.02	18.01	6.06	17.18

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(3) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
(4) Other NGLs means ethane, propane and butane.
(5) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

CONSOLIDATED RESULTS

Net Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Principal Properties	(27.6)	17.5	(112.5)	117.2
Strategic Investments	(90.0)	(0.6)	(110.9)	9.9
Corporate	(77.9)	(24.6)	(157.7)	(74.6)
Income tax recovery (expense)	23.7	(1.7)	78.8	(17.7)
Net income (loss)	(171.8)	(9.4)	(302.3)	34.8

Paramount recorded a net loss of $171.8 million for the three months ended September 30, 2015 compared to a net loss of $9.4 million in the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended September 30	
Net loss – 2014	(9.4)
• Higher depletion and depreciation due to higher sales volumes and an impairment write-down of petroleum and natural gas properties in 2015	(83.8)
• Write-down of investments in securities in 2015	(72.9)
• Higher unrealized foreign exchange loss, primarily related to US Senior Notes	(41.2)
• Loss from equity-accounted investments in 2015 compared to income in 2014	(16.2)
• Higher interest and financing expense due to increased debt	(13.2)
• Higher exploration and evaluation expense mainly due to higher expired lease costs	(3.1)
• Higher gains on commodity contracts	33.7
• Income tax recovery in 2015 compared to an expense in 2014	25.4
• Higher netback primarily due to higher sales volumes	7.4
• Other	1.5
Net loss – 2015	(171.8)

Paramount recorded a net loss of $302.3 million for the nine months ended September 30, 2015 compared to net income of $34.8 million in the same period in 2014. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Net income – 2014	34.8
• Higher depletion and depreciation due to higher sales volumes and an impairment write-down of petroleum and natural gas properties in 2015	(161.9)
• Loss on the sale of oil and gas properties in 2015 compared to a gain in 2014	(104.8)
• Higher write-downs of investments in securities in 2015	(75.7)
• Higher unrealized foreign exchange loss, primarily related to US Senior Notes	(40.0)
• Loss from equity-accounted investments in 2015 compared to income in 2014	(39.9)
• Higher interest and financing expense due to increased debt	(32.1)
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	(12.0)
• Lower netback primarily due to lower commodity prices	(2.6)
• Income tax recovery in 2015 compared to an expense in 2014	96.5
• Gains on commodity contracts in 2015 compared to a loss in 2014	33.8
• Lower exploration and evaluation expense mainly due to lower expired lease costs	4.8
• Other	(3.2)
Net loss – 2015	(302.3)

Funds Flow from Operations [1]

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Cash from operating activities	36.4	37.5	73.9	84.3
Change in non-cash working capital	(3.2)	(4.3)	(11.0)	5.2
Geological and geophysical expenses	1.4	2.0	3.9	6.2
Asset retirement obligations settled	2.3	1.2	5.4	3.7
Funds flow from operations	36.9	36.4	72.2	99.4
Funds flow from operations (*$/Boe*)	*8.02*	*18.01*	*6.06*	*17.18*

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

Funds flow from operations for the three months ended September 30, 2015 was $36.9 million, $0.5 million higher than the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended September 30	
Funds flow from operations – 2014	36.4
• Higher interest and financing expense due to increased debt	(13.0)
• Dividends from equity-accounted investments in 2014	(2.0)
• Receipts from commodity contract settlements in 2015 compared to payments in 2014	7.9
• Higher netback primarily due to higher sales volumes	7.4
• Other	0.2
Funds flow from operations – 2015	36.9

Funds flow from operations for the nine months ended September 30, 2015 was $72.2 million, $27.2 million lower than the same period in 2014. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Funds flow from operations – 2014	99.4
• Higher interest and financing expense due to increased debt	(31.9)
• Dividends from equity-accounted investments in 2014	(6.0)
• Lower netback primarily due to lower commodity prices	(2.6)
• Receipts from commodity contract settlements in 2015 compared to payments in 2014	13.1
• Other	0.2
Funds flow from operations – 2015	72.2

PRINCIPAL PROPERTIES

Netback and Segment Income (Loss)

	Three months ended September 30				Nine months ended September 30			
	2015		2014		2015		2014	
	($/Boe)(1)		($/Boe)(1)		($/Boe)(1)		($/Boe)(1)	
Natural gas revenue	3.01	50.3	4.43	38.2	2.92	128.9	5.17	139.9
Condensate and oil revenue	52.43	49.3	92.66	40.0	55.40	123.2	98.53	95.1
Other NGLs revenue (2)	11.42	10.0	32.87	5.0	13.04	30.6	41.20	12.6
Royalty and sulphur revenue	–	1.1	–	1.2	–	2.8	–	3.0
Petroleum and natural gas sales	24.07	110.7	41.80	84.4	23.94	285.5	43.33	250.6
Royalties	(0.60)	(2.8)	(1.74)	(3.5)	(0.61)	(7.3)	(2.22)	(12.8)
Operating expense	(5.67)	(26.1)	(7.65)	(15.5)	(5.63)	(67.1)	(8.48)	(49.1)
Transportation and NGLs processing (3)	(4.23)	(19.5)	(5.21)	(10.5)	(4.14)	(49.4)	(4.22)	(24.4)
Netback	13.57	62.3	27.20	54.9	13.56	161.7	28.41	164.3
Commodity contract settlements	1.66	7.6	(0.14)	(0.3)	0.64	7.6	(0.95)	(5.5)
Netback including commodity contract settlements	15.23	69.9	27.06	54.6	14.20	169.3	27.46	158.8
Other principal property items (see below)		(97.5)		(37.1)		(281.8)		(41.6)
Segment income (loss)		(27.6)		17.5		(112.5)		117.2

(1) Natural gas revenue shown per Mcf.
(2) Other NGLs means ethane, propane and butane.
(3) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Petroleum and natural gas sales were $110.7 million in the third quarter of 2015, an increase of $26.3 million from the third quarter of 2014. Petroleum and natural gas sales were $285.5 million in the nine months ended September 30, 2015, an increase of $34.9 million compared to the same period of 2014. The increases were due to higher sales volumes, partially offset by lower commodity prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended September 30, 2014	38.2	40.0	5.0	1.2	84.4
Effect of changes in sales volumes	35.9	47.1	23.7	–	106.7
Effect of changes in prices	(23.8)	(37.8)	(18.7)	–	(80.3)
Change in royalty and sulphur revenue	–	–	–	(0.1)	(0.1)
Three months ended September 30, 2015	50.3	49.3	10.0	1.1	110.7

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Nine months ended September 30, 2014	139.9	95.1	12.6	3.0	250.6
Effect of changes in sales volumes	88.2	124.0	84.0	–	296.2
Effect of changes in prices	(99.2)	(95.9)	(66.0)	–	(261.1)
Change in royalty and sulphur revenue	–	–	–	(0.2)	(0.2)
Nine months ended September 30, 2015	128.9	123.2	30.6	2.8	285.5

Sales Volumes

	Three months ended September 30											
	Natural Gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Kaybob	146.5	68.3	*114*	7,541	3,188	*137*	9,066	1,330	*582*	41,018	15,905	*158*
Grande Prairie	30.1	20.1	*50*	2,440	1,221	*100*	297	226	*31*	7,762	4,793	*62*
Southern	2.4	2.2	*9*	230	274	*(16)*	120	87	*38*	748	730	*2*
Northern	2.8	3.0	*(7)*	3	7	*(57)*	–	–	–	462	508	*(9)*
Total	181.8	93.6	*94*	10,214	4,690	*118*	9,483	1,643	*477*	49,990	21,936	*128*

The Company's production within the Kaybob COU was constrained by available owned and contracted natural gas processing capacity until August 2014, when the Company's wholly-owned 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") commenced operations. With this incremental capacity available, Paramount's sales volumes increased 128 percent to 49,990 Boe/d in the third quarter of 2015 compared to 21,936 Boe/d in the same period in 2014. Sales volumes within the Kaybob COU increased 158 percent in the third quarter of 2015 compared to the same period in 2014.

Natural gas sales volumes increased 94 percent to 181.8 MMcf/d in the third quarter of 2015 compared to 93.6 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney formation wells brought on production in the Kaybob and Grande Prairie COUs.

Paramount's condensate production in the Kaybob COU was constrained until May 2015 when the 15,000 Bbl/d Musreau condensate stabilizer expansion (the "Stabilizer Expansion") was completed. Condensate and oil sales volumes increased 118 percent to 10,214 Bbl/d in the third quarter of 2015 compared to 4,690 Bbl/d in the same period in 2014. The increase was primarily the result of condensate volumes produced from new condensate-rich Montney wells brought on at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Other NGLs sales volumes increased to 9,483 Bbl/d in the third quarter of 2015 compared to 1,643 Bbl/d in the same period in 2014. The increase was primarily due to new Montney wells being brought on production in the Kaybob COU, and increased volumes of Other NGLs being extracted from natural gas streams following the start-up of the Musreau Deep Cut Facility and the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") in the third quarter of 2014.

Paramount's third quarter sales volumes were reduced by approximately 5,300 Boe/d at Musreau as a result of a nine-day scheduled maintenance outage in September at the Musreau Deep Cut Facility, which included the final tie-in of the amine processing train, and as a result of the facility operating at higher than design temperatures, which reduced Other NGLs volumes. Third quarter sales volumes were also reduced by approximately 700 Boe/d due to an unscheduled third-party natural gas pipeline outage, which shut-in production at Karr-Gold Creek for 11 days in August.

	Nine months ended September 30											
	Natural Gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Kaybob	129.5	70.7	83	5,969	2,110	183	8,102	587	1,280	35,652	14,466	146
Grande Prairie	27.1	21.6	25	1,832	1,209	52	346	406	(15)	6,688	5,214	28
Southern	2.6	3.8	(32)	336	194	73	139	125	11	914	962	(5)
Northern	2.5	3.1	(19)	7	24	(71)	–	–	–	426	544	(22)
Total	161.7	99.2	63	8,144	3,537	130	8,587	1,118	668	43,680	21,186	106

Natural gas sales volumes increased 62.5 MMcf/d or 63 percent to 161.7 MMcf/d in the nine months ended September 30, 2015 compared to 99.2 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney formation wells brought on production in the Kaybob COU and Grande Prairie COUs.

Condensate and oil sales volumes increased 4,607 Bbl/d or 130 percent to 8,144 Bbl/d in the nine months ended September 30, 2015 compared to 3,537 Bbl/d in the same period in 2014. The increase was primarily related to condensate volumes produced from new liquids-rich Montney wells brought on at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Other NGLs sales volumes increased to 8,587 Bbl/d in the nine months ended September 30, 2015 compared to 1,118 Bbl/d in the same period in 2014, primarily as a result of new Montney wells brought on production in the Kaybob COU, and increased Other NGLs volumes being extracted from natural gas streams following the start-up of the Musreau Deep Cut Facility and the non-operated Smoky Deep Cut Facility in the third quarter of 2014.

Paramount's sales volumes in the first nine months of 2015 were impacted by downtime for maintenance, tie-ins and by third-party downstream transportation and processing outages and constraints. Incremental fractionation capacity became available at the end of March 2015 under the Company's long-term firm processing agreement following the completion of a downstream third-party de-ethanization facility expansion. Incremental condensate stabilization capacity became available in May 2015 and the final tie-in of the amine processing train was completed in September 2015 at the Musreau Deep Cut Facility.

The high liquids content of the Company's Musreau area Montney wells has resulted in fluid loading in the vertical section of some wellbores, impacting production rates. To optimize long-term production, the Company is installing additional production equipment and surface facilities at some of its pad sites to maintain and enhance production rates. Certain of the affected wells are flowing at reduced rates and three wells have been temporarily shut-in until equipment modifications can be completed later in the fourth quarter.

Paramount was impacted by a scheduled third-party NGLs pipeline outage that required the majority of its Kaybob area wells to be shut in on October 20th. The third-party NGLs pipeline has resumed service and the Company is in the process of restarting the Musreau Deep Cut Facility and bringing its wells back on production. Sales volumes are expected to increase as the Company resumes Kaybob area production, brings on Montney wells at Birch through the new compression facility and begins to bring on new Montney wells at Musreau. Paramount's 2015 sales volumes are expected to average approximately 45,000 Boe/d.

Commodity Prices

	Three months ended September 30			Nine months ended September 30		
	2015	2014	% Change	2015	2014	% Change
Natural Gas						
Paramount realized price ($/Mcf)	3.01	4.43	(32)	2.92	5.17	(44)
AECO daily spot ($/GJ)	2.75	3.81	(28)	2.63	4.56	(42)
AECO monthly index ($/GJ)	2.65	4.00	(34)	2.66	4.31	(38)
Malin (US$/MMbtu)	2.65	4.08	(35)	2.65	4.52	(41)
Crude Oil						
Paramount average realized condensate & oil price ($/Bbl)	52.43	92.66	(43)	55.40	98.53	(44)
Edmonton Light Sweet ($/Bbl)	55.10	97.71	(44)	59.09	100.53	(41)
West Texas Intermediate (US$/Bbl)	46.43	97.17	(52)	51.00	99.61	(49)
Foreign Exchange						
$CDN / 1 $US	1.31	1.09	20	1.26	1.09	16

Paramount's average realized natural gas price decreased 44 percent in the first nine months of 2015 compared to the same period in 2014, consistent with decreases in benchmark natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market and California market and is sold in a combination of daily and monthly contracts.

The Company's average realized condensate and oil price decreased 44 percent in the first nine months of 2015 compared to the same period in 2014, consistent with decreases in benchmark prices. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized volumes, and are adjusted for applicable transportation and quality and density differentials. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet price, which are generally lower than prices for stabilized volumes, and are adjusted for transportation and quality differentials.

Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Despite negative market prices for propane at times in 2015 due to a supply and demand imbalance, the Company's liquids-rich natural gas project continues to be economic. For the nine months ended September 30, 2015, the Company's Other NGLs sales volumes were comprised of approximately 45 percent ethane, 35 percent propane and 20 percent butane.

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility. Paramount has not designated any of its financial commodity contracts as hedges and, as a result, changes in the fair value of these contracts are recognized in earnings.

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

At September 30, 2015, Paramount had the following financial commodity contracts outstanding:

Instruments	Total notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$74.06/Bbl	12.6	October 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$77.37/Bbl	12.7	January 2016 – December 2016
			25.3	

Royalties

	Three months ended September 30				Nine months ended September 30			
	2015	Rate	2014	Rate	2015	Rate	2014	Rate
Royalties	2.8	2.5%	3.5	4.2%	7.3	2.6%	12.8	5.2%
$/Boe	*0.60*		*1.74*		*0.61*		*2.22*	

Third quarter royalties decreased $0.7 million to $2.8 million in 2015 compared to $3.5 million in the same period in 2014, primarily as a result of lower average royalty rates due to the start-up of new wells that quality for royalty incentive programs and $0.5 million in annual gas cost allowance adjustments. This decrease was partially offset by higher royalties due to increased revenues.

Royalties for the nine months ended September 30, 2015 decreased $5.5 million to $7.3 million compared to $12.8 million in the same period in 2014. Royalties are lower in 2015 primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs, $1.5 million in annual gas cost allowance adjustments relating to 2014 recorded in the current year and lower natural gas revenues, partially offset by higher royalties for liquids due to increased revenues.

Excluding the impact of the 2014 annual gas cost allowance adjustments recorded in 2015, the Company's average royalty rate was 3.1 percent for the nine months ended September 30, 2015 compared to 5.2 percent in the same period in 2014. The majority of Paramount's new wells in Alberta qualify for royalty incentive programs, which reduce the Company's overall royalty rate.

Operating Expense

	Three months ended September 30			Nine months ended September 30		
	2015	2014	% Change	2015	2014	% Change
Operating expense	26.1	15.5	68	67.1	49.1	37
$/Boe	*5.67*	*7.65*	*(26)*	*5.63*	*8.48*	*(34)*

Operating expense increased $10.6 million or 68 percent in the third quarter of 2015 to $26.1 million compared to $15.5 million in the same period in 2014. Operating expense increased $18.0 million or 37 percent in the first nine months of 2015 to $67.1 million compared to $49.1 million in the same period in 2014. These increases were primarily due to higher plant operating and maintenance costs in the Kaybob COU associated with the new deep cut facilities at Musreau and Smoky, higher processing fees in the Grande Prairie COU and higher lease operating costs in both COUs related to higher production, partially offset by increased processing income.

Paramount's per Boe operating expenses decreased 34 percent to $5.63 in the nine months ended September 30, 2015 compared to $8.48 in the same period in 2014, mainly as a result of lower-cost Kaybob area volumes becoming a greater proportion of the Company's overall production. Operating expenses within the Kaybob COU, net of processing income, were $3.48 per Boe in the first nine months of 2015.

Transportation and NGLs Processing

	Three months ended September 30			Nine months ended September 30		
	2015	2014	% Change	2015	2014	% Change
Transportation and NGLs processing	19.5	10.5	86	49.4	24.4	102
$/Boe	*4.23*	*5.21*	*(19)*	*4.14*	*4.22*	*(2)*

Transportation and NGLs processing expense includes the costs of downstream natural gas, NGLs and oil transportation and NGLs fractionation costs incurred by the Company.

Transportation and NGLs processing expense was $19.5 million in the third quarter of 2015, an increase of $9.0 million compared to the same period in 2014. Transportation and NGLs processing expense for the nine months ended September 30, 2015 increased $25.0 million to $49.4 million compared to $24.4 million in the same period of 2014. Transportation and NGLs processing expense is higher in 2015 primarily due to higher pipeline tolls as a result of increased production, higher fractionation costs associated with higher Other NGLs production and increased firm-service transportation costs related to incremental downstream transportation capacity contracted for the Musreau Deep Cut Facility. This increase was partially offset by lower trucking costs as condensate stabilization and NGLs pipeline capacity constraints abated in 2015.

Other Principal Property Items

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Commodity contracts – net of settlements	(30.4)	(4.7)	(25.3)	(4.7)
Depletion and depreciation (excluding impairments)	100.4	38.9	260.0	120.5
Impairment	22.2	–	22.2	–
Exploration and evaluation	4.1	1.8	11.8	17.5
(Gain) loss on sale of oil and gas properties	0.1	1.0	9.3	(95.7)
Other	1.1	0.1	3.8	4.0
Total	97.5	37.1	281.8	41.6

Third quarter depletion and depreciation expense (excluding impairment) increased to $100.4 million ($21.82 per Boe) in 2015 compared to $38.9 million ($19.28 per Boe) in 2014. Depletion and depreciation expense increased to $260.0 million ($21.81 per Boe) in the nine months ended September 30, 2015 compared to $120.5 million ($20.84 per Boe) in the same period in 2014. Depletion and depreciation expense increased in 2015 primarily due to higher sales volumes.

The Company recorded an impairment write-down of $22.2 million at September 30, 2015 related to petroleum and natural gas assets in the Southern COU. The impairment write-down was recorded because the carrying value of the Southern properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted oil and natural gas prices.

Exploration and evaluation expense in the third quarter of 2015 includes expired undeveloped land leases costs of $2.9 million (2014 - nil) and geological and geophysical costs of $1.1 million (2014 - $2.0 million). Exploration and evaluation expense for the nine months ended September 30, 2015 includes dry hole expense of $2.0 million (2014 - $0.2 million), geological and geophysical costs of $3.4 million (2014 - $6.2 million) and expired undeveloped land leases costs of $6.4 million (2014 - $11.7 million).

The $95.7 million in aggregate gains on sale of oil and gas properties in 2014 primarily related to the second quarter sale of a 50 percent working interest in the Birch property within the Northern COU in exchange for $91.5 million cash and the first quarter sale of coal bed methane properties in the Chain-Delia area within the Southern COU in exchange for $11.7 million in shares of Marquee Energy Ltd. ("Marquee").

STRATEGIC INVESTMENTS

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
General and administrative	(1.6)	(1.7)	(4.3)	(5.5)
Share-based compensation	(1.6)	(1.6)	(5.7)	(4.8)
Exploration and evaluation	(0.8)	(0.1)	(1.4)	(0.5)
Interest and financing	(0.6)	(0.7)	(1.7)	(2.0)
Income (loss) from equity-accounted investments	(12.4)	3.8	(20.0)	19.9
Write-down of investments in securities	(73.0)	(0.1)	(77.6)	(1.9)
Drilling rig revenue	0.6	0.1	1.0	0.1
Drilling rig expense	(0.2)	(0.1)	(0.5)	(0.1)
Other	(0.4)	(0.2)	(0.7)	4.7
Segment income (loss)	(90.0)	(0.6)	(110.9)	9.9

Strategic Investments at September 30, 2015 include:

- investments in the shares of Trilogy Energy Corp. ("Trilogy"), MEG Energy Corp. ("MEG"), Marquee, RMP Energy Inc. ("RMP Energy"), Strategic Oil & Gas Ltd. ("SOG") and other public and private corporations;
- oil sands and carbonate bitumen interests owned by Paramount's wholly-owned subsidiary, Cavalier, including oil sands reserves and resources at Hoole (situated within the western portion of the Athabasca Oil Sands region), and carbonate bitumen holdings in northeast Alberta (including at Saleski);
- prospective shale gas acreage in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories; and
- seven drilling rigs owned by Paramount's wholly-owned subsidiary, Fox Drilling.

The aggregate write-downs of investments in securities of $77.6 million in 2015 resulted from the recognition of unrealized losses due to significant decreases in the market values of certain securities in the nine months ended September 30, 2015, including a $71.3 million of write-down related to the Company's investment in MEG recorded in the third quarter of 2015.

Investments

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of strategic investments. The Company's investments in the shares of Trilogy were principally obtained in the course of its spin-out from Paramount. Investments in the shares of most other entities, including MEG, were received as consideration for properties sold to the entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value (1)	
As at	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Trilogy	61.4	79.9	65.1	151.4
MEG	30.5	72.3	30.5	72.3
Other (2)	35.8	33.1	35.8	33.2
Total	127.7	185.3	131.4	256.9

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.
(2) Includes investments in Marquee, RMP Energy, SOG and other public and private corporations.

In June 2014, Paramount acquired all 338.3 million of the issued and outstanding common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). On the acquisition, Paramount recognized a gain of $10.8 million on the MGM Energy shares previously held, which was recorded in income from equity-accounted investments.

Shale Gas

Drilling operations in the Liard Basin resumed at the Dunedin d-71-G vertical exploratory shale gas well in the fourth quarter of 2014, and the well was drilled to targeted depth in mid-February. Paramount then moved to the c-37-D well at La Biche, where drilling operations continued until spring break-up. Drilling operations are scheduled to resume at the well in December. Upon completing drilling operations in the 2015 / 2016 winter drilling season, the Company will have secured its mineral rights in the region for another 10 years.

Fox Drilling

Fox Drilling's two new triple-sized built-for-purpose walking rigs are expected to be completed and available for service before the end of the year.

CORPORATE

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest and financing	28.8	15.6	79.5	47.1
Debt extinguishment	–	–	12.0	–
General and administrative	2.9	4.1	13.9	13.1
Share-based compensation	4.6	4.5	11.8	13.7
Foreign exchange	41.5	0.3	40.4	0.4
Other	0.1	0.1	0.1	0.3
Segment loss	77.9	24.6	157.7	74.6

The Corporate segment loss increased to $77.9 million in the third quarter of 2015 compared to $24.6 million in the same period in 2014. The Corporate segment loss increased to $157.7 million for the nine months ended September 30, 2015 compared to $74.6 million in the same period in 2014. The increases primarily relate to an unrealized foreign exchange loss on the Company's US$450 million principal amount of senior unsecured notes due 2023 (the "2023 Senior Notes"), higher interest and financing expense due to increased debt and debt extinguishment expense recorded as a result of the redemption of the Company's 8¼ percent senior notes due 2017 (the "2017 Senior Notes"). General and administrative expense decreased in the third quarter of 2015 compared to the same period in 2014 primarily due to cost reduction initiatives.

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Geological and geophysical	1.1	1.8	3.4	5.5
Drilling, completion and tie-ins	70.5	160.5	265.5	414.3
Facilities and gathering	18.9	60.4	98.0	169.5
Principal Properties Capital (1)	90.5	222.7	366.9	589.3
Land and property acquisitions and capitalized interest	0.9	7.1	6.4	19.8
Principal Properties	91.4	229.8	373.3	609.1
Strategic Investments (2)	8.0	39.2	50.7	74.9
Corporate	0.3	0.3	0.9	0.9
	99.7	269.3	424.9	684.9
Principal Properties Capital by COU (1)				
Kaybob	59.3	128.4	237.9	362.1
Grande Prairie	15.5	60.8	64.4	169.9
Southern, Northern and other	15.7	33.5	64.6	57.3
	90.5	222.7	366.9	589.3

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.
(2) Strategic Investments for the three and nine months ended September 30, 2015 include $0.4 million and $1.1 million of capitalized interest, respectively (2014 - $0.2 million and $0.5 million, respectively).

Principal Properties Capital was $90.5 million in the third quarter of 2015 compared to $222.7 million in the same period in 2014. Principal Properties Capital was $366.9 million in the first nine months of 2015 compared to $589.3 million in the same period in 2014. The majority of well capital was focused on drilling and completion programs in the Musreau, Karr-Gold Creek and Willesden Green areas. Facilities and gathering expenditures were focused on the Stabilizer Expansion at Musreau, expansions to Kaybob area gathering systems and the construction of a new compression facility at Birch in the Northern COU.

Strategic investments capital expenditures for the first nine months of 2015 included $25.0 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia and $20.1 million related to the two new triple-sized rigs being constructed by Fox Drilling.

Wells drilled were as follows:

	Three months ended September 30				Nine months ended September 30			
	2015		2014		2015		2014	
	Gross (1)	*Net* (2)	*Gross* (1)	*Net* (2)	*Gross* (1)	*Net* (2)	*Gross* (1)	*Net* (2)
Natural gas	3	2	19	17	34	31	51	49
Oil	–	–	–	–	–	–	3	2
Total	3	2	19	17	34	31	54	51

(1) Gross is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

Kaybob COU Major Projects

The Stabilizer Expansion at the Musreau Deep Cut Facility was completed in May 2015 and the amine processing train was tied-in and started-up in September 2015. With these additional components of the Company's Musreau 8-13 Complex in place, the Company has been able to bring new wells on production through the incremental capacity.

Paramount completed nine previously drilled wells at Musreau in the third quarter of 2015. Two of these wells were fracked with foamed water, while the remaining wells were fracked with oil-based fluids. This water-based completion approach is expected to achieve well performance that is comparable to oil-based fracks, while reducing completion costs. All nine wells were brought on production in the third quarter.

The Company has accelerated completion operations for two previously drilled six-well Montney pads at Musreau to November 2015 from the first quarter of 2016. These pads have already been tied-in, and the first of the 12 wells are expected to be brought on production in December 2015. The Company expects to bring on the remaining wells in early 2016 as it manages peak flow rates from these wells, which impacts downstream gathering systems and processing facilities.

Paramount is continuing to plan for the construction of the next natural gas processing plant and related infrastructure at Musreau. The Company is currently evaluating financing alternatives, with construction anticipated to commence when arrangements are finalized.

2015 Capital Budget

Paramount's 2015 capital spending is anticipated to be $490 million, primarily related to incremental spending in the Kaybob area due to the accelerated well completions, higher third quarter completion costs as a result of higher intensity oil-based fracks and higher facilities costs, and additional costs for the La Biche Shale gas project.

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, the risk characteristics of the Company's underlying assets and operations, and liquidity. Paramount may adjust its capital structure by, among other things, issuing or repurchasing shares, altering debt levels, modifying capital programs, acquiring or disposing of assets or participating in joint ventures.

As at	September 30, 2015	December 31, 2014	% Change
Adjusted working capital deficit (1)	38.6	183.3	(79)
Limited-recourse demand facilities	97.7	81.5	20
Credit facility	641.8	397.7	61
Senior Notes (2)	1,052.7	820.0	28
Net debt	1,830.8	1,482.5	23
Share capital	1,646.9	1,603.4	3
Accumulated deficit	(598.6)	(296.3)	102
Reserves	96.5	46.2	109
Total Capital	2,975.6	2,835.8	5

(1) Adjusted working capital excludes accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (September 30, 2015 – $7.4 million, December 31, 2014 – $3.3 million), risk management assets and liabilities, limited-recourse demand facilities and, at December 31, 2014, the Deposit.

(2) Excludes unamortized issue premiums and discounts and financing costs.

Paramount had an adjusted working capital deficit at September 30, 2015 of $38.6 million compared to a deficit of $183.3 million at December 31, 2014. The adjusted working capital deficit at September 30, 2015 included $21.3 million of cash and cash equivalents, $59.2 million of accounts receivable, $10.7 million of prepaid amounts, the $20.3 million Deposit and $150.1 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to the proceeds from the second quarter 2015 issuance of the 2023 Senior Notes, drawings on credit facilities, funds flow from operations and proceeds from the issuance of Common Shares, partially offset by the redemption of the 2017 Senior Notes and capital spending related to the Company's 2015 capital program. Paramount expects to fund its operations, obligations and capital expenditures for the remainder of the year with funds flow from operations and available capacity under its bank credit facility.

The Company has received notification that its notice of objection to the Canada Revenue Agency's ("CRA") re-assessment in 2010 of a prior year transaction will be vacated. As a result, the $20 million deposit on account with the CRA has been reclassified to current assets.

Limited-Recourse Demand Facilities

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with an outstanding principal amount of $39.7 million as at September 30, 2015. Payments of $6.1 million were made on Fox Tranche A in the first nine months of 2015. The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new rigs. At September 30, 2015, $22.1 million was outstanding under Fox Tranche B. The Fox Drilling Facility is non-recourse to Paramount. Recourse is limited to Fox Drilling and its assets, including its drilling rigs and drilling contracts with Paramount.

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the nine months ended September 30, 2015, $5.3 million was drawn on the Cavalier Facility resulting in $35.9 million being outstanding at September 30, 2015. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets.

Bank Credit Facility

In June 2015, Paramount's bank credit facility (the "Facility") was increased from $900 million to $1.0 billion, with Tranche A of the Facility being increased to $900 million and Tranche B of the Facility remaining at $100 million. In addition, the revolving period of Tranche A was extended to May 31, 2016, and the revolving period and maturity date of Tranche B was extended to May 31, 2016. In the event the revolving period of Tranche A is not further extended, amounts drawn would be available on a non-revolving basis for an additional year, at which time they would be due and payable.

At October 30, 2015, $647 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at October 30, 2015 totaling $118.9 million that reduce the amount available to the Company.

Senior Notes

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman.

The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023. The 2023 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2023 Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In June 2015, Paramount redeemed all $370 million aggregate principal amount of 2017 Senior Notes by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

Paramount is not subject to financial maintenance covenants under the terms of its Facility or senior notes. The Facility and senior notes agreements include certain standard restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets, and pay dividends.

Share Capital

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $41.35 per share for gross proceeds of $37.2 million. The Company is committed to incur $37.2 million of qualifying expenditures by December 31, 2016.

In July 2014, Paramount issued 4.6 million Common Shares at a price of $60.00 per share and 0.9 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share for aggregate gross proceeds of $343.0 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued 0.1 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to the Company's Executive Chairman for gross proceeds of $7.4 million. The Company has incurred sufficient qualifying expenditures to satisfy commitments associated with CEE flow-through shares issued in July 2014.

At November 2, 2015, Paramount had 106,233,995 Common Shares and 7,240,900 Paramount Options outstanding, of which 3,993,300 Paramount Options are exercisable.

QUARTERLY INFORMATION

	2015			2014				2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	110.7	94.6	80.2	99.4	84.4	80.0	86.2	57.8
Funds flow from operations	36.9	19.6	15.7	41.6	36.4	29.5	33.5	18.3
Per share – basic and diluted ($/share)	*0.35*	*0.19*	*0.15*	*0.40*	*0.35*	*0.30*	*0.34*	*0.19*
Net income (loss)	(171.8)	(60.2)	(70.3)	(106.5)	(9.4)	53.1	(8.9)	0.3
Per share – basic ($/share)	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.54*	*(0.09)*	*–*
Per share – diluted ($/share)	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.53*	*(0.09)*	*–*
Sales volumes								
Natural gas (MMcf/d)	181.8	154.4	148.6	143.9	93.6	99.4	104.7	102.5
Condensate and oil (Bbl/d)	10,214	7,595	6,583	5,320	4,690	3,212	2,686	2,530
Other NGLs (Bbl/d)	9,483	9,282	6,968	5,123	1,643	810	893	674
Total (Boe/d)	49,990	42,604	38,317	34,430	21,936	20,585	21,028	20,290
Average realized price								
Natural gas ($/Mcf)	3.01	2.74	2.99	3.98	4.43	4.96	6.04	3.73
Condensate and oil ($/Bbl)	52.43	65.66	48.16	68.45	92.66	106.38	99.55	82.22
Other NGLs ($/Bbl)	11.42	12.18	16.43	26.64	32.87	43.78	54.50	48.28
Total ($/Boe)	24.07	24.40	23.26	31.37	41.80	42.72	45.56	30.99

Significant Items Impacting Quarterly Results

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

- Third quarter 2015 earnings include $100.7 million of depletion and depreciation, a $22.2 million impairment write-down of oil and gas properties, a $73.0 million write-down of investments in securities and a foreign exchange loss of $41.5 million, partially offset by $38.1 million of gains on commodity contracts.
- Second quarter 2015 earnings include $82.9 million of depletion and depreciation expense and $12.0 million of debt extinguishment expense in respect of the redemption of the 2017 Senior Notes, partially offset by an income tax recovery of $38.5 million.
- First quarter 2015 earnings include $77.4 million of depletion and depreciation expense and a $8.9 million net loss on the sale of oil and gas properties.

- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of oil and gas properties and a $23.3 million loss from equity-accounted investments, partially offset by an income tax recovery of $20.7 million.
- In the third quarter of 2014, the Musreau Deep Cut Facility was brought on-line and the Company began to ramp-up production, which increased petroleum and natural gas sales and funds flow from operations.
- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of oil and gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.
- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of oil and gas properties.
- Fourth quarter 2013 earnings include a $25.1 million dilution gain on the Company's investment in Trilogy as a result of common shares issued by Trilogy during the quarter and a $7.3 million net impairment reversal of oil and gas properties.

CHANGE IN ACCOUNTING POLICIES

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on its financial statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on its financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended September 30, 2015, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

ADVISORIES

Forward Looking Information

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

- projected production and sales volumes (including the liquids component thereof);
- forecast capital expenditures and operating costs;
- exploration, development, and associated operational plans and strategies (including planned drilling and completion programs, well tie-ins and potential facilities expansions and additions), and the anticipated timing of and sources of funding for such activities;
- the projected availability of third party processing, transportation, de-ethanization, fractionation and other capacity;
- projected timelines for the completion of new drilling rigs; and
- business strategies and objectives.

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, condensate, Other NGLs, oil and bitumen 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;
- 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, condensate, Other NGLs, oil and bitumen 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; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Paramount believes that the expectations reflected in such forward-looking information 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:

- fluctuations in natural gas, condensate, Other NGLs, oil and bitumen 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, condensate, Other NGLs, oil and bitumen;
- 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);
- industry wide 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 at an acceptable cost to fund planned exploration, development and operational activities and meet current and future obligations (including costs of anticipated new and expanded facilities and other projects and product processing, transportation, de-ethanization, fractionation and similar commitments);
- 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 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 current annual information form. 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 "Funds flow from operations", "Netback", "Net Debt", "Adjusted Working Capital", "Exploration and Capital Expenditures", "Principal Properties Capital" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs and 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. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and capital expenditures** consist of the Company's spending on drilling and infrastructure projects, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs for the three and nine months ended September 30, 2015 of $1.4 million and $4.0 million, respectively (2014 - $2.0 million and $6.2 million, respectively), which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis for the period. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on drilling and infrastructure projects separate from land acquisition activity and capitalized interest. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy, Marquee, RMP Energy, SOG and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

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

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
NGLs	Natural gas liquids (consisting of Other NGLs and condensate)
Other NGLs	Ethane, propane and butane
Condensate	Pentane and heavier hydrocarbons

Natural Gas	
Mcf	Thousands of cubic feet
MMcf/d	Millions of cubic feet per day
GJ	Gigajoule
MMbtu	Millions of British thermal units

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

Measures

All oil and 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.

During the nine months ended September 30, 2015, the value ratio between crude oil and natural gas was approximately 22:1. 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.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
($ thousands)

As at	Note	September 30 2015	December 31 2014
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents		21,292	18,320
Accounts receivable		59,186	57,040
Prepaid expenses and other		10,704	4,883
Deposit	14	20,327	–
Risk management	15	25,325	–
		136,834	80,243
Deposit	14	–	20,643
Exploration and evaluation	4	543,160	567,420
Property, plant and equipment, net	5	2,310,434	2,168,565
Equity-accounted investments	6	62,476	82,444
Investments in securities	7	65,250	102,894
Deferred income tax		224,885	152,487
Goodwill		24,733	24,733
		3,367,772	3,199,429
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Limited-recourse demand facilities	8	97,691	81,530
Accounts payable and accrued liabilities		157,513	266,847
		255,204	348,377
Long-term debt	9	1,678,271	1,210,355
Asset retirement obligations	10	289,537	287,415
		2,223,012	1,846,147
Shareholders' equity			
Share capital	11	1,646,905	1,603,436
Accumulated deficit		(598,614)	(296,326)
Reserves	12	96,469	46,172
		1,144,760	1,353,282
		3,367,772	3,199,429

See the accompanying notes to these Interim Condensed Consolidated Financial Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands, except as noted)

	Note	Three months ended September 30		Nine months ended September 30	
		2015	2014	2015	2014
Petroleum and natural gas sales		110,707	84,366	285,512	250,613
Royalties		(2,774)	(3,519)	(7,317)	(12,851)
Revenue		107,933	80,847	278,195	237,762
Gain (loss) on commodity contracts	15	38,067	4,394	32,953	(821)
		146,000	85,241	311,148	236,941
Expenses					
Operating expense		26,089	15,446	67,084	49,025
Transportation and NGLs processing		19,455	10,510	49,392	24,422
General and administrative		4,470	5,812	18,160	18,661
Share-based compensation	13	6,191	6,144	17,437	18,439
Depletion and depreciation	5	122,940	39,171	283,235	121,325
Exploration and evaluation	4	4,926	1,833	13,207	18,042
(Gain) loss on sale of oil and gas properties		140	1,025	9,195	(95,577)
Interest and financing		29,450	16,298	81,220	49,091
Accretion of asset retirement obligations	10	1,425	1,467	4,264	4,503
Foreign exchange		41,535	270	40,424	395
Debt extinguishment	9	–	–	11,994	–
		256,621	97,976	595,612	208,326
Income (loss) from equity-accounted investments	6	(12,399)	3,763	(19,968)	19,910
Write-down of investments in securities		(73,014)	(129)	(77,630)	(1,929)
Other income		544	1,386	934	5,864
Income (loss) before tax		(195,490)	(7,715)	(381,128)	52,460
Income tax expense (recovery)	14				
Current		–	–	11	82
Deferred		(23,693)	1,708	(78,851)	17,576
		(23,693)	1,708	(78,840)	17,658
Net income (loss)		(171,797)	(9,423)	(302,288)	34,802
Other comprehensive income (loss), net of tax	12				
Items that may be reclassified to net income or loss					
Unrealized gain (loss) on securities		21,805	(20,934)	38,561	16,435
Comprehensive income (loss)		(149,992)	(30,357)	(263,727)	51,237
Net income (loss) per common share ($/share)	11				
Basic		(1.62)	(0.09)	(2.86)	0.35
Diluted		(1.62)	(0.09)	(2.86)	0.34

See the accompanying notes to these Interim Condensed Consolidated Financial Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

	Note	Three months ended September 30 2015	Three months ended September 30 2014	Nine months ended September 30 2015	Nine months ended September 30 2014
Operating activities					
Net income (loss)		(171,797)	(9,423)	(302,288)	34,802
Add (deduct):					
Items not involving cash	16	207,291	41,769	358,542	52,365
Dividends from equity-accounted investments		–	2,010	–	6,030
Asset retirement obligations settled	10	(2,269)	(1,144)	(5,407)	(3,658)
Debt extinguishment	9	–	–	11,994	–
Change in non-cash working capital		3,212	4,294	11,046	(5,219)
Cash from operating activities		36,437	37,506	73,887	84,320
Financing activities					
Net draw of demand facilities	8	4,062	1,623	16,161	3,299
Net draw (repayment) of revolving long-term debt	9	(58,340)	(130,330)	244,126	142,844
Proceeds from US Senior Notes, net of issue costs	9	(119)	–	549,656	–
Redemption of 2017 Senior Notes	9	–	–	(380,175)	–
Common shares issued, net of issue costs		–	336,813	41,817	350,052
Common shares purchased under stock incentive plan		–	–	(316)	(4,617)
Cash (used in) from financing activities		(54,397)	208,106	471,269	491,578
Investing activities					
Property, plant and equipment and exploration		(98,277)	(267,347)	(420,854)	(678,761)
Proceeds on sale of oil and gas properties		(37)	1,536	5,418	99,461
Cash of MGM Energy Corp. on acquisition	3	–	–	–	3,200
Proceeds on sale of investment, net		–	–	–	10,179
Investments in securities		–	(5,000)	–	(5,000)
Change in non-cash working capital		(4,755)	8,278	(129,428)	(1,005)
Cash used in investing activities		(103,069)	(262,533)	(544,864)	(571,926)
Net increase (decrease)		(121,029)	(16,921)	292	3,972
Foreign exchange on cash and cash equivalents		1,313	339	2,680	80
Cash and cash equivalents, beginning of period		141,008	31,337	18,320	10,703
Cash and cash equivalents, end of period		21,292	14,755	21,292	14,755

Supplemental cash flow information 16

See the accompanying notes to these Interim Condensed Consolidated Financial Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Nine months ended September 30	Note	2015		2014	
		Shares *(000's)*		Shares *(000's)*	
Share Capital					
Balance, beginning of period		*104,843*	1,603,436	*96,993*	1,169,178
Issued		*1,337*	43,175	*6,475*	356,017
Issued on acquisition of MGM Energy Corp.		–	–	1,128	69,382
Change in unvested common shares for stock incentive plan	13	*32*	294	18	(212)
Balance, end of period		*106,212*	1,646,905	*104,614*	1,594,365
Accumulated Deficit					
Balance, beginning of period			(296,326)		(224,612)
Net income (loss)			(302,288)		34,802
Balance, end of period			(598,614)		(189,810)
Reserves	12				
Balance, beginning of period			46,172		87,678
Other comprehensive income			38,561		16,435
Contributed surplus			11,736		492
Balance, end of period			96,469		104,605
Total Shareholders' Equity			1,144,760		1,509,160

See the accompanying notes to these Interim Condensed Consolidated Financial Statements.

1. Basis of Presentation

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's properties are primarily located in Alberta, British Columbia and the Northwest Territories. The Company's operations are divided into three business segments, which have been established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Limited Partnership ("Fox Drilling") and Cavalier Energy Inc. ("Cavalier"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting along with certain other investees. The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated.

These unaudited Interim Condensed Consolidated Financial Statements, as at and for the three and nine months ended September 30, 2015 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on November 4, 2015.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* on a basis consistent with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2014 (the "Annual Financial Statements"). These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. Certain comparative amounts have been reclassified to conform with the current year's presentation. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

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

2. Segmented Information

Three months ended September 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	107,933	–	–	–	107,933
Gain on financial commodity contracts	38,067	–	–	–	38,067
	146,000	–	–	–	146,000
Expenses					
Operating expense	26,089	–	–	–	26,089
Transportation and NGLs processing	19,455	–	–	–	19,455
General and administrative	–	1,578	2,892	–	4,470
Share-based compensation	–	1,610	4,581	–	6,191
Depletion and depreciation	122,560	397	141	(158)	122,940
Exploration and evaluation	4,083	843	–	–	4,926
Loss on sale of oil and gas properties	140	–	–	–	140
Interest and financing	–	607	28,843	–	29,450
Accretion of asset retirement obligations	1,345	80	–	–	1,425
Foreign exchange	–	–	41,535	–	41,535
	173,672	5,115	77,992	(158)	256,621
Loss from equity-accounted investments	–	(12,399)	–	–	(12,399)
Write-down of investments in securities	–	(73,014)	–	–	(73,014)
Other	104	–	58	–	162
Drilling rig revenue	–	1,222	–	(622)	600
Drilling rig expense	–	(1,057)	–	839	(218)
	(27,568)	(90,363)	(77,934)	375	(195,490)
Inter-segment eliminations	–	375	–	(375)	–
Segment loss	(27,568)	(89,988)	(77,934)	–	(195,490)
Income tax recovery					23,693
Net loss					(171,797)

Three months ended September 30, 2014	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	80,847	–	–	–	80,847
Gain on financial commodity contracts	4,394	–	–	–	4,394
	85,241	–	–	–	85,241
Expenses					
Operating expense	15,446	–	–	–	15,446
Transportation and NGLs processing	10,510	–	–	–	10,510
General and administrative	–	1,724	4,088	–	5,812
Share-based compensation	–	1,626	4,518	–	6,144
Depletion and depreciation	38,917	2,622	131	(2,499)	39,171
Exploration and evaluation	1,760	73	–	–	1,833
Loss on sale of oil and gas properties	940	85	–	–	1,025
Interest and financing	–	679	15,619	–	16,298
Accretion of asset retirement obligations	1,459	8	–	–	1,467
Foreign exchange	–	–	270	–	270
	69,032	6,817	24,626	(2,499)	97,976
Income from equity-accounted investments	–	3,763	–	–	3,763
Write-down of investments in securities	–	(129)	–	–	(129)
Other	1,305	–	58	–	1,363
Drilling rig revenue	–	11,114	–	(11,024)	90
Drilling rig expense	–	(4,881)	–	4,814	(67)
	17,514	3,050	(24,568)	(3,711)	(7,715)
Inter-segment eliminations	–	(3,711)	–	3,711	–
Segment income (loss)	17,514	(661)	(24,568)	–	(7,715)
Income tax expense					(1,708)
Net loss					(9,423)

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

Nine months ended September 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	278,195	–	–	–	278,195
Gain on financial commodity contracts	32,953	–	–	–	32,953
	311,148	–	–	–	311,148
Expenses					
Operating expense	67,084	–	–	–	67,084
Transportation and NGLs processing	49,392	–	–	–	49,392
General and administrative	–	4,270	13,890	–	18,160
Share-based compensation	–	5,662	11,775	–	17,437
Depletion and depreciation	282,222	4,159	299	(3,445)	283,235
Exploration and evaluation	11,783	1,424	–	–	13,207
(Gain) loss on sale of oil and gas properties	9,327	(132)	–	–	9,195
Interest and financing	–	1,717	79,503	–	81,220
Debt extinguishment	–	–	11,994	–	11,994
Accretion of asset retirement obligations	4,097	167	–	–	4,264
Foreign exchange	–	–	40,424	–	40,424
	423,905	17,267	157,885	(3,445)	595,612
Loss from equity-accounted investments	–	(19,968)	–	–	(19,968)
Write-down of investments in securities	–	(77,630)	–	–	(77,630)
Other	267	–	173	–	440
Drilling rig revenue	–	15,658	–	(14,620)	1,038
Drilling rig expense	–	(8,745)	–	8,201	(544)
	(112,490)	(107,952)	(157,712)	(2,974)	(381,128)
Inter-segment eliminations	–	(2,974)	–	2,974	–
Segment loss	(112,490)	(110,926)	(157,712)	–	(381,128)
Income tax recovery					78,840
Net loss					(302,288)

Nine months ended September 30, 2014	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	237,762	–	–	–	237,762
Loss on financial commodity contracts	(821)	–	–	–	(821)
	236,941	–	–	–	236,941
Expenses					
Operating expense	49,025	–	–	–	49,025
Transportation and NGLs processing	24,422	–	–	–	24,422
General and administrative	–	5,524	13,137	–	18,661
Share-based compensation	–	4,762	13,677	–	18,439
Depletion and depreciation	120,507	8,132	470	(7,784)	121,325
Exploration and evaluation	17,526	516	–	–	18,042
Gain (loss) on sale of oil and gas properties	(95,662)	85	–	–	(95,577)
Interest and financing	–	2,004	47,087	–	49,091
Accretion of asset retirement obligations	4,476	27	–	–	4,503
Foreign exchange	–	–	395	–	395
	120,294	21,050	74,766	(7,784)	208,326
Income from equity-accounted investments	–	19,910	–	–	19,910
Write-down of investments in securities	–	(1,929)	–	–	(1,929)
Other	519	5,154	171	–	5,844
Drilling rig revenue	–	34,157	–	(34,067)	90
Drilling rig expense	–	(15,889)	–	15,819	(70)
	117,166	20,353	(74,595)	(10,464)	52,460
Inter-segment eliminations	–	(10,464)	–	10,464	–
Segment income (loss)	117,166	9,889	(74,595)	–	52,460
Income tax expense					(17,658)
Net income					34,802

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

3. Acquisition

MGM Energy Corp.

On June 11, 2014, Paramount acquired all 338.3 million issued and outstanding common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares, based on an exchange ratio of one Common Share of Paramount for every 300 common shares of MGM Energy. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). MGM Energy was a publicly-traded development-stage energy company, the principal business of which was to acquire, exploit and produce oil and natural gas in northern Canada. MGM Energy did not generate revenues and, except for limited periods of testing, MGM Energy's assets have not been placed on production. The acquisition of MGM Energy increased the Company's exploratory land holdings in the Northwest Territories. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction.

The acquisition of MGM Energy was accounted for using the acquisition method whereby all of the assets acquired and liabilities assumed were recorded at fair value. The following table summarizes the net assets acquired:

Cash	3,200
Accounts receivable	234
Prepaid expenses	76
Exploration and evaluation assets	13,909
Deferred income tax asset	48,420
Goodwill	21,609
Accounts payable and accrued liabilities	(108)
Asset retirement obligations	(6,856)
Net assets acquired	80,484

Paramount Common Shares issued (1)	69,382
Fair value of MGM Energy shares previously held (2)	11,102
Total	80,484

(1) Based on 1.1 million Paramount Common Shares issued and the acquisition date closing price of Paramount Common Shares of $61.52 per share.
(2) Based on 54.1 million MGM Energy common shares held by Paramount prior to the acquisition and the acquisition date closing price of MGM Energy common shares of $0.205 per share.

On the acquisition of MGM Energy, a gain of $10.8 million related to the MGM Energy common shares held by Paramount at the acquisition date was recognized in income from equity-accounted investments, based on the closing market price of the MGM Energy common shares of $0.205 per share. Goodwill recorded on the acquisition is the result of an increase in the trading price of Paramount's Common Shares between the date the Company offered to acquire MGM Energy and the date the transaction closed. The goodwill recognized in the transaction is not deductible for tax purposes. The net assets acquired, including goodwill, have been allocated to the Strategic Investments business segment.

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

4. Exploration and Evaluation

	Nine months ended September 30, 2015	Twelve months ended December 31, 2014
Balance, beginning of period	567,420	429,911
Additions	87,256	295,949
Transfers to property, plant and equipment	(96,762)	(143,217)
Corporate acquisition	–	13,909
Dry hole	(2,279)	(4,719)
Expired lease costs	(6,949)	(12,780)
Dispositions	(5,526)	(11,633)
Balance, end of period	543,160	567,420

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Geological and geophysical	1,424	2,000	3,979	6,172
Dry hole	93	(146)	2,279	173
Expired lease costs	3,409	(21)	6,949	11,697
	4,926	1,833	13,207	18,042

5. Property, Plant and Equipment

Nine months ended September 30, 2015	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2014	3,189,927	127,410	28,082	3,345,419
Additions	316,241	22,183	1,002	339,426
Transfers from exploration and evaluation	96,762	–	–	96,762
Dispositions	(9,533)	–	(312)	(9,845)
Change in asset retirement provision	3,386	–	–	3,386
Cost, September 30, 2015	3,596,783	149,593	28,772	3,775,148
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2014	(1,117,596)	(38,722)	(20,536)	(1,176,854)
Depletion and depreciation	(261,346)	(3,908)	(674)	(265,928)
Write-downs	(22,216)	–	–	(22,216)
Dispositions	–	–	284	284
Accumulated depletion, depreciation and write-downs, September 30, 2015	(1,401,158)	(42,630)	(20,926)	(1,464,714)
Net book value, December 31, 2014	2,072,331	88,688	7,546	2,168,565
Net book value, September 30, 2015	2,195,625	106,963	7,846	2,310,434

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

Depletion and Depreciation

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Depletion and depreciation	101,380	42,094	265,934	130,043
Write-down of property, plant and equipment	22,216	–	22,216	–
Inter-segment eliminations	(656)	(2,923)	(4,915)	(8,718)
	122,940	39,171	283,235	121,325

In the first quarter of 2015, Paramount sold certain non-core properties in the Alder Flats area of Alberta for proceeds of $5.2 million. In the first quarter of 2014, the Company sold its properties in the Chain-Delia area of Alberta in exchange for $11.7 million in common shares of Marquee Energy Ltd. ("Marquee"). In the second quarter of 2014, Paramount sold a 50 percent working interest in its Birch properties in northeast British Columbia for $91.5 million cash.

The Company recorded an impairment write-down of $22.2 million at September 30, 2015 related to petroleum and natural gas assets in the Southern CGU. These properties are included within the Principal Properties business segment. The impairment write-down was recorded because the carrying value of the Southern CGU properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted oil and natural gas prices.

Recoverable amounts were estimated on a fair value less costs to sell basis, using a discounted cash flow method which is an approach commonly used by market participants to value oil and gas properties (level 3 fair value inputs). Cash flows were projected over the expected remaining productive life of the Southern CGU's reserves, at an after-tax discount rate of 10 percent, resulting in an estimated recoverable amount of $15.7 million. The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2015 (Oct-Dec)	2016	2017	2018	2019	2020-2029	Thereafter
Natural Gas							
AECO ($/MMBtu)	2.90	3.35	3.65	3.85	4.00	4.25 – 5.60	+2%/yr
Henry Hub (US$/MMBtu)	2.85	3.15	3.40	3.60	3.80	4.05 – 5.35	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	60.80	67.40	73.40	78.10	80.90	86.00 – 114.80	+2%/yr
WTI (US$/Bbl)	50.00	55.00	61.20	65.00	69.00	73.10 – 97.00	+2%/yr
Foreign Exchange							
$CDN / 1 $US	1.32	1.32	1.28	1.28	1.25	1.25	1.25

6. Equity-Accounted Investments

As at	September 30, 2015			December 31, 2014		
	Shares *(000's)*	Carrying Value	Market Value (1)	Shares *(000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	61,420	65,091	*19,144*	79,879	151,432
Other		1,056			2,565	
		62,476			82,444	

(1) Based on the period-end trading price.

Income (loss) from equity-accounted investments is comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Equity earnings (loss)	(11,946)	3,698	(19,638)	8,905
Dilution gain	–	65	123	215
Write-down of other equity-accounted investment	(453)	–	(453)	–
Gain on MGM Energy shares on acquisition (Note 3)	–	–	–	10,790
	(12,399)	3,763	(19,968)	19,910

The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at September 30	2015	2014
Current assets	45,322	67,477
Non-current assets (1)	1,362,489	1,661,784
Current liabilities	(69,479)	(155,910)
Non-current liabilities	(876,502)	(860,370)
Equity (1)	461,830	712,981
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	70,101	108,507
Less: portion of share-based compensation recorded in equity of Trilogy	(8,681)	(6,957)
Carrying value of Paramount's investment	61,420	101,550

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at September 30, 2015 totaled $1,365,531 (2014 – $1,660,325) and equity totaled $464,872 (2014 - $711,522).

Nine months ended September 30	2015	2014
Revenue	215,004	430,592
Comprehensive income (loss) (1)	(122,308)	65,396
Paramount's share of Trilogy's comprehensive income (loss)	(18,582)	9,966

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the nine months ended September 30, 2015 was $118,412 (2014 – comprehensive income $72,318).

Trilogy had 8.5 million stock options outstanding (3.3 million exercisable) at September 30, 2015 at exercise prices ranging from $7.38 to $38.74 per share.

7. Investments in Securities

As at	September 30, 2015		December 31, 2014	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	30,488	3,700	72,335
Other [1]		34,762		30,559
		65,250		102,894

(1) Includes investments in Marquee, RMP Energy Inc., Strategic Oil & Gas Ltd. and other public and private corporations.

Investments in publicly traded securities are carried at their period-end trading price, which are level one fair value hierarchy inputs. The Company's investments in securities that are not traded on a public exchange are carried at fair value, which are estimated based on observable market transactions (level two fair value hierarchy inputs).

For the nine months ended September 30, 2015, aggregate unrealized losses of $77.6 million related to the Company's investments in MEG Energy Corp., RMP Energy Inc., Strategic Oil & Gas Ltd., Marquee and other securities that had previously been recorded in other comprehensive income were reclassified to net loss as a result of significant decreases in the market prices of the securities at the end of the period.

8. Limited-Recourse Demand Facilities

As at	September 30 2015	December 31 2014
Fox Drilling Facility	61,820	50,940
Cavalier Facility	35,871	30,590
	97,691	81,530

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal amount of $39.7 million outstanding at September 30, 2015. Scheduled principal repayments on Fox Tranche A are $2.0 million for the remainder of 2015 and $8.2 million in each of 2016 and 2017, with the remaining outstanding balance payable in 2018.

The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new drilling rigs. At September 30, 2015, $22.1 million was drawn under Fox Tranche B. Once construction of the new drilling rigs is completed in 2015, scheduled quarterly principal repayments will commence over a five year term.

The Fox Drilling Facility is non-recourse to Paramount. Recourse is limited to Fox Drilling and its assets, including its drilling rigs and drilling contracts with Paramount. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin.

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of the Company, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets.

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

9. Long-Term Debt

As at	September 30 2015	December 31 2014
Bank credit facility	641,799	397,673
8¼% Senior Notes due 2017 ("2017 Senior Notes")	–	370,000
7⅝% Senior Notes due 2019 ("2019 Senior Notes")	450,000	450,000
6⅞% US Senior Notes due 2023 ("2023 Senior Notes")	602,730	–
	1,694,529	1,217,673
Unamortized financing costs, net of premiums and discounts	(16,258)	(7,318)
	1,678,271	1,210,355

In June 2015, Paramount's bank credit facility (the "Facility") was increased from $900 million to $1.0 billion, with Tranche A of the Facility being increased to $900 million and Tranche B of the Facility remaining at $100 million. In addition, the revolving period of Tranche A was extended to May 31, 2016, and the revolving period and maturity date of Tranche B was extended to May 31, 2016. In the event the revolving period of Tranche A is not further extended, amounts drawn would be available on a non-revolving basis for an additional year, at which time they would be due and payable.

At September 30, 2015, $641.8 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at September 30, 2015 totaling $118.9 million that reduce the amount available to the Company.

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman.

The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023. The 2023 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2023 Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In June 2015, Paramount redeemed all $370 million aggregate principal amount of 2017 Senior Notes by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

At September 30, 2015, the 2019 Senior Notes had a market value of 92 percent of their principal amount (December 31, 2014 – 94 percent), and the 2023 Senior Notes had a market value of 86 percent of their principal amount. The market values of the Company's senior notes are estimated using a market approach based on prices quoted from financial institutions, which are level two fair value hierarchy inputs.

10. Asset Retirement Obligations

	Nine months ended September 30, 2015	Twelve months ended December 31, 2014
Asset retirement obligations, beginning of period	287,415	239,853
Retirement obligations incurred	1,460	23,190
Revisions to estimated retirement costs	1,926	6,126
Change in discount rates	–	40,164
Obligations settled	(5,407)	(4,576)
Dispositions	(121)	(30,134)
Assumed on corporate acquisition	–	6,856
Accretion expense	4,264	5,936
Asset retirement obligations, end of period	289,537	287,415

Asset retirement obligations at September 30, 2015 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2014 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2014 – 2.00 percent).

11. Share Capital

At September 30, 2015, 106,212,487 (December 31, 2014 – 104,843,846) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 21,508 (December 31, 2014 – 54,199) Common Shares held in trust under the stock incentive plan.

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of Canadian exploration expense ("CEE") at a price of $41.35 per share for gross proceeds of $37.2 million. A liability of $7.4 million was recognized in accounts payable and accrued liabilities on the issuance of the flow-through shares in respect of the Company's obligation to renounce qualifying expenditures. The Company incurred $1.0 million of transaction costs in respect of the transaction, net of tax benefits of $0.4 million.

In July 2014, Paramount issued 4.6 million Common Shares at a price of $60.00 per share and 0.9 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share for aggregate gross proceeds of $343.0 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued 0.1 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to the Company's Executive Chairman for gross proceeds of $7.4 million. Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with the CEE flow-through shares issued in July 2014.

Weighted Average Common Shares

Three months ended September 30	2015		2014	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net loss
Net loss – basic	*106,212*	(171,797)	*104,122*	(9,423)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	*106,212*	(171,797)	*104,122*	(9,423)

Nine months ended September 30	2015		2014	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net income
Net income (loss) – basic	*105,662*	(302,288)	*99,848*	34,802
Dilutive effect of Paramount options	–	–	*1,677*	–
Net income (loss) – diluted	*105,662*	(302,288)	*101,525*	34,802

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income. The Company had 7.4 million Paramount Options outstanding at September 30, 2015 (September 30, 2014 – 5.9 million), of which all (September 30, 2014 – 0.2 million) were anti-dilutive.

12. Reserves

Reserves at September 30, 2015 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and changes in contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, December 31, 2014	(29,688)	75,860	46,172
Other comprehensive income	38,561	–	38,561
Share-based compensation	–	20,109	20,109
Stock options exercised	–	(8,373)	(8,373)
Balance, September 30, 2015	8,873	87,596	96,469

Other Comprehensive Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Unrealized gain (loss) on securities				
Change in market value of securities	(51,237)	(21,713)	(37,644)	19,552
Reclassification of other comprehensive loss (income) to earnings	73,014	129	77,630	(2,785)
Deferred tax	28	650	(1,425)	(332)
Other comprehensive income (loss)	21,805	(20,934)	38,561	16,435

13. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Nine months ended September 30, 2015		Twelve months ended December 31, 2014	
	Number	Wtd. Avg. exercise price ($/share)	Number	Wtd. Avg. exercise price ($/share)
Balance, beginning of period	7,275,850	33.75	6,632,200	31.20
Granted	694,000	33.43	1,922,500	33.22
Exercised	(435,950)	13.69	(1,107,350)	17.22
Forfeited	(87,000)	39.76	(171,500)	35.67
Expired	(2,000)	40.09	–	–
Balance, end of period	7,444,900	34.82	7,275,850	33.75
Options exercisable, end of period	2,521,900	35.06	2,592,750	31.58

Stock Incentive Plan – Shares Held in Trust

	Nine months ended September 30, 2015		Twelve months ended December 31, 2014	
	Shares *(000's)*		Shares *(000's)*	
Balance, beginning of period	*54*	508	*72*	500
Shares purchased	*9*	316	*92*	4,617
Change in vested and unvested shares	*(41)*	(610)	*(110)*	(4,609)
Balance, end of period	*22*	214	*54*	508

14. Income Tax

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Income (loss) before tax	(195,490)	(7,715)	(381,128)	52,460
Effective Canadian statutory income tax rate	26.0%	25.0%	26.0%	25.0%
Expected income tax expense (recovery)	(50,827)	(1,929)	(99,093)	13,115
Effect on income taxes of:				
Statutory and other rate differences	(1,111)	(70)	(16,458)	58
Loss (income) from equity-accounted investments	3,224	(940)	5,192	(4,977)
Write-down of investments in securities	18,984	32	20,184	482
Flow-through share renunciations	–	2,609	956	5,226
Share-based compensation	1,589	1,485	5,117	4,104
Unrealized foreign exchange on US Senior Notes	10,680	–	10,592	–
Non-deductible items and other	(6,232)	521	(5,330)	(350)
Income tax expense (recovery)	(23,693)	1,708	(78,840)	17,658

The Company has received notification that its notice of objection to the Canada Revenue Agency's re-assessment in 2010 of a prior year transaction will be vacated. As a result, the $20 million Deposit has been reclassified to current assets.

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

15. Financial Instruments and Risk Management

Risk management financial instruments outstanding at September 30, 2015 are as follows:

Instruments	Total notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$74.06/Bbl	12,588	October 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$77.37/Bbl	12,737	January 2016 – December 2016
			25,325	

The fair values of risk management financial instruments are estimated using a market approach incorporating level two fair value hierarchy inputs, including forward market curves and price quotes for similar instruments, provided by financial institutions.

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

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

	Nine months ended September 30, 2015	Twelve months ended December 31, 2014
Fair value, beginning of period	–	(3,972)
Changes in fair value	35,401	2,852
Settlements paid (received)	(10,076)	1,120
Fair value, end of period	25,325	–

Gain (loss) on commodity contracts for the three and nine months ended September 30, 2015 include $2.5 million of realized losses in respect of marketing activities.

16. Consolidated Statement of Cash Flows – Selected Information

Items Not Involving Cash

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Commodity contracts	(30,439)	(4,671)	(25,325)	(4,656)
Share-based compensation	6,191	6,144	17,437	18,439
Depletion and depreciation	122,940	39,171	283,235	121,325
Exploration and evaluation	3,502	(167)	9,228	11,870
(Gain) loss on sale of oil and gas properties	140	1,025	9,195	(95,577)
Accretion of asset retirement obligations	1,425	1,467	4,264	4,503
Foreign exchange	41,170	284	40,152	588
(Income) loss from equity-accounted investments	12,399	(3,763)	19,968	(19,910)
Write-down of investments in securities	73,014	129	77,630	1,929
Deferred income tax	(23,693)	1,708	(78,851)	17,576
Other	642	442	1,609	(3,722)
	207,291	41,769	358,542	52,365

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

Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest paid	8,064	3,571	60,023	45,680
Current tax paid (refunded)	–	–	(10)	502

CORPORATE INFORMATION

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C. H. Riddell
Executive Chairman

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

B. K. Lee
Chief Financial Officer

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

P. R. Kinvig
V.P. Finance and Controller

P. G. Tahmazian
V.P. Midstream

E. M. Shier
General Counsel and Corporate Secretary,
Manager Land

L. A. Friesen
Assistant Corporate Secretary

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President and
Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

J. B. Roy (1) (2) (3) (4)
Independent Businessman
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(1) Member of Audit Committee
(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee

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