



A large, blue, stylized graphic of the letters 'Q3' is positioned in the upper right corner of the header image. The background of the header image is an aerial view of an industrial facility with various pipes, tanks, and buildings under a clear sky.

**Third Quarter Report 2014**

## **THIRD QUARTER OVERVIEW**

### **Oil and Gas Operations**

- Paramount's sales volumes reached approximately 40,000 Boe/d in early-October 2014, the highest level since the 2005 Trilogy Energy spin-out, including approximately 30,000 Boe/d in the Kaybob COU and 9,000 Boe/d in the Grande Prairie COU.
- The Company's October 2014 average monthly sales volumes were approximately 34,000 Boe/d, 65 percent higher than average second quarter 2014 volumes. Short-term constraints in downstream third-party liquids processing capacity are temporarily impacting the ramp-up of Kaybob area production.
- The Grande Prairie COU's 40 MMcf/d dehydration and compression facility at Karr-Gold Creek is being operated near capacity, as constraints that impacted production for most of the year were alleviated in late-September with the completion of third-party pipeline expansions.
- Third quarter sales volumes averaged 21,936 Boe/d, with sales volumes of approximately 27,000 Boe/d in September.
- Liquids sales volumes increased to 6,333 Bbl/d in the third quarter, 57 percent higher than the second quarter of 2014, primarily due to incremental liquids-rich Montney production. Approximately 30 percent of third quarter sales volumes and over 50 percent of petroleum and natural gas revenues were from liquids.
- Funds flow from operations increased 23 percent to \$36.4 million in the third quarter compared to \$29.5 million in the previous quarter.
- Kaybob's first 10-well Montney pad was fracked in the third quarter, with aggregate test rates of 108 MMcf/d of natural gas (10.8 MMcf/d per well) plus liquids for the ten wells. Surface equipment is currently being installed and the wells are scheduled to be brought-on production before the end of the first half of 2015.
- Paramount has fracked and flowed-back its first two horizontal Duvernay wells in the Willesden Green area of Alberta. The first well is scheduled to be brought-on production by the end of the year and the second well in early-2015.

## Strategic Investments

- Fox Drilling has placed orders for key equipment for its two new triple-sized walking rigs. The rigs are expected to enter service in the second half of 2015.
- Shale gas exploration activities in northeast British Columbia are expected to resume towards the end of the year. The Company plans to finish drilling the Dunedin d-71-G well and then move to La Biche in 2015 to drill a well to preserve mineral rights.

## Corporate

- Paramount is currently working with its lenders on the annual renewal and possible increase of its \$700 million bank credit facility.
- The Company raised aggregate gross proceeds of \$350 million in July 2014 through the issuance of 4.6 million Common Shares and 1.0 million Flow-Through Common Shares.

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

(\$ millions, except as noted)

	Third Quarter 2014	Second Quarter 2014	% Change	Third Quarter 2014	Third Quarter 2013	% Change
<b>FINANCIAL</b>						
Petroleum and natural gas sales	84.4	80.0	6	84.4	53.9	57
Funds flow from operations	36.4	29.5	23	36.4	13.4	172
<i>Per share – diluted (\$/share)</i>	<i>0.35</i>	<i>0.30</i>		<i>0.35</i>	<i>0.14</i>	
Net income (loss)	(9.4)	53.1	(118)	(9.4)	(37.6)	75
<i>Per share – diluted (\$/share)</i>	<i>(0.09)</i>	<i>0.53</i>		<i>(0.09)</i>	<i>(0.39)</i>	
Exploration and development expenditures	227.1	202.6	12	227.1	209.8	8
Investments in other entities – market value <sup>(2)</sup>	667.1	757.4	(12)	667.1	749.8	(11)
Total assets	3,090.9	2,870.0	8	3,090.9	2,282.4	35
Net debt	1,256.7	1,356.2	(7)	1,256.7	1,009.3	25
Common shares outstanding (thousands)	104,614	99,047	6	104,614	95,351	10
<b>OPERATING</b>						
Sales volumes						
Natural gas (MMcf/d)	93.6	99.4	(6)	93.6	100.9	(7)
Condensate and oil (Bbl/d)	4,690	3,212	46	4,690	2,231	110
Other NGLs (Bbl/d) <sup>(3)</sup>	1,643	810	103	1,643	960	71
Total (Boe/d)	21,936	20,585	7	21,936	20,022	10
Average realized price						
Natural gas (\$/Mcf)	4.43	4.96	(11)	4.43	3.10	43
Condensate and oil (\$/Bbl)	92.66	106.38	(13)	92.66	102.96	(10)
Other NGLs (\$/Bbl) <sup>(3)</sup>	32.87	43.78	(25)	32.87	36.95	(11)
Total (\$/Boe)	41.80	42.72	(2)	41.80	29.27	43
Operating expense (\$/Boe)	8.32	8.82	(6)	8.32	9.21	(10)
Netback (\$/Boe)	27.20	28.71	(5)	27.20	15.20	79
Net wells drilled	17	22		17	16	

<sup>(1)</sup> Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.

<sup>(2)</sup> Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.

<sup>(3)</sup> Other NGLs means ethane, propane and butane.

## 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, 2014 contained herein which also includes supplemental advisories related to additional information included in this document.

# REVIEW OF OPERATIONS

	Third Quarter 2014		Second Quarter 2014		% Change
<b>Sales Volumes</b>					
Natural gas (MMcf/d)	93.6		99.4		(6)
Condensate and oil (Bbl/d)	4,690		3,212		46
Other NGLs (Bbl/d)	1,643		810		103
Total (Boe/d)	21,936		20,585		7
<i>Liquids proportion</i>	29%		20%		
<b>Netback (\$ millions) <sup>(1)</sup></b>		<i>(\$/Boe) <sup>(2)</sup></i>		<i>(\$/Boe) <sup>(2)</sup></i>	<i>% Change in \$mm</i>
Natural gas revenue	38.2	4.43	44.9	4.96	(15)
Condensate and oil revenue	40.0	92.66	31.1	106.38	29
Other NGLs revenue	5.0	32.87	3.2	43.78	56
Royalty and sulphur revenue	1.2	—	0.8	—	50
Petroleum and natural gas sales	84.4	41.80	80.0	42.72	6
Royalties	(3.5)	(1.74)	(3.7)	(1.98)	(5)
Operating expense	(16.8)	(8.32)	(16.5)	(8.82)	2
Transportation	(9.2)	(4.54)	(6.0)	(3.21)	53
<b>Netback</b>	<b>54.9</b>	<b>27.20</b>	<b>53.8</b>	<b>28.71</b>	<b>2</b>

<sup>(1)</sup> Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.

<sup>(2)</sup> Natural gas revenue shown per Mcf.

Paramount delivered first sales gas from its 200 MMcf/d Musreau Deep Cut Facility in mid-August 2014 and has commenced the production ramp-up from its inventory of behind pipe wells. Third quarter sales volumes averaged 21,936 Boe/d, with sales volumes in July and August averaging approximately 19,500 Boe/d and increasing to approximately 27,000 Boe/d in September.

In October, the Company continued to ramp-up Kaybob area production and was also able to flow incremental production at Karr-Gold Creek in the Grande Prairie COU, despite downstream third-party constraints. Estimated daily sales volumes reached approximately 40,000 Boe/d earlier in October, before an unplanned two-week outage at a third-party NGLs processing facility in Fort Saskatchewan resulted in further restrictions. Estimated October sales volumes averaged 34,000 Boe/d.

Condensate and oil sales volumes increased by 46 percent to 4,690 Bbl/d in the third quarter, as incremental production from liquids-rich Montney wells was brought-on through the new Musreau Deep Cut Facility. The start-up of this facility also resulted in higher volumes of ethane, propane and butane ("Other NGLs") being recovered from natural gas streams, increasing third quarter Other NGLs sales volumes by 103 percent over the prior period to 1,643 Bbl/d.

Approximately 30 percent of sales volumes and over 50 percent of petroleum and natural gas revenues in the third quarter were from condensate, oil and Other NGLs ("Liquids"). As Paramount continues to increase production from its Montney wells and throughput at the new Musreau facility, Liquids volumes are expected to increase to approximately 35 percent of total sales volumes by the end of the year and approximately 50 percent of total sales volumes by the end of 2015.

Petroleum and natural gas sales were \$84.4 million in the third quarter, \$4.4 million higher than the second quarter, mainly because of a 46 percent increase in condensate and oil volumes, partially offset

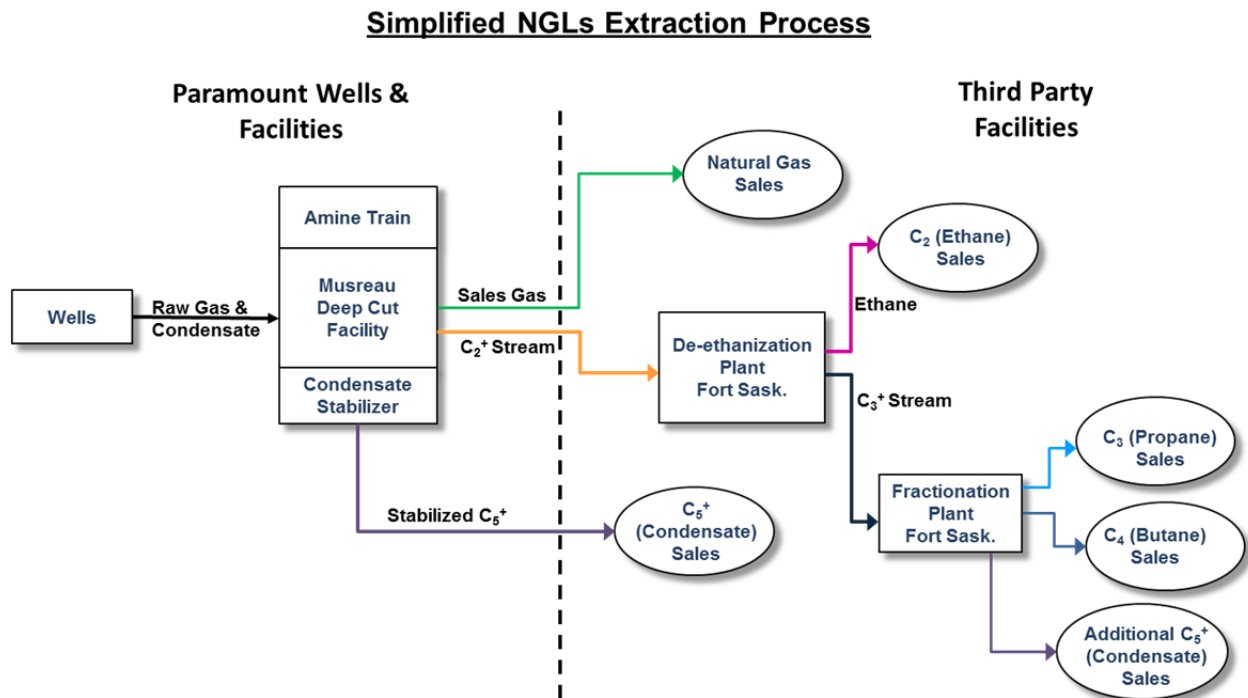
by lower natural gas and Liquids prices. The Company's third quarter netback increased \$1.1 million from the second quarter, as the increase in revenues was offset by higher transportation expenses due to trucking costs for condensate and oil volumes and firm-service transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility.

Paramount's fourth quarter netback is expected to increase with a full three months of operations of the Musreau Deep Cut Facility and increased sales volumes in the Grande Prairie COU, where third-party constraints that impacted production at Karr-Gold Creek for most of the year were alleviated in late-September. As production continues to ramp-up, per-unit operating and transportation costs will decrease as fixed costs will be spread over higher sales volumes.

The ramp-up of Kaybob area production is being impacted by short-term constraints in downstream third-party de-ethanization and fractionation capacity (the "Downstream NGLs Constraints") for Other NGLs. The Company is maximizing production through its available de-ethanization and fractionation capacity and continues working to source additional interruptible capacity where available.

Paramount's incremental long-term firm processing capacity for Other NGLs is scheduled to become available in two phases in 2015, following the completion of third-party expansions. The third-party operator has announced that the first phase, a de-ethanization plant expansion, will be operational by the first quarter of 2015 and the second phase, a storage cavern expansion, will be in-service by mid-2015.

The following diagram shows the Kaybob NGLs extraction process:



<b>Kaybob</b>					
	Third Quarter 2014		Second Quarter 2014		% Change
<b>Sales Volumes</b>					
Natural gas (MMcf/d)	68.3		71.6		(5)
Condensate and oil (Bbl/d)	3,188		1,938		64
Other NGLs (Bbl/d)	1,330		221		502
Total (Boe/d)	15,905		14,098		13
<i>Liquids proportion</i>	28%		15%		
<b>Exploration and Development Expenditures (\$ millions)</b>					
Exploration, drilling, completions and tie-ins	87		79		10
Facilities and gathering	46		53		(13)
	133		132		1
	Gross	Net	Gross	Net	
<b>Wells Drilled</b>	8	8	18	18	

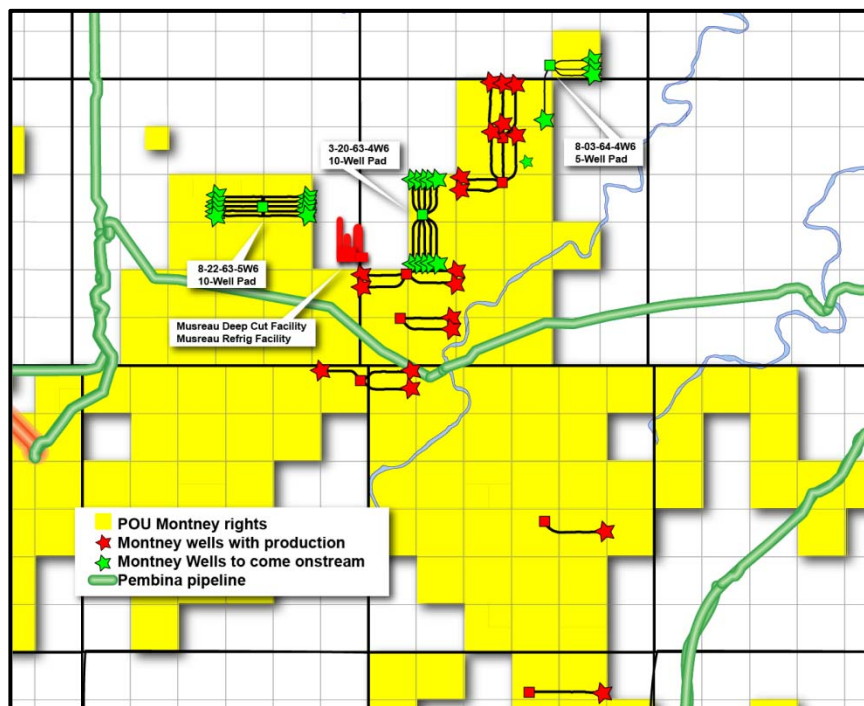
The Musreau Deep Cut Facility was brought on-line in mid-August and the Company has begun to ramp-up production from its inventory of behind-pipe wells. Kaybob COU sales volumes averaged approximately 20,000 Boe/d in September. Liquids sales volumes in September nearly tripled to 6,000 Bbl/d compared to the second quarter as a result of higher condensate and Other NGLs sales volumes from increased Montney well production.

Kaybob COU sales volumes increased 13 percent to 15,905 Boe/d in the third quarter, including a 64 percent increase in condensate and oil sales volumes. Third quarter sales volumes were negatively impacted by approximately 1,700 Boe/d due to the shutdown of the non-operated Smoky facility to integrate its new deep cut expansion.

In October 2014, monthly average Kaybob COU sales volumes increased to approximately 24,000 Boe/d as throughput at the Musreau Deep Cut Facility increased and production at Smoky was restored, despite a three-week curtailment in third-party natural gas transportation capacity and Downstream NGLs Constraints. The Musreau Deep Cut Facility is currently running only one of its two sales compressors until incremental downstream processing capacity for Other NGLs becomes available.

## Keybob Wells

From January 2012 to date, the Company has brought 19 Montney wells in the Musreau area onto production as shown on the following map:



The Company's Montney wells have been generally produced at restricted rates because of natural gas processing and downstream NGLs transportation and fractionation constraints that have impacted Musreau area production. The start-up of the Company's Musreau Deep Cut Facility has alleviated the natural gas processing constraints, however production continues to be impacted by short-term Downstream NGLs Constraints.

The eight Montney wells with production located to the northeast of the Musreau Deep Cut Facility have exhibited the highest condensate gas ratios ("CGR"). Cumulative CGRs, post load recovery, for these wells range from 225 Bbl/MMcf<sup>1</sup> to 408 Bbl/MMcf<sup>1</sup>. The 11 wells located to the south of the Musreau Deep Cut Facility have cumulative post load recovery CGRs ranging between 20 Bbl/MMcf<sup>1</sup> (for the southernmost well) and 116 Bbl/MMcf<sup>1</sup>. The Company's Montney formation wells continue to be highly economic despite the recently volatile condensate and oil prices.

Restricted natural gas rates over the initial 30 days of production for the eight wells located to the northeast of the Musreau Deep Cut Facility ranged from 2.0 MMcf/d<sup>2</sup> to 2.7 MMcf/d<sup>2</sup>. The eleven wells located to the south of the Musreau Deep Cut Facility had restricted 30 day initial natural gas rates of between 2.7 MMcf/d<sup>2</sup> and 6.5 MMcf/d<sup>2</sup>.

In the first nine months of 2014, Paramount has drilled 31 net wells in the Kaybob COU. Drilling activities in 2014 have focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands.

<sup>1</sup> CGRs as of October 31, 2014. Calculated by dividing total raw Liquids volumes produced at the wellhead following the recovery of load fluids by total raw natural gas volumes produced over the same period. Sales volumes are lower due to shrinkage.

<sup>2</sup> Gross raw natural gas volumes produced at the wellhead. Sales volumes are lower due to shrinkage.

The Company's 3-20 ten-well Montney pad was fracked in the third quarter, with aggregate test rates of 108 MMcf/d of natural gas (10.8 MMcf/d per well)<sup>1</sup> plus liquids for the ten wells. Fracking operations at the 8-22 ten-well pad are currently underway and all ten wells are scheduled to be completed in November. The Company is currently drilling the last two wells on the 8-03 five-well pad. All 25 of these wells are scheduled to be brought-on production by the end of the first half of 2015.

The Kaybob COU plans to have up to eight drilling rigs working during the 2014 / 2015 winter drilling season. The Company's two walking drilling rigs have moved onto separate six-well Montney pads located to the northeast of the Musreau Deep Cut Facility, where the Company is continuing to target high-condensate yields. The drilling of six-well pads reduces the time from spud to initial production compared to the larger 10-well pads, while continuing to realize the capital efficiencies of using multi-well pad sites. This includes minimizing mobilization and de-mobilization costs and lowering equipping and tie-in costs through the use of common facilities. These new pads have been laid out to allow an additional six wells to be drilled from the same pad at a later date after the commencement of production from the initial six wells.

In the third quarter, Paramount received regulatory approval to increase well densities on 57 sections at Musreau to 16 Montney wells per section. Densities of ten or more wells per section are anticipated in order to achieve a 70 percent resource recovery ratio. Having the flexibility to drill 16 wells per section provides opportunities to reduce the horizontal spacing of wells, to drill at different intervals within the 200 meter thickness of the Montney formation and to complete the heels of horizontal wells drilled into other sections, all of which will increase resource recoveries.

### **Kaybob Facilities Projects**

The deep cut expansion of the non-operated Smoky natural gas processing facility commenced operation in October. The Company has a 20 percent interest in the expanded 200 MMcf/d (40 MMcf/d net) facility, which is expandable to 300 MMcf/d (60 MMcf/d net) with the addition of 100 MMf/d of incremental compression.

Mechanical construction of the amine processing train at the Musreau Deep Cut Facility site is substantially complete and commissioning activities are beginning with an on-stream date expected later in the fourth quarter. The amine train provides the capability to treat sour production at the facility instead of at well sites. The project remains on-budget with an estimated cost of approximately \$45 million.

The Kaybob COU currently has condensate stabilization capacity of approximately 8,500 Bbl/d at the Musreau Deep Cut Facility site, which will increase to approximately 23,500 Bbl/d when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). The Stabilizer Expansion is expected to be completed in the first quarter of 2015 and on-stream in April at a cost of approximately \$45 million. Until the Stabilizer Expansion is operational, Paramount will continue to truck Kaybob area condensate production in excess of capacity to other Paramount and third party facilities for processing.

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<sup>1</sup> Test rates for the wells fracked on the Company's 3-20 ten-well pad averaged 10.8 MMcf/d of natural gas per well, and are the average of production test rates over the final period of post clean-up flow-back at the largest choke setting, with durations of between 5 and 53 hours. Flow-back casing pressures for the tests ranged between approximately 2,200 psi and 3,000 psi. All wells were stimulated using frack oil and substantially all fluids recovered during the test periods were load fluids. As a result, fluid volumes recovered during the tests have not been disclosed. Pressure transient analyses and well-test interpretations have not been carried out for these wells and as such, data should be considered to be preliminary until such analysis or interpretation has been done. Test results are not necessarily indicative of long-term performance or of ultimate recovery.



In the third quarter, Paramount continued front-end engineering and design for its next processing facility in the Musreau area, a 100 MMcf/d refrigeration plant. The Company intends to begin ordering long-lead-time equipment in the fourth quarter and continues to plan for start-up of this facility in the second half of 2016.

<b>Grande Prairie</b>					
	<b>Third Quarter 2014</b>		<b>Second Quarter 2014</b>		<b>% Change</b>
<b>Sales Volumes</b>					
Natural gas (MMcf/d)	20.1		22.4		(10)
Condensate and oil (Bbl/d)	1,221		1,124		9
Other NGLs (Bbl/d)	226		446		(49)
<b>Total (Boe/d)</b>	<b>4,793</b>		<b>5,308</b>		<b>(10)</b>
<i>Liquids proportion</i>	<i>30%</i>		<i>30%</i>		
<b>Exploration and Development Expenditures (\$ millions)</b>					
Exploration, drilling, completions and tie-ins	42		47		(11)
Facilities and gathering	19		11		73
	61		58		5
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	
<b>Wells Drilled</b>	<b>7</b>	<b>6</b>	<b>2</b>	<b>2</b>	

The Grande Prairie COU achieved record monthly sales volumes of approximately 9,000 Boe/d in October 2014, with volumes reaching as high as approximately 12,000 Boe/d. Third-party constraints that impacted production at Karr-Gold Creek for most of the year were alleviated in late-September with the completion of third-party pipeline expansions. Third quarter production averaged 4,793 Boe/d, as these constraints impacted production throughout the quarter.

With access to additional third-party transportation capacity, the Company's Karr-Gold Creek 40 MMcf/d dehydration and compression facility is being operated near capacity. Paramount has restarted middle-Montney wells at Karr-Gold Creek that had been temporarily shut-in and brought new wells on, increasing October sales volumes significantly. Access to reliable third-party infrastructure will enable the Grande Prairie COU to produce its Karr-Gold Creek area Montney wells consistently and should lower per-unit operating costs.

In the third quarter of 2014, Paramount continued its Karr-Gold Creek drilling and completion program, drilling four (3.5 net) horizontal wells and fracking three (1.8 net) wells. During the remainder of 2014, the Company plans to drill up to five (4.5 net) wells, including four (4.0 net) middle-Montney wells at Karr-Gold Creek, and to complete and tie-in previously drilled wells.

<b>Southern and Northern</b>					
	<b>Third Quarter 2014</b>		<b>Second Quarter 2014</b>		<b>% Change</b>
<b>Sales Volumes</b>					
Natural gas (MMcf/d)	5.2		5.4		(4)
Condensate and oil (Bbl/d)	281		150		87
Other NGLs (Bbl/d)	87		143		(39)
<b>Total (Boe/d)</b>	<b>1,238</b>		<b>1,179</b>		<b>5</b>
<i>Liquids proportion (%)</i>	<i>30%</i>		<i>25%</i>		
<b>Exploration and Development Expenditures (\$ millions)</b>					
Exploration, drilling, completions and tie-ins	37		13		185
Facilities and gathering	—		—		—
	37		13		185
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	
<b>Wells Drilled</b>	4	3	2	2	

Third quarter 2014 sales volumes in the Southern and Northern COUs were similar to the second quarter.

In the third quarter, the Southern COU continued exploration activities on its Duvernay lands in the Willesden Green area of southern Alberta. Two Duvernay wells have been drilled to date. After being fracked, these two wells were flowed-back before being shut-in to await the installation of surface equipment and tie-in.

The first well produced approximately 12,200 Bbl of condensate and oil and 11.0 MMcf of natural gas, a ratio of approximately 1,100 Bbl/MMcf<sup>1</sup>, and is scheduled to be brought on production in the fourth quarter. The second well produced approximately 3,600 Bbl of condensate and oil and 16.0 MMcf of natural gas, a ratio of 225 Bbl/MMcf<sup>1</sup>, and is scheduled to be brought on production in 2015. The Company also plans to begin drilling a third horizontal Duvernay well by the end of the year.

In the Northern COU, three (1.5 net) wells were drilled at Birch in northeast British Columbia in the third quarter and a fourth well is currently being drilled. The first three wells are scheduled to be fracked by the end of the year. Production at Birch has been impacted by outages at third-party compression facilities and Paramount and its partner are evaluating alternatives to secure reliable compression capacity in the area.

<sup>1</sup> Ratio based on total raw liquids and total natural gas volumes produced at the wellhead over the flow-back period. Sales volumes are lower due to shrinkage. Pressure transient analyses and well-test interpretations have not been carried out for these wells and as such, data should be considered to be preliminary until such analysis or interpretation has been done. These results are not necessarily indicative of long-term performance or of ultimate recovery.

## STRATEGIC INVESTMENTS



Fox Drilling has placed orders for key equipment for its two new walking drilling rigs and fabrication work has commenced. These two new triple-sized, built-for-purpose walking rigs are expected to cost approximately \$25 million each and enter service in the second half of 2015. Fox Drilling's loan facilities have been expanded to provide partial funding for these new rigs.

### SHALE GAS

Shale gas exploration activities in northeast British Columbia are expected to resume towards the end of the year. The Company plans to finish drilling the Dunedin d-71-G well and then move to La Biche in 2015 to drill a well to preserve mineral rights. Further operations at the Dunedin d-57-D well have been deferred as land earning has been completed.

## CORPORATE

Paramount is currently working with its lenders on the annual renewal and possible increase of its \$700 million bank credit facility.

The Company raised aggregate gross proceeds of \$350 million in July 2014 through the issuance of 4.6 million Common Shares and 1.0 million Flow-Through Common Shares.

## OUTLOOK

Sales volumes are expected to reach up to 50,000 Boe/d later in 2014, depending on the availability of sufficient downstream de-ethanization capacity. In 2015, sales volumes are expected to surpass 70,000 Boe/d following the completion of additional components of the Company's Kaybob area infrastructure and third-party de-ethanization capacity expansions.

Paramount's total 2014 exploration and development and Strategic Investments budget has been increased by \$100 million to approximately \$900 million, excluding land acquisitions and capitalized interest. The Company is accelerating the completion of the 8-22 10-well Montney pad in Kaybob and will be utilizing up to 10 drilling rigs in the Deep Basin in the upcoming 2014 / 2015 winter drilling season, focusing on Montney formation wells.

# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated November 5, 2014, 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, 2014 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2013. 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.

*This document contains forward-looking information, non-GAAP measures and disclosure of certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).*

## ABOUT PARAMOUNT

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's principal properties are located in Alberta and British Columbia. 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, 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 northern Alberta and northeast British Columbia.

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 interests held by Paramount's wholly-owned subsidiary Cavalier Energy Inc. ("Cavalier Energy") 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.

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>FINANCIAL</b>				
Petroleum and natural gas sales – continuing operations	84.4	53.9	250.6	172.9
Petroleum and natural gas sales – discontinued operations	—	—	—	1.8
<b>Petroleum and natural gas sales</b>	<b>84.4</b>	<b>53.9</b>	<b>250.6</b>	<b>174.7</b>
<b>Funds flow from operations – continuing operations</b>	<b>36.4</b>	<b>13.4</b>	<b>99.4</b>	<b>53.6</b>
Funds flow from operations – discontinued operations	—	—	—	(1.3)
<b>Funds flow from operations</b>	<b>36.4</b>	<b>13.4</b>	<b>99.4</b>	<b>52.3</b>
<i>per share – basic (\$/share)</i>	<i>0.35</i>	<i>0.14</i>	<i>1.00</i>	<i>0.56</i>
<i>per share – diluted (\$/share)</i>	<i>0.35</i>	<i>0.14</i>	<i>0.98</i>	<i>0.56</i>
<b>Income (loss) from continuing operations</b>	<b>(9.4)</b>	<b>(37.6)</b>	<b>34.8</b>	<b>(87.4)</b>
<i>per share – basic (\$/share)</i>	<i>(0.09)</i>	<i>(0.39)</i>	<i>0.35</i>	<i>(0.94)</i>
<i>per share – diluted (\$/share)</i>	<i>(0.09)</i>	<i>(0.39)</i>	<i>0.34</i>	<i>(0.94)</i>
<b>Net income (loss)</b>	<b>(9.4)</b>	<b>(37.6)</b>	<b>34.8</b>	<b>(59.4)</b>
<i>per share – basic (\$/share)</i>	<i>(0.09)</i>	<i>(0.39)</i>	<i>0.35</i>	<i>(0.64)</i>
<i>per share – diluted (\$/share)</i>	<i>(0.09)</i>	<i>(0.39)</i>	<i>0.34</i>	<i>(0.64)</i>
Exploration and development expenditures	227.1	209.8	602.8	449.1
Investments in other entities – market value <sup>(2)</sup>	—	—	667.1	749.8
Total assets	—	—	3,090.9	2,282.4
Long-term debt	—	—	1,026.9	759.5
Net debt	—	—	1,256.7	1,009.3
<b>OPERATIONAL</b>				
Sales volumes <sup>(3)</sup>				
Natural gas (MMcf/d)	93.6	100.9	99.2	107.4
Condensate and oil (Bbl/d)	4,690	2,231	3,537	2,240
Other NGLs (Bbl/d) <sup>(4)</sup>	1,643	960	1,118	991
Total (Boe/d)	21,936	20,022	21,186	21,125
Net wells drilled (excluding oil sands evaluation)	17	16	51	32
Net oil sands evaluation wells drilled	—	—	—	6
<b>FUNDS FLOW FROM OPERATIONS (\$/Boe)<sup>(3)</sup></b>				
Petroleum and natural gas sales	41.80	29.27	43.33	30.29
Royalties	(1.74)	(1.77)	(2.22)	(1.39)
Operating expense	(8.32)	(9.21)	(8.95)	(9.31)
Transportation	(4.54)	(3.09)	(3.75)	(2.79)
<b>Netback</b>	<b>27.20</b>	<b>15.20</b>	<b>28.41</b>	<b>16.80</b>
Financial commodity contract settlements	(0.14)	—	(0.95)	—
<b>Netback including commodity contract settlements</b>	<b>27.06</b>	<b>15.20</b>	<b>27.46</b>	<b>16.80</b>
General and administrative – corporate	(2.03)	(1.31)	(2.27)	(1.67)
General and administrative – strategic investments	(0.85)	(0.81)	(0.96)	(0.90)
Interest	(7.86)	(7.00)	(8.26)	(6.64)
Dividends from investments	1.00	1.09	1.04	1.05
Other	0.69	0.11	0.17	0.43
<b>Funds flow from operations</b>	<b>18.01</b>	<b>7.28</b>	<b>17.18</b>	<b>9.07</b>

<sup>(1)</sup> Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.

<sup>(2)</sup> Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.

<sup>(3)</sup> Amounts for the nine months ended September 30, 2013 include the results of discontinued operations.

<sup>(4)</sup> Other NGLs means ethane, propane and butane.

# Consolidated Results

## Net Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Principal Properties	17.5	(21.9)	117.2	(34.2)
Strategic Investments	(0.6)	(6.3)	9.9	(7.6)
Corporate	(24.6)	(18.7)	(74.6)	(61.1)
Income tax (expense) recovery	(1.7)	9.3	(17.7)	15.5
<b>Income (loss) from continuing operations</b>	<b>(9.4)</b>	<b>(37.6)</b>	<b>34.8</b>	<b>(87.4)</b>
Income from discontinued operations, net of tax	—	—	—	28.0
<b>Net income (loss)</b>	<b>(9.4)</b>	<b>(37.6)</b>	<b>34.8</b>	<b>(59.4)</b>

Paramount recorded a loss from continuing operations of \$9.4 million for the three months ended September 30, 2014 compared to a loss from continuing operations of \$37.6 million in the third quarter of 2013. Significant factors contributing to the change are shown below:

### Three months ended September 30

<b>Loss from continuing operations – 2013</b>	<b>(37.6)</b>
• Higher netback primarily due to higher condensate and oil sales volumes and higher natural gas prices	26.9
• Gain on financial commodity contracts in 2014 compared to a loss in 2013	9.6
• Lower depletion and depreciation expense	6.4
• Income from equity-accounted investments compared to a loss in 2013	6.0
• Income tax expense in 2014 compared to a recovery in 2013	(11.0)
• Loss on the sale of property, plant and equipment in 2014 compared to a gain in 2013	(5.1)
• Higher interest expense due to increased debt	(3.0)
• Other	(1.6)
<b>Loss from continuing operations – 2014</b>	<b>(9.4)</b>

Paramount recorded income from continuing operations of \$34.8 million for the nine months ended September 30, 2014 compared to a loss from continuing operations of \$87.4 million in the same period of 2013. Significant factors contributing to the change are shown below:

### Nine months ended September 30

<b>Loss from continuing operations – 2013</b>	<b>(87.4)</b>
• Higher gains on the sale of property, plant and equipment related to continuing operations	69.1
• Higher netback primarily due to higher natural gas prices and higher condensate and oil sales volumes	66.1
• Higher income from equity-accounted investments, including a gain realized on the MGM Energy acquisition	17.8
• Lower exploration and evaluation expense	10.8
• Income tax expense in 2014 compared to a recovery in 2013	(33.2)
• Higher interest expense due to increased debt	(9.6)
• Other	1.2
<b>Income from continuing operations – 2014</b>	<b>34.8</b>

In March 2013, Paramount sold its Northern COU properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories (the "Northern Discontinued Operations") for proceeds of

\$9.1 million. Income from discontinued operations for the nine months ended September 30, 2013 of \$28.0 million includes a pre-tax loss of \$1.6 million from ordinary activities of the Northern Discontinued Operations, a \$39.0 million pre-tax gain on the sale of the properties and tax expense of \$9.4 million. These properties were included in the Company's Principal Properties business segment.

## Funds Flow from Operations <sup>(1)</sup>

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 <sup>(2)</sup>	
	2014	2013	2014	2013
Cash from operating activities	37.5	19.7	84.3	51.2
Change in non-cash working capital	(4.3)	(11.5)	5.2	(10.0)
Geological and geophysical expenses	2.0	2.4	6.2	5.8
Asset retirement obligations settled	1.2	2.8	3.7	5.3
<b>Funds flow from operations</b>	<b>36.4</b>	<b>13.4</b>	<b>99.4</b>	<b>52.3</b>
<b>Funds flow from operations (\$/Boe)</b>	<b>18.01</b>	<b>7.28</b>	<b>17.18</b>	<b>9.07</b>

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

<sup>(2)</sup> Amounts for the nine months ended September 30, 2013 include the results of discontinued operations.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Funds flow from operations</b>				
Continuing operations	36.4	13.4	99.4	53.6
Discontinued operations	—	—	—	(1.3)
<b>Funds flow from operations</b>	<b>36.4</b>	<b>13.4</b>	<b>99.4</b>	<b>52.3</b>

Funds flow from operations for the three months ended September 30, 2014 attributable to continuing operations was \$36.4 million, \$23.0 million higher than the third quarter of 2013. Significant factors contributing to the change are shown below:

### Three months ended September 30

<b>Funds flow from operations – continuing operations – 2013</b>	<b>13.4</b>
• Higher netback primarily due to higher condensate and oil sales volumes and higher natural gas prices	26.9
• Higher interest due to increased debt	(2.9)
• Higher general and administrative expense	(1.9)
• Other	0.9
<b>Funds flow from operations – continuing operations – 2014</b>	<b>36.4</b>

Funds flow from operations for the nine months ended September 30, 2014 attributable to continuing operations was \$99.4 million, \$45.8 million higher than the same period of 2013. Significant factors contributing to the change are shown below:

#### Nine months ended September 30

<b>Funds flow from operations – continuing operations – 2013</b>	<b>53.6</b>
• Higher netback primarily due to higher natural gas prices and higher condensate and oil sales volumes	66.1
• Higher interest due to increased debt	(9.4)
• Payments on financial commodity contract settlements in 2014	(5.5)
• Higher general and administrative expense	(3.8)
• Other	(1.6)
<b>Funds flow from operations – continuing operations – 2014</b>	<b>99.4</b>

## Principal Properties

The Principal Properties section of this MD&A provides an analysis of the results of the Company's continuing operations and therefore excludes results of the Northern Discontinued Operations. A summary of the results of the Northern Discontinued Operations is included in the Discontinued Operations section of this document.

### Netback and Segment Income (Loss) – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>	
Natural gas	38.2	4.43	28.8	3.10	139.9	5.17	102.4	3.52
Condensate and oil	40.0	92.66	21.1	102.96	95.1	98.53	58.8	98.20
Other NGLs	5.0	32.87	3.2	36.95	12.6	41.20	9.3	34.44
Royalty and sulphur revenue	1.2	—	0.8	—	3.0	—	2.4	—
<b>Petroleum and natural gas sales</b>	<b>84.4</b>	<b>41.80</b>	<b>53.9</b>	<b>29.27</b>	<b>250.6</b>	<b>43.33</b>	<b>172.9</b>	<b>30.26</b>
Royalties	(3.5)	(1.74)	(3.2)	(1.77)	(12.8)	(2.22)	(8.0)	(1.40)
Operating expense	(16.8)	(8.32)	(17.0)	(9.21)	(51.8)	(8.95)	(50.8)	(8.90)
Transportation	(9.2)	(4.54)	(5.7)	(3.09)	(21.7)	(3.75)	(15.9)	(2.77)
<b>Netback</b>	<b>54.9</b>	<b>27.20</b>	<b>28.0</b>	<b>15.20</b>	<b>164.3</b>	<b>28.41</b>	<b>98.2</b>	<b>17.19</b>
Financial commodity contract settlements	(0.3)	(0.14)	—	—	(5.5)	(0.95)	—	—
<b>Netback including commodity contract settlements</b>	<b>54.6</b>	<b>27.06</b>	<b>28.0</b>	<b>15.20</b>	<b>158.8</b>	<b>27.46</b>	<b>98.2</b>	<b>17.19</b>
Other principal property items (see below)	(37.1)	—	(49.9)	—	(41.6)	—	(132.4)	—
<b>Segment income (loss)</b>	<b>17.5</b>	—	<b>(21.9)</b>	—	<b>117.2</b>	—	<b>(34.2)</b>	—

<sup>(1)</sup> Natural gas revenue shown per Mcf.

Petroleum and natural gas sales were \$84.4 million in the third quarter of 2014, an increase of \$30.5 million from the third quarter of 2013. Petroleum and natural gas sales were \$250.6 million in the nine months ended September 30, 2014, an increase of \$77.7 million compared to the same period of 2013. The increases were primarily due to higher realized natural gas prices and higher condensate and oil sales volumes.



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
<b>Three months ended September 30, 2013</b>	28.8	21.1	3.2	0.8	53.9
Effect of changes in prices	11.5	(4.4)	(0.6)	—	6.5
Effect of changes in sales volumes	(2.1)	23.3	2.4	—	23.6
Change in royalty and sulphur revenue	—	—	—	0.4	0.4
<b>Three months ended September 30, 2014</b>	<b>38.2</b>	<b>40.0</b>	<b>5.0</b>	<b>1.2</b>	<b>84.4</b>

	Natural gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
<b>Nine months ended September 30, 2013</b>	102.4	58.8	9.3	2.4	172.9
Effect of changes in prices	44.5	0.3	2.1	—	46.9
Effect of changes in sales volumes	(7.0)	36.0	1.2	—	30.2
Change in royalty and sulphur revenue	—	—	—	0.6	0.6
<b>Nine months ended September 30, 2014</b>	<b>139.9</b>	<b>95.1</b>	<b>12.6</b>	<b>3.0</b>	<b>250.6</b>

## Sales Volumes

	Three months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
<b>Kaybob</b>	<b>68.3</b>	70.6	(3)	<b>3,188</b>	1,172	172	<b>1,330</b>	229	481	<b>15,905</b>	13,176	21
<b>Grande Prairie</b>	<b>20.1</b>	18.2	10	<b>1,221</b>	578	111	<b>226</b>	506	(55)	<b>4,793</b>	4,115	16
<b>Southern</b>	<b>2.2</b>	8.6	(74)	<b>274</b>	420	(35)	<b>87</b>	220	(60)	<b>730</b>	2,079	(65)
<b>Northern</b>	<b>3.0</b>	3.5	(14)	<b>7</b>	61	(89)	<b>—</b>	5	(100)	<b>508</b>	652	(22)
<b>Total</b>	<b>93.6</b>	100.9	(7)	<b>4,690</b>	2,231	110	<b>1,643</b>	960	71	<b>21,936</b>	20,022	10

Paramount delivered first sales gas from its 200 MMcf/d Musreau Deep Cut Facility in mid-August 2014 and has commenced the production ramp-up from its inventory of behind pipe wells. Third quarter sales volumes averaged 21,936 Boe/d, with sales volumes in July and August averaging approximately 19,500 Boe/d and increasing to approximately 27,000 Boe/d in September.

Third quarter natural gas sales volumes decreased 7.3 MMcf/d or seven percent to 93.6 MMcf/d in 2014 compared to 100.9 MMcf/d in the same period in 2013. The decrease was primarily due to lower production in the Kaybob COU due to the third quarter 2014 shutdown of the non-operated Smoky facility to integrate its new deep cut expansion and the first quarter 2014 sale of the Chain area properties in southern Alberta, partially offset by new well production at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Third quarter condensate and oil sales volumes increased 2,459 Bbl/d or 110 percent to 4,690 Bbl/d in 2014 compared to 2,231 Bbl/d in the same period in 2013. The increase in condensate and oil sales volumes was primarily related to new well production from liquids-rich Montney formation wells at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Third quarter Other NGLs sales volumes increased 683 Bbl/d or 71 percent to 1,643 Bbl/d in 2014 compared to 960 Bbl/d in the same period in 2013. The increase in Other NGLs sales volumes was

primarily related to increased Other NGLs volumes being extracted from Musreau area natural gas streams following the start-up of the Musreau Deep Cut Facility.

	Nine months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
<b>Kaybob</b>	<b>70.7</b>	74.3	(5)	<b>2,110</b>	1,094	93	<b>587</b>	262	124	<b>14,466</b>	13,740	5
<b>Grande Prairie</b>	<b>21.6</b>	19.4	11	<b>1,209</b>	570	112	<b>406</b>	534	(24)	<b>5,214</b>	4,338	20
<b>Southern</b>	<b>3.8</b>	8.9	(57)	<b>194</b>	467	(58)	<b>125</b>	191	(35)	<b>962</b>	2,141	(55)
<b>Northern</b>	<b>3.1</b>	3.9	(21)	<b>24</b>	63	(62)	<b>—</b>	4	(100)	<b>544</b>	710	(23)
<b>Continuing Ops</b>	<b>99.2</b>	106.5	(7)	<b>3,537</b>	2,194	61	<b>1,118</b>	991	13	<b>21,186</b>	20,929	1
Discontinued Ops	—	0.9	(100)	—	46	(100)	—	—	—	—	196	(100)
<b>Total</b>	<b>99.2</b>	107.4	(8)	<b>3,537</b>	2,240	58	<b>1,118</b>	991	13	<b>21,186</b>	21,125	—

Natural gas sales volumes for the nine months ended September 30, 2014 decreased 7.3 MMcf/d or seven percent to 99.2 MMcf/d compared to 106.5 MMcf/d in the same period in 2013. The decrease was primarily due to the first quarter 2014 sale of the Chain area properties in southern Alberta and lower production in the Kaybob COU because of the third quarter 2014 shutdown of the non-operated Smoky natural gas processing facility. These decreases were partially offset by new well production, mainly at Karr-Gold Creek in the Grande Prairie COU.

Condensate and oil sales volumes increased 1,343 Bbl/d or 61 percent to 3,537 Bbl/d in the nine months ended September 30, 2014 compared to 2,194 Bbl/d in the same period in 2013. The increase in condensate and oil sales volumes was primarily related to new well production from Montney formation wells at Musreau and at Karr-Gold Creek.

Other NGLs sales volumes increased 13 percent to 1,118 Bbl/d in the nine months ended September 30, 2014 compared to 991 Bbl/d in the same period in 2013 as a result of increased Other NGLs volumes being extracted at Musreau following the start-up of the Musreau Deep Cut Facility.

Prior to the start-up of the Musreau Deep Cut Facility in mid-August 2014, Paramount's production within the Kaybob COU was constrained by available owned and contracted natural gas processing capacity. Following the start-up of the new facility, Kaybob area production began to ramp-up and total Company sales volumes increased to approximately 27,000 Boe/d in September. Third-party constraints that impacted production at Karr-Gold Creek in the Grande Prairie COU for most of the year were also alleviated in late-September with the completion of third-party pipeline expansions.

In October, the Company continued to ramp-up Kaybob area production and was also able to flow incremental production at Karr-Gold Creek in the Grande Prairie COU, despite downstream third-party constraints. Estimated daily sales volumes reached approximately 40,000 Boe/d earlier in October before an unplanned two-week outage at a third party NGLs processing facility in Fort Saskatchewan resulted in further restrictions. Estimated October sales volumes averaged 34,000 Boe/d.

The ramp-up of Kaybob area production is being impacted by short-term constraints in downstream third-party de-ethanization and fractionation capacity for Other NGLs. The Company is maximizing production through its available de-ethanization and fractionation capacity and continues working to source additional interruptible capacity where available.

Paramount's incremental long-term firm processing capacity for Other NGLs is scheduled to become available in two phases in 2015, following the completion of third-party expansions. The third-party operator has announced that the first phase, a de-ethanization plant expansion, will be operational by the first quarter of 2015 and the second phase, a storage cavern expansion, will be in-service by mid-2015.

### **Average Realized Prices – Continuing Operations**

	Three months ended September 30			Nine months ended September 30		
	2014	2013	% Change	2014	2013	% Change
<b>Natural gas</b> (\$/Mcf)	<b>4.43</b>	3.10	43	<b>5.17</b>	3.52	47
<b>Condensate and oil</b> (\$/Bbl)	<b>92.66</b>	102.96	(10)	<b>98.53</b>	98.20	—
<b>Other NGLs</b> (\$/Bbl)	<b>32.87</b>	36.95	(11)	<b>41.20</b>	34.44	20
<b>Total</b> (\$/Boe)	<b>41.80</b>	29.27	43	<b>43.33</b>	30.26	43

North America experienced an unusually cold and prolonged winter in 2013 / 2014, which led to increased seasonal demand for natural gas in the first quarter of 2014, natural gas inventories reaching multi-year lows in the spring of 2014 and increases in market prices of natural gas in 2014 versus 2013. Paramount's average realized natural gas price increased 47 percent in the first nine months of 2014 compared to 2013, consistent with increases 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.

Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet price, adjusted for transportation and quality differentials. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, adjusted for transportation and quality differentials, which are generally higher than prices for unstabilized volumes.

### **Commodity Prices**

Key average commodity price benchmarks and foreign exchange rates are as follows:

	Three months ended September 30			Nine months ended September 30		
	2014	2013	% Change	2014	2013	% Change
<b>Natural gas</b>						
AECO daily spot (CAD\$/GJ)	<b>3.81</b>	2.31	65	<b>4.56</b>	2.89	58
AECO monthly index (CAD\$/GJ)	<b>4.00</b>	2.67	50	<b>4.31</b>	3.00	44
Malin (US\$/MMbtu)	<b>4.08</b>	3.47	18	<b>4.52</b>	3.60	26
<b>Crude Oil</b>						
Edmonton Light Sweet (CAD\$/Bbl)	<b>97.71</b>	104.96	(7)	<b>100.53</b>	95.27	6
West Texas Intermediate (US\$/Bbl)	<b>97.17</b>	105.82	(8)	<b>99.61</b>	98.15	1
<b>Foreign Exchange</b>						
\$CAD / 1 \$US	<b>1.09</b>	1.04	5	<b>1.09</b>	1.02	7

## 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.

Payments made by Paramount on the settlement of financial commodity contracts are as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Commodity Contracts	0.3	—	5.5	—

At September 30, 2014, Paramount had the following financial commodity contracts outstanding:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	2,000 Bbl/d	US \$91.78/Bbl	0.4	October – December 2014
Natural Gas – AECO Swap	20,000 GJ/d	CAD\$4.45/GJ	0.3	October 2014
			0.7	

## Royalties – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2014	Rate	2013	Rate	2014	Rate	2013	Rate
Royalties	3.5	4.2%	3.2	6.0%	12.8	5.2%	8.0	4.7%

Third quarter royalties increased \$0.3 million to \$3.5 million in 2014 compared to \$3.2 million in the same period in 2013. Royalties expense for the third quarter of 2014 increased due to higher current year revenues, partially offset by lower average royalty rates.

Royalties for the nine months ended September 30, 2014 increased \$4.8 million to \$12.8 million versus \$8.0 million in the comparable period in 2013, primarily as a result of \$2.6 million in annual gas cost allowance adjustments recorded in the second quarter of 2013 that reduced royalty expense and because of higher current year revenues.

For the nine months ended September 30, 2014, the royalty rate was 5.2 percent versus 6.1 percent in the same period in 2013, excluding the impact of the gas cost allowance adjustments in the prior year. The majority of Paramount's new wells in Alberta qualify for royalty incentive programs, which reduce the Company's overall royalty rate.

## Operating Expense – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2014	2013	% Change	2014	2013	% Change
Operating expense	16.8	17.0	(1)	51.8	50.8	2

Operating expense in the third quarter of 2014 decreased by \$0.2 million or one percent to \$16.8 million compared to \$17.0 million in the same quarter in 2013, primarily related to lower operating expenses in the Southern COU due to property dispositions and lower costs in the Grande Prairie COU, including repairs and maintenance and equipment rentals. These decreases were partially offset by higher

operating costs in the Kaybob COU as a result of the start-up of the Musreau Deep Cut Facility and incremental liquids production from new Montney formation wells, including Other NGLs fractionation, liquids handling and wellsite sweetening.

Operating expense increased \$1.0 million or two percent to \$51.8 million in the nine months ended September 30, 2014 compared to \$50.8 million in the same period in 2013, primarily related to higher Other NGLs fractionation, liquids handling and wellsite sweetening costs in the Kaybob and Grande Prairie COUs associated with higher liquids production from new Montney formation wells and lower processing income from the Company's compression and processing facilities. These increases were partially offset by the impact of property dispositions in the Southern COU and lower costs in the Grande Prairie COU, including repairs and maintenance and equipment rentals. Paramount's per-unit operating costs are decreasing following the start-up of the Musreau Deep Cut Facility, as lower-cost Musreau area volumes have become a greater proportion of the Company's overall production.

### ***Transportation – Continuing Operations***

	Three months ended September 30			Nine months ended September 30		
	2014	2013	% Change	2014	2013	% Change
Transportation expense	9.2	5.7	61	21.7	15.9	36

Transportation expense was \$9.2 million in the third quarter of 2014, an increase of \$3.5 million compared to the third quarter of 2013. Transportation expense increased \$5.8 million to \$21.7 million for the nine months ended September 30, 2014 compared to \$15.9 million in the same period of 2013. Transportation costs are higher in 2014 mainly due to the costs of trucking higher condensate volumes and increased firm-service transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility. Paramount incurred incremental trucking costs in order to produce new liquids-rich wells that would have otherwise been shut-in.

### ***Other Principal Property Items – Continuing Operations***

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Commodity contracts – net of settlements	(4.7)	5.2	(4.7)	3.6
Depletion and depreciation (excluding impairments)	38.9	31.4	120.5	111.4
Impairment	—	13.8	—	13.8
Exploration and evaluation	1.8	2.2	17.5	28.2
(Gain) loss on sale of property, plant and equipment	1.0	(4.1)	(95.7)	(26.1)
Accretion of asset retirement obligations	1.5	1.5	4.5	1.5
Other	(1.4)	(0.1)	(0.5)	—
Total	37.1	49.9	41.6	132.4

Third quarter depletion and depreciation expense (excluding impairments) increased to \$38.9 million (\$19.28 per Boe) in 2014 compared to \$31.4 million (\$17.08 per Boe) for the same quarter in 2013. Depletion and depreciation expense increased to \$120.5 million (\$20.84 per Boe) in the nine months ended September 30, 2014 compared to \$111.4 million (\$19.50 per Boe) in the same period in 2013.

In the third quarter of 2013, the Company recorded a net impairment write-down of \$13.8 million related to the Company's petroleum and natural gas assets. This included a \$25.7 million impairment write-down in respect of the Northern and Southern COUs, which resulted from a combination of declines in reserves assigned due to well performance and the sale of properties in the Southern COU that had higher

recoverable values than their carrying values. The impairment charge was partially offset by an \$11.9 million reversal of impairment write-downs previously recognized in the Grande Prairie COU, which resulted from an increase in reserves assigned to that COU.

Third quarter 2014 exploration and evaluation expense includes expired undeveloped land lease costs of nil (2013 – \$1.8 million recovery), geological and geophysical costs of \$2.0 million (2013 – \$2.4 million) and a recovery of dry hole expense of \$0.1 million (2013 – \$1.7 million expense). Exploration and evaluation expense for the nine months ended September 30, 2014 includes expired undeveloped land lease costs of \$11.7 million (2013 – \$13.4 million), geological and geophysical costs of \$6.2 million (2013 – \$5.1 million) and dry hole expense of \$0.2 million (2013 – \$9.7 million).

The \$95.7 million in aggregate gains recorded on the sale of property, plant and equipment in 2014 primarily relates 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").

## Discontinued Operations

Results of the Northern Discontinued Operations have been presented as discontinued operations for the nine months ended September 30, 2013. The following table reconciles Paramount's loss from continuing operations, income from discontinued operations and net income for the nine months ended September 30, 2013:

### *Income (loss) from Continuing Operations ("CO") and Discontinued Operations ("DO")*

	Nine months ended September 30, 2013					
	CO	DO	Total	CO	DO	Total
	(\$ millions)			(\$/Boe except natural gas) <sup>(1)</sup>		
Natural gas revenue	102.4	0.7	103.1	3.52	2.82	3.52
Condensate and oil revenue	58.8	1.1	59.9	98.20	84.59	97.91
Other NGLs revenue	9.3	—	9.3	34.44	—	34.44
Royalty and sulphur revenue	2.4	—	2.4	—	—	—
Petroleum and natural gas sales	172.9	1.8	174.7	30.26	32.95	30.29
Royalties	(8.0)	—	(8.0)	(1.40)	—	(1.39)
Operating expense	(50.8)	(2.9)	(53.7)	(8.90)	(52.54)	(9.31)
Transportation	(15.9)	(0.2)	(16.1)	(2.77)	(4.27)	(2.79)
Netback	98.2	(1.3)	96.9	17.19	(23.86)	16.80
General and administrative	(14.8)	—	(14.8)	(2.60)	—	(2.57)
Interest	(38.3)	—	(38.3)	(6.71)	—	(6.64)
Dividends from investments	6.0	—	6.0	1.06	—	1.05
Other	2.5	—	2.5	0.44	—	0.43
Funds flow from operations	53.6	(1.3)	52.3	9.38	(23.86)	9.07
Depletion, depreciation and accretion	(128.1)	(0.3)	(128.4)			
Exploration and evaluation	(28.9)	—	(28.9)			
Gain on sale of property, plant and equipment	26.5	39.0	65.5			
Stock-based compensation	(17.0)	—	(17.0)			
Income from equity-accounted investments	2.1	—	2.1			
Other	(11.1)	—	(11.1)			
Income tax (expense) recovery	15.5	(9.4)	6.1			
Net income (loss)	(87.4)	28.0	(59.4)			

<sup>(1)</sup> Natural gas revenue shown per Mcf.

## Strategic Investments

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Income (loss) from equity-accounted investments	3.8	(2.2)	19.9	2.1
Drilling rig revenue	0.1	0.4	0.1	4.4
Drilling rig expense	(0.1)	(0.3)	(0.1)	(2.0)
General and administrative	(1.7)	(1.5)	(5.5)	(5.3)
Stock-based compensation	(1.6)	(1.9)	(4.8)	(3.8)
Interest	(0.7)	(0.6)	(2.0)	(1.7)
Other	(0.4)	(0.2)	2.3	(1.3)
<b>Segment income (loss)</b>	<b>(0.6)</b>	<b>(6.3)</b>	<b>9.9</b>	<b>(7.6)</b>

Strategic Investments at September 30, 2014 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 interests owned by Paramount's wholly-owned subsidiary, Cavalier Energy, 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
- five drilling rigs owned by Paramount's wholly-owned subsidiary, Fox Drilling.

### 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 the 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 <sup>(1)</sup>	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Trilogy	101.6	97.4	485.5	528.4
MEG	127.2	113.3	127.2	113.3
MGM Energy Corp.	—	1.2	—	8.7
Other <sup>(2)</sup>	54.4	38.1	54.4	38.1
<b>Total</b>	<b>283.2</b>	<b>250.0</b>	<b>667.1</b>	<b>688.5</b>

<sup>(1)</sup> Based on the period-end closing price of publicly traded investments and the book value of remaining investments.

<sup>(2)</sup> 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. Through the acquisition, Paramount added approximately 1,300,000 (725,000 net) acres of undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and approximately 300,000 (155,000 net) acres of undeveloped land in the Mackenzie Delta prospective for natural gas.

### ***Cavalier Energy***

In June 2014, Cavalier Energy received regulatory approval for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids development ("Hoole Phase 1"). Construction of Hoole Phase 1 is dependent upon securing funding and sanctioning by the Board of Directors. Cavalier Energy is continuing to evaluate funding alternatives for Hoole Phase 1.

In July 2014, Cavalier Energy acquired approximately 23 net sections of undeveloped land at Hoole, contiguous with its Hoole lands, for \$20 million.

### ***Fox Drilling***

To support the Company's expanded Kaybob Deep Basin development, Paramount is constructing two new walking drilling rigs through its wholly-owned drilling subsidiary, Fox Drilling. The two new triple-sized, built-for-purpose walking rigs are expected to cost approximately \$25 million each and enter service in the second half of 2015.

### ***Shale Gas***

Shale gas exploration activities in northeast British Columbia are expected to resume towards the end of the year. The Company plans to finish drilling the Dunedin d-71-G well and then move to La Biche in 2015 to drill a horizontal well to preserve mineral rights. Further operations at the Dunedin d-57-D well have been deferred as land earning has been completed.

## **Corporate**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest	15.6	12.7	47.1	37.8
General and administrative	4.1	2.4	13.1	9.5
Stock-based compensation	4.5	3.6	13.7	13.2
Depreciation	0.1	0.1	0.5	0.3
Foreign exchange	0.3	(0.1)	0.4	0.3
Other	—	—	(0.2)	—
	<b>24.6</b>	18.7	<b>74.6</b>	61.1

The Corporate segment loss increased to \$24.6 million in the third quarter of 2014 compared to \$18.7 million in the same period of 2013. The Corporate segment loss increased to \$74.6 million for the nine



months ended September 30, 2014 compared to \$61.1 million for the same period in 2013. The increases primarily relate to higher interest expense and higher general and administrative expenses.

## Exploration and Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Geological and geophysical	1.8	2.3	5.5	5.2
Drilling, completion and tie-ins	160.5	155.7	414.3	333.7
Facilities and gathering	64.8	51.8	183.0	110.2
<b>Exploration and development expenditures<sup>(1)</sup></b>	<b>227.1</b>	<b>209.8</b>	<b>602.8</b>	<b>449.1</b>
Land and property acquisitions	2.7	1.2	6.3	14.7
<b>Principal Properties</b>	<b>229.8</b>	<b>211.0</b>	<b>609.1</b>	<b>463.8</b>
<b>Strategic Investments<sup>(2)</sup></b>	<b>39.2</b>	<b>12.0</b>	<b>74.9</b>	<b>74.6</b>
<b>Corporate</b>	<b>0.3</b>	<b>0.7</b>	<b>0.9</b>	<b>4.4</b>
	<b>269.3</b>	<b>223.7</b>	<b>684.9</b>	<b>542.8</b>

<sup>(1)</sup> Exploration and development expenditures for the three and nine months ended September 30, 2014 include \$4.4 million and \$13.5 million of capitalized interest, respectively (2013 - \$3.2 million and \$8.1 million, respectively).

<sup>(2)</sup> Strategic Investments for the three and nine months ended September 30, 2014 include \$0.2 million and \$0.5 million of capitalized interest, respectively (2013 - \$0.1 million and \$0.5 million, respectively).

Exploration and development expenditures in the third quarter of 2014 were \$227.1 million compared to \$209.8 million in the same period of 2013. Exploration and development expenditures in the nine months ended September 30, 2014 were \$602.8 million compared to \$449.1 million in the same period in 2013. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. The Company also drilled and completed wells in the Southern COU, including at Willesden Green. Facilities and gathering expenditures focused on the new and expanded deep cut facilities at Musreau and Smoky and expansions to liquids handling facilities and gathering systems at Karr-Gold Creek.

Strategic investments capital expenditures for the first nine months of 2014 included \$35.5 million related to the Company's exploratory shale gas drilling activities at Dunedin in northeast British Columbia, \$20.0 million related to Cavalier Energy's acquisition of approximately 23 net sections of undeveloped land at Hoole, and \$13.9 million related to the two new triple-sized, built-for-purpose walking rigs being constructed by Fox Drilling.

Wells drilled were as follows:

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Gas	19	17	19	16	51	49	37	30
Oil	—	—	—	—	3	2	2	2
Oil sands evaluation	—	—	—	—	—	—	6	6
<b>Total</b>	<b>19</b>	<b>17</b>	<b>19</b>	<b>16</b>	<b>54</b>	<b>51</b>	<b>45</b>	<b>38</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 deep cut expansion of the non-operated Smoky natural gas processing facility commenced operation in October. The Company has a 20 percent interest in the expanded 200 MMcf/d (40 MMcf/d net) facility, which is expandable to 300 MMcf/d (60 MMcf/d net) with the addition of 100 MMf/d of incremental compression.

Mechanical construction of the amine processing train at the Musreau Deep Cut Facility site is substantially complete and commissioning activities are beginning, with an on-stream date expected later in the fourth quarter. The amine train provides the capability to treat sour production at the facility instead of at well sites. The project remains on-budget with an estimated cost of approximately \$45 million.

The Kaybob COU currently has condensate stabilization capacity of approximately 8,500 Bbl/d at the Musreau Deep Cut Facility site, which will increase to approximately 23,500 Bbl/d when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). The Stabilizer Expansion is expected to be completed in the first quarter of 2015 and on-stream in April at a cost of approximately \$45 million. Until the Stabilizer Expansion is operational, Paramount will continue to truck Kaybob area condensate production in excess of capacity to other Paramount and third party facilities for processing.

In the third quarter, Paramount continued front-end engineering and design for its next processing facility in the Musreau area, a 100 MMcf/d refrigeration plant. The Company intends to begin ordering long-lead-time equipment in the fourth quarter and continues to plan for start-up of this facility in the second half of 2016.

### **Kaybob Multi-Well Pads**

Drilling activities in 2014 in the Kaybob COU have focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands. The first ten-well pad was fracked in the third quarter and fracking operations are currently underway at the second ten-well pad. The Company is currently drilling the last two wells on the five-well pad. All 25 of these wells are scheduled to be brought-on production by the end of the first half of 2015.

## **Outlook**

Sales volumes are expected to reach up to 50,000 Boe/d later in 2014, depending on the availability of sufficient downstream de-ethanization capacity. In 2015, sales volumes are expected to surpass 70,000 Boe/d following the completion of additional components of the Company's Kaybob area infrastructure and third-party de-ethanization capacity expansions.

Paramount's total 2014 exploration and development and Strategic Investments budget has been increased by \$100 million to approximately \$900 million, excluding land acquisitions and capitalized interest. The Company is accelerating the completion of the 8-22 10-well Montney pad in Kaybob and will be utilizing up to 10 drilling rigs in the Deep Basin in the upcoming 2014 / 2015 winter drilling season, focusing on Montney formation wells.

## Liquidity and Capital Resources

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount may adjust its capital structure by issuing or repurchasing shares, altering debt levels, modifying capital programs, acquiring or disposing of assets or participating in joint ventures.

	September 30, 2014	December 31, 2013	% Change
Adjusted working capital deficit <sup>(1)</sup>	143.2	151.8	(6)
Demand facilities	78.8	75.6	4
Credit facility	214.7	71.8	199
Senior Notes <sup>(2)</sup>	820.0	820.0	—
<b>Net debt <sup>(3)</sup></b>	<b>1,256.7</b>	<b>1,119.2</b>	<b>12</b>
Share capital	1,594.4	1,169.2	36
Accumulated deficit	(189.8)	(224.6)	(15)
Reserves	104.6	87.6	19
<b>Total Capital</b>	<b>2,765.9</b>	<b>2,151.4</b>	<b>29</b>

<sup>(1)</sup> 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, 2014 – \$5.5 million, December 31, 2013 – \$9.5 million), risk management assets and liabilities, and demand facilities.

<sup>(2)</sup> Excludes unamortized issue premiums and financing costs.

<sup>(3)</sup> Net debt excludes the \$20 million deposit on account with the Canada Revenue Agency, pending resolution of the Company's notices of objection.

Paramount had an adjusted working capital deficit at September 30, 2014 of \$143.2 million compared to a deficit of \$151.8 million at December 31, 2013. The adjusted working capital deficit at September 30, 2014 included \$14.8 million of cash and cash equivalents, \$49.6 million of accounts receivable and \$212.8 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to proceeds from the July 2014 equity issuances, drawings on credit facilities, funds flow from operations and proceeds from the sale of non-core properties and investments, partially offset by capital spending related to the Company's 2014 capital program.

Paramount expects to fund its operations, obligations and capital expenditures for the remainder of the year with proceeds from the July 2014 issuance of Common Shares, which were initially used to temporarily reduce indebtedness under the bank credit facility, funds flow from operations, drawings on the Company's bank credit facilities, proceeds from the sale of non-core assets, existing cash and cash equivalents and by accessing the capital markets, if required. The Company's bank credit facility was increased to \$700 million in June 2014, of which \$214.7 million was drawn as of September 30, 2014. As production increases in the fourth quarter, funds flow from operations is expected to increase as a result of higher sales volumes and netbacks.

### **Demand Facilities**

#### *Drilling Rig Facilities*

In October 2014, Fox Drilling's non-revolving demand credit facility (the "Fox Drilling Facility") was amended to provide additional capacity to partially fund the construction of two new drilling rigs. The amended facility is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal balance of \$49.9 million outstanding at September 30, 2014. Scheduled principal repayments on Fox Tranche A are \$4.1 million for the remainder of 2014 and \$8.2 million in each of 2015, 2016, and 2017, with the remaining outstanding balance payable in 2018. The second

tranche ("Fox Tranche B") is a \$27.0 million non-revolving demand loan that will be drawn over the construction period. Once the new rigs are commissioned in 2015, scheduled quarterly principal repayments will commence for a five year term, after which the remaining outstanding balance will be repaid.

Recourse and security for the Fox Drilling Facility is limited to Fox Drilling's rigs, including new drilling rigs being constructed and drilling contracts guaranteed by 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 Energy has a \$40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the nine months ended September 30, 2014, \$6.4 million was drawn on the Cavalier Facility resulting in \$28.9 million being outstanding at September 30, 2014.

#### **Bank Credit Facility**

In June 2014, Paramount's bank credit facility (the "Facility") was increased from \$600 million to \$700 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of \$600 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to \$100 million and is due November 30, 2014 in the event the due date is not earlier extended. Paramount had undrawn letters of credit outstanding at September 30, 2014 totaling \$56.8 million that reduce the amount available to the Company.

Paramount is currently working with its lenders on the annual renewal and possible increase of its \$700 million bank credit facility.

#### **Share Capital**

In October 2013, Paramount issued 1,360,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses (the "FTS") for gross proceeds of \$59.8 million. The Company has incurred sufficient qualifying expenditures to satisfy commitments associated with the FTS issued in 2013.

In July 2014, Paramount issued 4,600,000 Common Shares at a price of \$60.00 per share and 900,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("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 100,000 Common Shares on a "flow-through" basis in respect of CEE at a price of \$74.40 per share to Paramount's Chairman and Chief Executive Officer for gross proceeds of \$7.4 million. The net proceeds from the offering of Common Shares have been, and will be, applied to Paramount's exploration and development activities, which are primarily focused on the Company's Deep Basin lands, including an expanded drilling program, and for general corporate purposes. The gross proceeds from the offering of flow-through shares will be used by Paramount to incur eligible CEE. The net proceeds from the offerings were initially used to temporarily reduce indebtedness under the Company's bank credit facility.

The Company is committed to incur \$74.4 million of qualifying expenditures related to the July 2014 issuances of flow-through shares by December 31, 2015, of which \$46.1 million was incurred as of September 30, 2014.

At October 31, 2014, Paramount had 104,838,795 Common Shares and 5,690,100 Paramount Options outstanding, of which 2,653,000 Paramount Options are exercisable.

## Quarterly Information

	2014			2013			2012	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Petroleum and natural gas sales – CO</b>	<b>84.4</b>	80.0	86.2	57.8	53.9	59.5	59.5	51.0
Petroleum and natural gas sales – DO	—	—	—	—	—	—	1.8	3.6
<b>Petroleum and natural gas sales</b>	<b>84.4</b>	80.0	86.2	57.8	53.9	59.5	61.3	54.6
<b>Funds flow from operations – CO</b>	<b>36.4</b>	29.5	33.5	18.3	13.4	22.3	17.9	16.9
Funds flow from operations – DO	—	—	—	—	—	—	(1.3)	0.8
<b>Funds flow from operations</b>	<b>36.4</b>	29.5	33.5	18.3	13.4	22.3	16.6	17.7
<i>Per share – basic and diluted (\$/share)</i>	<i>0.35</i>	<i>0.30</i>	<i>0.34</i>	<i>0.19</i>	<i>0.14</i>	<i>0.24</i>	<i>0.18</i>	<i>0.20</i>
<b>Income (loss) – CO</b>	<b>(9.4)</b>	53.1	(8.9)	0.3	(37.6)	(22.1)	(27.7)	(128.6)
<i>Per share – basic (\$/share)</i>	<i>(0.09)</i>	<i>0.54</i>	<i>(0.09)</i>	—	<i>(0.39)</i>	<i>(0.24)</i>	<i>(0.31)</i>	<i>(1.49)</i>
<i>Per share – diluted (\$/share)</i>	<i>(0.09)</i>	<i>0.53</i>	<i>(0.09)</i>	—	<i>(0.39)</i>	<i>(0.24)</i>	<i>(0.31)</i>	<i>(1.49)</i>
<b>Net income (loss)</b>	<b>(9.4)</b>	53.1	(8.9)	0.3	(37.6)	(22.1)	0.3	(151.8)
<i>Per share – basic (\$/share)</i>	<i>(0.09)</i>	<i>0.54</i>	<i>(0.09)</i>	—	<i>(0.39)</i>	<i>(0.24)</i>	—	<i>(1.69)</i>
<i>Per share – diluted (\$/share)</i>	<i>(0.09)</i>	<i>0.53</i>	<i>(0.09)</i>	—	<i>(0.39)</i>	<i>(0.24)</i>	—	<i>(1.69)</i>
<b>Sales volumes</b>								
Natural gas (MMcf/d)	<b>93.6</b>	99.4	104.7	102.5	100.9	107.6	110.8	99.4
Condensate and oil (Bbl/d)	<b>4,690</b>	3,212	2,686	2,530	2,231	1,946	2,402	2,046
Other NGLs (Bbl/d)	<b>1,643</b>	810	893	674	960	902	1,113	999
<b>Total Continuing Operations (Boe/d)</b>	<b>21,936</b>	20,585	21,028	20,290	20,022	20,790	21,985	19,606
Discontinued Operations (Boe/d)	—	—	—	—	—	—	606	1,068
<b>Total (Boe/d)</b>	<b>21,936</b>	20,585	21,028	20,290	20,022	20,790	22,591	20,674
<b>Average realized price</b>								
Natural gas (\$/Mcf)	<b>4.43</b>	4.96	6.04	3.73	3.10	3.97	3.48	3.45
Condensate and oil (\$/Bbl)	<b>92.66</b>	106.38	99.55	82.22	102.96	95.96	95.92	83.33
Other NGLs (\$/Bbl)	<b>32.87</b>	43.78	54.50	48.28	36.95	31.16	34.92	32.30
<b>Continuing Operations (\$/Boe)</b>	<b>41.80</b>	42.72	45.56	30.99	29.27	31.41	30.08	28.27
Discontinued Operations (\$/Boe)	—	—	—	—	—	—	32.95	36.61
<b>Total (\$/Boe)</b>	<b>41.80</b>	42.72	45.56	30.99	29.27	31.41	30.16	28.70

## Significant Items Impacting Quarterly Results

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

- 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 petroleum and natural 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 petroleum and natural 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 petroleum and natural gas properties.
- Third quarter 2013 earnings include a \$13.8 million net impairment write-down of petroleum and natural gas properties.
- Second quarter 2013 earnings include \$16.2 million of exploration expenses and \$10.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- First quarter 2013 earnings include \$50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.
- Fourth quarter 2012 earnings include a \$135.6 million write-down of petroleum and natural gas properties and goodwill, and \$6.5 million in dry hole charges.

## Other

### ***Accounting Policies***

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – Revenue From Contracts With Customers ("IFRS 15"). IFRS 15 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, 2017. The Company has not yet determined the impact of the IFRS on the financial statements.

In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"). 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 financial statements.

### ***Critical Accounting Estimates***

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on revenue and expenses in future periods. A detailed description of Paramount's significant accounting estimates, assumptions and judgments is provided in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2013.

## ***Internal Controls Over Financial Reporting***

During the three and nine months ended September 30, 2014, 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 and the growth and timing thereof (including the liquids component of such volumes);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and potential future facility expansions and additions), and the anticipated timing of and/or sources of funding for such activities;
- anticipated increases in funds flow from operations and decreases in operating costs;
- projected timelines for, and the anticipated costs of, constructing, commissioning and/or starting-up new and expanded natural gas processing and associated facilities;
- projected timelines for, and the anticipated costs of, constructing new drilling rigs;
- anticipated resource recovery ratios;
- the projected availability of third party processing, transportation, fractionation, de-ethanization and other capacity;
- the expected use of proceeds from the July 2014 offerings of Common Shares and "flow-through" Common Shares;
- the renewal of Paramount's bank credit facility and the possible increase in the size of the facility; 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 oil, bitumen, natural gas, condensate, Other NGLs and other commodity prices;
- royalty rates, taxes and capital, operating, general and 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, fractionation, de-ethanization and storage capacity on acceptable terms;

- the ability of Paramount to market its oil, bitumen, natural gas, condensate and Other NGLs 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 oil, bitumen, natural gas, condensate, Other NGLs and other commodity prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserves additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, de-ethanization and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing oil, bitumen, natural gas, condensate and Other NGLs;
- 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 resource 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 development expenditures” 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 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 development expenditures** refer to capital expenditures and geological and geophysical costs incurred by the Company’s COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company’s Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity. **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, 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
Other NGLs	Ethane, propane and butane
Condensate	Pentane and heavier hydrocarbons

#### Natural Gas

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

#### Oil Equivalent

Boe	Barrels of oil equivalent
MBoe	Thousands of barrels of oil equivalent
MMBoe	Millions of 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. The term "liquids" is used to represent oil, condensate and Other NGLs.

The **condensate gas ratio** is the ratio of condensate and oil volumes over natural gas volumes expressed as Bbl/MMcf. The **resource recovery ratio** is the proportion of resources initially-in-place that are ultimately produced.

During the nine months ended September 30, 2014, the value ratio between oil and natural gas was approximately 19:1. 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.

**PARAMOUNT RESOURCES LTD.**  
**Interim Condensed Consolidated Balance Sheet**  
(\$ thousands)

As at	Note	September 30 2014	December 31 2013
<b>ASSETS</b>		<b>(Unaudited)</b>	
<b>Current assets</b>			
Cash and cash equivalents		\$ 14,755	\$ 10,703
Accounts receivable		49,618	39,300
Risk management	16	684	—
Prepaid expenses and other		5,248	2,252
		<b>70,305</b>	<b>52,255</b>
<b>Deposit</b>		<b>20,591</b>	<b>20,437</b>
<b>Exploration and evaluation</b>	5	<b>628,566</b>	<b>429,911</b>
<b>Property, plant and equipment, net</b>	6	<b>1,929,412</b>	<b>1,573,011</b>
<b>Equity-accounted investments</b>	7	<b>107,093</b>	<b>104,314</b>
<b>Investments in securities</b>	8	<b>176,124</b>	<b>145,661</b>
<b>Deferred income tax</b>		<b>134,029</b>	<b>119,090</b>
<b>Goodwill</b>	3	<b>24,733</b>	<b>3,124</b>
		<b>\$ 3,090,853</b>	<b>\$ 2,447,803</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Demand facilities	9	\$ 78,849	\$ 75,550
Accounts payable and accrued liabilities		218,278	213,581
Risk management	16	—	3,972
		<b>297,127</b>	<b>293,103</b>
<b>Long-term debt</b>	10	<b>1,026,851</b>	<b>882,603</b>
<b>Asset retirement obligations</b>	11	<b>257,715</b>	<b>239,853</b>
		<b>1,581,693</b>	<b>1,415,559</b>
<b>Shareholders' equity</b>			
Share capital	12	1,594,365	1,169,178
Accumulated deficit		(189,810)	(224,612)
Reserves	13	104,605	87,678
		<b>1,509,160</b>	<b>1,032,244</b>
		<b>\$ 3,090,853</b>	<b>\$ 2,447,803</b>

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

# PARAMOUNT RESOURCES LTD.

## Interim Condensed Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

(\$ thousands, except as noted)

	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
Petroleum and natural gas sales		\$ 84,366	\$ 53,924	\$ 250,613	\$ 172,876
Royalties		(3,519)	(3,259)	(12,851)	(8,014)
<b>Revenue</b>		<b>80,847</b>	<b>50,665</b>	<b>237,762</b>	<b>164,862</b>
<b>Gain (loss) on financial commodity contracts</b>	16	<b>4,394</b>	<b>(5,215)</b>	<b>(821)</b>	<b>(3,622)</b>
		<b>85,241</b>	<b>45,450</b>	<b>236,941</b>	<b>161,240</b>
<b>Expenses</b>					
Operating expense		16,798	16,966	51,764	50,823
Transportation		9,158	5,686	21,683	15,836
General and administrative		5,812	3,916	18,661	14,837
Stock-based compensation	14	6,144	5,543	18,439	17,004
Depletion and depreciation		39,171	45,566	121,325	126,635
Exploration and evaluation	5	1,833	2,287	18,042	28,891
(Gain) loss on sale of property, plant and equipment		1,025	(4,098)	(95,577)	(26,505)
Interest		16,298	13,306	49,091	39,473
Accretion of asset retirement obligations	11	1,467	1,464	4,503	1,464
Foreign exchange		270	(205)	395	298
		<b>97,976</b>	<b>90,431</b>	<b>208,326</b>	<b>268,756</b>
Income (loss) from equity-accounted investments	7	3,763	(2,197)	19,910	2,112
Other income		1,257	251	3,935	2,450
<b>Income (loss) from continuing operations before tax</b>		<b>(7,715)</b>	<b>(46,927)</b>	<b>52,460</b>	<b>(102,954)</b>
<b>Income tax expense (recovery)</b>	15				
Current		—	254	82	4,863
Deferred		1,708	(9,541)	17,576	(20,366)
		<b>1,708</b>	<b>(9,287)</b>	<b>17,658</b>	<b>(15,503)</b>
<b>Income (loss) from continuing operations</b>		<b>(9,423)</b>	<b>(37,640)</b>	<b>34,802</b>	<b>(87,451)</b>
<b>Income from discontinued operations, net of tax</b>	4	<b>—</b>	<b>—</b>	<b>—</b>	<b>28,030</b>
<b>Net income (loss)</b>		<b>\$ (9,423)</b>	<b>\$ (37,640)</b>	<b>\$ 34,802</b>	<b>\$ (59,421)</b>
<b>Other comprehensive income (loss), net of tax</b>	13				
Change in market value of securities		(20,934)	27,861	16,435	22,225
Exchange differences on translation of US subsidiaries		—	—	—	393
		<b>(20,934)</b>	<b>27,861</b>	<b>16,435</b>	<b>22,618</b>
<b>Comprehensive income (loss)</b>		<b>\$ (30,357)</b>	<b>\$ (9,779)</b>	<b>\$ 51,237</b>	<b>\$ (36,803)</b>
<b>Net income (loss) per common share (\$/share)</b>	12				
Basic – continuing operations		\$ (0.09)	\$ (0.39)	\$ 0.35	\$ (0.94)
Basic – discontinued operations		—	—	—	0.30
Basic		<b>(0.09)</b>	<b>(0.39)</b>	<b>0.35</b>	<b>(0.64)</b>
Diluted – continuing operations		(0.09)	(0.39)	0.34	(0.94)
Diluted – discontinued operations		—	—	—	0.30
Diluted		<b>\$ (0.09)</b>	<b>\$ (0.39)</b>	<b>\$ 0.34</b>	<b>\$ (0.64)</b>

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

# PARAMOUNT RESOURCES LTD.

## Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(\$ thousands)

	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
<b>Operating activities</b>					
Net income (loss)		\$ (9,423)	\$ (37,640)	\$ 34,802	\$ (59,421)
Add (deduct):					
Items not involving cash	17	41,769	46,395	52,365	95,049
Dividends from equity-accounted investments		2,010	2,010	6,030	6,030
Asset retirement obligations settled	11	(1,144)	(2,841)	(3,658)	(5,257)
Current tax related to the sale of U.S. properties		—	243	—	4,790
Change in non-cash working capital		4,294	11,519	(5,219)	10,036
Cash from operating activities		37,506	19,686	84,320	51,227
<b>Financing activities</b>					
Net draw of demand loans	9	1,623	14,502	3,299	34,845
Net draw (repayment) of revolving long-term debt	10	(130,330)	97,670	142,844	97,670
Common shares issued, net of issue costs		336,813	510	350,052	155,965
Common shares purchased under stock incentive plan		—	—	(4,617)	(3,998)
Cash from financing activities		208,106	112,682	491,578	284,482
<b>Investing activities</b>					
Property, plant and equipment and exploration		(267,347)	(221,348)	(678,761)	(536,994)
Proceeds on sale of property, plant and equipment		1,536	6,770	99,461	29,532
Proceeds on sale of discontinued operations, net		—	—	—	9,062
Cash of MGM Energy Corp. on acquisition	3	—	—	3,200	—
Proceeds on sale of investments, net		—	—	10,179	—
Investments in securities		(5,000)	—	(5,000)	(9,000)
Change in non-cash working capital		8,278	84,935	(1,005)	36,843
Cash used in investing activities		(262,533)	(129,643)	(571,926)	(470,557)
Net increase (decrease)		(16,921)	2,725	3,972	(134,848)
Foreign exchange on cash and cash equivalents		339	(150)	80	625
Cash and cash equivalents, beginning of period		31,337	9,886	10,703	146,684
<b>Cash and cash equivalents, end of period</b>		<b>\$ 14,755</b>	<b>\$ 12,461</b>	<b>\$ 14,755</b>	<b>\$ 12,461</b>

### Supplemental cash flow information

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

## PARAMOUNT RESOURCES LTD.

### Interim Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(\$ thousands, except as noted)

Nine months ended September 30		2014		2013	
	Note	Shares (000's)		Shares (000's)	
<b>Share Capital</b>					
Balance, beginning of period		96,993	\$ 1,169,178	89,857	\$ 921,680
Issued		6,475	356,017	5,491	191,801
Issued on acquisition of MGM Energy Corp.	3	1,128	69,382	—	—
Change in unvested common shares for stock incentive plan	14	18	(212)	3	(278)
<b>Balance, end of period</b>		<b>104,614</b>	<b>\$ 1,594,365</b>	<b>95,351</b>	<b>\$ 1,113,203</b>
<b>Accumulated Deficit</b>					
Balance, beginning of period			\$ (224,612)		\$ (165,527)
Net income (loss)			34,802		(59,421)
<b>Balance, end of period</b>			<b>\$ (189,810)</b>		<b>\$ (224,948)</b>
<b>Reserves</b>					
Balance, beginning of period	13		\$ 87,678		\$ 94,947
Other comprehensive income			16,435		22,618
Change in contributed surplus			492		(15,402)
<b>Balance, end of period</b>			<b>\$ 104,605</b>		<b>\$ 102,163</b>
<b>Total Shareholders' Equity</b>			<b>\$ 1,509,160</b>		<b>\$ 990,418</b>

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 principal properties are located in Alberta and British Columbia. The Company's operations are divided into three business segments, 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 Energy"). 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, 2014 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on November 5, 2014.

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, 2013 (the "Annual Financial Statements"). These Interim Financial Statements are stated in Canadian dollars 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 Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted.

These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

### **Change in Accounting Policies**

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers* ("IFRS 15"). IFRS 15 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, 2017. The Company has not yet determined the impact of the IFRS on the financial statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments* ("IFRS 9"). 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 financial statements.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**2. SEGMENTED INFORMATION**

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
<b>Expenses</b>					
Operating expense and transportation	25,956	—	—	—	25,956
General and administrative	—	1,724	4,088	—	5,812
Stock-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 property, plant and equipment	940	85	—	—	1,025
Interest	—	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
Other	1,305	(129)	58	—	1,234
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)
<b>Inter-segment eliminations</b>	—	(3,711)	—	3,711	—
<b>Segment income (loss)</b>	\$ 17,514	\$ (661)	\$ (24,568)	\$ —	(7,715)
<b>Income tax expense</b>					(1,708)
<b>Net loss</b>					\$ (9,423)

Three months ended September 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 50,665	\$ —	\$ —	\$ —	\$ 50,665
Loss on financial commodity contracts	(5,215)	—	—	—	(5,215)
	45,450	—	—	—	45,450
<b>Expenses</b>					
Operating expense and transportation	22,652	—	—	—	22,652
General and administrative	—	1,490	2,426	—	3,916
Stock-based compensation	—	1,911	3,632	—	5,543
Depletion and depreciation	45,267	3,246	94	(3,041)	45,566
Exploration and evaluation	2,202	85	—	—	2,287
Gain on sale of property, plant and equipment	(4,098)	—	—	—	(4,098)
Interest	—	603	12,703	—	13,306
Accretion of asset retirement obligations	1,456	8	—	—	1,464
Foreign exchange	—	—	(205)	—	(205)
	67,479	7,343	18,650	(3,041)	90,431
Loss from equity-accounted investments	—	(2,197)	—	—	(2,197)
Other	94	—	—	—	94
Drilling rig revenue	—	12,951	—	(12,524)	427
Drilling rig expense	—	(6,168)	—	5,898	(270)
	(21,935)	(2,757)	(18,650)	(3,585)	(46,927)
<b>Inter-segment eliminations</b>	—	(3,585)	—	3,585	—
<b>Segment loss</b>	\$ (21,935)	\$ (6,342)	\$ (18,650)	\$ —	(46,927)
<b>Income tax recovery</b>					9,287
<b>Net loss</b>					\$ (37,640)



**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

<b>Nine months ended September 30, 2014</b>	<b>Principal Properties</b>	<b>Strategic Investments</b>	<b>Corporate</b>	<b>Inter-segment Eliminations</b>	<b>Total</b>
Revenue	\$ 237,762	\$ —	\$ —	\$ —	\$ 237,762
Loss on financial commodity contracts	(821)	—	—	—	(821)
	236,941	—	—	—	236,941
<b>Expenses</b>					
Operating expense and transportation	73,447	—	—	—	73,447
General and administrative	—	5,524	13,137	—	18,661
Stock-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 on sale of property, plant and equipment	(95,662)	85	—	—	(95,577)
Interest	—	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
Other	519	3,225	171	—	3,915
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
<b>Inter-segment eliminations</b>	—	(10,464)	—	10,464	—
<b>Segment income (loss)</b>	\$ 117,166	\$ 9,889	\$ (74,595)	\$ —	52,460
<b>Income tax expense</b>					(17,658)
<b>Net income</b>					\$ 34,802

<b>Nine months ended September 30, 2013</b>	<b>Principal Properties</b>	<b>Strategic Investments</b>	<b>Corporate</b>	<b>Inter-segment Eliminations</b>	<b>Total</b>
Revenue	\$ 164,862	\$ —	\$ —	\$ —	\$ 164,862
Loss on financial commodity contracts	(3,622)	—	—	—	(3,622)
	161,240	—	—	—	161,240
<b>Expenses</b>					
Operating expense and transportation	66,659	—	—	—	66,659
General and administrative	—	5,315	9,522	—	14,837
Stock-based compensation	—	3,767	13,237	—	17,004
Depletion and depreciation	125,251	7,383	271	(6,270)	126,635
Exploration and evaluation	28,218	673	—	—	28,891
Gain on sale of property, plant and equipment	(26,092)	(413)	—	—	(26,505)
Interest	—	1,693	37,780	—	39,473
Accretion of asset retirement obligations	1,456	8	—	—	1,464
Foreign exchange	—	—	298	—	298
	195,492	18,426	61,108	(6,270)	268,756
Income from equity-accounted investments	—	2,112	—	—	2,112
Other	12	—	—	—	12
Drilling rig revenue	—	30,804	—	(26,369)	4,435
Drilling rig expense	—	(14,256)	—	12,259	(1,997)
	(34,240)	234	(61,108)	(7,840)	(102,954)
<b>Inter-segment eliminations</b>	—	(7,840)	—	7,840	—
<b>Segment loss</b>	\$ (34,240)	\$ (7,606)	\$ (61,108)	\$ —	(102,954)
Income tax recovery					15,503
Income from discontinued operations, net of tax					28,030
<b>Net loss</b>					\$ (59,421)

## Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

### 3. ACQUISITION

#### MGM Energy Corp.

On June 11, 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 Class A Common Shares ("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)
<b>Net assets acquired</b>	<b>\$ 80,484</b>

Paramount Common Shares issued <sup>(1)</sup>	\$ 69,382
Fair value of MGM Energy shares previously held <sup>(2)</sup>	11,102
<b>Total</b>	<b>\$ 80,484</b>

(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.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**4. DISCONTINUED OPERATIONS**

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of \$9.1 million. These properties were included in the Company's Principal Properties business segment. Amounts related to these properties from January 1, 2013 to their sale in March 2013 have been classified as discontinued operations and are excluded from the results of the Company's continuing operations.

Details of the income from discontinued operations are presented below:

<b>Nine months ended</b>	<b>September 30, 2013</b>
Petroleum and natural gas sales	\$ 1,796
Royalties	(24)
Revenue	1,772
Expenses	
Operating expense	2,841
Transportation	233
Depletion and depreciation	267
Exploration and evaluation	29
	3,370
Loss from ordinary activities of discontinued operations before tax	(1,598)
Gain on sale of discontinued operations	38,985
Income from discontinued operations before tax	37,387
Deferred income tax expense – discontinued operations	9,357
Income from discontinued operations	\$ 28,030

The cash flows from discontinued operations, including changes in related non-cash working capital items, are as follows:

<b>Nine months ended</b>	<b>September 30, 2013</b>
Operating	\$ (926)
Investing	9,062
Cash flow from discontinued operations	\$ 8,136

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**5. EXPLORATION AND EVALUATION**

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	\$ 429,911	\$ 405,090
Additions	233,632	203,642
Transfers to property, plant and equipment	(25,383)	(137,355)
Corporate acquisition	13,909	—
Dry hole	(173)	(13,862)
Expired lease costs	(11,697)	(14,429)
Dispositions	(11,633)	(13,143)
Foreign exchange	—	(32)
<b>Balance, end of period</b>	<b>\$ 628,566</b>	<b>\$ 429,911</b>

**Exploration and Evaluation Expense**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Geological and geophysical	\$ 2,000	\$ 2,396	\$ 6,172	\$ 5,796
Dry hole	(146)	1,713	173	9,699
Expired lease costs	(21)	(1,822)	11,697	13,396
	<b>\$ 1,833</b>	<b>\$ 2,287</b>	<b>\$ 18,042</b>	<b>\$ 28,891</b>

**6. PROPERTY, PLANT AND EQUIPMENT**

Nine months ended September 30, 2014	Petroleum & natural gas assets			Drilling rigs	Other	Total
<b>Cost</b>						
Balance, December 31, 2013	\$ 2,489,356	\$ 101,517	\$ 27,173			<b>\$ 2,618,046</b>
Additions	440,937	15,692	513			<b>457,142</b>
Transfers from exploration and evaluation	25,383	—	—			<b>25,383</b>
Dispositions	(143,619)	—	(242)			<b>(143,861)</b>
Change in asset retirement provision	38,600	—	—			<b>38,600</b>
<b>Cost, September 30, 2014</b>	<b>2,850,657</b>	<b>117,209</b>	<b>27,444</b>			<b>2,995,310</b>
<b>Accumulated depletion, depreciation and write-downs</b>						
Balance, December 31, 2013	\$ (997,486)	\$ (27,802)	\$ (19,747)			<b>\$ (1,045,035)</b>
Depletion and depreciation	(121,341)	(7,967)	(705)			<b>(130,013)</b>
Dispositions	108,998	—	152			<b>109,150</b>
<b>Accumulated depletion, depreciation and write-downs, September 30, 2014</b>	<b>(1,009,829)</b>	<b>(35,769)</b>	<b>(20,300)</b>			<b>(1,065,898)</b>
Net book value, December 31, 2013	1,491,870	73,715	7,426			<b>1,573,011</b>
<b>Net book value, September 30, 2014</b>	<b>\$ 1,840,828</b>	<b>\$ 81,440</b>	<b>\$ 7,144</b>			<b>\$ 1,929,412</b>

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.

Capitalized costs of processing plants are depreciated on a straight-line basis over their expected useful lives, which now extend up to 40 years with the completion of certain new facilities in 2014.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**7. EQUITY ACCOUNTED INVESTMENTS**

As at	September 30, 2014			December 31, 2013		
	Shares (000's)	Carrying Value	Market Value <sup>(1)</sup>	Shares (000's)	Carrying Value	Market Value <sup>(1)</sup>
Trilogy	19,144	\$101,550	\$ 485,500	19,144	\$ 97,391	\$ 528,383
MGM Energy	—	—	—	54,147	1,212	8,664
Other		5,543			5,711	
		<u>\$107,093</u>			<u>\$104,314</u>	

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

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Equity earnings (loss)	\$ 3,698	\$ (2,334)	\$ 8,905	\$ 1,488
Dilution gain	65	137	215	624
Gain on MGM Energy shares on acquisition	—	—	10,790	—
	<u>\$ 3,763</u>	<u>\$ (2,197)</u>	<u>\$ 19,910</u>	<u>\$ 2,112</u>

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

As at September 30	2014	2013
Current assets	\$ 67,477	\$ 63,234
Non-current assets <sup>(1)</sup>	1,661,784	1,511,913
Current liabilities	(155,910)	(182,035)
Non-current liabilities	(860,370)	(872,365)
Equity	\$ 712,981	\$ 520,747
Multiply by: Paramount's equity interest	15.22%	16.22%
Paramount's proportionate share of equity	\$ 108,507	\$ 84,448
Less: share of share-based compensation recorded in equity of Trilogy	(6,957)	(4,891)
Carrying value of Paramount's investment	<u>\$ 101,550</u>	<u>\$ 79,557</u>

(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, 2014 totaled \$1,660,325 (2013 – \$1,480,165) and equity totaled \$711,522 (2013 – \$488,999).

	Nine months ended September 30	
	2014	2013
Revenue	\$ 430,592	\$ 379,843
Comprehensive income <sup>(1)</sup>	65,396	15,597
Paramount's share of Trilogy's comprehensive income	<u>\$ 9,966</u>	<u>\$ 2,547</u>

(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 the open market in prior years. Excluding such adjustments, Trilogy's comprehensive income for the nine months ended September 30, 2014 was \$72,318 (2013 – \$20,207).

Trilogy had 6.6 million stock options outstanding (2.0 million exercisable) at September 30, 2014 at exercise prices ranging from \$4.85 to \$38.74 per share.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**8. INVESTMENTS IN SECURITIES**

As at	September 30, 2014		December 31, 2013	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	\$ 127,206	3,700	\$ 113,257
Other <sup>(1)</sup>		48,918		32,404
		<b>\$ 176,124</b>		<b>\$ 145,661</b>

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

Publicly traded available-for-sale investments are carried at their period-end trading price, which are level one fair value hierarchy inputs.

**9. DEMAND FACILITIES**

As at	September 30, 2014	December 31, 2013
Fox Drilling Facility	\$ 49,920	\$ 53,000
Cavalier Facility	28,929	22,550
	<b>\$ 78,849</b>	<b>\$ 75,550</b>

In October 2014, Fox Drilling's non-revolving demand credit facility (the "Fox Drilling Facility") was amended to provide additional capacity to partially fund the construction of two new drilling rigs. The amended facility is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal balance of \$49.9 million outstanding at September 30, 2014. Scheduled principal repayments on Fox Tranche A are \$4.1 million for the remainder of 2014 and \$8.2 million in each of 2015, 2016, and 2017, with the remaining outstanding balance payable in 2018. The second tranche ("Fox Tranche B") is a \$27.0 million non-revolving demand loan that will be drawn over the construction period. Once the new rigs are commissioned in 2015, scheduled quarterly principal repayments will commence for a five year term, after which the remaining outstanding balance will be repaid.

Recourse and security for the Fox Drilling Facility is limited to Fox Drilling's rigs, including new drilling rigs being constructed and drilling contracts guaranteed by 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.

**10. LONG-TERM DEBT**

As at	September 30, 2014	December 31, 2013
Bank credit facility	\$ 214,670	\$ 71,826
8¼% Senior Notes due 2017	370,000	370,000
7% Senior Notes due 2019	450,000	450,000
	<b>1,034,670</b>	891,826
Unamortized financing costs, net of premiums	(7,819)	(9,223)
	<b>\$ 1,026,851</b>	<b>\$ 882,603</b>

In June 2014, Paramount's bank credit facility (the "Facility") was increased from \$600 million to \$700 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of \$600 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an

## Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to \$100 million and is due November 30, 2014 in the event the due date is not earlier extended.

At September 30, 2014, \$214.7 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at September 30, 2014 totaling \$56.8 million that reduce the amount available to the Company.

The Senior Notes due 2017 had a market value of 103.7 percent of their principal amount at September 30, 2014 (December 31, 2013 – 103.5 percent). The Senior Notes due 2019 had a market value of 105.4 percent of their principal amount at September 30, 2014 (December 31, 2013 – 101.0 percent). 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.

### 11. ASSET RETIREMENT OBLIGATIONS

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Asset retirement obligations, beginning of period	\$ 239,853	\$ 300,468
Retirement obligations incurred	13,724	35,749
Revisions to estimated retirement costs and discount rates	26,571	(45,321)
Obligations settled	(3,658)	(6,336)
Dispositions	(30,134)	(48,087)
Assumed on corporate acquisition	6,856	—
Accretion expense	4,503	3,099
Other	—	281
<b>Asset retirement obligations, end of period</b>	<b>\$ 257,715</b>	<b>\$ 239,853</b>

Asset retirement obligations at September 30, 2014 were determined using a weighted average risk-free rate of 2.25 percent (December 31, 2013 – 3.00 percent) and an inflation rate of 2.00 percent (December 31, 2013 – 2.00 percent).

### 12. SHARE CAPITAL

At September 30, 2014, 104,613,896 (December 31, 2013 – 96,993,129) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 54,199 (December 31, 2013 – 71,495) Common Shares held in trust under the stock incentive plan.

In July 2014, Paramount issued 4,600,000 Common Shares at a price of \$60.00 per share and 900,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("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 100,000 Common Shares on a "flow-through" basis in respect of CEE at a price of \$74.40 per share to Paramount's Chairman and Chief Executive Officer for gross proceeds of \$7.4 million.

On issuance of the flow-through shares, a liability of \$14.4 million was recognized in accounts payable and accrued liabilities in respect of the Company's obligation to renounce qualifying expenditures. Paramount incurred \$10.7 million of transaction costs in respect of these equity offerings, net of tax benefits of \$3.5 million.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**Weighted Average Common Shares**

Three months ended September 30	2014		2013	
	Wtd. Avg. Shares (000's)	Loss from continuing operations	Wtd. Avg. Shares (000's)	Loss from continuing operations
Loss from continuing operations – basic	104,122	\$ (9,423)	95,324	\$ (37,640)
Dilutive effect of Paramount options	—	—	—	—
Loss from continuing operations – diluted	104,122	\$ (9,423)	95,324	\$ (37,640)

Nine months ended September 30	2014		2013	
	Wtd. Avg. Shares (000's)	Income from continuing operations	Wtd. Avg. Shares (000's)	Loss from continuing operations
Income (loss) from continuing operations – basic	99,848	\$ 34,802	92,727	\$ (87,451)
Dilutive effect of Paramount options	1,677	—	—	—
Income (loss) from continuing operations – diluted	101,525	\$ 34,802	92,727	\$ (87,451)

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 considered potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to income from continuing operations. The Company had 5.9 million Paramount Options outstanding at September 30, 2014 (September 30, 2013 – 5.3 million) of which 0.2 million (September 30, 2013 – 5.3 million) were anti-dilutive for the nine months then ended.

**13. RESERVES**

Reserves at September 30, 2014 include unrealized gains and losses related to changes in the market value of the Company's investments in available-for-sale securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains on securities	Contributed surplus	Total
Balance, December 31, 2013	\$ 12,787	\$ 74,891	\$ 87,678
Other comprehensive income	16,435	—	16,435
Stock-based compensation	—	17,366	17,366
Stock options exercised	—	(16,874)	(16,874)
<b>Balance, September 30, 2014</b>	<b>\$ 29,222</b>	<b>\$ 75,383</b>	<b>\$ 104,605</b>



**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**Other Comprehensive Income (Loss)**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Unrealized gain (loss) on securities</b>				
Change in market value of securities	\$ (21,713)	\$ 27,861	\$ 19,552	\$ 22,324
Reclassification of other comprehensive income to earnings	129	—	(2,785)	—
Deferred tax	650	—	(332)	(99)
	<b>(20,934)</b>	27,861	<b>16,435</b>	22,225
<b>Translation of foreign subsidiaries</b>				
Exchange differences on translation of US subsidiaries	—	—	—	(587)
Reclassification of other comprehensive income to earnings	—	—	—	980
	—	—	—	393
<b>Other comprehensive income (loss)</b>	<b>\$ (20,934)</b>	\$ 27,861	<b>\$ 16,435</b>	\$ 22,618

**14. SHARE-BASED COMPENSATION**

**Paramount Options**

Changes in outstanding Paramount Options are as follows:

	Nine months ended September 30, 2014		Twelve months ended December 31, 2013	
	Number	Weighted average exercise price (\$/share)	Number	Weighted average exercise price (\$/share)
Balance, beginning of period	6,632,200	\$ 31.20	6,667,850	\$ 23.58
Granted	210,000	54.28	1,865,000	37.37
Exercised	(877,400)	15.76	(1,747,650)	8.66
Forfeited	(104,000)	35.14	(153,000)	31.98
<b>Balance, end of period</b>	<b>5,860,800</b>	<b>\$ 34.26</b>	<b>6,632,200</b>	<b>\$ 31.20</b>
<b>Options exercisable, end of period</b>	<b>1,544,100</b>	<b>\$ 29.02</b>	<b>2,407,250</b>	<b>\$ 24.21</b>

**Stock Incentive Plan – Shares Held in Trust**

	Nine months ended September 30, 2014		Twelve months ended December 31, 2013	
	Shares (000's)		Shares (000's)	
Balance, beginning of period	72	\$ 500	75	\$ 416
Shares purchased	92	4,617	113	3,998
Change in vested and unvested shares	(110)	(4,405)	(116)	(3,914)
<b>Balance, end of period</b>	<b>54</b>	<b>\$ 712</b>	<b>72</b>	<b>\$ 500</b>

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**15. INCOME TAX**

The following table reconciles income taxes calculated at Canadian federal and provincial statutory rates to Paramount's recorded income tax expense (recovery):

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Income (loss) from continuing operations before tax	\$ (7,715)	\$ (46,927)	\$ 52,460	\$ (102,954)
Effective Canadian statutory income tax rate	25.0%	25.0%	25.0%	25.0%
Expected income tax expense (recovery)	\$ (1,929)	\$ (11,732)	\$ 13,115	\$ (25,739)
Effect on income taxes of:				
Statutory and other rate differences	(70)	478	58	2,454
(Income) loss from equity-accounted investments	(940)	549	(4,977)	(528)
Investment in subsidiaries	—	(311)	—	1,398
Flow-through share renunciations	2,609	—	5,226	3,618
Stock-based compensation	1,485	1,338	4,104	3,772
Non-deductible items and other	553	391	132	(478)
Income tax expense (recovery)	\$ 1,708	\$ (9,287)	\$ 17,658	\$ (15,503)

**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Risk management financial instruments outstanding at September 30, 2014 are as follows:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil - NYMEX WTI Swap	2,000 Bbl/d	US\$91.78/Bbl	361	October - December 2014
Natural Gas - AECO Swap	20,000 GJ/d	CAD\$4.45/GJ	323	October 2014
			\$ 684	

Risk management assets and liabilities are carried at fair values, which 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.

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

	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Fair value, beginning of period	\$ (3,972)	\$ —
Changes in fair value	(821)	(3,972)
Settlements paid	5,477	—
<b>Fair value, end of period</b>	<b>\$ 684</b>	<b>\$ (3,972)</b>

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(\$ thousands, except as noted)

**17. CONSOLIDATED STATEMENT OF CASH FLOWS – SELECTED INFORMATION**

**Items not involving cash**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Financial commodity contracts	\$ (4,671)	\$ 5,215	\$ (4,656)	\$ 3,622
Stock-based compensation	6,144	5,543	18,439	17,004
Depletion and depreciation	39,171	45,566	121,325	126,635
Exploration and evaluation	(167)	(109)	11,870	23,095
(Gain) loss on sale of property, plant, and equipment	1,025	(4,098)	(95,577)	(26,505)
Accretion of asset retirement obligations	1,467	1,464	4,503	1,464
Foreign exchange	284	(229)	588	378
(Income) loss from equity-accounted investments	(3,763)	2,197	(19,910)	(2,112)
Deferred income tax	1,708	(9,541)	17,576	(20,366)
Discontinued operations	—	—	—	(29,361)
Other	571	387	(1,793)	1,195
	<b>\$ 41,769</b>	<b>\$ 46,395</b>	<b>\$ 52,365</b>	<b>\$ 95,049</b>

**Supplemental cash flow information**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest paid	\$ 3,571	\$ 2,627	\$ 45,680	\$ 33,480
Current tax paid	\$ —	\$ 1,260	\$ 502	\$ 6,526

**18. COMMITMENTS**

Paramount had the following commitments as at September 30, 2014:

	Within one year	After one year but not more than five years	More than five years
Petroleum and natural gas transportation and processing commitments <sup>(1)</sup>	\$ 58,924	\$ 507,381	\$ 817,330
Operating leases	2,343	8,112	5,471
Capital spending commitments and other	4,419	13,377	—
	<b>\$ 65,686</b>	<b>\$ 528,870</b>	<b>\$ 822,801</b>

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$43.2 million at September 30, 2014 (December 31, 2013 - \$32.3 million).

As a result of the flow-through share issuances in July 2014, Paramount is required to incur, on or before December 31, 2015, and to renounce, effective on or before December 31, 2014, \$74.4 million of CEE.

## CORPORATE INFORMATION

### OFFICERS

**C. H. Riddell**  
Chairman of the Board and  
Chief Executive Officer

**J. H. T. Riddell**  
President and  
Chief Operating Officer

**B. K. Lee**  
Chief Financial Officer

**E. M. Shier**  
Corporate Secretary

**L. M. Doyle**  
Corporate Operating Officer

**G. W. P. McMillan**  
Corporate Operating Officer

**D. S. Purdy**  
Corporate Operating Officer

**J. Wittenberg**  
Corporate Operating Officer

**P. G. Tahmazian**  
V.P. Midstream

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

**L. A. Friesen**  
Assistant Corporate Secretary

### DIRECTORS

**C. H. Riddell**  
Chairman of the Board and  
Chief Executive Officer  
Paramount Resources Ltd.  
Calgary, Alberta

**J. H. T. Riddell**  
President and  
Chief Operating Officer  
Paramount Resources Ltd.  
Calgary, Alberta

**J. G. M. Bell** <sup>(1) (3) (4)</sup>  
General Counsel  
Olympia Trust Company  
Calgary, Alberta

**T. E. Claugus** <sup>(4)</sup>  
President  
GMT Capital Corp.  
Atlanta, Georgia

**J. C. Gorman** <sup>(1) (3) (4)</sup>  
Independent Businessman  
Calgary, Alberta

**D. Jungé C.F.A.** <sup>(2) (4)</sup>  
Chairman of the Board  
Pitcairn Trust Company  
Bryn Athyn, Pennsylvania

**D. M. Knott** <sup>(4)</sup>  
Managing General Partner  
Knott Partners, L.P.  
Syosset, New York

**S. L. Riddell Rose**  
President and  
Chief Executive Officer  
Perpetual Energy Inc.  
Calgary, Alberta

**J. B. Roy** <sup>(1) (2) (3) (4)</sup>  
Independent Businessman  
Calgary, Alberta

**B. M. Wylie** <sup>(2)</sup>  
Business Executive  
Calgary, Alberta

- (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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### HEAD OFFICE

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Facsimile: (403) 262-7994  
www.paramountres.com

### CONSULTING ENGINEERS

**McDaniel & Associates  
Consultants Ltd.**  
Calgary, Alberta

### AUDITORS

**Ernst & Young LLP**  
Calgary, Alberta

### BANKERS

**Bank of Montreal**  
Calgary, Alberta

**Alberta Treasury Branches**  
Calgary, Alberta

**The Bank of Nova Scotia**  
Calgary, Alberta

**HSBC Bank Canada**  
Calgary, Alberta

**Royal Bank of Canada**  
Calgary, Alberta

**Canadian Imperial Bank of  
Commerce**  
Calgary, Alberta

**The Toronto-Dominion Bank**  
Calgary, Alberta

**Caisse centrale Desjardins**  
Calgary, Alberta

**Canadian Western Bank**  
Calgary, Alberta

**Wells Fargo Bank, N.A.**  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
Calgary, Alberta  
Toronto, Ontario

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
("POU")

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