Third Quarter 2018 Results

Paramount Resources Ltd. Reports Third Quarter 2018 Results

Calgary, Alberta - November 8, 2018

OIL AND GAS OPERATIONS

- Sales volumes averaged 80,471 Boe/d in the third quarter of 2018, including 29,831 Bbl/d or 37 percent liquids. Production was impacted by scheduled turnarounds at a third-party facility in Karr and Paramount's 8-9 facility in Kaybob, as well as the Resthaven/Jayar sale. In addition, an extended commissioning period for the Kaybob Smoky 6-16 plant expansion delayed the start-up of 4 (4.0 net) new Duvernay wells until early-November.
- The Karr 1-2 pad was brought on production in the third quarter. Four of the 5 (5.0 net) new Montney wells have produced for at least 30 days, averaging 1,809 Boe/d of peak 30-day wellhead production per well, with an average condensate to gas ratio ("CGR") of 258 Bbl/MMcf. [1]
- At Karr, the Company has largely completed liquids debottlenecking projects at its 6-18 compression and dehydration facility and new trucking facilities, increasing raw liquids handling capacity to approximately 15,000 Bbl/d. Sales volumes at Karr averaged approximately 26,000 Boe/d for the seven-day period ended November 4, 2018.
- At Wapiti, completion operations were accelerated to take advantage of cost saving opportunities and all 11 (11.0 net) wells on the 9-3 pad have been fracked. These wells will be produced through a new third-party processing facility, which is scheduled to be commissioned in mid-2019.
- At South Duvernay, 5 (2.5 net) new wells brought on production in the third quarter at the 7-22 pad averaged 1,453 Boe/d of gross peak 30-day production per well, with an average CGR of 199 Bbl/MMcf.[1]
- The 5-29 Duvernay well (1.0 net) at Willesden Green was brought on production in the third quarter, averaging 944 Boe/d of peak 30-day wellhead production, 86 percent oil. [1]
- Annual capital spending for 2018 remains on track at approximately $600 million, excluding land and property acquisitions.
- Paramount has further diversified its natural gas sales arrangements, bringing the total to approximately 122,000 GJ/d of sales priced at Dawn, US Midwest and Malin markets. The Company continues to evaluate opportunities to access additional North American natural gas markets.
- Annual sales volumes in 2018 are expected to average between 85,000 Boe/d and 86,000 Boe/d, reflecting lower anticipated fourth quarter sales volumes due to lower production in the Kaybob region, dry gas shut-ins, pipeline outages in northeast British Columbia and weather issues in west central Alberta.

[1] Production measured at the wellhead. Depending on the property, natural gas sales volumes are between five and fifteen percent lower and liquids sales volumes are between 10 and 30 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

CORPORATE

- Adjusted funds flow was $58.2 million ($88.3 million before hedging settlements) or $0.44 per share for the third quarter of 2018, and $218.4 million ($285.5 million before hedging settlements) or $1.65 per share for the nine months ended September 30, 2018.
- Capital expenditures for the nine months ended September 30, 2018 totalled $452.7 million.
- Paramount realized $181.7 million of cash proceeds from dispositions in the nine months ended September 30, 2018. Paramount continues to pursue non-core property dispositions with a focus on maximizing value.
- The Company has purchased for cancellation 4.1 million of a maximum 7.5 million common shares under its normal course issuer bid program, at a total cost of $65.8 million.

REVIEW OF OPERATIONS

Paramount's sales volumes averaged 80,471 Boe/d in the third quarter of 2018, including 29,831 Bbl/d or 37 percent liquids. Production was impacted by scheduled turnarounds at a third-party facility in Karr and Paramount's 8-9 natural gas processing facility in Kaybob (the "8-9 Plant"), which in total impacted sales volumes by approximately 5,000 Boe/d, as well as the sale of approximately 5,000 Boe/d of production at Resthaven/Jayar in early-July. In addition, an extended commissioning period for the Kaybob Smoky 6-16 processing plant expansion (the "6-16 Plant") delayed the start-up of new Duvernay wells from August to early-November.

Fourth quarter 2018 sales volumes are expected to be lower than previously forecast primarily as a result of lower production in the Kaybob Region. Montney Oil production levels are lower due to bringing on new production later than planned, reducing the number of wells drilled in 2018 in order to redeploy capital to fund additional well completions at Wapiti and increased water handling requirements for certain wells. At Smoky Duvernay, new production was delayed until early-November as a result of unanticipated issues identified while commissioning the 6-16 Plant. At South Duvernay, production levels are being impacted by start-up issues related to new production equipment and unscheduled third-party facility outages.

The Company continues to monitor its natural gas properties and is shutting-in wells on a temporary basis when market prices fall below economic thresholds. In September, Paramount permanently shut-in all production related to the Hawkeye area in the Central Alberta and Other region, which averaged approximately 1.79 MMcfe/d of dry gas (approximately 300 Boe/d) for the nine months ended September 30, 2018.

Paramount's netback was $112.2 million in the third quarter of 2018. As a result of lower sales volumes, operating costs averaged $12.25 per Boe in the third quarter. Operating costs averaged $11.77 per Boe for the nine months ended September 30, 2018.

Exploration and development capital was $131.0 million in the third quarter of 2018 and $434.4 million for the nine months ended September 30, 2018. Year-to-date exploration and development spending included $124.8 million related to growth projects at Wapiti and Karr that will add material liquids-rich production and cash flow in 2019. The Company completed an extensive maintenance program in the third quarter in the Kaybob and Central Alberta and Other regions, including processing facility turnarounds, compressor overhauls and equipment upgrades. Where possible, this work was scheduled to align with facility outages.

GRANDE PRAIRIE REGION

Grande Prairie Region sales volumes averaged 21,446 Boe/d in the third quarter of 2018, primarily liquids-rich production from the Karr development. The impact of the scheduled turnaround at a third-party facility that processes Karr natural gas production was as expected. Exploration and development capital totaled $80.6 million in the third quarter and $228.4 million for the nine months ended September 30, 2018. Development activities in the third quarter focused on starting up the five wells on the 1-2 Karr pad and drilling and completion operations at the 9-3 Wapiti pad.

Karr

Cash flows at Karr benefit from a liquids-rich product mix, which generates higher per-unit revenues, and low per-unit operating costs, resulting in top-tier per unit netbacks. Third quarter sales volumes and netbacks at Karr are summarized below:

	Q3 2018		Q3 2017		*% Change*
Sales volumes					
Natural gas (MMcf/d)	57.2		48.7		*17*
Condensate and oil (Bbl/d)	9,942		9,329		*7*
Other NGLs (Bbl/d)	1,082		625		*73*
Total (Boe/d)	20,563		18,074		*14*
% liquids	*54%*		*55%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	89.6	*47.35*	57.3	*34.47*	*56*
Royalties	(9.5)	*(5.01)*	(1.5)	*(0.90)*	*533*
Operating expense	(15.9)	*(8.38)*	(13.6)	*(8.17)*	*17*
Transportation and NGLs processing	(6.5)	*(3.41)*	(5.8)	*(3.52)*	*12*
	57.7	*30.55*	36.4	*21.88*	*59*

Production at Karr has resumed following the two-week third-party facility turnaround in September. The Company has largely completed liquids debottlenecking projects at the 6-18 compression and dehydration facility (the "6-18 Facility") and new trucking facilities, increasing raw liquids handling capacity. Sales volumes at Karr averaged approximately 26,000 Boe/d for the seven-day period ended November 4, 2018.

Royalty rates for the Karr development increased in the third quarter of 2018 compared to the same period in 2017 as a number of wells from the 2016/2017 Montney drilling program fully utilized their new well royalty incentives. New wells at Karr will continue to benefit from a five percent initial royalty rate up to the maximum incentive.

Initial results from the five Montney wells on the 1-2 Karr pad have been in line with expectations. The 1-2 Karr pad includes the Company's first high intensity completion of a Lower Montney horizontal well. This well continues to meet expectations and is performing in line with adjacent Middle Montney wells. No well locations have been recognized in the Lower Montney for Paramount's Karr development to date.

The following table summarizes the performance of the 2016/2017 and 2018 Karr wells that have produced for at least 30 days:

	Peak 30-Day (1)			Cumulative (2)			Days on Production
	Total	Wellhead Liquids	CGR (3)	Total	Wellhead Liquids	CGR (3)	
	(Boe/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(MBoe)*	*(MBbl)*	*(Bbl/MMcf)*	
2016/2017 Wells							
Average - 27 wells	1,971	1,186	252	12,128	6,646	202	354
2018 Wells							
00/04-25-065-05W6/0	1,598	975	261	108	63	233	78
02/04-25-065-05W6/0	1,703	951	211	92	50	198	59
00/01-26-065-05W6/0	1,878	1,180	282	110	69	280	64
00/02-26-065-05W6/0	2,058	1,286	278	106	66	275	55

(1) Peak 30-Day is the highest daily average production rate over a 30-day consecutive period for each well, measured at the wellhead. Natural gas sales volumes are approximately five percent lower and liquids sales volumes are approximately 12 percent lower due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes shown are 30-day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints.

(2) Cumulative is the aggregate production measured at the wellhead to October 31, 2018. Natural gas sales volumes are approximately five percent lower and liquids sales volumes are approximately 12 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(3) CGRs calculated by dividing wellhead liquids volumes by wellhead natural gas volumes.

Wapiti

In August 2018, six of the eleven wells on the Wapiti 9-3 pad were completed. To take advantage of economies of scale and reduced completion fluid handling costs due to warmer weather, the Company accelerated completions for the remaining five wells on the 9-3 pad to October 2018. The completion program for these wells set new pacesetters on several metrics and was completed without any operational or safety issues. The fracks employed a plug and perf design in a zipper fracturing operation, with pumping downtime being minimized between stages by utilizing a surface manifold. This, along with other advances in well designs and program execution, contributed to an average of 14 stages pumped per day (an increase from 11 previously), with a day record of 23 stages pumped (compared to 16 previously), both of which are new records for Paramount. A transfer of new technology from the Karr field has also reduced the duration of mill-out operations with the adoption of dissolvable plugs.

The Company has also commenced drilling operations for 12 (12.0 net) new Montney wells on the 5-3 pad at Wapiti. Wells from the 9-3 pad and the 5-3 pad will be produced through a new 150 MMcf/d third-party processing facility, which the operator plans to commission in mid-2019.

KAYBOB REGION

Kaybob Region sales volumes averaged 37,454 Boe/d in the third quarter of 2018, including 11,632 Bbl/d of liquids. The production impact of the scheduled turnaround at Paramount's 8-9 Plant in Kaybob was larger than expected. Exploration and development capital in the Kaybob Region was $33.6 million in the third quarter of 2018 and $172.5 million for the nine months ended September 30, 2018.

Kaybob Smoky Duvernay

The 4 (4.0 net) wells on the 10-35 Smoky pad began flowing through permanent facilities in early-November. The 6-16 Plant at Smoky was expanded from 6 MMcf/d to 12 MMcf/d by making use of existing equipment moved to Kaybob from Zama in northern Alberta. This redeployment of existing equipment reduced capital costs and enabled the plant expansion to be fast tracked from 2019, but also resulted in an unanticipated two-month extension of the commissioning and startup period as plant components underwent additional inspections and refurbishment.

Initial results have confirmed the high liquids yield nature of the Smoky Duvernay reservoir. The Company plans to evaluate the performance of these wells for the remainder of 2018 and develop a full field development strategy for the Company's Duvernay lands in this area.

Kaybob South Duvernay

The Company's 2018 capital program at the Kaybob South Duvernay development includes two multi-well pads. 5 (2.5 net) wells on the 7-22 South Duvernay pad were brought on production in the third quarter. These wells averaged 1,453 Boe/d of gross peak 30-day production per well, with an average CGR of 199 Bbl/MMcf.(1) Drilling operations for 5 (2.5 net) wells on the 2-28 pad commenced in September. These wells are scheduled to be completed and brought on production in mid-2019.

Paramount is utilizing fiber optic technology to monitor production data from controlled tests in perforation clusters, fluid viscosity, pump rate, fracture sequencing and landing zones on two of the wells on the 7-22 pad. The system was installed prior to fracking the wells and has remained intact for production testing. The information gathered in these tests is being incorporated in future well completions.

Kaybob Montney Oil

Third quarter 2018 sales volumes at the Kaybob Montney Oil property were 7,052 Boe/d, approximately 57 percent liquids. Production levels in the third quarter were significantly impacted by the turnaround at the 8-9 Plant. Montney Oil production is lower than planned due to bringing on new production later than scheduled, reducing the number of wells drilled in 2018 and increased water handling requirements for certain wells. To date, 8 (8.0 net) new wells have been completed and brought on production. Drilling operations for 3 (3.0 net) additional wells were completed in the third quarter and these wells are expected to be on-stream by the end of the year. Two (2.0 net) additional wells are being drilled on the property in the fourth quarter of 2018.

CENTRAL ALBERTA AND OTHER REGION

Central Alberta and Other Region sales volumes averaged 21,571 Boe/d in the third quarter of 2018. Exploration and development capital in the Central Alberta and Other Region totaled $16.8 million in the third quarter.

Development activities in the Central and Other Region are focused at Willesden Green, where the 5-29 Duvernay oil well was completed and brought on production in the third quarter. Pressure test results from the 5-29 well confirm that an over-pressure, high oil deliverability reservoir is present on the majority of the Company's Willesden Green Duvernay acreage. The 5-29 well averaged 944 Boe/d of peak 30-day wellhead production, 86 percent oil. (2)

Over the course of the past year, the Company has expanded its Duvernay land position in the East Shale Basin. Total working interest lands more than doubled to approximately 50,000 acres. Paramount also owns over 10,000 acres of Fee Title lands in the area.

In September, Paramount permanently shut-in all production related to the Hawkeye area, which averaged approximately 1.79 MMcfe/d of dry gas (approximately 300 Boe/d) for the nine months ended September 30, 2018.

(1) Production measured at the wellhead. Natural gas sales volumes are approximately nine percent lower and liquids sales volumes are approximately 30 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

(2) Production measured at the wellhead. Natural gas sales volumes are approximately 15 percent lower and liquids sales volumes are approximately 20 percent lower due to shrinkage. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

OPERATING AND FINANCIAL RESULTS [1]

($ millions, except as noted)

	Three months ended September 30				Nine months ended September 30			
	2018		2017		2018		2017	
Sales volumes (Boe/d)								
Grande Prairie	21,446		22,819		25,750		17,985	
Kaybob	37,454		13,892		39,592		4,820	
Central Alberta and Other	21,571		12,312		21,087		5,166	
Total	80,471		49,023		86,429		27,971	
% liquids	*37%*		*40%*		*36%*		*44%*	
Netback		*$/Boe [3]*		*$/Boe [3]*		*$/Boe [3]*		*$/Boe [3]*
Natural gas revenue	53.9	*1.93*	30.9	*1.89*	187.9	*2.09*	62.9	*2.44*
Condensate and oil revenue	168.0	*79.83*	74.2	*54.30*	495.6	*75.59*	152.2	*56.90*
Other NGLs revenue [2]	20.6	*32.16*	9.8	*23.05*	62.3	*30.43*	15.2	*22.59*
Royalty and sulphur revenue	6.0	—	1.6	—	12.2	—	2.3	—
Petroleum and natural gas sales	248.5	*33.57*	116.5	*25.84*	758.0	*32.13*	232.6	*30.46*
Royalties	(22.8)	*(3.08)*	(5.0)	*(1.11)*	(61.2)	*(2.59)*	(7.8)	*(1.03)*
Operating expense	(90.7)	*(12.25)*	(47.8)	*(10.59)*	(277.8)	*(11.77)*	(79.8)	*(10.45)*
Transportation and NGLs processing [4]	(22.8)	*(3.08)*	(12.3)	*(2.74)*	(68.8)	*(2.92)*	(26.6)	*(3.49)*
Netback	112.2	*15.16*	51.4	*11.40*	350.2	*14.85*	118.4	*15.49*
Exploration and development capital [5]								
Grande Prairie		80.6		88.0		228.4		330.3
Kaybob		33.6		9.5		172.5		9.5
Central Alberta and Other		16.8		22.5		33.5		37.4
Total		131.0		120.0		434.4		377.2
Net income (loss)		(23.4)		223.5		(239.1)		289.5
per share – diluted ($/share)		*(0.18)*		*1.97*		(1.80)		*2.65*
Adjusted funds flow		58.2		45.3		218.4		108.6
per share – diluted ($/share)		*0.44*		*0.40*		*1.65*		*0.99*
Total assets						4,912.0		5,020.9
Net debt						797.3		564.3
Common shares outstanding *(thousands)*						130,994		134,835

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Other NGLs means ethane, propane and butane.
(3) Natural gas revenue shown per Mcf.
(4) Includes downstream transportation costs and NGLs fractionation costs.
(5) Excludes land and property acquisitions and spending related to corporate assets.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas resources, including long-term strategic exploration and pre-development plays, and holds a portfolio of investments in other entities. The Company's principal properties are located in Alberta and British Columbia. Paramount's Class A common shares are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount's third quarter 2018 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available through Paramount's website at www.paramountres.com and on SEDAR at www.sedar.com.

For further information, please contact:

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Advisories

Forward-looking Information

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

- expected average sales volumes and forecast annual capital expenditures for 2018;
- the projected start-up date of the third-party processing facility at Wapiti;
- the expectation that fourth quarter 2018 sales volumes will be lower than previously forecast;
- expected material additions to production and cash flow in 2019 from spending related to growth projects at Wapiti and Karr; and
- planned exploration, development and production activities, included the expected timing of bringing new wells on production.

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 press release:

- future natural gas and liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas and liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; 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, including third-party facilities).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this press release, undue reliance should not be placed on the forward-looking information as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

- fluctuations in natural gas and liquids prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, production, reserve additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline, de-ethanization, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, de-ethanization, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to obtain and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "RISK FACTORS" in Paramount's current annual information form. The forward-looking information contained in this press release is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

In this press release, "Adjusted funds flow", "Netback", "Net debt" and "Exploration and development capital", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by International Financial Reporting Standards.

"Adjusted funds flow" refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow 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. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the three and nine months ended September 30, 2018 for the calculation thereof. "Netback" equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Operating Results section of the Company's Management's Discussion and Analysis for the three and nine months ended September 30, 2018 for the calculation thereof. "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 three and nine months ended September 30, 2018 for the calculation of Net debt. "Exploration and development capital" consists of the Company's spending on wells, infrastructure projects, other property, plant and equipment and exploration and evaluation assets and excludes spending related to land and property acquisitions and corporate assets. The Exploration and development capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the three and nine months ended September 30, 2018 for the calculations thereof.

Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

The term "liquids" includes oil, condensate and Other NGLs (ethane, propane and butane). NGLs consist of condensate and Other NGLs.

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
MBbl	Thousands of barrels
NGLs	Natural gas liquids
Condensate	Pentane and heavier hydrocarbons

Oil Equivalent	
Boe	Barrels of oil equivalent
MBoe	Thousands of barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day

Natural Gas	
GJ/d	Gigajoules per day
Mcf	Thousands of cubic feet
MMcf	Millions of cubic feet
MMcf/d	Millions of cubic feet per day
AECO	AECO-C reference price
NYMEX	New York Mercantile Exchange

This press release contains disclosures expressed as "Boe", "$/Boe", "MBoe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the nine months ended September 30, 2018, the value ratio between crude oil and natural gas was approximately 55:1. 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.

Wellhead CGRs disclosed in this document were calculated for each well by dividing total raw liquids volumes produced by total raw natural gas volumes produced. Raw volumes as measured at the wellhead.

Management's Discussion and Analysis
For the three and nine months ended September 30, 2018

This Management's Discussion and Analysis ("MD&A"), dated November 7, 2018, 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, 2018 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2017 (the "Annual Financial Statements"). Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented, except for changes as a result of the adoption of *IFRS 9 – Financial Instruments* ("IFRS 9") *and IFRS 15 – Revenue from Contracts with Customers* ("IFRS 15"), which are described in the Changes in Accounting Policies section of this document.

The disclosures in this document include forward-looking information, Non-GAAP measures and certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Certain comparative figures have been reclassified to conform to the current years' presentation. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia. The Company's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

The Company's operations are organized into three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which is focused on Montney and Duvernay developments at Kaybob, Smoky River, Pine Creek and Ante Creek; and
- the Central Alberta and Other Region, which includes Duvernay development plays in southern Alberta at Willesden Green and the East Shale Basin, and lands and production in northern Alberta and British Columbia.

Paramount also holds a portfolio of: (i) investments in other entities; (ii) investments in exploration and development stage assets, including oil sands and carbonate bitumen interests held by Paramount's wholly-owned subsidiary Cavalier Energy ("Cavalier") and prospective shale gas acreage in the Liard and Horn River Basins; and (iii) drilling rigs owned by Paramount's wholly-owned subsidiary, Fox Drilling Limited Partnership ("Fox Drilling").

FINANCIAL AND OPERATING HIGHLIGHTS [1]

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
FINANCIAL				
Petroleum and natural gas sales	248.5	116.5	758.0	232.6
Net income (loss)	(23.4)	223.5	(239.1)	289.5
per share – basic ($/share)	*(0.18)*	*1.99*	*(1.80)*	*2.68*
per share – diluted ($/share)	*(0.18)*	*1.97*	*(1.80)*	*2.65*
Adjusted funds flow	58.2	45.3	218.4	108.6
per share – basic ($/share)	*0.44*	*0.40*	*1.65*	*1.00*
per share – diluted ($/share)	*0.44*	*0.40*	*1.65*	*0.99*
Exploration and development capital [2]	131.0	120.0	434.4	377.2
Total assets			4,912.0	5,020.9
Net debt			797.3	564.3
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	303.8	177.2	329.5	94.3
Condensate and oil (Bbl/d)	22,868	14,845	24,016	9,801
Other NGLs (Bbl/d) [3]	6,963	4,641	7,496	2,449
Total (Boe/d)	80,471	49,023	86,429	27,971
Net wells drilled	6	3	47	28
ADJUSTED FUNDS FLOW ($/Boe)				
Petroleum and natural gas sales	33.57	25.84	32.13	30.46
Royalties	(3.08)	(1.11)	(2.59)	(1.03)
Operating expense	(12.25)	(10.59)	(11.77)	(10.45)
Transportation and NGLs processing [4]	(3.08)	(2.74)	(2.92)	(3.49)
Netback	15.16	11.40	14.85	15.49
Commodity contract settlements	(4.06)	1.36	(2.85)	1.41
Netback including commodity contract settlements	11.10	12.76	12.00	16.90
General and administrative	(1.51)	(2.37)	(1.77)	(2.93)
Interest and financing expense	(0.91)	(0.41)	(0.94)	(0.30)
Other	(0.82)	0.08	(0.03)	0.55
Adjusted funds flow	7.86	10.06	9.26	14.22

(1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted funds flow, Exploration and development capital, Net debt and Netback.
(2) Exploration and development capital consists of expenditures related to property, plant and equipment and exploration and evaluation assets, excluding expenditures related to land and property acquisitions and corporate assets.
(3) Other NGLs means ethane, propane and butane.
(4) Includes downstream transportation costs and NGLs fractionation costs.

CONSOLIDATED RESULTS

Net Income (Loss)

Paramount recorded a net loss of $23.4 million for the three months ended September 30, 2018 compared to net income of $223.5 million in the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended September 30	
Net income – 2017	223.5
• Gain on Apache Canada Acquisition in 2017	(366.1)
• Revaluation gain on Trilogy shares owned by Paramount immediately prior to the Trilogy Merger in 2017	(61.8)
• Lower income tax recovery in 2018	(52.2)
• Higher depletion and depreciation in 2018, mainly due to higher sales volumes	(47.5)
• Higher loss on commodity contracts	(27.7)
• Higher interest and financing expense	(4.8)
• Higher accretion of asset retirement obligations	(4.5)
• ARO Discount Rate adjustment in 2017 related to the Apache Canada Acquisition	223.4
• Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices	60.8
• Higher gain on sale of oil and gas assets	30.4
• Lower transaction and reorganization costs	9.4
• Other	(6.3)
Net loss – 2018	(23.4)

In August 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada" and the "Apache Canada Acquisition"). In September 2017, the Company completed a merger transaction with Trilogy Energy Corp. ("Trilogy" and the "Trilogy Merger"), under which Paramount acquired all of the outstanding shares of Trilogy not already owned by Paramount. The Company’s results for the three and nine months ended September 30, 2017 include the results of operations and business combination amounts recorded in respect of these transactions.

Paramount recorded a net loss of $239.1 million for the nine months ended September 30, 2018 compared to net income of $289.5 million in the same period in 2017. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Net income – 2017	289.5
• Gain on Apache Canada Acquisition in 2017	(366.1)
• Higher depletion and depreciation in 2018 mainly due to higher sales volumes and a $42.1 million impairment reversal recorded in 2017	(338.5)
• Loss on commodity contracts in 2018 compared to a gain in 2017	(180.8)
• Revaluation gain on Trilogy shares owned by Paramount immediately prior to the Trilogy Merger in 2017	(61.8)
• Lower gain on sale of oil and gas assets in 2018	(46.2)
• Higher accretion of asset retirement obligations	(21.1)
• Higher interest and financing expense	(20.0)
• Higher general and administrative expense following the corporate acquisitions in 2017	(19.4)
• Higher share-based compensation expense	(8.4)
• Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices	231.9
• ARO discount rate adjustment in 2017 related to the Apache Canada Acquisition	223.4
• Higher income tax recovery	56.1
• Write-downs of investments in securities in 2017	11.0
• Loss recorded in 2017 related to the decrease in the market value of securities distributed	10.5
• Lower transaction and reorganization costs in 2018	9.9
• Other	(9.1)
Net loss – 2018	(239.1)

Adjusted Funds Flow [(1)]

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cash from operating activities	73.8	49.4	211.0	82.9
Change in non-cash working capital	(24.2)	(23.7)	(28.2)	(5.7)
Transaction and reorganization costs	0.3	9.7	4.5	14.4
Geological and geophysical expenses	2.3	2.2	10.6	4.5
Asset retirement obligations settled	6.0	7.7	20.5	12.5
Adjusted funds flow	58.2	45.3	218.4	108.6
Adjusted funds flow (*$/Boe*)	*7.86*	*10.06*	*9.26*	14.22

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

Adjusted funds flow for the three months ended September 30, 2018 was $58.2 million compared to $45.3 million for the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended September 30	
Adjusted funds flow – 2017	45.3
• Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices	60.8
• Payments on commodity contract settlements in 2018 compared to receipts in 2017	(36.3)
• Higher interest and financing expense	(4.8)
• Other	(6.8)
Adjusted funds flow – 2018	58.2

Adjusted funds flow for the nine months ended September 30, 2018 was $218.4 million compared to $108.6 million for the same period in 2017. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Adjusted funds flow – 2017	108.6
• Higher netback in 2018, mainly due to higher sales volumes and higher liquids prices	231.9
• Payments on commodity contract settlements in 2018 compared to receipts in 2017	(77.9)
• Higher general and administrative expense following the corporate acquisitions in 2017	(19.4)
• Higher interest and financing expense	(20.0)
• Other	(4.8)
Adjusted funds flow – 2018	218.4

OPERATING RESULTS

Netback

	Three months ended September 30				Nine months ended September 30			
	2018		2017		2018		2017	
		($/Boe)(1)		($/Boe)(1)		($/Boe)(1)		($/Boe)(1)
Natural gas revenue	53.9	1.93	30.9	1.89	187.9	2.09	62.9	2.44
Condensate and oil revenue	168.0	79.83	74.2	54.30	495.6	75.59	152.2	56.90
Other NGLs revenue (2)	20.6	32.16	9.8	23.05	62.3	30.43	15.2	22.59
Royalty and sulphur revenue	6.0	–	1.6	–	12.2	–	2.3	–
Petroleum and natural gas sales	248.5	33.57	116.5	25.84	758.0	32.13	232.6	30.46
Royalties	(22.8)	(3.08)	(5.0)	(1.11)	(61.2)	(2.59)	(7.8)	(1.03)
Operating expense	(90.7)	(12.25)	(47.8)	(10.59)	(277.8)	(11.77)	(79.8)	(10.45)
Transportation and NGLs processing (3)	(22.8)	(3.08)	(12.3)	(2.74)	(68.8)	(2.92)	(26.6)	(3.49)
Netback	112.2	15.16	51.4	11.40	350.2	14.85	118.4	15.49
Commodity contract settlements	(30.1)	(4.06)	6.2	1.36	(67.1)	(2.85)	10.8	1.41
Netback including commodity contract settlements	82.1	11.10	57.6	12.76	283.1	12.00	129.2	16.90

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

Petroleum and natural gas sales were $248.5 million in the third quarter of 2018, an increase of $132.0 million from the third quarter of 2017. Petroleum and natural gas sales were $758.0 million for the nine months ended September 30, 2018, an increase of $525.4 million compared to the same period in 2017. The increases were primarily due to higher sales volumes and higher liquids prices.

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

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
Three months ended September 30, 2017	30.9	74.2	9.8	1.6	116.5
Effect of changes in sales volumes	22.0	40.1	5.0	–	67.1
Effect of changes in prices	1.0	53.7	5.8	–	60.5
Change in royalty and sulphur revenue	–	–	–	4.4	4.4
Three months ended September 30, 2018	53.9	168.0	20.6	6.0	248.5

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
Nine months ended September 30, 2017	62.9	152.2	15.2	2.3	232.6
Effect of changes in sales volumes	156.9	220.8	31.0	–	408.7
Effect of changes in prices	(31.9)	122.5	16.1	–	106.7
Change in royalty and sulphur revenue	–	–	–	10.0	10.0
Nine months ended September 30, 2018	187.9	495.5	62.3	12.3	758.0

Sales Volumes

	Three months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Grande Prairie	61.0	66.3	*(8)*	10,142	9,983	*2*	1,142	1,792	*(36)*	21,446	22,819	*(6)*
Kaybob	154.9	61.4	*152*	9,203	2,796	*229*	2,429	863	*181*	37,454	13,892	*170*
Central Alberta & Other	87.9	49.5	*78*	3,523	2,066	*71*	3,392	1,986	*71*	21,571	12,312	*75*
Total	303.8	177.2	*71*	22,868	14,845	*54*	6,963	4,641	*50*	80,471	49,023	*64*

Sales volumes in the third quarter of 2018 increased 64 percent to 80,471 Boe/d compared to 49,023 Boe/d in the third quarter of 2017. Sales volumes were higher primarily due to a full quarter of production in 2018 from wells acquired through the Apache Canada Acquisition and the Trilogy Merger and production from new Montney wells at Karr in the Grande Prairie Region. These increases were partially offset by the impact of facility downtime and the disposition of the Resthaven/Jayar properties in the third quarter of 2018.

Production in the third quarter of 2018 was impacted by scheduled turnarounds at a third-party facility in Karr and Paramount's 8-9 facility in Kaybob, which in total impacted sales volumes by approximately 5,000 Boe/d, as well as the sale of 5,000 Boe/d of production at Resthaven/Jayar in early-July. In addition, an extended commissioning period for the Kaybob Smoky 6-16 processing plant expansion (the "6-16 Plant") delayed the start-up of four new Duvernay wells from August to early-November 2018.

In 2017 and 2018, the Company brought 32 new Montney wells on production at Karr. These wells are maintaining higher condensate rates for longer periods after initial start-up. To maximize cash flows, the Company is prioritizing condensate production at the Karr 6-18 compression and dehydration facility, fully utilizing liquids handling capacity and managing natural gas production by restricting flow rates.

Fourth quarter 2018 sales volumes are expected to be lower than previously forecast primarily as a result of lower production in the Kaybob Region. Montney Oil production levels are lower due to bringing on new production later than planned, reducing the number of wells drilled in 2018 in order to redeploy capital to fund additional well completions at Wapiti and increased water handling requirements for certain wells. At Smoky Duvernay, new production was delayed until early-November as a result of unanticipated issues identified while commissioning the 6-16 Plant. At South Duvernay, production levels are being impacted by start-up issues related to new production equipment and unscheduled third-party facility outages.

	Nine months ended September 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Grande Prairie	75.8	53.0	*43*	11,109	7,810	*42*	2,009	1,348	*49*	25,750	17,985	*43*
Kaybob	165.0	21.0	*NM*	9,609	1,014	*NM*	2,489	298	*NM*	39,592	4,820	*NM*
Central Alberta & Other	88.7	20.3	*NM*	3,298	977	*NM*	2,998	803	*NM*	21,087	5,166	*NM*
Total	329.5	94.3	*249*	24,016	9,801	*145*	7,496	2,449	*206*	86,429	27,971	*209*

NM Not meaningful

Sales volumes increased by 209 percent to 86,429 Boe/d in the nine months ended September 30, 2018 compared to 27,971 Boe/d in the same period in 2017. Sales volumes were higher mainly due to wells acquired through the Apache Canada Acquisition and the Trilogy Merger contributing throughout 2018 and production from new Montney wells at Karr in the Grande Prairie Region. These increases were partially offset by the impact of scheduled and unscheduled third-party outages, facility turnarounds and the management of natural gas production at Karr in order to maximize liquids production.

As a result of delays in bringing new wells on production, unscheduled facility downtime and weather issues, liquids handling constraints at Karr and the sale of the Resthaven/Jayar properties, Paramount expects 2018 average annual sales volumes to range between 85,000 Boe/d and 86,000 Boe/d (approximately 37 percent liquids).

Commodity Prices

	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Natural Gas						
Paramount realized price ($/Mcf)	1.93	1.89	2	2.09	2.44	(14)
AECO daily spot ($/GJ)	1.11	1.38	(20)	1.39	2.19	(37)
AECO monthly index ($/GJ)	1.28	1.93	(34)	1.36	2.47	(45)
NYMEX (US$/MMbtu)	2.86	2.96	(3)	2.85	3.05	(7)
Malin (US$/MMbtu)	2.39	2.53	(6)	2.29	2.83	(19)
Crude Oil						
Paramount realized condensate & oil price ($/Bbl)	79.83	54.30	47	75.59	56.90	33
Edmonton Light Sweet ($/Bbl)	75.64	57.15	32	74.52	60.54	23
West Texas Intermediate (US$/Bbl)	69.46	48.20	44	66.74	49.46	35
Foreign Exchange						
$CDN / 1 $US	1.31	1.25	5	1.29	1.31	(2)

Paramount's realized natural gas price decreased 14 percent for the nine months ended September 30, 2018 compared to the same period in 2017. Paramount's natural gas production is sold in a combination of daily and monthly contracts. As of November 1, 2018, the Company has further diversified its natural gas sales arrangements to approximately 122,000 GJ/d of sales priced at Dawn, US Midwest and Malin markets. The remainder of the Company's natural gas production is sold at western Canadian AECO and British Columbia prices. These market diversification arrangements largely mitigated the impact of decreases in AECO natural gas prices in 2018. The Company continues to evaluate opportunities to access additional North American natural gas markets.

Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines typically receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized condensate volumes, and are adjusted for applicable transportation, quality and density differentials. Prices for unstabilized condensate volumes trucked to terminals are based on crude oil or condensate prices quoted at Edmonton, depending on the terminal to which volumes are delivered, and are adjusted for transportation, quality and density differentials. The Company's average realized condensate and oil price increased in 2018 as a result of increases in benchmark prices and transporting a higher proportion of production volumes via pipelines.

Commodity Price Management

From time-to-time, Paramount uses financial commodity price contracts to manage exposure to commodity price volatility, protect the Company's cash flows and support its capital programs. Paramount had the following financial commodity contracts outstanding at September 30, 2018:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining Term
Oil – NYMEX WTI Swaps (Sale)	17,000 Bbl/d	CDN$71.61/Bbl	(35.2)	October 2018 – December 2018
Oil – NYMEX WTI Swaps (Sale)	14,000 Bbl/d	CDN$77.05/Bbl	(71.9)	January 2019 – December 2019
Oil – NYMEX WTI Calls (Sale)	2,000 Bbl/d	CDN$82.00 Bbl (1)	(8.1)	January 2019 – December 2019
			(115.2)	

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN$82.00 per barrel, for which the Company will receive a premium of CDN$2.65 per barrel.

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

	Nine months ended September 30, 2018	Twelve months ended December 31, 2017
Fair value, beginning of period	(19.1)	(5.2)
Changes in fair value	(163.2)	(4.1)
Settlements paid (received)	67.1	(14.4)
Assumed on Trilogy Merger	–	4.6
Fair value, end of period	(115.2)	(19.1)

Royalties

	Three months ended September 30				Nine months ended September 30			
	2018	Rate	2017	Rate	2018	Rate	2017	Rate
Royalties	22.8	9.4%	5.0	4.4%	61.2	8.2%	7.8	3.4%
$/Boe	*3.08*		*1.11*		*2.59*		*1.03*	

Third quarter royalties were $22.8 million in 2018 compared to $5.0 million in the same period in 2017. Royalties for the nine months ended September 30, 2018 were $61.2 million compared to $7.8 million in the same period in 2017. The increase in royalties is primarily due to higher revenue in 2018. Applicable royalty rates for sales volumes from wells acquired through the Apache Canada Acquisition and Trilogy Merger are higher than Paramount's average royalty rates prior to the transactions, resulting in an increase to overall royalty rates in 2018. Following the Apache Canada Acquisition and Trilogy Merger, a lower proportion of the Company's sales volumes benefit from new well and other royalty incentive programs.

Royalty rates in the Grande Prairie Region increased in the first nine months of 2018 compared to the same period in 2017 as a number of wells from the 2016/2017 Montney drilling program fully utilized their new well royalty incentives. New wells at Karr will continue to benefit from a five percent initial royalty rate up to the maximum incentive.

Operating Expense

	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Operating expense	90.7	47.8	90	277.8	79.8	248
$/Boe	*12.25*	*10.59*	*16*	*11.77*	*10.45*	*13*

Operating expense increased by $42.9 million in the third quarter of 2018 to $90.7 million compared to $47.8 million in the same period in 2017. Operating expense was $277.8 million for the nine months ended September 30, 2018 compared to $79.8 million in the same period in 2017. The increase in operating expenses in 2018 is primarily due to costs associated with production from wells acquired through the Apache Canada Acquisition and Trilogy Merger and increased production at the Karr development in the Grande Prairie Region.

Operating costs averaged $11.77 per Boe for the nine months ended September 30, 2018. As a result of a large proportion of the Company's operating costs being fixed, the revision to forecast sales volumes is expected to result in average annual operating costs of less than $12.00 per Boe in 2018.

Transportation and NGLs Processing

	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Transportation and NGLs processing	22.8	12.3	85	68.8	26.6	159
$/Boe	*3.08*	*2.74*	*12*	*2.92*	*3.49*	*(16)*

Transportation and NGLs processing was $22.8 million in the third quarter of 2018, an increase of $10.5 million compared to the same period in 2017. Transportation and NGLs processing increased $42.2 million to $68.8 million for the nine months ended September 30, 2018 compared to $26.6 million in the same period in 2017. The increase was primarily the result of increased transportation costs associated with production volumes and contracted capacity acquired through the Apache Canada Acquisition and Trilogy Merger and production growth at the Karr development.

Following the completion of an expansion to condensate stabilization capacity at a third-party facility in May 2018, the majority of liquids volumes at Karr are now delivered into pipelines, which provide cost savings. The Company is continuing to truck a portion of liquids production in excess of available pipeline and stabilization capacity to maximize cash flows.

Other Operating Items

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Depletion and depreciation (excluding de-impairment)	(137.2)	(89.7)	(463.1)	(166.7)
De-impairment of property plant and equipment	–	–	–	42.1
Gain on sale of oil and gas assets	56.0	25.6	67.8	113.9
Exploration and evaluation expense	(2.9)	(1.5)	(15.4)	(6.8)

Depletion and depreciation expense increased to $463.1 million ($19.63 per Boe) in the nine months ended September 30, 2018 compared to $166.7 million ($21.83 per Boe) in the same period in 2017. The increase in depletion and depreciation expense was primarily due to higher sales volumes in 2018.

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar in the Grande Prairie Region (the "Resthaven/Jayar Assets") for gross proceeds of $340 million, resulting in the recognition of a gain on sale of $52.6 million. Total consideration included $170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath Resources"), and 10-year warrants to acquire 8.5 million Strath Resources common shares at an exercise price of $2.00 per share ("Strath Warrants"). The Resthaven/Jayar Assets encompassed approximately 201 (152 net) sections of land and had estimated sales volumes of approximately 5,000 Boe/d in 2018 prior to being sold.

In May 2017, Paramount sold its Valhalla property for gross cash proceeds of $151.3 million, resulting in the recognition of a $42.1 million de-impairment and a gain on sale of $82.2 million.

Exploration and evaluation expense was $15.4 million for the nine months ended September 30, 2018, an increase of $8.6 million compared to the same period in 2017, primarily due to higher geological and geophysical costs.

INVESTMENTS

Paramount holds equity investments in a number of publicly-traded and private corporations as part of its portfolio of investments. The majority of these investments, including Strath Resources and MEG Energy Corp. ("MEG"), were primarily received as consideration for properties sold to the entities. Paramount's investments in other entities are summarized as follows:

	Market Value (1)	
As at	September 30, 2018	December 31, 2017
Strath Resources (2)	170.0	–
MEG	29.7	19.0
Privateco	21.1	21.1
Other (3)	17.1	13.2
	237.9	53.3

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.
(2) Includes 85 million Strath Resources common shares and 8.5 million Strath Warrants.
(3) Includes investments in Blackbird Energy Inc., Storm Resources Ltd., and other public and private corporations.

CORPORATE

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
General and administrative	(11.2)	(10.7)	(41.8)	(22.4)
Share-based compensation	(5.5)	(3.1)	(16.9)	(8.5)
Interest and financing	(6.7)	(1.9)	(22.3)	(2.3)
Accretion of asset retirement obligations	(9.3)	(4.8)	(27.8)	(6.7)
Decrease in market value of securities distributed	–	–	–	(10.5)
Transaction and reorganization costs	(0.3)	(9.7)	(4.5)	(14.4)
Revaluation of Trilogy shares	–	61.8	–	61.8
Gain on Apache Canada Acquisition	–	366.1	–	366.1
ARO Discount Rate Adjustment	–	(223.4)	–	(223.4)

General and administrative expense was higher for the nine months ended September 30, 2018 compared to the same period in 2017, primarily as a result of the Apache Canada Acquisition and the Trilogy Merger.

Interest and financing expense was $22.3 million for the nine months ended September 30, 2018, an increase of $20.0 million from 2017, as a result of higher average debt balances in 2018.

Accretion of asset retirement obligations increased to $27.8 million in the nine months ended September 30, 2018 compared to $6.7 million in the same period in 2017. The increase was primarily due to higher asset retirement obligations following the Apache Canada Acquisition and the Trilogy Merger.

In December 2016, the Company's Board of Directors declared a dividend of the Company's remaining 3.8 million class A common shares of Seven Generations Energy Ltd. ("7Gen Shares") to holders of record of Paramount's Common Shares on January 9, 2017. The decrease in the fair value of the 7Gen Shares of $10.5 million between the acquisition date and the date of the dividend, January 16, 2017, was reclassified to net income from accumulated other comprehensive income in 2017.

Transaction and reorganization costs relate to costs incurred in respect of the closings and subsequent corporate reorganization following the Apache Canada Acquisition and the Trilogy Merger.

The carrying value of the 19.1 million Trilogy shares held by Paramount was increased to fair value immediately prior to the closing of the Trilogy Merger, resulting in the recognition of a gain of $61.8 million in the third quarter of 2017.

A gain of $366.1 million was recognized in the third quarter of 2017 as a result of the Apache Canada Acquisition. A $223.4 million adjustment was also recorded in respect of asset retirement obligations related to Apache Canada and Trilogy to reflect the discounting of such amounts using a risk-free discount rate (the "ARO Discount Rate Adjustment").

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Drilling, completion and tie-ins	97.9	98.6	363.2	326.4
Facilities and gathering	33.1	21.4	71.2	50.8
Exploration and development capital (1)	131.0	120.0	434.4	377.2
Land and property acquisitions	1.6	4.2	10.0	7.3
Exploration and development capital including land & property acquisitions	132.6	124.2	444.4	384.5
Corporate	2.4	0.5	8.3	1.8
	135.0	124.7	452.7	386.3
Exploration and development capital by Region (1)				
Grande Prairie	80.6	88.0	228.4	330.3
Kaybob	33.6	9.5	172.5	9.5
Central Alberta and Other	16.8	22.5	33.5	37.4
	131.0	120.0	434.4	377.2

(1) Exploration and development capital consists of expenditures related to property, plant and equipment and exploration and evaluation assets, excluding expenditures related to land and property acquisitions and corporate assets.

Exploration and development capital was $131.0 million in the third quarter of 2018 compared to $120.0 million in the same period in 2017. Exploration and development capital was $434.4 million for the nine months ended September 30, 2018 compared to $377.2 million in the same period in 2017. Expenditures in the first nine months of 2018 were mainly related to drilling and completion programs and facilities projects in the Grande Prairie and Kaybob Regions.

Development activities in the Grande Prairie Region focused on the Company's Montney developments at Karr and Wapiti. At Karr, 10 (10.0 net) wells were drilled on the 1-2 and 4-24 pads. The five wells on the 1-2 pad were completed and brought on production. At Wapiti, 11 (11.0 net) wells were drilled on the 9-3 pad. Six of these wells were completed in the third quarter, with the remaining 5 wells being completed early in the fourth quarter.

In the Kaybob Region, development activities focused on Duvernay developments and the Montney Oil property. At the 10-35 Smoky Duvernay pad, 4 (4.0 net) wells were completed and began flowing through permanent production facilities in early-November. At the South Duvernay development, 5 (2.5 net) wells were completed and brought on production on the 7-22 pad in the third quarter. At the 2-28 South Duvernay pad, drilling operations for 5 (2.5 net) wells commenced in September. These wells are scheduled to be completed and brought on production in mid-2019. At the Montney Oil development, 8 (8.0 net) new wells have been completed and brought on production. Drilling operations for 3 (3.0 net) additional wells were completed in the third quarter and are expected to be on-stream by the end of the year. Two (2.0 net) additional wells are being drilled on the property in the fourth quarter of 2018.

For the nine months ended September 30, 2018, the Company's capital spending included $124.8 million related to growth projects at Wapiti and Karr that will add material liquids-rich production and cash flows in 2019. Annual capital spending for 2018 remains on track at approximately $600 million, excluding land acquisitions, divestitures and abandonment and reclamation activities.

Wells drilled were as follows:

	Three months ended September 30				Nine months ended September 30			
	2018		2017		2018		2017	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Natural gas	11	3	5	3	49	33	33	28
Oil	3	3	–	–	14	14	–	–
Total	14	6	5	3	63	47	33	28

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

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 assets and operations. Paramount may adjust its capital structure through a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets, and participating in joint ventures, the availability of any such means being dependent upon market conditions.

As at	September 30, 2018	December 31, 2017
Cash and cash equivalents	(36.3)	(123.3)
Accounts receivable	(102.8)	(170.3)
Prepaid expenses and other	(14.9)	(9.1)
Accounts payable and accrued liabilities	256.2	237.2
Adjusted working capital deficit (surplus) (1) (2)	102.2	(65.5)
Paramount Facility	695.1	395.0
2019 Senior Notes	–	306.7
Net Debt (2)	797.3	636.2
Share capital	2,184.2	2,249.8
Retained earnings (accumulated deficit)	(73.3)	50.3
Reserves	51.3	143.6
Total Capital	2,959.5	3,079.9

(1) Adjusted working capital excludes risk management liabilities and the current portion of asset retirement obligations.
(2) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.

The change in net debt from December 31, 2017 to September 30, 2018 is primarily due to capital expenditures and the repurchase of Common Shares under the Company's normal course issuer bid program, partially offset by cash flows from operations and proceeds from dispositions. Paramount expects to fund the remainder of its 2018 obligations and capital expenditures with cash flows from operations and available capacity under its bank credit facility.

Paramount Facility

As at September 30, 2018, the Company had a $1.2 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 6, 2021, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders. At Paramount's request, the size of the Paramount Facility can be increased by up to $300 million (to $1.5 billion) pursuant to an accordion feature in such facility, subject to securing incremental lender commitments.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less (or 4.00 to 1.00 or less for two full fiscal quarters after completion of a material acquisition); and

ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

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

Consolidated EBITDA is determined on a trailing twelve month basis, is adjusted for material acquisitions and dispositions, and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including unrealized mark-to-market amounts on derivatives, unrealized foreign exchange, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all covenants under the Paramount Facility.

Paramount had letters of credit outstanding totaling $19.0 million at October 31, 2018 that reduce the amount available to be drawn on the Paramount Facility.

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a $6.7 million gain on redemption less the redemption premium of $3.6 million.

Share Capital

At October 31, 2018, Paramount had 131,001,647 Common Shares outstanding and 9,238,633 options to acquire Common Shares outstanding, of which 3,635,974 options are exercisable.

In December 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company may purchase up to 7,497,530 Common Shares for cancellation. Any shareholder may obtain, for no charge, a copy of the notice in respect of the 2018 NCIB filed with the TSX by contacting the Company at 403-290-3600. Between January 1, 2018 and October 31, 2018, the Company purchased and cancelled 4,136,700 Common Shares at a total cost of $65.8 million under the 2018 NCIB. The 2018 NCIB will terminate on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2018 NCIB are purchased.

QUARTERLY INFORMATION

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	248.5	239.7	269.8	258.9	116.5	61.3	54.7	32.3
Net income (loss)	(23.4)	(134.6)	(81.1)	(106.2)	223.5	45.3	20.7	212.4
Per share – basic ($/share)	*(0.18)*	*(1.01)*	*(0.61)*	*(0.79)*	*1.99*	*0.43*	*0.20*	*2.01*
Per share – diluted ($/share)	*(0.18)*	*(1.01)*	*(0.61)*	*(0.79)*	*1.97*	*0.42*	*0.19*	*1.99*
Adjusted funds flow	58.2	62.6	97.6	110.1	45.3	35.2	28.0	14.3
Per share – basic ($/share)	*0.44*	*0.47*	*0.73*	*0.82*	*0.40*	*0.33*	*0.26*	*0.14*
Per share – diluted ($/share)	*0.44*	*0.47*	*0.73*	*0.82*	*0.40*	*0.33*	*0.26*	*0.13*
Sales volumes								
Natural gas (MMcf/d)	303.8	334.1	351.1	359.9	177.2	53.0	51.4	47.5
Condensate and oil (Bbl/d)	22,868	23,815	25,391	26,285	14,845	8,118	6,348	2,943
Other NGLs (Bbl/d)	6,963	7,242	8,298	9,149	4,641	1,414	1,255	1,046
Total (Boe/d)	80,471	86,741	92,203	95,412	49,023	18,367	16,163	11,901
Average realized price								
Natural gas ($/Mcf)	1.93	1.71	2.59	2.11	1.89	3.24	3.55	3.10
Condensate and oil ($/Bbl)	79.83	77.25	70.10	66.65	54.30	57.95	61.75	60.49
Other NGLs ($/Bbl)	32.16	27.35	31.68	30.15	23.05	20.09	23.69	22.16
Total ($/Boe)	33.57	30.37	32.51	29.49	25.84	36.69	37.61	29.52

Significant Items Impacting Quarterly Results

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

- Third quarter 2018 loss includes a $56.0 million gain on the sale of oil and gas assets, primarily related to the sale of the Resthaven/Jayar Assets, and a $31.1 million loss on commodity contracts.
- The second quarter 2018 loss includes an $84.6 million loss on commodity contracts.
- The first quarter 2018 loss includes a $47.6 million loss on commodity contracts.
- The fourth quarter 2017 loss includes a $184.6 million write-down related to the Company's shale gas project in the Liard and Horn River Basins, a $182.9 million gain related to the Apache Canada Acquisition and $132.0 million of aggregate impairment write-downs of property, plant and equipment.
- Third quarter 2017 earnings include a $366.1 million gain related to the Apache Canada Acquisition, $223.4 million related to ARO discount rate adjustments recorded in respect of the Apache Canada Acquisition and the Trilogy Merger and a $61.8 million gain related to a fair value adjustment in respect of Trilogy Shares held prior to the Trilogy Merger.
- Second quarter 2017 earnings include an $80.9 million gain on the sale of oil and gas assets, primarily related to the sale of the Valhalla property.
- First quarter 2017 earnings include a $42.1 million reversal of impairments of oil and gas assets recorded in prior years related to the Valhalla property and a $10.5 million loss due to changes in the fair value of 3.8 million common shares of Seven Generations Energy Ltd. distributed to Paramount shareholders by way of dividend.

- Fourth quarter 2016 earnings include a $133.2 million reversal of impairments of oil and gas assets recorded in prior years, a $99.2 million gain recorded in respect of a royalty granted by Cavalier and the recognition of $61.0 million of previously unrecognized deferred tax assets.

OTHER INFORMATION

Commitments

In 2018, the Company secured incremental firm-service liquids transportation capacity with a third party, with commitments totaling approximately $138 million over ten years beginning in May 2019.

Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

In 2016, a release occurred from a non-operated pipeline in which the Company owned a 50 percent interest. The operator, and owner of the remaining 50 percent, initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately $60 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually changes. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

CHANGE IN ACCOUNTING POLICIES

Paramount adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected to not restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy as described in the Annual Financial Statements.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through other comprehensive income", "fair value through profit and loss" and "amortized cost". The following table outlines the classification categories in respect of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and IFRS 9 as at January 1, 2018:

Financial Instrument	IAS 39	IFRS 9
Risk management assets and liabilities	Fair value through profit and loss	Fair value through profit and loss
Investments in securities	Available-for-sale	Fair value through OCI
Long-term debt	Financial liabilities	Amortized cost

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments.

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in other comprehensive income ("OCI") under IFRS 9.

Under IFRS 9, impairment charges recognized in respect of equity investments classified as fair value through OCI are not reclassified to earnings. As a result, cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy upon adoption of IFRS 9 resulted in the reclassification of previously recorded impairment charges of $117.1 million from Retained Earnings to Reserves in the Company's Balance Sheet. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from $50.3 million and $143.6 million, respectively, under IAS 39 to $167.4 million and $26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an equity investment, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking "expected credit loss" model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition accounting policy to recognize revenue when the customer assumes control of a product or service. The transfer of control in respect of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue, however, the Company has included additional revenue disclosures in the notes to the financial statements in accordance with the new standard.

Changes in Accounting Standards

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 may be applied retrospectively or using a modified retrospective approach, effective for annual periods beginning on or after January 1, 2019. The modified retrospective approach does not require restatement of prior period comparative financial information, as the cumulative effect is recognized as an adjustment to retained earnings on the transition date.

The Company's transition project is progressing through the scoping and review process and the potential impact of accounting for the contracts identified to date is being assessed. Paramount plans to adopt IFRS 16 using the modified retrospective approach. The Company expects the adoption of this standard may have a material impact on the Company's financial statements and result in additional disclosures.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended September 30, 2018, there was no change in the Company's internal control over financial reporting ("ICFR") that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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

- expected average sales volumes for 2018 and the anticipated liquids component thereof;
- the expectation that fourth quarter 2018 sales volumes will be lower than previously forecast;
- expected per Boe operating costs in 2018;
- planned exploration, development and production activities, included the expected timing of completing and bringing new wells on production;
- expected additions to production and cash flows in 2019 from capital spending related to growth projects at Wapiti and Karr in the nine months ended September 30, 2018;
- forecast annual capital expenditures for 2018;
- the expected funding of the remainder of 2018 obligations and capital expenditures with cash flows from operations and bank credit facility capacity;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position; and
- the expected impact of the adoption of IFRS 16.

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 MD&A:

- future natural gas and liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas and liquids successfully to current and new customers;

- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals;
- the merits of outstanding and pending legal proceedings; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this MD&A, undue reliance should not be placed on the forward-looking information as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

- fluctuations in natural gas and liquids prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline, de-ethanization, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resources estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, de-ethanization, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "RISK FACTORS" in Paramount's current annual information form. The forward-looking information contained in this MD&A 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 MD&A "Adjusted funds flow", "Netback", "Net Debt", "Adjusted working capital" and "Exploration and development capital", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

Adjusted funds flow refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow 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. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Operating Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the calculation of Net Debt and **Adjusted working capital**. **Exploration and development capital** consists of the Company's spending on wells, infrastructure projects, and other property, plant and equipment and exploration and evaluation assets and excludes spending related to land and property acquisitions and corporate assets. The Exploration and development capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof.

The Non-GAAP Measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP Measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

The term "liquids" includes oil, condensate and Other NGLs (ethane, propane and butane).

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
NGLs	Natural gas liquids
Condensate	Pentane and heavier hydrocarbons

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

Natural Gas	
Mcf	Thousands of cubic feet
MMcf/d	Millions of cubic feet per day
GJ	Gigajoule
MMbtu	Millions of British thermal units
AECO	AECO-C reference price
NYMEX	New York Mercantile Exchange

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. For the nine months ended September 30, 2018, the value ratio between crude oil and natural gas was approximately 55:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Interim Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

($ thousands)

As at	Note	September 30 2018	December 31 2017
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents	14	36,332	123,329
Accounts receivable		102,787	170,313
Prepaid expenses and other		14,925	9,047
		154,044	302,689
Exploration and evaluation	2	743,737	785,764
Property, plant and equipment, net	3	3,017,570	3,282,542
Investments in securities	4	237,937	53,315
Deferred income tax		758,664	666,404
		4,911,952	5,090,714
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		256,173	237,181
Risk management	11	95,228	19,060
Current portion of asset retirement obligations	6	33,000	28,000
		384,401	284,241
Long-term debt	5	695,098	701,750
Risk management – long-term	11	20,002	–
Asset retirement obligations and other	6	1,650,222	1,661,073
		2,749,723	2,647,064
Commitments and contingencies	15		
Shareholders' equity			
Share capital	7	2,184,230	2,249,746
Retained earnings (accumulated deficit)	1,8	(73,327)	50,325
Reserves	1,8	51,326	143,579
		2,162,229	2,443,650
		4,911,952	5,090,714

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands, except as noted)

	Note	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	Nine months ended September 30 2017
Petroleum and natural gas sales		248,500	116,539	758,043	232,570
Royalties		(22,772)	(5,029)	(61,215)	(7,834)
Revenue	12	225,728	111,510	696,828	224,736
Gain (loss) on commodity contracts	11	(31,109)	(3,379)	(163,318)	17,484
		194,619	108,131	533,510	242,220
Expenses					
Operating expense		90,672	47,758	277,779	79,814
Transportation and NGLs processing		22,829	12,328	68,797	26,640
General and administrative		11,172	10,692	41,800	22,386
Share-based compensation	9	5,498	3,075	16,862	8,506
Depletion and depreciation		137,242	89,707	463,055	124,577
Exploration and evaluation	2	2,860	1,461	15,388	6,757
Gain on sale of oil and gas assets		(55,959)	(25,581)	(67,757)	(113,927)
Interest and financing		6,706	1,864	22,282	2,304
Accretion of asset retirement obligations	6	9,256	4,766	27,829	6,715
Transaction and reorganization costs		263	9,709	4,515	14,446
Gain on debt extinguishment	5	–	–	(3,126)	–
Foreign exchange		(315)	484	(1,577)	674
		230,224	156,263	865,847	178,892
Income from equity-accounted investment		–	58,795	–	63,729
Gain on Apache Canada Acquisition	1	–	366,062	–	366,062
ARO Discount Rate Adjustment	1	–	(223,375)	–	(223,375)
Other	13	(5,292)	496	320	(17,090)
Income (loss) before tax		(40,897)	153,846	(332,017)	252,654
Income tax recovery					
Deferred	10	(17,460)	(69,609)	(92,945)	(36,869)
		(17,460)	(69,609)	(92,945)	(36,869)
Net income (loss)		(23,437)	223,455	(239,072)	289,523
Other comprehensive income (loss), net of tax					
Change in market value of securities		(11,523)	5,517	10,906	(36,737)
Reclassification of accumulated losses on securities to net income (loss)		–	–	–	21,480
Deferred tax on other comprehensive income (loss) related to securities		(196)	–	(282)	948
Comprehensive income (loss)		(35,156)	228,972	(228,448)	275,214
Net income (loss) per common share ($/share)	7				
Basic		(0.18)	1.99	(1.80)	2.68
Diluted		(0.18)	1.97	(1.80)	2.65

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

	Note	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
Operating activities					
Net income (loss)		(23,437)	223,455	(239,072)	289,523
Add (deduct):					
Items not involving cash	14	79,018	(190,009)	445,490	(199,850)
Asset retirement obligations settled	6	(6,004)	(7,737)	(20,508)	(12,503)
Gain on debt extinguishment	5	–	–	(3,126)	–
Change in non-cash working capital		24,229	23,703	28,237	5,716
Cash from operating activities		73,806	49,412	211,021	82,886
Financing activities					
Net draw (repayment) of revolving long-term debt		(63,842)	57,535	300,098	57,535
Redemption of 2019 Senior Notes	5	–	–	(303,624)	–
Common Shares issued, net of issue costs		41	634	719	4,042
Common Shares repurchased under NCIB	7	(24,556)	–	(65,767)	–
Common Shares purchased under restricted share unit plan	9	–	–	(9,219)	–
Cash from (used in) financing activities		(88,357)	58,169	(77,793)	61,577
Investing activities					
Property, plant and equipment and exploration		(135,039)	(124,675)	(452,698)	(386,267)
Proceeds on sale of oil and gas assets		173,364	3,356	181,729	153,829
Corporate acquisition	1	–	(486,852)	–	(486,852)
Cash acquired on corporate acquisition	1	–	25,468	–	25,468
Investment in securities		(4,139)	–	(4,139)	–
Proceeds on sale of investment in securities		423	–	423	–
Change in non-cash working capital		(5,344)	1,548	52,432	20,233
Cash from (used in) investing activities		29,265	(581,155)	(222,253)	(673,589)
Net increase (decrease)		14,714	(473,574)	(89,025)	(529,126)
Foreign exchange on cash and cash equivalents		17	(926)	2,028	(1,625)
Cash and cash equivalents, beginning of period		21,601	565,621	123,329	621,872
Cash and cash equivalents, end of period		36,332	91,121	36,332	91,121
Supplemental cash flow information	14				

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Nine months ended September 30	Note	2018		2017	
		Shares (000's)		*Shares (000's)*	
Share Capital					
Balance, beginning of period		*134,713*	2,249,746	*105,784*	1,639,466
Issued		*72*	999	*511*	6,061
Issued on Trilogy Merger, net of issuance costs	1	*–*	–	*28,537*	603,085
Common Shares purchased and cancelled under NCIB	7	*(4,137)*	(65,767)	*–*	–
Change in vested and unvested Common Shares for restricted share unit plan	9	*(231)*	(748)	*3*	9
Balance, end of period		*130,417*	2,184,230	*134,835*	2,248,621
Retained Earnings (Accumulated Deficit)					
Balance, beginning of period			50,325		(152,182)
Net income (loss)			(239,072)		289,523
Decrease in value of securities prior to distribution			–		19,146
Reclassification of accumulated losses on securities	1,8		115,420		–
Balance, end of period			(73,327)		156,487
Reserves	8				
Balance, beginning of period			143,579		147,499
Other comprehensive income (loss)			10,624		(14,309)
Contributed surplus			12,543		8,455
Reclassification of accumulated losses on securities	1,8		(115,420)		–
Balance, end of period			51,326		141,645
Total Shareholders' Equity			2,162,229		2,546,753

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 energy company that explores for and develops conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia.

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 2800, 421 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy ("Cavalier") and MGM Energy. 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 of the Company, as at and for the three and nine months ended September 30, 2018 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on November 7, 2018.

These Interim Financial Statements have been prepared in accordance with *IAS 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, 2017 (the "Annual Financial Statements"), except for changes in Paramount's accounting policies as a result of the adoption of *IFRS 9 – Financial Instruments* ("IFRS 9") and *IFRS 15 – Revenue From Contracts With Customers* ("IFRS 15"), which are described below.

These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments which are stated at fair value. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements. Certain comparative figures have been reclassified to conform with the current year's presentation.

In August 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada" and the "Apache Canada Acquisition"). In September 2017, the Company completed a merger transaction with Trilogy Energy Corp. ("Trilogy" and the "Trilogy Merger"), under which Paramount acquired all of the outstanding shares of Trilogy not already owned by Paramount. For additional information regarding the Apache Canada Acquisition and the Trilogy Merger, including the ARO Discount Rate Adjustment, refer to the Annual Financial Statements.

Changes in Accounting Policies

Paramount adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected to not restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy as described in the Annual Financial Statements.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through other comprehensive income", "fair value through profit and loss" and "amortized cost". The following table outlines the classification categories in respect of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and under IFRS 9 beginning January 1, 2018:

Financial Instrument	IAS 39	IFRS 9
Risk management assets and liabilities	Fair value through profit and loss	Fair value through profit and loss
Investments in securities	Available-for-sale	Fair value through OCI
Long-term debt	Financial liabilities	Amortized cost

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments.

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in other comprehensive income ("OCI") under IFRS 9.

Under IFRS 9, impairment charges recognized in respect of equity investments classified as fair value through OCI are not reclassified to earnings. As a result, cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy upon adoption of IFRS 9 resulted in the reclassification of previously recorded impairment charges of $117.1 million from Retained Earnings to Reserves in the Company's Balance Sheet. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from $50.3 million and $143.6 million, respectively, under IAS 39 to $167.4 million and $26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an equity investment, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking "expected credit loss" model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition accounting policy to recognize revenue when the customer assumes control of a product or service. The transfer of control in respect of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue; however, the Company has included additional revenue disclosures in the notes to the financial statements in accordance with the new standard.

Changes in Accounting Standards

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 may be applied retrospectively or using a modified retrospective approach, effective for annual periods beginning on or after January 1, 2019. The modified retrospective approach does not require restatement of prior period comparative financial information, as the cumulative effect is recognized as an adjustment to retained earnings on the transition date.

The Company's transition project is progressing through the scoping and review process and the potential impact of accounting for the contracts identified to date is being assessed. Paramount plans to adopt IFRS 16 using the modified retrospective approach. The Company expects the adoption of this standard may have a material impact on the Company's financial statements and result in additional disclosures.

2. Exploration and Evaluation

	Nine months ended September 30, 2018	Twelve months ended December 31, 2017
Balance, beginning of period	785,764	301,530
Additions	7,906	14,276
Apache Canada Acquisition and Trilogy Merger	–	701,087
Change in asset retirement provision	(86)	4,304
Transfers to property, plant and equipment	(19,878)	(6,283)
Expired lease costs	(4,789)	(8,869)
Write-downs	–	(196,610)
Dispositions (see note 3)	(25,180)	(23,671)
Balance, end of period	743,737	785,764

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Geological and geophysical	2,322	2,215	10,599	4,461
Dry hole	–	(827)	–	(810)
Expired lease costs	538	73	4,789	3,106
	2,860	1,461	15,388	6,757

3. Property, Plant and Equipment

Nine months ended September 30, 2018	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2017	4,570,128	157,153	33,708	4,760,989
Additions	438,793	2,338	10,264	451,395
Transfers from exploration and evaluation	19,878	–	–	19,878
Dispositions	(574,293)	–	(519)	(574,812)
Change in asset retirement provision	21,396	–	–	21,396
Cost, end of period	4,475,902	159,491	43,453	4,678,846
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2017	(1,386,466)	(67,840)	(24,141)	(1,478,447)
Depletion and depreciation	(455,124)	(8,206)	(3,518)	(466,848)
Dispositions	283,628	–	391	284,019
Accumulated depletion, depreciation and write-downs, end of period	(1,557,962)	(76,046)	(27,268)	(1,661,276)
Net book value, December 31, 2017	3,183,662	89,313	9,567	3,282,542
Net book value, September 30, 2018	2,917,940	83,445	16,185	3,017,570

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar (the "Resthaven/Jayar Assets") for gross proceeds of $340 million. Total consideration included $170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath Resources"), and 10-year warrants to acquire 8.5 million Strath Resources common shares at an exercise price of $2.00 per share ("Strath Warrants"). A gain of $52.6 million was recognized on the sale. The Resthaven/Jayar Assets were included in the Grande Prairie cash generating unit.

In February 2018, Paramount closed the sale of non-core assets in the central Alberta area for cash proceeds of $5.3 million, resulting in the recognition of a gain on sale of $13.0 million.

4. Investments in Securities

As at	September 30, 2018		December 31, 2017	
	Shares (000's)	Carrying Value	*Shares (000's)*	Carrying Value
Strath Resources (1)	*85,000*	170,000	–	–
MEG Energy Corp.	*3,700*	29,711	*3,700*	19,018
Privateco		21,111		21,111
Other (2)		17,115		13,186
		237,937		53,315

(1) Carrying value includes Strath Resources common shares and 8.5 million Strath Warrants.
(2) Includes investments in Blackbird Energy Inc., Storm Resources Ltd., and other public and private corporations.

Investments in publicly traded securities are carried at their period-end trading prices, which are level one fair value hierarchy inputs. The estimated fair value of the Company's investments in the shares of private oil and gas companies are based on equity issuances and other indications of value from time-to-time (level three fair value hierarchy inputs).

5. Long-Term Debt

As at	September 30, 2018	December 31, 2017
Paramount Facility	695,098	395,000
2019 Senior Notes	–	306,750
	695,098	701,750

Paramount Facility

As at September 30, 2018, the Company had a $1.2 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 6, 2021, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders. At Paramount's request, the size of the Paramount Facility can be increased by up to $300 million (to $1.5 billion) pursuant to an accordion feature in such facility, subject to securing incremental lender commitments.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less (or 4.00 to 1.00 or less for two full fiscal quarters after completion of a material acquisition); and

ii. Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

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

Consolidated EBITDA is determined on a trailing twelve month basis, is adjusted for material acquisitions and dispositions, and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including unrealized mark-to-market amounts on derivatives, unrealized foreign exchange, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all covenants under the Paramount Facility.

Paramount had letters of credit outstanding totaling $19.3 million at September 30, 2018 that reduce the amount available to be drawn on the Paramount Facility.

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a $6.7 million gain on redemption less the redemption premium of $3.6 million.

6. Asset Retirement Obligations and Other

As at	September 30, 2018	December 31, 2017
Asset retirement obligations – long-term	1,635,740	1,642,194
Other liabilities	14,482	18,879
	1,650,222	1,661,073

Asset Retirement Obligations

	Nine months ended September 30, 2018	Twelve months ended December 31, 2017
Asset retirement obligations, beginning of period	1,670,194	212,309
Retirement obligations incurred	11,486	6,003
Apache Canada Acquisition and Trilogy Merger	–	867,591
ARO Discount Rate Adjustment	–	665,998
Revisions to estimated retirement costs	9,824	(20,421)
Obligations settled	(20,508)	(21,450)
Dispositions	(30,085)	(55,806)
Accretion expense	27,829	15,970
Asset retirement obligations, end of period	1,668,740	1,670,194
Asset retirement obligations – current	33,000	28,000
Asset retirement obligations – long-term	1,635,740	1,642,194
	1,668,740	1,670,194

At September 30, 2018, estimated undiscounted asset retirement obligations were $1,722.1 million (December 31, 2017 – $1,752.0 million). Asset retirement obligations have been estimated using a weighted average risk-free discount rate of 2.25 percent (December 31, 2017 – 2.25 percent) and an inflation rate of 2.0 percent (December 31, 2017 – 2.0 percent).

7. Share Capital

At September 30, 2018, 130,417,742 (December 31, 2017 – 134,712,907) class A common shares ("Common Shares") of the Company were outstanding, net of 576,525 (December 31, 2017 – 345,904) Common Shares held in trust under the Company's restricted share unit plan.

In December 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company may purchase up to 7,497,530 Common Shares for cancellation. Between January 1, 2018 and September 30, 2018, the Company purchased and cancelled 4,136,700 Common Shares at a total cost of $65.8 million under the 2018 NCIB. The 2018 NCIB will terminate on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2018 NCIB are purchased.

Weighted Average Common Shares

Three months ended September 30	2018		2017	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net income
Net income (loss) – basic	*131,341*	(23,437)	*112,135*	223,455
Dilutive effect of Paramount Options	–	–	*1,053*	–
Net income (loss) – diluted	*131,341*	(23,437)	*113,188*	223,455

Nine months ended September 30	2018		2017	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net income
Net income (loss) – basic	*132,601*	(239,072)	*108,163*	289,523
Dilutive effect of Paramount Options	–	–	*1,016*	–
Net income (loss) – diluted	*132,601*	(239,072)	*109,179*	289,523

Outstanding stock options that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. There were 9.2 million options to acquire Common Shares outstanding at September 30, 2018 (September 30, 2017 – 5.1 million), all of which (September 30, 2017 – 2.9 million) were anti-dilutive.

8. Reserves

Nine months ended September 30, 2018	Unrealized gains (losses) on securities	Contributed surplus	Total Reserves
Balance, beginning of period	15,604	127,975	143,579
Other comprehensive income	10,624	–	10,624
Reclassification of accumulated losses on securities upon disposition	1,637	–	1,637
Reclassification of accumulated losses on securities from retained earnings (see note 1)	(117,057)	–	(117,057)
Share-based compensation	–	12,823	12,823
Paramount options exercised	–	(280)	(280)
Balance, end of period	(89,192)	140,518	51,326

9. Share-Based Compensation

Options to Acquire Common Shares of Paramount ("Paramount Options")

	Nine months ended September 30, 2018		Twelve months ended December 31, 2017	
	Number	Weighted average exercise price ($/share)	Number	Weighted average exercise price ($/share)
Balance, beginning of period	10,028,920	19.12	4,322,120	13.00
Granted	360,000	15.23	5,475,000	20.48
Trilogy Merger (1)	–	–	1,362,375	26.75
Exercised (2)	(72,156)	9.96	(734,742)	9.27
Cancelled or forfeited	(1,036,240)	21.52	(395,833)	15.61
Expired	(42,011)	26.73	–	–
Balance, end of period	9,238,513	18.74	10,028,920	19.12
Options exercisable, end of period	1,712,485	18.28	1,986,388	18.72

(1) In connection with the Trilogy Merger, options to acquire Trilogy common shares ("Trilogy Options") were amended to provide the holders thereof the right to acquire the number of whole Paramount Common Shares determined by dividing the number of Trilogy common shares subject to such Trilogy Options by 3.75 at an adjusted exercise price approximately equal to the exercise price of such Trilogy Options multiplied by 3.75.

(2) For Paramount Options exercised during the nine months ended September 30, 2018, the weighted average market price of Paramount's Common Shares on the dates exercised was $17.17 (twelve months ended December 31, 2017 – $19.97).

Restricted Share Unit Plan – Shares Held in Trust

	Nine months ended September 30, 2018		Twelve months ended December 31, 2017	
	Shares (000's)		Shares (000's)	
Balance, beginning of period	346	2,366	3	9
Common Shares purchased	548	9,219	496	11,370
Change in vested and unvested shares	(317)	(8,471)	(153)	(9,013)
Balance, end of period	577	3,114	346	2,366

10. Income Tax

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Income (loss) before tax	(40,897)	153,846	(332,017)	252,654
Effective Canadian statutory income tax rate	27.0%	27.0%	27.0%	27.0%
Expected income tax expense (recovery)	(11,042)	41,538	(89,645)	68,217
Effect on income taxes of:				
Change in market value of securities distributed	–	–	–	1,410
Gain on redemption of 2019 Senior Notes	–	–	(1,823)	–
Income from equity-accounted investments	–	(15,875)	–	(17,207)
Gain on Apache Canada Acquisition	–	(98,837)	–	(98,837)
Write-down of investments in securities	–	–	–	2,978
Change in unrecognized deferred income tax asset	271	196	658	678
Share-based compensation	1,240	670	3,462	1,913
Non-deductible items and other	(7,929)	2,699	(5,597)	3,979
Income tax recovery	(17,460)	(69,609)	(92,945)	(36,869)

11. Risk Management

The Company had the following financial commodity contracts in place as at September 30, 2018:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	17,000 Bbl/d	CDN$71.61/Bbl	(35,221)	October 2018 – December 2018
Oil – NYMEX WTI Swaps (Sale)	14,000 Bbl/d	CDN$77.05/Bbl	(71,947)	January 2019 – December 2019
Oil – NYMEX WTI Calls (Sale)	2,000 Bbl/d	CDN$82.00 Bbl (1)	(8,062)	January 2019 – December 2019
			(115,230)	

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN$82.00 per barrel, for which the Company will receive a premium of CDN$2.65 per barrel.

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

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

	Nine months ended September 30, 2018	Twelve months ended December 31, 2017
Fair value, beginning of period	(19,060)	(5,180)
Changes in fair value	(163,318)	(4,059)
Settlements paid (received)	67,148	(14,426)
Assumed on merger with Trilogy	–	4,605
Fair value, end of period	(115,230)	(19,060)

12. Revenue By Product

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Natural gas	53,854	30,852	187,853	62,916
Condensate and oil	167,956	74,157	495,572	152,244
Other natural gas liquids	20,603	9,842	62,282	15,104
Royalty and sulphur income	6,087	1,688	12,336	2,306
Royalties expense	(22,772)	(5,029)	(61,215)	(7,834)
	225,728	111,510	696,828	224,736

13. Other Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest income	35	982	670	4,593
Drilling rig revenue	788	–	818	376
Drilling rig expense	(1,416)	(511)	(1,785)	(943)
Decrease in market value of securities distributed	–	–	–	(10,450)
Write-down of investments in securities	–	–	–	(11,030)
Other	(4,699)	25	617	364
	(5,292)	496	320	(17,090)

14. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Commodity contracts	1,047	9,520	96,170	(6,708)
Share-based compensation	5,498	3,075	16,862	8,506
Depletion and depreciation	137,242	89,707	463,055	124,577
Exploration and evaluation	538	(754)	4,789	2,296
Gain on sale of oil and gas assets	(55,959)	(25,581)	(67,757)	(113,927)
Accretion of asset retirement obligations	9,256	4,766	27,829	6,715
Foreign exchange	(273)	338	(1,623)	534
Income from equity-accounted investments	–	(58,795)	–	(63,729)
Gain on Apache Canada Acquisition	–	(366,062)	–	(366,062)
ARO Discount Rate Adjustment	–	223,375	–	223,375
Write-down of investments in securities	–	–	–	11,030
Decrease in market value of securities distributed	–	–	–	10,450
Deferred income tax	(17,460)	(69,609)	(92,945)	(36,869)
Other	(871)	11	(890)	(38)
	79,018	(190,009)	445,490	(199,850)

Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest paid	6,501	502	21,677	504

Components of Cash and Cash Equivalents

As at	September 30, 2018	December 31, 2017
Cash	27,840	114,895
Cash equivalents	8,492	8,434
	36,332	123,329

15. Commitments & Contingencies

Commitments

In 2018, the Company secured incremental firm-service liquids transportation capacity with a third party with commitments totaling approximately $138 million over ten years, beginning in May 2019.

Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

In 2016, a release occurred from a non-operated pipeline in which the Company owned a 50 percent interest. The operator, and owner of the remaining 50 percent, initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately $60 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually changes. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

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

B. K. Lee
Executive Vice President, Finance and Chief Financial Officer

E. M. Shier
General Counsel and Corporate Secretary

D. B. Reid
Executive Vice President, Operations

J. B. Williams
Executive Vice President, Kaybob Region

P. R. Kinvig
Vice President Finance, Capital Markets

R. R. Sousa
Vice President, Corporate Development

DIRECTORS

J. H. T. Riddell (2)
Chairman and President & Chief Executive Officer
Paramount Resources Ltd.
Calgary, Alberta

J. G. M. Bell (1) (3) (4)
Chief Operating Officer and General Counsel
Founders Advantage Capital Corp.
Calgary, Alberta

W. A. Gobert (3) (4) (5)
Independent Businessman
Calgary, Alberta

J. C. Gorman (1) (4) (5)
Independent Businessman
Calgary, Alberta

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

R. M. MacDonald (1) (4)
Independent Businessman
Calgary, Alberta

R. K. MacLeod (2) (4) (5)
Independent Businessman
Calgary, Alberta

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

J. B. Roy (1) (3) (4)
Independent Businessman
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
(5) Member of Reserves Committee

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Calgary, Alberta
Toronto, Ontario

BANK

Bank of Montreal
Calgary, Alberta

RESERVES EVALUATORS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("POU")