Second Quarter 2020 Results

Paramount Resources Ltd. Reports Second Quarter 2020 Results

Calgary, Alberta – August 6, 2020

HIGHLIGHTS

- Sales volumes averaged 68,839 Boe/d (39 percent liquids) in the second quarter of 2020 compared to 70,022 Boe/d (38 percent liquids) in the first quarter.
    - At Wapiti, second quarter sales volumes increased 107 percent to 14,940 Boe/d (64 percent liquids) compared to the first quarter as run time at the third-party processing facility improved.
    - At Karr, the five wells on the 12-18 pad were flowed through test facilities partway through the quarter and were brought on production through permanent facilities in early July. Average gross peak 30-day production per well was 1,593 Boe/d, including 1,216 Bbl/d of wellhead liquids, with an average wellhead CGR of 538 Bbl/MMcf. [(1)]
    - Average sales volumes in the quarter were impacted by shut-ins and curtailments.
- Second quarter operating costs were $62.6 million ($9.99/Boe), a reduction of about 30 percent quarter-over-quarter. Approximately 30 to 50 percent of this reduction is attributable to sustainable improvements in the Company's cost structure.
- Paramount's netback was $21.7 million in the second quarter of 2020 compared to $44.5 million in the first quarter of 2020, reflecting the impact of substantially lower commodity prices which were only partially offset by cost improvements. [(2)]
- Adjusted funds flow was $19.0 million or $0.14 per share.[(2)] Cash from operating activities was ($14.2) million in the second quarter of 2020, largely because of changes in working capital.
- Second quarter capital spending totaled $41.4 million, primarily related to drilling and completion activities at Karr and drilling operations at Wapiti.
- The Company has realized significant cost savings in its capital program through its continuing focus on well design, increased efficiencies and lower vendor rates, while not compromising on completion effectiveness:
    - All-in lease construction, drilling, completion, equip and tie-in (collectively, "DCET") costs for the five-well (three Middle Montney and two Lower Montney) Karr 12-18 pad averaged $8.8

---

(1) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 10 percent and wellhead liquids sales volumes are lower by approximately 12 percent due to shrinkage, under normalized operations. Excludes days when the wells did not produce. 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. CGRs are calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes. See Oil and Gas Measures and Definitions in the Advisories section.

(2) "Netback" and "Adjusted funds flow" are Non-GAAP measures. See "Non-GAAP Measures" in the Advisories section.

million per well, $0.7 million lower than prior estimates. This represents a 27 percent reduction compared with average DCET costs for all Karr wells in 2018 and 2019.

  - Drilling operations were concluded in the second quarter on the five-well (three Upper Montney and two Middle Montney) Karr 5-16 West pad. Average drilling costs of $2.7 million per well were in line with recent pacesetters at Karr.
  - Completion activities at the five-well (all Middle Montney) Karr 2-1 pad have recently been concluded and preliminary lease construction, drilling and completion costs are coming in at a pacesetting estimate of $7.0 million per well.
  - At Wapiti, drilling operations were completed on the five-well (two Middle Montney and three Lower Montney) 5-3 West pad, with estimated costs averaging $3.1 million per well.

- The expansion of the third-party Karr 6-18 facility was completed in July. The additional raw gas and liquids processing capacity adds flexibility to the Company's Karr operations, including minimizing the impact of future disruptions at other accessible third-party processing facilities.
- Paramount has received approval for up to $8 million of funding under the Alberta Site Rehabilitation Program and applied for funding under similar programs in BC and Saskatchewan. The majority of activities to be funded under the Alberta Site Rehabilitation Program are expected to occur in 2021.
- The Company advanced its project to replace 200 high-bleed controllers with low-bleed units at well sites in the Grande Prairie area in 2020, with 164 low-bleed units installed to date. The project is anticipated to eliminate approximately 8,600 tonnes of greenhouse gas ("GHG") emissions annually. In addition, reduced trucking of produced water following the start-up of two new water disposal wells at Karr is expected to eliminate approximately 13,500 tonnes per year of GHG emissions (the equivalent of removing approximately 2,900 passenger cars from use) while also reducing operating costs.

CORPORATE

- Paramount is on track to achieve its previously announced 2020 cost reduction targets of $25 million in operating costs and $15 million in general and administrative expenses.
- The Company is maintaining its 2020 capital guidance of $165 million and allocating the significant capital savings it is realizing to advance certain projects that had previously been planned for 2021. Paramount continues to evaluate the merits of accelerating additional projects as market conditions evolve.
- Approximately 4,300 Boe/d of production currently remains shut-in and Paramount continues to review opportunities to bring volumes back online as conditions improve.
- Sales volumes are anticipated to average between 65,000 Boe/d and 70,000 Boe/d in the second half of 2020.
- Reflective of the macro economic environment and significant reduction in commodity prices, in June 2020 Paramount's senior secured revolving bank credit facility was amended to provide a period of financial covenant relief to and including June 30, 2021 and to amend the size of the facility to $1.0 billion. Long-term debt at June 30, 2020 was $754.9 million.
- In July 2020 the Company's unsecured demand revolving letter of credit facility was increased from $40 million to $70 million.

- The Company has entered into additional 2020 natural gas and liquids hedges to mitigate volatility and protect cash flows. See "Hedging" below for a summary of the Company's current hedge position.
- Paramount continues to respond to the COVID-19 pandemic. At the beginning of June, Paramount implemented a plan to safely transition its Calgary head office employees from remote work back to the office.

REVIEW OF OPERATIONS

GRANDE PRAIRIE REGION

Grande Prairie Region sales volumes and netbacks are summarized below:

	Q2 2020		Q1 2020		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**78.3**		74.6		*5*
Condensate and oil (Bbl/d)	**16,309**		14,097		*16*
Other NGLs (Bbl/d)	**1,680**		1,680		*—*
Total (Boe/d)	**31,039**		28,214		*10*
% liquids	***58%***		*56%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**60.3**	***21.34***	91.7	*35.71*	*(34)*
Royalties (1)	**0.3**	***0.12***	(6.2)	*(2.42)*	*NM*
Operating expense	**(38.8)**	***(13.73)***	(42.4)	*(16.53)*	*(8)*
Transportation and NGLs processing	**(12.9)**	***(4.58)***	(10.3)	*(4.03)*	*25*
	8.9	***3.15***	32.8	*12.73*	*(73)*

(1) Second quarter royalties were impacted by lower prices and adjustments related to prior year gas cost allowance.
NM Not meaningful

Karr

Karr sales volumes and netbacks are summarized below:

	Q2 2020		Q1 2020		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**46.1**		59.4		*(22)*
Condensate and oil (Bbl/d)	**7,501**		9,691		*(23)*
Other NGLs (Bbl/d)	**829**		1,290		*(36)*
Total (Boe/d)	**16,009**		20,885		*(23)*
% liquids	***52%***		*53%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**29.4**	***20.20***	64.2	*33.76*	*(54)*
Royalties (1)	**1.3**	***0.87***	(5.0)	*(2.62)*	*NM*
Operating expense	**(22.4)**	***(15.39)***	(30.8)	*(16.19)*	*(27)*
Transportation and NGLs processing	**(7.2)**	***(4.91)***	(6.7)	*(3.54)*	*7*
	1.1	***0.77***	21.7	*11.41*	*(95)*

(1) Second quarter royalties were impacted by lower prices and adjustments related to prior year gas cost allowance.
NM Not meaningful

Second quarter sales volumes at Karr averaged 16,009 Boe/d compared to 20,885 Boe/d in the first quarter. Sales volumes were impacted by a seven-day planned outage (including ramp-down and ramp-up periods) at the third-party Karr 6-18 facility related to the completion of expansion activities and the temporary shut-in of certain offsetting wells due to completion activities at the 12-18 and 2-1 pads, as well as by natural declines.

In addition to previously installed gas lift and related compression at pads near the southwest terminus of Paramount's gathering system, work is ongoing to mitigate current and future potential back-out issues in the Karr gathering system as new production continues to be brought online. This includes additional booster compression that is scheduled to be brought into service midway through the third quarter to mitigate production currently backed-out.

Substantial operating cost savings have been realized with the addition of the Company's two new water disposal wells that were brought into service near the end of the first quarter. These wells have accommodated the disposal of substantially all produced water from Karr area wells and resulted in approximately $4 million in operating costs savings compared to the previous quarter from the elimination of trucking and third-party disposal fees. These wells are expected to meet Karr area development needs for the foreseeable future.

Final DCET costs for the 12-18 pad came in at a pacesetting $8.8 million average per well, $0.7 million per well lower than previously estimated. This represents a 27 percent reduction compared with average DCET costs for all Karr wells in 2018 and 2019. The wells (three Middle Montney and two Lower Montney) flowed through testers partway through the quarter and began producing through permanent facilities in early July. Average gross peak 30-day production per well was 1,593 Boe/d, including 1,216 Bbl/d of wellhead liquids, with an average wellhead CGR of 538 Bbl/MMcf. [1]

Paramount completed the drilling of five wells (three Upper Montney and two Middle Montney) on the 5-16 West pad during the second quarter. Average drilling costs of $2.7 million per well are in line with the pacesetting results at the 2-1 pad drilled in the fourth quarter of 2019. The successful negotiation of lower vendor rates and the continuous improvement from prior drilling operations helped achieve this result. Paramount plans to complete, tie-in, and bring on production all five wells on the 5-16 West pad in 2021.

Completion activities at the five-well Middle Montney Karr 2-1 pad have recently been concluded and preliminary lease construction, drilling and completion costs are coming in at a pacesetting estimate of $7.0 million per well. Paramount continues to aggressively pursue capital cost savings without compromising on completion effectiveness. The Company plans to tie-in and bring on production the wells on the 2-1 pad in the third quarter.

The Karr 6-18 third-party processing facility expansion has been completed and commercial operations commenced in July 2020. The facility now has 150 MMcf/d of total raw gas handling capacity, including 70 MMcf/d of sour raw gas processing, and 30,000 Bbl/d of raw hydrocarbon liquids handling capacity. The additional gas and liquids processing capacity will allow the Company to grow future production as well as minimize the impact of future disruptions at the other accessible third-party processing facilities.

(1) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 10 percent and wellhead liquids sales volumes are lower by approximately 12 percent due to shrinkage, under normalized operations. Excludes days when the wells did not produce. 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. CGRs are calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes. See Oil and Gas Measures and Definitions in the Advisories section.

The following table summarizes the performance of the wells on the 12-18, 1-19, and 4-24 pads, as well as the five wells drilled in 2018 and the 27 wells drilled in the 2016/2017 capital program at Karr:

	Peak 30-Day (1)			Cumulative (2)			
	Total	Wellhead Liquids	CGR (3)	Total	Wellhead Liquids	CGR (3)	Days on Production
	(Boe/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(MBoe)*	*(MBbl)*	*(Bbl/MMcf)*	
12-18 Pad							
00/09-17-065-05W6/2	1,304	1,056	710	43	35	694	36
00/16-17-065-05W6/0	1,644	1,262	550	56	43	540	36
02/09-17-065-05W6/0	1,757	1,350	553	60	46	542	36
02/16-17-065-05W6/0	1,692	1,181	385	58	40	378	36
03/09-17-065-05W6/0	1,567	1,232	614	55	42	571	36
Avg. per well	**1,593**	**1,216**	**538**	**54**	**41**	**520**	**36**
01-19 Pad							
03/13-29-065-05W6/0	1,704	1,209	407	279	187	340	229
03/14-29-065-05W6/0	1,357	1,067	611	167	124	479	206
04/13-29-065-05W6/0	1,566	1,170	493	229	162	406	223
Avg. per well	**1,542**	**1,149**	**486**	**225**	**158**	**390**	**219**
04-24 Pad							
00/01-11-065-06W6/0	1,878	1,271	349	351	211	250	315
00/02-12-065-06W6/0	1,836	1,308	413	284	194	360	320
00/03-12-065-06W6/0	2,307	1,583	365	460	293	291	333
00/04-12-065-06W6/0	2,097	1,329	289	468	279	245	326
02/03-12-065-06W6/0	2,029	1,308	302	406	251	270	327
Avg. per well	**2,029**	**1,360**	**338**	**394**	**246**	**276**	**324**
2018 Wells							
5 wells (Avg. per well)	1,877	1,121	247	629	327	180	624
2016/2017 Wells							
27 wells (Avg. per well)	1,969	1,171	245	738	368	166	860

(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 10 percent lower and wellhead 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. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to July 31, 2020. Natural gas sales volumes are approximately 10 percent lower and wellhead 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 raw wellhead liquids volumes by raw wellhead natural gas volumes.

Wapiti

Wapiti sales volumes and netbacks are summarized below:

	Q2 2020		Q1 2020		% Change
Sales volumes					
Natural gas (MMcf/d)		**31.9**		14.8	*116*
Condensate and oil (Bbl/d)		**8,786**		4,364	*101*
Other NGLs (Bbl/d)		**841**		386	*118*
Total (Boe/d)		**14,940**		7,209	*107*
% liquids		***64%***		*66%*	
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**30.7**	***22.61***	27.2	*41.53*	*13*
Royalties	**(1.0)**	***(0.70)***	(1.2)	*(1.85)*	*(17)*
Operating expense	**(15.9)**	***(11.69)***	(11.2)	*(17.11)*	*42*
Transportation and NGLs processing	**(5.8)**	***(4.24)***	(3.6)	*(5.46)*	*61*
	8.0	***5.98***	11.2	*17.11*	*(29)*

Second quarter sales volumes at Wapiti averaged 14,940 Boe/d (64 percent liquids) compared to 7,209 Boe/d (66 percent liquids) in the first quarter. Run time at the third-party operated processing facility was significantly improved compared with previous quarters.

All 12 wells on the 5-3 East pad are now flowing through permanent production facilities as additional third-party effluent gathering system capacity came online during the second quarter.

Paramount completed the drilling of five wells (two Middle Montney and three Lower Montney) on the 5-3 West pad at an average cost of $3.1 million per well in the second quarter. Plans to complete and bring on production these wells and drill the remaining six wells on the eight-well 6-4 pad have been deferred. A tenure well drilled and completed in 2015 is planned to be brought on production in the third quarter.

The following table summarizes the performance of wells on the 5-3 East and 9-3 pads:

	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)*	
5-3 East Pad							
03/11-27-067-06W6/0	2,226	1,412	289	240	143	246	209
04/06-15-068-06W6/0	1,736	1,187	360	168	112	336	172
02/09-28-067-06W6/0	1,776	1,110	278	142	88	271	118
02/11-27-067-06W6/0	2,076	1,344	306	224	139	274	203
00/12-27-067-06W6/0	1,393	928	333	131	81	270	141
02/12-27-067-06W6/0	1,998	1,326	329	182	110	253	144
00/09-28-067-06W6/0	1,701	1,155	353	168	104	271	130
03/06-15-068-06W6/0	1,465	1,036	403	159	111	382	161
00/05-15-068-06W6/0	1,480	1,066	429	133	94	407	142
02/05-15-068-06W6/0	1,663	1,170	396	149	103	375	131
00/08-16-068-06W6/0	1,516	1,055	381	145	98	351	127
02/08-16-068-06W6/0	1,845	1,348	452	119	84	403	77
Avg. per well	**1,740**	**1,178**	**350**	**163**	**106**	**305**	**146**
9-3 Pad							
00/11-27-067-06W6/0	1,360	880	306	228	143	279	310
03/08-15-068-06W6/0	962	689	421	162	119	452	279
04/09-27-067-06W6/0	1,536	1,102	423	348	219	284	394
03/09-27-067-06W6/0	1,268	794	279	316	198	277	395
02/06-15-068-06W6/0	1,511	1,088	429	219	152	379	263
02/09-27-067-06W6/0	1,094	769	395	281	179	293	375
03/07-15-068-06W6/0	1,042	787	516	216	145	338	361
02/10-27-067-06W6/0	1,137	779	362	273	174	292	356
03/10-27-067-06W6/0	1,111	749	345	276	167	256	376
02/08-15-068-06W6/0	969	693	419	193	133	365	332
02/07-15-068-06W6/0	1,192	815	360	210	143	357	318
Avg. per well	**1,198**	**831**	**378**	**247**	**161**	**311**	**342**

(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 11 percent lower and wellhead liquids sales volumes are approximately 3 percent lower due to shrinkage under normalized operations. 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. See "Oil and Gas Measures and Definitions" in the Advisories.

(2) Cumulative is the aggregate production measured at the wellhead to July 31, 2020. Natural gas sales volumes are approximately 11 percent lower and wellhead liquids sales volumes are approximately 3 percent lower due to shrinkage under normalized operating conditions. 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 raw wellhead liquids volumes by raw wellhead natural gas volumes.

KAYBOB REGION

Kaybob Region sales volumes averaged 29,561 Boe/d (26 percent liquids) in the second quarter compared to 32,700 Boe/d (29 percent liquids) in the first quarter. This decrease was mainly attributable to natural declines and shut-ins during the second quarter.

Paramount holds material positions in Duvernay and Montney Oil resource plays in the Kaybob Region that will compete for capital in the medium term. The Company continues to actively evaluate longer-term full field development plans for these plays.

CENTRAL ALBERTA AND OTHER REGION

Central Alberta and Other Region sales volumes averaged 8,239 Boe/d (12 percent liquids) in the second quarter compared to 9,108 Boe/d (14 percent liquids) in the first quarter. Sales at Birch were impacted by planned and unplanned plant outages in the second quarter.

Paramount holds a material, contiguous Duvernay position at Willesden Green and continues to actively evaluate longer-term full field development plans of the asset.

GREENHOUSE GAS REDUCTION INITIATIVE

As part of Paramount's continued commitment to responsible energy development, the Company has been participating in GHG emission reduction programs and investing in new equipment to reduce GHG emissions from its operations.

The Company is continuing upgrades at various sites to replace its remaining high-bleed controllers with modern low-bleed units. A total of 200 low-bleed units are expected to be installed in the Grand Prairie Region in 2020, with 164 installed to date. These new units are expected to eliminate approximately 8,600 tonnes of GHG emissions per year and generate approximately $0.5 million in GHG credits under current regulations through 2022.

Reduced trucking of produced water with the start-up of two new water disposal wells at Karr is expected to eliminate approximately 13,500 tonnes per year of GHG emissions (the equivalent of removing approximately 2,900 passenger cars from use) while also reducing operating costs.

HEDGING

The tables below set out the Company's hedge position:

Oil	Volume	Price	Remaining term
NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN$80.11/Bbl	July 2020 – December 2020
NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$41.75/Bbl	August 2020
NYMEX WTI Swaps (Sale)	16,000 Bbl/d	US$42.23/Bbl	September 2020
NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$43.03/Bbl	October 2020
NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.73/Bbl	November 2020
NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.99/Bbl	December 2020

Gas	Volume	Price	Remaining term
Ventura Swaps (Sale) (1)	20,000 MMBtu/d	US$1.69/MMBtu	August 2020 – October 2020
Chicago Swaps (Sale) (1)	20,000 MMBtu/d	US$1.71/MMBtu	August 2020 – October 2020
NYMEX Swaps (Sale)	20,000 MMBtu/d	US$2.17/MMBtu	September 2020
NYMEX Swaps (Sale)	10,000 MMBtu/d	US$2.93/MMBtu	November 2020 – March 2021
NYMEX Swaps (Sale)	40,000 MMBtu/d	US$2.68/MMBtu	January 2021 – December 2021
Dawn fixed-price physical	54,956 MMBtu/d	US$1.60/MMBtu	August 2020
Dawn fixed-price physical	45,000 MMBtu/d	US$1.56/MMBtu	September 2020
AECO fixed-price physical	90,000 GJ/d	CDN$1.66/GJ	July 2020 – October 2020
AECO fixed-price physical	35,000 GJ/d	CDN$1.80/GJ	August 2020
AECO fixed-price physical	25,000 GJ/d	CDN$1.85/GJ	September 2020
AECO fixed-price physical	10,000 GJ/d	CDN$2.65/GJ	November 2020 – March 2021
AECO fixed-price physical	20,000 GJ/d	CDN$2.50/GJ	January 2021 – December 2021

(1) These hedges swap physical sales of Alberta natural gas production from Chicago and Ventura index pricing to fixed prices.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources, including longer-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 second quarter 2020 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:

Paramount Resources Ltd.
J.H.T. (Jim) Riddell, President and Chief Executive Officer and Chairman
Rodrigo (Rod) Sousa, Executive Vice President, Corporate Development and Planning
www.paramountres.com
Phone: (403) 290-3600

FINANCIAL AND OPERATING RESULTS [1]

($ millions, except as noted)

	Q2 2020		Q1 2020	
Net loss		**(75.7)**		(235.1)
per share – basic and diluted ($/share)		***(0.57)***		*(1.76)*
Cash from (used in) operating activities		**(14.2)**		30.5
per share – basic and diluted ($/share)		***(0.11)***		*0.23*
Adjusted funds flow		**19.0**		33.5
per share – basic and diluted ($/share)		***0.14***		*0.25*
Total assets		**3,066.4**		3,009.5
Long-term debt		**754.9**		651.5
Net debt		**810.7**		771.9
Common shares outstanding *(thousands)*[2]		**133,784**		133,346
Sales volumes				
Natural gas (MMcf/d)		**253.2**		261.5
Condensate and oil (Bbl/d)		**22,823**		21,898
Other NGLs (Bbl/d) [3]		**3,817**		4,539
Total (Boe/d)		**68,839**		70,022
% liquids		***39%***		*38%*
Grande Prairie Region (Boe/d)		**31,039**		28,214
Kaybob Region (Boe/d)		**29,561**		32,700
Central Alberta and Other Region (Boe/d)		**8,239**		9,108
Total (Boe/d)		**68,839**		70,022
Netback		*$/Boe [4]*		*$/Boe [4]*
Natural gas revenue	**44.7**	***1.94***	53.6	*2.25*
Condensate and oil revenue	**60.3**	***29.05***	111.4	*55.92*
Other NGLs revenue [3]	**4.3**	***12.28***	4.4	*10.75*
Royalty and sulphur revenue	**3.9**	**—**	2.7	—
Petroleum and natural gas sales	**113.2**	***18.07***	172.1	*27.01*
Royalties	**(3.6)**	***(0.57)***	(11.7)	*(1.84)*
Operating expense	**(62.6)**	***(9.99)***	(92.3)	*(14.49)*
Transportation and NGLs processing [5]	**(25.3)**	***(4.04)***	(23.6)	*(3.70)*
Netback	**21.7**	***3.47***	44.5	*6.98*
Commodity contract settlements	**12.9**	***2.05***	7.0	*1.10*
Netback including commodity contract settlements	**34.6**	***5.52***	51.5	*8.08*
Total Capital Expenditures				
Grande Prairie Region		**36.7**		49.8
Kaybob Region		**1.8**		10.1
Central Alberta and Other Region		**0.8**		2.8
Corporate		**1.5**		1.1
Land and property acquisitions		**0.6**		—
Total capital expenditures		**41.4**		63.8
Asset retirement obligation settlements		**4.0**		30.3

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document. This table contains the following Non-GAAP measures: Adjusted Funds Flow, Net Debt, Netback, and Total Capital Expenditures.
(2) Common shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of common shares): Q2 2020: 414 and Q1 2020: 852.
(3) Other NGLs means ethane, propane and butane.
(4) Natural gas revenue presented as $/Mcf.
(5) Includes downstream transportation costs and NGLs fractionation costs.

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:

- planned capital expenditures for 2020;
- anticipated sales volumes in the second half of 2020;
- planned exploration, development and production activities;
- estimated and anticipated DCET and drilling costs;
- expected GHG reductions associated with controller upgrades and reduced trucking;
- planned abandonment and reclamation expenditures in 2021 using funding under the Alberta Site Rehabilitation Program;
- expected reductions in costs and expenditures and the sustainability of cost reductions; and
- the expectation that two additional water disposal wells will meet Karr area development needs for the foreseeable future.

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 and the potential impact of the COVID-19 pandemic thereon;
- the likely impact of the COVID-19 pandemic on operations;
- the ability to realize expected cost savings;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms and the capacity and reliability of facilities;
- the ability of Paramount to market its natural gas and liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals;
- the receipt of benefits under government programs;
- the application of regulatory requirements respecting abandonment and reclamation; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities, and facility turnarounds and maintenance).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this 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:

- those risks set out in the Management's Discussion and Analysis for the three months ended June 30, 2020 ("MD&A") under "Risk Factors";
- fluctuations in natural gas and liquids prices, including in relation to the impact of the COVID-19 pandemic;
- changes in capital spending plans and planned exploration and development activities;
- 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, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);

- processing, pipeline, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to 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 sections titled "*Risk Factors*" in Paramount's annual information form for the year ended December 31, 2019 and in the MD&A, which are available on SEDAR at www.sedar.com. 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 "Total Capital Expenditure", together 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 (used in) operating activities before net changes in non-cash working capital, geological and geophysical expenses, reorganization costs, asset retirement obligation settlements and provision and other. Adjusted funds flow is used to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary significantly from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. The following are the calculations of adjusted funds flow from the nearest GAAP measure for the three months ended June 30, 2020 and March 31, 2020:

Three months ended	Jun 30, 2020 (MM$)	Mar 31, 2020 (MM$)
Cash from (used in) operating activities	**(14.2)**	**30.5**
Change in non-cash working capital	24.0	(34.3)
Geological and geophysical expenses	1.9	2.6
Asset retirement obligations settled	4.0	30.3
Reorganization costs	3.0	-
Provision and other	0.3	4.4
Adjusted funds flow	**19.0**	**33.5**

"Netback" equals petroleum and natural gas sales less royalties, operating expense 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 table under the heading "Financial and Operating Results" 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 MD&A for the calculation of Net Debt.

"Total capital expenditures" refers to the Company's property, plant and equipment and exploration expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's MD&A for the calculation 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
MMBoe	Millions of barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day

Natural Gas	
GJ	Gigajoules
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
WTI	West Texas Intermediate

This press release contains disclosures expressed as "Boe", "$/Boe", "MBoe", "MMBoe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the six months ended June 30, 2020, the value ratio between crude oil and natural gas was approximately 22:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

This press release refers to “CGR”, a metric commonly used in the oil and natural gas industry. “CGR” means condensate to gas ratio and is calculated by dividing wellhead raw liquids volumes by wellhead raw natural gas volumes. This metric does not have a standardized meaning and may not be comparable to similar measures presented by other companies. As such, it should not be used to make comparisons. Management uses this oil and gas metric for its own performance measurements and to provide shareholders with measures to compare the Company's performance over time; however, such measure is not a reliable indicator of the Company's future performance and future performance may not compare to the performance in previous periods and therefore should not be unduly relied upon.

Additional information respecting the Company’s oil and gas properties and operations, including a breakdown of 2019 annual and quarterly production volumes by product type, is provided in the Company’s annual information form for the year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

Paramount resources ltd.

Management's Discussion and Analysis
For the three and six months ended June 30, 2020

This Management's Discussion and Analysis ("MD&A"), dated August 5, 2020 should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three and six months ended June 30, 2020 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2019 (the "Annual Financial Statements"). Financial information included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

The disclosures in this document include forward-looking information, non-GAAP measures and certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. 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 both conventional and unconventional petroleum and natural gas reserves and resources. The Company also pursues longer-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia. The Company's Class A common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

The Company's operations are organized into the following three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which is focused on Montney and Duvernay developments at Kaybob, Smoky River, Pine Creek and Ante Creek; and
- the Central Alberta and Other Region, which includes Duvernay development plays in Central Alberta at Willesden Green and the East Shale Basin, lands and production in British Columbia and approximately 180,000 acres of fee simple land and various associated royalty interests.

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 and prospective shale gas acreage in the Liard and Horn River Basins; and (iii) drilling rigs owned by Paramount's wholly-owned limited partnership, Fox Drilling Limited Partnership.

FINANCIAL AND OPERATING HIGHLIGHTS [(1)]

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
FINANCIAL				
Petroleum and natural gas sales	**113.2**	209.2	**285.3**	455.2
Net loss	**(75.7)**	(121.0)	**(310.8)**	(197.7)
Per share – basic & diluted ($/share)	***(0.57)***	*(0.93)*	***(2.33)***	*(1.52)*
Cash from (used in) operating activities	**(14.2)**	48.1	**16.3**	136.6
Per share – basic & diluted ($/share)	***(0.11)***	*0.37*	***0.12***	*1.05*
Adjusted funds flow	**19.0**	54.2	**52.6**	154.6
Per share – basic & diluted ($/share)	***0.14***	*0.41*	***0.39***	*1.19*
Total assets			**3,066.4**	4,031.8
Long-term debt			**754.9**	909.7
Net debt			**810.7**	964.8
Common shares outstanding (thousands) [(2)]			**133,784**	130,666
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**253.2**	309.7	**257.5**	308.9
Condensate and oil (Bbl/d)	**22,823**	23,312	**22,361**	23,494
Other NGLs (Bbl/d) [(3)]	**3,817**	6,859	**4,178**	6,573
Total (Boe/d)	**68,839**	81,793	**69,430**	81,546
% Liquids	***39%***	*37%*	***38%***	37%
Realized prices				
Natural gas revenue ($/Mcf)	**1.94**	1.76	**2.10**	2.56
Condensate and oil revenue ($/Bbl)	**29.05**	71.02	**42.21**	67.13
Other NGLs revenue ($/Bbl) [(3)]	**12.28**	11.01	**11.45**	19.35
Petroleum and natural gas sales ($/Boe)	**18.07**	28.10	**22.58**	30.84
Total capital expenditures	**41.4**	100.3	**105.3**	204.4

(1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted funds flow, Net debt and Total capital expenditures.

(2) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2020: 414 and 2019: 247.

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

IMPACT OF COVID-19 PANDEMIC AND PARAMOUNT'S RESPONSE

The erosion of global demand for crude oil and petroleum products in connection with the COVID-19 pandemic, combined with disputes among members of OPEC+ concerning production levels, led to a material deterioration in oil and condensate prices received by the Company in the latter part of the first quarter of 2020. Despite the resolution of the OPEC+ disputes, adverse pricing conditions persisted in the second quarter as a result of the continuing impact of the COVID-19 pandemic. The Company's response to these conditions has included a reduction of its 2020 capital guidance to $165 million, cost reduction initiatives and the shut-in of certain production. Paramount is on track to achieve 2020 cost reduction targets of $25 million in operating costs and $15 million in general and administrative expenses. Approximately 4,300 Boe/d of production currently remains shut-in and Paramount continues to review opportunities to bring volumes back online as conditions improve.

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

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

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

CONSOLIDATED RESULTS

Net Loss

Paramount recorded a net loss of $75.7 million for the three months ended June 30, 2020 compared to a net loss of $121.0 million in the same period in 2019. Significant factors contributing to the change are shown below:

Three months ended June 30	
Net loss – 2019	**(121.0)**
• Income tax recovery in 2020 compared to an expense in 2019	115.7
• Lower depletion and depreciation in 2020, mainly due to lower sales volumes and lower depletion rates following impairment charges of $191.8 million recorded in the first quarter of 2020	23.4
• Lower general and administrative expenses in 2020	7.7
• Lower netback in 2020, mainly due to lower condensate and oil prices and lower sales volumes	(60.4)
• Loss on commodity contracts in 2020 compared to a gain in 2019	(34.9)
• Higher exploration and evaluation expense in 2020	(8.8)
• Other	2.6
Net loss – 2020	**(75.7)**

Paramount recorded a net loss of $310.8 million for the six months ended June 30, 2020 compared to a net loss of $197.7 million in the same period in 2019. Significant factors contributing to the change are shown below:

Six months ended June 30	
Net loss – 2019	**(197.7)**
• Higher depletion, depreciation and impairment in 2020, due to impairment charges of $191.8 million in 2020	(160.9)
• Lower netback in 2020, mainly due to lower commodity prices and sales volumes	(131.6)
• Higher exploration and evaluation expense in 2020	(15.6)
• Recovery related to changes in asset retirement obligations in 2020	95.4
• Gain on commodity contracts in 2020 compared to a loss in 2019	80.1
• Closure program provision recognized in 2019 in respect of the Zama property	13.4
• Lower general and administrative expenses in 2020	11.2
• Other	(5.1)
Net loss – 2020	**(310.8)**

Cash From (Used in) Operating Activities

Cash used in operating activities for the three months ended June 30, 2020 was $14.2 million compared to cash from operating activities of $48.1 million for the same period in 2019. Significant factors contributing to the change are shown below:

Three months ended June 30	
Cash from operating activities – 2019	**48.1**
• Lower netback in 2020, mainly due to lower condensate and oil prices and lower sales volumes	(60.4)
• Change in non-cash working capital	(26.4)
• Receipts on commodity contract settlements in 2020 compared to payments in 2019	15.7
• Lower general and administrative expenses in 2020	7.7
• Other	1.1
Cash used in operating activities – 2020	**(14.2)**

Cash from operating activities for the six months ended June 30, 2020 was $16.3 million compared to $136.6 million for the same period in 2019. Significant factors contributing to the change are shown below:

Six months ended June 30	
Cash from operating activities – 2019	**136.6**
• Lower netback in 2020, mainly due to lower commodity prices and lower sales volumes	(131.6)
• Higher asset retirement obligation settlements in 2020	(26.4)
• Higher receipts on commodity contract settlements in 2020	17.0
• Lower general and administrative expenses in 2020	11.2
• Change in non-cash working capital	11.0
• Other	(1.5)
Cash from operating activities – 2020	**16.3**

Adjusted Funds Flow [(1)]

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

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Cash from (used in) operating activities	**(14.2)**	48.1	**16.3**	136.6
Change in non-cash working capital	**24.0**	(2.4)	**(10.3)**	0.7
Geological and geophysical expenses	**1.9**	2.1	**4.5**	5.1
Asset retirement obligations settled	**4.0**	2.0	**34.2**	7.8
Closure program expenditures	–	4.4	–	4.4
Provision and other	**0.3**	–	**4.9**	–
Reorganization costs	**3.0**	–	**3.0**	–
Adjusted funds flow	**19.0**	54.2	**52.6**	154.6
Adjusted funds flow (*$/Boe*)	**3.04**	7.28	**4.16**	10.47

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

Adjusted funds flow was $19.0 million in the second quarter of 2020 compared to $54.2 million in the second quarter of 2019. Significant factors contributing to the change are shown below:

Three months ended June 30	
Adjusted funds flow – 2019	**54.2**
• Lower netback in 2020, mainly due to lower condensate and oil prices and lower sales volumes	(60.4)
• Receipts on commodity contract settlements in 2020 compared to payments in 2019	15.7
• Lower general and administrative expense in 2020	7.7
• Other	1.8
Adjusted funds flow – 2020	**19.0**

Adjusted funds flow for the six months ended June 30, 2020 was $52.6 million compared to $154.6 million for the same period in 2019. Significant factors contributing to the change are shown below:

Six months ended June 30	
Adjusted funds flow – 2019	**154.6**
• Lower netback in 2020, mainly due to lower commodity prices and lower sales volumes	(131.6)
• Higher receipts on commodity contract settlements in 2020	17.0
• Lower general and administrative expense in 2020	11.2
• Other	1.4
Adjusted funds flow – 2020	**52.6**

OPERATING RESULTS

Netback [1]

	Three months ended June 30				Six months ended June 30			
	2020		2019		2020		2019	
		($/Boe)[2]		($/Boe)[2]		($/Boe)[2]		($/Boe)[2]
Natural gas revenue	44.7	1.94	49.5	1.76	98.3	2.10	142.8	2.56
Condensate and oil revenue	60.3	29.05	150.7	71.02	171.8	42.21	285.5	67.13
Other NGLs revenue [3]	4.3	12.28	6.9	11.01	8.7	11.45	23.0	19.35
Royalty and sulphur revenue	3.9	–	2.1	–	6.5	–	3.9	–
Petroleum and natural gas sales	113.2	18.07	209.2	28.10	285.3	22.58	455.2	30.84
Royalties	(3.6)	(0.57)	(18.7)	(2.51)	(15.3)	(1.21)	(34.0)	(2.31)
Operating expense	(62.6)	(9.99)	(86.8)	(11.66)	(154.9)	(12.26)	(177.2)	(12.01)
Transportation and NGLs processing [4]	(25.3)	(4.04)	(21.6)	(2.91)	(48.9)	(3.87)	(46.2)	(3.13)
Netback	21.7	3.47	82.1	11.02	66.2	5.24	197.8	13.39
Commodity contract settlements	12.9	2.05	(2.8)	(0.37)	19.8	1.57	2.8	0.19
Netback including commodity contract settlements	34.6	5.52	79.3	10.65	86.0	6.81	200.6	13.58

(1) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.
(2) Natural gas revenue shown per Mcf.
(3) Other NGLs means ethane, propane and butane.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs.

Petroleum and natural gas sales were $113.2 million in the second quarter of 2020, a decrease of $96.0 million from the second quarter of 2019. Petroleum and natural gas sales were $285.3 million for the six months ended June 30, 2020, a decrease of $169.9 million compared to the same period in 2019.

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

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
Three months ended June 30, 2019	49.5	150.7	6.9	2.1	209.2
Effect of changes in sales volumes	(9.0)	(3.2)	(3.0)	–	(15.2)
Effect of changes in prices	4.2	(87.2)	0.4	–	(82.6)
Change in royalty and sulphur revenue	–	–	–	1.8	1.8
Three months ended June 30, 2020	44.7	60.3	4.3	3.9	113.2

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
Six months ended June 30, 2019	142.8	285.5	23.0	3.9	455.2
Effect of changes in sales volumes	(23.1)	(12.3)	(8.3)	–	(43.7)
Effect of changes in prices	(21.4)	(101.4)	(6.0)	–	(128.8)
Change in royalty and sulphur revenue	–	–	–	2.6	2.6
Six months ended June 30, 2020	98.3	171.8	8.7	6.5	285.3

Sales Volumes

	Three months ended June 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Grande Prairie	78.3	74.6	5	16,309	11,691	40	1,680	1,686	–	31,039	25,804	20
Kaybob	131.5	153.1	(14)	5,919	8,994	(34)	1,718	2,622	(34)	29,561	37,127	(20)
Central Alberta & Other	43.4	82.0	(47)	595	2,627	(77)	419	2,551	(84)	8,239	18,862	(56)
Total	253.2	309.7	(18)	22,823	23,312	(2)	3,817	6,859	(44)	68,839	81,793	(16)

Sales volumes in the second quarter of 2020 were 68,839 Boe/d compared to 81,793 Boe/d in the second quarter of 2019. The decrease was primarily due to the sale of certain natural gas-weighted properties in West Central Alberta (the "West Central Alberta Assets") in 2019, natural declines and a planned outage at the third-party Karr 6-18 facility related to the completion of expansion activities. Average sales volumes in the second quarter of 2020 were also impacted by the shut-in of production at various properties in response to the material deterioration in oil and condensate prices. These decreases were partially offset by higher sales volumes at Wapiti in the Grande Prairie Region as new wells were brought on production following start-up of the new third-party Wapiti natural gas processing plant in May 2019.

In December 2019, Paramount closed the sale of the West Central Alberta Assets. The West Central Alberta Assets were included in the Central Alberta & Other Region and had average sales volumes of approximately 8,700 Boe/d (60 percent natural gas) and a netback of approximately $6.1 million for the three months ended June 30, 2019.

	Six months ended June 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Grande Prairie	76.5	76.3	–	15,203	11,312	34	1,680	1,644	2	29,627	25,668	15
Kaybob	135.9	151.8	(10)	6,521	9,362	(30)	1,968	2,474	(20)	31,131	37,135	(16)
Central Alberta & Other	45.1	80.8	(44)	637	2,820	(77)	530	2,455	(78)	8,672	18,743	(54)
Total	257.5	308.9	(17)	22,361	23,494	(5)	4,178	6,573	(36)	69,430	81,546	(15)

Sales volumes were 69,430 Boe/d in the six months ended June 30, 2020 compared to 81,546 Boe/d in the same period in 2019. The decrease was primarily due to the sale of the West Central Alberta Assets in 2019, natural declines, a planned outage at the third-party Karr 6-18 facility related to the completion of expansion activities and the shut-in of production at various properties in response to the material deterioration of oil and condensate prices. These decreases were partially offset by higher sales volumes at Wapiti in the Grande Prairie Region as new wells were brought on production following start-up of the new third-party Wapiti natural gas processing plant in May 2019. In the first quarter of 2020, production at Wapiti was impacted by approximately 4,300 Boe/d due to three separate outages (two unscheduled and one scheduled) at the third-party processing facility, which amounted to approximately one full month of downtime.

For the six months ended June 30, 2019, the West Central Alberta Assets had average sales volumes of approximately 8,400 Boe/d (60 percent natural gas) and a netback of approximately $14.1 million.

Commodity Prices

	Three months ended June 30			Six months ended June 30		
	2020	**2019**	% Change	**2020**	**2019**	% Change
Natural Gas						
Paramount realized price ($/Mcf)	**1.94**	1.76	*10*	**2.10**	2.56	*(18)*
AECO daily spot ($/GJ)	**1.89**	0.98	*93*	**1.91**	1.73	*10*
AECO monthly index ($/GJ)	**1.81**	1.11	*63*	**1.92**	1.48	*30*
Dawn ($/MMbtu)	**2.28**	3.15	*(28)*	**2.32**	3.52	*(34)*
NYMEX (US$/MMbtu)	**1.76**	2.51	*(30)*	**1.81**	2.69	*(33)*
Malin – monthly index (US$/MMbtu)	**1.52**	2.18	*(30)*	**1.89**	3.03	*(38)*
Condensate and Oil						
Paramount realized condensate and oil price ($/Bbl)	**29.05**	71.02	*(59)*	**42.21**	67.13	*(37)*
Edmonton Light Sweet ($/Bbl)	**31.45**	72.55	*(57)*	**41.74**	69.74	*(40)*
West Texas Intermediate (US$/Bbl)	**27.84**	59.84	*(53)*	**37.01**	57.33	*(35)*
Other NGLs (1)						
Paramount realized Other NGLs price ($/Bbl)	**12.28**	11.01	*12*	**11.45**	19.35	*(41)*
Conway – propane ($/Bbl)	**23.79**	27.40	*(13)*	**21.29**	29.87	*(29)*
Belvieu – butane ($/Bbl)	**23.77**	32.10	*(26)*	**27.79**	37.19	*(25)*
Foreign Exchange						
$CDN / 1 $US	**1.39**	1.34	*4*	**1.37**	1.33	*3*

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

Paramount's natural gas portfolio primarily consists of sales priced at Alberta, California, Chicago, Ventura and Eastern Canada markets, which are sold in a combination of daily and monthly contracts. The Company's natural gas portfolio includes arrangements to sell approximately 60,000 GJ/d of natural gas at Dawn, approximately 22,000 GJ/d of natural gas at Malin and 40,000 GJ/d of natural gas sales priced in the US Midwest.

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

Quantity	Average fixed price	Remaining term
90,000 GJ/d	CDN$1.66/GJ	July 2020 to October 2020
10,000 GJ/d	CDN$2.65/GJ	November 2020 to March 2021
20,000 GJ/d	CDN$2.50/GJ	January 2021 to December 2021

Subsequent to June 30, 2020, the Company entered into the following fixed-price physical contracts:

Quantity	Location	Average fixed price	Remaining term
35,000 GJ/d	AECO	CDN$1.80/GJ	August 2020
25,000 GJ/d	AECO	CDN$1.85/GJ	September 2020
54,956 MMBtu/d	Dawn	US$1.60/MMBtu	August 2020
45,000 MMBtu/d	Dawn	US$1.56/MMBtu	September 2020

Paramount ships a portion of its crude oil and condensate production on third-party pipelines for sale in Edmonton, Alberta, where volumes sold generally receive higher prices due to the greater diversity of potential purchasers. A portion of the Company's production continues to be sold at truck terminals or at the lease when warranted by economic or operational factors. Sales prices for condensate and oil are based on West Texas Intermediate reference prices, adjusted for transportation, quality and density differentials.

The Company's butane and propane volumes are generally sold under contracts that are renewed annually in April each year. The contracts in place in the second quarter of 2020 have more favorable differentials than the second quarter of 2019 which partially offset the deterioration in West Texas Intermediate reference prices.

Commodity Price Management

From time-to-time Paramount uses financial commodity contracts to manage exposure to commodity price volatility. The Company had the following financial commodity contracts in place at June 30, 2020:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN$80.11/Bbl	19.4	July 2020 to December 2020
Gas – NYMEX Swaps (Sale)	10,000 MMBtu/d	US$2.93/MMBtu	0.5	November 2020 to March 2021
Gas – NYMEX Swaps (Sale)	40,000 MMBtu/d	US$2.68/MMBtu	1.4	January 2021 to December 2021
			21.3	

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

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Fair value, beginning of period	6.1	64.4
Changes in fair value	35.0	(45.1)
Settlements received	(19.8)	(13.2)
Fair value, end of period	21.3	6.1

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

Instruments	Aggregate notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$41.75/Bbl	August 2020
Oil – NYMEX WTI Swaps (Sale)	16,000 Bbl/d	US$42.23/Bbl	September 2020
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$43.03/Bbl	October 2020
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.73/Bbl	November 2020
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.99/Bbl	December 2020
Gas – Chicago Swaps (Sale) (1)	20,000 MMBtu/d	US$1.71/MMBtu	August 2020 to October 2020
Gas – Ventura Swaps (Sale) (1)	20,000 MMBtu/d	US$1.69/MMBtu	August 2020 to October 2020
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$2.17/MMBtu	September 2020

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

Royalties

	Three months ended June 30				Six months ended June 30			
	2020	**Rate**	**2019**	Rate	**2020**	**Rate**	**2019**	Rate
Royalties	**3.6**	**3.3%**	18.7	9.0%	**15.3**	**5.5%**	34.0	7.5%
$/Boe	***0.57***		*2.51*		***1.21***		*2.31*	

Royalties expense was $3.6 million in the second quarter of 2020, $15.1 million lower than the same period in 2019. Royalties expense for the six months ended June 30, 2020 was $15.3 million compared to $34.0 million in the first six months of 2019. Royalties decreased in 2020 primarily as a result of lower commodity prices and the disposition of assets with higher royalty rates.

Operating Expense

	Three months ended June 30			Six months ended June 30		
	2020	**2019**	% Change	**2020**	**2019**	% Change
Operating expense	**62.6**	86.8	*(28)*	**154.9**	177.2	*(13)*
$/Boe	***9.99***	*11.66*	*(14)*	***12.26***	*12.01*	*2*

Operating expenses decreased $24.2 million to $62.6 million in the second quarter of 2020 compared to $86.8 million in the same period in 2019. Operating expenses were $154.9 million in the first half of 2020 compared to $177.2 million in the same period in 2019.

Operating expenses in the second quarter of 2020 were reduced by approximately $13 million because of processing cost equalization relating to prior years, supplier cost reductions unique to the quarter and the impact of the Canada Emergency Wage Subsidy program. Operating expenses in 2020 were also lower compared to 2019 because of the disposition of the West Central Alberta Assets, the closure of the Zama property in the Central Alberta and Other Region and cost reductions from new water disposal wells and decreased power and labour costs.

These decreases were partially offset by higher operating costs at Karr as a result of incremental natural gas processing fees following the sale of the Karr 6-18 natural gas facility in August 2019 (the "Midstream Transaction") and at Wapiti.

Transportation and NGLs Processing

	Three months ended June 30			Six months ended June 30		
	2020	**2019**	% Change	**2020**	**2019**	% Change
Transportation and NGLs processing	**25.3**	21.6	17	**48.9**	46.2	6
$/Boe	***4.04***	*2.91*	*39*	***3.87***	*3.13*	*24*

Transportation and NGLs processing was $25.3 million and $48.9 million for the three and six months ended June 30, 2020, respectively, compared to $21.6 million and $46.2 million for the corresponding periods in 2019. Transportation and NGLs processing costs increased in 2020 mainly as a result of higher contracted transportation capacity for Wapiti, partially offset by lower production.

Other Operating Items

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Depletion and depreciation (excluding impairment)	(61.3)	(84.7)	(134.5)	(165.4)
Impairment of petroleum and natural gas assets	–	–	(191.8)	–
Gain (loss) on sale of oil and gas assets	(3.1)	1.7	(0.8)	7.7
Exploration and evaluation expense	(11.5)	(2.7)	(23.4)	(7.8)

Depletion and depreciation expense decreased to $61.3 million in the second quarter of 2020 compared to $84.7 million in the same period of 2019. Depletion and depreciation expense decreased to $134.5 million in the six months ended June 30, 2020 compared to $165.4 million in the same period in 2019. The decrease in depletion and depreciation expense in 2020 was mainly due to lower sales volumes.

At March 31, 2020, the Company recorded impairments of $188.3 million and $3.5 million related to petroleum and natural gas assets in the Kaybob and Northern cash generating units ("CGUs"), respectively. The impairments were recorded because the carrying value of the CGUs exceeded their estimated recoverable amount, which were estimated based on expected net cash flows from the production of reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues, mainly due to lower forecasted oil and natural gas prices.

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

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

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

(1) Average of forecasts published by: (i) McDaniel & Associates Consultants Ltd. and GLJ Petroleum Consultants Ltd. at April 1, 2020 and (ii) Sproule Associates Ltd. at March 31, 2020.
(2) Forecast benchmark prices are adjusted for quality differentials, heat content, distance to market and other factors in determining estimated recoverable amounts.

Exploration and evaluation expense was $23.4 million for the six months ended June 30, 2020, an increase of $15.6 million compared to the same period in 2019, primarily due to higher expenses for expired mineral leases.

INVESTMENTS IN SECURITIES

As at	June 30, 2020	December 31, 2019
Level one fair value hierarchy securities	27.8	88.4
Level three fair value hierarchy securities	97.0	68.5
	124.8	156.9

Investments in level one fair value hierarchy securities ("Level One Securities") are carried at their period-end trading price. Estimates of fair values for investments in level three fair value hierarchy securities ("Level Three Securities") are based on valuation techniques that incorporate unobservable inputs (level three fair value hierarchy inputs). The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operational results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three months ended June 30, 2020 and the six months ended June 30, 2020, the Company recorded a recovery of $83.6 million and a charge of $34.7 million, respectively, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of Level One Securities and Level Three Securities. For the six months ended June 30, 2020 the Company recorded income of $1.6 million related to a change in the estimated fair value of Strath Resources Ltd. ("Strath") warrants.

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

	Six months ended June 30, 2020	Twelve months ended December 31, 2019 (1)
Investments in securities, beginning of period	156.9	231.7
Changes in fair value of Level One Securities – recorded in OCI	(61.6)	6.3
Changes in fair value of Level Three Securities (2) – recorded in OCI	27.0	(118.1)
Changes in fair value of Strath warrants – recorded in earnings	1.6	(9.2)
Acquired – cash	0.9	55.1
Acquired – non-cash	–	4.5
Dispositions	–	(13.6)
Investments in securities, end of period	124.8	156.9

(1) Column does not add due to rounding.
(2) Primarily related to the change in fair value of 85 million Strath common shares and excluding Strath warrants.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
General and administrative	**(5.8)**	(13.5)	**(16.0)**	(27.2)
Share-based compensation	**(0.6)**	(2.6)	**(0.6)**	(7.5)
Interest and financing	**(9.3)**	(11.1)	**(18.7)**	(20.3)
Accretion of asset retirement obligations	**(10.7)**	(14.9)	**(21.1)**	(29.4)
Change in asset retirement obligations	**0.5**	–	**95.4**	–
Closure costs	**–**	–	**–**	(13.4)
Deferred income tax (expense) recovery	**13.6**	(102.1)	**(93.1)**	(88.2)

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

For the six months ended June 30, 2020, the Company recorded a recovery of $95.4 million (six months ended June 30, 2019 - $nil) to earnings related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the weighted average credit-adjusted risk-free rate used to discount obligations.

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

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

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Drilling, completion and tie-ins	37.2	69.9	90.5	128.3
Facilities and gathering (1)	2.1	26.9	11.5	69.1
Corporate	1.5	0.2	2.7	2.7
Land and property acquisitions	0.6	3.3	0.6	4.3
Total capital expenditures (2)	41.4	100.3	105.3	204.4
Grande Prairie Region (1)	36.7	67.2	86.5	134.9
Kaybob Region	1.8	29.2	11.9	56.6
Central Alberta and Other Region	0.8	0.4	3.6	5.9
Corporate	1.5	0.2	2.7	2.7
Land and property acquisitions	0.6	3.3	0.6	4.3
Total capital expenditures (2)	41.4	100.3	105.3	204.4

(1) Total capital expenditures for the three and six months ended June 30, 2019 includes $11.0 million and $45.5 million, respectively, of capital spending related to the Karr 6-18 natural gas facility prior to its sale.
(2) Readers are referred to the advisories concerning Non-GAAP measures in the Advisories section of this document.

Total capital expenditures were $41.4 million in the second quarter of 2020 compared to $100.3 million in the second quarter of 2019. Total capital expenditures totaled $105.3 million in the first half of 2020 compared to $204.4 million in the same period in 2019. Expenditures in the first half of 2020 mainly related to drilling and completion programs in the Grande Prairie Region. Significant capital program activities undertaken in the first half of 2020 are described below:

- At Karr, the Company finished the drilling, completion and tie-in of the 5 (5.0 net) well 12-18 pad, the drilling of the 5 (5.0 net) well 5-16 pad and commenced completion operations on the 5 (5.0 net) well 2-1 pad, that were finished in July. Paramount brought into service two new water disposal wells that have decreased operating costs by reducing the need to truck and dispose of water at third-party facilities. In addition, gas lift and related compression at pads near the southwest terminus of Paramount's gathering system was installed to mitigate the impact from new higher-pressure wells upstream.

- At Wapiti, Paramount completed the drilling of 5 (5.0 net) wells on the 5-3 West pad and completed the drilling of 2 (2.0 net) Montney wells at the 6-4 pad.

- In the Kaybob Region, the Company completed the drilling of 1 (1.0 net) oil well at Ante Creek for land retention purposes.

GUIDANCE

Paramount announced by a press release issued on March 19, 2020 that it had revised its 2020 capital guidance to a range of $185 million to $250 million (down from $350 million to $450 million) and its forecast average sales volumes for 2020 to a range of between 70,000 Boe/d to 75,000 Boe/d (down from 75,000 Boe/d to 80,000 Boe/d). By a press release issued May 13, 2020, Paramount announced a further reduction in capital guidance to $165 million and withdrew production guidance. Copies of the March 19, 2020 and May 13, 2020 press releases are available under the Company's profile on SEDAR at www.sedar.com.

The Company is maintaining its 2020 capital guidance of $165 million and allocating the significant capital savings it is realizing to advance certain projects that had previously been planned for 2021. Paramount continues to evaluate the merits of accelerating additional projects as market conditions evolve.

Paramount anticipates sales volumes to average between 65,000 Boe/d and 70,000 Boe/d in the second half of 2020.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligation settlements in the first half of 2020 totaled $34.2 million. Activities in 2020 were focused on the abandonment of 248 wells, 224 of which were abandoned under the area-based closure program at Hawkeye and Zama. Planned abandonment and reclamation activities for 2020 are now largely complete.

LIQUIDITY AND CAPITAL RESOURCES

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount may adjust its capital structure through a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets, and participating in joint ventures, the availability of any such means being dependent upon market conditions.

As at	June 30, 2020	December 31, 2019
Cash and cash equivalents	(1.6)	(6.0)
Accounts receivable	(78.0)	(116.6)
Prepaid expenses and other	(8.4)	(11.0)
Accounts payable and accrued liabilities	143.8	204.8
Adjusted working capital deficit (1)	55.8	71.2
Long-term debt	754.9	632.3
Net Debt (2)	810.7	703.5
Share capital	2,207.5	2,207.5
Accumulated deficit	(453.3)	(128.5)
Reserves	(31.1)	4.2
Total Capital	2,533.8	2,786.7

(1) Adjusted working capital excludes risk management assets and liabilities, current accounts receivable amounts relating to subleases (June 30, 2020 - $2.3 million, December 31, 2019 – $2.0 million) and the current portion of asset retirement obligations and other.
(2) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.

Paramount's operations are capital intensive and adequate sources of liquidity are required to fund ongoing exploration and development activities, discharge asset retirement obligations and satisfy contractual commitments. Paramount's available capital resources include adjusted funds flow and available capacity under its senior secured revolving bank credit facility (the "Paramount Facility"), the terms of which are described further below. The relative contribution of adjusted funds flow to satisfy the Company's funding requirements in 2020 and in future years is variable and dependent on a number of factors, including commodity prices; sales volumes; royalties; operating and transportation costs; general and administrative and interest expenses; and foreign exchange rates. Paramount may also determine to divest of assets or investments in securities to raise capital to reduce indebtedness or fund operations. Subject to market conditions and availability, proceeds from new debt and/or equity financings may also provide additional sources of capital from time to time.

Paramount is maintaining its guidance of 2020 full-year capital spending of $165 million. Total capital expenditures in the first half of 2020 were $105.3 million. Paramount expects that adjusted funds flow and borrowing capacity under the Paramount Facility will provide sufficient liquidity to fund the Company's operations and remaining capital expenditures for 2020.

Paramount Facility

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

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

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

- a decrease in the size of the Paramount Facility to $1.0 billion.

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

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

Consolidated EBITDA to Consolidated Interest Expense to be:

- 2.50 to 1.00 or greater for the quarters ending June 30, 2020 and September 30, 2020, calculated on a trailing twelve-month basis;

- 1.75 to 1.00 or greater for the quarter ending December 31, 2020, calculated on a trailing twelve-month basis; and

- 1.75 to 1.00 or greater for the quarters ending March 31, 2021 and June 30, 2021, calculated on a current quarter basis.

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

- Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and

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

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

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

Consolidated Interest Expense is reduced by any interest income and other customary exclusions.

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

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus a margin within a graduated range depending on the Company's prevailing Senior Secured Debt to Consolidated EBITDA ratio. Following the June 2020 amendments, margin levels were increased and will remain at the highest end of the graduated range until the Covenant Relief Period ends. The Covenant Relief Period may be terminated prior to its expiry at the Company's election.

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

Paramount had letters of credit outstanding under the Paramount Facility totaling $2.9 million at June 30, 2020 that reduce the amount available to be drawn on the Paramount Facility.

Unsecured Letter of Credit Facility

At June 30, 2020, Paramount had a $40 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank under which $39.2 million in letters of credit were outstanding. In July 2020, the LC Facility was increased to $70 million.

Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The term of the PSG has been extended to June 30, 2021 and may be further extended at the option of Paramount and with the agreement of EDC.

Interest Rate Swaps

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

Contract type	Aggregate notional	Maturity date	Fixed contract rate	Reference	Fair value
Interest Rate Swap	$250 million	January 2023	2.3%	CDOR	(11.0)
Interest Rate Swap	$250 million	January 2026	2.4%	CDOR	(22.4)
					(33.4)

In 2019, Paramount entered into interest rate swap contracts to manage the uncertainty of variable interest rates by fixing the underlying Canadian dollar offered rate ("CDOR") of interest on a portion of the Company's long-term debt. The Company classified these arrangements as cash flow hedges and has applied hedge accounting. As at June 30, 2020, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

Share Capital

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

As at July 31, 2020, Paramount had 133,784,323 Common Shares outstanding (net of 414,394 Common Shares held in trust under the Company's restricted share unit plan) and 6,714,395 options to acquire Common Shares outstanding, of which 1,172,487 options are exercisable.

QUARTERLY INFORMATION

	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**113.2**	172.1	259.9	199.8	209.2	246.1	207.4	248.5
Net income (loss)	**(75.7)**	(235.1)	(31.1)	141.0	(121.0)	(76.7)	(170.5)	(13.1)
Per share – basic & diluted ($/share)	***(0.57)***	*(1.76)*	*(0.24)*	*1.08*	*(0.93)*	*(0.59)*	*(1.31)*	*(0.10)*
Cash from (used in) operating activities	**(14.2)**	30.5	70.5	48.6	48.1	88.5	12.4	73.8
Per share – basic & diluted ($/share)	***(0.11)***	*0.23*	*0.54*	*0.37*	*0.37*	*0.68*	*0.10*	*0.56*
Adjusted funds flow	**19.0**	33.5	93.5	50.9	54.2	100.5	45.5	58.2
Per share – basic & diluted ($/share)	***0.14***	*0.25*	*0.71*	*0.39*	*0.41*	*0.77*	*0.35*	*0.44*
Sales volumes								
Natural gas (MMcf/d)	**253.2**	261.5	299.0	296.6	309.7	308.0	315.2	303.8
Condensate and oil (Bbl/d)	**22,823**	21,898	28,516	24,761	23,312	23,679	24,898	22,868
Other NGLs (Bbl/d)	**3,817**	4,539	7,064	6,851	6,859	6,284	7,059	6,963
Total (Boe/d)	**68,839**	70,022	85,411	81,046	81,793	81,296	84,495	80,471
Realized price								
Natural gas ($/Mcf)	**1.94**	2.25	2.73	1.58	1.76	3.37	2.73	1.93
Condensate and oil ($/Bbl)	**29.05**	55.92	66.70	65.73	71.02	63.26	45.54	79.83
Other NGLs ($/Bbl)	**12.28**	10.75	13.03	9.78	11.01	28.55	31.39	32.16
Total ($/Boe)	**18.07**	27.01	33.08	26.80	28.10	33.63	26.68	33.57

Significant Items Impacting Quarterly Results

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

- The second quarter 2020 loss includes a $13.6 million deferred income tax recovery.
- The first quarter 2020 loss includes a $191.8 million impairment of petroleum and natural gas assets, and a derecognition of $130.0 million of the deferred income tax asset, partially offset by a recovery of $94.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- The fourth quarter 2019 loss includes a recovery of $33.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- Third quarter 2019 earnings include a $157.3 million gain on the sale of oil and gas assets, primarily related to the Midstream Transaction and a recovery of $73.5 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- The second quarter 2019 loss includes $102.1 million of deferred income tax expense, primarily related to a reduction in Alberta income tax rates and a $27.6 million gain on financial commodity contracts.

- The first quarter 2019 loss includes a $72.6 million loss on financial commodity contracts.
- The fourth quarter 2018 loss includes a $502.5 million impairment of petroleum and natural gas assets, partially offset by a $170.3 million gain on financial commodity contracts and a recovery of $120.4 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- The third quarter 2018 loss includes a $48.8 million gain on the sale of oil and gas assets and a $31.1 million loss on financial commodity contracts.

OTHER INFORMATION

Contingencies

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

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

Provision

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

CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2020, the Company adopted the amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures.* These amendments provide relief on hedge accounting from the potential effects of the uncertainty arising from the phase-out of interest rate benchmarks, the Interbank Offered Rate ("IBOR") reform. The Company's floating-to-fixed interest rate swaps, which are described in Note 11 of the Interim Financial Statements, are impacted by these amendments as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments.

Government Grants

Government grants are recognized when there is reasonable assurance that the relevant conditions of the grant are met and that the grant will be received. The Company records the grant in the Interim Financial Statements with the recognition of the expenditure in the period in which the eligible costs are incurred.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on assets, liabilities, revenues and expenses recognized in future periods.

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

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

RISK FACTORS

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

The COVID-19 pandemic and current adverse pricing conditions for condensate and oil increase the Company's exposure to many of the risks described under "Risk Factors" in the Company's 2019 Annual Information Form, including, but not limited to, the risks described therein under "Volatility of Oil, NGLs and

Natural Gas Prices and Price Differentials", "Credit Facility and Indebtedness", "Access to Capital and Funding of Expenditures" and "Reserves Estimates". Readers are encouraged to review such Risk Factors in conjunction with the disclosure contained in this MD&A.

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

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

ADVISORIES

Forward-looking Information

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

- planned capital expenditures in 2020;
- anticipated sales volumes in the second half of 2020;
- expected reductions in operating costs and general and administrative costs;
- planned exploration, development, production and abandonment and reclamation activities;
- the expectation that adjusted funds flow and borrowing capacity under the Paramount Facility will provide sufficient liquidity to fund the Company's operations and remaining capital expenditures for 2020;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position; and
- COVID-19 pandemic response measures and the potential impacts of the pandemic.

Such forward-looking information is based on a number of assumptions which may prove to be incorrect. Assumptions have been made with respect to the following matters, in addition to any other assumptions identified in this document:

- future natural gas and liquids prices and the continued impact of the COVID-19 pandemic thereon;
- the continued impact of the COVID-19 pandemic on operations;
- the ability to realize expected cost savings;
- the ability to successfully implement measures to reduce costs and expenses;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms and the capacity and reliability of facilities;
- the ability of Paramount to market its natural gas and liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals;
- the application of regulatory requirements respecting abandonment and reclamation;
- the receipt of benefits under government programs;
- the merits of outstanding and pending legal proceedings; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities, and facility turnarounds and maintenance).

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

- those risks set out in this MD&A under "Risk Factors";
- fluctuations in natural gas and liquids prices, including in relation to the impact of the COVID-19 pandemic;
- changes in capital spending plans and planned exploration and development activities;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserves additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and to obtain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in Paramount's annual information form for the year ended December 31, 2019, which is available on SEDAR at www.sedar.com. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

In this document, "Adjusted funds flow", "Netback", "Net debt", “Adjusted working capital” and "Total capital expenditures", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

"Adjusted funds flow" refers to cash from (used in) operating activities before net changes in non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements, closure program expenditures, provision and other and reorganization costs. Adjusted funds flow is used to assist management and investors in measuring the Company’s ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary significantly from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash flow from (used in) operating activities as determined in accordance with IFRS. Refer to the Consolidated Results section of this MD&A for the calculation thereof.

“Netback” equals petroleum and natural gas sales less royalties, operating expense, transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company’s oil and gas operations between periods. Refer to the Operating Results section of this MD&A for the calculation thereof.

“Net debt” is a measure of the Company’s overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company’s overall leverage position. Refer to the Liquidity and Capital Resources section of this MD&A for the calculation of “Net debt” and “Adjusted working capital”.

“Total capital expenditures” refers to the Company’s property, plant and equipment and exploration expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of this MD&A for the calculation thereof.

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

Oil and Gas Measures and Definitions

The term “Liquids” includes oil, condensate and Other NGLs (ethane, propane and butane). NGLs consist of condensate and Other NGLs.

Abbreviations

Liquids		**Natural Gas**	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids	GJ	Gigajoule
Condensate	Pentane and heavier hydrocarbons	MMbtu	Millions of British thermal units
		AECO	AECO-C reference price
		NYMEX	New York Mercantile Exchange
Oil Equivalent		WTI	West Texas Intermediate
Boe	Barrels of oil equivalent		
Boe/d	Barrels of oil equivalent per day		

This MD&A contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the six months ended June 30, 2020, the value ratio between crude oil and natural gas was approximately 22:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Interim Condensed Consolidated Financial Statements (Unaudited)
For the three and six months ended June 30, 2020

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
($ thousands)

As at	Note	June 30 2020 (Unaudited)	December 31 2019
ASSETS			
Current assets			
Cash and cash equivalents	14	**1,609**	6,016
Accounts receivable		**80,291**	118,632
Risk management – current	11	**20,517**	6,062
Prepaid expenses and other		**8,390**	10,975
		110,807	141,685
Risk management – long-term	11	**788**	–
Lease receivable	6	**3,952**	4,768
Exploration and evaluation	2	**633,277**	650,414
Property, plant and equipment, net	3	**1,615,476**	1,914,074
Investments in securities	4	**124,792**	156,889
Deferred income tax	10	**577,294**	663,475
		3,066,386	3,531,305
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**143,815**	204,818
Risk management – current	11	**9,285**	1,757
Asset retirement obligations and other – current	6	**29,012**	40,288
		182,112	246,863
Long-term debt	5	**754,933**	632,300
Risk management – long-term	11	**24,119**	6,275
Asset retirement obligations and other – long-term	6	**382,092**	562,687
		1,343,256	1,448,125
Commitments and contingencies	15		
Shareholders' equity			
Share capital	7	**2,207,477**	2,207,485
Accumulated deficit		**(453,293)**	(128,487)
Reserves	8	**(31,054)**	4,182
		1,723,130	2,083,180
		3,066,386	3,531,305

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

($ thousands, except as noted)

	Note	Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
Petroleum and natural gas sales		113,174	209,184	285,264	455,239
Royalties		(3,599)	(18,651)	(15,282)	(34,050)
Revenue	12	109,575	190,533	269,982	421,189
Gain (loss) on commodity contracts	11	(7,246)	27,646	35,078	(45,036)
		102,329	218,179	305,060	376,153
Expenses					
Operating expense		62,605	86,779	154,941	177,162
Transportation and NGLs processing		25,309	21,631	48,911	46,207
General and administrative		5,802	13,493	15,986	27,214
Share-based compensation	9	557	2,641	571	7,528
Depletion, depreciation and impairment	3	61,339	84,710	326,272	165,407
Exploration and evaluation	2	11,516	2,664	23,446	7,757
(Gain) loss on sale of oil and gas assets		3,086	(1,730)	780	(7,716)
Interest and financing		9,266	11,063	18,747	20,289
Accretion of asset retirement obligations	6	10,672	14,894	21,142	29,406
Change in asset retirement obligations	6	(529)	–	(95,357)	–
Closure costs	6	–	–	–	13,440
Reorganization costs		3,048	–	3,048	–
Foreign exchange		435	108	(318)	119
		193,106	236,253	518,169	486,813
Change in fair value of securities – warrants	4	3,189	–	1,640	–
Other income (loss)	13	(1,758)	(852)	(6,243)	1,144
Loss before tax		(89,346)	(18,926)	(217,712)	(109,516)
Income tax expense (recovery)					
Deferred	10	(13,622)	102,097	93,094	88,183
		(13,622)	102,097	93,094	88,183
Net loss		(75,724)	(121,023)	(310,806)	(197,699)
Other comprehensive income (loss), net of tax	8				
Items that will be reclassified to net income (loss)					
Change in fair value of interest rate swaps, net of tax		(3,043)	(3,983)	(21,406)	(13,089)
Reclassification to net income (loss), net of tax		1,599	349	2,065	349
Items that will not be reclassified to net income (loss)					
Change in fair value of securities, net of tax		83,311	(3,917)	(32,355)	(11,321)
Comprehensive income (loss)		6,143	(128,574)	(362,502)	(221,760)
Net loss per common share ($/share)	7				
Basic and diluted		(0.57)	(0.93)	(2.33)	(1.52)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ thousands)

	Note	Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
Operating activities					
Net loss		(75,724)	(121,023)	(310,806)	(197,699)
Add (deduct):					
Items not involving cash	14	89,471	173,087	351,046	347,215
Asset retirement obligations settled	6	(3,960)	(2,020)	(34,215)	(7,783)
Closure program expenditures	6	–	(4,389)	–	(4,389)
Change in non-cash working capital		(24,022)	2,425	10,272	(741)
Cash from (used in) operating activities		(14,235)	48,080	16,297	136,603
Financing activities					
Net draw of revolving long-term debt	5	103,448	82,439	122,633	94,694
Lease liabilities – principal repayments	6	(1,898)	(1,897)	(3,774)	(3,676)
Common Shares issued, net of issue costs		–	71	15	110
Cash from financing activities		101,550	80,613	118,874	91,128
Investing activities					
Property, plant and equipment and exploration		(41,401)	(100,265)	(105,251)	(204,368)
Sale of oil and gas assets		(3,621)	648	(2,133)	642
Investments		(38)	(6,029)	(938)	(6,029)
Change in non-cash working capital		(45,996)	(16,308)	(30,976)	(17,535)
Cash used in investing activities		(91,056)	(121,954)	(139,298)	(227,290)
Net increase (decrease)		(3,741)	6,739	(4,127)	441
Foreign exchange on cash and cash equivalents		(318)	(318)	(280)	(450)
Cash and cash equivalents, beginning of period		5,668	12,865	6,016	19,295
Cash and cash equivalents, end of period		1,609	19,286	1,609	19,286

Supplemental cash flow information 14

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Six months ended June 30	Note	2020		2019	
		Shares (000's)		*Shares (000's)*	
Share Capital					
Balance, beginning of period		*133,337*	2,207,485	*130,326*	2,184,608
Issued		*1*	19	*13*	158
Change in vested and unvested Common Shares for restricted share unit plan	9	*446*	(27)	*327*	1,373
Balance, end of period	7	*133,784*	2,207,477	*130,666*	2,186,139
Retained Earnings (Accumulated Deficit)					
Balance, beginning of period			(128,487)		21,189
Net loss			(310,806)		(197,699)
Reclassification of accumulated losses on securities			(14,000)		–
Balance, end of period			(453,293)		(176,510)
Reserves	8				
Balance, beginning of period			4,182		44,732
Other comprehensive loss			(51,696)		(24,061)
Contributed surplus			2,460		6,011
Reclassification of accumulated losses on securities			14,000		–
Balance, end of period			(31,054)		26,682
Total Shareholders' Equity			1,723,130		2,036,311

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

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, Cavalier Energy 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 six months ended June 30, 2020 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 5, 2020.

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, 2019 (the "Annual Financial Statements").

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

Changes in Accounting Policies

Effective January 1, 2020, the Company adopted the amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures.* These amendments provide relief on hedge accounting from the potential effects of the uncertainty arising from the phase-out of interest rate benchmarks, the Interbank Offered Rate ("IBOR") reform. The Company's floating-to-fixed interest rate swaps, which are described in Note 11, are impacted by these amendments as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments.

Government Grants

Government grants are recognized when there is reasonable assurance that the relevant conditions of the grant are met and that the grant will be received. The Company records the grant in the Interim Financial Statements with the related expenditure in the period in which the eligible costs are incurred.

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

Significant Accounting Estimates, Assumptions & Judgments

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on assets, liabilities, revenues and expenses recognized in future periods.

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

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

2. Exploration and Evaluation

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Balance, beginning of period	650,414	719,908
Additions	3,293	5,643
Acquisitions	–	6,127
Change in asset retirement provision	(1,013)	(392)
Transfers to property, plant and equipment	24	(66,961)
Expired lease costs	(18,921)	(10,173)
Dispositions	(520)	(3,738)
Balance, end of period	633,277	650,414

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

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Geological and geophysical	1,921	2,101	4,525	5,115
Expired lease costs	9,595	563	18,921	2,642
	11,516	2,664	23,446	7,757

At June 30, 2020, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

3. Property, Plant and Equipment

Six months ended June 30, 2020	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, beginning of period	3,996,107	161,189	15,960	46,702	4,219,958
Additions	105,340	693	(95)	1,187	107,125
Transfers from exploration and evaluation	(24)	–	–	–	(24)
Dispositions	(18,326)	(99)	–	(399)	(18,824)
Change in asset retirement provision	(75,040)	–	–	–	(75,040)
Cost, end of period	4,008,057	161,783	15,865	47,490	4,233,195
Accumulated depletion, depreciation and impairment					
Balance, beginning of period	(2,177,753)	(89,871)	(5,296)	(32,964)	(2,305,884)
Depletion and depreciation	(127,494)	(5,095)	(1,853)	(2,226)	(136,668)
Impairment	(191,796)	–	–	–	(191,796)
Dispositions	16,170	99	–	360	16,629
Accumulated depletion, depreciation and impairment, end of period	(2,480,873)	(94,867)	(7,149)	(34,830)	(2,617,719)
Net book value, December 31, 2019	1,818,354	71,318	10,664	13,738	1,914,074
Net book value, June 30, 2020	1,527,184	66,916	8,716	12,660	1,615,476

Depletion, Depreciation and Impairment

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Depletion and depreciation	61,339	84,710	134,476	165,407
Impairment of petroleum and natural gas assets	–	–	191,796	–
	61,339	84,710	326,272	165,407

At June 30, 2020, the Company assessed its property, plant and equipment for indicators of potential impairment or impairment reversal and none were identified.

At March 31, 2020, the Company recorded impairments of $188.3 million and $3.5 million related to petroleum and natural gas assets in the Kaybob and Northern cash generating units ("CGUs"), respectively. The impairments were recorded because the carrying value of the CGUs exceeded their estimated recoverable amount, which were estimated based on expected net cash flows from the production of reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues, mainly due to lower forecasted oil and natural gas prices.

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

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

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

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

(1) Average of forecasts published by: (i) McDaniel & Associates Consultants Ltd. and GLJ Petroleum Consultants Ltd. at April 1, 2020 and (ii) Sproule Associates Ltd. at March 31, 2020.
(2) Forecast benchmark prices are adjusted for quality differentials, heat content, distance to market and other factors in determining estimated recoverable amounts.

4. Investments in Securities

As at	June 30, 2020	December 31, 2019
Level one fair value hierarchy securities	27,742	88,439
Level three fair value hierarchy securities	97,050	68,450
	124,792	156,889

Investments in level one fair value hierarchy securities ("Level One Securities") are carried at their period-end trading price. Estimates of fair values for investments in level three fair value hierarchy securities ("Level Three Securities") are based on valuation techniques that incorporate unobservable inputs (level three fair value hierarchy inputs). The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operational results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three months ended June 30, 2020 and the six months ended June 30, 2020, the Company recorded a recovery of $83.6 million and a charge of $34.7 million, respectively, to other comprehensive income

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

("OCI") as a result of changes in the fair value estimates of Level One Securities and Level Three Securities. For the six months ended June 30, 2020 the Company recorded income of $1.6 million related to a change in the estimated fair value of Strath Resources Ltd. ("Strath") warrants.

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

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Investments in securities, beginning of period	156,889	231,732
Changes in fair value of Level One Securities – recorded in OCI	(61,635)	6,330
Changes in fair value of Level Three Securities (1) – recorded in OCI	26,960	(118,104)
Changes in fair value of Strath warrants – recorded in earnings	1,640	(9,162)
Acquired – cash	938	55,143
Acquired – non-cash	–	4,501
Dispositions	–	(13,551)
Investments in securities, end of period	124,792	156,889

(1) Primarily related to the change in fair value of 85 million Strath common shares and excluding Strath warrants.

5. Long-Term Debt

As at	June 30, 2020 (1)	December 31, 2019
Paramount Facility	754,933	632,300

(1) June 30, 2020 Paramount Facility balance is presented net of $2.7 million in unamortized costs related to the June 2020 facility amendments.

Paramount Facility

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

In June 2020, the Paramount Facility was amended, which amendments included:

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

- a decrease in the size of the Paramount Facility to $1.0 billion.

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

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

Consolidated EBITDA to Consolidated Interest Expense to be:

- 2.50 to 1.00 or greater for the quarters ending June 30, 2020 and September 30, 2020, calculated on a trailing twelve-month basis;

- 1.75 to 1.00 or greater for the quarter ending December 31, 2020, calculated on a trailing twelve-month basis; and

- 1.75 to 1.00 or greater for the quarters ending March 31, 2021 and June 30, 2021, calculated on a current quarter basis.

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

- Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and

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

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

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

Consolidated Interest Expense is reduced by any interest income and other customary exclusions.

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

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus a margin within a graduated range depending on the Company's prevailing Senior Secured Debt to Consolidated EBITDA ratio. Following the June 2020 amendments, margin levels were increased and will remain at the highest end of the graduated range until the Covenant Relief Period ends. The Covenant Relief Period may be terminated prior to its expiry at the Company's election.

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

Paramount had letters of credit outstanding under the Paramount Facility totaling $2.9 million at June 30, 2020 that reduce the amount available to be drawn on the Paramount Facility.

Unsecured Letter of Credit Facility

At June 30, 2020, Paramount had a $40 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank under which $39.2 million in letters of credit were outstanding. In July 2020, the LC Facility was increased to $70 million.

Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The term of the PSG has been extended to June 30, 2021 and may be further extended at the option of Paramount and with the agreement of EDC.

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

6. Asset Retirement Obligations and Other

As at June 30, 2020	Current	Long-term	Total
Asset retirement obligations	19,000	365,348	384,348
Lease liabilities	10,012	16,744	26,756
Asset retirement obligations and other	**29,012**	**382,092**	**411,104**

As at December 31, 2019	Current	Long-term	Total
Asset retirement obligations	29,000	540,897	569,897
Lease liabilities	9,851	21,790	31,641
Flow-through share renunciation obligations	1,437	–	1,437
Asset retirement obligations and other	**40,288**	**562,687**	**602,975**

Asset Retirement Obligations

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Asset retirement obligations, beginning of period	569,897	807,921
Additions	406	11,705
Change in estimates [1]	6,607	(171,404)
Change in discount rate	(178,423)	(33,269)
Obligations settled	(34,215)	(29,441)
Dispositions	(1,066)	(72,273)
Accretion expense	21,142	56,658
Asset retirement obligations, end of period	384,348	569,897

(1) Relates to changes in estimated costs and anticipated settlement dates of asset retirement obligations.

As at June 30, 2020, estimated undiscounted, uninflated asset retirement obligations were $1,351.3 million (December 31, 2019 – $1,381.5 million). Asset retirement obligations have been determined using a weighted average credit-adjusted risk-free discount rate of 12.0 percent (December 31, 2019 – 8.0 percent) and an inflation rate of 2.0 percent (December 31, 2019 – 2.0 percent).

For the six months ended June 30, 2020, the Company recorded a recovery of $95.4 million (six months ended June 30, 2019 - $nil) to earnings related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the weighted average credit-adjusted risk-free rate used to discount obligations.

Lease Liabilities

Paramount has lease liabilities in respect of office space and vehicles, which have been recognized at the discounted value of the remaining fixed lease payments. For the six months ended June 30, 2020, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were $4.4 million, of which $0.6 million was recognized as interest and financing expense.

For the six months ended June 30, 2020, expenses related to arrangements containing variable operating costs, short-term and low value leases which have not been included in the lease liability were approximately $1.8 million.

As at June 30, 2020, $6.3 million was due to the Company in respect of sublease arrangements for Paramount's office space, of which $2.3 million was classified as current and $4.0 million was classified as non-current. For the six months ended June 30, 2020, $1.3 million was received in respect of office sublease arrangements, of which $0.2 million was recognized as interest revenue.

Closure Costs

In the first quarter of 2019, the Company made the decision to cease its production operations at the Zama property in northern Alberta and commenced a closure program at the property. The Company recognized a provision of $13.4 million as at March 31, 2019 in respect of the expected costs of the closure program.

7. Share Capital

As at June 30, 2020, 133,784,323 (December 31, 2019 – 133,337,058) class A common shares of the Company ("Common Shares") were outstanding, net of 414,394 (December 31, 2019 – 859,659) Common Shares held in trust under the restricted share unit plan.

In January 2020, Paramount implemented a normal course issuer bid program (the "2020 NCIB") under which the Company may purchase up to 7,044,289 Common Shares for cancellation. The 2020 NCIB will terminate on the earlier of: (i) January 5, 2021; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2020 NCIB are purchased. The Company has not purchased any Common Shares under the 2020 NCIB to June 30, 2020.

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with Canadian development expense flow-through Common Shares issued in November 2019.

Weighted Average Common Shares

Three months ended June 30	2020		2019	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net loss
Net loss – basic	*133,712*	(75,724)	*130,608*	(121,023)
Dilutive effect of Paramount Options	–	–	–	–
Net loss – diluted	*133,712*	(75,724)	*130,608*	(121,023)

Six months ended June 30	2020		2019	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net loss
Net loss – basic	*133,529*	(310,806)	*130,469*	(197,699)
Dilutive effect of Paramount Options	–	–	–	–
Net loss – diluted	*133,529*	(310,806)	*130,469*	(197,699)

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 10.6 million options to acquire Common Shares ("Paramount Options") outstanding at June 30, 2020 (June 30, 2019 – 11.8 million), all of which were anti-dilutive.

8. Reserves

Six months ended June 30, 2020	Unrealized losses on interest rate swaps	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of period	(6,160)	(147,674)	158,016	**4,182**
Other comprehensive loss, before tax	(25,372)	(34,675)	–	**(60,047)**
Deferred tax	6,031	2,320	–	**8,351**
Reclassification of accumulated losses on securities, net of tax	–	14,000	–	**14,000**
Share-based compensation	–	–	2,464	**2,464**
Paramount Options exercised	–	–	(4)	**(4)**
Balance, end of period	**(25,501)**	**(166,029)**	**160,476**	**(31,054)**

For the six months ended June 30, 2020, $14.0 million of accumulated losses were reclassified from accumulated OCI to accumulated deficit as a result of the derecognition of an investment classified as a Level One Security.

9. Share-Based Compensation

Paramount Options

	Six months ended June 30, 2020		Twelve months ended December 31, 2019	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of period	***12,311,462***	**12.16**	*12,465,163*	15.67
Granted	***10,000***	**7.50**	*3,565,930*	6.66
Exercised [(1)]	***(2,000)***	**7.28**	*(21,430)*	7.84
Cancelled or forfeited	***(1,123,005)***	**14.30**	*(3,683,801)*	18.73
Expired	***(610,778)***	**15.26**	*(14,400)*	11.90
Balance, end of period	***10,585,679***	**11.75**	*12,311,462*	12.16
Options exercisable, end of period	***3,459,091***	**14.60**	*4,442,966*	15.00

(1) For Paramount Options exercised during the six months ended June 30, 2020, the weighted average market price of Paramount's Common Shares on the dates exercised was $7.77 per share (twelve months ended December 31, 2019 – $8.55 per share).

Restricted Share Unit Plan – Shares Held in Trust

	Six months ended June 30, 2020		Twelve months ended December 31, 2019	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	***860***	**1,388**	*574*	2,209
Shares purchased	**–**	**–**	*713*	4,516
Change in vested and unvested shares	***(446)***	**27**	*(427)*	(5,337)
Balance, end of period	***414***	**1,415**	*860*	1,388

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

10. Income Tax

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

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Loss before tax	**(89,346)**	(18,926)	**(217,712)**	(109,516)
Effective Canadian statutory income tax rate	**25.1%**	26.5%	**25.1%**	26.5%
Expected income tax recovery	**(22,426)**	(5,015)	**(54,646)**	(29,022)
Effect on income taxes of:				
Change in statutory and other rates	**4,218**	106,371	**8,713**	105,919
Share-based compensation	**101**	733	**618**	1,606
Loss on sale of oil and gas assets	**411**	–	**411**	–
Change in value of investments	**(801)**	–	**(412)**	–
Derecognition of deferred income tax asset	**4,292**	213	**134,252**	451
Flow-through share renunciations	**–**	–	**3,617**	–
Non-deductible items and other	**583**	(205)	**541**	9,229
Income tax expense (recovery)	**(13,622)**	102,097	**93,094**	88,183

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

11. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at June 30, 2020 consist of cash and cash equivalents, accounts receivable, risk management assets and liabilities, investments in securities, accounts payable and accrued liabilities and the Paramount Facility. The carrying values of these financial instruments approximate their fair values.

Risk Management

Assets

As at	June 30, 2020	December 31, 2019
Financial commodity contracts – current	**20,517**	6,062
Financial commodity contracts – long-term	**788**	–
Risk management asset	**21,305**	6,062

Liabilities

As at	June 30, 2020	December 31, 2019
Interest rate swaps – current	**(9,285)**	(1,757)
Interest rate swaps – long-term	**(24,119)**	(6,275)
Risk management liability	**(33,404)**	(8,032)

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

The Company is exposed to market risks from changes in commodity prices, interest rates, foreign currency rates, credit risk and liquidity risk. From time-to-time, Paramount enters into derivative financial instruments to manage these risks.

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 are as follows:

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Fair value, beginning of period	6,062	64,441
Changes in fair value – financial commodity contracts	35,078	(45,169)
Settlements received – financial commodity contracts	(19,835)	(13,210)
Fair value, end of period	21,305	6,062

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

	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Fair value, beginning of period	(8,032)	–
Changes in fair value – interest rate swaps	(28,077)	(9,568)
Settlements paid – interest rate swaps	2,705	1,536
Fair value, end of period	(33,404)	(8,032)

The Company had the following financial commodity contracts in place at June 30, 2020:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	CDN$80.11/Bbl	19,421	July 2020 – December 2020
Gas – NYMEX Swaps (Sale)	10,000 MMBtu/d	US$2.93/MMBtu	474	November 2020 to March 2021
Gas – NYMEX Swaps (Sale)	40,000 MMBtu/d	US$2.68/MMBtu	1,410	January 2021 to December 2021
			21,305	

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

Instruments	Aggregate notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$41.75/Bbl	August 2020
Oil – NYMEX WTI Swaps (Sale)	16,000 Bbl/d	US$42.23/Bbl	September 2020
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	US$43.03/Bbl	October 2020
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.73/Bbl	November 2020
Oil – NYMEX WTI Swaps (Sale)	4,000 Bbl/d	US$43.99/Bbl	December 2020
Gas – Chicago Swaps (Sale) (1)	20,000 MMBtu/d	US$1.71/MMBtu	August 2020 to October 2020
Gas – Ventura Swaps (Sale) (1)	20,000 MMBtu/d	US$1.69/MMBtu	August 2020 to October 2020
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$2.17/MMBtu	September 2020

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

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

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

Contract type	Aggregate notional	Maturity date	Fixed contract rate	Reference	Fair value
Interest Rate Swap	$250 million	January 2023	2.3%	CDOR (1)	**(10,968)**
Interest Rate Swap	$250 million	January 2026	2.4%	CDOR (1)	**(22,436)**
					(33,404)

(1) Canadian Dollar Offered Rate.

The Company classified its floating-to-fixed interest rate swaps as cash flow hedges and has applied hedge accounting. As at June 30, 2020, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

12. Revenue By Product

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Natural gas	**44,659**	49,493	**98,262**	142,839
Condensate and oil	**60,335**	150,665	**171,777**	285,470
Other natural gas liquids	**4,266**	6,873	**8,709**	23,022
Royalty and sulphur income	**3,914**	2,153	**6,516**	3,908
Royalties expense	**(3,599)**	(18,651)	**(15,282)**	(34,050)
	109,575	190,533	**269,982**	421,189

13. Other Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Provision	**–**	–	**(4,669)**	–
Other	**(1,758)**	(852)	**(1,574)**	1,144
	(1,758)	(852)	**(6,243)**	1,144

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

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

14. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Commodity contracts	20,100	(30,410)	(15,243)	47,873
Share-based compensation	557	2,641	571	7,528
Depletion, depreciation and impairment	61,339	84,710	326,272	165,407
Exploration and evaluation	9,595	563	18,921	2,642
(Gain) loss on sale of oil and gas assets	3,086	(1,730)	780	(7,716)
Accretion of asset retirement obligations	10,672	14,894	21,142	29,406
Change in asset retirement obligations	(529)	–	(95,357)	–
Closure costs	–	–	–	13,440
Foreign exchange	331	318	281	449
Change in fair value of securities - warrants	(3,189)	–	(1,640)	–
Deferred income tax	(13,622)	102,097	93,094	88,183
Other	1,131	4	2,225	3
	89,471	173,087	351,046	347,215

Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest paid	7,951	10,940	15,573	19,282

Components of Cash and Cash Equivalents

As at	June 30, 2020	December 31, 2019
Cash	1,609	6,016
Cash equivalents	–	–
	1,609	6,016

15. Commitments and Contingencies

Commitments – Physical Sale Contracts

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

Quantity	Average fixed price	Remaining term
90,000 GJ/d	CDN$1.66/GJ	July 2020 to October 2020
10,000 GJ/d	CDN$2.65/GJ	November 2020 to March 2021
20,000 GJ/d	CDN$2.50/GJ	January 2021 to December 2021

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

Subsequent to June 30, 2020, the Company entered into the following fixed-price physical contracts:

Quantity	Location	Average fixed price	Remaining term
35,000 GJ/d	AECO	CDN$1.80/GJ	August 2020
25,000 GJ/d	AECO	CDN$1.85/GJ	September 2020
54,956 MMBtu/d	Dawn	US$1.60/MMBtu	August 2020
45,000 MMBtu/d	Dawn	US$1.56/MMBtu	September 2020

Contingencies

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

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

Dispute Settlements

In the first quarter of 2020, Paramount reached an agreement to settle its dispute with respect to an alleged obligation to contribute to the costs related to the remediation of a release from a non-operated pipeline. Also in the first quarter of 2020, but unrelated to this settlement, the Company reached an agreement to settle a legal action involving the Company as plaintiff against a third-party supplier respecting defective products and services provided to the Company. The Company recognized a charge of $2.5 million in the fourth quarter of 2019 in respect of these settlements.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

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

B. K. Lee
Executive Vice President, Finance

P. R. Kinvig
Chief Financial Officer

E. M. Shier
General Counsel, Corporate Secretary and Vice President, Land

D. B. Reid
Executive Vice President, Operations

R. R. Sousa
Executive Vice President, Corporate Development and Planning

J. B. Williams
Executive Vice President, Kaybob Region

DIRECTORS

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

J. G. M. Bell (1) (3) (4)
President and Chief Executive Officer
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)
Independent Businessman
Bryn Athyn, Pennsylvania

R. M. MacDonald (1) (3) (4)
Independent Businessman
Oakville, Ontario

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

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

CORPORATE OFFICE

2800 TD Canada Trust Tower
421 Seventh Avenue S.W.
Calgary, Alberta
Canada T2P 4K9
Telephone: (403) 290-3600
Facsimile: (403) 262-7994
www.paramountres.com

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

BANKS

Bank of Montreal

The Bank of Nova Scotia

HSBC Bank Canada

Royal Bank of Canada

Canadian Imperial Bank of Commerce

National Bank of Canada

ATB Financial

The Toronto-Dominion Bank

Export Development Canada

RESERVES EVALUATORS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange ("POU")