



**Interim Condensed Consolidated Financial Statements (Unaudited)
For the three and nine months ended September 30, 2021**

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(\$ thousands)

As at	Note	September 30 2021	December 31 2020
ASSETS			
Current assets			
Cash and cash equivalents	15	1,414	4,590
Accounts receivable		142,478	99,986
Risk management – current	12	467	408
Prepaid expenses and other		13,764	9,931
		158,123	114,915
Lease receivable	7	985	2,758
Dissent payment entitlement	4	–	89,250
Investments in securities	5	302,924	59,529
Risk management – long-term	12	418	–
Exploration and evaluation	2	544,638	612,129
Property, plant and equipment, net	3	2,283,889	1,959,603
Deferred income tax	11	591,874	658,811
		3,882,851	3,496,995
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		209,675	152,756
Risk management – current	12	89,657	32,281
Asset retirement obligations and other – current	7	30,769	32,229
		330,101	217,266
Long-term debt	6	522,397	813,491
Risk management – long-term	12	6,411	19,441
Asset retirement obligations and other – long-term	7	612,879	409,016
		1,471,788	1,459,214
Commitments and contingencies	16		
Shareholders' equity			
Share capital	8	2,208,718	2,207,408
Accumulated deficit		(97,778)	(235,061)
Equity component of convertible debentures	6	1,673	–
Reserves	9	298,450	65,434
		2,411,063	2,037,781
		3,882,851	3,496,995

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(\$ thousands, except as noted)

	Note	Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
Petroleum and natural gas sales		369,137	138,756	948,704	424,019
Royalties		(30,923)	(4,326)	(74,491)	(19,608)
Revenue	13	338,214	134,430	874,213	404,411
Gain (loss) on financial commodity contracts	12	(47,010)	(2,084)	(203,905)	32,994
		291,204	132,346	670,308	437,405
Expenses					
Operating expense		83,313	62,361	249,383	217,302
Transportation and NGLs processing		30,279	27,817	88,426	76,728
General and administrative		10,367	7,759	29,691	23,745
Share-based compensation	10	3,017	5,605	11,111	6,176
Depletion, depreciation and impairment (reversal)	3	(209,794)	28,960	32,753	259,875
Exploration and evaluation	2	6,695	1,708	29,711	25,154
(Gain) loss on sale of oil and gas assets	3	(32,296)	7,962	(72,104)	8,742
Interest and financing		8,691	17,121	38,042	35,869
Accretion of asset retirement obligations	7	10,573	11,002	32,140	32,144
Reorganization costs		–	–	–	3,048
Settlement of dissent payment entitlement	4	–	–	22,595	–
Foreign exchange		(1,243)	351	(145)	31
		(90,398)	170,646	461,603	688,814
Other income (loss)	14	190	(3,520)	(23,770)	(8,122)
Income (loss) before tax		381,792	(41,820)	184,935	(259,531)
Income tax expense (recovery)					
Deferred	11	89,132	(18,481)	49,030	74,614
		89,132	(18,481)	49,030	74,614
Net income (loss)		292,660	(23,339)	135,905	(334,145)
Other comprehensive income (loss), net of tax	9				
<i>Items that will be reclassified to net income (loss)</i>					
Change in fair value of cash flow hedges, net of tax		617	(436)	6,396	(21,843)
Reclassification to net income (loss), net of tax		1,483	1,807	4,493	3,873
<i>Items that will not be reclassified to net income (loss)</i>					
Change in fair value of securities, net of tax		66,241	(1,327)	218,824	(33,682)
Comprehensive income (loss)		361,001	(23,295)	365,618	(385,797)
Net income (loss) per common share (\$/share)	8				
Basic		2.20	(0.17)	1.02	(2.50)
Diluted		2.06	(0.17)	0.97	(2.50)

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ thousands)

	Note	Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
Operating activities					
Net income (loss)		292,660	(23,339)	135,905	(334,145)
Add (deduct):					
Items not involving cash	15	(145,879)	51,133	160,280	402,180
Asset retirement obligations settled	7	(6,879)	(732)	(18,381)	(34,947)
Change in non-cash working capital		(42,890)	(15,626)	12,590	(5,356)
Cash from operating activities		97,012	11,436	290,394	27,732
Financing activities					
Net draw (repayment) of revolving long-term debt	6	(86,984)	37,119	(326,554)	159,752
Lease liabilities – principal repayments	7	(1,952)	(1,897)	(5,737)	(5,671)
Convertible debentures issued, net of issue costs		–	–	34,919	–
Dividends		(8,088)	–	(8,088)	–
Common Shares issued, net of issue costs		621	–	5,113	15
Common Shares repurchased under NCIB	8	(2,703)	–	(2,703)	–
Common Shares purchased under restricted share unit plan	10	–	–	(10,691)	–
Cash from (used in) financing activities		(99,106)	35,222	(313,741)	154,096
Investing activities					
Property, plant and equipment and exploration		(68,891)	(50,512)	(211,697)	(155,763)
Proceeds of disposition		86,518	389	165,737	(1,743)
Investments		–	(60)	(1,012)	(997)
Proceeds from dissent payment entitlement, net		–	–	66,782	–
Change in non-cash working capital		(16,329)	3,160	174	(27,817)
Cash from (used in) investing activities		1,298	(47,023)	19,984	(186,320)
Net decrease		(796)	(365)	(3,363)	(4,492)
Foreign exchange on cash and cash equivalents		233	(190)	187	(470)
Cash and cash equivalents, beginning of period		1,977	1,609	4,590	6,016
Cash and cash equivalents, end of period		1,414	1,054	1,414	1,054

Supplemental cash flow information

15

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(\$ thousands, except as noted)

Nine months ended September 30	Note	2021		2020	
		Shares (000's)		Shares (000's)	
Share capital					
Balance, beginning of period		132,284	2,207,408	133,337	2,207,485
Issued		742	6,557	1	19
Common Shares repurchased and cancelled under NCIB	8	(198)	(2,703)	-	-
Change in Common Shares for restricted share unit plan	10	379	(2,544)	446	89
Balance, end of period	8	133,207	2,208,718	133,784	2,207,593
Accumulated deficit					
Balance, beginning of period			(235,061)		(128,487)
Net income (loss)			135,905		(334,145)
Dividends			(8,088)		-
Recognition of deferred income tax asset	11		9,466		-
Reclassification of accumulated losses on securities			-		(83,881)
Balance, end of period			(97,778)		(546,513)
Equity component of convertible debentures					
Balance, beginning of period	6		-		-
Issued			1,673		-
Balance, end of period			1,673		-
Reserves					
Balance, beginning of period	9		65,434		4,182
Other comprehensive income (loss)			229,713		(51,652)
Contributed surplus			3,303		7,949
Reclassification of accumulated losses on securities			-		83,881
Balance, end of period			298,450		(44,360)
Total shareholders' equity			2,411,063		1,705,440

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

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 Inc. 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. Intercompany balances and transactions have been eliminated.

These unaudited Interim Condensed Consolidated Financial Statements, as at and for the three and nine months ended September 30, 2021 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on November 3, 2021.

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, 2020 (the "Annual Financial Statements"). Certain comparative figures have been reclassified to conform to the current years' presentation.

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.

Adoption of Accounting Standards

Financial Instruments

Effective January 1, 2021, the Company adopted the phase two amendments to IFRS 9 – *Financial Instruments*, IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures*, IFRS 4 – *Insurance Contracts* and IFRS 16 – *Leases*. These amendments provide guidance in applying IFRS when there are changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate pursuant to the Interbank Offered Rate ("IBOR") reform. There has been no impact on the recognized assets, liabilities or comprehensive income (loss) of the Company resulting from the adoption of these amendments. The Company's floating-to-fixed interest rate swaps, which are described in Note 12, may be impacted by these amendments in the future as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(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 course of the COVID-19 pandemic and its impacts remain highly uncertain. The impacts of the pandemic on Paramount's future operations and financial performance are unknown and are 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, inflation, supply chains, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. The potential impacts of the COVID-19 pandemic have been considered by Management in making judgments, estimates and assumptions used in the preparation of these 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 financial periods as additional information becomes available.

2. Exploration and Evaluation

	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Balance, beginning of period	612,129	650,414
Additions	7,641	3,294
Change in asset retirement obligations	1,047	(724)
Transfers to property, plant and equipment	(12,745)	(8,735)
Expired lease costs	(24,541)	(25,585)
Dispositions (see Note 3)	(38,893)	(6,535)
Balance, end of period	544,638	612,129

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Geological and geophysical	1,594	1,708	5,170	6,233
Expired lease costs	5,101	-	24,541	18,921
	6,695	1,708	29,711	25,154

At September 30, 2021, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

3. Property, Plant and Equipment

Nine months ended September 30, 2021	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, beginning of period	4,125,044	162,476	15,459	48,053	4,351,032
Additions	206,104	3,706	902	1,928	212,640
Transfers from exploration and evaluation	12,745	–	–	–	12,745
Dispositions	(183,763)	–	(277)	–	(184,040)
Change in asset retirement obligations	92,112	–	–	–	92,112
Cost, end of period	4,252,242	166,182	16,084	49,981	4,484,489
Accumulated depletion, depreciation and net impairment					
Balance, beginning of period	(2,245,733)	(99,902)	(8,670)	(37,124)	(2,391,429)
Depletion and depreciation	(211,010)	(7,138)	(2,513)	(2,704)	(223,365)
Impairment reversal	296,630	–	–	–	296,630
Dispositions	117,353	–	211	–	117,564
Accumulated depletion and depreciation, end of period	(2,042,760)	(107,040)	(10,972)	(39,828)	(2,200,600)
Net book value, December 31, 2020	1,879,311	62,574	6,789	10,929	1,959,603
Net book value, September 30, 2021	2,209,482	59,142	5,112	10,153	2,283,889

In the third quarter of 2021, Paramount closed the sale of its non-operated Birch assets in northeast British Columbia (the "Birch Property"), which were included in the Northern cash generating unit ("CGU"), for proceeds of approximately \$85 million (the "Birch Disposition"). The Birch Property was reclassified as held for sale as at June 30, 2021. As the consideration received on the Birch Disposition exceeded the carrying value of the asset, which had previously been reduced by impairment charges, a reversal of previously recorded impairment charges of \$14.1 million was recorded for the three months ended June 30, 2021. This reversal represented the amount required to increase the carrying value of the Birch Property to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods. A gain of \$36 million was recognized on the Birch Disposition for the three months ended September 30, 2021.

In the first quarter of 2021, the Company sold certain properties in the Kaybob and Central Alberta CGUs for proceeds of approximately \$79 million. A gain of \$39 million was recognized on these sales.

Depletion, Depreciation and Impairment (Reversal)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Depletion and depreciation	74,963	54,579	220,040	189,055
Change in asset retirement obligations	(2,191)	(25,619)	109,343	(120,976)
Impairment of petroleum and natural gas assets / (reversal)	(282,566)	–	(296,630)	191,796
	(209,794)	28,960	32,753	259,875

For the nine months ended September 30, 2021, the Company recorded a charge of \$109.3 million (nine months ended September 30, 2020 a recovery of \$121.0 million) to earnings mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the credit-adjusted risk-free rate used to discount these obligations and also included a recovery for the nine months ended September 30, 2021 of \$3.4 million (twelve months ended December 31, 2020 - \$4.4 million) in respect of funding under the Alberta Site Rehabilitation Program (refer to Note 7).

At September 30, 2021, the Company recorded an aggregate of \$282.6 million in reversals of previously recorded impairment charges to petroleum and natural gas assets, comprised of \$270.3 million related to the Kaybob CGU and \$12.3 million related to the Northern CGU. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at December 31, 2020.

The \$282.6 million in aggregate impairment reversals represent the amount to bring the carrying values of the Kaybob and Northern CGUs to the amounts, net of depletion and amortization, had no impairment charges been recognized in prior periods. The increase in the estimated recoverable amount of these CGUs was mainly due to higher and sustained forecasted condensate, crude oil and natural gas prices and the increase in the Company's market capitalization since the prior impairment assessment performed at December 31, 2020.

The recoverable amount of the Kaybob and Northern CGUs as at September 30, 2021 was estimated on a fair value less costs of disposal basis, using a discounted cash flow method (level 3 fair value hierarchy estimate). Cash flows were projected over the expected remaining productive life of the proved plus probable reserves assigned to the Kaybob and Northern CGUs, at discount rates of 11.0 percent and 13.0 percent, respectively. The net cash flows from the proved plus probable reserves estimated by Paramount's independent qualified reserves evaluator as at December 31, 2020 were mechanically updated by Management to October 1, 2021, including to reflect commodity price estimates at October 1, 2021. The reserves evaluation 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 October 1, 2021⁽¹⁾:

(Average for the period)	(Oct-Dec) 2021	2022	2023	2024	2025	2026-2033	Thereafter
Natural Gas ⁽²⁾							
AECO (\$/MMBtu)	4.57	3.83	3.26	2.99	3.05	3.12 – 3.72	+2%/yr
Henry Hub (US\$/MMBtu)	5.40	4.25	3.44	3.17	3.24	3.30 – 3.95	+2%/yr
Crude Oil and Condensate ⁽²⁾							
Edmonton Condensate (\$/Bbl)	94.79	88.36	83.33	80.56	82.16	83.81 – 100.16	+2%/yr
WTI (US\$/Bbl)	75.17	71.00	67.77	65.57	66.88	68.22 – 81.52	+2%/yr
Foreign Exchange							
\$US / 1 \$CDN	0.795	0.798	0.80	0.80	0.80	0.80	0.80

(1) Average of forecasts published by: (i) McDaniel & Associates Consultants Ltd. and GLJ Petroleum Consultants Ltd. at October 1, 2021 and (ii) Sproule Associates Ltd. at September 30, 2021.

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

At December 31, 2020, the Company recorded aggregate impairment reversals of \$333.7 million from previously recorded impairment charges to petroleum and natural gas assets in the Kaybob, Northern and Central Alberta CGUs, comprised of \$287.7 million, \$30.6 million and \$15.4 million, respectively. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at March 31, 2020. The increase in the estimated

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

recoverable amount of these CGUs was mainly attributable to lower operating and capital costs than previously forecasted and changes in the development plan.

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 CGUs, respectively. The impairments were recorded because the carrying value of the CGUs exceeded their estimated recoverable amounts, which were estimated based on expected net cash flows from the production of proved plus probable 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.

For additional information on impairments and impairment reversals in 2020, refer to Note 5 of the Annual Financial Statements.

4. Dissent Payment Entitlement

As at	September 30, 2021	December 31, 2020
Dissent Payment Entitlement	–	89,250

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

In the second quarter of 2021, Paramount received \$67 million cash in settlement of the dissent proceedings and for the sale of its remaining securities in Strathcona. A loss of \$22.6 million was recognized on the settlement.

5. Investments in Securities

As at	September 30, 2021	December 31, 2020
Level one fair value hierarchy securities ("Level One Securities")	231,001	48,425
Level three fair value hierarchy securities ("Level Three Securities")	71,923	11,104
	302,924	59,529

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable 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 operating 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 and nine months ended September 30, 2021, the Company recorded \$74.7 million and \$242.4 million, respectively, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of investments in securities.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Investments in securities, beginning of period	59,529	156,889
Changes in fair value of Level One Securities – recorded in OCI	181,576	(50,632)
Changes in fair value of Level Three Securities – recorded in OCI	60,822	32,547
Transfer to Dissent Payment Entitlement – see Note 4	–	(89,250)
Derecognition of Strathcona warrants – see Note 4	(127)	–
Changes in fair value of Strathcona warrants – recorded in earnings	112	(1,692)
Additions	1,012	11,667
Investments in securities, end of period	302,924	59,529

6. Long-Term Debt

As at	September 30, 2021	December 31, 2020
Paramount Facility ⁽¹⁾	489,168	813,491
Convertible Debentures	33,229	–
Long-term debt	522,397	813,491

(1) Paramount Facility presented net of \$3.4 million in unamortized transaction costs (December 31, 2020 - \$2.2 million).

Paramount Facility

In June 2021, the Company renewed its financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility").

The Paramount Facility currently has a credit limit of \$900 million, which can be increased to \$1.0 billion at Paramount's request pursuant to an accordion feature in the facility, subject to incremental lender commitments. The maturity date of the facility is June 2, 2024. The Paramount Facility is secured by a charge over substantially all of the assets of the Company and its subsidiaries.

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, CDOR, or LIBOR, as selected by the Company, plus an applicable margin which varies based on the Company's Senior Secured Debt to Consolidated EBITDA ratio.

Paramount is subject to the following two financial covenants under the Paramount Facility which are 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 on 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 and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including gains or losses on dispositions of oil and gas assets, unrealized mark-to-market

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

amounts on derivatives, unrealized foreign exchange gains and losses, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by customary adjustments including interest income.

Paramount was in compliance with the financial covenants under the Paramount Facility at September 30, 2021.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling \$2.3 million at September 30, 2021 that reduce the amount available to be drawn on the facility.

Unsecured Letter of Credit Facility

The Company has a \$70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada. In May 2021, the PSG was extended to June 30, 2022.

At September 30, 2021, \$42.6 million in undrawn letters of credit were outstanding under the LC Facility (December 31, 2020 – \$40.7 million).

Convertible Debentures

	Liability Component ⁽¹⁾	Equity Component
Nine months ended September 30, 2021		
Balance, beginning of period	–	–
Issued, net of issue costs	32,746	2,176
Deferred taxes	–	(503)
Accretion	483	–
Balance, end of period	33,229	1,673

(1) For the nine months ended September 30, 2021, \$1.8 million in interest payments were made on the Convertible Debentures.

In January 2021, the Company completed a private placement of \$35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased \$25.0 million of the Convertible Debentures. The Convertible Debentures mature on January 31, 2024 (the "Maturity Date"), bear interest at 7.50 percent per annum payable monthly in arrears and are convertible by the holder into Common Shares at any time prior to the Maturity Date. At September 30, 2021, the conversion price of the debentures was \$6.69 per Common Share if converted prior to January 31, 2022, \$7.30 per Common Share if converted on or after January 31, 2022 and prior to January 31, 2023 and \$7.91 per Common Share if converted on or after January 31, 2023. These prices are subject to customary anti-dilution adjustments.

The Convertible Debentures are redeemable by Paramount, in whole or in part, at any time prior to the Maturity Date, at a redemption price (expressed as percentages of principal amount) equal to 107.50 percent prior to January 31, 2022, 103.75 percent on or after January 31, 2022 and prior to January 31, 2023 and 101.875 percent on or after January 31, 2023.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

The Convertible Debentures are treated as a compound financial instrument that contain a liability and an equity component and were initially recognized at fair value, net of issue costs of \$0.1 million. The fair value of the liability component was initially recognized at the date of issuance using the effective interest method, discounted using the estimated interest rate of a debt instrument having similar terms but without a conversion feature. The fair value of the conversion feature was determined at the date of issuance as the difference between the principal amount and the fair value of the liability component at the date of issue, which has been classified within shareholders' equity.

The liability component of the Convertible Debentures is carried at amortized cost and is accreted over the term of the Convertible Debentures to the principal amount using the effective interest method. This accretion, along with interest on the Convertible Debentures, is recorded as interest and financing expense. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component will be reclassified to share capital should the Convertible Debentures be converted into Common Shares.

As at September 30, 2021, there were \$35.0 million aggregate principal amount of Convertible Debentures outstanding.

7. Asset Retirement Obligations and Other

As at September 30, 2021	Current	Long-term	Total
Asset retirement obligations	20,200	608,375	628,575
Lease liabilities	10,569	4,504	15,073
Asset retirement obligations and other	30,769	612,879	643,648

As at December 31, 2020	Current	Long-term	Total
Asset retirement obligations	22,250	397,276	419,526
Lease liabilities	9,979	11,740	21,719
Asset retirement obligations and other	32,229	409,016	441,245

Asset Retirement Obligations

	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Asset retirement obligations, beginning of period	419,526	569,897
Additions	774	507
Change in estimates	(1,300)	(7,605)
Change in discount rate	206,410	(145,178)
Obligations settled – cash	(18,381)	(34,994)
Obligations settled – funding under the Alberta site rehabilitation program	(3,383)	(4,423)
Dispositions	(7,211)	(2,036)
Accretion expense	32,140	43,358
Asset retirement obligations, end of period	628,575	419,526

As at September 30, 2021, estimated undiscounted, uninflated asset retirement obligations were \$1,287.2 million (December 31, 2020 – \$1,351.7 million). Asset retirement obligations have been determined using a credit-adjusted risk-free discount rate of 7.0 percent (December 31, 2020 – 11.0 percent) and an inflation rate of 2.0 percent (December 31, 2020 – 2.0 percent).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

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 nine months ended September 30, 2021, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were \$6.3 million (September 30, 2020 – \$6.5 million), of which \$0.6 million (September 30, 2020 – \$0.8 million) was recognized as interest and financing expense.

For the nine months ended September 30, 2021, 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 \$1.9 million (September 30, 2020 – \$2.6 million).

As at September 30, 2021, \$3.4 million (December 31, 2020 – \$5.1 million) was due to the Company in respect of sublease arrangements for Paramount's office space, of which \$2.4 million (December 31, 2020 – \$2.3 million) was classified as current and \$1.0 million (December 31, 2020 – \$2.8 million) was classified as non-current. For the nine months ended September 30, 2021, \$1.9 million (September 30, 2020 – \$1.9 million) was received in respect of office sublease arrangements, of which \$0.2 million (September 30, 2020 – \$0.3 million) was recognized as interest revenue.

8. Share Capital

As at September 30, 2021, 133,206,722 (December 31, 2020 – 132,284,323) class A common shares of the Company ("Common Shares") were outstanding, net of 1,536,075 (December 31, 2020 – 1,914,394) Common Shares held in trust under the restricted share unit plan.

In June 2021, Paramount announced the implementation of a regular monthly dividend with respect to its Common Shares. Dividends declared for the nine months ended September 30, 2021 were \$0.06 per share.

In June 2021, Paramount implemented a normal course issuer bid program (the "NCIB") under which the Company may purchase up to 7,308,743 Common Shares for cancellation. The NCIB will terminate on the earlier of June 29, 2022 and the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Purchases of Common Shares under the NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase. The Company has repurchased and cancelled 197,500 Common Shares at a total cost of \$2.7 million under the NCIB to September 30, 2021.

Weighted Average Common Shares

Three months ended September 30	2021		2020	
	Wtd. Avg. Shares (000's)	Net income	Wtd. Avg. Shares (000's)	Net loss
Net income (loss) – basic	132,818	292,660	133,784	(23,339)
Dilutive effect of Convertible Debentures	5,208	645	–	–
Dilutive effect of Paramount Options	4,653	–	–	–
Net income (loss) – diluted	142,679	293,305	133,784	(23,339)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

Nine months ended September 30	2021		2020	
	Wtd. Avg. Shares (000's)	Net income	Wtd. Avg. Shares (000's)	Net loss
Net income (loss) – basic	132,977	135,905	133,615	(334,145)
Dilutive effect of Convertible Debentures	4,598	1,749	-	-
Dilutive effect of Paramount Options	3,939	-	-	-
Net income (loss) – diluted	141,514	137,654	133,615	(334,145)

Outstanding stock options and Convertible Debentures 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. For the three and nine months ended September 30, 2021, 1.2 million and 2.5 million options to acquire Common Shares ("Paramount Options") were anti-dilutive, respectively (three and nine months ended September 30, 2020 - 6.7 million Paramount Options were anti-dilutive).

9. Reserves

Nine months ended September 30, 2021	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of period	(22,011)	(79,638)	167,083	65,434
Other comprehensive income, before tax	14,187	242,398	-	256,585
Deferred tax	(3,298)	(23,574)	-	(26,872)
Share-based compensation	-	-	4,747	4,747
Paramount Options exercised	-	-	(1,444)	(1,444)
Balance, end of period	(11,122)	139,186	170,386	298,450

10. Share-Based Compensation

Paramount Options

	Nine months ended September 30, 2021		Twelve months ended December 31, 2020	
	Number	Weighted average exercise price (\$/share)	Number	Weighted average exercise price (\$/share)
Balance, beginning of period	9,681,395	6.91	12,311,462	12.16
Granted	3,135,000	16.19	3,111,500	3.82
Exercised ⁽¹⁾	(741,580)	6.90	(2,000)	7.28
Cancelled or forfeited	(187,533)	7.37	(4,366,829)	17.97
Expired	(41,800)	15.97	(1,372,738)	11.82
Balance, end of period	11,845,482	9.33	9,681,395	6.91
Options exercisable, end of period	1,657,491	10.90	2,416,871	9.74

(1) For Paramount Options exercised during the nine months ended September 30, 2021, the weighted average market price of Common Shares on the dates exercised was \$11.68 per share (twelve months ended December 31, 2020 – \$7.77 per share).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

The grant date fair value of Paramount Options and related weighted average inputs, estimated using the Black-Scholes-Merton model, are as follows:

	Options awarded in 2021
Weighted average exercise price (\$ / share)	16.19
Volatility (%)	44
Expected life of share options (years)	4.3
Pre-vest annual forfeiture rate (%)	12.8
Risk-free interest rate (%)	0.8
Expected dividend yield (%)	1.5
Weighted average fair value of awards (\$ / option)	5.16

The expected life of Paramount Options is based on historical exercise patterns. Volatility is generally estimated based on the historical volatility of the trading price of Common Shares over the most recent period that is commensurate with the expected term of the option and is normalized for significant transactions and other factors.

Restricted Share Unit Plan – Shares Held in Trust

	Nine months ended September 30, 2021		Twelve months ended December 31, 2020	
	Shares (000's)	Shares (000's)	Shares (000's)	Shares (000's)
Balance, beginning of period	1,915	1,484	860	1,388
Shares purchased	1,088	10,691	1,600	4,081
Change in vested and unvested shares	(1,467)	(8,147)	(545)	(3,985)
Balance, end of period	1,536	4,028	1,915	1,484

11. Income Tax

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

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Income (loss) before tax	381,792	(41,820)	184,935	(259,531)
Effective Canadian statutory income tax rate	23.1%	25.1%	23.1%	25.1%
Expected income tax expense (recovery)	88,194	(10,497)	42,720	(65,142)
Effect on income taxes of:				
Change in statutory and other rates	687	(874)	1,872	7,839
Loss on dissent payment entitlement	–	–	2,610	–
Change in unrecognized deferred income tax asset	278	(7,770)	(267)	126,482
Share-based compensation	539	1,378	1,097	1,996
(Gain) loss on sale of oil and gas assets	(113)	–	(113)	411
Flow-through share renunciations	–	–	–	3,617
Non-deductible items and other	(453)	(718)	1,111	(589)
Income tax expense (recovery)	89,132	(18,481)	49,030	74,614

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

During the nine months ended September 30, 2021 the Company recognized \$82.0 million of deductible temporary differences for which no deferred income tax asset had been previously recorded as a result of taxable temporary differences arising in the period in respect of investments in securities. The deferred income tax asset was increased by \$9.5 million, the tax effected amount of such temporary differences, and the accumulated deficit was reduced by a corresponding amount as the previously unrecognized temporary differences relate to disposed or derecognized investments in securities.

12. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at September 30, 2021 consist of accounts receivable, risk management assets and liabilities, investments in securities, accounts payable, the Paramount Facility and Convertible Debentures. The carrying values of these financial instruments, other than the Convertible Debentures, approximate their fair values. The Convertible Debentures are a compound financial instrument and are described further in Note 6.

Risk Management

Assets

As at	September 30, 2021	December 31, 2020
Electricity swaps – current	467	408
Electricity swaps – long-term	418	–
Risk management asset	885	408

Liabilities

As at	September 30, 2021	December 31, 2020
Interest rate swaps – current	(8,935)	(9,616)
Financial commodity contracts – current	(80,722)	(22,665)
Risk management – current	(89,657)	(32,281)
Interest rate swaps – long-term	(6,411)	(19,441)
Risk management liability	(96,068)	(51,722)

From time-to-time, Paramount enters into derivative financial instruments to manage commodity price, interest rate and foreign currency exchange 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.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	408	6,062
Changes in fair value – financial commodity contract assets	–	31,539
Changes in fair value – electricity swaps	2,064	408
Settlements received – financial commodity contract assets	–	(37,601)
Settlements received – electricity swaps	(1,587)	–
Fair value, end of period	885	408

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

	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	(51,722)	(8,032)
Changes in fair value – interest rate swaps	6,405	(26,608)
Changes in fair value – financial commodity contract liabilities	(203,905)	(22,665)
Settlements paid – interest rate swaps	7,306	5,583
Settlements paid – financial commodity contract liabilities	145,848	–
Fair value, end of period	(96,068)	(51,722)

The Company had the following financial commodity contracts at September 30, 2021:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN\$88.45/Bbl	(3,279)	October 2021 – December 2021
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN\$85.88/Bbl	(3,450)	January 2022 – March 2022
Oil – NYMEX WTI Swaps (Sale)	10,000 Bbl/d	US\$45.82/Bbl	(33,614)	October 2021 – December 2021
Gas – NYMEX Swaps (Sale)	110,000 MMBtu/d	US\$3.37/MMBtu	(32,630)	October 2021 – December 2021
Gas – NYMEX Swaps (Sale)	40,000 MMBtu/d	US\$4.15/MMBtu	(7,749)	January 2022 – March 2022
			(80,722)	

Subsequent to September 30, 2021, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swaps (Sale)	3,500 Bbl/d	CDN\$91.38/Bbl	January 2022 – December 2022
Oil – NYMEX WTI Swaps (Sale)	3,500 Bbl/d	US\$75.79/Bbl	January 2022 – December 2022
Oil – NYMEX WTI Costless Collars	7,000 Bbl/d	CDN\$82.50/Bbl (Floor) CDN\$100.47/Bbl (Ceiling)	January 2022 – December 2022

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

The Company had the following floating-to-fixed interest rate and electricity swaps at September 30, 2021:

Contract type	Aggregate Notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	\$250 million	October 2021 - January 2023	2.3%	CDOR ⁽¹⁾	(5,242)
Interest Rate Swaps	\$250 million	October 2021 - January 2026	2.4%	CDOR ⁽¹⁾	(10,104)
Electricity Swaps	5 MWh/d ⁽²⁾	October 2021 - December 2021	\$51.68/MWh	AESO Pool Price ⁽³⁾	467
Electricity Swaps	5 MWh/d ⁽²⁾	January 2023 - December 2023	\$62.50/MWh	AESO Pool Price ⁽³⁾	215
Electricity Swaps	5 MWh/d ⁽²⁾	January 2024 - December 2024	\$53.25/MWh	AESO Pool Price ⁽³⁾	203
					(14,461)

(1) Canadian Dollar Offered Rate.

(2) "MWh" means MegaWatt per hour for the remaining term.

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

The Company has classified these arrangements as cash flow hedges and applied hedge accounting. At September 30, 2021, \$20 million of floating-to-fixed interest rate swaps were de-designated as cash flow hedges due to declines in borrowings under the Paramount Facility. There were no other changes to the critical terms of the hedging relationships and no hedge ineffectiveness was identified on the floating-to-fixed electricity swaps.

In the third quarter of 2021, Paramount entered into floating-to-fixed price swaps to manage exposure to the variable market price of electricity by fixing the underlying AESO Pool Price on a portion of the Company's anticipated power requirements for 2023 and 2024.

13. Revenue By Product

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Natural gas	96,520	39,984	248,634	138,245
Condensate and oil	249,910	88,700	645,415	260,478
Other natural gas liquids	21,716	6,583	51,172	15,291
Royalty and other	991	3,489	3,483	10,005
Royalties	(30,923)	(4,326)	(74,491)	(19,608)
	338,214	134,430	874,213	404,411

14. Other Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Change in fair value of securities - warrants	-	(3,297)	112	(1,657)
Provisions	-	-	(24,000)	(4,669)
Other	190	(223)	118	(1,796)
	190	(3,520)	(23,770)	(8,122)

For the nine months ended September 30, 2021, the Company recorded provisions of \$24.0 million with respect to arrangements with a service provider. The Company has unsettled claims of a greater amount

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

against the same service provider with respect to certain related matters which have not been recognized. The outcome of all of these matters remains uncertain.

15. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

	Three months ended		Nine months ended	
	September 30		September 30	
	2021	2020	2021	2020
Financial commodity contracts	(12,020)	11,901	58,057	(3,341)
Share-based compensation	3,017	5,605	11,111	6,176
Depletion, depreciation and impairment (reversal)	(209,794)	28,960	32,753	259,875
Exploration and evaluation	5,101	–	24,541	18,921
(Gain) loss on sale of oil and gas assets	(32,296)	7,962	(72,104)	8,742
Accretion of asset retirement obligations	10,573	11,002	32,140	32,144
Settlement of dissent payment entitlement	–	–	22,595	–
Foreign exchange	(231)	189	(187)	470
Change in fair value of securities - warrants	–	3,297	(112)	1,657
Deferred income tax	89,132	(18,481)	49,030	74,614
Other	639	698	2,456	2,922
	(145,879)	51,133	160,280	402,180

Supplemental Cash Flow Information

	Three months ended		Nine months ended	
	September 30		September 30	
	2021	2020	2021	2020
Interest paid	7,363	15,993	31,299	31,566

Components of Cash and Cash Equivalents

As at	September 30, 2021	December 31, 2020
Cash	1,414	4,590
Cash equivalents	–	–
	1,414	4,590

16. Commitments and Contingencies

Commitments – Physical Sale Contracts

The Company had the following fixed-price physical sales contracts at September 30, 2021:

	Location	Average fixed price	Remaining term
Natural gas – 50,000 GJ/d	AECO	CDN\$2.52/GJ	October 2021
Natural gas – 100,000 GJ/d	AECO	CDN\$3.27/GJ	October 2021 - December 2021
Natural gas – 40,000 GJ/d	AECO	CDN\$4.06/GJ	January 2022 - March 2022

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

Subsequent to September 30, 2021, the Company entered into the following fixed-price physical sales contracts:

	Location	Average fixed price	Remaining term
Natural gas – 30,000 GJ/d	AECO	CDN\$3.54/GJ	April 2022 – October 2022
Condensate – 2,538 Bbl/d	FSPL ⁽¹⁾	WTI + US\$3.15/Bbl	December 2021
Condensate – 2,098 Bbl/d	FSPL ⁽¹⁾	WTI + US\$3.13/Bbl	January 2022 – March 2022

(1) FSPL refers to condensate delivered into the Fort Saskatchewan Pipeline at Edmonton.

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.

17. Subsequent Events

In November 2021, the Company delivered notices to redeem all \$35 million of its Convertible Debentures, effective December 3, 2021 (the "Redemption Date") at a redemption price of 107.5 percent of principal amount.

It is expected that all holders will exercise their right to convert their Convertible Debentures into Common Shares prior to the Redemption Date. If all Convertible Debentures are converted, approximately 5.3 million Common Shares would be issued.