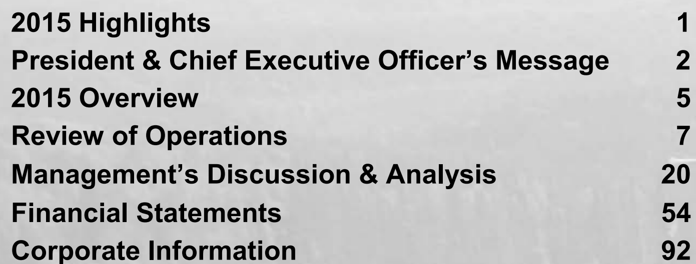
Annual Report 2015

Paramount resources ltd.



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ANNUAL MEETING OF SHAREHOLDERS

Shareholders are cordially invited to attend the Annual Meeting of Shareholders to be held Wednesday, May 4, 2016 at 10:30 AM MDT at Centrium Place in the Conference Centre, 332 6th Avenue S.W., Calgary, Alberta.

Forward-Looking Statements and Information
This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the year ended December 31, 2015 contained herein which also includes supplemental advisories related to additional information included in this document.

2015 HIGHLIGHTS

FINANCIAL AND OPERATING [1]

($ millions, except as noted)

	Three months ended December 31			Twelve months ended December 31		
	2015	2014	*% Change*	**2015**	2014	*% Change*
Sales volumes						
Natural gas (MMcf/d)	**157.8**	143.9	*10*	**160.7**	110.5	*45*
Condensate and oil (Bbl/d)	**9,991**	5,320	*88*	**8,610**	3,986	*116*
Other NGLs (Bbl/d) [2]	**9,175**	5,123	*79*	**8,735**	2,128	*310*
Total (Boe/d)	**45,466**	34,430	*32*	**44,130**	24,524	*80*
% Liquids	***42%***	*30%*		***39%***	*25%*	
Petroleum and natural gas sales	**91.3**	99.4	*(8)*	**376.8**	350.0	*8*
Operating expense ($/Boe)	**5.49**	7.02	*(22)*	**5.59**	7.96	*(30)*
Funds flow from operations	**21.0**	41.6	*(50)*	**93.2**	141.0	*(34)*
per share – diluted ($/share)	***0.20***	*0.40*		***0.88***	*1.39*	
Net loss	**(599.0)**	(106.5)	*462*	**(901.3)**	(71.7)	*1,157*
per share – diluted ($/share)	***(5.64)***	*(1.02)*		***(8.52)***	*(0.71)*	
Principal Properties Capital [3]	**63.0**	224.6	*(72)*	**429.9**	813.9	*(47)*
Investments in other entities – market value [4]				**130.8**	256.9	*(49)*
Total assets				**2,781.0**	3,199.4	*(13)*
Net Debt				**1,904.6**	1,482.5	*28*
Common shares outstanding (*thousands*)				**106,212**	104,844	*1*

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

RESERVES [1][2]

	PRINCIPAL PROPERTIES					
	Proved			Proved & Probable		
	2015	2014	*% Change*	**2015**	2014	*% Change*
Natural gas (Bcf)	**710.5**	703.8	*1*	**1,065.7**	1,090.9	*(2)*
NGLs (MBbl)	**107,125**	108,410	*(1)*	**158,934**	163,736	*(3)*
Light and Medium crude oil (MBbl)	**788**	1,108	*(29)*	**1,074**	1,526	*(30)*
Total (MBoe)	**226,340**	226,812	–	**337,633**	347,085	*(3)*
F&D costs - three year average						
Excluding facilities & gathering ($/Boe)	**16.93**	18.95	*(11)*	**12.20**	13.37	*(9)*
NPV_{10} ($ millions)	**1,608**	2,255	*(29)*	**3,055**	3,836	*(20)*

(1) Readers are referred to the advisories concerning Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Reserves evaluated by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. as of December 31, 2015 in accordance with National Instrument 51-101 definitions, standards and procedures. Amounts are working interest reserves before royalty deductions. Net present values were determined using forecast prices and costs and do not represent fair market value.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S MESSAGE

To our Shareholders,

In 2015 Paramount completed the final modules of its Musreau facilities just in time for the commodity prices underpinning the project to collapse. At the risk of stating the obvious, the past 18 months have evolved into one of the most challenging times in the history of the Canadian energy industry. Throughout this difficult period, Paramount's management team is focusing on reducing costs and preserving the core value of the Deep Basin resources we have captured over the last 10 years. We are continuously improving every aspect of our business, including how we develop our resources, and positioning ourselves to maximize shareholder value as commodity prices recover.

In August 2014, Paramount completed the construction of its Musreau Deep Cut gas plant and brought it into service. In 2015, the remaining downstream third-party restrictions in pipeline, de-ethanization and fractionation capacities were alleviated. Paramount commissioned its condensate stabilizer expansion in May and its amine train in September, allowing the Musreau Complex to operate unconstrained. By late 2015, the facility was processing to design specifications, operating at a reliability ratio of over 98 percent and recovering all of the available condensate plus approximately 90 Bbl per MMcf of other NGLs. As the Musreau Complex has been built to our specifications and is operating reliably, Paramount has entered into an agreement to sell Pembina Pipeline Corporation the full ownership of the facility for over $600 million in cash and other considerations, while retaining priority access to the capacity on a fee-for-service basis. Upon closing, this transaction will reduce our net debt by approximately 30 percent.

Concurrent with the construction of the new Musreau facilities, Paramount drilled, completed and placed on production approximately 70 Montney horizontal wells and 45 Cretaceous horizontal wells. The significant pull-back of commodity prices has caused Paramount to limit current drilling activities. Once prices recover, Paramount plans to accelerate drilling operations to fully utilize the Musreau processing capacity.

Paramount completed a capital program of $490 million in 2015, including: $86 million spent on infrastructure, principally to complete the Musreau facilities; $282 million on drilling and completion activities in the core Deep Basin area; $24 million on our Willesden Green Duvernay play; $32 million on the Birch Montney play in northeast British Columbia; $29 million on our Liard Basin shale gas play; $25 million building out two additional drilling rigs in our Fox Drilling subsidiary and $5 million in our Cavalier Energy oil sands subsidiary.

Paramount's daily production in 2015 increased by 80 percent year over year to 44,130 Boe/d. The Company's sales mix now comprises significantly higher liquids volumes, with oil and NGLs

constituting 39 percent of total sales volumes in 2015 compared to 25 percent in 2014. Recent production levels have averaged about 51,000 Boe/d, of which approximately half is condensate and other NGLs. Operating costs decreased significantly from $7.96 per Boe in 2014 to $5.59 per Boe in 2015, as lower cost Musreau production became a larger proportion of sales. We also achieved significant G&A cost reductions in 2015. Cash flow from operations was $93.2 million in 2015, as materially lower commodity prices more than offset the increase in production and lower per-unit costs. Upon closing of the sale of the Musreau Complex, the proceeds will be used to pay down our bank credit facility and reduce our year end net debt of $1,904 million to approximately $1,350 million. Paramount's liquidity will improve considerably as a result of the sale, providing the necessary flexibility to manage through these turbulent times.

Paramount's reserves remained essentially the same as the prior year, with proved reserves of 226 MMBoe and proved plus probable reserves of 338 MMBoe at year end 2015. Significant decreases in estimated future development costs due to reductions in well costs resulted in negative finding and development costs in 2015. On a three year rolling average, the Company's finding and development costs are approximately $16.93/Boe for proved reserves and $12.20/Boe for proved plus probable reserves.

Two major themes have developed in our industry in recent years; the significant improvements in capital efficiencies, especially in unconventional resource plays, and the material deterioration of commodity prices. Over the last eight years, the oil and gas industry has experienced immense change as it adjusted to revolutionary technological advancements in horizontal drilling and multi-stage fracture stimulation practices. The initial step changes in technology have been followed by periods of continuous improvement. Advances in drilling technology are allowing us to drill faster and cheaper, with longer lateral lengths than previously thought possible. Improvements in fracture stimulation technology have resulted in the ability to pump more proppant at higher rates and at significantly lower costs. These main themes of longer wells, higher fracture intensities and lower costs have further enhanced well economics at the current low commodity prices.

Paramount has re-engineered our drilling and completion methods and streamlined our supply chain management in our core Montney play. The most significant changes in our well design have been to increase the lateral length of our wells by 50 percent to approximately 2,400 meters, to increase fracture intensities by doubling proppant loading to 1,200 pounds per foot and to decrease fluid costs by changing from oil-based fluids to water-based fluids. The Company expects to see reductions in drilling and completions costs for new wells of approximately 30 percent, while well performance is projected to improve by approximately 50 percent. We are very excited by the prospect of these process efficiencies.

The industry continues to discover new sources of hydrocarbons with costs varying dramatically across different plays. The key is the ability to produce resources economically. Paramount has secured extensive acreage and play opportunities in the Deep Basin in western Canada that benefit from a low cost structure, high well productivity and ready access to markets. We believe our Musreau/Kakwa play is one of most economical plays in North America.

After several years of very strong liquids prices, the worldwide supply of oil has outpaced demand, and prices collapsed through late 2014 and 2015 and have continued to deteriorate into early 2016. The current low oil prices have resulted in drastic reductions in capital investments in major projects throughout the world, which has begun to reduce supply and will

likely stimulate increased demand for oil. The combination of these factors should not only rebalance the market, but may result in a major positive price response in the not too distant future. Natural gas markets exhibit the same dynamics, and are arguably further advanced in this process than oil. Low natural gas prices, together with the shift to reduce carbon emissions, have resulted in major demand increases for natural gas used in power generation, petrochemicals and exports, including new LNG projects.

Where commodity prices ultimately stabilize will depend in part on industry's improvements in capital efficiencies. We expect further efficiency improvements will continue to be developed, but we are of the view that the next few years are not likely to see improvements on the scale of those made over the last few years. The primary key for success will ultimately be the quality of the plays themselves. Paramount believes we have captured material positions in some of the highest quality plays in North America.

We shifted our strategy several years ago from securing as much resource as possible to targeting only the most profitable opportunities. Increasingly, producers are realizing this is critical to long-term success in the new energy industry. We believe we have done an excellent job of focusing the Company's capital programs on its core liquids-rich Montney plays at Musreau/Kakwa, while progressing our understanding of several other potential large scale plays in the Duvernay at Willesden Green and in the Montney at Valhalla and Birch.

Paramount has not yet provided formal guidance for its capital expenditure budget or production forecast for 2016. We expect to manage our activity levels to efficiently maximize production and cash flow while maintaining our future opportunity base, ultimately undertaking capital expenditures that modestly exceed cash flow levels. In the first quarter of 2016, Paramount has not drilled any new wells in its core Deep Basin area, choosing only to complete shale gas drilling operations that commenced in the prior winter in the Liard Basin. In our core producing properties, capital spending has focused on optimization and facility enhancements. Paramount expects to resume drilling operations in its core Deep Basin area in April 2016.

In closing, we want to assure all our stakeholders, including our shareholders, debt investors, employees and the communities in which we work, that we are excited about the relationships we have forged and the future that lies ahead of us. Paramount is proud of what we do to provide long-term value creation for our investors while contributing to the high standard of living that our community and our population enjoys. Paramount is well positioned to participate in a changed, but very exciting, future for our industry.

James H. T. Riddell
President and Chief Executive Officer
March 2016

2015 OVERVIEW

PRINCIPAL PROPERTIES

- Sales volumes averaged approximately 51,000 Boe/d from December 2015 through February 2016, approximately 25,000 Bbl/d were Liquids.

- 2015 annual sales volumes averaged 44,130 Boe/d, 80 percent higher than 2014, with Liquids sales volumes increasing by 184 percent to 17,345 Boe/d.

- Montney volumes accounted for 67 percent of overall sales in December 2015 compared to 43 percent in December 2014.

- Two six well Ultra-Rich Montney pads were completed in the fourth quarter. Total costs to drill, complete, equip and tie-in the 12 one-mile horizontal wells averaged approximately $8.5 million per well.

- Kaybob operating expense was $3.44/Boe in 2015. Paramount's corporate operating expense was $5.59/Boe in 2015, 30 percent lower than 2014.

- Funds flow from operations totaled $93.2 million in 2015 compared to $141.0 million in 2014. Paramount continues to generate positive cash flows from operations despite the low commodity price environment as a result of the high Liquids content of its Montney resources and low per unit production costs.

- Capital spending for 2015 totaled $490.4 million, of which $429.9 million was invested in Paramount's Principal Properties and $60.5 million was invested in Strategic Investments.

- At December 31, 2015, the Company recorded aggregate impairment write-downs of $287.8 million related to its Principal Properties as a result of the decrease in commodity prices and other factors.

RESERVES

- Principal Properties proved and proved plus probable ("P+P") reserves were approximately 226.3 MMBoe and 337.6 MMBoe, respectively in 2015. There was no material change in reserves volumes from 2014.

- The Company's reserves continue to be economical despite significantly lower commodity prices because of high Liquids content and continued efforts to reduce operating and capital costs.

- Kaybob area three-year average P+P finding and development costs averaged $11.25 per Boe, before infrastructure capital.

- The estimated net present value of Paramount's proved reserves at December 31, 2015 was $1.6 billion compared to $2.3 billion in 2014 (10 percent discount, before tax). The estimated value of P+P reserves was $3.1 billion compared to $3.8 billion in 2014 (10 percent discount, before tax).

- P+P future development costs decreased $0.6 billion to $2.5 billion in 2015 compared to $3.1 billion in 2014, primarily due to improved capital efficiencies resulting from changes in completion practices, technical improvements and cost reductions in industry services.

STRATEGIC INVESTMENTS

- Fox Drilling has completed the construction of its two new triple-sized built-for-purpose walking rigs. They will be deployed as part of Paramount's Deep Basin drilling programs in 2016.

- Drilling operations resumed at the c-37-D La Biche shale gas well in the Liard Basin in December and the well is expected to be drilled to target depth before spring breakup. Upon the completion of drilling operations, the Company will have secured its mineral rights in the region for another 10 years.

- At December 31, 2015, the Company recorded impairment charges of $160.0 million related to Cavalier Energy Inc. and other long-term projects as a result of the lower commodity prices.

CORPORATE

- The Company is managing its near-term liquidity by aligning capital expenditures with cash flows. Future spending levels for Paramount's core developments and other initiatives will be determined following the closing of the Midstream Transaction and will also depend on commodity prices and other factors.

- Paramount continues to implement measures to reduce general and administrative costs. The Company has eliminated most corporate consultant positions, reduced employee salaries by five percent in 2016 and reduced its permanent workforce by approximately 15 percent.

- The Company has 6,000 Bbl/d of liquids sales hedging contracts in place for calendar 2016 at an average WTI price of C$75.72/Bbl. In January 2016, Paramount locked in the unrealized gain for 2,000 Bbl/d of the hedged volumes by entering into a fixed price liquids purchase contract at a WTI price of C$50.64/Bbl.

- For the year ended December 31, 2015, the Company recorded the following non-cash accounting adjustments: a $194.2 million reduction of deferred tax assets, an $81.8 million impairment charge related to investments in other entities and a $60.8 million unrealized foreign exchange loss on the 2023 US senior notes.

- As a result of the strengthening of the Canadian dollar relative to the US dollar between December 31, 2015 and March 11, 2016, the year-end unrealized foreign exchange loss of $60.8 million related to the Company's $450 million US senior notes has been reduced by $28.1 million.

REVIEW OF OPERATIONS

PRINCIPAL PROPERTIES

Paramount continued to expand its Deep Basin developments in 2015, bringing 36 (35.3 net) Montney wells on production in the Kaybob area as incremental processing capacity became available following the completion of the 15,000 Bbl/d condensate stabilizer expansion (the "Stabilizer Expansion") and the Amine Train at the Musreau Complex. At Karr-Gold Creek, 11 (10 net) new Montney wells were brought on as the Company continues to delineate the middle-Montney formation. Third-party expansions of transportation networks and NGLs processing facilities were also completed during the year, further removing constraints on Paramount's production capability.

Sales volumes increased 80 percent over 2014, averaging 44,130 Boe/d for the year, as Kaybob area sales volumes increased 107 percent. The start-up of the new Liquids-rich Montney wells contributed to a 184 percent increase in Liquids sales volumes in 2015. Following the commencement of production for the two six well Ultra-Rich Montney pads in late 2015, the Company achieved a sales mix of approximately 50 percent Liquids / 50 percent natural gas in January and February 2016. Paramount's sales volumes averaged approximately 51,000 Boe/d from December 2015 through February 2016.

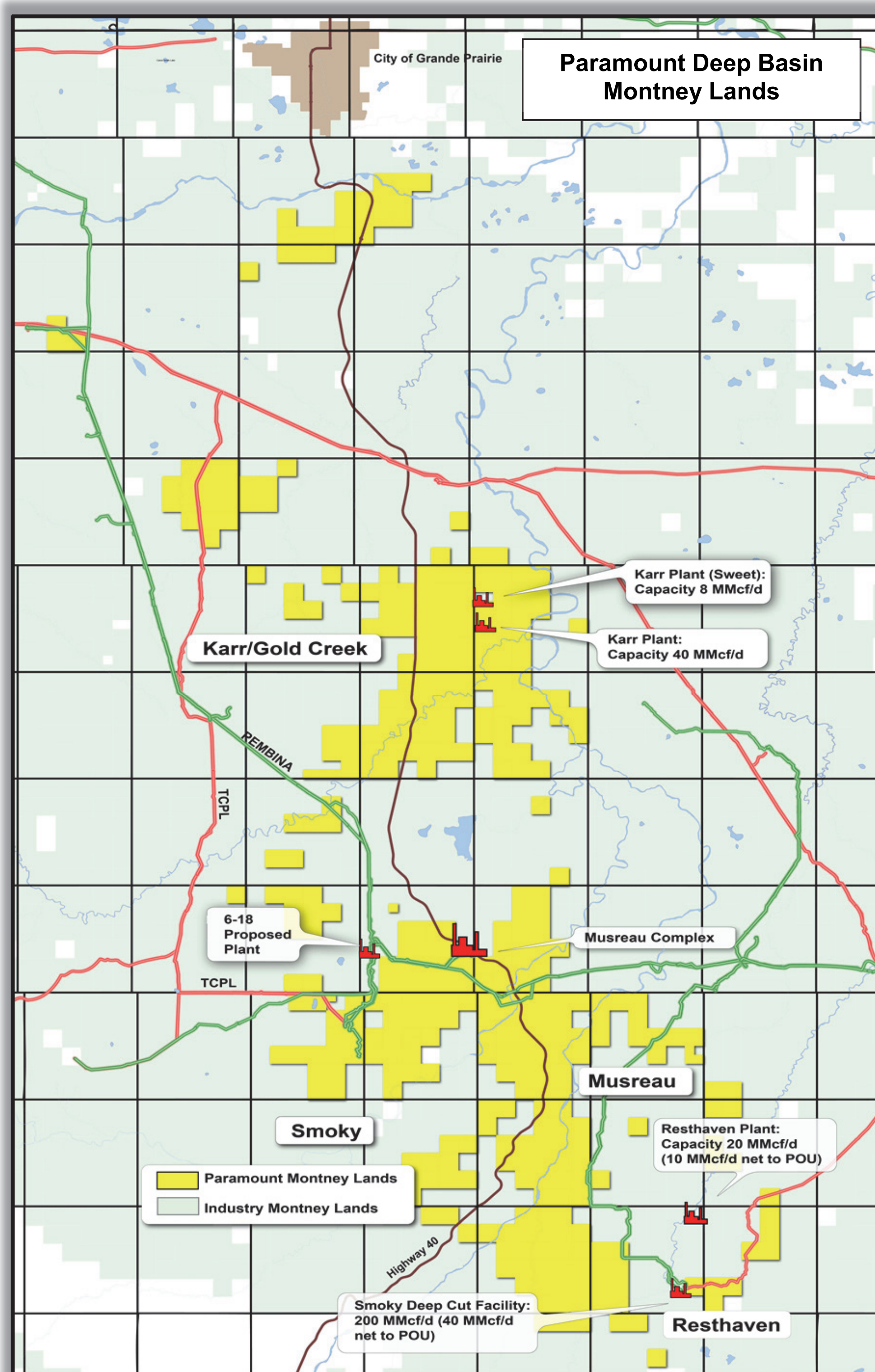
The Company has reduced per-unit operating costs by 30 percent year over year, as the low-cost Kaybob area has become a higher proportion of overall production. Operating costs were $3.44/Boe in the Kaybob area in 2015, with operating costs for the overall Company averaging $5.59/Boe. Operating costs are lower for Paramount's multi-well pads due to the benefits of economies of scale in utilizing shared surface facilities and other operational efficiencies from centralized production.

Paramount's capital spending in its Principal Properties totaled $429.9 million in 2015 compared to the Company's original budget of $355 million, mainly due to $41.9 million of incremental spending associated with the acceleration of the completion of two six well Ultra-Rich Montney pads. The Company also invested $14.1 million in the gas lift programs at Musreau and Karr-Gold Creek, which included the installation of downhole equipment for affected wells and modifications to surface equipment and gathering systems.

Paramount's 2015 average sales volumes of 44,130 Boe/d were lower than previously announced guidance due to a number of factors, including lower than anticipated production from wells completed with oil-based fluids and lower-intensities of proppant. As a broader array of well performance data has become available following the start-up of new Montney wells in 2015, well completion practices are continuing to evolve. The Company has been completing new wells with water-based fluids and higher intensities of proppant, which has resulted in better well performance. 2015 sales volumes were also lower because the high liquids content of certain new 2015 Montney wells caused fluid loading in the vertical section of the wellbores, resulting in the wells flowing at reduced rates or being temporarily shut in. Modifications have been made to the affected wells and surface facilities to install gas lift systems to optimize production. All the wells were subsequently restarted.

Infrastructure constraints were also a factor in 2015, impacting the Company's production to a greater degree than anticipated. Unscheduled third-party outages and disruptions related to transportation pipelines and downstream NGLs processing facilities impacted the industry in general in 2015, including Paramount's Deep Basin production at Musreau and at Karr-Gold Creek. The Musreau Complex also experienced processing constraints and higher than expected downtime related to the tie-in of the 15,000 Bbl/d condensate Stabilizer Expansion and the new amine train, other maintenance outages and lower

NGLs recoveries due to the plant operating at higher than design temperatures. Paramount completed maintenance at the Musreau Complex in the fourth quarter that reduced operating temperatures at the plant, increasing NGLs recoveries.



2015 OPERATING RESULTS [1]

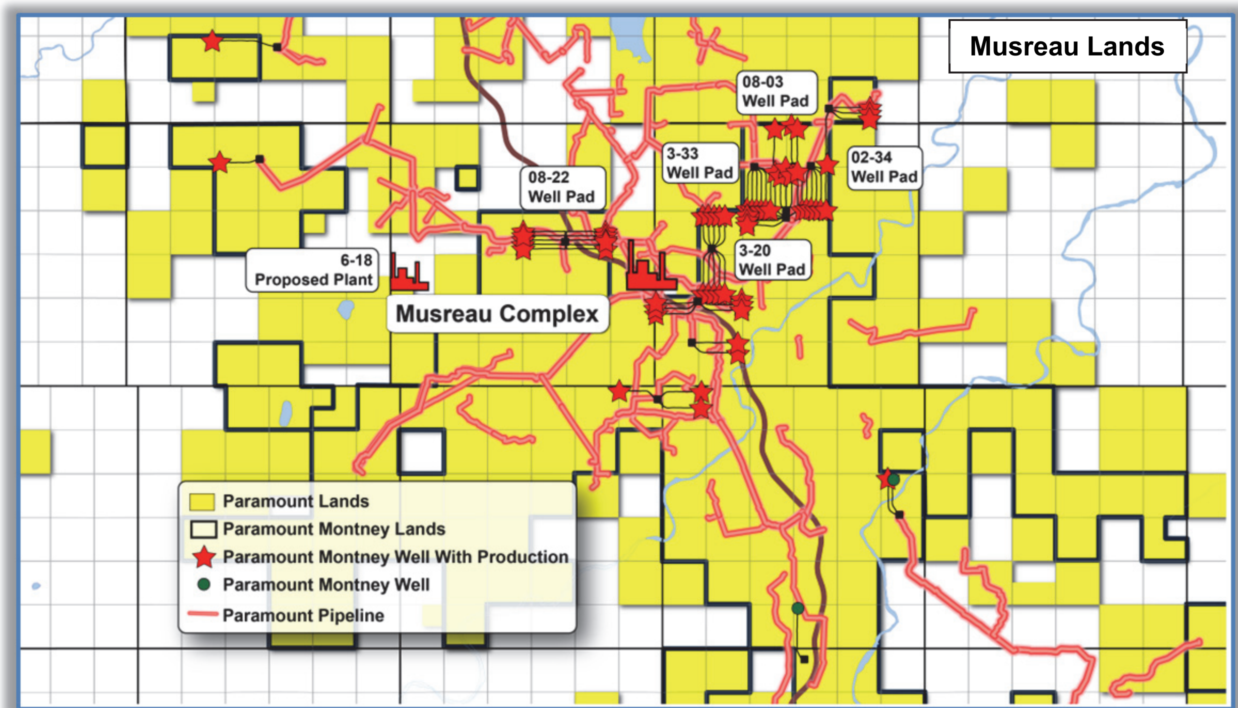
	Q4 2015		Q4 2014		% Change	2015		2014		% Change
Sales volumes by COU (Boe/d)										
Kaybob		**34,941**		25,062	*39*		**35,472**		17,137	*107*
Grande Prairie		**9,001**		8,157	*10*		**7,271**		5,956	*22*
Other		**1,524**		1,211	*26*		**1,387**		1,431	*(3)*
Total		**45,466**		34,430	*32*		**44,130**		24,524	*80*
Netback ($ millions)	***$/Boe*** [2]		*$/Boe* [2]		*% Change $/Boe*	***$/Boe*** [2]		*$/Boe* [2]		*% Change $/Boe*
Natural gas revenue	***2.57***	**37.3**	*3.98*	52.7	*(35)*	***2.83***	**166.2**	*4.78*	192.7	*(41)*
Condensate and oil revenue	***46.60***	**42.8**	*68.45*	33.5	*(32)*	***52.83***	**166.0**	*88.41*	128.6	*(40)*
Other NGLs revenue [3]	***12.59***	**10.6**	*26.64*	12.6	*(53)*	***12.92***	**41.2**	*32.36*	25.1	*(60)*
Royalty and sulphur revenue	–	**0.6**	–	0.6	–	–	**3.4**	–	3.6	–
Petroleum and natural gas sales	***21.82***	**91.3**	*31.37*	99.4	*(30)*	***23.39***	**376.8**	*39.10*	350.0	*(40)*
Royalties	***(0.73)***	**(3.1)**	*(1.48)*	(4.7)	*(51)*	***(0.64)***	**(10.4)**	*(1.96)*	(17.5)	*(67)*
Operating expense	***(5.49)***	**(23.0)**	*(7.02)*	(22.2)	*(22)*	***(5.59)***	**(90.0)**	*(7.96)*	(71.3)	*(30)*
Transportation and NGLs processing [4]	***(3.90)***	**(16.3)**	*(3.62)*	(11.5)	*8*	***(4.08)***	**(65.7)**	*(4.01)*	(35.9)	*2*
Netback	***11.70***	**48.9**	*19.25*	61.0	*(39)*	***13.08***	**210.7**	*25.17*	225.3	*(48)*
Principal Properties Capital[5] ($ millions)										
Wells and exploration		**49.6**		183.4	*(73)*		**318.4**		603.2	*(47)*
Facilities and gathering		**13.4**		41.2	*(67)*		**111.5**		210.7	*(47)*
		63.0		224.6	*(72)*		**429.9**		813.9	*(47)*
By COU ($ millions)										
Kaybob		**55.2**		182.4	*(70)*		**293.1**		528.2	*(45)*
Grande Prairie		**1.8**		39.4	*(95)*		**66.2**		204.5	*(68)*
Other		**6.0**		2.8	*114*		**70.6**		81.2	*(13)*
		63.0		224.6	*(72)*		**429.9**		813.9	*(47)*

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) 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 incurred by the Company.
(5) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.

KAYBOB – MUSREAU, RESTHAVEN, SMOKY

In 2015, the Company's inventory of pre-drilled wells were brought on production and sales volumes from Musreau area Montney wells increased to approximately 50 percent of total Company sales volumes. Paramount generally holds a 100 percent working interest in its Montney wells, and, as a result, the Company's share of volumes processed through the Musreau Complex in the second half of the year increased to 86 percent of the natural gas and 96 percent of the condensate. The incremental volumes from these new Montney wells resulted in a 152 percent increase in Kaybob condensate sales volumes compared to 2014.

The Company's Liquids-rich natural gas project continues to be economical despite the current low commodity price environment. Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Paramount is benefitting from a long-term ethane sales agreement which yields a premium to AECO prices. Due to a supply and demand imbalance, market prices for propane were negative at times in 2015. Ethane and propane represented approximately ten percent and seven percent, respectively, of Paramount's total sales volumes in 2015.



KAYBOB MONTNEY WELLS

In the fourth quarter, Paramount successfully finished completion operations for the 02-34 and 3-33 six well Ultra-Rich Montney pads at Musreau. All 12 wells were completed with water-based fluids and higher intensity fracks of 1,200 pounds of proppant per linear foot. The higher intensity water-based completion approach, combined with lower current year service costs, reduced completion costs by approximately 40 percent compared to the previous completions and are expected to achieve comparable or better well performance.

The Company is migrating its future drilling programs towards a combination of 1.0 and 1.5 mile lateral length wells, depending on location and other factors. These longer horizontal wells with an increased number of frack stages are expected to deliver higher natural gas and Liquids production. The Company estimates that 1.5 mile lateral wells will recover approximately 50 percent more resources while reducing drilling and completion costs per meter of horizontal wellbore by approximately 15 percent.

As a result of the changes in completion practices, technical improvements, increased efficiencies and reductions in industry rates, the Company has updated its cost estimates to drill, complete, equip and tie-in new Musreau area Montney wells. Current anticipated costs for 1.0 mile lateral wells are $8.2 million, a 28 percent reduction compared to Paramount's average well costs in 2014, and $10.2 million for 1.5 mile lateral wells.

Since 2010, Paramount has drilled a total of 73 Montney wells on its Kaybob area lands. Initially, delineation wells were drilled at Musreau, Smoky and Resthaven to evaluate the resource base. As the play has been de-risked, the Company has focused its drilling on the northern portion of its land base at Musreau where the Company believes condensate yields are the highest. The following table summarizes the initial production rates and wellhead condensate-gas ratios ("CGRs") for the Company's 73 Kaybob area Montney wells:

KAYBOB MONTNEY WELLS – ALL AREAS [1]					
	Natural Gas [2]	Wellhead Liquids [2]	CGR [3]	Total	*Wells*
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*	
IP 30	3.7	640	175	1,257	*65*
IP 90	3.4	408	121	975	*49*
IP 180	2.9	306	106	789	*36*
IP 270	2.3	255	113	638	*28*
Less than 30 days on production					*4*
Wells in progress [4]					*4*
Total wells					***73***

(1) To February 29, 2016. Onstream dates of wells range from January 2012 to January 2016.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 producing days commencing from the day after load oil volumes were completely recovered for wells completed with oil-based fluids and the first producing day for wells completed with water-based fluids (the "Initial Production Period"). Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total wellhead Liquids volumes by total natural gas volumes during such period.
(4) Wells in progress include wells that have been drilled but have not been completed and/or tied-in.

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

MUSREAU MONTNEY WELLS [1]															
	Rich Wells					Ultra-Rich Wells					Total Rich & Ultra-Rich Wells				
	Natural Gas [2]	Well-Head Liquids [2]	CGR [3]	Total	*Wells*	Natural Gas [2]	Well-Head Liquids [2]	CGR [3]	Total	*Wells*	Natural Gas [2]	Well-Head Liquids [2]	CGR [3]	Total	*Wells*
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*	
IP 30	4.8	578	122	1,378	*34*	2.2	783	359	1,150	*26*	3.6	667	183	1,267	*60*
IP 90	4.0	387	97	1,054	*32*	1.8	546	303	846	*12*	3.4	430	127	997	*44*
IP 180	3.3	282	87	832	*25*	1.5	458	296	708	*8*	2.8	325	114	792	*33*
IP 270	2.6	220	86	653	*17*	1.4	393	283	626	*8*	2.2	276	127	643	*25*
Less than 30 days on production					*1*					*1*					*2*
Wells in progress [4]					*1*					*1*					*2*
Total wells					***36***					***28***					***64***

(1) To February 29, 2016. Onstream dates of wells range from January 2012 to January 2016.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 days of the Initial Production Period for each well. Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total wellhead Liquids volumes by total natural gas volumes during such period.
(4) Wells in progress include wells that have been drilled but have not been completed and/or tied-in.

Of the 60 wells with Initial Production Periods exceeding 30 days, 34 are Rich Montney wells with IP 30 production averaging 1,378 Boe/d and IP 30 CGRs averaging 122 Bbl/MMcf. The other 26 are Ultra-Rich Montney wells with IP 30 production averaging 1,150 Boe/d and IP 30 CGRs averaging 359 Bbl/MMcf.

Midstream Sale

In March 2016, Paramount entered into an agreement with a wholly-owned subsidiary of Pembina Pipeline Corporation ("Pembina") for the sale of its Musreau Complex and related midstream assets (the "Midstream Transaction") for cash and other considerations in excess of $600 million.

The Midstream Transaction includes the 50 MMcf/d Refrigeration Plant, the 200 MMcf/d Deep Cut Plant, the 22,500 Bbl/d Condensate Stabilizer, the Amine Facility and the gas sales pipeline connecting the

Musreau Complex to the TCPL meter station, as well as the majority of Paramount’s larger-diameter gathering system in the Musreau area. Also included in the Midstream Transaction are the site and engineering and design work for the future 6-18 gas processing plant (the "6-18 Plant").

Paramount will receive $556 million in cash at closing, plus a $35 million capital commitment for an enhancement program the Company planned to complete in 2016 at the Musreau Complex. In addition, Pembina has agreed to optimize existing transportation arrangements to match Paramount’s anticipated production growth. Paramount has also secured the right, upon the satisfaction of certain conditions, to call upon Pembina to build and provide up to 200 MMcf/d of gas processing capacity at the 6-18 Plant site.

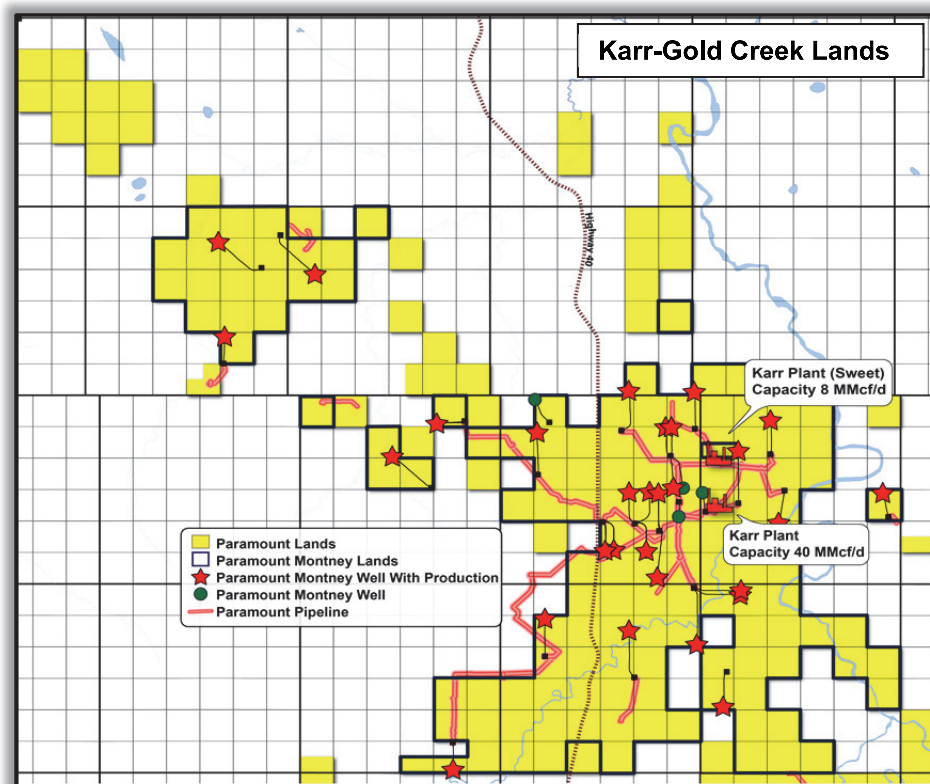
As part of the Midstream Transaction, Paramount and Pembina have also entered into a Midstream Service Agreement ("MSA") which includes a 20-year arrangement that secures Paramount priority access to the sold capacity at the Musreau Complex. Paramount will have lower take-or-pay volume commitments in the initial years, ramping up to 200 MMcf/d by 2019 to align with the planned expansion and development of Paramount’s Liquids-rich Montney resources. Under the terms of the MSA, the Company will pay a fixed capital fee per Mcf of raw gas delivered to the Musreau Complex, plus operating expenses. This capital charge will encompass costs for natural gas processing, condensate stabilization, use of the gathering system and transportation of sales gas from the Musreau Complex to the TCPL meter station. The capital processing fee and the foregoing of processing income is anticipated to result in Kaybob operating costs increasing by approximately $3.00 per Boe of sales volumes. Volumes delivered by Paramount in excess of its take-or-pay commitment will have processing priority treatment at the Musreau Complex.

A predetermined methodology has been agreed for the processing capital fee at the future 6-18 Plant as well as the associated scheduled take-or-pay gas delivery for firm processing service.

Upon closing, the proceeds from the Midstream Transaction will be used to pay down the Company’s bank credit facility (the "Facility"). As of February 29, 2016, Paramount had $668.4 million drawn on the Facility. The Company intends to reduce the $900 million Tranche A of the Facility by $300 million to $600 million and cancel the $100 million Tranche B of the Facility, which has never been drawn.

The Midstream Transaction is expected to close in the second quarter of 2016, subject to regulatory approvals and customary closing conditions. There are no financing or other non-customary material closing conditions.

GRANDE PRAIRIE – KARR-GOLD CREEK



Sales volumes in the Grande Prairie area increased 22 percent in 2015 to 7,271 Boe/d compared to 5,956 Boe/d in 2014. Paramount brought-on 11 (10.0 net) new middle-Montney wells at Karr-Gold Creek in 2015 and the Company now has a total of 25 (23.5 net) operated middle-Montney producing wells at Karr-Gold Creek.

The following table summarizes the average production rates and wellhead CGRs for these wells over their Initial Production Periods.

KARR-GOLD CREEK MIDDLE MONTNEY WELLS (1)

	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Total	*Wells*
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*	
IP 30	2.6	291	111	724	*24*
IP 90	2.1	218	104	568	*24*
IP 180	1.8	184	100	484	*22*
IP 270	1.8	156	87	456	*11*
Less than 30 days on production					*1*
Total wells					***25***

(1) To February 29, 2016. Onstream dates of wells range from May 2013 to August 2015.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180 and 270 days of the Initial Production Period for each well. Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total Liquids volumes by total natural gas volumes during such period.

MUSREAU AND KARR-GOLD CREEK GAS LIFT PROGRAM

In the fourth quarter of 2015, the installation of "gas lift" production equipment was completed on 11 wells in the Musreau area, restoring production from wells that were flowing at reduced rates or had been temporarily shut in. The Company has also installed gas lift equipment on 17 wells at Karr-Gold Creek. Gas lift equipment is used to optimize the long-term production of higher liquids content wells by re-injecting natural gas into the vertical section of wellbores to provide artificial lift of produced volumes. The Company anticipates having a total of 44 wells in the Musreau and Karr-Gold Creek areas equipped with gas lift by mid-2016.

OTHER AREAS

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

Construction of the non-operated compression facility at Birch in northeast British Columbia was completed in the fourth quarter of 2015, and three (1.5 net) Montney wells were brought on production, adding approximately 1,000 Boe/d of new production.

PRINCIPAL PROPERTIES – RESERVES / F&D

Principal Properties proved reserves were approximately 226 MMBoe in 2015 and 2014. Proved plus probable ("P+P") reserves decreased by three percent to 338 MMBoe in 2015. The Company's reserves continue to be economic despite lower commodity prices because of high Liquids content, low production costs and continued efforts to reduce per-well capital costs.

	Proved (1)(2)			Proved plus Probable (1)(2)		
	2015	2014	*% Change*	**2015**	2014	*% Change*
Natural gas (Bcf)	**710.5**	703.8	*1*	**1,065.7**	1,090.9	*(2)*
NGLs (MBbl)	**107,125**	108,410	*(1)*	**158,934**	163,736	*(3)*
Light and Medium crude oil (MBbl)	**788**	1,108	*(29)*	**1,074**	1,526	*(30)*
Total Principal Properties (MBoe)	**226,340**	226,812	–	**337,633**	347,085	*(3)*

(1) Readers are referred to the advisories concerning Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Reserves evaluated by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. as of December 31, 2015 in accordance with National Instrument 51-101 definitions, standards and procedures. Working interest reserves before royalty deductions.

	Gross Principal Properties Reserves (1)				Before Tax Net Present Value (1)(2) ($ millions)	
	Natural Gas	Light Medium Crude Oil	NGLs	Total	Discount Rate	
	(Bcf)	(MBbl)	(MBbl)	(MBoe)	0%	10%
Proved						
Developed Producing	198.7	712	26,993	60,817	838	646
Developed Non-producing	1.9	–	54	378	3	2
Undeveloped	509.9	76	80,078	165,145	2,285	960
Total Proved	**710.5**	**788**	**107,125**	**226,340**	**3,126**	**1,608**
Total Probable	355.2	287	51,810	111,293	2,713	1,448
Total Proved plus Probable	**1,065.7**	**1,074**	**158,934**	**337,633**	**5,839**	**3,055**

(1) Columns may not add due to rounding
(2) The estimated net present values disclosed in this document do not represent fair market value. Revenue and expenditures were calculated based on McDaniel's forecast prices and costs as of January 1, 2016.

The estimated future net revenue of Paramount's reserves was impacted by a 20 percent decrease in forecast commodity prices in 2015. As at December 31, 2015, the net present value of proved reserves (discounted at 10 percent, before tax) decreased 29 percent to $1.6 billion ($15.14 per share) compared to the prior year and the net present value of P+P reserves (discounted at 10 percent, before tax) decreased 20 percent to $3.1 billion ($28.76 per share) compared to 2014.

Principal Properties Reserves Reconciliation

	Proved (1)			Proved plus Probable (1)		
	Natural Gas	Oil & NGLs (2)	Total	Natural Gas	Oil & NGLs (2)	Total
	(Bcf)	(MBbl)	(MBoe)	(Bcf)	(MBbl)	(MBoe)
January 1, 2015	703.8	109,518	226,812	1,090.9	165,262	347,085
Extensions & discoveries	3.9	237	889	8.8	933	2,399
Technical revisions	74.1	5,316	17,668	38.9	1,565	8,049
Economic factors	(12.6)	(900)	(3,000)	(14.3)	(1,510)	(3,892)
Acquisitions	–	72	78	–	91	99
Production	(58.7)	(6,331)	(16,107)	(58.7)	(6,333)	(16,107)
December 31, 2015	**710.5**	**107,912**	226,340	**1,065.6**	**160,008**	337,633

(1) Columns and rows may not add due to rounding.
(2) Light and medium crude oil and NGLs.

Finding and Development Costs – Three Year Average

	Capital Costs [(1)]	Net Change in FDC [(2)]	Total F&D Capital	Reserves Additions [(3)]	3-Year Average F&D 2015	2014
	($ millions)	($ millions)	($ millions)	(MBoe)	($/Boe)	($/Boe)
Proved						
Kaybob	960.2	2,079.2	**3,039.4**	**193.3**	**15.72**	17.83
Total	1,379.5	2,221.6	**3,601.1**	**212.7**	**16.93**	18.95
Proved plus Probable						
Kaybob	960.2	1,945.6	**2,905.8**	**258.4**	**11.25**	12.49
Total	1,379.5	2,160.1	**3,539.6**	**290.2**	**12.20**	13.37

(1) Aggregate exploration and development costs incurred for the three years ended December 31, 2015. Excludes capital costs related to facilities and gathering systems, capitalized interest and land acquisitions.
(2) Change in estimated future development costs from December 31, 2012 to December 31, 2015.
(3) Reserve additions were calculated as the aggregate of extensions & discoveries, technical revisions and economic factors for the three years ended December 31, 2015. Excludes acquisitions and dispositions.

The following table summarizes the undiscounted future development costs deducted in the calculation of future net revenue:

Future Development Costs [(1)] (Undiscounted, $ millions)	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Proved Developed Producing	4	–	–	–	–	4
Proved Developed Non-producing	1	–	–	–	–	1
Proved Undeveloped	249	396	653	513	544	2,356
Total Proved	**254**	**396**	**653**	**513**	**544**	**2,361**
Total Probable	14	35	24	24	–	96
Total Proved plus Probable	**268**	**431**	**677**	**537**	**544**	**2,457**

(1) Columns may not add due to rounding.

P+P future development costs decreased $660 million to $2.5 billion in 2015 compared to $3.1 billion in 2014, primarily due to lower per-well capital cost estimates incorporated in undeveloped reserve estimates. The Company's costs to drill, complete and equip wells have decreased as a result of changes in completion practices, technical improvements, increased efficiencies and lower industry rates for oilfield services.

Midstream Transaction – Changes to Reserve Estimates

The Company estimates that as at December 31, 2015, assuming all other variables are held constant, the pro forma impact of anticipated changes in operating costs, processing income and royalties as a result of the Midstream Transaction would result in a reduction to estimated future net revenues of proved reserves of approximately $315 million (discounted at 10 percent, before tax) and of P+P reserves of approximately $425 million (discounted at 10 percent, before tax).

The impact of the Midstream Transaction on Paramount's reserve volumes and other reserves disclosure is not expected to be material.

LAND

	As at December 31, 2015			As at December 31, 2014		
(thousands of acres)	**Gross (1)**	**Net (2)**	**Average Working Interest**	Gross (1)	Net (2)	Average Working Interest
Undeveloped land	**2,803**	**1,615**	**58%**	2,939	1,722	59%
Acreage assigned reserves	**351**	**190**	**54%**	359	201	56%
Total	**3,154**	**1,805**	**57%**	3,298	1,923	58%

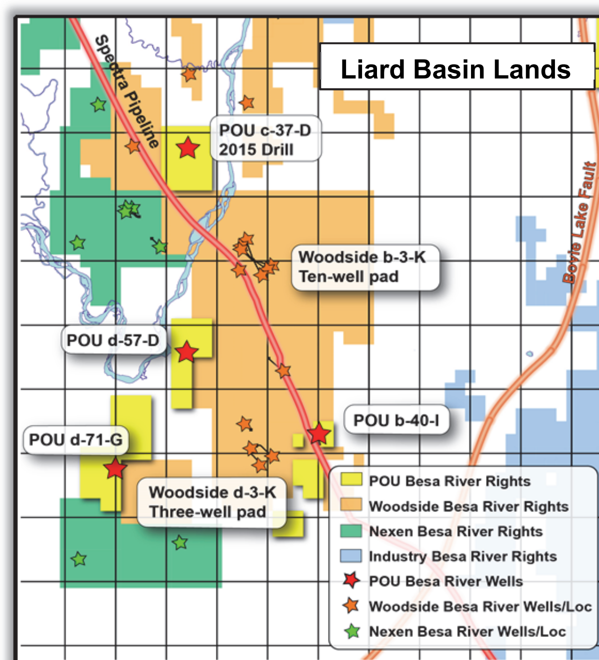
(1) "Gross" acres means the total acreage in which Paramount has an interest.
(2) "Net" acres means gross acres multiplied by Paramount's working interest therein.

STRATEGIC INVESTMENTS

SHALE GAS

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 130 net sections of land with potential from the Besa River shale formation. In 2015, the Company completed drilling operations at the Dunedin d-71-G vertical exploratory shale gas well and then moved to the c-37-D vertical well at La Biche, where drilling operations commenced before being suspended for spring break-up.

Drilling operations resumed at the c-37-D well in December 2015 and the well is expected to be drilled to target depth before spring breakup in 2016. Upon completing drilling operations for the 2015 / 2016 winter drilling season, the Company will have secured its mineral rights in the region for another 10 years.



Cavalier Energy Inc. ("Cavalier") was created in 2011 as a self-funding entity to execute the development of the Company's oil sands and carbonate bitumen assets. Cavalier holds approximately 220,000 net acres of Crown leases in the Western Athabasca region of Alberta.

HOOLE GRAND RAPIDS

Cavalier's initial focus is to develop the Grand Rapids formation in its 100 percent owned in-situ oil sands leases at Hoole, which is located 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately $111 million has been invested through land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this project (the "Hoole Project") to the development stage.

Front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Phase 1") has been completed and Cavalier received regulatory approval for Hoole Phase 1 in the second quarter of 2014. Cavalier is also in the process of preparing an application for a second stage. The Company is not planning to incur significant near-term expenditures on the Hoole Phase 1 project. The development of the project is contingent upon Cavalier obtaining financing.

Fox Drilling, a wholly-owned subsidiary of Paramount, owns seven triple-sized rigs, including four built-for-purpose walking rigs. These rigs are designed to drill the deep horizontal wells on multi-well pads that industry is currently focusing on.

During 2015, five rigs were deployed on the Company's Deep Basin lands, drilling wells at Musreau, Smoky and Karr-Gold Creek.

Construction of two new walking rigs was recently completed at a cost of approximately $25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial funding for these new rigs.

INVESTMENTS IN OTHER ENTITIES

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

Market Value

	December 31, 2015			December 31, 2014		
	Shares (000's)	**($ millions)**	**($/share)**	*Shares (000's)*	($ millions)	($/share)
Trilogy Energy Corp.	***19,144***	**70.1**	**3.66**	*19,144*	151.4	7.91
MEG Energy Corp.	***3,700***	**29.7**	**8.02**	*3,700*	72.3	19.55
Other [(2)]		**31.0**			33.2	
		130.8			256.9	

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

CORPORATE

Paramount continues to implement measures to reduce its cost structure while maximizing the efficiency and effectiveness of its operations. The Company has eliminated most corporate consultant positions, reduced employee salaries by five percent in 2016 and reduced its permanent workforce by approximately 15 percent. Labour and travel costs for the Company's field operations are expected to be reduced by 12 to 15 percent in 2016. Capital expenditures, procurement processes and operating activities in the field are being reviewed to identify further opportunities to improve efficiencies and reduce costs.

The Company is managing its near-term liquidity by aligning capital expenditures with cash flows. Future spending levels for Paramount's core developments and other initiatives will be determined following the closing of the Midstream Transaction and will also depend on commodity prices and other factors.

The Company has 6,000 Bbl/d of Liquids sales hedging contracts in place for calendar 2016 at an average WTI price of C$75.72/Bbl. In January 2016, Paramount locked in the unrealized gain for 2,000 Bbl/d of the hedged volumes by entering into a fixed price Liquids purchase contract at a WTI price of C$50.64/Bbl.

As a result of the strengthening of the Canadian dollar relative to the US dollar between December 31, 2015 and March 11, 2016, the year-end unrealized foreign exchange loss of $60.8 million related to the Company's $450 million US senior notes due 2023 has been reduced by $28.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated March 17, 2016, should be read in conjunction with the audited Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the year ended December 31, 2015. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

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

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

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

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

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

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

2015 HIGHLIGHTS [1]

	2015	2014	2013
FINANCIAL			
Petroleum and natural gas sales – continuing operations	376.8	350.0	230.7
Petroleum and natural gas sales – discontinued operations	–	–	1.8
Petroleum and natural gas sales	376.8	350.0	232.5
Funds flow from operations – continuing operations	93.2	141.0	71.9
Funds flow from operations – discontinued operations	–	–	(1.3)
Funds flow from operations	93.2	141.0	70.6
per share – basic and diluted ($/share)	*0.88*	*1.39*	*0.75*
Loss from continuing operations	(901.3)	(71.7)	(87.1)
per share – basic and diluted ($/share)	*(8.52)*	*(0.71)*	*(0.93)*
Net loss	(901.3)	(71.7)	(59.1)
per share – basic and diluted ($/share)	*(8.52)*	*(0.71)*	*(0.63)*
Principal Properties Capital [2]	429.9	813.9	612.8
Investments in other entities – market value [3]	130.8	256.9	688.5
Total assets	2,781.0	3,199.4	2,447.8
Long-term debt	1,750.2	1,210.4	882.6
Net debt	1,904.6	1,482.5	1,119.2
OPERATIONAL			
Sales volumes [4]			
Natural gas (MMcf/d)	160.7	110.5	106.1
Condensate and oil (Bbl/d)	8,610	3,986	2,313
Other NGLs (Bbl/d) [5]	8,735	2,128	911
Total (Boe/d)	44,130	24,524	20,914
Net wells drilled (excluding oil sands evaluation)	31	58	37
Net oil sands evaluation wells drilled	–	–	6
FUNDS FLOW FROM OPERATIONS ($/Boe) [4]			
Petroleum and natural gas sales	23.39	39.10	30.46
Royalties	(0.64)	(1.96)	(1.42)
Operating expense	(5.59)	(7.96)	(9.35)
Transportation and NGLs processing [6]	(4.08)	(4.01)	(3.15)
Netback	13.08	25.17	16.54
Commodity contract settlements	0.78	(0.13)	–
Netback including commodity contract settlements	13.86	25.04	16.54
General and administrative – corporate	(1.12)	(1.80)	(1.66)
General and administrative – strategic investments	(0.36)	(0.87)	(0.89)
Interest and financing	(6.73)	(7.69)	(6.69)
Dividends from investments	–	0.82	1.05
Other	0.14	0.25	0.89
Funds flow from operations	5.79	15.75	9.24

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(3) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
(4) Amounts for 2013 include the results of discontinued operations.
(5) Other NGLs means ethane, propane and butane.
(6) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

CONSOLIDATED RESULTS

Net Loss

Year ended December 31	2015	2014	2013
Principal Properties	(418.2)	66.7	(28.2)
Strategic Investments	(281.8)	(37.4)	5.3
Corporate	(213.8)	(104.0)	(82.8)
Income tax recovery	12.5	3.0	18.6
Loss from continuing operations	(901.3)	(71.7)	(87.1)
Discontinued operations, net of tax	–	–	28.0
Net loss	(901.3)	(71.7)	(59.1)

Paramount recorded a net loss of $901.3 million for the year ended December 31, 2015, which included aggregate impairment charges of $529.6 million consisting of $287.8 million for Principal Properties, $160.0 million for Strategic Investments and $81.8 million related to investments in securities. The current year loss also includes a $194.2 million de-recognition of deferred income tax assets. A net loss of $71.7 million was recorded in the same period in 2014. Significant factors contributing to the change are shown below:

Year ended December 31	
Net Loss – 2014	**(71.7)**
• Higher impairment write-downs of property, plant and equipment in 2015	(231.0)
• Impairment write-downs of exploration and evaluation assets and goodwill in 2015	(184.1)
• Higher depletion and depreciation due to higher sales volumes in 2015	(163.1)
• Loss on the sale of oil and gas properties in 2015 compared to a gain in 2014	(104.7)
• Higher write-downs of investments in securities	(66.2)
• Higher foreign exchange loss, primarily related to the US 2023 Senior Notes	(60.5)
• Higher interest and financing expense due to increased debt	(40.1)
• Higher loss from equity-accounted investments	(19.6)
• Lower netback primarily due to lower commodity prices	(14.6)
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	(12.0)
• Higher gains on commodity contracts	49.9
• Higher income tax recovery	9.5
• Lower geological and geophysical expense in 2015	6.4
• Other	0.5
Net Loss – 2015	(901.3)

Paramount recorded a loss from continuing operations of $71.7 million for the year ended December 31, 2014 compared to a loss from continuing operations of $87.1 million in 2013. Significant factors contributing to the change are shown below:

Year ended December 31	
Loss from continuing operations – 2013	**(87.1)**
• Higher netback primarily due to higher sales volumes and higher natural gas prices	97.8
• Higher gains on the sale of property, plant and equipment related to continuing operations	63.0
• Higher depletion and depreciation, and higher impairment write-downs of petroleum and natural gas properties in 2014	(76.9)
• Loss from equity-accounted investments compared to income in 2013	(24.8)
• Higher interest and financing expense due to increased debt	(18.0)
• Lower income tax recovery	(15.6)
• Higher write-down of investments in securities	(12.0)
• Other	1.9
Loss from continuing operations – 2014	**(71.7)**

In March 2013, Paramount sold its Northern COU properties in the Bistcho and Cameron Hills areas (the "Northern Discontinued Operations") for proceeds of $9.1 million. Income from discontinued operations for the year ended December 31, 2013 of $28.0 million includes a pre-tax loss of $1.6 million from ordinary activities of the Northern Discontinued Operations, a $39.0 million pre-tax gain on the sale of the Northern Discontinued Operations and tax expense of $9.4 million.

Funds Flow from Operations (1)

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

Year ended December 31	2015	2014	2013 (2)
Cash from operating activities	**84.3**	118.5	44.9
Change in non-cash working capital	**(3.8)**	5.4	12.2
Geological and geophysical expenses	**6.1**	12.5	7.2
Asset retirement obligations settled	**6.6**	4.6	6.3
Funds flow from operations	**93.2**	141.0	70.6
Funds flow from operations ($/Boe)	**5.79**	15.75	9.24

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
(2) Includes the results of discontinued operations.

Year ended December 31	2015	2014	2013
Funds flow from operations			
Continuing operations	**93.2**	141.0	71.9
Discontinued operations	**–**	–	(1.3)
Funds flow from operations	**93.2**	141.0	70.6

Funds flow from operations for the year ended December 31, 2015 was $47.8 million lower than 2014. Significant factors contributing to the change are shown below:

Year ended December 31	
Funds flow from operations – 2014	**141.0**
• Higher interest and financing expense due to increased debt	(39.6)
• Lower netback primarily due to lower commodity prices	(14.6)
• Dividends from equity-accounted investments in 2014	(7.4)
• Receipts from commodity contract settlements in 2015 compared to payments in 2014	13.7
• Other	0.1
Funds flow from operations – 2015	**93.2**

Funds flow from operations for the year ended December 31, 2014 was $70.4 million higher than 2013. Significant factors contributing to the change are shown below:

Year ended December 31	
Funds flow from operations – 2013	**70.6**
• Higher netback primarily due to higher sales volumes and higher natural gas prices	97.8
• Higher interest and financing expense due to increased debt	(17.8)
• Lower other income	(5.2)
• Higher general and administrative expense	(4.4)
Funds flow from operations – 2014	**141.0**

PRINCIPAL PROPERTIES

Netback and Segment Income (Loss)

Year ended December 31	**2015**		2014	
		($/Boe) (1)		($/Boe) (1)
Natural gas revenue	166.2	2.83	192.7	4.78
Condensate and oil revenue	166.0	52.83	128.6	88.41
Other NGLs revenue (2)	41.2	12.92	25.1	32.36
Royalty and sulphur revenue	3.4	–	3.6	–
Petroleum and natural gas sales	376.8	23.39	350.0	39.10
Royalties	(10.4)	(0.64)	(17.5)	(1.96)
Operating expense	(90.0)	(5.59)	(71.3)	(7.96)
Transportation and NGLs processing (3)	(65.7)	(4.08)	(35.9)	(4.01)
Netback	210.7	13.08	225.3	25.17
Commodity contract settlements	12.6	0.78	(1.1)	(0.13)
Netback including commodity contract settlements	223.3	13.86	224.2	25.04
Other principal property items (see below)	(641.5)		(157.5)	
Segment income (loss)	(418.2)		66.7	

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

Petroleum and natural gas sales were $376.8 million in 2015, an increase of $26.8 million from the prior year due to higher sales volumes, partially offset by lower commodity prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Year ended December 31, 2014	192.7	128.6	25.1	3.6	350.0
Effect of changes in sales volumes	87.6	149.2	78.1	–	314.9
Effect of changes in prices	(114.1)	(111.8)	(62.0)	–	(287.9)
Change in royalty and sulphur revenue	–	–	–	(0.2)	(0.2)
Year ended December 31, 2015	**166.2**	**166.0**	**41.2**	**3.4**	**376.8**

Sales Volumes

	Year ended December 31											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Kaybob	**126.1**	79.0	*60*	**6,213**	2,468	*152*	**8,241**	1,512	*445*	**35,472**	17,137	*107*
Grande Prairie	**29.3**	24.9	*18*	**2,027**	1,317	*54*	**362**	486	*(26)*	**7,271**	5,956	*22*
Southern	**2.6**	3.6	*(28)*	**339**	182	*86*	**129**	130	*(1)*	**908**	906	–
Northern	**2.7**	3.0	*(10)*	**31**	19	*63*	**3**	–	*100*	**479**	525	*(9)*
Total	**160.7**	110.5	*45*	**8,610**	3,986	*116*	**8,735**	2,128	*310*	**44,130**	24,524	*80*

The Company's production within the Kaybob COU was constrained by available owned and contracted natural gas processing capacity until August 2014, when the Company's wholly-owned 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") commenced operations. With this incremental capacity available throughout 2015, Paramount's sales volumes increased 80 percent to 44,130 Boe/d compared to 24,524 Boe/d in 2014. Sales volumes within the Kaybob COU increased 107 percent in 2015 compared to the prior year.

Natural gas sales volumes increased 45 percent to 160.7 MMcf/d in 2015 compared to 110.5 MMcf/d in 2014. The increase was primarily due to production from new Montney formation wells brought on production in the Kaybob and Grande Prairie COUs.

Condensate and oil sales volumes increased 116 percent to 8,610 Bbl/d in 2015 compared to 3,986 Bbl/d in 2014. The increase was primarily the result of condensate volumes produced from new Montney wells brought on at Musreau in the Kaybob COU, particularly in the second half of 2015 following the May 2015 start-up of the 15,000 Bbl/d Musreau condensate stabilizer expansion (the "Stabilizer Expansion").

Other NGLs sales volumes increased to 8,735 Bbl/d in 2015 compared to 2,128 Bbl/d in 2014. The increase was primarily due to new Montney wells being brought on production in the Kaybob COU, and increased volumes of Other NGLs being extracted from natural gas streams in 2015 following the start-up of the Musreau Deep Cut Facility and the non-operated Smoky deep cut natural gas processing facility (the "Smoky Deep Cut Facility") in the third quarter of 2014. Incremental downstream third-party fractionation capacity became available at the end of March 2015 under the Company's long-term firm processing agreement following the completion of a de-ethanization facility expansion.

Paramount's 2015 average sales volumes of 44,130 Boe/d were lower than previously announced guidance due to a number of factors, including lower than anticipated production from wells completed with oil-based fluids and lower-intensities of proppant. As a broader array of well performance data has become available following the start-up of new Montney wells in 2015, well completion practices are continuing to evolve. The Company has been completing new wells with water-based fluids and higher

intensities of proppant, which has resulted in better well performance. 2015 sales volumes were also lower because the high Liquids content of certain new 2015 Montney wells caused fluid loading in the vertical section of the wellbores, resulting in the wells flowing at reduced rates or being temporarily shut in. Modifications were made to the affected wells and surface facilities to install gas lift systems to optimize production. All the wells were subsequently restarted.

Infrastructure constraints were also a factor in 2015, impacting the Company's production to a greater degree than anticipated. Unscheduled third party outages and disruptions related to transportation pipelines and downstream NGLs processing facilities impacted the industry in general in 2015, including Paramount's Deep Basin production at Musreau and Karr-Gold Creek. The Musreau Deep Cut Facility also experienced processing constraints and higher than expected downtime related to the tie-in of the Stabilizer Expansion and the new amine train, other maintenance outages and lower NGLs recoveries due to the plant operating at higher than design temperatures. Paramount completed maintenance at the Musreau Deep Cut Facility in the fourth quarter that reduced operating temperatures at the plant, increasing NGLs recoveries.

Commodity Prices

	2015	2014	% Change
Natural Gas			
Paramount realized price (CDN$/Mcf)	**2.83**	4.78	(41)
AECO daily spot (CDN$/GJ)	**2.55**	4.27	(40)
AECO monthly index (CDN$/GJ)	**2.62**	4.19	(37)
Malin (US$/MMbtu)	**2.56**	4.38	(42)
Crude Oil			
Paramount average realized condensate and oil price (CDN$/Bbl)	**52.83**	88.41	(40)
Edmonton Light Sweet (CDN$/Bbl)	**57.45**	94.18	(39)
West Texas Intermediate (US$/Bbl)	**48.80**	93.00	(48)
Foreign Exchange			
$CDN / 1 $US	**1.28**	1.10	16

Paramount's average realized natural gas price decreased 41 percent in 2015 compared to the same period in 2014, consistent with decreases in benchmark natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market, Chicago and California markets and is sold in a combination of daily and monthly contracts.

The Company's average realized condensate and oil price decreased 40 percent in 2015 compared to the same period in 2014, consistent with decreases in benchmark prices. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized volumes, and are adjusted for applicable transportation, quality and density differentials. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet price, which are generally lower than prices for stabilized volumes, and are adjusted for transportation and quality differentials.

Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Despite negative market prices for propane at times in 2015 due to a supply and demand imbalance, the Company's

Liquids-rich natural gas project continues to be economic. The Company's Other NGLs sales volumes were comprised of approximately 50 percent ethane, 35 percent propane and 15 percent butane for the year ended December 31, 2015.

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility.

Amounts received (paid) on the settlement of commodity contracts are as follows:

Year ended December 31	2015	2014
Commodity contracts	12.6	(1.1)

Paramount had the following financial commodity sales contracts in place at December 31, 2015:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swaps	6,000 Bbl/d	CDN$75.72/Bbl	40.2	January 2016 – December 2016

In January 2016, Paramount entered into a financial NYMEX WTI swap purchase contract for 2,000 Bbl/d at a fixed price of $50.64/Bbl from February 2016 to December 2016.

Royalties

Year ended December 31	2015	Rate	2014	Rate
Royalties	10.4	2.8%	17.5	5.1%
$/Boe	*0.64*		*1.96*	

Royalties decreased $7.1 million to $10.4 million in 2015 compared to $17.5 million in 2014, primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs, lower natural gas revenues and $0.8 million in annual gas cost allowance adjustments relating to 2014 recorded in the current year, partially offset by higher royalties for Liquids due to increased revenues.

Excluding the impact of the 2014 annual gas cost allowance adjustments recorded in 2015, the Company's average royalty rate was 3.0 percent in 2015 compared to 5.1 percent in 2014. The majority of Paramount's new wells in Alberta qualify for royalty incentive programs, which reduce the Company's overall royalty rate.

Operating Expense

Year ended December 31	2015	2014	% Change
Operating expense	90.0	71.3	26
$/Boe	*5.59*	*7.96*	*(30)*

Operating expense increased $18.7 million or 26 percent in 2015 to $90.0 million compared to $71.3 million in 2014, primarily due to higher plant operating and maintenance costs in the Kaybob COU associated with the new Musreau Deep Cut Facility, higher third-party processing fees in the Grande Prairie COU and higher lease operating costs in both COUs related to higher production, partially offset by an increase in processing income.

Paramount's per Boe operating expenses decreased 30 percent to $5.59 in 2015 compared to $7.96 in 2014, mainly as a result of lower-cost Kaybob area volumes becoming a greater proportion of the Company's overall production. Operating costs are also lower for Paramount's multi-well pads due to the benefits of economies of scale in utilizing shared surface facilities and other operational efficiencies of centralized production. Operating expenses within the Kaybob COU, net of processing income, were $3.44 per Boe in 2015 (2014 – $4.85 per Boe).

Transportation and NGLs Processing

Year ended December 31	2015	2014	% Change
Transportation and NGLs processing	65.7	35.9	83%
$/Boe	*4.08*	*4.01*	*2%*

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

Transportation and NGLs processing was $65.7 million in 2015, an increase of $29.8 million compared to 2014, primarily due to higher pipeline tolls as a result of increased production, higher fractionation costs associated with higher Other NGLs production and increased firm-service transportation costs related to incremental downstream transportation capacity contracted for the Musreau Deep Cut Facility. These increases were partially offset by lower trucking costs, as condensate stabilization and NGLs pipeline constraints abated in 2015 and a higher proportion of Liquids volumes were transported via pipelines.

Other Principal Property Items

Year ended December 31	2015	2014
Commodity contracts – net of settlements	(40.2)	(4.0)
Depletion and depreciation (excluding impairment)	358.9	196.3
Exploration and evaluation (excluding impairment)	23.0	23.2
Impairment (PP&E and E&E)	287.8	32.8
(Gain) loss on sale of oil and gas properties	9.2	(95.7)
Accretion of asset retirement obligations	5.4	5.9
Other	(2.6)	(1.0)
Total	641.5	157.5

Depletion and depreciation expense (excluding impairment) increased to $358.9 million ($22.28 per Boe) in 2015 compared to $196.3 million ($21.93 per Boe) in 2014, primarily due to higher production volumes.

Exploration and evaluation ("E&E") expense in 2015 includes dry hole expense of $14.8 million (2014 - $4.6 million), geological and geophysical costs of $4.5 million (2014 - $6.8 million) and expired undeveloped land leases costs of $3.7 million (2014 - $11.8 million).

The Company recorded aggregate property, plant and equipment impairment write-downs of $263.7 million for the twelve months ended December 31, 2015 related to petroleum and natural gas assets in the Grande Prairie, Northern and Southern COUs. The write-downs were recorded because the carrying value of the petroleum and natural gas assets exceeded their estimated recoverable amounts, which were determined based on expected discounted net cash flows from the production of proved and probable reserves. An E&E impairment charge of $24.1 million was also recorded at December 31, 2015 as a result of the write-down of the carrying value of a previously drilled exploratory well which was assessed as being uneconomic to tie-in and bring on production.

In 2014, the Company recorded an impairment write-down of $32.8 million related to petroleum and natural gas assets in the Southern COU. The impairments in both 2015 and 2014 resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted future oil and natural gas prices.

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

Midstream Transaction

In March 2016, Paramount entered into an agreement for the sale of its Musreau Complex and related midstream assets (the "Midstream Transaction").

The Midstream Transaction includes the 50 MMcf/d Refrigeration Plant, the 200 MMcf/d Deep Cut Plant, the 22,500 Bbl/d Condensate Stabilizer, the Amine Facility and the gas sales pipeline connecting the Musreau Complex to the TCPL meter station, as well as the majority of Paramount's larger-diameter gathering system in the Musreau area. Also included in the Midstream Transaction are the site and engineering and design work for the future 6-18 gas processing plant (the "6-18 Plant").

Paramount will receive $556 million in cash at closing, plus a $35 million capital commitment for an enhancement program the Company planned to complete in 2016 at the Musreau Complex. In addition, Pembina has agreed to optimize existing transportation arrangements to match Paramount's anticipated production growth. Paramount has also secured the right, upon the satisfaction of certain conditions, to call upon Pembina to build and provide up to 200 MMcf/d of gas processing capacity at the 6-18 Plant site.

As part of the Midstream Transaction, Paramount and Pembina have also entered into a Midstream Service Agreement ("MSA") which includes a 20-year arrangement that secures Paramount priority access to the sold capacity at the Musreau Complex. Paramount will have lower take-or-pay volume commitments in the initial years, ramping up to 200 MMcf/d by 2019 to align with the expansion and development of Paramount's Liquids-rich Montney resources. Under the terms of the MSA, the Company will pay a fixed capital fee per Mcf of raw gas delivered to the Musreau Complex, plus operating expenses. This capital charge will encompass costs for natural gas processing, condensate stabilization, use of the gathering system and transportation of sales gas from the Musreau Complex to the TCPL meter station. This charge at the plant inlet is expected to be equivalent to approximately $3.00/Boe of products sold from the Musreau Complex. Volumes delivered by Paramount in excess of its take-or-pay commitment will have processing priority treatment at the Musreau Complex.

The Midstream Transaction is expected to close in the second quarter of 2016, subject to regulatory approvals. There are no financing or other non-customary material closing conditions.

STRATEGIC INVESTMENTS

Year ended December 31	2015	2014
General and administrative	(5.8)	(7.8)
Share-based compensation	(6.5)	(5.8)
Exploration and evaluation	(161.9)	(6.8)
Interest and financing	(2.3)	(2.7)
Loss from equity–accounted investments	(23.0)	(3.4)
Write-down of investments in securities	(81.8)	(15.6)
Drilling rig revenue	1.1	0.5
Drilling rig expense	(0.6)	(0.2)
Other	(1.0)	4.4
Segment loss	(281.8)	(37.4)

Strategic Investments at December 31, 2015 include:

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

E&E expense in 2015 included aggregate impairment write-downs of $160.0 million related to the E&E assets of Cavalier, the exploration lands acquired as part of the 2014 acquisition of MGM Energy Corp. ("MGM Energy") and goodwill with a carrying value of $21.6 million recorded upon the acquisition of MGM Energy.

At December 31, 2015, Cavalier's oil sands project at Hoole was deemed not economically viable due to lower forecast future oil prices and an increase in the cost of obtaining capital to fund oil sands developments. The carrying value of the MGM Energy assets was also deemed unrecoverable as a result of the suspension of development activity in the Northwest Territories by MGM Energy and other operators, primarily as a result of lower forecast future oil and natural gas prices and a lack of pipeline infrastructure.

The loss from equity-accounted investments in 2015 primarily consists of a $21.6 million equity loss recorded in respect of the Trilogy investment. The $3.4 million loss from equity-accounted investments in 2014 include a $11.5 million equity loss and a $10.8 million gain recorded on the MGM Energy acquisition.

Investments

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of strategic investments. The Company's investments in the shares of Trilogy were principally obtained in the course of its spin-out from Paramount. Investments in the shares of most other entities,

including MEG, were received as consideration for properties sold to the entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value (1)	
As at December 31	**2015**	2014	**2015**	2014
Trilogy	**58.4**	79.9	**70.1**	151.4
MEG	**29.7**	72.3	**29.7**	72.3
Other (2)	**31.0**	33.1	**31.0**	33.2
Total	**119.1**	185.3	**130.8**	256.9

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

The aggregate write-downs of investments in securities of $81.8 million in 2015 resulted from significant decreases in the market values of the Company's investments in publicly traded entities during 2015, primarily consisting of a $72.1 million write-down of the investment in MEG. In 2014, a $15.6 million write-down was recorded related to the Company's investments in Marquee, SOG and other securities.

In June 2014, Paramount acquired all 338.3 million of the issued and outstanding common shares of MGM Energy not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest).

Cavalier

Cavalier's initial focus is to develop the Grand Rapids formation in its 100 percent owned in-situ oil sands leases at Hoole, which is located 10 kilometers northeast of Wabasca-Desmarais, Alberta. Since 2004, approximately $111 million has been invested through land acquisitions, stratigraphic drilling, engineering studies, and environmental field programs to bring this project (the "Hoole Project") to the development stage.

Front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Project ("Hoole Phase 1") has been completed and Cavalier received regulatory approval for Hoole Phase 1 in the second quarter of 2014. Cavalier is also in the process of preparing an application for a second stage. Development activities related to the Hoole Project have been reduced as a result of the current economic environment.

Shale Gas

Paramount's shale gas holdings in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories include approximately 130 net sections of land with potential from the Besa River shale formation. In 2015, the Company completed drilling operations at the Dunedin d-71-G vertical exploratory shale gas well and then moved to the c-37-D well at La Biche, where drilling operations continued until spring break-up.

Drilling operations resumed at the c-37-D La Biche in December 2015 and the well is expected to be drilled to target depth before spring breakup in 2016. Upon completing drilling operations in the 2015 / 2016 winter drilling season, the Company will have secured its mineral rights in the region for another 10 years.

Fox Drilling

Fox Drilling owns seven triple-sized rigs, including four built-for-purpose walking rigs. These rigs are designed to drill the deep horizontal wells on multi-well pads that industry is currently focusing on. During 2015, five rigs were deployed on the Company's Deep Basin lands, drilling wells at Musreau, Smoky and Karr-Gold Creek.

Construction of two new walking rigs was recently completed at a cost of approximately $25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial funding for these new rigs.

CORPORATE

Year ended December 31	2015	2014
Interest and financing	108.4	67.9
Debt extinguishment	12.0	–
General and administrative	18.0	16.1
Share-based compensation	14.0	19.5
Foreign exchange	61.1	0.6
Other	0.3	(0.1)
Segment loss	**213.8**	104.0

The Corporate segment loss increased to $213.8 million in 2015 compared to $104.0 million in 2014, primarily as a result of a $60.8 million unrealized foreign exchange loss recorded in respect of the Company's US senior unsecured notes due 2023 (the "2023 Senior Notes"), higher interest and financing expense due to increased debt and debt extinguishment expense recorded as a result of the redemption of the Company's senior notes due 2017 (the "2017 Senior Notes").

Tax Pools

As at December 31	2015
Canadian oil and gas property expense	124.3
Canadian development expense	591.9
Canadian exploration expense	460.1
Undepreciated capital cost	746.2
Non-capital losses	1,565.6
Financing costs and other	30.1
Total federal tax pools	**3,518.2**

EXPLORATION AND CAPITAL EXPENDITURES

Year ended December 31	2015	2014
Geological and geophysical	4.4	6.7
Drilling, completion and tie-ins	314.0	596.5
Facilities and gathering	111.5	210.7
Principal Properties Capital (1)	429.9	813.9
Land and property acquisitions and capitalized interest	8.1	43.5
Principal Properties	438.0	857.4
Strategic Investments (2)	62.0	95.3
Corporate	1.3	1.3
	501.3	954.0
Principal Properties Capital by COU (1)		
Kaybob	293.1	528.2
Grande Prairie	66.2	204.5
Southern, Northern & Other	70.6	81.2
	429.9	813.9

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.
(2) Strategic Investments include $1.5 million of capitalized interest (2014 - $0.8 million).

Principal Properties Capital was $429.9 million in 2015 compared to $813.9 million in 2014. The majority of current year well capital was focused on drilling and completion programs at Musreau in the Kaybob COU, at Karr-Gold Creek in the Grande Prairie COU and at Willesden Green in the Southern COU. Facilities and gathering expenditures were focused on the Stabilizer Expansion at Musreau, expansions to Kaybob area gathering systems and the construction of a new compression facility at Birch in the Northern COU.

Paramount continued to expand its Deep Basin developments in 2015, bringing 36 (35.3 net) Montney wells on production in the Kaybob area as incremental processing capacity became available following the completion of the Stabilizer Expansion and the amine train at the Musreau Complex. The Company also accelerated completion operations for two previously drilled six-well Montney pads at Musreau to November 2015 from the first quarter of 2016. All 12 wells have been completed and brought on production.

Paramount's capital spending in 2015 exceeded the Company's original budget of $355 million mainly due to $41.9 million of incremental spending associated with the acceleration of the completion of the two six well Montney pads. The Company also invested $14.1 million in the gas lift programs at Musreau and Karr-Gold Creek, which included the installation of downhole equipment for affected wells and modifications to surface equipment and gathering systems.

Strategic Investments capital expenditures for 2015 included $28.8 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia and $25.2 million related to the two new triple-sized rigs constructed by Fox Drilling.

Wells drilled were as follows:

	2015		2014	
	Gross (1)	**Net** (2)	Gross (1)	Net (2)
Natural gas	**34**	**31**	61	55
Oil	**–**	**–**	5	3
Total	**34**	**31**	66	58

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

LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31	**2015**	2014	% Change
Adjusted working capital deficit (1)	**37.9**	183.3	(79)
Limited-resource demand facilities	**100.9**	81.5	24
Credit facility	**693.0**	397.7	74
Senior notes (2)	**1,072.8**	820.0	31
Net debt (3)	**1,904.6**	1,482.5	28
Share capital	**1,647.0**	1,603.4	3
Accumulated deficit	**(1,197.6)**	(296.3)	304
Reserves	**99.3**	46.2	115
Total Capital	**2,453.3**	2,835.8	(13)

(1) Adjusted working capital excludes accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2015 – $4.1 million), December 31, 2014 – $3.3 million), risk management assets and liabilities and limited-resource demand facilities.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt as at December 31, 2014 excludes the $20 million deposit (the "CRA Deposit") on account with the Canada Revenue Agency (the "CRA") at that time.

Paramount had an adjusted working capital deficit at December 31, 2015 of $37.9 million compared to a deficit of $183.3 million at December 31, 2014. The adjusted working capital deficit at December 31, 2015 included $11.9 million of cash and cash equivalents, $48.7 million of accounts receivable, $5.0 million of prepaid amounts and $103.5 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to the proceeds from the 2023 Senior Notes offering, drawings on credit facilities, funds flow from operations, proceeds from the issuance of Common Shares and the return of the CRA Deposit, partially offset by capital spending related to the Company's 2015 capital program and the redemption of the 2017 Senior Notes.

In 2015, Paramount raised approximately $210 million in aggregate net cash proceeds through financing transactions, including the 2023 Senior Notes offering and the subsequent redemption of the 2017 Senior Notes and a private placement of 0.9 million Common Shares on a "flow-through basis" (collectively the "2015 Transactions"). Net proceeds from the 2015 Transactions were used for capital expenditures and for general corporate purposes. The gross proceeds from the offering of flow-through shares have been, and will be used by Paramount to incur eligible Canadian exploration expenses ("CEE"). The net proceeds from the 2015 Transactions were initially used to temporarily reduce indebtedness under the Company's bank credit facility.

In 2010, the Company received reassessments of its income taxes from the CRA and provincial tax authorities relating to a prior year transaction (the "Reassessments"). Paramount filed notices of objection to the Reassessments and, as a condition of its right to proceed with the objection, the Company was required to make the CRA Deposit. In December 2015, the Company's notices of objection were accepted by the CRA and the $20 million deposit, plus interest, was returned to Paramount.

Paramount raised approximately $465 million in aggregate net cash proceeds in 2014 through financing transactions, the sale of interests in oil and gas properties and the sale of investments (the "2014 Transactions"). These transactions included the public offering and private placement of 5.6 million Common Shares, of which 1.0 million Common Shares were issued on a "flow-through" basis. Proceeds from the 2014 Transactions were used in Paramount's exploration and development activities, including drilling and completing wells, facilities and gathering expenditures, and for general corporate purposes. The gross proceeds from the offering of flow-through shares have been used by Paramount to incur eligible CEE. The Company has incurred sufficient qualifying expenditures to satisfy commitments associated with the flow-through Common Shares issued in 2014.

Paramount expects to fund its 2016 operations, obligations and capital expenditures with funds flow from operations, drawings on its bank credit facilities and by accessing the capital markets, if required. The Company is managing its operations and capital program such that near-term capital expenditures are expected to be aligned with cash flows. Future spending levels for Paramount's core developments and other initiatives will be determined following the closing of the Midstream Transaction and other factors.

Limited-Recourse Demand Facilities

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is a non-revolving demand loan, which is divided into two tranches. The first tranche ("Fox Tranche A") has a principal amount of $37.7 million outstanding at December 31, 2015 (December 31, 2014 – $45.8 million). Scheduled quarterly principal repayments on Fox Tranche A total $8.2 million in each of 2016 and 2017, with the remaining outstanding balance payable in 2018.

The second tranche ("Fox Tranche B") has a credit limit of $27.0 million that is available to be used to fund the construction of two new drilling rigs. At December 31, 2015, $25.7 million was drawn under Fox Tranche B (December 31, 2014 – $5.1 million). Scheduled quarterly principal repayments on Fox Tranche B total $3.6 million in each year from 2016 to 2020, with the remaining outstanding balance payable in 2021.

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

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of the Company, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets. At December 31, 2015, $37.5 million was drawn on the Cavalier Facility.

Bank Credit Facility

Paramount has a bank credit facility (the "Facility") with a syndicate of lenders (the "Lenders"). The Facility was increased in 2015 from $900 million to $1.0 billion, which is comprised of two tranches. The maximum amount of the first tranche ("Tranche A") is $900 million and the maximum amount of the second tranche ("Tranche B") is $100 million. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility.

The current revolving period of Tranche A ends on April 30, 2016. In the event the revolving period of Tranche A is not extended, any undrawn availability would be cancelled and all amounts then outstanding would be permitted to remain outstanding on a non-revolving basis until April 30, 2017, the current maturity date of Tranche A. The revolving period of Tranche B ends on April 30, 2016, its current maturity date, unless further extended.

As at December 31, 2015 and as at February 29, 2016, $693.0 million and approximately $668.4 million, respectively, was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding as at December 31, 2015 and as at February 29, 2016 totaling $120.9 million and $120.6 million, respectively, which reduce the amount available to be drawn under the Facility. Paramount has never drawn on Tranche B.

Borrowings under the Facility bear interest at the Lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio, the tranche under which borrowings are made and the total amount drawn.

The borrowing base governs the maximum amount which can be drawn under Tranche A. The Lenders have the right to review and re-determine Paramount's borrowing base on a semi-annual basis and more frequently in certain other circumstances, with the next scheduled review to be completed in conjunction with the Facility's planned April 30, 2016 renewal. The borrowing base amount is based on the Company's reserves, the Lenders' projections of future commodity prices, the value attributed by the Lenders to certain of Paramount's equity investments and other assets and certain other factors. Taking into consideration all such factors, Paramount expects the borrowing base to be reduced on the next redetermination. Tranche B is currently not available to be drawn.

Upon closing, the proceeds from the Midstream Transaction will be used to pay down the Facility. The Company intends to reduce the $900 million Tranche A of the Facility by $300 million to $600 million and cancel Tranche B of the Facility.

Senior Notes

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman. The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023.

Immediately following the issuance of the 2023 Senior Notes, Paramount redeemed all $370 million aggregate principal amount of the 2017 Senior Notes by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior

Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

Paramount has $450 million aggregate principal amount of senior unsecured notes due 2019 outstanding (the "2019 Senior Notes"). The 2019 Senior Notes bear interest at 7⅝ percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019.

The Company's senior notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the senior notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the series of notes redeemed and the date of redemption.

Share Capital

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2015, 106,212,487 (December 31, 2014 – 104,843,846) Common Shares were outstanding, net of 21,508 (December 31, 2014 – 54,199) Common Shares held in trust under the Company's stock incentive program, and no preferred shares were outstanding.

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of CEE at a price of $41.35 per share for gross proceeds of $37.2 million. The Company is required to incur, on or before December 31, 2016, $37.2 million of CEE, of which $16.7 million was incurred as of December 31, 2015.

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

At March 14, 2016, Paramount had 106,233,995 Common Shares and 7,204,550 Paramount Options outstanding, of which 3,978,270 Paramount Options are exercisable.

FOURTH QUARTER 2015 RESULTS

Netback

Three months ended December 31	2015	($/Boe) [1]	2014	($/Boe) [1]
Natural gas revenue	37.3	2.57	52.7	3.98
Condensate and oil revenue	42.8	46.60	33.5	68.45
Other NGLs revenue [2]	10.6	12.59	12.6	26.64
Royalty and sulphur revenue	0.6	–	0.6	–
Petroleum and natural gas sales	91.3	21.82	99.4	31.37
Royalties	(3.1)	(0.73)	(4.7)	(1.48)
Operating expense	(23.0)	(5.49)	(22.2)	(7.02)
Transportation and NGLs processing [3]	(16.3)	(3.90)	(11.5)	(3.62)
Netback	48.9	11.70	61.0	19.25
Commodity contract settlements	4.9	1.18	4.4	1.37
Netback including commodity contract settlements	53.8	12.88	65.4	20.62

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

Fourth quarter 2015 petroleum and natural gas sales were $91.3 million, a decrease of $8.1 million from the fourth quarter of 2014, primarily due to lower commodity prices, partially offset by higher sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended December 31, 2014	52.7	33.5	12.6	0.6	99.4
Effect of changes in sales volumes	5.1	29.4	9.9	–	44.4
Effect of changes in prices	(20.5)	(20.1)	(11.9)	–	(52.5)
Three months ended December 31, 2015	37.3	42.8	10.6	0.6	91.3

Sales Volumes

	Three months ended December 31											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Kaybob	116.1	103.7	12	6,937	3,529	97	8,654	4,257	103	34,941	25,062	39
Grande Prairie	35.9	34.8	3	2,605	1,637	59	412	725	(43)	9,001	8,157	10
Southern	2.6	2.7	(4)	348	149	134	101	141	(28)	890	748	19
Northern	3.2	2.7	19	101	5	1,920	8	–	100	634	463	37
Total	157.8	143.9	10	9,991	5,320	88	9,175	5,123	79	45,466	34,430	32

Paramount's fourth quarter sales volumes averaged 45,466 Boe/d in 2015, a 32 percent increase compared to the fourth quarter of 2014.

Natural gas sales volumes increased 13.9 MMcf/d or 10 percent to 157.8 MMcf/d in the fourth quarter of 2015 compared to 143.9 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney formation wells brought on production in the Kaybob COU.

Condensate and oil sales volumes increased 88 percent to 9,991 Bbl/d in the fourth quarter of 2015 compared to 5,320 Bbl/d in the same period in 2014, primarily related to new production from Montney formation wells at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Fourth quarter Other NGLs sales volumes increased 79 percent to 9,175 Bbl/d in 2015 compared to 5,123 Bbl/d in the same period in 2014 as a result of new Montney production wells being brought on production in the Kaybob COU.

Production in the fourth quarter of 2015 was impacted by a scheduled NGLs pipeline outage that required the majority of Kaybob area wells to be shut in for 10 days beginning on October 20th and by periods of downtime in the first two weeks of November as the Musreau Deep Cut Facility was brought back on-line following maintenance work performed during the October NGLs pipeline outage.

The Company's fourth quarter production was also impacted by an unscheduled outage at the third-party operated Smoky Deep Cut Facility, which shut in approximately 2,000 Boe/d of production in November and December, and delays in the commissioning of the new third-party operated compression facility at Birch in northeast BC, which delayed the startup of approximately 1,000 Boe/d of new production until December.

Commodity Prices

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

Three months ended December 31	2015	2014	% Change
Natural Gas			
Paramount realized price (CDN$/Mcf)	2.57	3.98	(35)
AECO daily spot (CDN$/GJ)	2.34	3.41	(31)
AECO monthly index (CDN$/GJ)	2.51	3.80	(34)
Malin (US$/MMbtu)	2.29	3.97	(42)
Crude Oil			
Paramount average condensate and oil price (CDN$/Bbl)	46.60	68.45	(32)
Edmonton Light Sweet (CDN$/Bbl)	52.55	75.11	(30)
West Texas Intermediate (US$/Bbl)	42.18	73.15	(42)
Foreign Exchange			
$CDN / 1 $US	1.34	1.14	18

Royalties decreased $1.6 million to $3.1 million in the fourth quarter of 2015 compared to $4.7 million in the same period in 2014, primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs and lower natural gas revenues, partially offset higher royalties for Liquids due to increased revenues.

Operating expense increased $0.8 million to $23.0 million in the fourth quarter of 2015 compared to $22.2 million in the same period in 2014, primarily due to higher plant maintenance costs associated with the Musreau Deep Cut Facility in the Kaybob COU and lowering processing income.

Paramount’s operating expense per Boe decreased 22 percent to $5.49 in the fourth quarter of 2015 compared to $7.02 in the same period of 2014, as lower-cost Musreau area volumes have become a greater proportion of the Company’s overall production.

Transportation and NGLs processing expense increased $4.8 million to $16.3 million in the fourth quarter of 2015 compared to $11.5 million in the same period in 2014, primarily due to higher pipeline tolls related to higher production volumes, higher fractionation costs associated with higher Other NGLs production and increased firm service transportation and NGLs processing costs associated with incremental downstream capacity contracted for the Musreau Deep Cut Facility. This increase was partially offset by lower trucking costs.

Net Loss

Three months ended December 31	2015	2014
Principal Properties	(305.7)	(50.5)
Strategic Investments	(170.9)	(47.3)
Corporate	(56.1)	(29.4)
Income tax recovery (expense)	(66.3)	20.7
Net loss	(599.0)	(106.5)

Three months ended December 31	2015	2014
Netback	48.9	61.0
Gain on financial commodity contracts	19.8	3.7
General and administrative	(5.7)	(5.2)
Share-based compensation	(3.1)	(6.9)
Depletion, depreciation and impairment	(340.7)	(108.5)
Exploration and evaluation	(195.8)	(12.0)
Interest and financing	(29.4)	(21.5)
Foreign exchange	(20.7)	(0.2)
Loss from equity-accounted investments	(3.1)	(23.3)
Write-down of investment in securities	(4.2)	(13.7)
Income tax recovery (expense)	(66.3)	20.7
Other	1.3	(0.6)
Net Loss	(599.0)	(106.5)

Paramount recorded a net loss of $599.0 million for the three months ended December 31, 2015, which included aggregate impairment charges of $425.6 million, including $265.6 million related to Principal Properties and $160.0 million related to Strategic Investments. The loss for the fourth quarter of 2015 also includes the de-recognition of $194.2 million of deferred income tax assets. A net loss of $106.5 million was recorded in the same period of 2014. Significant factors contributing to the change are shown below:

Three months ended December 31	
Net loss – 2014	**(106.5)**
• Higher depletion and depreciation due to higher impairment write-downs and higher sales volumes in 2015	(232.2)
• Higher exploration and evaluation expense primarily due to impairment write-downs in 2015	(183.8)
• Income tax expense in 2015 compared to a recovery in 2014	(87.0)
• Higher foreign exchange loss, primarily related to the US 2023 Senior Notes	(20.5)
• Lower netback primarily due to lower commodity prices	(12.1)
• Higher interest and financing expense due to increased debt	(7.9)
• Lower loss from equity-accounted investments in 2015	20.2
• Higher gains on commodity contracts in 2015	16.1
• Lower write-down of investments in securities in 2015	9.5
• Lower share-based compensation expense	3.8
• Other	1.4
Net loss – 2015	**(599.0)**

Funds Flow from Operations [(1)]

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

Three months ended December 31	2015	2014
Cash from operating activities	10.4	34.2
Change in non-cash working capital	7.2	0.2
Geological and geophysical expenses	2.2	6.3
Asset retirement obligations settled	1.2	0.9
Funds flow from operations	**21.0**	41.6
Funds flow from operations ($/Boe)	**5.02**	13.14

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

Funds flow from operations in the fourth quarter of 2015 was $20.6 million lower than the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended December 31	
Funds flow from operations – 2014	**41.6**
• Lower netback primarily due to lower commodity prices	(12.1)
• Higher interest and financing expense due to increased debt	(7.7)
• Dividends from equity-accounted investments in 2014	(1.3)
• Other	0.5
Funds flow from operations – 2015	**21.0**

QUARTERLY INFORMATION

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	**91.3**	110.7	94.6	80.2	99.4	84.4	80.0	86.2
Funds flow from operations	**21.0**	36.9	19.6	15.7	41.6	36.4	29.5	33.5
Per share – basic and diluted ($/share)	***0.20***	*0.35*	*0.19*	*0.15*	*0.40*	*0.35*	*0.30*	*0.34*
Net income (loss)	**(599.0)**	(171.8)	(60.2)	(70.3)	(106.5)	(9.4)	53.1	(8.9)
Per share – basic ($/share)	***(5.64)***	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.54*	*(0.09)*
Per share – diluted ($/share)	***(5.64)***	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.53*	*(0.09)*
Sales volumes								
Natural gas (MMcf/d)	**157.8**	181.8	154.4	148.6	143.9	93.6	99.4	104.7
Condensate and oil (Bbl/d)	**9,991**	10,214	7,595	6,583	5,320	4,690	3,212	2,686
Other NGLs (Bbl/d)	**9,175**	9,483	9,282	6,968	5,123	1,643	810	893
Total (Boe/d)	**45,466**	49,990	42,604	38,317	34,430	21,936	20,585	21,028
Average realized price								
Natural gas ($/Mcf)	**2.57**	3.01	2.74	2.99	3.98	4.43	4.96	6.04
Condensate and oil ($/Bbl)	**46.60**	52.43	65.66	48.16	68.45	92.66	106.38	99.55
Other NGLs ($/Bbl)	**12.59**	11.42	12.18	16.43	26.64	32.87	43.78	54.50
Total ($/Boe)	**21.82**	24.07	24.40	23.26	31.37	41.80	42.72	45.56

Significant Items Impacting Quarterly Results

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

- Fourth quarter 2015 earnings include $241.5 million of aggregate impairment write-downs of property, plant and equipment, $184.1 million of impairment write-offs of exploration and evaluation assets and deferred tax income expense of $66.3 million.
- Third quarter 2015 earnings include $100.7 million of depletion and depreciation, a $22.2 million impairment write-down of oil and gas properties, a $73.0 million write-down of investments in securities and a foreign exchange loss of $41.5 million, partially offset by $38.1 million of gains on commodity contracts.
- Second quarter 2015 earnings include $82.9 million of depletion and depreciation expense and $12.0 million of debt extinguishment expense in respect of the redemption of the 2017 Senior Notes, partially offset by an income tax recovery of $38.5 million.
- First quarter 2015 earnings include $77.4 million of depletion and depreciation expense and a $8.9 million net loss on the sale of oil and gas properties.
- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of oil and gas properties and a $23.3 million loss from equity-accounted investments, partially offset by an income tax recovery of $20.7 million.
- In the third quarter of 2014, the Musreau Deep Cut Facility was brought on-line and the Company began to ramp-up production, which increased petroleum and natural gas sales and funds flow from operations.
- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of oil and gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.

- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of oil and gas properties.

OTHER INFORMATION

Related Party Transactions

Paramount engages in transactions with Trilogy in the normal course of business, including joint operations. Paramount is considered related to Trilogy due to common directors and members of senior management. All transactions between Paramount and the entities are recorded at their exchange amounts.

During 2015, Paramount charged $0.5 million (2014 – $0.6 million) to Trilogy in respect of operational and administrative services. Paramount charged $3.4 million (2014 – $0.6 million) to Trilogy and was charged $2.6 million (2014 – $1.6 million) by Trilogy in respect of joint operations. Paramount received $7.4 million in dividends from Trilogy in 2014. As of December 31, 2015, Paramount had a net payable balance due to Trilogy of $0.2 million (2014 – net payable of $0.3 million).

Contractual Obligations

Paramount had the following contractual obligations at December 31, 2015:

	2016	2017-2018	2019-2020	After 2020	Total
Cavalier Facility (1)	38	–	–	–	38
Fox Drilling Facility (2)	14	40	8	8	70
Facility (2)	30	703	–	–	733
Senior notes (2)	77	154	567	730	1,528
Transportation and processing commitments (3)	98	295	308	747	1,448
Asset retirement obligations	1	4	67	202	274
Capital spending commitments and other (4)	7	2	–	–	9
Operating leases	5	7	4	3	19
	270	1,205	954	1,690	4,119

(1) Excluding interest.
(2) Including interest.
(3) Certain transportation and processing commitments are secured by outstanding letters of credit totaling $104.6 million at December 31, 2015 (2014 - $41.2 million).
(4) Relates to contractual obligations for purchases of major equipment.

Transportation and processing commitments mainly relate to long-term firm service arrangements for the transportation of natural gas and Liquids and downstream processing of Other NGLs.

Contingencies

Paramount is a party to various legal claims associated with the ordinary conduct of business. Paramount does not anticipate that these claims will have a material impact on its financial position.

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

Risk Factors

A description of the most significant risk factors related to Paramount and its business is contained in Paramount's current Annual Information Form under the heading "Risk Factors".

Paramount monitors and complies with current government regulations that affect its activities. The Company and its operations may be adversely affected by changes in government policy, legislation and regulations. Paramount maintains liability, property and business interruption insurance which is believed to be appropriate for the Company's size and activities. Paramount cannot fully protect against all risks, nor are all risks insurable. The Company may become liable for damages for events which it cannot insure or against which it may elect not to insure because of unacceptably high premium costs or for other reasons.

CHANGE IN ACCOUNTING POLICIES

There were no new or amended accounting standards adopted by the Company for the year ended December 31, 2015.

Future Changes in Accounting Standards

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

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

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS – 17 *Leases* and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has not yet determined the impact of the IFRS on its financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

As of the year ended December 31, 2015, an evaluation of the effectiveness of Paramount's disclosure controls and procedures, as defined by the rules of the Canadian Securities Administrators, was performed by the Company's management with the oversight of the chief executive officer and chief financial officer. Based upon that evaluation, the Company's chief executive officer and chief financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's chief executive officer and chief financial officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has assessed the effectiveness of the Company's internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" as at December 31, 2015. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the effectiveness of the Company's ICFR. Based on this assessment, Management has concluded that the Company's ICFR was effective as of December 31, 2015.

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.

Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2015, there was no change in the Company's ICFR that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 revenues and expenses recognized in future periods. The following is a description of the accounting judgments, estimates and assumptions that are considered significant:

Exploration and Evaluation Projects

The accounting for E&E projects requires Management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of reserves, which requires the quantity and value of such reserves to be estimated. Previous estimates are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable resources, the costs are written-off as E&E expense.

If hydrocarbons are encountered, but further appraisal activity is required, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional exploratory activities are carried out or the Company seeks government, regulatory or partner approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to develop and extract the underlying resources. When Management is making this assessment, changes to project economics, expected quantities of resources, expected production techniques, drilling results and estimated capital expenditures and production costs are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

At December 31, 2015, lower forecast future commodity prices and an increase in the cost of obtaining capital to fund oil sands development resulted in Cavalier’s assets being deemed not economically viable. The assets acquired with MGM Energy were also written down as a result of the suspension of development activity in the Northwest Territories by MGM Energy and other operators. An impairment charge also resulted from the write-down of a previously drilled exploratory well which was assessed as being uneconomic to tie-in and bring on production.

Reserves Estimates

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas resources. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates, commodity price estimates and estimates of future net revenue will be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates.

Estimates of reserves impact: (i) the assessment of whether a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the estimated recoverable amount of petroleum and natural gas properties used in impairment assessments, all of which could have a material impact on earnings.

Impairment of Non-Financial Assets

The carrying values of the Company's non-financial assets are reviewed at each reporting date to determine whether any indicators of impairment are present. If an indicator of impairment is identified for a particular asset, the asset's recoverable amount is estimated. If the carrying value of an asset exceeds its estimated recoverable amount, an impairment charge is recognized.

The recoverability of the carrying value of oil and gas properties is generally assessed at the Cash Generating Unit ("CGU") level. The determination of the properties and other assets grouped within a particular CGU is based on management's judgment with respect to the integration between assets, shared infrastructure and cashflows and the overall significance of particular properties. Changes in the assets comprising each CGU impacts estimated recoverable amounts used in impairment assessments and could have a material impact on earnings.

The Company's Principal Properties PP&E assets are grouped into three CGUs for the purpose of impairment testing, consisting of the Kaybob, Grande Prairie and Southern CGUs. Strategic Investments E&E assets, including oil sands and carbonate interests, shale gas acreage and the MGM Energy assets are grouped together as a CGU.

Estimates of recoverable amounts used in impairment tests often include estimated volumes and future net cash flows from oil and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. By their nature, such estimates are subject to measurement uncertainty. Changes in such estimates, and differences between actual and estimated amounts, could have a material impact on earnings.

The significant decline in the market prices of crude oil and natural gas were considered potential indicators of impairment at December 31, 2015. As a result, recoverable amounts were estimated for each CGU and an adjustment to the carrying value of the Grande Prairie and Southern CGUs was recorded. Recoverable amounts for each CGU were based on estimated future net cash flows from the production of estimated proved and probable reserves at December 31, 2015, at an after-tax discount rate of 10 percent.

Investments in Securities

The Company's investments in securities that are accounted for as available-for-sale financial instruments are assessed at each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment in determining whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized. Management is also required to exercise judgment in estimating the fair value of investments in the securities of private corporations that are not traded on public exchanges.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting, where the net identifiable assets acquired are recorded at fair value. The fair value of individual assets is often required to be estimated, including reserves and resources, tangible assets, undeveloped land, intangible assets and other assets. These estimates incorporate assumptions using appropriate indicators of fair value, as determined by Management. Changes in any of the estimates or assumptions used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned and earnings.

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. The Company incorporates information from its current asset retirement projects, internally prepared retirement assessments for select properties, available industry estimates and estimates from regulators in its aggregated estimate of asset retirement obligations. Management adjusts amounts periodically as assumptions are changed to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

Share-Based Payments

The Company estimates the grant date value of stock options awarded using the Black-Scholes-Merton model. The inputs used to determine the estimated value of the options are based on assumptions regarding share price volatility, the expected life of the options, expected forfeiture rates and future interest rates. By their nature, these inputs are subject to measurement uncertainty and require Management to exercise judgment in determining which assumptions are the most appropriate.

Significant Influence

An investor is presumed to have significant influence where it holds 20 percent or more of the voting power over an investee, or where significant influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the entity. Factors that may demonstrate significant influence include representation on the board of directors of the investee, interchange of Management personnel and participation in determining the significant policies of the investee. The Company accounts for its investment in Trilogy under the equity method although it holds less than 20 percent of the voting power because, in Management's judgment, it has significant influence as a result of common directors and members of senior Management.

Income Taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments related to the application of tax law, estimate the timing of temporary difference reversals, and estimate the probability of the realization of deferred income tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments, and changes related to them, impact current and deferred tax provisions, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

As at December 31, 2015, the Company concluded that a portion of the carrying value of the deferred income tax asset was not probable of realization, and accordingly, a de-recognition of $194.2 million was recorded.

Deferred income tax assets are recognized to the extent future realization is probable. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred income tax assets could be impacted.

ADVISORIES

Forward Looking Information

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

- the timing and completion of the Midstream Transaction and the expected use of proceeds and debt reduction resulting therefrom;
- the planned renewal and changes to the Facility following the Midstream Transaction;
- forecast capital expenditures, cost savings, spending levels, and cash flows;
- estimated reserves and the discounted present value of future net revenues therefrom;
- exploration, development, and associated operational plans and strategies (including completion programs), and the anticipated timing of such activities; and
- forecast drilling, completion, equipping and tie-in costs for new wells.

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

- future natural gas, condensate, Other NGLs, oil and bitumen prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas, condensate, Other NGLs, oil and bitumen successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, Liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the Midstream Transaction being completed on the expected terms and timing;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

- fluctuations in natural gas, condensate, Other NGLs, oil and bitumen prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, Liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing natural gas, condensate, Other NGLs, oil and bitumen;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- industry wide processing, pipeline, de-ethanization and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resources estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing at an acceptable cost to fund planned exploration, development and operational activities and meet current and future obligations (including costs of anticipated new and expanded facilities and other projects and product processing, transportation, de-ethanization, fractionation and similar commitments);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments;
- the Midstream Transaction may not be completed on the expected terms or at the expected time or at all; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

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

Non-GAAP Measures

In this document "Funds flow from operations", "Netback", "Net Debt", "Adjusted Working Capital", "Exploration and Capital Expenditures", "Principal Properties Capital" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and capital expenditures** consist of the Company's spending on wells and infrastructure projects, other property, plant and equipment, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs for the year ended December 31, 2015 of $6.1 million (2014 - $12.5 million), which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis for the period. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on wells and infrastructure projects separate from land acquisition activity and capitalized interest. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG, Marquee, RMP Energy, SOG and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

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

Oil and Gas Measures and Definitions

Abbreviations

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

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

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

Measures

This document contains disclosures expressed as "Boe", "MBoe", "MMBoe", "$/Boe" and "Boe/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. The term "Liquids" is used to represent oil, condensate and Other NGLs. The term "Other NGLs" means ethane, propane and butane.

During the year ended December 31, 2015, the value ratio between crude oil and natural gas was approximately 22:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Wellhead condensate-gas ratios ("CGRs") disclosed in this document were calculated for each well for the period commencing on the date load oil volumes were completely recovered for such well and ending on February 29, 2016 (the "Post-load Recovery Period"). CGRs were calculated for each well over its applicable Post-load Recovery Period by dividing total raw liquids volumes produced by total raw natural gas volumes produced during such period. Raw volumes as measured at the wellhead. Sales volumes are lower due to shrinkage.

Natural gas reserves consist of shale gas and conventional natural gas. Light and medium crude oil reserves include immaterial amounts of tight oil. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. In addition, estimates of future net revenue do not represent fair market value.

The three year average finding and development ("F&D") costs were calculated by dividing the aggregate sum of capital costs incurred for the three years ended December 31, 2015, excluding capital costs related to facilities and gathering systems, capitalized interest and land acquisitions, and the net change in estimated future development costs from December 31, 2012 to December 31, 2015 by reserve additions comprised of the aggregate sum of extensions & discoveries, technical revisions and economic factors for the three years December 31, 2015 (excluding acquisitions and dispositions).

F&D costs also exclude capital costs and reserve volumes related to oil sands and exploratory shale gas properties within Paramount's Strategic Investments business segment because the relationship between capital amounts invested and reserve volumes discovered for such properties is not comparable to oil and gas properties within Paramount's Principal Properties business segment.

Proved reserves additions and P+P reserves additions disclosed herein were calculated as the aggregate of extensions & discoveries and technical revisions, after production and dispositions, included in the reserves reconciliation table.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Paramount Resources Ltd. (the "Company") are the responsibility of Management and have been approved by the Company's Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments. If alternate accounting methods exist, Management has chosen those policies it considers the most appropriate in the circumstances. Financial information contained throughout the Company's annual report, including Management's Discussion and Analysis, is consistent with these Consolidated Financial Statements.

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control system was designed to provide reasonable assurance that transactions are accurately recorded, that all necessary transactions are recorded to permit the preparation and presentation of financial statements in accordance with International Financial Reporting Standards, and that the Company's assets are safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is comprised entirely of non-Management directors. The Audit Committee meets regularly with Management and the independent auditors to ensure that Management's responsibilities are properly discharged and to review the Consolidated Financial Statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual Consolidated Financial Statements for issuance. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the independent auditors.

Ernst & Young LLP, independent auditors appointed by the shareholders of the Company, conducts an examination of the Consolidated Financial Statements in accordance with Canadian Generally Accepted Auditing Standards. Ernst & Young LLP has full and free access to the Board of Directors, the Audit Committee and Management.

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

/s/ Bernard K. Lee
Bernard K. Lee
Chief Financial Officer

March 17, 2016

INDEPENDENT AUDITORS' REPORT

To the shareholders of Paramount Resources Ltd.

We have audited the accompanying consolidated financial statements of Paramount Resources Ltd. which comprise the consolidated balance sheets as at 31 December, 2015 and 2014, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Paramount Resources Ltd. as at 31 December, 2015 and 2014 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada

March 17, 2016

Chartered Accountants

CONSOLIDATED BALANCE SHEET

($ thousands)

As at December 31	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents		11,941	18,320
Accounts receivable	18	48,730	57,040
Prepaid expenses and other		5,049	4,883
Risk management	18	40,207	–
		105,927	80,243
Deposit	17	–	20,643
Exploration and evaluation	6	363,724	567,420
Property, plant and equipment, net	7	2,034,353	2,168,565
Equity-accounted investments	8	58,370	82,444
Investments in securities	9	60,714	102,894
Deferred income tax	17	154,823	152,487
Goodwill	5,10	3,124	24,733
		2,781,035	3,199,429
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Limited-recourse demand facilities	11	100,911	81,530
Accounts payable and accrued liabilities	18	107,624	266,847
		208,535	348,377
Long-term debt	12	1,750,226	1,210,355
Asset retirement obligations	13	273,580	287,415
		2,232,341	1,846,147
Commitments and contingencies	22		
Shareholders' equity			
Share capital	14	1,646,984	1,603,436
Accumulated deficit		(1,197,627)	(296,326)
Reserves	15	99,337	46,172
		548,694	1,353,282
		2,781,035	3,199,429

See the accompanying notes to these Consolidated Financial Statements.

On behalf of the Board of Directors

/s/ J.H.T. Riddell
J.H.T. Riddell, Director

/s/ J.C. Gorman
J.C Gorman, Director

March 17, 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

($ thousands, except as noted)

Year ended December 31	Note	2015	2014
Petroleum and natural gas sales		376,799	349,995
Royalties		(10,388)	(17,542)
Revenue		366,411	332,453
Gain on commodity contracts	18	52,767	2,852
		419,178	335,305
Expenses			
Operating expense		90,043	71,279
Transportation and NGLs processing		65,724	35,896
General and administrative		23,857	23,877
Share-based compensation	16	20,504	25,373
Depletion and depreciation	7	623,889	229,819
Exploration and evaluation	6	208,992	30,007
(Gain) loss on sale of oil and gas properties		9,058	(95,691)
Interest and financing		110,663	70,599
Accretion of asset retirement obligations	13	5,695	5,936
Foreign exchange		61,109	568
Debt extinguishment	12	11,994	–
		1,231,528	397,663
Loss from equity-accounted investments	8	(23,018)	(3,399)
Write-down of investments in securities	9	(81,819)	(15,645)
Other income	4	3,388	6,686
Loss before tax		(913,799)	(74,716)
Income tax expense (recovery)	17		
Current		11	(45)
Deferred		(12,509)	(2,957)
		(12,498)	(3,002)
Net loss		(901,301)	(71,714)
Other comprehensive income (loss), net of tax			
Change in market value of securities		(42,180)	(53,664)
Reclassification of accumulated losses on securities to net loss		81,819	10,918
Deferred tax on other comprehensive income related to securities		(1,314)	271
Comprehensive loss		(862,976)	(114,189)
Net loss per common share ($/share)	14		
Basic and diluted		(8.52)	(0.71)

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

($ thousands)

Year ended December 31	Note	2015	2014
Operating activities			
Net loss		(901,301)	(71,714)
Add (deduct):			
Items not involving cash	19	976,387	192,829
Dividends from equity-accounted investments		–	7,371
Asset retirement obligations settled	13	(6,641)	(4,576)
Debt extinguishment	12	11,994	–
Change in non-cash working capital		3,834	(5,406)
Cash from operating activities		84,273	118,504
Financing activities			
Net draw of limited-recourse demand facilities	11	19,381	5,980
Net draw of revolving long-term debt	12	295,372	325,847
Proceeds from 2023 Senior Notes, net of issue costs	12	549,649	–
Redemption of 2017 Senior Notes	12	(380,175)	–
Common shares issued, net of issue costs		41,817	355,392
Common shares purchased under stock incentive plan		(316)	(4,617)
Cash from financing activities		525,728	682,602
Investing activities			
Property, plant and equipment and exploration		(493,963)	(941,470)
Proceeds on sale of oil and gas properties		5,617	99,957
Cash acquired on corporate acquisitions, net		740	3,200
Proceeds on sale of investment, net		–	10,179
Investments in securities		–	(5,000)
Deposit	17	20,135	–
Change in non-cash working capital		(152,352)	39,549
Cash used in investing activities		(619,823)	(793,585)
Net increase (decrease)		(9,822)	7,521
Foreign exchange on cash and cash equivalents		3,443	96
Cash and cash equivalents, beginning of year		18,320	10,703
Cash and cash equivalents, end of year		11,941	18,320
Supplemental cash flow information	19		

See the accompanying notes to these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

($ thousands, except as noted)

Year ended December 31		2015		2014	
	Note	*Shares (000's)*		*Shares (000's)*	
Share Capital					
Balance, beginning of year		*104,843*	1,603,436	*96,993*	1,169,178
Issued		*1,337*	43,175	*6,704*	364,884
Issued on acquisition of MGM Energy Corp.	5	–	–	*1,128*	69,382
Change in unvested common shares for stock incentive plan	16	*32*	373	*18*	(8)
Balance, end of year		*106,212*	1,646,984	*104,843*	1,603,436
Accumulated Deficit					
Balance, beginning of year			(296,326)		(224,612)
Net loss			(901,301)		(71,714)
Balance, end of year			(1,197,627)		(296,326)
Reserves	15				
Balance, beginning of year			46,172		87,678
Other comprehensive income (loss)			38,325		(42,475)
Contributed surplus			14,840		969
Balance, end of year			99,337		46,172
Total Shareholders' Equity			548,694		1,353,282

See the accompanying notes to these Consolidated Financial Statements.

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

1. Significant Accounting Policies

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

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Limited Partnership ("Fox Drilling") and Cavalier Energy Inc. ("Cavalier"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting.

These consolidated financial statements of the Company, as at December 31, 2015 and December 31, 2014 and for the years then ended (the "Consolidated Financial Statements"), were authorized for issuance by Paramount's Board of Directors on March 17, 2016.

Basis of Preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on a historical cost basis, except for certain financial instruments. The Company's accounting policies have been applied consistently to all years presented. Amounts included in these Consolidated Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted. Certain comparative figures have been reclassified to conform with the current year's presentation.

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.

The preparation of these Consolidated Financial Statements requires the use of certain accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the Consolidated Financial Statements are described in Note 2.

a) Revenue Recognition

Petroleum and natural gas sales revenues are recognized when title passes to third parties and the significant risks and rewards of ownership have been transferred.

Drilling services are billed to customers on a per-day basis and revenues are recognized as services are rendered and collectability is reasonably assured. When the Company's drilling rigs (the "Rigs") drill on a property owned by Paramount, the Company capitalizes its working interest share of the drilling expenses and eliminates the associated drilling revenue.

b) Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost and, from time-to-time, may include short-term investments with maturities of three months or less from the date of acquisition.

c) Trade and Other Receivables

Accounts receivable are recorded as corresponding amounts of revenue are recognized or costs are incurred in connection with joint operations. An allowance for doubtful accounts is recognized based on management's best estimate of accounts that may not be collectible, which is reviewed and adjusted on a quarterly basis.

d) Exploration and Evaluation

Costs related to the exploration for and evaluation of hydrocarbon resources, including costs of acquiring unproved property, drilling and completing exploratory wells and estimated asset retirement costs, are initially capitalized, pending determination of technical feasibility and commercial viability. If hydrocarbons are found, but further appraisal activity is required to determine commercial viability, the costs continue to be recognized as an asset. All such costs are subject to technical, commercial, and management review at least annually to confirm the continued intent to develop the discovery.

The Company's exploration and evaluation ("E&E") assets include oil sands and carbonate bitumen properties and shale gas lands within the Strategic Investments business segment. All direct costs related to pre-development activities in connection with oil sands properties are considered pre-operating and are capitalized, including the costs to acquire mineral rights, conduct delineation and pre-production drilling, and design and construct plant and equipment. Net cashflows from the sale of production from shale gas exploration wells are applied against the capitalized costs of the shale gas projects to which they relate until the overall project is deemed commercially viable.

When the Company determines that an E&E project is no longer viable or its carrying value exceeds its recoverable amount, an impairment charge is recognized. When the technical feasibility and commercial viability of a project has been established, the E&E costs are transferred to petroleum and natural gas assets, subject to an impairment assessment.

Exploratory geological and geophysical costs, pre-license costs, and annual lease rentals are expensed as incurred.

e) Property, Plant and Equipment

Petroleum and natural gas assets are carried at cost, net of accumulated depletion, depreciation and impairments, and include costs related to drilling and completing development wells, infrastructure construction, successful E&E projects and estimated asset retirement costs.

Paramount's Rigs are carried at cost, net of accumulated depreciation. Costs incurred to improve the capabilities of the Rigs, extend their useful lives or replace significant components are capitalized. When a significant component is replaced, the carrying value of the replaced part is written-off. Costs incurred to maintain and repair the Rigs are expensed as incurred.

Other property, plant and equipment ("PP&E"), including leasehold improvements, are carried at cost net of accumulated depreciation.

Depletion and Depreciation

Capitalized costs of proved oil and gas properties are depleted over estimated volumes of proved developed reserves using the unit-of-production method. For purposes of these calculations, volumes of natural gas production and reserves are converted to barrels on an energy equivalent basis. Depletion rates are revised annually, or more frequently when events dictate. E&E costs are not depleted.

Capitalized costs of the majority of the Company's gathering systems and production equipment are depleted on a unit-of-production basis over the proved developed reserves of the field to which they relate. Capitalized costs of processing plants and other major infrastructure assets are depreciated on a straight-line basis over their expected useful lives, which extend up to 40 years.

The Rigs are depreciated by component over their expected useful lives, which vary from 1,095 to 3,650 drilling days.

Leasehold improvements are depreciated over the term of the lease. Other assets are depreciated using the declining balance method at rates varying from 35 to 50 percent.

f) Impairment of Non-Financial Assets

The carrying values of the Company's non-financial assets are reviewed at each reporting date to determine whether any indicators of impairment are present. For the purpose of impairment testing, non-financial assets are tested individually or, in certain circumstances, grouped together into a cash-generating unit ("CGU"), which consists of the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company's Principal Properties PP&E assets are grouped into three CGUs for the purpose of impairment testing, consisting of the Kaybob, Grande Prairie and Southern CGUs. Strategic Investments E&E assets, including oil sands and carbonate interests, shale gas acreage and exploratory land holdings in the Northwest Territories acquired through the MGM Energy Corp. ("MGM Energy") acquisition are grouped together as a CGU.

If an indicator of impairment is identified for a particular asset or CGU, its recoverable amount is estimated. If the carrying value of an asset or CGU exceeds its estimated recoverable amount, an impairment charge is recognized.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell ("FVLCS") and its value in use. In assessing FVLCS, the Company estimates the value a potential purchaser would ascribe to an asset or CGU. For oil and gas properties, the FVLCS is generally estimated based on expected after-tax future net cash flows using forecast commodity prices and costs over the expected economic life of proved and probable reserves, discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. When it is determined that there has been a subsequent increase in the recoverable amount ascribed to an oil and gas property or a CGU, reversals of impairments are recognized, net of any depletion and depreciation that would have been recorded since the date of the impairment charge.

g) Joint Arrangements

Paramount conducts its exploration and development activities independently, as well as jointly with others through jointly controlled assets and operations. All of the Company's current interests in joint arrangements are accounted for as joint operations. To account for these joint operations, Paramount

recognizes its proportionate share of the revenues, expenses, assets, and liabilities related to the arrangements. Interests in joint ventures are accounted for using the equity method of accounting. The Company does not currently have any interests in joint arrangements that are accounted for as joint ventures.

h) Equity-Accounted Investments

Investments in entities in which Paramount has significant influence are accounted for using the equity method. An investor is presumed to have significant influence where it holds 20 percent or more of the voting power over an investee, or where significant influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the entity. Factors that may demonstrate significant influence include representation on the board of directors of the investee, interchange of management personnel and participation in determining the significant policies of the investee.

Under the equity method, an equity investment is recognized at cost on acquisition, with the carrying amount being subsequently increased or decreased to reflect the investor's proportionate share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investor's investment.

i) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. Under this method, the net identifiable assets acquired are measured at fair value on acquisition date. Any excess of the consideration paid over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred versus the fair value of the net identifiable assets acquired is recognized in earnings. Costs incurred to complete the transaction are expensed.

Goodwill is tested for impairment at least annually, or when a potential impairment indicator is identified. To test goodwill for impairment, the carrying value of a CGU (or group of CGUs), including allocated goodwill, is compared to that CGU's (or group of CGUs') estimated recoverable amount. An impairment charge is recognized to the extent that the carrying amount of the CGU (or group of CGUs), including goodwill, exceeds its estimated recoverable amount. Impairment charges related to goodwill are not reversed in future periods.

j) Capitalized Borrowing Costs

Borrowing costs directly associated with the acquisition, construction or production of a qualifying asset are capitalized while the asset is being constructed or otherwise prepared for its intended productive use. All other borrowing costs are recognized as an expense in the period incurred.

k) Asset Retirement Obligations

Asset retirement obligations arise from legal and/or constructive obligations to retire assets including oil and gas wells, gathering systems, processing plants and access roads at the end of their productive lives. The present value of an asset retirement obligation is recognized in the Consolidated Balance Sheet when incurred and a reasonable estimate of the settlement amount can be made. The present value of the obligation is determined using the applicable period-end risk free discount rate, after applying an estimated cost inflation factor, and is adjusted for the passage of time, which is recognized as accretion expense. Revisions to the timing, anticipated cost, discount rate and inflation rate relating to the estimated liability are accounted for prospectively by recording an adjustment to the asset retirement

obligation liability, with a corresponding adjustment to the carrying value of the related asset. The present values of estimated future asset retirement costs are capitalized as part of the carrying value of the related long-lived asset and depreciated on the same basis as the underlying asset.

Actual costs incurred to retire assets are applied against the asset retirement obligation liability. Differences between the actual costs incurred and the liability accrued are recognized in earnings when reclamation of a property is fully complete.

l) Foreign Currency Translation

The functional and presentation currency of Paramount and its subsidiaries is the Canadian dollar.

m) Estimates of Fair Value

Inputs used to estimate fair values incorporated in the preparation of the Consolidated Financial Statements are categorized into three levels in a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

Level One – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level Two – Inputs are based on information other than quoted prices included within Level One that are observable for the asset or liability, either directly or indirectly, including:

a) quoted prices for similar assets or liabilities in active markets;
b) quoted prices for identical or similar assets or liabilities in markets that are not active;
c) inputs other than quoted prices that are observable for the asset or liability, for example:
    i. interest rates and yield curves observable at commonly quoted intervals;
    ii. implied volatilities; and
    iii. credit spreads; and
d) market-corroborated inputs.

Level Three – Inputs are unobservable. Unobservable inputs are developed using the best information available in the circumstances, which may incorporate Paramount's own internally generated data.

n) Financial Instruments and Other Comprehensive Income

Financial Instruments

Financial instruments are measured at fair value on initial recognition. The measurement of a financial instrument in subsequent periods is dependent upon whether it has been classified as "fair value through profit or loss", "available-for-sale", "loans and receivables", "held-to-maturity investments", or "financial liabilities measured at amortized cost", as defined by the relevant standard. Paramount does not presently employ hedge accounting for any of its financial instruments.

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

Paramount's risk management assets and liabilities are classified as fair value through profit or loss (held for trading). Fair value through profit or loss financial instruments are measured at fair value, with changes in their fair values over time being recognized in earnings. The fair values of the Company's risk management assets and liabilities 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.

The Company's investments in securities are classified as available-for-sale. Available-for-sale financial assets are measured at fair value, with changes in such fair values being accumulated in other comprehensive income ("OCI") until the asset is realized or impaired, at which time the cumulative gain or loss is recognized in net earnings. Investments in publicly-traded securities are carried at their period-end trading price (level one fair value hierarchy estimate). Investments in the securities of private entities are carried at fair value, which is estimated using private placement equity issuances and other transactions which provide indications of value (level two fair value hierarchy estimate).

Paramount's limited-recourse demand facilities and long-term debt are classified as loans and receivables. Loans and receivables, including related transaction costs, are measured at amortized cost using the effective interest method.

Other Comprehensive Income

For Paramount, OCI is comprised of changes in the market value of the Company's investments in securities. Amounts recorded in OCI each period are presented in the Consolidated Statement of Comprehensive Loss. Cumulative changes in OCI are included in reserves, which is presented within Shareholders' Equity in the Consolidated Balance Sheet.

An impairment charge is recognized in respect of an available-for-sale financial asset where its fair value decreases below its carrying value, and the decline is considered to be significant or prolonged. Subsequent increases in the fair value of an available-for-sale financial asset are recognized in OCI.

o) Income Taxes

Paramount follows the liability method of accounting for income taxes. Under this method, a deferred income tax asset or liability is recognized in respect of any temporary difference between the carrying amount of an asset or liability reported in the Consolidated Financial Statements and its respective tax basis, using substantively enacted income tax rates. Deferred income tax balances are adjusted to reflect changes in substantively enacted income tax rates expected to apply when the underlying assets are realized or liabilities are settled, with adjustments being recognized in deferred tax expense in the period in which the change occurs.

Deferred income tax assets are recognized to the extent future realization is considered probable. The carrying value of deferred income tax assets is reviewed at each reporting date taking into consideration historical and expected future taxable income, expected reversals of temporary differences, anticipated timing of realization, tax basis carry-forward periods and other factors. Deferred income tax assets are de-recognized to the extent that estimated future taxable earnings are not sufficient to allow the asset to be recovered.

p) Flow-Through Shares

The proceeds of flow-through share issuances are allocated between the sale of Paramount's class A common shares ("Common Shares") and the sale of tax benefits associated with the flow-through feature of the securities. Proceeds are first allocated to share capital based on the market price of Common Shares on the date the offering is priced, with the balance recorded in accounts payable and accrued liabilities based on the difference between the issue price and the market price of Common Shares. As qualifying expenditures intended for renunciation to subscribers are incurred, the Company recognizes a deferred tax liability, reduces the accounts payable and accrued liabilities amount and records any difference as deferred tax expense.

q) Share-Based Compensation

Paramount Stock Option Plan

Paramount has a stock option plan that enables the Board of Directors or its Compensation Committee to grant to key employees and directors options to acquire Common Shares of the Company ("Paramount Options"). Paramount Options generally vest over five years and expire within six years after the grant date. The provisions of the plan permit the Company to settle the options in Common Shares of the Company or in cash.

The Company accounts for Paramount Options as equity-settled share-based compensation transactions. The grant date fair value of stock options awarded is recognized as share-based compensation expense over the vesting period, with a corresponding increase in Contributed Surplus. The grant date fair value of Paramount Options is estimated using the Black-Scholes-Merton model, and such value is not adjusted in future periods. The amount of share-based compensation expense recognized each period reflects the portion of the vesting term that has elapsed and the estimated number of options that are expected to vest. That estimate is adjusted each period such that the cumulative amount recognized on the vesting date reflects the actual number of Paramount Options that ultimately vest. Upon the exercise of a Paramount Option, the Company transfers the cumulative amount recognized in Contributed Surplus in respect of the option to Share Capital.

Cavalier Stock Option Plan

Cavalier has a stock option plan that enables its Board of Directors to grant to key employees and directors options to acquire common shares of Cavalier ("Cavalier Options"). Cavalier Options generally vest over five years and expire within seven years after the grant date. The provisions of the stock option plan permit Cavalier to settle Cavalier Options in common shares of Cavalier or in cash, at the discretion of Cavalier. Cavalier Options are accounted for as equity-settled share-based compensation transactions.

Stock Incentive Plan

Paramount's stock incentive plan ("SIP") provides that rights to Common Shares may be awarded to employees annually. Common Shares are purchased in the open market and held by an independent trustee until the completion of the vesting period. Generally, one third of an award vests immediately, with the remaining tranches vesting annually over two years. The unvested portion of an award is initially recorded as a reduction of Paramount's Share Capital. The cost of the unvested Common Shares is then recognized over the vesting period as share-based compensation expense, with a corresponding increase to Share Capital.

r) Net Earnings Per Share

Basic net earnings per share is calculated by dividing net earnings by the weighted average number of Common Shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of Common Shares outstanding for potentially dilutive Common Shares related to the Paramount stock option plan. The number of dilutive Common Shares is determined using the treasury method. As Paramount Options can be exchanged for Common Shares, they are considered potentially dilutive and are included in the Company's diluted per share amounts when they are dilutive to income.

2. 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 revenues and expenses recognized in future periods. The following is a description of the accounting judgments, estimates and assumptions that are considered significant.

Exploration or Development

The Company is required to apply judgment when designating a project as exploration and evaluation or development, which requires an assessment of geological and technical characteristics and other factors related to each project.

Exploration and Evaluation Projects

The accounting for E&E projects requires management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of reserves, which requires the quantity and value of such reserves to be estimated. Previous estimates are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable resources, the costs are written-off as E&E expense.

If hydrocarbons are encountered, but further appraisal activity is required, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional exploratory activities are carried out or the Company seeks government, regulatory or partner approval for development plans. Exploration and evaluation assets are subject to ongoing technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. When management is making this assessment, changes to project economics, expected quantities of resources, expected production techniques, drilling results and estimated capital expenditures and production costs are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as E&E expense.

Reserves Estimates

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas resources. The process relies on judgments based on the interpretation of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates, commodity price estimates and estimates of future net revenue will be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates.

Estimates of reserves impact: (i) the assessment of whether a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the estimated recoverable amount of petroleum and natural gas properties used in impairment assessments, all of which could have a material impact on earnings.

Estimates of Recoverable Amounts

Estimates of recoverable amounts used in impairment tests often incorporate level three hierarchy inputs including estimated volumes and future net cash flows from oil and natural gas reserves, contingent resource estimates, future net cash flow estimates related to other long-lived assets and internal and external market metrics used to estimate value based on comparable assets and transactions. By their nature, such estimates are subject to measurement uncertainty. Changes in such estimates, and differences between actual and estimated amounts, could have a material impact on earnings.

Determination of CGUs

The recoverability of the carrying value of oil and gas properties is generally assessed at the CGU level. The determination of the properties and other assets grouped within a particular CGU is based on management’s judgment with respect to the integration between assets, shared infrastructure and cashflows and the overall significance of individual properties. Changes in the assets comprising CGUs would have an impact on estimated recoverable amounts used in impairment assessments and could have a material impact on earnings.

Business Combinations

To account for an acquisition as a business combination, management is required to exercise judgment in determining whether the assets acquired and liabilities assumed constitute a business. A business consists of an integrated set of assets and activities, comprised of inputs and processes, that is capable of being conducted and managed as a business by a market participant. An integrated set of assets and activities in the development stage may not have outputs. The Company’s acquisition of MGM Energy Corp. ("MGM Energy") in 2014 was accounted for as a business combination because, even though MGM Energy had not yet generated revenues, management made the judgment that the assets and activities acquired were capable of being managed as a business.

Business combinations are accounted for using the acquisition method of accounting, where the net identifiable assets acquired are recorded at fair value. The fair value of individual assets is often required to be estimated, including reserves and resources, tangible assets, undeveloped land, intangible assets and other assets. These estimates incorporate assumptions using appropriate indicators of fair value, as

determined by management. Changes in any of the estimates or assumptions used in determining the fair value of the net identifiable assets acquired may impact the carrying values assigned and earnings.

Equity Accounted Investments

The Company accounts for its investment in Trilogy under the equity method of investment accounting although it holds less than 20 percent of the voting power because, in Management's judgment, it has significant influence as a result of common directors and members of senior management.

Investments in Securities

The Company's investments in securities that are accounted for as available-for-sale financial instruments are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment in determining whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized. Management is also required to exercise judgment in estimating the fair value of investments in the securities of private corporations that are not traded on public exchanges.

Asset Retirement Obligations

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. Management adjusts estimated amounts periodically as assumptions are changed to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

Share-Based Payments

The Company estimates the grant date value of stock options awarded using the Black-Scholes-Merton model. The inputs used to determine the estimated value of the options are based on assumptions regarding share price volatility, the expected life of the options, expected forfeiture rates and future interest rates. By their nature, these inputs are subject to measurement uncertainty and require management to exercise judgment in determining which assumptions are the most appropriate.

Income Taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments related to the application of tax law, estimate the timing of temporary difference reversals and estimate the probability of the realization of deferred income tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments, and changes related to them, impact current and deferred tax provisions, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

Deferred income tax assets are recognized to the extent future realization is probable. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred income tax assets could be impacted.

3. Changes in Accounting Standards

There were no new or amended accounting standards adopted by the Company for the year ended December 31, 2015.

Future Changes in Accounting Standards

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

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

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

4. Segmented Information

Paramount's operations are reported by business segment, which have been established by Management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives. The segments are divided based on the nature of activities and the Company's management structure:

- **Principal Properties**: Principal properties include the Company's four Corporate Operating Units, which are involved in the exploration, development, production and marketing of natural gas, natural gas liquids and crude oil generally having similar economic characteristics.

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

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

Year ended December 31, 2015	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	366,411	–	–	–	**366,411**
Gain on commodity contracts	52,767	–	–	–	**52,767**
	419,178	–	–	–	**419,178**
Expenses					
Operating expense	90,043	–	–	–	**90,043**
Transportation and NGLs processing	65,724	–	–	–	**65,724**
General and administrative	–	5,833	18,024	–	**23,857**
Share-based compensation	–	6,521	13,983	–	**20,504**
Depletion and depreciation	622,581	4,265	480	(3,437)	**623,889**
Exploration and evaluation	47,130	161,862	–	–	**208,992**
(Gain) loss on sale of oil and gas properties	9,159	(101)	–	–	**9,058**
Interest and financing	–	2,251	108,412	–	**110,663**
Accretion of asset retirement obligations	5,448	247	–	–	**5,695**
Foreign exchange	–	–	61,109	–	**61,109**
Debt extinguishment	–	–	11,994	–	**11,994**
	840,085	180,878	214,002	(3,437)	**1,231,528**
Loss from equity-accounted investments	–	(23,018)	–	–	**(23,018)**
Write-down of investments in securities	–	(81,819)	–	–	**(81,819)**
Other	2,726	–	179	–	**2,905**
Drilling rig revenue	–	30,720	–	(29,631)	**1,089**
Drilling rig expense	–	(9,212)	–	8,606	**(606)**
	(418,181)	(264,207)	(213,823)	(17,588)	**(913,799)**
Inter-segment eliminations	–	(17,588)	–	17,588	**–**
Segment loss	(418,181)	(281,795)	(213,823)	–	**(913,799)**
Income tax recovery					**12,498**
Net loss					**(901,301)**

Year ended December 31, 2014	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	332,453	–	–	–	332,453
Gain on commodity contracts	2,852	–	–	–	2,852
	335,305	–	–	–	335,305
Expenses					
Operating expense	71,279	–	–	–	71,279
Transportation and NGLs processing	35,896	–	–	–	35,896
General and administrative	–	7,827	16,050	–	23,877
Share-based compensation	–	5,828	19,545	–	25,373
Depletion and depreciation	229,108	11,190	170	(10,649)	229,819
Exploration and evaluation	23,214	6,793	–	–	30,007
(Gain) loss on sale of oil and gas properties	(95,734)	43	–	–	(95,691)
Interest and financing	–	2,686	67,913	–	70,599
Accretion of asset retirement obligations	5,859	77	–	–	5,936
Foreign exchange	–	–	568	–	568
	269,622	34,444	104,246	(10,649)	397,663
Loss from equity-accounted investments	–	(3,399)	–	–	(3,399)
Write-down of investments in securities	–	(15,645)	–	–	(15,645)
Other	980	5,154	229	–	6,363
Drilling rig revenue	–	47,221	–	(46,682)	539
Drilling rig expense	–	(22,179)	–	21,963	(216)
	66,663	(23,292)	(104,017)	(14,070)	(74,716)
Inter-segment eliminations	–	(14,070)	–	14,070	–
Segment income (loss)	66,663	(37,362)	(104,017)	–	(74,716)
Income tax recovery					3,002
Net loss					(71,714)

For the year ended December 31, 2015, the Company had sales to four customers which exceeded ten percent of total revenue. Such sales totaled $101.6 million, $65.2 million, $49.1 million and $41.0 million.

Total Assets

As at December 31	2015	2014
Principal Properties	2,200,981	2,449,073
Strategic Investments	411,694	559,027
Corporate	168,360	191,329
	2,781,035	3,199,429

Other Income

Year ended December 31	2015	2014
Gain on sale of investments	–	5,154
Other	2,905	1,209
Drilling rig revenue	1,089	539
Drilling rig expense	(606)	(216)
	3,388	6,686

5. Acquisition

MGM Energy Corp.

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

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

Cash	3,200
Accounts receivable	234
Prepaid expenses	76
Exploration and evaluation assets	13,909
Deferred income tax asset	48,420
Goodwill	21,609
Accounts payable and accrued liabilities	(108)
Asset retirement obligations	(6,856)
Net assets acquired	80,484
Paramount Common Shares issued [(1)]	69,382
Fair value of MGM Energy shares previously held [(2)]	11,102
Total	80,484

(1) Based on 1.1 million Paramount Common Shares issued and the acquisition date closing price of Paramount Common Shares of $61.52 per share.

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

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

6. Exploration and Evaluation

Year ended December 31	2015	2014
Balance, beginning of year	567,420	429,911
Additions	93,411	286,995
Change in asset retirement provision	2,550	8,954
Transfers to property, plant and equipment	(112,000)	(143,217)
Corporate acquisition	–	13,909
Dry hole	(15,019)	(4,719)
Expired lease costs	(3,728)	(12,780)
Write-downs	(162,516)	–
Dispositions	(6,394)	(11,633)
Balance, end of year	363,724	567,420

Additions to E&E assets totaled $60.4 million (2014 – $224.3 million) for Principal Properties and $33.0 million (2014 – $62.7 million) for Strategic Investments.

Exploration and Evaluation Expense

Year ended December 31	2015	2014
Geological and geophysical	6,121	12,498
Dry hole	15,019	4,729
Expired lease costs	3,728	12,780
Write-down of exploration and evaluation assets and goodwill	184,124	–
	208,992	30,007

The Company recorded aggregate impairment charges of $184.1 million at December 31, 2015 related to E&E assets and goodwill, of which $24.1 million related to the Principal Properties business segment and $160.0 million related to the Strategic Investments business segment. The Principal Properties impairment charge resulted from the de-recognition of the carrying value of a previously drilled exploratory well which was assessed as being uneconomic to tie-in and bring on production.

The Strategic Investments impairment charge resulted from the de-recognition of E&E assets related to Cavalier and MGM Energy, which are included in the Strategic Investments E&E CGU along with the Company's shale gas assets. Goodwill with a carrying value of $21.6 million recorded upon the acquisition of MGM Energy was also written off as a result of the de-recognition of the E&E assets.

At December 31, 2015, Cavalier's oil sands project at Hoole was deemed not economically viable due to lower forecast future oil prices and an increase in the cost of obtaining capital to fund oil sands developments. The carrying value of the MGM Energy E&E assets was also deemed unrecoverable as a result of the suspension of development activity in the Northwest Territories by MGM Energy and other operators, primarily as a result of lower forecast future oil and natural gas prices and a lack of pipeline infrastructure.

The recoverable amount of the shale gas assets was estimated on a FVLCS basis based on a recent market transaction completed in respect of properties with similar geological characteristics which are located in close proximity to Paramount's shale gas development (level three fair value hierarchy estimate). The estimated recoverable amount for the Company's shale gas assets as at December 31, 2015 was $172 million.

7. Property, Plant and Equipment

Year ended December 31, 2015	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2014	3,189,927	127,410	28,082	**3,345,419**
Additions	379,948	27,697	1,396	**409,041**
Transfers from exploration and evaluation	112,000	–	–	**112,000**
Dispositions	(9,588)	–	(312)	**(9,900)**
Change in asset retirement provision	(16,331)	–	–	**(16,331)**
Cost, December 31, 2015	3,655,956	155,107	29,166	**3,840,229**
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2014	(1,117,596)	(38,722)	(20,536)	**(1,176,854)**
Depletion and depreciation	(360,654)	(3,955)	(959)	**(365,568)**
Write-downs	(263,738)	–	–	**(263,738)**
Dispositions	–	–	284	**284**
Accumulated depletion, depreciation and write-downs, December 31, 2015	(1,741,988)	(42,677)	(21,211)	**(1,805,876)**
Net book value, December 31, 2014	2,072,331	88,688	7,546	**2,168,565**
Net book value, December 31, 2015	1,913,968	112,430	7,955	**2,034,353**

Year ended December 31, 2014	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2013	2,489,356	101,517	27,173	2,618,046
Additions	641,649	25,893	1,212	668,754
Transfers from exploration and evaluation	143,217	–	–	143,217
Dispositions	(144,822)	–	(303)	(145,125)
Change in asset retirement provision	60,527	–	–	60,527
Cost, December 31, 2014	3,189,927	127,410	28,082	3,345,419
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2013	(997,486)	(27,802)	(19,747)	(1,045,035)
Depletion and depreciation	(196,349)	(10,920)	(1,001)	(208,270)
Write-downs	(32,755)	–	–	(32,755)
Dispositions	108,994	–	212	109,206
Accumulated depletion, depreciation and write-downs, December 31, 2014	(1,117,596)	(38,722)	(20,536)	(1,176,854)
Net book value, December 31, 2013	1,491,870	73,715	7,426	1,573,011
Net book value, December 31, 2014	2,072,331	88,688	7,546	2,168,565

Depletion and Depreciation

Year ended December 31	2015	2014
Depletion and depreciation	**365,568**	209,126
Write-down of property, plant and equipment	**263,738**	32,755
Inter-segment eliminations	**(5,417)**	(12,062)
	623,889	229,819

At December 31, 2015, $81.2 million (December 31, 2014 – $252.6 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion or depreciation.

Additions to property, plant and equipment in 2015 were $379.9 million (2014 – $640.3 million) for Principal Properties, $27.8 million (2014 – $26.7 million) for Strategic Investments and $1.3 million (2014 – $1.8 million) for Corporate. Additions to property, plant and equipment include $1.9 million (2014 – $14.5 million) of capitalized interest for projects in the construction phase at a weighted average interest rate of 6.3 percent (2014 – 7.3 percent).

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

For the twelve months ended December 31, 2015, the Company recorded aggregate impairment write-downs of $236.2 million related to petroleum and natural gas assets for the Grande Prairie CGU and $27.5 million for the Southern CGU. These properties are included within the Principal Properties business segment. The impairment write-down was recorded because the carrying value of the CGUs exceeded their recoverable amounts, which were estimated based on expected net discounted future cash flows from the production of proved and probable reserves. In 2014, estimated recoverable amounts for certain properties included values based on market metrics. Market metrics were not incorporated in estimates of recoverable amounts in 2015 due to volatility in commodity and capital markets and an absence of recent comparable transactions, all of which can impact the veracity of market-based estimates. The impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted oil and natural gas prices.

Recoverable amounts were estimated on a FVLCS basis, using a discounted cash flow method, which is an approach commonly used by market participants to value oil and gas properties (level 3 fair value hierarchy estimate). Cash flows were projected over the expected remaining productive life of each CGU's reserves, at an after-tax discount rate of 10 percent, resulting in an estimated recoverable amount of $142.2 million for the Grande Prairie CGU and $9.9 million for the Southern CGU. Reserve estimates were prepared by Paramount's independent qualified reserves evaluator. The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2016	2017	2018	2019	2020	2021-2030	Thereafter
Natural Gas							
AECO ($/MMBtu)	2.70	3.20	3.55	3.85	3.95	4.20 – 5.40	+2%/yr
Henry Hub (US$/MMBtu)	2.50	2.95	3.40	3.70	3.90	4.15 – 5.30	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	56.60	66.40	72.80	80.90	83.20	88.20 – 113.40	+2%/yr
WTI (US$/Bbl)	45.00	53.60	62.40	69.00	73.10	77.30 – 99.00	+2%/yr
Foreign Exchange							
$CDN / 1 $US	1.37	1.33	1.25	1.25	1.21	1.21	1.21

Paramount recorded an impairment write-down of $32.8 million at December 31, 2014 related to petroleum and natural gas assets in the Southern CGU. These properties are included within the Principal Properties business segment. The impairment write-down was recorded because the carrying value of the Southern CGU properties exceeded their recoverable amounts, which were estimated based on expected discounted net cash flows from the production of proved and probable reserves. The

impairments resulted from a combination of higher well costs than reserves values assigned and decreases in estimated future net revenues due to lower forecasted future oil and natural gas prices.

Following the write-down of the carrying value of the Southern CGU for the year-ended December 31, 2015, the Company determined that the Southern properties no longer constitute a significant CGU. As a result, the Southern properties will be included in the Kaybob CGU subsequent to December 31, 2015.

8. Equity-Accounted Investments

As at December 31	2015			2014		
	Shares (000's)	Carrying Value	Market Value (1)	*Shares (000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	58,370	70,068	*19,144*	79,879	151,432
Other		–			2,565	
		58,370			82,444	

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

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

Year ended December 31	2015	2014
Equity loss	(22,676)	(11,508)
Dilution gain	111	257
Write-down of other equity-accounted investment	(453)	(2,938)
Gain on MGM Energy acquisition (Note 5)	–	10,790
	(23,018)	(3,399)

As at December 31, 2015, Paramount owned a 15 percent equity interest in Trilogy (December 31, 2014 – 15 percent). Trilogy is a petroleum and natural gas-focused Canadian energy corporation that develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy is a publicly listed entity in Canada with its common shares trading on the Toronto Stock Exchange. The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at December 31	2015	2014
Current assets	45,550	56,478
Non-current assets(1)	1,217,088	1,563,333
Current liabilities	(56,172)	(106,941)
Non-current liabilities	(762,578)	(939,877)
Equity	443,888	572,993
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	67,431	87,161
Less: portion of share-based compensation recorded in equity of Trilogy	(9,061)	(7,282)
Carrying value of Paramount's investment	58,370	79,879

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at December 31, 2015 totaled $1,220,942 (2014 – $1,562,475) and equity totaled $447,742 (2014 - $572,135).

Year ended December 31	2015	2014
Revenue	268,458	549,037
Comprehensive loss[1]	(142,369)	(68,534)
Paramount's share of Trilogy's comprehensive loss	(21,620)	(10,408)

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the year ended December 31, 2015 was $137,658 (2014 – comprehensive loss $61,011).

Trilogy had 10.3 million stock options outstanding (5.3 million exercisable) at December 31, 2015 at exercise prices ranging from $4.49 to $38.74 per share.

For the year ended December 31, 2014, Paramount received cash dividends from Trilogy of $7.4 million.

Paramount's share of the income or loss from its other investees for the year ended December 31, 2015 was an aggregate net loss of $1.1 million (2014 – net loss of $1.1 million).

9. Investments in Securities

As at December 31	2015		2014	
	Shares (000's)	Market Value	*Shares (000's)*	Market Value
MEG Energy Corp.	*3,700*	29,674	*3,700*	72,335
Privateco		18,675		8,769
Other [1]		12,365		21,790
		60,714		102,894

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

Paramount holds an investment in the shares of a private oil and gas company ("Privateco"). The estimated fair value of the Company's investment is based on equity issuances by Privateco from time-to-time (level two fair value hierarchy estimate).

For the year ended December 31, 2015 aggregate unrealized losses of $81.8 million related to the Company's investments in MEG Energy Corp., Marquee, RMP Energy Inc., Strategic Oil & Gas Ltd. and other securities previously recorded in OCI were charged to net earnings as a result of significant decreases in the market prices of the securities at the end of the year. At December 31, 2014 aggregate unrealized losses of $15.6 million related to the Company's investments in Marquee, Strategic Oil & Gas Ltd. and other securities previously recorded in OCI were charged to net earnings.

10. Goodwill

As at December 31	2015	2014
Carrying value, beginning of year	24,733	3,124
Acquisition	–	21,609
Write-downs	(21,609)	–
Carrying value, end of year	3,124	24,733

The carrying amount of goodwill at December 31, 2015 of $3.1 million relates to the Kaybob CGU. Goodwill recognized in respect of the 2014 MGM Energy acquisition was written down as at December 31, 2015, refer to Note 6.

11. Limited-Recourse Demand Facilities

As at December 31	2015	2014
Fox Drilling Facility	63,380	50,940
Cavalier Facility	37,531	30,590
	100,911	81,530

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is a non-revolving demand loan, which is divided into two tranches. The first tranche ("Fox Tranche A") has a principal amount of $37.7 million outstanding at December 31, 2015 (December 31, 2014 – $45.8 million). Scheduled quarterly principal repayments on Fox Tranche A total $8.2 million in each of 2016 and 2017, with the remaining outstanding balance payable in 2018.

The second tranche ("Fox Tranche B") has a credit limit of $27.0 million that is available to be used to fund the construction of two new drilling rigs. At December 31, 2015, $25.7 million was drawn under Fox Tranche B (December 31, 2014 – $5.1 million). Scheduled quarterly principal repayments on Fox Tranche B total $3.6 million in each year from 2016 to 2020, with the remaining outstanding balance payable in 2021.

The Fox Drilling Facility is non-recourse to Paramount. Recourse is limited to Fox Drilling and its assets, including the Rigs and drilling contracts with Paramount. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin. The effective interest rate on the Fox Drilling Facility for the year ended December 31, 2015 was 4.0 percent (2014 – 4.4 percent).

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of the Company, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets. The effective interest rate on the Cavalier Facility for the year ended December 31, 2015 was 3.4 percent (2014 – 3.5 percent).

12. Long-Term Debt

As at December 31	2015	2014
Bank credit facility	693,045	397,673
8¼% Senior Notes due 2017	–	370,000
7⅝% Senior Notes due 2019	450,000	450,000
6⅞% US Senior Notes due 2023	622,800	–
	1,765,845	1,217,673
Unamortized financing costs, net of premiums and discounts	(15,619)	(7,318)
	1,750,226	1,210,355

Bank Credit Facility

Paramount has a bank credit facility (the "Facility") with a syndicate of lenders (the "Lenders"). The Facility was increased in 2015 from $900 million to $1.0 billion, which is comprised of two tranches. The

maximum amount of the first tranche ("Tranche A") is $900 million and the maximum amount of the second tranche ("Tranche B") is $100 million. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility.

The current revolving period of Tranche A ends on April 30, 2016. In the event the revolving period of Tranche A is not extended, any undrawn availability would be cancelled and all amounts then outstanding would be permitted to remain outstanding on a non-revolving basis until April 30, 2017, the current maturity date of Tranche A. The revolving period of Tranche B ends on April 30, 2016, its current maturity date, unless further extended.

As at December 31, 2015 and as at February 29, 2016, $693.0 million and $668.4 million, respectively, was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding as at December 31, 2015 and as at February 29, 2016 totaling $120.9 million and $120.6 million, respectively, which reduce the amount available to be drawn under the Facility. Paramount has never drawn on Tranche B.

Borrowings under the Facility bear interest at the Lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio, the tranche under which borrowings are made and the total amount drawn.

The borrowing base governs the maximum amount which can be drawn under Tranche A. The Lenders have the right to review and re-determine Paramount's borrowing base on a semi-annual basis and more frequently in certain other circumstances, with the next scheduled review to be completed in conjunction with the Facility's planned April 30, 2016 renewal. The borrowing base amount is based on the Company's reserves, the Lenders' projections of future commodity prices, the value attributed by the Lenders to certain of Paramount's equity investments and other assets and certain other factors. Taking into consideration all such factors, Paramount expects the borrowing base to be reduced on the next re-determination. Tranche B is currently not available to be drawn.

Senior Notes

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 (the "2023 Senior Notes") at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman. The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023.

Immediately following the issuance of the 2023 Senior Notes, Paramount redeemed all $370 million aggregate principal amount of senior unsecured notes due 2017 (the "2017 Senior Notes") by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

Paramount also has $450 million aggregate principal amount of senior unsecured notes outstanding due 2019 (the "2019 Senior Notes"). The 2019 Senior Notes bear interest at 7⅝ percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019.

The Company's senior notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the senior notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the series of notes redeemed and the date of redemption.

13. Asset Retirement Obligations

Year ended December 31	2015	2014
Asset retirement obligations, beginning of year	287,415	239,853
Retirement obligations incurred	5,010	23,190
Revisions to estimated retirement costs	(18,791)	6,126
Change in discount rates	–	40,164
Obligations settled	(6,641)	(4,576)
Dispositions	(119)	(30,134)
Assumed on corporate acquisition	1,011	6,856
Accretion expense	5,695	5,936
Asset retirement obligations, end of year	**273,580**	287,415

At December 31, 2015, the estimated undiscounted asset retirement obligations were $273.6 million (December 31, 2014 - $287.4 million), which have been discounted using a weighted average risk-free rate of 2.00 percent (December 31, 2014 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2014 – 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 39 years.

14. Share Capital

Paramount's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series. At December 31, 2015, 106,212,487 (December 31, 2014 – 104,843,846) Common Shares were outstanding, net of 21,508 (December 31, 2014 – 54,199) Common Shares held in trust under the stock incentive program, and no preferred shares were outstanding.

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

In July 2014, Paramount issued 4.6 million Common Shares at a price of $60.00 per share and 0.9 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share for aggregate gross proceeds of $343.0 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued 0.1 million Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to the Company's Executive Chairman for gross proceeds of $7.4 million. The Company incurred $10.7 million of transaction costs in respect of the public offering, net of tax benefits of $3.6 million.

Weighted Average Common Shares

Year ended December 31	2015		2014	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net loss
Net loss – basic	*105,801*	(901,301)	*101,090*	(71,714)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	*105,801*	(901,301)	*101,090*	(71,714)

15. Reserves

Reserves at December 31, 2015 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

Year ended December 31, 2015	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	(29,688)	75,860	46,172
Other comprehensive income	38,325	–	38,325
Share-based compensation	–	23,214	23,214
Options exercised	–	(8,374)	(8,374)
Balance, end of year	8,637	90,700	99,337

Year ended December 31, 2014	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of year	12,787	74,891	**87,678**
Other comprehensive loss	(42,475)	–	**(42,475)**
Share-based compensation	–	21,439	**21,439**
Options exercised	–	(20,470)	**(20,470)**
Balance, end of year	(29,688)	75,860	**46,172**

16. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	2015		2014	
	Number	Weighted average exercise price ($/share)	Number	Weighted average exercise price ($/share)
Balance, beginning of year	7,275,850	33.75	6,632,200	31.20
Granted	694,000	33.43	1,922,500	33.22
Exercised (1)	(435,950)	13.69	(1,107,350)	17.22
Forfeited	(291,000)	40.52	(171,500)	35.67
Expired	(4,250)	25.85	–	–
Balance, end of year	7,238,650	34.66	7,275,850	33.75
Options exercisable, end of year	3,991,050	34.85	2,592,750	31.58

(1) For options exercised in 2015, the weighted average market price of Paramount's Common Shares on the dates exercised was $33.95 (2014 – $48.09).

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of December 31, 2015 are as follows:

	Awards Outstanding		
Exercise Prices	Number	Remaining contractual life (years)	Weighted average exercise price
$13.02 - $29.50	926,250	0.6	28.67
$29.51 - $34.10	1,673,700	4.2	30.07
$34.11 - $37.80	1,956,700	2.1	34.53
$37.81 - $40.00	1,447,500	3.3	37.98
$40.01 - $64.47	1,234,500	1.7	41.70
	7,238,650	2.5	34.66

The grant date fair value of Paramount Options was estimated using the Black-Scholes-Merton model incorporating the following weighted average inputs:

	Options awarded in 2015	Options awarded in 2014
Weighted average exercise price ($ / share)	33.43	33.22
Expected volatility (%)	41.9	35.0
Expected life of share options (years)	2.1	4.6
Pre-vest annual forfeiture rate (%)	3.7	5.7
Risk-free interest rate (%)	0.6	1.3
Expected dividend yield (%)	nil	nil
Weighted average fair value of awards per share ($ / share)	8.02	10.24

The estimated expected life of Paramount Options is based on historical exercise patterns. The expected volatility is estimated based on the historical volatility of the trading price of the Company's Common Shares over the most recent period that is generally commensurate with the expected term of the option.

Cavalier Options

During 2015, no Cavalier Options were granted and a total of 0.4 million previously issued options were forfeited during the year, resulting in a net balance of 5.5 million Cavalier Options outstanding at December 31, 2015. During 2014, Cavalier granted 1.7 million Cavalier Options, which vest over five years.

The expected life of a Cavalier Option is the term of the option. As Cavalier is a private company, expected volatility is estimated based on the average historical volatility of the trading price of a group of publicly traded oil sands companies which are comparable to Cavalier over the most recent period that is generally commensurate with the expected term of the option.

Stock Incentive Plan – Shares Held in Trust

	2015		2014	
Year ended December 31	*Shares (000's)*		*Shares (000's)*	
Balance, beginning of year	*54*	508	*72*	500
Shares purchased	*9*	316	*92*	4,617
Change in vested and unvested shares	*(41)*	(689)	*(110)*	(4,609)
Balance, end of year	*22*	135	*54*	508

Employee Benefit Costs

Year ended December 31	2015	2014
Stock option plans	22,669	20,290
Stock incentive plan	(2,165)	5,083
Share-based compensation expense	20,504	25,373
Salaries and benefits, net of recoveries	16,366	16,178
	36,870	41,551

17. Income Tax

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

Year ended December 31	2015	2014
Loss before tax	(913,799)	(74,716)
Effective Canadian statutory income tax rate	26.0%	25.0%
Expected income tax recovery	(237,588)	(18,679)
Effect on income taxes of:		
Statutory and other rate differences	(20,710)	284
Loss from equity-accounted investments	5,985	850
Write-down of investments in securities	21,273	3,911
Change in unrecognized deferred income tax asset	194,169	–
Goodwill impairment	5,620	–
Flow-through share renunciations	2,156	5,870
Stock-based compensation	5,894	5,072
Unrealized foreign exchange on US Senior Notes	15,812	–
Non-deductible items and other	(5,109)	(310)
Income tax recovery	(12,498)	(3,002)

The following table summarizes the temporary differences that give rise to the net deferred income tax asset:

As at December 31	2015	2014
Property, plant and equipment	(138,790)	(209,850)
Investments	(1,397)	(357)
Asset retirement obligations	73,855	71,872
Non-capital losses	422,629	285,166
Other	(7,305)	5,656
Deferred income tax asset	348,992	152,487
Unrecognized deferred income tax asset	(194,169)	–
Net deferred income tax asset	154,823	152,487

The following table summarizes the movements of the deferred income tax asset during the year:

Year ended December 31	2015	2014
Balance, beginning of year	152,487	119,090
Deferred income tax recovery	12,509	2,957
Deferred income tax recovery (expense) included in other comprehensive income	(1,314)	271
Flow-through share renunciations	(6,582)	(20,671)
Share issuance costs	355	3,553
Business combinations and other	(2,632)	47,287
Balance, end of year	154,823	152,487

Paramount has $1,565.6 million (2014 – $1,141.3 million) of unused tax losses expiring between 2025 and 2035. In addition, Paramount has $307.1 million (2014 – $233.8 million) of deductible temporary differences in respect of investments for which no deferred income tax asset has been recognized.

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. As at December 31, 2015, the Company concluded that a portion of the carrying value of the deferred income tax asset was not probable of realization, and accordingly, a de-recognition of $194.2 million of deferred income tax assets was recorded.

In 2010, the Company received reassessments of its income taxes from the Canada Revenue Agency (the "CRA") and provincial tax authorities relating to a prior year transaction (the "Reassessments"). Paramount filed notices of objection to the Reassessments and, as a condition of its right to proceed with the objection, the Company was required to deposit approximately $20 million with the CRA. In 2015, the Company's notices of objection were accepted by the CRA and the deposit, plus interest, was returned to Paramount.

18. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at December 31, 2015 consisted of cash and cash equivalents, accounts receivable, risk management assets, investments in securities, limited-recourse demand facilities, accounts payable and accrued liabilities and long-term debt.

Risk Management

The Company had the following financial commodity sales contracts in place as at December 31, 2015:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swaps	6,000 Bbl/d	CDN$75.72/Bbl	40,207	January 2016 – December 2016

In January 2016, Paramount entered into a financial NYMEX WTI swap purchase contract for 2,000 Bbl/d at a fixed price of CDN$50.64/Bbl from February 2016 to December 2016.

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

Year ended December 31	2015	2014
Fair value, beginning of year	–	(3,972)
Changes in fair value	55,215	2,852
Settlements (received) paid	(15,008)	1,120
Fair value, end of year	40,207	–

Gain on commodity contracts for the year ended December 31, 2015 include $2.5 million of realized losses in respect of marketing activities.

Paramount is exposed to market risks where the fair values or future cash flows of financial instruments are impacted by changes in underlying market prices.

Market Value of Senior Notes

The 2019 Senior Notes had a market value of 82.0 percent of their principal amount at December 31, 2015 (December 31, 2014 – 93.6 percent). The 2023 Senior Notes had a market value of 79.0 percent of their principal amount at December 31, 2015. The market values of the Company's Senior Notes were estimated using a market approach incorporating prices quoted from financial institutions (level two fair value hierarchy estimates).

Commodity Price Risk

Paramount uses financial and physical commodity price contracts from time-to-time to manage exposure to commodity price volatility. The Company is exposed to commodity price risk on these instruments, as changes in underlying commodity prices will impact the market values of the contracts and ultimately the amounts received or paid upon settlement.

At December 31, 2015, assuming all other variables are held constant, a CDN$5 per barrel increase or decrease in the applicable forward market curves would have the following impact on Paramount's net earnings due to changes in the fair value of financial commodity contracts:

	$5 increase	$5 decrease
CDN$ Crude Oil	(10,980)	10,980

Foreign Currency Risk

Paramount is exposed to foreign currency risk on financial instruments denominated in US dollars including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and the 2023 Senior Notes.

At December 31, 2015, assuming all other variables are held constant, a 5% strengthening or weakening of the Canadian dollar relative to the US dollar based on the year-end foreign exchange rate of 1.384 $CDN/1$US would have the following impact on Paramount's net earnings due to foreign exchange related to the 2023 Senior Notes:

	5% strengthening	5% weakening
2023 Senior Notes	31,140	(31,140)

Sales prices for natural gas, crude oil and natural gas liquids and the value of financial commodity oil contracts denominated in Canadian dollars are determined with reference to US benchmark prices, therefore a weakening of the Canadian dollar relative to the US dollar will increase the revenue received in Canadian dollars for the sale of Company's production and the value of such financial commodity contracts. Paramount's expenditures are primarily in Canadian dollars but include equipment and other items sourced from the United States and settled in US dollars.

Interest Rate Risk

Paramount is exposed to interest rate risk from time-to-time on outstanding balances on its floating rate bank credit facilities and on interest bearing cash and cash equivalents. A one percent increase or decrease in interest rates would have impacted Paramount's net earnings for the year ended December 31, 2015 by approximately $5.6 million (2014 – $2.7 million) based on the average floating rate credit facility balances outstanding during the year. Paramount's senior notes bear interest at fixed rates and are subject to fair value changes as market interest rates change.

Equity Price Risk

Paramount is exposed to equity price risk associated with changes in the market value of its investments.

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company manages credit risk by endeavoring to enter into contracts with counterparties that possess high credit ratings, employing net settlement agreements, employing letters of credit, and limiting available credit when necessary. The maximum credit risk exposure at December 31, 2015 is limited to the carrying value of accounts receivable and risk management assets. Accounts receivable include balances due from customers and partners in the oil and gas industry and are subject to normal industry credit risk. At December 31, 2015, Paramount had no balances due from partners that represented more than 10 percent of the Company's total accounts receivable.

Liquidity Risk

Liquidity risk is the risk that Paramount will be unable to meet its financial obligations. The Company manages liquidity risk by ensuring that it has sufficient cash and cash equivalents, credit facilities and other financial resources available to meet its obligations.

The Company forecasts cash flows for a period of at least 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, drawings on credit facilities, dispositions of assets and accessing capital markets.

In addition to commitments disclosed in Note 22, contractual obligations related to financial liabilities are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Accounts payable & accrued liabilities (1)	103,559	–	–	–	–	–	103,559
Cavalier Facility (2)	37,531	–	–	–	–	–	37,531
Fox Drilling Facility (3)	14,116	13,645	26,165	4,140	3,996	7,786	69,848
Credit Facility (3)	30,494	703,210	–	–	–	–	733,704
Senior Notes (3)	77,130	77,130	77,130	524,498	42,818	729,668	1,528,374
	262,830	793,985	103,295	528,638	46,814	737,454	2,473,016

(1) Excluding $4.1 million related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances.
(2) Excluding interest.
(3) Including interest.

Accounts Payable and Accrued Liabilities

As at December 31	2015	2014
Trade and accrued payables	97,883	252,349
Joint operation and other payables	3,138	7,178
Interest payable	2,538	4,044
Flow-through share renunciation obligations	4,065	3,276
	107,624	266,847

Terms and conditions of the above accounts payable and accrued liabilities:

- Trade and accrued payables and joint operation and other payables are non-interest bearing and are normally settled within 30 to 60 days.
- Interest on the 2019 Senior Notes is payable semi-annually in arrears on June 4 and December 4 in each year. Interest on the 2023 Senior Notes is payable semi-annually in arrears on June 30 and December 31 in each year.

Accounts Receivable

As at December 31	2015	2014
Revenue receivable	35,528	33,972
Joint operation receivable	2,493	17,655
Corporate	9,954	2,442
GST and other	755	2,971
	48,730	57,040

Joint operation receivables are non-interest bearing and are generally settled on 30 day terms.

In estimating the recoverability of joint operation receivables, the Company performs a risk analysis considering the type and age of the outstanding receivables and the credit worthiness of the counterparties. The Company has determined that there was no impairment of joint operation receivables as at December 31, 2015. There were no significant non-current joint operation receivables as at December 31, 2015 and 2014.

19. Consolidated Statement of Cash Flows Selected Information

Items Not Involving Cash

Year ended December 31	2015	2014
Commodity contracts	(40,207)	(3,972)
Share-based compensation	20,504	25,373
Depletion and depreciation	623,889	229,819
Exploration and evaluation	202,871	17,509
(Gain) loss on sale of oil and gas properties	9,058	(95,691)
Accretion of asset retirement obligations	5,695	5,936
Foreign exchange	59,984	1,058
Loss from equity-accounted investments	23,018	3,399
Write-down of investments in securities	81,819	15,645
Gain on sale of investments	–	(5,154)
Deferred income tax	(12,509)	(2,957)
Other	2,265	1,864
	976,387	192,829

Supplemental Cash Flow Information

Year ended December 31	2015	2014
Interest paid	107,839	79,263
Current tax paid (refunded)	(10)	402

20. Capital Structure

Paramount's primary objectives in managing its capital structure are to:

i. maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;
ii. maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives and the repayment of debt obligations when due; and
iii. maximize shareholder returns.

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 monitors metrics such as the Company's debt-to-equity and debt-to-cash flow ratios, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. The capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, refinancing existing debt, modifying capital spending programs, and disposing of assets, the availability of any such means being dependent upon market conditions.

Paramount's capital structure consists of the following:

As at December 31	2015	2014
Adjusted working capital deficit [(1)]	37,839	183,328
Limited-recourse demand facilities	100,911	81,530
Facility	693,045	397,673
Senior notes [(2)]	1,072,800	820,000
Net Debt [(3)]	1,904,595	1,482,531
Share capital	1,646,984	1,603,436
Accumulated deficit	(1,197,627)	(296,326)
Reserves	99,337	46,172
Total Capital	2,453,289	2,835,813

(1) Adjusted working capital excludes accounts payable and accrued liabilities related to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (December 31, 2015 - $4.1 million, December 31, 2014 - $3.3 million), risk management assets and liabilities, and limited-recourse demand facilities.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net Debt as at December 31, 2014 excludes the $20 million deposit on account with the CRA (See Note 17).

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

21. Related Party Transactions

Service Agreements

Paramount engages in transactions with Trilogy in the normal course of business, including joint operations. All transactions between Paramount and Trilogy are recorded at their exchange amounts.

During 2015, Paramount charged $0.5 million (2014 – $0.6 million) to Trilogy in respect of operational and administrative services. Paramount charged $3.4 million (2014 – $0.6 million) to Trilogy and was charged $2.6 million (2014 – $1.6 million) by Trilogy in respect of joint operations. Paramount received $7.4 million in dividends from Trilogy in 2014. As of December 31, 2015, Paramount had a net payable balance due to Trilogy of $0.2 million (2014 – net payable of $0.3 million).

Compensation of Key Management Personnel

Year ended December 31	2015	2014
Salaries and benefits	1,339	1,899
Share-based compensation	9,913	10,658
	11,252	12,557

22. Commitments and Contingencies

Paramount had the following commitments as at December 31, 2015:

	Within one year	After one year but not more than five years	More than five years
Petroleum and natural gas transportation and processing commitments (1)	98,377	603,043	746,921
Operating leases	4,740	10,565	3,126
Capital spending commitments and other (2)	7,084	2,036	–
	110,201	615,644	750,047

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $104.6 million at December 31, 2015 (2014 – $41.2 million).
(2) Relates to contractual obligations for purchases of major equipment.

Operating Lease Commitment

Paramount's head office lease expires in 2022. The Company incurred office lease costs of $3.7 million in 2015 (2014 – $3.7 million).

Flow-Through Shares

As a result of flow-through share issuances in April 2015, Paramount is required to incur, on or before December 31, 2016, $37.2 million of CEE, of which $16.7 million was incurred as of December 31, 2015. Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with CEE flow-through shares issued in 2014.

Contingencies

Paramount is a party to various legal claims associated with the ordinary conduct of its business. 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 changes. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final liability may differ materially from amounts estimated and recorded.

23. Subsequent Event

In March 2016, Paramount entered into an agreement for the sale of its Musreau Complex and related midstream assets (the "Midstream Transaction"). In connection with the Midstream Transaction, the Company has entered into a natural gas processing agreement with the purchaser that includes a long-term capacity commitment. Upon closing, the cash proceeds of $556 million will be used to pay down the Facility. The Company intends to reduce Tranche A of the Facility by $300 million to $600 million and cancel Tranche B of the Facility.

The Midstream Transaction is expected to close in the second quarter of 2016, subject to regulatory approvals. There are no financing or other non-customary material closing conditions.

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Executive Chairman

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

B. K. Lee
Chief Financial Officer

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

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

P. G. Tahmazian
V.P. Midstream

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

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

C. H. Riddell
Executive Chairman of the Board
Paramount Resources Ltd.
Calgary, Alberta

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

J. G. M. Bell (1) (3) (4)
General Counsel
Olympia Trust Company
Calgary, Alberta

T. E. Claugus (4)
President
GMT Capital Corp.
Atlanta, Georgia

J. C. Gorman (1) (3) (4)
Independent Businessman
Calgary, Alberta

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

D. M. Knott (4)
Managing General Partner
Knott Partners, L.P.
Syosset, New York

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

J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

(1) Member of Audit Committee
(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee

HEAD OFFICE

4700 Bankers Hall West
888 Third Street S.W.
Calgary, Alberta
Canada T2P 5C5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994
www.paramountres.com

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

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Calgary, Alberta

Wells Fargo Bank, N.A.
Calgary, Alberta

Barclays Bank PLC
Toronto, Ontario

Caisse centrale Desjardins
Calgary, Alberta

Canadian Western Bank
Calgary, Alberta

Business Development Bank of Canada
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)