First Quarter 2021 Results

Paramount Resources Ltd. Announces Q1 2021 Results, Increased Production Guidance, Preliminary 2022 Guidance, Fully Funded Wapiti Acceleration and $77 Million Non-Core Disposition

Calgary, Alberta – May 5, 2021

HIGHLIGHTS

- Sales volumes averaged 80,540 Boe/d (43% liquids) in the first quarter of 2021, well ahead of the Company's first half 2021 production guidance of 74,000 Boe/d to 76,000 Boe/d (43% liquids) due to significant outperformance at Karr as well as higher than expected field reliability corporately. (1)
  - Sales volumes at Karr averaged 33,230 Boe/d (55% liquids) in the quarter compared to 26,914 Boe/d (56% liquids) in the fourth quarter of 2020.
    - This increase was driven by strong performance from the six well 3-10 pad that was brought onstream in February and the five well 5-16 West pad that was brought onstream in the fourth quarter of 2020, as well as workovers on the 16-4 pad that were completed in the fourth quarter of 2020.
    - Paramount achieved an important milestone at Karr, with first quarter exit sales volumes exceeding targeted plateau production of 40,000 Boe/d for the first time and March sales volumes averaging 39,938 Boe/d (53% liquids). Paramount estimates that 12 to 16 new wells per year will be required to maintain plateau production.
    - At plateau production of 40,000 Boe/d, annual asset level free cash flow at Karr would be $260 million to $290 million. (2)
  - Sales volumes at Wapiti averaged 14,107 Boe/d (62% liquids) in the quarter compared to 10,764 Boe/d (64% liquids) in the fourth quarter of 2020. The 31% increase in sales volumes was primarily due to new well production from the 5-3 West pad that was brought onstream partway through the fourth quarter.
- First quarter capital spending totaled $59.3 million, which was focused on drilling and completion activities at Karr and Wapiti.

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(1) In this press release, "liquids" refers to NGLs (including condensate) and oil combined, "natural gas" refers to conventional natural gas and shale gas combined, "condensate and oil" refers to condensate, light and medium crude oil and tight oil combined and "other NGLs" refers to ethane, propane and butane combined. See the Product Type Information section for a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. See also "Oil and Gas Measures and Definitions" in the Advisories section.

(2) "Asset level free cash flow" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section. Stated amounts are illustrative assuming Karr per-unit netbacks of $26.00/Boe, consistent with the first quarter of 2021, and 12 to 16 new wells per year at an average DCET cost of $7.5 million per well and excludes the cost of any potential incremental infrastructure requirements in the future.

- All-in lease construction, drilling, completion, equip and tie-in (collectively "DCET") costs for the six well Karr 3-10 pad averaged a pacesetting $6.8 million per well, $0.2 million lower per well than prior estimates and representing a 12% reduction relative to average DCET costs for Karr wells in 2020.

- Preliminary DCET costs at the three well Karr 4-28 pad, which was brought on production in late April 2021, were $6.9 million per well.

- Paramount's continued focus on strong execution, cost control and innovation has contributed to anticipated cost savings of $30 million in the Company's 2021 capital program.

- Abandonment and reclamation expenditures in the first quarter totaled $8.4 million, net of $1.7 million in funding under the Alberta Site Rehabilitation Program. Activities included the abandonment of 120 wells, 119 of which were abandoned under the Company's ongoing area-based closure program at Zama.

- Cash from operating activities was $81.3 million in the first quarter. Adjusted funds flow was $90.9 million or $0.69 per share. [1]

- Paramount generated $23.2 million of free cash flow in the first quarter that, along with approximately $80 million in cash proceeds from non-core dispositions, was directed to debt reduction. [1]

- Free cash flow in 2021 is expected to be directed towards debt reduction, with anticipated year-end 2021 net debt to adjusted funds flow of less than 1.5x.[1]

NON-CORE ASSET DISPOSITION

Paramount has entered into a definitive agreement for the sale of its non-operated Birch asset in northeast British Columbia for total consideration of approximately $77 million (the "Birch Disposition"). Closing is subject to customary conditions and is anticipated to occur in early July. Estimated second half 2021 production from the asset, net to Paramount, was approximately 1,900 Boe/d.

REVISED 2021 GUIDANCE

Paramount is increasing its 2021 sales volume forecast as a result of strong year-to-date performance. Sales volumes in 2021 are now expected to average between 80,000 Boe/d and 82,000 Boe/d (44% liquids) after taking into account the Birch Disposition. This is an increase from previous guidance of 77,000 Boe/d to 80,000 Boe/d (45% liquids).

Second quarter 2021 sales volumes are expected to average between 77,000 Boe/d and 78,000 Boe/d (42% liquids). Second half 2021 sales volumes guidance remains unchanged at between 80,000 Boe/d and 84,000 Boe/d (45% liquids) notwithstanding the Birch Disposition.

The Company will be advancing approximately $60 million of activities in the Wapiti area by six months into the second half of 2021, capitalizing on the $30 million of anticipated cost savings in its 2021 capital program, incremental cash flow generation in light of higher production guidance and the Birch Disposition. Accordingly, the Company's capital budget for 2021 is being increased to between $265 million and $285 million, excluding land acquisitions and abandonment and reclamation activities. This is an increase of $30 million at the mid-point from the previous guidance range of between $230 million and $260 million. Additional activities at Wapiti will include drilling, completing and bringing onstream the seven well 9-22

(1) "Adjusted funds flow", "free cash flow" and "net debt to adjusted funds flow" are Non-GAAP financial measures. See "Non-GAAP Financial Measures" in the Advisories section.

pad, the tie-in of a pre-existing well from the 10-22 pad and the installation of associated infrastructure. Initial production from these activities is anticipated to come onstream in December 2021.

Inclusive of the increased capital at Wapiti, Paramount forecasts 2021 free cash flow of approximately $140 million. This is based on the following assumptions for 2021: (i) the midpoint of forecast capital spending and production, (ii) $25 million in abandonment and reclamation costs, (iii) realized pricing of $39.50/Boe (US$60.84/Bbl WTI, US$2.84/MMBtu NYMEX, $2.78/GJ AECO), (iv) royalties of $2.60/Boe, (v) operating costs of $11.30/Boe and (vi) transportation and processing costs of $3.85/Boe.

Approximately 52% of forecast midpoint production is hedged over the final three quarters of 2021. After taking such hedging into account, 2021 forecast free cash flow would still be approximately $60 million at an average WTI oil price of US$40.00/Bbl over the final three quarters of the year and would rise to $155 million at an average WTI oil price of US$65.00/Bbl over the final three quarters of the year.

The Company targets net debt to adjusted funds flow of between 1.0x and 2.0x. Free cash flow in 2021 is expected to be directed towards debt reduction, with anticipated year-end net debt to adjusted funds flow of less than 1.5x. The Company currently prioritizes the allocation of free cash flow to: (i) achieving the targeted range of net debt to adjusted funds flow; (ii) shareholder returns; and (iii) incremental growth.

PRELIMINARY 2022 GUIDANCE

Paramount expects to finalize its 2022 capital budget and related guidance in the first quarter of 2022. Based on preliminary planning and current market conditions, Paramount anticipates 2022 capital spending, excluding land acquisitions and abandonment and reclamation activities, to range between $325 million and $385 million, broken down as follows:

- $250 million of sustaining capital and maintenance activities;
- $75 million of growth capital with production benefits in 2022; and
- $60 million of discretionary growth capital with production benefits largely in 2023.

A capital program in this range would be expected to result in 2022 annual average sales volumes of between 84,000 Boe/d and 88,000 Boe/d (45% liquids) and free cash flow of approximately $185 million. The free cash flow estimate is based on the following assumptions for 2022: (i) the midpoint of forecast capital spending and production, (ii) $30 million in abandonment and reclamation costs, (iii) realized pricing of $37.25/Boe (US$57.78/Bbl WTI, US$2.71/MMBtu NYMEX, $2.43/GJ AECO), (iv) royalties of $2.35/Boe, (v) operating costs of $11.10/Boe and (vi) transportation and processing costs of $3.75/Boe. If all expected free cash flow was directed towards debt reduction, anticipated year-end 2022 net debt to adjusted funds flow would be significantly less than 1.0x.

CORPORATE

The Company successfully closed non-core asset dispositions for cash proceeds of approximately $80 million in the first quarter of 2021.

In May 2021, Moody’s Investors Service Inc. assigned a "B2" corporate family rating to the Company with a positive outlook and S&P Global Ratings assigned its "B-" issuer credit rating to the Company with a positive outlook.

Paramount continues to evaluate and pursue opportunities to provide environmentally sustainable value creation for its stakeholders. Advancements in technology paired with government incentive programs have the potential to create stakeholder benefits from both a greenhouse gas ("GHG") emissions reduction and economic perspective.

The Company has engaged an outside engineering firm and is working with Clean Energy Systems, Inc. ("CES") to assess the opportunity for ultra-low emission upgrades to one of the Company's facilities. The project envisions deploying CES's oxy-combustion technology with CO_2 capture to eliminate GHG emissions and generate excess electricity. The captured CO_2 could be used for enhanced oil recovery in a Paramount owned and operated oil development or sequestered using the facility's existing H_2S and CO_2 disposal system. The CES technology also provides an opportunity to treat produced water that can be used in place of fresh water for Paramount's future developments. Paramount has held an indirect ownership interest in CES (through its investment in Paxton Corporation) for over a decade and is excited about the prospects for this technology.

REVIEW OF OPERATIONS

GRANDE PRAIRIE REGION

Grande Prairie Region sales volumes and netbacks are summarized below:[1]

	Q1 2021		Q4 2020		% Change
Sales volumes					
Natural gas (MMcf/d)	**122.6**		94.3		*30*
Condensate and oil (Bbl/d)	**23,974**		19,635		*22*
Other NGLs (Bbl/d)	**2,984**		2,429		*23*
Total (Boe/d)	**47,385**		37,782		*25*
% liquids	***57%***		*58%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**194.0**	***45.50***	125.1	*36.00*	*55*
Royalties	**(11.6)**	***(2.72)***	(6.2)	*(1.78)*	*87*
Operating expense	**(49.0)**	***(11.49)***	(42.4)	*(12.20)*	*16*
Transportation and NGLs processing	**(20.0)**	***(4.69)***	(14.2)	(4.07)	41
	113.4	***26.60***	62.3	*17.95*	*82*

(1) "Netback" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

KARR AREA

Karr sales volumes and netbacks are summarized below:

	Q1 2021		Q4 2020		% Change
Sales volumes					
Natural gas (MMcf/d)	**90.2**		70.5		*28*
Condensate and oil (Bbl/d)	**16,095**		13,348		*21*
Other NGLs (Bbl/d)	**2,108**		1,817		*16*
Total (Boe/d)	**33,230**		26,914		*23*
% liquids	***55%***		*56%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**132.5**	***44.31***	86.1	*34.79*	*54*
Royalties	**(8.6)**	***(2.89)***	(4.6)	*(1.87)*	*87*
Operating expense	**(31.9)**	***(10.67)***	(27.8)	*(11.24)*	*15*
Transportation and NGLs processing	**(14.0)**	***(4.68)***	(10.5)	*(4.26)*	*33*
	78.0	***26.07***	43.2	*17.42*	*81*

First quarter sales volumes at Karr averaged 33,230 Boe/d (55% liquids) compared to 26,914 Boe/d (56% liquids) in the fourth quarter of 2020. Sales volumes increased as a result of new well production that came onstream in the first quarter and from a full quarter of production from wells that came onstream in the fourth quarter of 2020. Incremental production from existing wells following workovers in the fourth quarter of 2020 also contributed to the overall increase.

The 3-10 pad has continued to outperform internal type well projections, averaging gross peak 30-day production per well of 2,068 Boe/d (6.0 MMcf/d of shale gas and 1,073 Bbl/d of NGLs) with an average CGR of 180 Bbl/MMcf.[(1)] Likewise, production at the five well 5-16 West pad that came onstream in November 2020 continues to exhibit higher initial production rates than predicted by the type well. This performance, along with higher than anticipated production from the two well 16-4 pad, post-workover, combined to increase first quarter production above prior projections.

Three new Montney wells on the 4-28 pad were brought onstream in late April. Pressure data collected pre-completion from the pad confirms the northeast portion of Karr is in the over-pressured window of the Montney. This new data has resulted in an adjustment of the over-pressured boundary to the east of Karr and has increased the potential well inventory.

Additional gas lift compression was recently installed to support base and incremental production in the area. The Company anticipates base production up-lift at a number of pads that had been impacted by insufficient lift gas supply.

Per unit operating costs trended lower as a result of higher production volumes combined with a continued focus on cost reduction initiatives. The Company achieved per unit operating costs of $10.67/Boe in the first quarter of 2021 and anticipates operating costs of approximately $10.00/Boe at plateau production levels.

Paramount continues to focus on driving DCET costs lower while maintaining well performance and in the first quarter realized cost improvements relative to the most recent pacesetting results. All-in DCET costs at the six well 3-10 pad averaged a pacesetting $6.8 million per well, $0.2 million lower per well than prior

(1) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 7% and liquids sales volumes are lower by approximately 7% due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. CGR means condensate to gas ratio and is calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes. See Oil and Gas Measures and Definitions in the Advisories section.

estimates and representing a 12% reduction relative to average DCET costs for Karr wells in 2020. Preliminary DCET costs at the three well 4-28 pad averaged $6.9 million per well.

Drilling operations at the five well 7-18 pad were completed in the first quarter under budget and included one new pacesetter well, drilling an average 313 meters per day. Paramount plans to complete, tie-in and bring on production all five wells on the 7-18 pad by the third quarter. Drilling of the five well 5-16 East pad recently commenced, and the Company plans to complete, tie-in and bring on production all five wells by the fourth quarter. Paramount anticipates commencing drilling operations on the ten well 16-17 pad in the fourth quarter and expects that seven wells will be drilled by year end.

Production in the second quarter will be impacted by scheduled curtailments at the third-party Karr 6-18 facility related to inlet separation and liquids handling optimization. The curtailments are anticipated to reduce sales volumes by approximately 50% for seven days in May.

WAPITI AREA

Wapiti sales volumes and netbacks are summarized below:

	Q1 2021		Q4 2020		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**32.1**		23.3		*38*
Condensate and oil (Bbl/d)	**7,884**		6,286		*25*
Other NGLs (Bbl/d)	**867**		589		*47*
Total (Boe/d)	**14,107**		10,764		*31*
% liquids	***62%***		*64%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**61.4**	***48.42***	38.9	*39.30*	*58*
Royalties	**(2.9)**	***(2.32)***	(1.6)	*(1.58)*	*81*
Operating expense	**(16.8)**	***(13.25)***	(14.2)	*(14.36)*	*18*
Transportation and NGLs processing	**(6.0)**	***(4.73)***	(3.6)	*(3.62)*	*67*
	35.7	***28.12***	19.5	*19.74*	*83*

First quarter sales volumes at Wapiti averaged 14,107 Boe/d (62% liquids), 3,343 Boe/d higher than in the fourth quarter of 2020 primarily due to new well production from the 5-3 West pad that was brought onstream partway through the fourth quarter.

Drilling operations were completed at the seven well 6-4 pad in the first quarter, $4.4 million under budget for the pad. A pilot project to test the viability of monobore drilling techniques on two wells on the 6-4 pad was successful. Lower drilling and completion costs and higher frac fluid pumping rates in the wellbore compared to conventional multiple casing wellbores are anticipated to further enhance the economics and productivity of these wells. The Company anticipates completing and bringing on production all seven wells by the third quarter.

In the first quarter Paramount tied its Wapiti gas lift infrastructure into the high-pressure gas gathering system managed by the third-party operator of the Wapiti natural gas processing plant. This new connection provides Wapiti area wells with a more reliable source of lift gas which is anticipated to reduce the time required to re-start wells after turnarounds, workovers and other disruptions.

The 2021 capital program at Wapiti is being expanded to bring forward activities by approximately six months to advance the next major phase of development. Activities include drilling, completing and bringing onstream the seven well 9-22 pad, the tie-in of a pre-existing well from the 10-22 pad and the installation of associated infrastructure. Initial production from these activities is anticipated to come onstream in December 2021.

KAYBOB REGION

Kaybob Region sales volumes averaged 24,938 Boe/d (28% liquids) in the first quarter of 2021 compared to 27,056 Boe/d (27% liquids) in the fourth quarter of 2020. Production in the Kaybob Region was relatively flat after adjusting for the impact of non-core asset dispositions in the first quarter. The Company completed and recently brought on production one Montney oil well in Ante Creek that was drilled in 2020.

Paramount holds material positions in Duvernay and Montney resource plays in the Kaybob Region that will compete for capital in the medium term.

CENTRAL ALBERTA AND OTHER REGION

Central Alberta and Other Region sales volumes averaged 8,217 Boe/d (14% liquids) in the first quarter compared to 8,622 (15% liquids) in the fourth quarter of 2020.

The Company holds a material, contiguous Duvernay position at Willesden Green and continues to actively evaluate longer-term full field development plans for this asset. Drilling operations are ongoing at a two well, liquids rich Duvernay pad in the Willesden Green area and Paramount plans to complete, tie-in and bring on production both wells in the second half of the year.

HEDGING

The Company's commodity hedging position at March 31, 2021 is summarized below:

- Natural Gas:

April – December 2021	60,000 MMBtu/d at US$2.71/MMBtu
April – October 2021	50,000 GJ/d at CDN$2.52/GJ
April – December 2021	50,000 GJ/d at CDN$2.51/GJ

- Oil:

April – June 2021	23,000 Bbl/d at US$46.93/Bbl
July – September 2021	15,000 Bbl/d at US$45.87/Bbl
October – December 2021	10,000 Bbl/d at US$45.82/Bbl
April – September 2021	3,000 Bbl/d at CDN$65.29/Bbl

The Company has also hedged the differential on 4,000 Bbl/d of condensate at Edmonton for the second quarter at WTI plus US$0.06/Bbl.

Further details of Paramount's commodity hedging position are provided in its first quarter 2021 Management's Discussion and Analysis and Consolidated Financial Statements.

ABOUT PARAMOUNT

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

Paramount's first quarter 2021 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available through Paramount's website at www.paramountres.com and on SEDAR at www.sedar.com. A summary of historical financial and operating results is also available on Paramount's website at http://www.paramountres.com/investor-relations/financial-reports#2021.

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FINANCIAL AND OPERATING RESULTS [1]

($ millions, except as noted)

	Q1 2021		Q4 2020	
Net income (loss)	(82.5)		311.5	
per share – basic and diluted ($/share)	*(0.62)*		*2.35*	
Cash from operating activities	81.3		53.2	
per share – basic and diluted ($/share)	*0.61*		*0.40*	
Adjusted funds flow	90.9		67.9	
per share – basic and diluted ($/share)	*0.69*		*0.51*	
Total assets	3,583.1		3,497.0	
Long-term debt	712.7		813.5	
Net debt	761.7		854.1	
Common shares outstanding *(thousands)*[2]	132,754		132,284	
Sales volumes				
Natural gas (MMcf/d)	273.1		256.3	
Condensate and oil (Bbl/d)	29,854		25,752	
Other NGLs (Bbl/d) [3]	5,170		4,987	
Total (Boe/d)	80,540		73,460	
% liquids	*43%*		*42%*	
Grande Prairie Region (Boe/d)	47,385		37,782	
Kaybob Region (Boe/d)	24,938		27,056	
Central Alberta and Other Region (Boe/d)	8,217		8,622	
Total (Boe/d)	80,540		73,460	
Netback		*$/Boe [4]*		*$/Boe [4]*
Natural gas revenue	77.3	*3.14*	66.7	*2.83*
Condensate and oil revenue	185.9	*69.20*	123.3	*52.03*
Other NGLs revenue [3]	15.0	*32.29*	9.5	*20.61*
Royalty and other revenue	1.7	—	2.5	—
Petroleum and natural gas sales	279.9	*38.61*	202.0	*29.89*
Royalties	(18.6)	*(2.57)*	(11.7)	*(1.73)*
Operating expense	(84.3)	*(11.63)*	(79.8)	*(11.80)*
Transportation and NGLs processing [5]	(27.9)	*(3.84)*	(24.6)	*(3.63)*
Netback	149.1	*20.57*	85.9	*12.73*
Financial commodity contract settlements	(32.7)	*(4.51)*	7.9	*1.18*
Netback including financial commodity contract settlements	116.4	*16.06*	93.8	*13.91*
Total Capital Expenditures				
Grande Prairie Region	51.3		64.3	
Kaybob Region	5.0		1.8	
Central Alberta and Other Region	1.2		0.8	
Corporate [6]	1.8		(1.8)	
Total capital expenditures	59.3		65.1	
Asset retirement obligation settlements	8.4		0.1	

(1) Readers are referred to the advisories concerning Non-GAAP Financial Measures and Oil and Gas Measures and Definitions in the Advisories section of this document. This table contains the following Non-GAAP financial measures: Adjusted funds flow, Net debt, Netback and Total capital expenditures. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes for applicable periods by specific product types.
(2) Common shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of common shares): Q1 2021: 1,914 and Q4 2020: 1,914.
(3) Other NGLs means ethane, propane and butane.
(4) Natural gas revenue presented as $/Mcf.
(5) Includes downstream transportation costs and NGLs fractionation costs.
(6) Includes transfers between regions.

PRODUCT TYPE INFORMATION

This press release refers to sales volumes of "liquids", "natural gas", "condensate and oil" and "other NGLs". "Liquids" means NGLs (including condensate) and oil combined, "natural gas" refers to conventional natural gas and shale gas combined, "condensate and oil" refers to condensate, light and medium crude oil and tight oil combined and "other NGLs" refers to ethane, propane and butane combined. Below is a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. Numbers may not add due to rounding.

	Total		Grande Prairie Region		Kabob Region		Central Alberta and Other Region	
	Q1 2021	Q4 2020	Q1 2021	Q4 2020	Q1 2021	Q4 2020	Q1 2021	Q4 2020
Shale gas (MMcf/d)	197.8	170.7	120.6	92.7	42.1	41.9	35.1	36.1
Conventional natural gas (MMcf/d)	75.3	85.6	2.0	1.6	65.8	76.3	7.5	7.7
Natural gas (MMcf/d)	273.1	256.3	122.6	94.3	107.9	118.2	42.6	43.8
Condensate (Bbl/d)	27,017	22,782	23,974	19,635	2,611	2,631	433	515
Other NGLs (Bbl/d)	5,170	4,987	2,984	2,429	1,677	1,953	509	605
NGLs (Bbl/d)	32,187	27,769	26,958	22,064	4,288	4,584	942	1,120
Tight oil (Bbl/d)	479	437	–	–	342	299	136	138
Light and Medium crude oil (Bbl/d)	2,358	2,533	–	–	2,321	2,480	37	54
Crude oil (Bbl/d)	2,837	2,970	–	–	2,663	2,779	173	192
Total (Boe/d)	80,540	73,460	47,385	37,782	24,938	27,056	8,217	8,622

	Karr		Wapiti	
	Q1 2021	Q4 2020	Q1 2021	Q4 2020
Shale gas (MMcf/d)	89.1	69.6	31.5	22.8
Conventional natural gas (MMcf/d)	1.1	0.9	0.6	0.5
Natural gas (MMcf/d)	90.2	70.5	32.1	23.3
NGLs (Bbl/d)	18,203	15,165	8,751	6,875
Total (Boe/d)	33,230	26,914	14,107	10,764

The Company forecasts that 2021 sales volumes will average between 80,000 Boe/d and 82,000 Boe/d (56% shale gas and conventional natural gas combined, 38% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second quarter 2021 sales volumes are expected to average between 77,000 Boe/d and 78,000 Boe/d (58% shale gas and conventional natural gas combined, 36% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second half 2021 sales volumes are expected to average between 80,000 Boe/d and 84,000 Boe/d (55% shale gas and conventional natural gas combined, 39% light and medium crude oil, tight oil and condensate combined and 6% other NGLs).

ADVISORIES

Forward-looking Information

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

- the estimated number of wells required per year to maintain plateau production at Karr;
- illustrative asset level free cash flow at Karr at plateau production;
- anticipated cost savings in the Company's 2021 capital program;
- the anticipated closing of the Birch Disposition;
- forecast sales volumes for 2021 and certain periods therein;
- forecast free cash flow in 2021;
- planned capital expenditures in 2021;
- planned abandonment and reclamation expenditures in 2021;
- the Company's expectation that 2021 free cash flow will be directed towards debt reduction;
- forecast 2021 year-end net debt to annual adjusted funds flow;
- preliminary anticipated capital expenditures in 2022 and the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- planned exploration, development and production activities, including the expected timing of completing and bringing new wells on production;
- scheduled facility curtailments at Karr and the anticipated impact thereof;
- anticipated operating costs;
- the expected benefits of monobore drilling techniques; and
- the expected benefits of additional gas lift compression at Karr and new gas lift infrastructure at Wapiti.

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

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

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this press release, undue reliance should not be placed on the forward-looking information as Paramount can give no assurance that such expectations will prove to be correct. There are no assurances that the Birch Disposition will close at the anticipated time or at all. 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 commodity prices, including in relation to the impact of the COVID-19 pandemic;
- the failure to satisfy the conditions to closing of the Birch Disposition;
- changes in capital spending plans and planned exploration and development activities;
- the potential for changes to preliminary anticipated 2022 capital expenditures prior to finalization and changes to the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, free cash flow, production, reserve additions, product yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash from operating activities and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, insurance claims, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount’s other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the sections titled "*Risk Factors*" in Paramount's annual information form for the year ended December 31, 2020, which is available on SEDAR at www.sedar.com. The forward-looking information contained in this press release is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Certain forward-looking information in this press release, including forecast free cash flow in 2021 and forecast 2021 year-end net debt to annual adjusted funds flow, may also constitute a "financial outlook" within the meaning of applicable securities laws. A financial outlook involves statements about Paramount’s prospective financial performance or position and is based on and subject to the assumptions and risk factors described above in respect of forward-looking information generally as well as any other specific assumptions and risk factors in relation to such financial outlook noted in this press release. Such assumptions are based on management's assessment of the relevant information currently available and any financial outlook included in this press release is provided for the purpose of helping readers understand Paramount’s current expectations and plans for the future. Readers are cautioned that reliance on any financial outlook may not be appropriate for other purposes or in other circumstances and that the risk factors described above or other factors may cause actual results to differ materially from any financial outlook.

Non-GAAP Financial Measures

In this press release, "adjusted funds flow", "asset level free cash flow", "free cash flow", "netback", "net debt", "net debt to adjusted funds flow" and "total capital expenditures", together the "Non-GAAP financial measures", are used and do not have any standardized meanings as prescribed by International Financial Reporting Standards. Certain comparative figures have been reclassified to conform to the current years’ presentation.

"Adjusted funds flow" refers to cash from operating activities before net changes in non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and provision. Adjusted funds flow is used to assist management and investors in measuring the Company’s ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary significantly from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. The following are the calculations of adjusted funds flow from the nearest GAAP measure for the three months ended March 31, 2021 and December 31, 2020:

Three months ended	March 31, 2021 (MM$)	Dec 31, 2020 (MM$)
Cash from operating activities	**81.3**	**53.2**
Change in non-cash working capital	(7.9)	12.5
Geological and geophysical expenses	1.6	2.1
Asset retirement obligations settled	8.4	0.1
Provision	7.5	–
Adjusted funds flow	**90.9**	**67.9**

"Asset level free cash flow" refers to aggregate netback from an asset during the period less capital expenditures with respect to such asset for the period. Asset level free cash flow is used by management and investors to assess the cash generating capacity of an asset.

"Free cash flow" refers to adjusted funds flow less total capital expenditures and asset retirement obligation settlements. Free cash flow is used by management and investors to assess the amount of internally generated cash available to repay debt, reinvest in the business or return to shareholders. The following is the calculation of free cash flow from the nearest GAAP measure for the three months ended March 31, 2021:

Three months ended	March 31, 2021 (MM$)
Cash from operating activities	**81.3**
Change in non-cash working capital	(7.9)
Geological and geophysical expenses	1.6
Asset retirement obligations settled	8.4
Provision	7.5
Adjusted funds flow	**90.9**
Total capital expenditures	(59.3)
Asset retirement obligation settlements	(8.4)
Free cash flow	**23.2**

"Netback" equals petroleum and natural gas sales less royalties, operating expense and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the tables under the headings "Review of Operations" and "Financial and Operating Results" for the calculation thereof.

"Net debt" is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the three months ended March 31, 2021 (the "MD&A") for the calculation of net debt.

"Net debt to adjusted funds flow" is a ratio calculated as the period end net debt divided by the sum of adjusted funds flow for the trailing four quarters. The ratio of net debt to adjusted funds flow is commonly used by management and investors to assess the Company's overall debt position and to measure the strength of the Company's balance sheet.

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

Non-GAAP financial 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 financial 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
MBbl	Thousands of barrels
NGLs	Natural gas liquids
Condensate	Pentane and heavier hydrocarbons
WTI	West Texas Intermediate

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

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

This press release contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the three months ended March 31, 2021, the value ratio between crude oil and natural gas was approximately 25:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

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

Additional information respecting the Company's oil and gas properties and operations is provided in the Company's annual information form for the year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

Management's Discussion and Analysis
For the three months ended March 31, 2021

This Management's Discussion and Analysis ("MD&A"), dated May 4, 2021 should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three months ended March 31, 2021 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2020 (the "Annual Financial Statements"). Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources. Paramount's principal properties are located in Alberta and British Columbia. Paramount commenced operations as a public company in 1978 and has adapted to a multitude of operating and economic climates over the years. The Company's Class A common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount's operations are organized into the following three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which includes the Kaybob North and Ante Creek Montney oil developments, Duvernay developments at Kaybob Smoky, Kaybob North and Kaybob South and other shale gas and conventional natural gas producing properties; and
- the Central Alberta and Other Region, which includes the Willesden Green Duvernay development in central Alberta and shale gas producing properties in the Horn River Basin and at Birch in northeast British Columbia.

The Company's assets include: (i) strategic investments in exploration and pre-development stage assets, including prospective shale gas acreage in the Liard Basin, prospective natural gas and oil acreage in the Mackenzie Delta and Central Mackenzie and interests held by the Company's wholly-owned subsidiary Cavalier Energy Inc. prospective for in-situ thermal oil recovery and heavy oil production; (ii) drilling rigs owned by the Company's wholly-owned limited partnership Fox Drilling Limited Partnership; and (iii) investments in other entities.

NOTE REGARDING PRODUCT TYPES

This MD&A includes references to sales volumes of "natural gas", "condensate and oil" and "Other NGLs". "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

FINANCIAL AND OPERATING HIGHLIGHTS (1)(2)

Three months ended March 31	2021	2020	% Change
FINANCIAL			
Petroleum and natural gas sales	**279.9**	172.1	*63*
Net loss	**(82.5)**	(235.1)	*(65)*
Per share – basic & diluted ($/share)	***(0.62)***	*(1.76)*	
Cash from operating activities	**81.3**	30.5	*167*
Per share – basic & diluted ($/share)	***0.61***	*0.23*	
Adjusted funds flow	**90.9**	33.5	*171*
Per share – basic & diluted ($/share)	***0.69***	*0.25*	
Total assets	**3,583.1**	3,009.5	*19*
Long-term debt	**712.7**	651.5	*9*
Net debt	**761.7**	771.9	*(1)*
Total liabilities	**1,548.1**	1,293.1	20
Common shares outstanding (thousands) (3)	**132,754**	133,346	–
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	**273.1**	261.5	*4*
Condensate and oil (Bbl/d)	**29,854**	21,898	*36*
Other NGLs (Bbl/d)	**5,170**	4,539	*14*
Total (Boe/d)	**80,540**	70,022	*15*
% Liquids	***43%***	*38%*	
Realized prices			
Natural gas ($/Mcf)	**3.14**	2.25	*40*
Condensate and oil ($/Bbl)	**69.20**	55.92	*24*
Other NGLs ($/Bbl)	**32.29**	10.75	*200*
Petroleum and natural gas sales ($/Boe)	**38.61**	27.01	*43*
Total capital expenditures	**59.3**	63.8	*(7)*

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

(2) "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes and revenues for all applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

(3) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2021: 1,914 and 2020: 852.

Q1 2021 OVERVIEW

Paramount's financial and operating results in the first quarter of 2021 reflect the Company's continuing success at its Karr and Wapiti developments, where higher sales volumes, lower per unit operating costs and sustained capital cost savings are being achieved, as well as the strengthening of crude oil and condensate prices.

Sales volumes averaged 80,540 Boe/d (43% liquids) in the first quarter of 2021 compared to 73,460 Boe/d (42% liquids) in the fourth quarter of 2020. Sales volumes at Karr averaged 33,230 Boe/d (55% liquids) in the first quarter of 2021 compared to 26,914 Boe/d (56% liquids) in the fourth quarter of 2020. The increase in sales volumes at Karr was driven by strong performance from six Montney wells brought onstream in the first quarter of 2021, five Montney wells brought onstream in the fourth quarter of 2020, as well as by workovers that were completed on two wells in the fourth quarter of 2020. Sales volumes at Wapiti averaged 14,107 Boe/d (62% liquids) compared to 10,764 Boe/d (64% liquids) in the fourth quarter of 2020. The increase in sales volumes at Wapiti was primarily due to new production from five Montney wells brought onstream partway through the fourth quarter of 2020.

Capital spending in the first quarter of 2021 totaled $59.3 million, which was primarily directed to drilling and completion activities at Karr and Wapiti. All-in lease construction, drilling, completion, equip and tie-in (collectively "DCET") costs for the six wells brought on production at Karr in the quarter averaged a pacesetting $6.8 million per well, $0.2 million lower per well than prior estimates and representing a 12% reduction relative to average DCET costs for Karr wells in 2020. Preliminary DCET costs for three wells brought onstream at Karr in April 2021 were $6.9 million per well.

Paramount's continued focus on strong execution, cost control and innovation has contributed to anticipated cost savings of $30 million in the Company's 2021 capital program.

The Company successfully closed non-core asset dispositions for cash proceeds of $79.6 million in the first quarter of 2021 and completed a private placement of $35.0 million of senior unsecured convertible debentures.

Cash from operating activities was $81.3 million in the quarter compared to $53.2 million in the fourth quarter of 2020. Adjusted funds flow was $90.9 million in the quarter compared to $67.9 million in the fourth quarter of 2020. Paramount generated $23.2 million of free cash flow in the quarter that, along with the $79.6 million in cash proceeds from non-core dispositions, was directed to debt reduction. [(1)]

Subsequent to quarter end, Paramount entered into a definitive agreement for the sale of its non-operated Birch asset in the Central Alberta and Other Region for total consideration of approximately $77 million (the "Birch Disposition"). Closing is subject to customary conditions and is anticipated to occur in July 2021. Estimated second half 2021 production from the asset, net to Paramount, was approximately 1,900 Boe/d.

General economic conditions and crude oil and condensate pricing continue to remain subject to the impact of the COVID-19 pandemic. The course of the COVID-19 pandemic and its ultimate impact remain highly uncertain. Paramount conducts its operations in accordance with its corporate pandemic response plan, which is aimed at ensuring the health and safety of its staff and contractors and the people they come in contact with, and in compliance with public health requirements and guidelines. The Company continues to proactively respond to the pandemic and the risks that it poses, including the risks described in this MD&A under "Risk Factors".

(1) "Adjusted funds flow" and "Free cash flow" are Non-GAAP financial measures. See "Non-GAAP Financial Measures" in the Advisories section.

REVISED 2021 GUIDANCE

Paramount is increasing its 2021 sales volume forecast as a result of strong year-to-date performance. Sales volumes in 2021 are now expected to average between 80,000 Boe/d and 82,000 Boe/d (44% liquids) after taking into account the Birch Disposition. This is an increase from previous guidance of 77,000 Boe/d to 80,000 Boe/d (45% liquids).

Second quarter 2021 sales volumes are expected to average between 77,000 Boe/d and 78,000 Boe/d (42% liquids). Second half 2021 sales volumes guidance remains unchanged at between 80,000 Boe/d and 84,000 Boe/d (45% liquids) notwithstanding the Birch Disposition.

The Company will be advancing approximately $60 million of activities in the Wapiti area by six months into the second half of 2021, capitalizing on the $30 million of anticipated cost savings in its 2021 capital program, incremental cash flow generation in light of higher production guidance and the Birch Disposition. Accordingly, the Company's capital budget for 2021 is being increased to between $265 million and $285 million, excluding land acquisitions and abandonment and reclamation activities. This is an increase of $30 million at the mid-point from the previous guidance range of between $230 million and $260 million. Additional activities at Wapiti will include drilling, completing and bringing onstream the seven well 9-22 pad, the tie-in of a pre-existing well from the 10-22 pad and the installation of associated infrastructure. Initial production from these activities is anticipated to come onstream in December 2021.

Inclusive of the increased capital at Wapiti, Paramount forecasts 2021 free cash flow of approximately $140 million. This is based on the following assumptions for 2021: (i) the midpoint of forecast capital spending and production, (ii) $25 million in abandonment and reclamation costs, (iii) realized pricing of $39.50/Boe (US$60.84/Bbl WTI, US$2.84/MMBtu NYMEX, $2.78/GJ AECO), (iv) royalties of $2.60/Boe, (v) operating costs of $11.30/Boe and (vi) transportation and processing costs of $3.85/Boe.

Approximately 52% of forecast midpoint production is hedged over the final three quarters of 2021. After taking such hedging into account, 2021 forecast free cash flow would still be approximately $60 million at an average WTI oil price of US$40.00/Bbl over the final three quarters of the year and would rise to $155 million at an average WTI oil price of US$65.00/Bbl over the final three quarters of the year.

The Company targets net debt to adjusted funds flow of between 1.0x and 2.0x. Free cash flow in 2021 is expected to be directed towards debt reduction, with anticipated year-end net debt to adjusted funds flow of less than 1.5x. (1) The Company currently prioritizes the allocation of free cash flow to: (i) achieving the targeted range of net debt to adjusted funds flow; (ii) shareholder returns; and (iii) incremental growth.

(1) "Net debt to adjusted funds flow" is a Non-GAAP financial measures. See "Non-GAAP Financial Measures" in the Advisories section.

PRELIMINARY 2022 GUIDANCE

Paramount expects to finalize its 2022 capital budget and related guidance in the first quarter of 2022. Based on preliminary planning and current market conditions, Paramount anticipates 2022 capital spending, excluding land acquisitions and abandonment and reclamation activities, to range between $325 million and $385 million, broken down as follows:

- $250 million of sustaining capital and maintenance activities;
- $75 million of growth capital with production benefits in 2022; and
- $60 million of discretionary growth capital with production benefits largely in 2023.

A capital program in this range would be expected to result in 2022 annual average sales volumes of between 84,000 Boe/d and 88,000 Boe/d (45% liquids) and free cash flow of approximately $185 million. The free cash flow estimate is based on the following assumptions for 2022: (i) the midpoint of forecast capital spending and production, (ii) $30 million in abandonment and reclamation costs, (iii) realized pricing of $37.25/Boe (US$57.78/Bbl WTI, US$2.71/MMBtu NYMEX, $2.43/GJ AECO), (iv) royalties of $2.35/Boe, (v) operating costs of $11.10/Boe and (vi) transportation and processing costs of $3.75/Boe. If all expected free cash flow was directed towards debt reduction, anticipated year-end 2022 net debt to adjusted funds flow would be significantly less than 1.0x.

CONSOLIDATED RESULTS

Net Loss

Paramount recorded a net loss of $82.5 million for the three months ended March 31, 2021 compared to a net loss of $235.1 million in the same period in 2020. Significant factors contributing to the change are shown below:

Three months ended March 31	
Net loss – 2020	**(235.1)**
• Lower depletion, depreciation and impairment in 2021, mainly due to impairment charges of $191.8 million in 2020	191.8
• Income tax recovery in 2021 compared to an expense in 2020; 2020 included the derecognition of $130.0 million of the deferred income tax asset	128.8
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	104.6
• Higher gain on the sale of oil and gas assets in 2021	39.1
• Expense related to changes in asset retirement obligations in 2021 compared to a recovery in 2020	(164.3)
• Loss on financial commodity contracts in 2021 compared to a gain in 2020	(123.5)
• Higher exploration and evaluation expense in 2021	(9.0)
• Higher interest and financing expense in 2021	(7.2)
• Other	(7.7)
Net loss – 2021	**(82.5)**

Cash From Operating Activities

Cash from operating activities for the three months ended March 31, 2021 was $81.3 million compared to $30.5 million in the same period in 2020. Significant factors contributing to the change are shown below:

Three months ended March 31	
Cash from operating activities – 2020	**30.5**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	104.6
• Lower asset retirement obligation settlements in 2021	21.9
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(39.7)
• Change in non-cash working capital	(26.4)
• Higher interest and financing expense in 2021	(6.4)
• Other	(3.2)
Cash from operating activities – 2021	**81.3**

Adjusted Funds Flow [(1)]

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

Three months ended March 31	2021	2020
Cash from operating activities	**81.3**	30.5
Change in non-cash working capital	**(7.9)**	(34.3)
Geological and geophysical expenses	**1.6**	2.6
Asset retirement obligations settled	**8.4**	30.3
Provisions and other	**7.5**	4.4
Adjusted funds flow	**90.9**	33.5
Adjusted funds flow (*$/Boe*)	**12.54**	5.26

(1) "Adjusted funds flow" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Adjusted funds flow for the three months ended March 31, 2021 was $90.9 million compared to $33.5 million in the same period in 2020. Significant factors contributing to the change are shown below:

Three months ended March 31	
Adjusted funds flow – 2020	**33.5**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	104.6
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(39.7)
• Higher interest and financing expense in 2021	(6.4)
• Other	(1.1)
Adjusted funds flow – 2021	**90.9**

OPERATING RESULTS

Netback [(1)]

Three months ended March 31	2021		2020	
		($/Boe) [(2)]		($/Boe) [(2)]
Natural gas revenue	77.3	3.14	53.6	2.25
Condensate and oil revenue	185.9	69.20	111.4	55.92
Other NGLs revenue	15.0	32.29	4.4	10.75
Royalty and other revenue	1.7	–	2.7	–
Petroleum and natural gas sales	279.9	38.61	172.1	27.01
Royalties	(18.6)	(2.57)	(11.7)	(1.84)
Operating expense	(84.3)	(11.63)	(92.3)	(14.49)
Transportation and NGLs processing [(3)]	(27.9)	(3.84)	(23.6)	(3.70)
Netback	149.1	20.57	44.5	6.98
Financial commodity contract settlements	(32.7)	(4.51)	7.0	1.10
Netback including financial commodity contract settlements	116.4	16.06	51.5	8.08

(1) "Netback" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.
(2) Natural gas revenue presented per Mcf.
(3) Includes downstream transportation costs and NGLs fractionation costs.

Petroleum and natural gas sales were $279.9 million in the first quarter of 2021, an increase of $107.8 million from the same period in the prior year mainly due to higher commodity prices and condensate and oil sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Three months ended March 31, 2020	53.6	111.4	4.4	2.7	172.1
Effect of changes in sales volumes	1.8	38.8	0.6	–	41.2
Effect of changes in prices	21.9	35.7	10.0	–	67.6
Change in royalty and other revenue	–	–	–	(1.0)	(1.0)
Three months ended March 31, 2021	77.3	185.9	15.0	1.7	279.9

Sales Volumes [(1)]

	Three months ended March 31											
	Natural gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
Grande Prairie	122.6	74.6	64	23,974	14,097	70	2,984	1,680	78	47,385	28,214	68
Kaybob	107.9	140.2	(23)	5,274	7,123	(26)	1,677	2,218	(24)	24,938	32,700	(24)
Central Alberta & Other	42.6	46.7	(9)	606	678	(11)	509	641	(21)	8,217	9,108	(10)
Total	273.1	261.5	4	29,854	21,898	36	5,170	4,539	14	80,540	70,022	15

(1) Readers are referred to the Product Type Information section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Sales volumes were 80,540 Boe/d (43% liquids) in the first quarter of 2021 compared to 70,022 Boe/d (38% liquids) in the same period in 2020. The Company focused its capital program in 2020 and the first quarter of 2021 on its developments at Karr and Wapiti, which resulted in higher 2021 sales volumes in the liquids rich Grande Prairie Region and lower sales volumes in the Kaybob and Central Alberta & Other Regions due to declines. First quarter 2021 sales volumes in the Kaybob and Central Alberta & Other Regions were also lower by approximately 2,000 Boe/d (11.4 MMcf/d of conventional gas and 98 Bbl/d of NGLs) compared to the first quarter of 2020 due to non-core dispositions completed in the first quarter of 2021.

At Karr, first quarter 2021 sales volumes were 33,230 Boe/d (55% liquids) compared to 20,885 Boe/d (53% liquids) in the same period in 2020. The increase resulted from development activities where Paramount brought six wells on production in the first quarter of 2021 in addition to the 15 wells brought onstream in the second half of 2020. In the third quarter of 2020, Paramount also completed a debottlenecking project at Karr which enabled the Company to increase production previously impacted by gathering system constraints. The strong performance at Karr has contributed to the upward revision of the Company's forecasted sales volume guidance for 2021 as discussed under "Revised 2021 Guidance" in this MD&A.

Sales volumes at Wapiti increased to 14,107 Boe/d (62% liquids) in the first quarter of 2021 compared to 7,209 Boe/d (66% liquids) in the first quarter of 2020. The increase was mainly due to two factors: (i) first quarter 2020 sales volumes were impacted by approximately 4,300 Boe/d due to downtime at the third-party Wapiti natural gas processing plant; and (ii) five wells were brought onstream in the fourth quarter of 2020 at Wapiti.

Commodity Prices

Three months ended March 31	2021	2020	% Change
Natural Gas			
Paramount realized price ($/Mcf)	**3.14**	2.25	*40*
AECO daily spot ($/GJ)	**2.99**	1.93	*55*
AECO monthly index ($/GJ)	**2.77**	2.03	*36*
Dawn ($/MMbtu)	**3.72**	2.35	*58*
NYMEX (US$/MMbtu)	**2.73**	1.87	*46*
Malin – monthly index (US$/MMbtu)	**2.70**	2.27	*19*
Condensate and Oil			
Paramount realized condensate & oil price ($/Bbl)	**69.20**	55.92	*24*
Edmonton light sweet crude oil ($/Bbl)	**68.62**	52.02	*32*
West Texas Intermediate (US$/Bbl)	**57.84**	46.17	*25*
Other NGLs (1)			
Paramount realized Other NGLs price ($/Bbl)	**32.29**	10.75	*200*
Conway – propane ($/Bbl)	**48.77**	19.19	*154*
Belvieu – butane ($/Bbl)	**50.35**	31.82	*58*
Foreign Exchange			
$CDN / 1 $US	**1.27**	1.34	*(5)*

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

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

The Company had the following AECO fixed-price physical contracts to sell natural gas at March 31, 2021:

Quantity	Location	Average fixed price	Remaining term
50,000 GJ/d	AECO	CDN$2.52/GJ	April 2021 – October 2021
50,000 GJ/d	AECO	CDN$2.51/GJ	April 2021 – December 2021

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

The Company's butane and propane volumes are generally sold under contracts that are renewed annually in April each year. The Company's propane and butane contracts in place in the first quarter of 2021 had more favorable differentials to West Texas Intermediate reference prices than the same period in 2020.

Financial Commodity Contracts

From time-to-time Paramount uses financial commodity contracts to manage exposure to commodity price volatility. Changes in the fair value of the Company's financial commodity contracts are as follows:

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	**(22.7)**	6.1
Changes in fair value	**(81.2)**	8.8
Settlements paid (received)	**32.7**	(37.6)
Fair value, end of period	**(71.2)**	(22.7)

For further details on the Company's financial commodity contracts, refer to Note 11 of the Interim Financial Statements.

The following table summarizes the Company's financial commodity contracts and fixed-price physical contracts for the remainder of 2021:

	Type (1)	Q2 2021	Q3 2021	Q4 2021	Average Price (2)
Oil –WTI Swaps (Sale) (Bbl/d)	Financial	23,000	15,000	10,000	US$46.37/Bbl
Oil – WTI Swap (Sale) (Bbl/d)	Financial	3,000	3,000	–	C$65.29/Bbl
Condensate – Basis Swap (Sale) (Bbl/d)	Financial	4,000	–	–	WTI + US$0.06/Bbl
Gas – NYMEX Swaps (Sale) (MMbtu/d)	Financial	60,000	60,000	60,000	US$2.71/MMbtu
Gas – AECO fixed price (GJ/d)	Physical	100,000	100,000	66,848	C$2.51/GJ

(1) Financial, refers to financial commodity contracts. Physical, refers to fixed-priced physical contracts.
(2) Average price is calculated using a weighted average of notional volumes and prices.

Royalties

Three months ended March 31	2021	Rate	2020	Rate
Royalties	18.6	6.7%	11.7	6.9%
$/Boe	*2.57*		*1.84*	

Royalties were $18.6 million in the first quarter of 2021, $6.9 million higher than the same period in 2020. Royalties increased in 2021 primarily as a result of higher petroleum and natural gas sales revenues, partially offset by lower average royalty rates at Karr due to new wells that qualify for royalty incentive programs in Alberta being brought onstream.

Operating Expense

Three months ended March 31	2021	2020	% Change
Operating expense	84.3	92.3	(9)
$/Boe	*11.63*	*14.49*	*(20)*

Operating expense was $84.3 million in the first quarter of 2021, $8.0 million lower compared to the same period in 2020, primarily as a result of the Company's prior cost reduction initiatives, including lowering costs related to maintenance, labour and water disposal as well as supplier cost savings. Lower production in the Kaybob Region also contributed to the decrease in operating expense. The decreases in operating expense in the first quarter of 2021 were partially offset by higher processing fees in the Grande Prairie Region.

Operating expense was $11.63 per Boe in the first quarter of 2021 compared to $14.49 per Boe in the same period of 2020, mainly due to the impact of higher production and the cost reductions described above.

Transportation and NGLs Processing

Three months ended March 31	2021	2020	% Change
Transportation and NGLs processing	27.9	23.6	18
$/Boe	*3.84*	*3.70*	4

Transportation and NGLs processing expense was $27.9 million in the first quarter of 2021 compared to $23.6 million in the same period in 2020. Transportation and NGLs processing costs increased in the first quarter of 2021 mainly as a result of higher contracted capacity for Karr and Wapiti, partially offset by lower production in the Kaybob Region.

Other Operating Items

Three months ended March 31	2021	2020
Depletion and depreciation (excluding impairment)	(73.1)	(73.1)
Impairment of petroleum and natural gas assets	–	(191.8)
Gain on sale of oil and gas assets	41.4	2.3
Exploration and evaluation expense	(20.9)	(11.9)

Depletion and depreciation expense was $73.1 million in the first quarter of 2021, unchanged compared to the same period in 2020, with the impact of higher sales volumes being offset by lower depletion rates in the Grande Prairie Region.

At March 31, 2020, the Company recorded impairments of $188.3 million and $3.5 million related to petroleum and natural gas assets in the Kaybob and Northern cash-generating units ("CGUs"), respectively. At December 31, 2020, the Company recorded aggregate impairment reversals of $333.7 million from previously recorded impairment charges, comprised of $287.7 million, $30.6 million and $15.4 million related to petroleum and natural gas assets in the Kaybob, Northern and Central Alberta CGUs, respectively. For additional information on impairments and impairment reversals in 2020, refer to Note 5 of the Annual Financial Statements.

In the first quarter of 2021, the Company sold certain non-core properties in the Kaybob and Central Alberta CGUs for aggregate cash proceeds of approximately $80 million. These assets had average sales volumes of approximately 2,700 Boe/d (15.4 MMcf/d of conventional natural gas and 142 Bbl/d of NGLs) and a netback of approximately $3 million in the fourth quarter of 2020, representing the last full quarter prior to sale. A gain of $41.4 million was recognized on these sales.

Exploration and Evaluation ("E&E") expense was $20.9 million in 2021, an increase of $9.0 million compared to 2020, primarily due to higher expenses for expired mineral leases.

INVESTMENTS IN SECURITIES

As at	March 31, 2021	December 31, 2020
Level one fair value hierarchy securities ("Level One Securities")	110.0	48.4
Level three fair value hierarchy securities ("Level Three Securities")	19.9	11.1
	129.9	59.5

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three months ended, March 31, 2021, the Company recorded $70.2 million of other comprehensive income ("OCI") as a result of changes in the fair value estimates of Level One Securities and Level Three Securities.

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

	Three months ended March 31, 2021 (1)	Twelve months ended December 31, 2020
Investments in securities, beginning of period	59.5	156.9
Changes in fair value of Level One Securities – recorded in OCI	61.6	(50.6)
Changes in fair value of Level Three Securities – recorded in OCI	8.6	32.5
Transfer to dissent payment entitlement	–	(89.3)
Changes in fair value of warrants – recorded in earnings	0.1	(1.7)
Acquired – cash	–	11.7
Investments in securities, end of period	**129.9**	59.5

(1) Column does not add due to rounding.

ASSET RETIREMENT OBLIGATIONS

The area-based closure program introduced by the Alberta Energy Regulator in September 2018 allows companies to approach abandonment and reclamation activities in an efficient and cost-effective manner by targeting efforts in a concentrated area. Paramount's strategy is to utilize the advantages of the area-based closure program by focusing its abandonment and reclamation activities on the Hawkeye property, which was shut-in in 2018, and the Zama property, which was shut-in in 2019.

Abandonment and reclamation expenditures in the first quarter of 2021 totaled $8.4 million, net of approximately $1.7 million in funding under the Alberta Site Rehabilitation Program (the "ASRP"). Activities in the first quarter of 2021 included the abandonment of 120 wells, 119 of which were abandoned under the Company's ongoing area-based closure program at Zama.

The Company's budget for abandonment and reclamation activities in 2021 remains unchanged at approximately $31 million. Approximately $6 million is to be funded directly under the ASRP, resulting in approximately $25 million net to Paramount. The majority of 2021 closure activities will be performed at the Zama property.

As at March 31, 2021, estimated undiscounted, uninflated asset retirement obligations were $1,307.8 million (December 31, 2020 – $1,351.7 million). As at March 31, 2021, the Company's discounted asset retirement obligations were $542.8 million (discounted at 8.25 percent and using an inflation rate of 2.0 percent) compared to $419.5 million as at December 31, 2020 (discounted at 11.0 percent and using an inflation rate of 2.0 percent). For further details concerning the Company's asset retirement obligations, refer to the Interim Financial Statements.

CORPORATE

Three months ended March 31	2021	2020
General and administrative	**(8.7)**	(10.2)
Share-based compensation	**(6.0)**	–
Interest and financing	**(16.7)**	(9.5)
Accretion of asset retirement obligations	**(10.8)**	(10.5)
Change in asset retirement obligations	**(69.5)**	94.8
Deferred income tax recovery (expense)	**22.1**	(106.7)

General and administrative expenses were lower in the first quarter of 2021 compared to the same period in 2020 primarily due to cost reduction initiatives implemented in 2020.

Share-based compensation expense was higher in the first quarter of 2021 compared to the same period in 2020 mainly due to incentive compensation programs that had been suspended in the first quarter of 2020 as part of cost reduction initiatives.

Interest and financing expense was $16.7 million in 2021, an increase of $7.2 million compared to 2020, as a result of higher average debt balances and interest rates under the Paramount Facility.

In the first quarter of 2021, the Company recorded a charge of $69.5 million (three months ended March 31, 2020 - $94.8 million recovery) to earnings mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the credit-adjusted risk-free rate used to discount asset retirement obligations.

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

Three months ended March 31	2021	2020
Drilling, completion and tie-ins	55.7	53.3
Facilities and gathering	1.8	9.4
Corporate	1.8	1.1
Total capital expenditures (1)	59.3	63.8
Grande Prairie Region	51.3	49.8
Kaybob Region	5.0	10.1
Central Alberta and Other Region	1.2	2.8
Corporate	1.8	1.1
Total capital expenditures (1)	59.3	63.8

(1) "Total Capital Expenditures" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Total capital expenditures were $59.3 million in the first quarter of 2021 compared to $63.8 million in the first quarter of 2020. Expenditures in the first quarter of 2021 were mainly directed to drilling and completion programs in the Grande Prairie Region. Significant capital program activities undertaken in the first quarter of 2021 are described below:

- At Karr, the Company drilled 9 (9.0 net) wells, commenced drilling operations on 4 (4.0 net) wells, commenced completion activities on 3 (3.0 net) wells and completed and brought on production 6 (6.0 net) wells.

- At Wapiti, Paramount drilled 4 (4.0 net) wells.

- In the Kaybob Region, the Company completed 1 (1.0 net) oil well at Ante Creek.

- In the Central Alberta & Other region, the Company commenced drilling of 1 (1.0 net) well at Willesden Green.

Paramount has continued to realize capital cost savings to date in 2021, with DCET costs at Karr averaging lower than prior estimates and below average 2020 DCET costs as described in this MD&A under "Q1 2021 Overview".

LIQUIDITY AND CAPITAL RESOURCES

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 settlement of obligations when due; and

iii. maximize shareholder returns.

Paramount targets net debt to adjusted funds flow of between 1.0x (during periods of higher commodity prices) and 2.0x (during periods of lower commodity prices), with anticipated 2021 year-end net debt to adjusted funds flow of less than 1.5x.

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

As at	March 31, 2021	December 31, 2020
Cash and cash equivalents	(7.4)	(4.6)
Accounts receivable [1]	(117.7)	(97.7)
Prepaid expenses and other	(8.0)	(9.9)
Accounts payable and accrued liabilities	182.1	152.8
Adjusted working capital deficit [1] [2]	49.0	40.6
Long-term debt	712.7	813.5
Net debt [2]	761.7	854.1
Share capital	2,212.2	2,207.4
Accumulated deficit	(317.5)	(235.1)
Equity component of convertible debentures	1.7	–
Reserves	138.7	65.4
Total Capital	2,796.8	2,891.8

(1) Adjusted working capital excludes risk management assets and liabilities, accounts receivable relating to subleases (March 31, 2021 – $2.4 million, December 31, 2020 – $2.3 million) and the current portion of asset retirement obligations and other.
(2) "Net Debt" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Paramount's operations are capital intensive and adequate sources of liquidity are required to fund ongoing exploration and development activities, discharge asset retirement obligations and satisfy contractual commitments. Paramount's available capital resources include cash from operating activities and available capacity under its senior secured revolving bank credit facility (the "Paramount Facility"), the terms of which are described further below.

Based on the forecasts of 2021 sales volumes and the pricing assumptions set out in this MD&A under "Revised 2021 Guidance", Paramount expects to fully fund budgeted 2021 capital expenditures of between $265 million and $285 million and net budgeted expenditures for abandonment and reclamation activities of $25 million with cash from operating activities. Paramount may utilize borrowing capacity under the Paramount Facility for liquidity from time to time to fund operations during periods of the year in which expenditures exceed cash from operating activities.

The ability of cash from operating activities to satisfy the Company's funding requirements in 2021 and future years is dependent on a number of factors, including commodity prices, sales volumes, royalties, operating and transportation costs, general and administrative and interest expenses and foreign exchange rates.

Paramount may also determine to divest of assets or investments in securities from time to time to reduce indebtedness or fund operations. In the first quarter of 2021, the Company sold non-core properties for aggregate cash proceeds of approximately $80 million and used such proceeds to reduce indebtedness under the Paramount Facility.

Subject to market conditions and availability, proceeds from new debt and/or equity financings may also provide additional sources of capital from time to time. In January 2021, as described below under "Convertible Debentures", the Company issued $35.0 million of senior unsecured convertible debentures and used the proceeds to reduce indebtedness under the Paramount Facility.

Paramount Facility

Paramount was in compliance with the financial covenants under its $1.0 billion financial-covenant based Paramount Facility at March 31, 2021.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling $1.3 million at March 31, 2021 that reduce the amount available to be drawn on the Paramount Facility.

For additional information on the Paramount Facility, refer to Note 8 of the Annual Financial Statements.

Unsecured Letter of Credit Facility

The Company has a $70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The PSG is valid to June 30, 2021 and may be extended at the option of Paramount and with the agreement of EDC.

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

Convertible Debentures

In January 2021, the Company completed a private placement of $35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased $25.0 million of the Convertible Debentures. An entity controlled by the Company's Executive Vice President, Corporate Development and Planning, purchased $0.1 million of the Convertible Debentures. The Convertible Debentures mature on January 31, 2024 (the "Maturity Date"), bear interest at 7.50 percent per annum payable monthly in arrears and are convertible by the holder into Common Shares at any time prior to the Maturity Date at a conversion price of $6.72 per Common Share prior to January 31, 2022, $7.33 per Common Share on or after January 31, 2022 and prior to January 31, 2023 and $7.94 per Common Share on or after January 31, 2023.

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

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

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

As at March 31, 2021, there were $35.0 million aggregate principal amount of Convertible Debentures outstanding.

Cash Flow Hedges

The Company had the following floating-to-fixed interest rate and electricity swaps at March 31, 2021:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	$250 million	April 2021 – January 2023	2.3%	CDOR (1)	(7.8)
Interest Rate Swaps	$250 million	April 2021 – January 2026	2.4%	CDOR (1)	(12.2)
Electricity Swaps	5 MWh/d (2)	April 2021 – December 2021	$51.68/MWh	AESO Pool Price (3)	0.5
					(19.5)

(1) Canadian Dollar Offered Rate.
(2) "MWh" means MegaWatt hour.
(3) Floating hourly rate established by the Alberta Electric System Operator.

The Company classified its floating-to-fixed interest rate swaps and electricity swaps as cash flow hedges and has applied hedge accounting. As at March 31, 2021, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

Share Capital

At April 30, 2021, Paramount had 133,166,380 Common Shares outstanding (net of 1,553,017 Common Shares held in trust under the Company's restricted share unit plan) and 9,089,915 options to acquire Common Shares outstanding, of which 1,884,390 options are exercisable.

At April 30, 2021, $35.0 million aggregate principal amount of Convertible Debentures were issued and outstanding. A total maximum of 5.2 million Common Shares are issuable upon conversion of the outstanding Convertible Debentures at the current conversion price of $6.72 per Common Share.

QUARTERLY INFORMATION

	2021	2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	**279.9**	202.0	138.8	113.2	172.1	259.9	199.8	209.2
Net income (loss)	**(82.5)**	311.5	(23.3)	(75.7)	(235.1)	(31.1)	141.0	(121.0)
Per share – basic & diluted ($/share)	***(0.62)***	*2.35*	*(0.17)*	*(0.57)*	*(1.76)*	*(0.24)*	*1.08*	*(0.93)*
Cash from (used in) operating activities	**81.3**	53.2	11.4	(14.2)	30.5	70.5	48.6	48.1
Per share – basic & diluted ($/share)	***0.61***	*0.40*	*0.09*	*(0.11)*	*0.23*	*0.54*	*0.37*	*0.37*
Adjusted funds flow	**90.9**	67.9	29.5	19.0	33.5	93.5	50.9	54.2
Per share – basic & diluted ($/share)	***0.69***	*0.51*	*0.22*	*0.14*	*0.25*	*0.71*	*0.39*	*0.41*
Sales volumes (1)								
Natural gas (MMcf/d)	**273.1**	256.3	224.0	253.2	261.5	299.0	296.6	309.7
Condensate and oil (Bbl/d)	**29,854**	25,752	19,782	22,823	21,898	28,516	24,761	23,312
Other NGLs (Bbl/d)	**5,170**	4,987	3,952	3,817	4,539	7,064	6,851	6,859
Total (Boe/d)	**80,540**	73,460	61,064	68,839	70,022	85,411	81,046	81,793
Realized prices								
Natural gas ($/Mcf)	**3.14**	2.83	1.94	1.94	2.25	2.73	1.58	1.76
Condensate and oil ($/Bbl)	**69.20**	52.03	48.74	29.05	55.92	66.70	65.73	71.02
Other NGLs ($/Bbl)	**32.29**	20.61	18.10	12.28	10.75	13.03	9.78	11.01
Total ($/Boe)	**38.61**	29.89	24.70	18.07	27.01	33.08	26.80	28.10

(1) Readers are referred to the Product Type Information section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Significant Items Impacting Quarterly Results

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

- The first quarter 2021 loss includes an $81.2 million loss on financial commodity contracts, a charge of $69.5 million mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value and a $41.4 million gain on the sale of oil and gas assets.
- Fourth quarter 2020 earnings include aggregate impairment reversals of $333.7 million from previously recorded impairment charges of petroleum and natural gas assets and a deferred income tax recovery of $64.4 million, partially offset by a charge of $29.7 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.
- The third quarter 2020 loss includes a recovery of $25.6 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.
- The second quarter 2020 loss includes a recovery of $13.6 million related to deferred income tax.
- The first quarter 2020 loss includes a $191.8 million impairment of petroleum and natural gas assets, and a derecognition of $130.0 million of the deferred income tax asset, partially offset by a recovery of $94.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.

- The fourth quarter 2019 loss includes a recovery of $33.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- Third quarter 2019 earnings include a $157.3 million gain on the sale of oil and gas assets, primarily related to the sale of the Karr 6-18 natural gas facility and related midstream assets and a recovery of $73.5 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- The second quarter 2019 loss includes $102.1 million of deferred income tax expense, primarily related to a reduction in Alberta income tax rates and a $27.6 million gain on financial commodity contracts.

OTHER INFORMATION

Contingencies

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

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

Provision

In the first quarter of 2021, the Company recorded a provision of $7.5 million with respect to arrangements with a service provider. The Company has unsettled claims against the same service provider for significantly larger amounts with respect to certain related matters which have not been recognized. The outcome of all of these matters remains uncertain.

ADOPTION OF ACCOUNTING STANDARDS

Financial Instruments

Effective January 1, 2021, the Company adopted the phase two amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures,* IFRS 4 – *Insurance Contracts* and IFRS 16 – *Leases*. These amendments provide guidance in applying IFRS when changes are made to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate from the Interbank Offered Rate ("IBOR") reform. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments. The Company's floating-to-fixed interest rate swaps, which are described in Note 11 of the Interim Financial Statements, may be impacted by these amendments in the future as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended March 31, 2021, there was no change in the Company's internal control over financial reporting ("ICFR") that materially affected, or is reasonably likely to materially affect, the Company's ICFR. Paramount does not believe that process changes put in place in connection with the COVID-19 pandemic have materially affected ICFR.

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

RISK FACTORS

Readers should, in conjunction with their review of this MD&A, carefully review the "Risk Factors" section in the Company's Annual Information Form for the year ended December 31, 2020, which is available under the Company's profile on SEDAR at www.sedar.com.

The course of the COVID-19 pandemic and its ultimate impact remain highly uncertain. The ultimate impact of the pandemic on Paramount's future operations and financial performance is unknown and is dependent on a number of unpredictable factors outside of the knowledge and control of Management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. See "Risk Factors – COVID 19 Pandemic" in the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

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

The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of the Interim Financial Statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future periods as additional information becomes available.

PRODUCT TYPE INFORMATION

This MD&A includes references to sales volumes of "natural gas", "condensate and oil" and "Other NGLs" and revenues therefrom. "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Below is a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. Numbers may not add due to rounding.

	2021	2020				2019			Annual	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	2020	2019
SALES VOLUMES - BY PRODUCT TYPE										
Shale gas (MMcf/d)	**197.8**	170.7	141.0	156.0	158.9	176.6	159.3	164.1	156.7	166.0
Conventional natural gas (MMcf/d)	**75.3**	85.6	83.0	97.2	102.6	122.4	137.3	145.6	92.0	137.3
Natural gas (MMcf/d)	**273.1**	256.3	224.0	253.2	261.5	299.0	296.6	309.7	248.7	303.3
Condensate (Bbl/d)	**27,017**	22,782	17,020	19,615	17,908	23,956	20,230	17,781	19,334	19,746
Other NGLs (Bbl/d)	**5,170**	4,987	3,952	3,817	4,539	7,064	6,851	6,859	4,325	6,767
NGLs (Bbl/d)	**32,187**	27,769	20,972	23,432	22,447	31,020	27,081	24,640	23,659	26,513
Tight oil (Bbl/d)	**479**	437	457	381	575	745	523	603	462	631
Light and Medium crude oil (Bbl/d)	**2,358**	2,533	2,305	2,827	3,416	3,815	4,008	4,928	2,768	4,703
Crude oil (Bbl/d)	**2,837**	2,970	2,762	3,208	3,991	4,560	4,531	5,531	3,230	5,334
Total (Boe/d)	**80,540**	73,460	61,064	68,839	70,022	85,411	81,046	81,793	68,340	82,394

SALES VOLUMES – BY REGION BY PRODUCT TYPE										
GRANDE PRAIRIE REGION										
Shale gas (MMcf/d)	**120.6**	92.7	66.0	76.8	73.1	91.5	70.5	73.4	77.2	78.0
Conventional natural gas (MMcf/d)	**2.0**	1.6	1.3	1.5	1.5	1.9	1.6	1.2	1.4	1.5
Natural gas (MMcf/d)	**122.6**	94.3	67.3	78.3	74.6	93.4	72.1	74.6	78.6	79.5
Condensate (Bbl/d)	**23,974**	19,635	13,959	16,292	14,058	18,760	14,269	11,678	15,991	13,920
Other NGLs (Bbl/d)	**2,984**	2,429	2,060	1,680	1,680	2,376	1,587	1,686	1,964	1,814
NGLs (Bbl/d)	**26,958**	22,064	16,019	17,972	15,738	21,136	15,856	13,364	17,955	15,734
Tight oil (Bbl/d)	**–**	–	–	–	–	–	–	–	–	–
Light and medium crude oil (Bbl/d)	**–**	–	1	17	39	91	61	13	14	53
Crude oil (Bbl/d)	**–**	–	1	17	39	91	61	13	14	53
Total (Boe/d)	**47,385**	37,782	27,237	31,039	28,214	36,789	27,927	25,804	31,076	29,040

KAYBOB REGION										
Shale gas (MMcf/d)	**42.1**	41.9	40.4	44.4	48.6	48.3	52.4	51.6	43.8	50.3
Conventional natural gas (MMcf/d)	**65.8**	76.3	73.4	87.1	91.6	89.1	91.8	101.5	82.1	95.9
Natural gas (MMcf/d)	**107.9**	118.2	113.8	131.5	140.2	137.4	144.2	153.1	125.9	146.2
Condensate (Bbl/d)	**2,611**	2,631	2,577	2,954	3,385	3,899	4,411	4,526	2,885	4,361
Other NGLs (Bbl/d)	**1,677**	1,953	1,363	1,718	2,218	2,504	2,450	2,622	1,812	2,476
NGLs (Bbl/d)	**4,288**	4,584	3,940	4,672	5,603	6,403	6,861	7,148	4,697	6,837
Tight oil (Bbl/d)	**342**	299	308	203	394	541	329	286	301	360
Light and medium crude oil (Bbl/d)	**2,321**	2,480	2,257	2,762	3,343	3,331	3,391	4,182	2,709	3,929
Crude oil (Bbl/d)	**2,663**	2,779	2,565	2,965	3,737	3,872	3,720	4,468	3,010	4,289
Total (Boe/d)	**24,938**	27,056	25,477	29,561	32,700	33,167	34,615	37,127	28,685	35,500

CENTRAL ALBERTA & OTHER REGION										
Shale gas (MMcf/d)	**35.1**	36.1	34.6	34.8	37.1	36.8	36.4	39.1	35.7	37.7
Conventional natural gas (MMcf/d)	**7.5**	7.7	8.3	8.6	9.6	31.4	43.9	42.9	8.5	39.9
Natural gas (MMcf/d)	**42.6**	43.8	42.9	43.4	46.7	68.2	80.3	82.0	44.2	77.6
Condensate (Bbl/d)	**433**	515	484	369	465	1,298	1,551	1,577	458	1,464
Other NGLs (Bbl/d)	**509**	605	529	419	641	2,184	2,814	2,551	549	2,477
NGLs (Bbl/d)	**942**	1,120	1,013	788	1,106	3,482	4,365	4,128	1,007	3,941
Tight oil (Bbl/d)	**136**	138	149	178	180	203	194	317	161	271
Light and Medium crude oil (Bbl/d)	**37**	54	47	48	33	393	556	733	46	721
Crude oil (Bbl/d)	**173**	192	196	226	213	596	750	1,050	207	992
Total (Boe/d)	**8,217**	8,622	8,350	8,239	9,108	15,455	18,504	18,862	8,579	17,854

	2021	2020				2019			Annual	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	2020	2019
SALES VOLUMES – KARR BY PRODUCT TYPE										
Shale gas (MMcf/d)	**89.1**	69.6	48.6	45.5	58.7	68.6	57.9	68.0	55.6	67.2
Conventional natural gas (MMcf/d)	**1.1**	0.9	0.6	0.6	0.7	0.5	0.4	0.5	0.7	0.5
Natural gas (MMcf/d)	**90.2**	70.5	49.2	46.1	59.4	69.1	58.3	68.5	56.3	67.7
Condensate (Bbl/d)	**16,095**	13,348	9,541	7,501	9,691	11,816	8,712	8,858	10,028	10,024
Other NGLs (Bbl/d)	**2,108**	1,817	1,503	829	1,290	1,614	1,117	1,505	1,361	1,453
NGLs (Bbl/d)	**18,203**	15,165	11,044	8,330	10,981	13,430	9,829	10,363	11,389	11,477
Total (Boe/d)	**33,230**	26,914	19,246	16,009	20,885	24,943	19,542	21,782	20,777	22,755

SALES VOLUMES – WAPITI BY PRODUCT TYPE										
Shale gas (MMcf/d)	**31.5**	22.8	17.4	31.3	14.5	22.9	12.6	5.3	21.5	10.8
Conventional natural gas (MMcf/d)	**0.6**	0.5	0.4	0.6	0.3	0.7	0.4	0.2	0.4	0.3
Natural gas (MMcf/d)	**32.1**	23.3	17.8	31.9	14.8	23.6	13.0	5.5	21.9	11.1
Condensate (Bbl/d)	**7,884**	6,286	4,414	8,786	4,364	6,865	5,548	2,814	5,959	3,879
Other NGLs (Bbl/d)	**867**	589	548	841	386	706	454	168	591	344
NGLs (Bbl/d)	**8,751**	6,875	4,962	9,627	4,750	7,571	6,002	2,982	6,550	4,223
Total (Boe/d)	**14,107**	10,764	7,925	14,940	7,209	11,498	8,163	3,903	10,207	6,082

The Company forecasts that 2021 sales volumes will average between 80,000 Boe/d and 82,000 Boe/d (56% shale gas and conventional natural gas combined, 38% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second quarter 2021 sales volumes are expected to average between 77,000 Boe/d and 78,000 Boe/d (58% shale gas and conventional natural gas combined, 36% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second half 2021 sales volumes are expected to average between 80,000 Boe/d and 84,000 Boe/d (55% shale gas and conventional natural gas combined, 39% light and medium crude oil, tight oil and condensate combined and 6% other NGLs).

ADVISORIES

Forward-looking Information

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

- the anticipated closing of the Birch Disposition;
- forecast sales volumes for 2021 and certain periods therein;
- forecast free cash flow in 2021;
- anticipated cost savings in the Company's 2021 capital program;
- planned capital expenditures in 2021;
- the Company's expectation that 2021 free cash flow will be directed towards debt reduction;
- forecast 2021 year-end net debt to annual adjusted funds flow;
- preliminary anticipated capital expenditures in 2022 and the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- planned exploration, development and production activities, including the expected timing of drilling, completing and bringing new wells on production;

- planned abandonment and reclamation expenditures and activities in 2021 and anticipated funding under the ASRP;
- the expectation that the Company will be able to fund budgeted capital expenditures and budgeted expenditures for abandonment and reclamation activities from cash from operating activities;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position; and
- COVID-19 pandemic response measures and the potential impacts of the pandemic.

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

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

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

- those risks set out in this MD&A under "Risk Factors";
- fluctuations in commodity prices, including in relation to the impact of the COVID-19 pandemic;
- the failure to satisfy the conditions to closing of the Birch Disposition;
- changes in capital spending plans and planned exploration and development activities;

- the potential for changes to preliminary anticipated 2022 capital expenditures prior to finalization and changes to the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, free cash flow, production, reserves additions, product yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting sales volumes, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operating activities and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount’s other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in Paramount's annual information form for the year ended December 31, 2020, which is available on SEDAR at www.sedar.com. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Certain forward-looking information in this MD&A, including forecast free cash flow in 2021 and forecast 2021 year-end net debt to adjusted funds flow, may also constitute a "financial outlook" within the meaning of applicable securities laws. A financial outlook involves statements about Paramount’s prospective financial performance or position and is based on and subject to the assumptions and risk factors described above in respect of forward-looking information generally as well as any other specific assumptions and risk factors in relation to such financial outlook noted in this MD&A. Such assumptions are based on management's assessment of the relevant information currently available and any financial outlook included in this MD&A is provided for the purpose of helping readers understand Paramount's current expectations and plans for the future. Readers are cautioned that reliance on any financial outlook may not be appropriate for other purposes or in other circumstances and that the risk factors described above or other factors may cause actual results to differ materially from any financial outlook.

Non-GAAP Financial Measures

In this document, "adjusted funds flow", "free cash flow", "netback", "net debt", "adjusted working capital" "net debt to adjusted funds flow" and "total capital expenditures", collectively the "Non-GAAP Financial Measures", are used and do not have any standardized meanings as prescribed by IFRS.

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

"Free cash flow" refers to adjusted funds flow less total capital expenditures and asset retirement obligation settlements. Free cash flow is used by Management and investors to assess the amount of internally generated cash available to repay debt, reinvest in the business or return to shareholders.

The following is the calculation of free cash flow from the nearest GAAP measure for the three months ended March 31, 2021:

Three months ended	March 31, 2021 ($ Millions)
Cash from operating activities	**81.3**
Change in non-cash working capital	(7.9)
Geological and geophysical expenses	1.6
Asset retirement obligations settled	8.4
Provisions and other	7.5
Adjusted funds flow	**90.9**
Total capital expenditures	(59.3)
Asset retirement obligation settlements	(8.4)
Free cash flow	**23.2**

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

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

"Net debt to adjusted funds flow" is a ratio calculated as the period end net debt divided by the sum of adjusted funds flow for the trailing four quarters. The ratio of net debt to adjusted funds flow is commonly used by management and investors to assess the Company's overall debt position and to measure the strength of the Company's balance sheet.

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

The Non-GAAP Financial 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 Financial Measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

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

Abbreviations

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

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

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

This MD&A contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the three months ended March 31, 2021, the value ratio between crude oil and natural gas was approximately 25:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Interim Condensed Consolidated Financial Statements (Unaudited)
As at and for the three months ended March 31, 2021

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ thousands)

As at	Note	March 31 2021	December 31 2020
ASSETS			
Current assets			
Cash and cash equivalents	14	7,421	4,590
Accounts receivable		120,076	99,986
Risk management – current	11	547	408
Prepaid expenses and other		7,971	9,931
		136,015	114,915
Lease receivable	6	2,149	2,758
Dissent payment entitlement		89,250	89,250
Investments in securities	4	129,900	59,529
Exploration and evaluation	2	563,187	612,129
Property, plant and equipment, net	3	1,988,602	1,959,603
Deferred income tax	10	674,029	658,811
		3,583,132	3,496,995
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		182,139	152,756
Risk management – current	11	80,753	32,281
Asset retirement obligations and other – current	6	35,490	32,229
		298,382	217,266
Long-term debt	5	712,652	813,491
Risk management – long-term	11	10,446	19,441
Asset retirement obligations and other – long-term	6	526,626	409,016
		1,548,106	1,459,214
Commitments and contingencies	15		
Shareholders' equity			
Share capital	7	2,212,178	2,207,408
Accumulated deficit		(317,538)	(235,061)
Equity component of convertible debentures	5	1,673	–
Reserves	8	138,713	65,434
		2,035,026	2,037,781
		3,583,132	3,496,995

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2021	2020
Petroleum and natural gas sales		279,865	172,090
Royalties		(18,619)	(11,683)
Revenue	12	261,246	160,407
Gain (loss) on financial commodity contracts	11	(81,179)	42,324
		180,067	202,731
Expenses			
Operating expense		84,299	92,336
Transportation and NGLs processing		27,864	23,603
General and administrative		8,708	10,183
Share-based compensation	9	5,973	14
Depletion, depreciation and impairment	3	73,143	264,933
Exploration and evaluation	2	20,892	11,930
Gain on sale of oil and gas assets		(41,395)	(2,306)
Interest and financing		16,711	9,482
Accretion of asset retirement obligations	6	10,776	10,470
Change in asset retirement obligations	6	69,533	(94,828)
Foreign exchange		274	(753)
		276,778	325,064
Other loss	13	(7,891)	(6,033)
Loss before tax		(104,602)	(128,366)
Income tax expense (recovery)			
Deferred	10	(22,125)	106,716
		(22,125)	106,716
Net loss		(82,477)	(235,082)
Other comprehensive income (loss), net of tax	8		
Items that will be reclassified to net income (loss)			
Change in fair value of cash flow hedges, net of tax		5,464	(18,363)
Reclassification to net income (loss), net of tax		1,574	467
Items that will not be reclassified to net income (loss)			
Change in fair value of securities, net of tax	4	65,977	(115,666)
Comprehensive loss		(9,462)	(368,644)
Net loss per common share ($/share)	7		
Basic and diluted		(0.62)	(1.76)

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
($ thousands, except as noted)

Three months ended March 31	Note	2021	2020
Operating activities			
Net loss		(82,477)	(235,082)
Add (deduct):			
Items not involving cash	14	164,217	261,575
Asset retirement obligations settled	6	(8,351)	(30,255)
Change in non-cash working capital		7,892	34,293
Cash from operating activities		81,281	30,531
Financing activities			
Net draw (repayment) of revolving long-term debt	5	(134,378)	19,185
Lease liabilities - principal repayments	6	(1,898)	(1,876)
Convertible debentures issued, net of issue costs	5	34,919	–
Common shares issued, net of issue costs		3,274	16
Cash from (used in) financing activities		(98,083)	17,325
Investing activities			
Property, plant and equipment and exploration		(59,264)	(63,849)
Sale of oil and gas assets		79,638	1,488
Investments		(12)	(900)
Change in non-cash working capital		(839)	15,019
Cash from (used in) investing activities		19,523	(48,242)
Net increase (decrease)		2,721	(386)
Foreign exchange on cash and cash equivalents		110	38
Cash and cash equivalents, beginning of period		4,590	6,016
Cash and cash equivalents, end of period		7,421	5,668
Supplemental cash flow information	14		

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2021		2020	
		Shares (000's)		*Shares (000's)*	
Share capital					
Balance, beginning of period		*132,284*	2,207,408	*133,337*	2,207,485
Issued		*470*	4,192	*2*	19
Change in Common Shares for restricted share unit plan	9	–	578	*7*	(180)
Balance, end of period		*132,754*	2,212,178	*133,346*	2,207,324
Accumulated deficit					
Balance, beginning of period			(235,061)		(128,487)
Net loss			(82,477)		(235,082)
Reclassification of accumulated losses on securities			–		(14,000)
Balance, end of period			(317,538)		(377,569)
Equity component of convertible debentures	5				
Balance, beginning of period			–		–
Issued			1,673		–
Balance, end of period			1,673		–
Reserves	8				
Balance, beginning of period			65,434		4,182
Other comprehensive income (loss)			73,015		(133,562)
Contributed surplus			264		2,055
Reclassification of accumulated losses on securities			–		14,000
Balance, end of period			138,713		(113,325)
Total Shareholders' Equity			2,035,026		1,716,430

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

1. Basis of Presentation

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

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 2800, 421 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership, Cavalier Energy Inc. and MGM Energy. The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. Intercompany balances and transactions have been eliminated.

These unaudited Interim Condensed Consolidated Financial Statements of the Company, as at and for the three months ended March 31, 2021 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 4, 2021.

These Interim Financial Statements have been prepared in accordance with *IAS 34 – Interim Financial Reporting* on a basis consistent with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2020 (the "Annual Financial Statements"). Certain comparative figures have been reclassified to conform to the current years' presentation.

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

Adoption of Accounting Standards

Financial Instruments

Effective January 1, 2021, the Company adopted the phase two amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures,* IFRS 4 – *Insurance Contracts* and IFRS 16 – *Leases*. These amendments provide guidance in applying IFRS when changes are made to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate from the Interbank Offered Rate ("IBOR") reform. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments. The Company's floating-to-fixed interest rate swaps, which are described in Note 11, may be impacted by these amendments in the future as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform.

Significant Accounting Estimates, Assumptions & Judgments

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

The course of the COVID-19 pandemic and its ultimate impact remain highly uncertain. The ultimate impact of the pandemic on Paramount's future operations and financial performance is unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of Management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of these Interim Financial Statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

2. Exploration and Evaluation

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Balance, beginning of period	612,129	650,414
Additions	4,626	3,294
Change in asset retirement provision	738	(724)
Transfers to property, plant and equipment	–	(8,735)
Expired lease costs	(19,113)	(25,585)
Dispositions (see Note 3)	(35,193)	(6,535)
Balance, end of period	563,187	612,129

Exploration and Evaluation Expense

Three months ended March 31	2021	2020
Geological and geophysical	1,779	2,605
Expired lease costs	19,113	9,325
	20,892	11,930

At March 31, 2021, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

3. Property, Plant and Equipment

Three months ended March 31, 2021	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, beginning of period	4,125,044	162,476	15,459	48,053	**4,351,032**
Additions	59,022	658	108	537	**60,325**
Dispositions	(35,291)	–	–	–	**(35,291)**
Change in asset retirement provision	52,463	–	–	–	**52,463**
Cost, end of period	4,201,238	163,134	15,567	48,590	**4,428,529**
Accumulated depletion, depreciation and impairment					
Balance, beginning of period	(2,245,733)	(99,902)	(8,670)	(37,124)	**(2,391,429)**
Depletion and depreciation	(70,395)	(2,319)	(851)	(803)	**(74,368)**
Dispositions	25,870	–	–	–	**25,870**
Accumulated depletion, depreciation and impairment, end of period	(2,290,258)	(102,221)	(9,521)	(37,927)	**(2,439,927)**
Net book value, December 31, 2020	1,879,311	62,574	6,789	10,929	**1,959,603**
Net book value, March 31, 2021	1,910,980	60,913	6,046	10,663	**1,988,602**

Depletion, Depreciation and Impairment

Three months ended March 31	2021	2020
Depletion and depreciation	**73,143**	73,137
Impairment of petroleum and natural gas assets	**–**	191,796
	73,143	264,933

In the first quarter of 2021, the Company sold certain non-core properties in the Kaybob and Central Alberta cash-generating units ("CGUs") for gross cash proceeds of approximately $80 million. A gain of $41.4 million was recognized on these sales.

At December 31, 2020, the Company recorded aggregate impairment reversals of $333.7 million from previously recorded impairment charges, comprised of $287.7 million, $30.6 million and $15.4 million related to petroleum and natural gas assets in the Kaybob, Northern and Central Alberta CGUs, respectively. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at March 31, 2020. The increase in the estimated recoverable amount of these CGUs was mainly due to lower operating and capital costs than previously forecasted and changes to the development plan.

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

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

4. Investments in Securities

As at	March 31, 2021	December 31, 2020
Level one fair value hierarchy securities ("Level One Securities")	110,034	48,425
Level three fair value hierarchy securities ("Level Three Securities")	19,866	11,104
	129,900	59,529

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three months ended March 31, 2021, the Company recorded $70.2 million of other comprehensive income ("OCI") as a result of changes in the fair value estimates of Level One Securities and Level Three Securities.

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

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Investments in securities, beginning of period	59,529	156,889
Changes in fair value of Level One Securities – recorded in OCI	61,609	(50,632)
Changes in fair value of Level Three Securities – recorded in OCI	8,638	32,547
Transfer to Dissent payment entitlement	–	(89,250)
Changes in fair value of warrants (1) – recorded in earnings	112	(1,692)
Acquired – cash	12	11,667
Investments in securities, end of period	129,900	59,529

(1) Strathcona Resources Ltd. warrants (previously the Strath Resources Ltd. warrants).

5. Long-Term Debt

As at	March 31, 2021	December 31, 2020
Paramount Facility (1)	679,789	813,491
Convertible Debentures	32,863	–
Long-term debt	712,652	813,491

(1) Paramount Facility presented net of $2.4 million in unamortized transaction costs (December 31, 2020 - $2.2 million).

Paramount Facility

Paramount was in compliance with the financial covenants under its $1.0 billion financial-covenant based senior secured revolving bank credit facility (the "Paramount Facility") at March 31, 2021.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling $1.3 million at March 31, 2021 that reduce the amount available to be drawn on the Paramount Facility.

For additional information on the Paramount Facility, refer to Note 8 of the Annual Financial Statements.

Unsecured Letter of Credit Facility

The Company has a $70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The PSG is valid to June 30, 2021 and may be extended at the option of Paramount and with the agreement of EDC.

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

Convertible Debentures

Three months ended March 31, 2021	Liability Component (1)	Equity Component
Balance, beginning of period	–	–
Issued, net of issue costs	32,746	2,176
Deferred taxes	–	(503)
Accretion	117	–
Balance, end of period	**32,863**	**1,673**

(1) For the three months ended March 31, 2021, total interest payments made in respect of the Convertible Debentures was $0.5 million.

In January 2021, the Company completed a private placement of $35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased $25.0 million of the Convertible Debentures. An entity controlled by the Company's Executive Vice President, Corporate Development and Planning, purchased $0.1 million of the Convertible Debentures. The Convertible Debentures mature on January 31, 2024 (the "Maturity Date"), bear interest at 7.50 percent per annum payable monthly in arrears and are convertible by the holder into Common Shares at any time prior to the Maturity Date at a conversion price of $6.72 per Common Share prior to January 31, 2022, $7.33 per Common Share on or after January 31, 2022 and prior to January 31, 2023 and $7.94 per Common Share on or after January 31, 2023.

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

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

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

As at March 31, 2021, there were $35.0 million aggregate principal amount of Convertible Debentures outstanding.

6. Asset Retirement Obligations and Other

As at March 31, 2021	Current	Long-term	Total
Asset retirement obligations	25,400	517,360	542,760
Lease liabilities	10,090	9,266	19,356
Asset retirement obligations and other	**35,490**	**526,626**	**562,116**

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

Asset Retirement Obligations

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Asset retirement obligations, beginning of period	419,526	569,897
Additions	141	507
Change in estimates	(658)	(7,605)
Change in discount rate	124,943	(145,178)
Obligations settled – cash	(8,351)	(34,994)
Obligations settled – funding under the Alberta Site Rehabilitation Program	(1,693)	(4,423)
Dispositions	(1,924)	(2,036)
Accretion expense	10,776	43,358
Asset retirement obligations, end of period	542,760	419,526

As at March 31, 2021, estimated undiscounted, uninflated asset retirement obligations were $1,307.8 million (December 31, 2020 – $1,351.7 million). Asset retirement obligations have been determined using a credit-adjusted risk-free discount rate of 8.25 percent (December 31, 2020 – 11.0 percent) and an inflation rate of 2.0 percent (December 31, 2020 – 2.0 percent).

For the three months ended March 31, 2021, the Company recorded a charge of $69.5 million (three months ended March 31, 2020 - a recovery of $94.8 million) to earnings mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the credit-adjusted risk-free rate used to discount obligations and also included a recovery for the three months ended March 31, 2021 of $1.7 million (twelve months ended December 31, 2020 - $4.4 million) in respect of funding under the Alberta Site Rehabilitation Program.

Lease Liabilities

Paramount has lease liabilities in respect of office space and vehicles, which have been recognized at the discounted value of the remaining fixed lease payments. For the three months ended March 31, 2021, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were $2.1 million, (March 31, 2020 - $2.2 million) of which $0.2 million (March 31, 2020 - $0.3 million) was recognized in interest and financing expense.

For the three months ended March 31, 2021, expenses related to arrangements containing variable operating costs, short-term and low value leases which have not been included in the lease liability were approximately $0.6 million (March 31, 2020 - $1.0 million).

As at March 31, 2021, $4.5 million (December 31, 2020 - $5.1 million) was due to the Company in respect of sublease arrangements for Paramount's office space, of which $2.4 million (December 31, 2020 - $2.3 million) was classified as current and $2.1 million (December 31, 2020 - $2.8 million) was classified as non-current. For the three months ended March 31, 2021, $0.6 million (March 31, 2020 - $0.6 million) was received in respect of office sublease arrangements, of which $0.1 million (March 31, 2020 - $0.1 million) was recognized in interest revenue.

7. Share Capital

As at March 31, 2021, 132,753,503 (December 31, 2020 – 132,284,323) class A common shares of the Company ("Common Shares") were outstanding, net of 1,914,394 (December 31, 2020 – 1,914,394) Common Shares held in trust under the restricted share unit plan.

Weighted Average Common Shares

Three months ended March 31	2021		2020	
	Wtd. Avg. Shares (000's)	**Net loss**	*Wtd. Avg. Shares (000's)*	Net loss
Net loss – basic	***132,489***	**(82,477)**	*133,345*	(235,082)
Dilutive effect of Convertible Debentures	**–**	**–**	–	–
Dilutive effect of Paramount Options	**–**	**–**	–	–
Net loss – diluted	***132,489***	**(82,477)**	*133,345*	(235,082)

Outstanding stock options and Convertible Debentures that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. At March 31, 2021 there were 9.2 million options to acquire Common Shares ("Paramount Options") outstanding (March 31, 2020 – 12.0 million) and 5.2 million Common Shares that are currently issuable upon conversion of the Convertible Debentures, all of which were anti-dilutive.

8. Reserves

Three months ended March 31, 2021	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of period	(22,011)	(79,638)	167,083	65,434
Other comprehensive income, before tax	9,172	70,247	–	79,419
Deferred tax	(2,134)	(4,270)	–	(6,404)
Share-based compensation	–	–	1,182	1,182
Paramount Options exercised	–	–	(918)	(918)
Balance, end of period	**(14,973)**	**(13,661)**	**167,347**	**138,713**

9. Share-Based Compensation

Paramount Options

	Three months ended March 31, 2021		Twelve months ended December 31, 2020	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of period	*9,681,395*	6.91	*12,311,462*	12.16
Granted	*10,000*	4.86	*3,111,500*	3.82
Exercised [(1)]	*(469,180)*	6.98	*(2,000)*	7.28
Cancelled or forfeited	*(36,000)*	5.48	*(4,366,829)*	17.97
Expired	*(11,800)*	8.17	*(1,372,738)*	11.82
Balance, end of period	***9,174,415***	**6.91**	*9,681,395*	6.91
Options exercisable, end of period	***1,935,891***	**10.42**	*2,416,871*	9.74

(1) For Paramount Options exercised during the three months ended March 31, 2021, the weighted average market price of Paramount's Common Shares on the dates exercised was $10.37 per share (twelve months ended December 31, 2020 - $7.77 per share).

Restricted Share Unit Plan – Shares Held in Trust

	Three months ended March 31, 2021		Twelve months ended December 31, 2020	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	*1,915*	1,484	*860*	1,388
Shares purchased	–	–	*1,600*	4,081
Change in vested and unvested shares	–	(578)	*(545)*	(3,985)
Balance, end of period	***1,915***	**906**	*1,915*	1,484

10. Income Tax

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

Three months ended March 31	2021	2020
Loss before tax	(104,602)	(128,366)
Effective Canadian statutory income tax rate	23.1%	25.1%
Expected income tax recovery	(24,163)	(32,220)
Effect on income taxes of:		
Change in statutory and other rates	1,100	4,495
Change in value of investments	(26)	389
Change in unrecognized deferred income tax asset	(969)	129,960
Share-based compensation	273	517
Flow-through share renunciations	–	3,617
Non-deductible items and other	1,660	(42)
Income tax expense (recovery)	(22,125)	106,716

11. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at March 31, 2021 consist of accounts receivable, risk management assets and liabilities, the Dissent Payment Entitlement, investments in securities, accounts payable, the Paramount Facility and Convertible Debentures. The carrying values of these financial instruments, other than the Convertible Debentures, approximate their fair values. The Convertible Debentures are a compound financial instrument, and are described further in Note 5.

Risk Management

Assets

As at	March 31, 2021	December 31, 2020
Electricity swaps – current	547	408
Risk management asset	547	408

Liabilities

As at	March 31, 2021	December 31, 2020
Interest rate swaps – current	(9,579)	(9,616)
Financial commodity contracts – current	(71,174)	(22,665)
Risk management – current	(80,753)	(32,281)
Interest rate swaps – long-term	(10,446)	(19,441)
Risk management liability	(91,199)	(51,722)

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

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

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

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	408	6,062
Changes in fair value – financial commodity contract assets	–	31,539
Changes in fair value – electricity swaps	612	408
Settlements received – financial commodity contract assets	–	(37,601)
Settlements received – electricity swaps	(473)	–
Fair value, end of period	547	408

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

	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	(51,722)	(8,032)
Changes in fair value – interest rate swaps	6,634	(26,608)
Changes in fair value – financial commodity contract liabilities	(81,179)	(22,665)
Settlements paid – interest rate swaps	2,398	5,583
Settlements paid – financial commodity contract liabilities	32,670	–
Fair value, end of period	(91,199)	(51,722)

The Company had the following financial commodity contracts as at March 31, 2021:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	3,000 Bbl/d	CDN$65.93/Bbl	(2,268)	April 2021 – June 2021
Oil – NYMEX WTI Swaps (Sale)	3,000 Bbl/d	CDN$64.67/Bbl	(2,289)	July 2021 – September 2021
Oil – NYMEX WTI Swaps (Sale)	23,000 Bbl/d	US$46.93/Bbl	(31,942)	April 2021 – June 2021
Oil – NYMEX WTI Swaps (Sale)	15,000 Bbl/d	US$45.87/Bbl	(21,159)	July 2021 – September 2021
Oil – NYMEX WTI Swaps (Sale)	10,000 Bbl/d	US$45.82/Bbl	(12,598)	October 2021 – December 2021
Oil – Edmonton Condensate WTI Differential Swap (Sale)	4,000 Bbl/d	WTI+US$0.06/Bbl	(254)	April 2021 – June 2021
Gas – NYMEX Swaps (Sale)	60,000 MMBtu/d	US$2.71/MMBtu	(664)	April 2021 – December 2021
			(71,174)	

The Company had the following floating-to-fixed interest rate and electricity swaps at March 31, 2021:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	$250 million	April 2021 - January 2023	2.3%	CDOR (1)	(7,858)
Interest Rate Swaps	$250 million	April 2021 - January 2026	2.4%	CDOR (1)	(12,167)
Electricity Swaps	5 MWh/d (2)	April 2021 - December 2021	$51.68/MWh	AESO Pool Price (3)	547
					(19,478)

(1) Canadian Dollar Offered Rate.
(2) "MWh" means MegaWatt hour.
(3) Floating hourly rate established by the Alberta Electric System Operator.

The Company classified its floating-to-fixed interest rate swaps and electricity swaps as cash flow hedges and has applied hedge accounting. As at March 31, 2021, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

12. Revenue By Product

Three months ended March 31	2021	2020
Natural gas	77,276	53,603
Condensate and oil	185,929	111,442
Other natural gas liquids	15,026	4,442
Royalty and other	1,634	2,603
Royalties	(18,619)	(11,683)
	261,246	160,407

13. Other Loss

Three months ended March 31	2021	2020
Change in fair value of securities - warrants	112	(1,549)
Provisions	(7,500)	(4,669)
Other	(503)	185
	(7,891)	(6,033)

In the first quarter of 2021, the Company recorded a provision of $7.5 million with respect to arrangements with a service provider. The Company has unsettled claims against the same service provider for significantly larger amounts with respect to certain related matters which have not been recognized. The outcome of all of these matters remains uncertain.

14. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

Three months ended March 31	2021	2020
Financial commodity contracts	48,509	(35,342)
Share-based compensation	5,973	14
Depletion, depreciation and impairment	73,143	264,933
Exploration and evaluation	19,113	9,325
Gain on sale of oil and gas assets	(41,395)	(2,306)
Accretion of asset retirement obligations	10,776	10,470
Change in asset retirement obligations	69,533	(94,828)
Foreign exchange	(110)	(50)
Change in fair value of securities - warrants	(112)	1,549
Deferred income tax	(22,125)	106,716
Other	912	1,094
	164,217	261,575

Supplemental Cash Flow Information

Three months ended March 31	2021	2020
Interest paid	13,788	7,622

Components of Cash and Cash Equivalents

As at	March 31, 2021	December 31, 2020
Cash	7,421	4,590
Cash equivalents	–	–
	7,421	4,590

15. Commitments and Contingencies

Commitments – Physical Sale Contracts

The Company had the following AECO natural gas fixed-price physical contracts at March 31, 2021:

Quantity	Location	Average fixed price	Remaining term
50,000 GJ/d	AECO	CDN$2.52/GJ	April 2021 – October 2021
50,000 GJ/d	AECO	CDN$2.51/GJ	April 2021 – December 2021

Contingencies

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

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

16. Subsequent Event

Subsequent to March 31, 2021, Paramount entered into a definitive agreement for the sale of its non-operated Birch asset in northeast British Columbia for total consideration of approximately $77 million. Closing is subject to customary conditions and is anticipated to occur in July 2021. The Birch asset is included in the Northern CGU.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

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

P. R. Kinvig
Chief Financial Officer

B. K. Lee
Executive Vice President, Finance

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

D. B. Reid
Executive Vice President, Operations

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

J. B. Williams
Executive Vice President, Kaybob Region

DIRECTORS

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

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

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

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

D. Jungé C.F.A. (2) (4)
Independent Businessman
Bryn Athyn, Pennsylvania

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

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

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

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

CORPORATE OFFICE

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Calgary, Alberta
Toronto, Ontario

RESERVES EVALUATORS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)