Paramount resources ltd.

First Quarter 2017 Press Release

Paramount Resources Ltd. Announces First Quarter 2017 Results: Sales Volumes Average 16,163 Boe/d; Karr 6-18 Facility Expansion On-Stream Ahead of Schedule

Calgary, Alberta – May 10, 2017

OIL AND GAS OPERATIONS

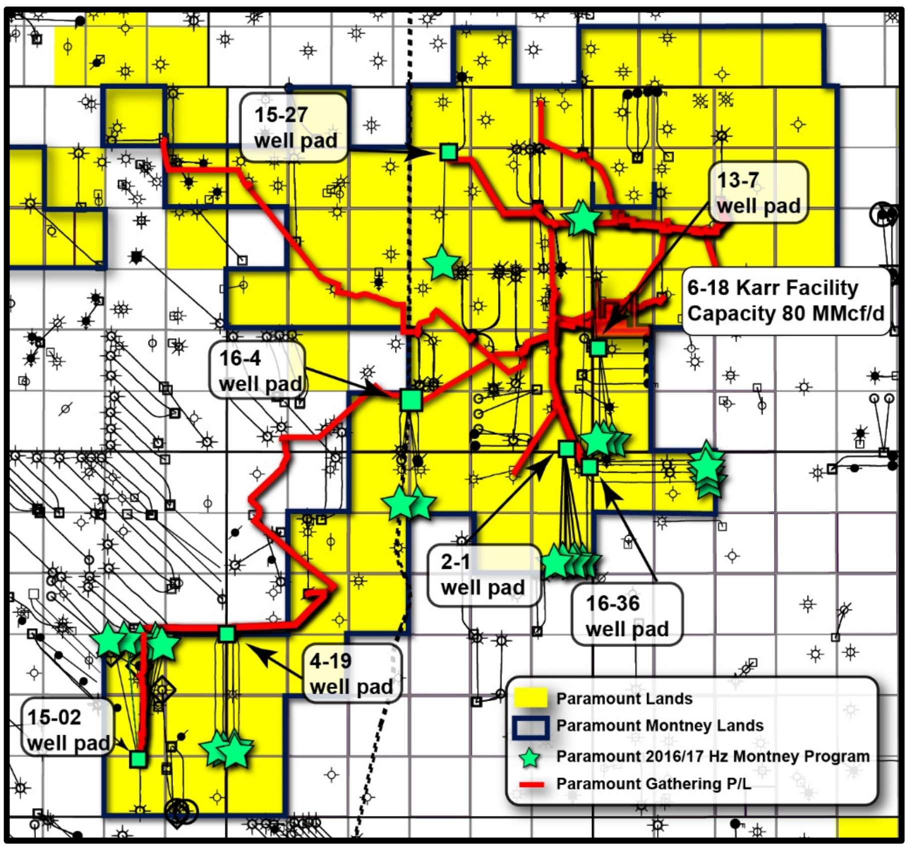
- Paramount's first quarter 2017 sales volumes averaged 16,163 Boe/d (47 percent Liquids), including approximately 10,000 Boe/d (58 percent Liquids) from Karr-Gold Creek.
- Liquids sales revenue totaled $38.0 million in the first quarter of 2017, 69 percent of the Company's total petroleum and natural gas sales revenue.
- Eight wells from the 2016/2017 Karr-Gold Creek Montney development program are currently on production:
  - The 15-14 well has produced approximately 210,000 barrels of condensate since first production in September 2016 and achieved payout in approximately six months;
  - Five wells on the 4-19 and 15-27 pads have produced approximately 570,000 barrels of condensate since first production in late-December 2016; and
  - Completion operations at the four-well 16-36 pad are ongoing, with two completed wells flowing on cleanup and two wells in-progress.
- Principal Properties capital expenditures in the first quarter of 2017 totaled $146.7 million, with the majority of spending directed towards the Karr-Gold Creek development.
- In April 2017, Paramount completed the 40 MMcf/d expansion of its 6-18 compression and dehydration facility at Karr-Gold Creek (the "6-18 Facility"), ahead of schedule.
- Karr-Gold Creek is expected to begin generating free cash flow (after maintenance capital) in the fourth quarter of 2017.
- The Company has drilled five (4.45 net) wells at Smoky/Resthaven and six (3.0 net) wells at Birch to date in 2017.
- Paramount has agreed to sell its oil and gas properties in the Valhalla area of Alberta for approximately $150 million cash. The properties had sales volumes of approximately 1,400 Boe/d (12 percent Liquids) in the first quarter of 2017. The transaction is expected to close in May 2017.

CORPORATE

- At March 31, 2017, Paramount had $528.8 million of cash and cash equivalents, no indebtedness and an undrawn $100 million bank credit facility (the "Credit Facility").
- Paramount expects that the size of its Credit Facility will be increased upon completion of the annual review in June 2017, based on results of the Company's 2016/2017 drilling program.
- First quarter 2017 funds flow from operations totaled $28.0 million, 25 percent higher than in 2016.
- In April 2017, the Company hedged 10,000 MMBtu/d of natural gas (for May to October 2017) at an average NYMEX price of US$3.37/MMBtu and 20,000 MMBtu/d of natural gas (for May to December 2017) at an average NYMEX price of US$3.40/MMBtu.
- Paramount distributed its remaining 3.8 million Seven Generations Energy Ltd. common shares to shareholders by way of dividend in January 2017.

REVIEW OF OPERATIONS

Karr-Gold Creek



Development activities at Karr-Gold Creek are currently focused on a 27 (27.0 net) well horizontal Montney drilling and completion program that commenced in mid-2016 (the "Karr Program"). The Karr Program wells have been designed with longer horizontal laterals of approximately 3,000 meters, higher intensity completions, tighter frack spacing and different completion fluids compared to prior years. The new well design is expected to significantly increase well productivity and recoverable reserves compared to the previous designs.

The status of the Karr Program to date is as follows:

As of	May 5/17	Dec 31/16
Wells Spud	27	20
Wells Rig Released	22	10
Wells Completed	8	2
Wells Producing	8	1

The following table summarizes the results of the six Karr Program wells with at least 30 days of production:

		Cumulative (1)						IP 30 (1)			IP 60 (1)		
PAD	WELL	Days on Production	Natural gas	Wellhead condensate	CGR (2)	Natural gas	Wellhead condensate	Natural gas	Wellhead condensate	CGR (2)	Natural gas	Wellhead condensate	CGR (2)
			(MMcf)	*(MBbl)*	*(Bbl/MMcf)*	*(MMcf/d)*	*(Bbl/d)*	*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*
15-02	**15-14**	216	**1,300**	**213**	***164***	**6.0**	**988**	**6.8**	**1,209**	***178***	**6.8**	**1,179**	***172***
4-19	**4-7**	113	**386**	**157**	***406***	**3.4**	**1,392**	**2.1**	**1,161**	***549***	**3.1**	**1,401**	***453***
	02/4-7	84	**306**	**165**	***538***	**3.6**	**1,959**	**2.7**	**1,611**	***602***	**3.5**	**1,902**	***547***
	1-12	75	**266**	**94**	***355***	**3.6**	**1,265**	**2.7**	**1,014**	***377***	**3.6**	**1,266**	***351***
	02/1-12	74	**300**	**103**	***344***	**4.1**	**1,403**	**3.4**	**1,162**	***341***	**4.1**	**1,386**	***339***
15-27	**3-22**	62	**304**	**50**	***165***	**4.9**	**806**	**4.1**	**785**	***193***	**4.9**	**812**	***167***

(1) Production volumes to May 7, 2017. Production volumes are the gross volumes measured at the wellhead separator for the specified period of: (i) cumulative volumes produced to May 7, 2017 ("Cumulative"); (ii) the initial 30 days of production ("IP 30"); or (iii) the initial 60 days of production ("IP 60"). Excludes hours and days when the well did not produce. Natural gas sales volumes are approximately 10 percent lower and stabilized condensate sales volumes are approximately 15 percent lower due to shrinkage. The production rates and volumes shown are over a short period of time and, therefore, are not necessarily indicative of long-term performance or of ultimate recovery.

(2) The condensate to natural gas ratio ("CGR") was calculated by dividing total wellhead separator condensate volumes by total wellhead separator natural gas volumes.

The first well in the Karr Program, the 15-14 well, has produced approximately 210,000 barrels of condensate since it was brought on production in September 2016 and achieved payout in approximately six months. The five wells on the 4-19 and 15-27 pads have produced approximately 570,000 barrels of condensate since first production in late-December 2016.

Production from these new Karr Program wells increased Karr-Gold Creek sales volumes to approximately 10,000 Boe/d in the first quarter of 2017, with Liquids comprising 58 percent of total sales volumes. Liquids sales constituted 78 percent of total Karr-Gold Creek revenues of $38.8 million in the first quarter of 2017.

With the start-up of two of the four wells on the 16-36 pad, the Company now has eight Karr Program wells on production. By the end of 2017, the Company expects to have completed up to 22 of the 27 wells in the program, with the remaining wells to be completed in 2018. Production at Karr-Gold Creek will ramp up over the next few months as the remaining wells on the 16-36 pad are brought on production and new pads are completed to feed the expanded 80 MMcf/d 6-18 Facility.

Paramount is targeting completions with proppant loading intensities of approximately 2.4 tonnes per meter and stage spacing of between 40 and 50 meters across a range of completion technologies. The Company will continue to evaluate these technologies as the Karr Program progresses and additional well performance data is obtained. Paramount has increased budgeted costs for the remaining Karr Program wells to implement a completion technology which is expected to further enhance well performance and generate higher returns and because of cost inflation for materials and field services.

In April 2017, Paramount completed its expansion of the 6-18 Facility, increasing the capacity of the facility to 80 MMcf/d. The project was advancing ahead of schedule in mid-April when an unscheduled outage occurred at a downstream third-party processing facility (the "Third-party Facility"). During the outage, the Company accelerated the tie-in of new equipment, eliminating the need for a scheduled outage later in the second quarter, and commissioned the expansion early. The total cost of the expansion is expected to be approximately $40 million.

Production at Karr-Gold Creek is transported through a Company-owned gathering system and compressed and dehydrated at the 6-18 Facility. Volumes are then shipped via pipeline to the Third-party Facility under a long-term firm-service arrangement to provide sales specification natural gas, condensate and $C3^{+}$. The 6-18 Facility has been equipped to facilitate the trucking out of Liquids so that volumes in excess of contracted capacity at the Third-party Facility can be transported for processing at alternate locations. Paramount expects the majority of Liquids production to be trucked until mid-2018, when a condensate stabilization capacity expansion at the Third-party Facility is completed. The Company has contracted a dedicated fleet of trucks and 24-hour logistical services over this period to ensure uninterrupted egress for Liquids production.

Other Areas

Smoky/Resthaven

Paramount has drilled five (4.45 net) of six planned wells in a Cretaceous exploration and delineation program at Smoky/Resthaven to date. The first well in the program, a 1.4 mile horizontal Falher well, was completed in the first quarter. Completion operations for the four other wells are scheduled to commence following spring break-up. Because of the exploratory nature of this program, drilling operations took longer than planned, resulting in approximately $10 million of additional drilling costs. Drilling of the sixth well is planned for the fourth quarter of 2017.

The Company has added one (1.0 net) new Montney well in the northern portion of its lands at Smoky/Resthaven to its 2017 capital program. The well design for this new location is expected to be similar to the Karr Program, with a planned horizontal lateral length of approximately 3,000 meters, slickwater completion fluids, approximately 70 fracture stages and proppant loading of approximately 2.4 tonnes per meter. Total estimated costs for this well are approximately $13 million, as this single well pad will not benefit from the cost synergies of multi-well pads.

Birch

A total of six (3.0 net) Montney wells have been drilled to date in 2017 at the non-operated Birch property. Two of the wells have been completed and are flowing back on clean-up.

The Company and its partner have added one (0.5 net) new Montney well to the 2017 Birch drilling program, increasing total planned wells to ten (5.0 net). Drilling of the remaining four (2.0 net) wells and completion activities are scheduled to resume later in the second quarter following break-up. The expansion of the Birch compression and dehydration facility to 40 MMcf/d (20 MMcf/d net) is progressing on schedule to start-up in the fourth quarter of 2017.

Non-Core Property Dispositions

The Company has agreed to sell its oil and gas properties in the Valhalla area of Alberta (the "Valhalla Assets") for cash consideration of approximately $150 million, subject to customary post-closing adjustments. The Valhalla Assets encompass approximately 94 (74 net) sections of land and had sales volumes of approximately 1,400 Boe/d (12 percent Liquids) in the first quarter of 2017.

The transaction is expected to close in May 2017, following approval of the transfer by the Alberta Energy Regulator. The purchase price has been deposited with Paramount's legal counsel and will be released upon satisfaction of this condition.

In addition, the Company has also completed dispositions of other non-core properties in 2017, realizing aggregate proceeds of $6.7 million.

OUTLOOK

Paramount's capital budget for 2017 has been increased to $385 million. The updated budget includes additional capital for the Karr Program related to the implementation of a completion technology which is expected to further strengthen well performance and generate higher returns, cost inflation for materials and field services, an additional Montney well and higher than expected drilling costs at Smoky/Resthaven and an additional Montney well at Birch.

Company sales volumes averaged approximately 19,000 Boe/d in March 2017 as new wells were brought on production at Karr-Gold Creek. In April 2017, sales volumes were reduced to approximately 12,000 Boe/d because of an unplanned two-week outage at the Third-party Facility that shut-in the majority of production at Karr-Gold Creek.

The Company's 2017 average sales volumes guidance remains at 20,000 Boe/d, despite the sale of the Valhalla Assets and a scheduled outage of the Third-party Facility that is expected to shut-in Karr-Gold Creek production for most of August. Fourth quarter sales volumes are expected to average over 30,000 Boe/d.

Annual operating costs for 2017 are anticipated to average approximately $10.00 per Boe. Fourth quarter 2017 operating costs are projected to be lower than in the first part of the year because of the ramp-up in production volumes at Karr-Gold Creek.

OPERATING AND FINANCIAL RESULTS [1]

($ millions, except as noted)

	Q1 2017		Q1 2016		% Change
Sales volumes – Ongoing Operations [2]					
Natural gas (MMcf/d)		**51.4**		53.0	*(3)*
Condensate & oil (Bbl/d)		**6,348**		2,952	*115*
Other NGLs (Bbl/d) [3]		**1,255**		568	*121*
Ongoing Operations (Boe/d) [2]		**16,163**		12,369	*31*
Musreau Assets (Boe/d) [2]		—		37,792	*(100)*
Total (Boe/d)		**16,163**		50,161	*(68)*
Netback – Ongoing Operations [2]	*$/Boe* [4]		*$/Boe* [4]		*% Change $/Boe*
Natural gas revenue	***3.55***	**16.4**	*2.19*	10.5	*62*
Condensate and oil revenue	***61.75***	**35.3**	*39.15*	10.5	*58*
Other NGLs revenue [3]	***23.69***	**2.7**	*9.23*	0.5	*157*
Royalty and sulphur revenue	—	**0.3**	—	0.3	
Petroleum and natural gas sales	***37.61***	**54.7**	*19.41*	21.8	*94*
Royalties	***(1.39)***	**(2.0)**	*(0.98)*	(1.1)	*42*
Operating expense	***(10.22)***	**(14.9)**	*(12.62)*	(14.2)	*(19)*
Transportation and NGLs processing [5]	***(4.22)***	**(6.1)**	*(3.31)*	(3.7)	*27*
Netback – Ongoing Operations [2]	***21.78***	**31.7**	*2.50*	2.8	*NM*
Exploration and Capital Expenditures – Ongoing Operations [2]					
Wells and exploration		**129.4**		6.4	
Facilities and gathering		**17.3**		5.8	
Principal Properties Capital [6]		**146.7**		12.2	
Strategic Investments		**0.9**		15.6	
Other		**1.6**		0.2	
Total		**149.2**		28.0	
Net income (loss)		**20.7**		(46.0)	
per share – diluted ($/share)		***0.19***		*(0.43)*	
Funds flow from operations		**28.0**		22.4	
per share – diluted ($/share)		***0.26***		*0.21*	
Total assets		**2,010.3**		2,713.9	
Cash and cash equivalents		**528.8**		18.3	
Long-term debt		—		1,701.5	
Common shares outstanding *(thousands)*		**106,142**		106,212	
Investments in other entities – market value [7]		**151.7**		124.8	

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) In 2016, the Company sold its natural gas processing facilities and the majority of its oil and gas properties in the Musreau/Kakwa area of west central Alberta. Disclosures of results for the three months ended March 31, 2016 for "Ongoing Operations" exclude amounts attributable to these sold facilities and oil and gas properties.
(3) Other NGLs means ethane, propane and butane.
(4) Natural gas revenue shown per Mcf.
(5) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.
(6) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties and excludes land acquisitions.
(7) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
NM Not meaningful

Paramount is an independent, publicly traded, Canadian energy company that explores and develops unconventional and conventional petroleum and natural gas prospects, including long-term unconventional exploration and pre-development projects, and holds a portfolio of investments in other entities. The Company's principal properties are primarily 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 2017 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available shortly through Paramount's website at www.paramountres.com and SEDAR at www.sedar.com.

For further information, please contact:

Paramount Resources Ltd.
J.H.T. (Jim) Riddell, President and Chief Executive Officer
B.K. (Bernie) Lee, Chief Financial Officer
www.paramountres.com
Phone: (403) 290-3600

Advisories

Forward-looking Information

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

- projected production and sales volumes;
- forecast capital expenditures and operating costs;
- exploration, development, and associated operational plans and strategies (including planned drilling and completion programs, well tie-ins, and facility expansions, and the anticipated timing and costs thereof);
- expected increases in well productivity and recoverable reserves and accelerated payouts resulting from the adoption of new well designs and completion technologies for the wells in the Karr Program (and associated increases in budgeted costs);
- the projected date when Karr-Gold Creek will achieve free cash flow;
- the anticipated increase in the size of Paramount's Credit Facility in June 2017 based on results from the Company's 2016/2017 drilling program;
- the anticipated timing, duration and impact of scheduled outages at the Third-party Facility;
- the projected date when the expansion of the condensate stabilization capacity at the Third-party Facility will be completed, and the Company's belief that it has secured the services of a truck fleet of sufficient size (and all related logistical services necessary) to ensure uninterrupted egress for its Karr-Gold Creek area Liquids until this additional stabilization capacity becomes available;
- the completion of the sale of the Valhalla Assets and the timing thereof following the expected approval of the Alberta Energy Regulator for the transfer of the well and facility licenses to the purchaser; and
- general business strategies and objectives.

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

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

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

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

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

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

Non-GAAP Measures

In this document "Funds flow from operations", "Netback", "Free cash flow", "Payout", "Exploration and Capital Expenditures – Ongoing Operations", "Principal Properties Capital" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by International Financial Reporting Standards.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the three months ended March 31, 2017 for the calculation of funds flow from operations. Netback equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Principal Properties section of the Company's Management's Discussion and Analysis for the three months ended March 31, 2017 for the calculation of netback. Free cash flow equals funds flow from operations minus maintenance capital and is used to measure whether net cash flows are positive or negative after deducting capital amounts incurred to maintain production at current levels. The calculation of free cash flow excludes capital amounts incurred to increase production and capital amounts incurred in prior periods. Forecast free cash flow for Karr-Gold Creek for the fourth quarter of 2017 is based on forecast prices and other estimates as of April 30, 2017. Actual cash flows for Karr-Gold Creek in the fourth quarter of 2017 could be materially different as a result of the prices actually received and changes in other factors. Payout equals netbacks generated from a particular well less total capital costs incurred to drill, complete, equip and tie the well into infrastructure. Payout is used to measure whether netbacks generated from a well have recovered the capital invested. Exploration and capital expenditures consist of the Company's spending on wells and infrastructure projects, other property, plant and equipment, land and property acquisitions and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs, which are expensed as incurred. Exploration and capital expenditures – Ongoing Operations represents Exploration and Capital Expenditures less the amounts attributed to the Musreau/Kakwa area facilities and oil and gas properties sold in 2016. Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment, and excludes land acquisitions. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on wells and infrastructure projects separate from land acquisition activity and capitalized interest. Refer to the Advisories section of the Company's Management's Discussion and Analysis for the three months ended March 31, 2017 for the calculation of Exploration and Capital Expenditures and Principal Properties Capital. Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy Energy Corp., MEG Energy Corp., Blackbird Energy Inc., Marquee Energy Ltd., RMP Energy Inc., Strategic Oil & Gas Ltd. and others) and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values. Refer to the Strategic Investments section of the Company's Management's Discussion and Analysis for the three months ended March 31, 2017 for information on carrying and market values.

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

Oil and Gas Measures and Definitions

The term "Liquids" means oil, condensate and Other NGLs (ethane, propane and butane).

Abbreviations

Liquids		**Natural Gas**	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf	Millions of cubic feet
MBbl	Thousands of barrels	MMcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids	MMbtu	Millions of British thermal units
Condensate	Pentane and heavier hydrocarbons		

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

Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the three months ended March 31, 2017, the value ratio between crude oil and natural gas was approximately 23:1. 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.

Paramount resources ltd.

Management's Discussion and Analysis
For the three months ended March 31, 2017

This Management's Discussion and Analysis ("MD&A"), dated May 9, 2017, 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, 2017 and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2016. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

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

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

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

- the Grande Prairie COU, which includes Karr-Gold Creek, Valhalla and other properties in the Peace River Arch area of Alberta;
- the Kaybob COU, which includes Smoky/Resthaven and other properties in west central Alberta;
- the Northern COU, which includes Birch and other properties in northeast British Columbia and northern Alberta; and
- the Southern COU, which includes Willesden Green and other properties in southern Alberta.

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

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

FINANCIAL AND OPERATING HIGHLIGHTS [1]

Three months ended March 31	2017	2016	% Change
FINANCIAL			
Petroleum and natural gas sales	54.7	91.2	*(40)*
Net income (loss)	20.7	(46.0)	*145*
per share – basic ($/share)	*0.20*	*(0.43)*	
per share – diluted ($/share)	*0.19*	*(0.43)*	
Funds flow from operations	28.0	22.4	*25*
per share – basic and diluted ($/share)	*0.26*	*0.21*	
Principal Properties Capital [2]	146.7	20.1	*NM*
Investments in other entities – market value [3]	151.7	124.8	*22*
Total assets	2,010.3	2,713.9	*(26)*
Long-term debt	–	1,701.5	*(100)*
Net cash (debt)	442.6	(1,880.6)	*NM*
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	51.4	153.9	*(67)*
Condensate and oil (Bbl/d)	6,348	13,245	*(52)*
Other NGLs (Bbl/d) [4]	1,255	11,259	*(89)*
Total (Boe/d)	16,163	50,161	*(68)*
Net wells drilled	15	1	*NM*
FUNDS FLOW FROM OPERATIONS ($/Boe)			
Petroleum and natural gas sales	37.61	19.98	*88*
Royalties	(1.39)	(0.62)	*124*
Operating expense	(10.22)	(5.31)	*92*
Transportation and NGLs processing [5]	(4.22)	(4.30)	*(2)*
Netback	21.78	9.75	*123*
Commodity contract settlements	0.61	3.45	*(82)*
Netback including commodity contract settlements	22.39	13.20	*70*
General and administrative – corporate	(3.17)	(1.47)	*116*
General and administrative – strategic investments	(1.29)	(0.37)	*249*
Interest and financing expense	(0.24)	(6.45)	*(96)*
Interest income	1.44	–	*100*
Other	0.10	–	*100*
Funds flow from operations	19.23	4.91	*292*

(1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Funds flow from operations, Principal Properties Capital, Investments in other entities – market value, Net cash (debt) and Netback.
(2) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties and excludes land acquisitions.
(3) Based on the period-end closing prices of publicly-traded investments and the book value of remaining investments.
(4) Other NGLs means ethane, propane and butane.
(5) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.
NM Not meaningful

CONSOLIDATED RESULTS

Net Income (Loss)

Three months ended March 31	2017	2016
Principal Properties	49.6	(34.7)
Strategic Investments	(13.3)	(14.8)
Corporate	(4.9)	0.6
Income tax (expense) recovery	(10.7)	2.9
Net income (loss)	20.7	(46.0)

In April 2016, the Company sold its natural gas processing facilities at Musreau/Kakwa in west central Alberta (the "Musreau Complex"). In August 2016, the Company sold the majority of its oil and gas properties at Musreau/Kakwa to Seven Generations Energy Ltd. (the "Musreau Assets"). When used herein, "Musreau Transactions" means the sale of the Musreau Complex and the sale of the Musreau Assets and "Ongoing Operations" represents Paramount's total results for the three months ended March 31, 2016 less amounts attributable to the Musreau Complex and the Musreau Assets.

Paramount recorded net income of $20.7 million for the three months ended March 31, 2017 compared to a net loss of $46.0 million in the same period in 2016. Significant factors contributing to the change are shown below:

Three months ended March 31	
Net loss – 2016	(46.0)
• Lower depletion and depreciation primarily due to the Musreau Transactions in 2016 and a $42.1 million impairment reversal in 2017	90.0
• Lower interest and financing expense due to no debt outstanding in 2017	29.7
• Gain on the sale of oil and gas assets in 2017 compared to a loss in 2016	8.3
• Write-downs of investments in securities in 2016	5.6
• Income from equity-accounted investment in 2017 compared to a loss in 2016	5.5
• Lower share-based compensation expense	2.3
• Interest income in 2017	2.1
• Lower general and administrative expense	1.9
• Lower foreign exchange gain in 2017; the 2016 gain mainly related to US$450 million senior notes outstanding	(40.2)
• Income tax expense in 2017 compared to a recovery in 2016	(13.6)
• Lower Netback mainly due to the Musreau Transactions	(12.9)
• Decrease in market value of securities distributed to Paramount's shareholders by way of dividend in January 2017	(10.5)
• Other	(1.5)
Net income – 2017	20.7

Funds Flow from Operations [(1)]

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

Three months ended March 31	2017	2016
Cash from operating activities	6.0	63.3
Change in non-cash working capital	16.0	(42.5)
Geological and geophysical expenses	1.0	1.1
Asset retirement obligations settled	5.0	0.5
Funds flow from operations	28.0	22.4
Funds flow from operations ($/Boe)	19.23	4.91

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

Funds flow from operations for the three months ended March 31, 2017 was $28.0 million compared to $22.4 million for the same period in 2016. Significant factors contributing to the change are shown below:

Three months ended March 31	
Funds flow from operations – 2016	22.4
• Lower interest and financing expense due to no debt outstanding in 2017	29.1
• Interest income in 2017	2.1
• Lower general and administrative expense	1.9
• Lower receipts from commodity contract settlements	(14.8)
• Lower Netback primarily due to the Musreau Transactions	(12.9)
• Other	0.2
Funds flow from operations – 2017	28.0

PRINCIPAL PROPERTIES

Netback and Segment Income (Loss)

Three months ended March 31	2017		2016	
		($/Boe) [(1)]		($/Boe) [(1)]
Natural gas revenue	16.4	3.55	29.3	2.09
Condensate and oil revenue	35.3	61.75	51.0	42.28
Other NGLs revenue [(2)]	2.7	23.69	10.6	10.31
Royalty and sulphur revenue	0.3	–	0.3	–
Petroleum and natural gas sales	54.7	37.61	91.2	19.98
Royalties	(2.0)	(1.39)	(2.8)	(0.62)
Operating expense	(14.9)	(10.22)	(24.2)	(5.31)
Transportation and NGLs processing [(3)]	(6.1)	(4.22)	(19.6)	(4.30)
Netback	31.7	21.78	44.6	9.75
Commodity contract settlements	0.9	0.61	15.7	3.45
Netback including commodity contract settlements	32.6	22.39	60.3	13.20
Other principal property items (see below)	17.0		(95.0)	
Segment income (loss)	49.6		(34.7)	

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

Petroleum and natural gas sales were $54.7 million in the first quarter of 2017, $36.5 million lower than the prior year due to lower sales volumes, partially offset by higher commodity prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended March 31, 2016	29.3	51.0	10.6	0.3	91.2
Effect of changes in sales volumes	(19.6)	(26.8)	(9.4)	–	(55.8)
Effect of changes in prices	6.7	11.1	1.5	–	19.3
Three months ended March 31, 2017	16.4	35.3	2.7	0.3	54.7

Sales Volumes

	Three months ended March 31											
	Natural gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Grande Prairie [(1)]	33.4	29.0	*15*	5,550	2,079	*167*	522	323	*62*	11,646	7,235	*61*
Kaybob [(1)]	11.9	14.7	*(19)*	353	389	*(9)*	561	19	*NM*	2,899	2,876	*1*
Northern	3.9	6.6	*(41)*	88	298	*(70)*	76	127	*(40)*	815	1,524	*(47)*
Southern	2.2	2.7	*(19)*	357	186	*92*	96	99	*(3)*	803	734	*9*
Ongoing Operations	51.4	53.0	*(3)*	6,348	2,952	*115*	1,255	568	*121*	16,163	12,369	*31*
Musreau Assets	–	100.9	*(100)*	–	10,293	*(100)*	–	10,691	*(100)*	–	37,792	*(100)*
Total	51.4	153.9	*(67)*	6,348	13,245	*(52)*	1,255	11,259	*(89)*	16,163	50,161	*(68)*

(1) Excludes the results of the Musreau Assets.
NM Not meaningful

Sales volumes from Ongoing Operations increased 31 percent to 16,163 Boe/d in the first quarter of 2017 compared to 12,369 Boe/d in 2016. The increase was primarily due to higher production at Karr-Gold Creek, partially offset by natural production declines and non-core property dispositions.

Paramount is currently executing a planned 27 (27.0 net) well horizontal Montney drilling and completion program at Karr-Gold Creek, which commenced in mid-2016 (the "Karr Program"). The Karr Program wells have been designed with longer horizontal laterals, higher intensity completions, tighter frack spacing and different completion fluids compared to prior years. The new well design is expected to significantly increase well productivity and recoverable reserves compared to the previous designs.

Sales volumes in the Grande Prairie COU increased 61 percent to 11,646 Boe/d in the first quarter of 2017 compared to 7,235 Boe/d in the first quarter of 2016. Condensate and oil sales volumes increased 167 percent to 5,550 Bbl/d compared to 2,079 Bbl/d in 2017. The increase in Grande Prairie COU sales volumes is primarily due to higher condensate production from new Karr Program wells brought on production in late 2016 and the first quarter of 2017.

Commodity Prices

Three months ended March 31	2017	2016	% Change
Natural Gas			
Paramount realized price ($/Mcf)	3.55	2.09	70
AECO daily spot ($/GJ)	2.55	1.74	47
AECO monthly index ($/GJ)	2.79	2.00	40
Malin monthly index (US$/MMbtu)	3.16	2.07	53
Crude Oil			
Paramount average realized condensate and oil price ($/Bbl)	61.75	42.28	46
Edmonton Light Sweet ($/Bbl)	64.74	41.22	57
West Texas Intermediate (US$/Bbl)	51.90	33.45	55
Foreign Exchange			
$CDN / 1 $US	1.32	1.37	(4)

Paramount's average realized natural gas price increased 70 percent in the first quarter of 2017 compared to the same period in 2016. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta, California and Chicago markets and is sold in a combination of daily and monthly contracts. The Company has arrangements in place to sell approximately 20,000 MMbtu/d of natural gas in California at prices based on the $US Malin hub price. Following the Musreau Transactions, sales volumes sold in California constitute a greater proportion of the Company's total natural gas sales and the average heat content of Paramount's sales gas stream is higher.

Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines typically receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized condensate volumes, and are adjusted for applicable transportation, quality and density differentials. Unstabilized condensate volumes trucked to terminals typically receive prices based on the Edmonton Light Sweet crude oil price, which are generally lower than prices for stabilized condensate volumes, and are adjusted for transportation, quality and density differentials.

The Company's average realized condensate and oil price increased 46 percent in the first quarter of 2017 compared to the same period in 2016. The increase in Paramount's realized price was less than increases in benchmark prices because a greater proportion of condensate volumes were trucked from production sites and sold in unstabilized condition at terminals in the first quarter of 2017.

Commodity Price Management

From time-to-time Paramount uses financial commodity price contracts to manage exposure to commodity price volatility. At March 31, 2017, the Company had the following financial commodity contracts outstanding:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining term
Gas – NYMEX Swaps (Sale)	40,000 MMBtu/d	US$3.44/MMBtu	1.6	April 2017 – December 2017
Gas – NYMEX Swaps (Purchase)	40,000 MMBtu/d	US$3.13/MMBtu	2.6	April 2017 – December 2017
Oil – NYMEX WTI Swaps (Sale)	2,000 Bbl/d	CDN$70.43/Bbl	1.0	April 2017 – December 2017
Oil – NYMEX WTI Swap (Sale)	1,000 Bbl/d	US$54.50/Bbl	1.0	April 2017 – December 2017
			6.2	

In April 2017, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Remaining term
Gas – NYMEX Swap (Sale)	10,000 MMBtu/d	US$3.37/MMBtu	May 2017 – October 2017
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$3.40/MMBtu	May 2017 – December 2017

Royalties

Three months ended March 31	2017	Rate	2016	Rate
Royalties	2.0	3.7%	2.8	3.1%
$/Boe	*1.39*		*0.62*	

Royalties decreased $0.8 million to $2.0 million in the first quarter of 2017 compared to $2.8 million in the first quarter of 2016 due to lower petroleum and natural gas sales.

Operating Expense

Three months ended March 31	2017	2016	% Change
Operating expense	14.9	24.2	(38)
$/Boe	*10.22*	*5.31*	*92*

Operating expense was $14.9 million in the first quarter of 2017, $9.3 million lower the same period in 2016, primarily due to the Musreau Transactions, partially offset by higher water handling costs and processing fees associated with higher production at Karr-Gold Creek.

Operating costs per Boe were $10.22 for the three months ended March 31, 2017, $4.91 per Boe higher than in the first quarter of 2016, mainly because of higher water handling costs and a greater proportion of the Company's production in 2017 being processed at third-party processing facilities where capital fees apply. For the three months ended March 31, 2016, approximately 75 percent of the Company's production volumes were attributable to the Musreau Assets, most of which were processed at the Company's wholly-owned Musreau Complex for which there was no capital processing fee.

Transportation and NGLs Processing

Three months ended March 31	2017	2016	% Change
Transportation and NGLs processing	6.1	19.6	(69)
$/Boe	*4.22*	*4.30*	*(2)*

Transportation and NGLs processing was $6.1 million in the first quarter of 2017, a decrease of $13.5 million compared to 2016. Transportation and NGLs processing decreased primarily as a result of the sale of the Musreau Assets, partially offset by higher trucking costs at Karr-Gold Creek due to increased Liquids production and increased natural gas and Liquids transportation costs related to incremental firm service capacity contracted for the Company’s Deep Basin production volumes. Paramount expects the majority of Liquids production to be trucked until mid-2018, when a condensate stabilization capacity expansion at a downstream third-party processing facility (the "Third-party Facility") is completed. The Company has contracted a dedicated fleet of trucks and 24-hour logistical services over this period to provide egress for Liquids production.

Other Principal Property Items

Three months ended March 31	2017	2016
Commodity contracts – net of settlements	11.4	(2.0)
Depletion and depreciation	(39.5)	(88.5)
Reversal of prior-years' write-downs	42.1	–
Exploration and evaluation	(3.6)	(2.3)
Gain (loss) on sale of oil and gas assets	7.5	(0.8)
Other	(0.9)	(1.4)
Total – other principal property items	17.0	(95.0)

Depletion and depreciation expense decreased to $39.5 million ($27.15 per Boe) in the first quarter of 2017 compared to $88.5 million ($19.39 per Boe) in 2016, primarily due to the Musreau Transactions. The increase in per Boe depletion and depreciation rates in the first quarter of 2017 was primarily due to impairment reversals recorded in the fourth quarter of 2016 related to the Grande Prairie COU.

In 2017, Paramount agreed to sell its oil and gas properties in the Valhalla area of Alberta (the "Valhalla Assets") within the Principal Properties business segment for cash consideration of approximately $150 million, subject to customary post-closing adjustments. The Valhalla Assets encompass approximately 94 (74 net) sections of land and had estimated sales volumes of approximately 1,400 Boe/d (12 percent Liquids) for the three months ended March 31, 2017.

Closing of the transaction is expected to occur in May 2017, and is subject to the purchaser receiving the approval of the Alberta Energy Regulator for the transfer to it of the Valhalla Assets. The purchase price has been deposited with Paramount's legal counsel and will be released upon satisfaction of this condition.

The consideration to be received for the Valhalla Assets exceeds its carrying value as at March 31, 2017, including impairment charges previously recognized in respect of the property. As a result, a reversal of previously recorded impairment charges of $42.1 million was recorded for the three months ended March 31, 2017, representing the amount required to increase the carrying value of the Valhalla Assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

The gain on sale of oil and gas assets in the first quarter of 2017 primarily related to non-core property dispositions in the Northern and Grande Prairie COUs.

Ongoing Operations

The following tables provide a comparison of the Company's sales volumes and Netback for the first quarter of 2017 versus the sales volumes and Netback attributable to Ongoing Operations for the first quarter of 2016, which exclude the results of the Musreau Assets and the Musreau Complex:

Three months ended March 31	2017	2016	% Change
		Ongoing Operations	
Natural gas (MMcf/d)	51.4	53.0	(3)
Condensate and oil (Bbl/d)	6,348	2,952	115
Other NGLs (1) (Bbl/d)	1,255	568	121
Total (Boe/d)	16,163	12,369	31

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

Three months ended March 31	2017		2016	
		($/Boe) (1)		*($/Boe) (1)*
			Ongoing Operations	
Natural gas revenue	16.4	3.55	10.5	2.19
Condensate and oil revenue	35.3	61.75	10.5	39.15
Other NGLs revenue (2)	2.7	23.69	0.5	9.23
Royalty and sulphur revenue	0.3	–	0.3	–
Petroleum and natural gas sales	54.7	37.61	21.8	19.41
Royalties	(2.0)	(1.39)	(1.1)	(0.98)
Operating expense	(14.9)	(10.22)	(14.2)	(12.62)
Transportation and NGLs processing (3)	(6.1)	(4.22)	(3.7)	(3.31)
Netback	31.7	21.78	2.8	2.50

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

The Company's first quarter Netback increased in 2017 primarily due to higher revenue as a result of higher commodity prices and production from new Liquids-rich Karr Program wells brought on production in late 2016 and the first quarter of 2017.

Operating expense per Boe was lower in the first quarter of 2017 primarily as a result of lower average processing fees for condensate production, as the majority of produced volumes were trucked to terminals and sold prior to processing. Per-unit operating expenses were also lower due to fixed operating costs being applied over higher sales volumes.

Transportation costs increased in the first quarter of 2017 compared to the same period in 2016 as a result of higher production and a higher proportion of condensate volumes being trucked to sales terminals. Transportation costs per barrel are higher for trucked condensate volumes compared to volumes transported through pipelines. Paramount expects the majority of Liquids production to be trucked until mid-2018, when a condensate stabilization capacity expansion at the Third-party Facility is completed.

Outlook

Paramount's capital budget for 2017 has been increased to $385 million. The updated budget includes additional capital for the Karr Program related to the implementation of a completion technology which is expected to further strengthen well performance and generate higher returns, cost inflation for materials and field services, an additional Montney well and higher than expected drilling costs at Smoky/Resthaven and an additional Montney well at Birch.

Company sales volumes averaged approximately 19,000 Boe/d in March 2017 as new wells were brought on production at Karr-Gold Creek. In April 2017, sales volumes were reduced to approximately 12,000

Boe/d because of an unplanned two-week outage at the Third-party Facility that shut-in the majority of production at Karr-Gold Creek.

The Company's 2017 average sales volumes guidance remains at 20,000 Boe/d, despite the sale of the Valhalla Assets and a scheduled outage of the Third-party Facility that is expected to shut-in Karr-Gold Creek production for most of August. Fourth quarter sales volumes are expected to average over 30,000 Boe/d.

Annual operating costs for 2017 are anticipated to average approximately $10.00 per Boe. Fourth quarter 2017 operating costs are projected to be lower than in the first part of the year because of the ramp-up in production volumes at Karr-Gold Creek.

STRATEGIC INVESTMENTS

Three months ended March 31	2017	2016
General and administrative	(1.9)	(1.7)
Share-based compensation	(0.9)	(1.3)
Depreciation	(1.2)	(0.1)
Interest and financing	–	(1.0)
Income (loss) from equity–accounted investments	1.2	(4.3)
Write-down of investments in securities	–	(5.6)
Decrease in market value of securities distributed	(10.5)	–
Drilling rig revenue	0.1	–
Drilling rig expense	–	(0.6)
Other	(0.1)	(0.2)
Segment loss	(13.3)	(14.8)

Strategic Investments at March 31, 2017 include:

- investments in the shares of Trilogy Energy Corp. ("Trilogy"), MEG Energy Corp. ("MEG"), Blackbird Energy Inc. ("Blackbird"), Marquee Energy Ltd. ("Marquee"), RMP Energy Inc. ("RMP Energy"), Strategic Oil & Gas Ltd. ("SOG") and other public and private corporations;
- oil sands and carbonate bitumen interests owned by Cavalier, including at Hoole, in the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in northeast Alberta;
- seven triple-sized drilling rigs, including four built-for-purpose walking rigs, owned and operated by Fox Drilling; and
- Shale Gas Properties in the Liard and Horn River Basins in northeast British Columbia and the Northwest Territories.

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

Investments

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

	Carrying Value		Market Value [1]	
As at	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Trilogy	45.2	54.1	93.2	68.5
MEG	24.9	24.2	24.9	24.2
Other	33.6	32.1	33.6	32.1
Total	103.7	110.4	151.7	124.8

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.

The aggregate write-downs of investments in securities of $5.6 million in the first quarter of 2016 resulted from decreases in the market value of certain of the Company's publicly traded investments.

Fox Drilling

All seven Fox Drilling rigs were deployed on the Company's lands in the first quarter of 2017, drilling wells at Karr-Gold Creek and Smoky/Resthaven.

CORPORATE

Three months ended March 31	2017	2016
Interest and financing expense	(0.3)	(29.1)
General and administrative	(4.6)	(6.7)
Share-based compensation	(1.8)	(3.7)
Foreign exchange	0.1	40.3
Interest income	2.1	–
Other	(0.4)	(0.2)
Segment income (loss)	(4.9)	0.6

The Corporate segment loss was $4.9 million in the first quarter of 2017 compared to income of $0.6 million in the first quarter of 2016. Interest and financing expense was $0.3 million in the first quarter of 2017, a decrease of $28.8 million from the first quarter of 2016, as the Company repaid all outstanding debt in 2016. Interest income of $2.1 million was earned in the first quarter of 2017 on cash and cash equivalents balances. General and administrative expenses were $2.1 million lower in the first quarter of 2017 compared to the same period in 2016, primarily due to higher recoveries related to increased capital activity and lower salary expense.

The foreign exchange gain in the first quarter of 2016 mainly related to US$450 million aggregate principal amount of senior unsecured notes due 2023 which were outstanding in the first quarter of 2016.

EXPLORATION AND CAPITAL EXPENDITURES

Three months ended March 31	2017	2016
Geological and geophysical	0.9	1.0
Drilling, completion and tie-ins	128.5	11.7
Facilities and gathering	17.3	7.4
Principal Properties Capital (1)	146.7	20.1
Land and property acquisitions	1.4	0.1
Principal Properties including land and property acquisitions	148.1	20.2
Strategic Investments	0.9	15.6
Corporate	0.2	0.2
	149.2	36.0
Principal Properties Capital by COU (1)		
Grande Prairie	101.6	5.0
Kaybob	31.1	13.5
Southern, Northern & Other	14.0	1.6
	146.7	20.1

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions.

Principal Properties Capital was $146.7 million in the first quarter of 2017 compared to $20.1 million in the same period in 2016. Expenditures in the first quarter of 2017 were mainly related to drilling and completion programs at Karr-Gold Creek, Smoky/Resthaven and Birch and the 6-18 Facility expansion at Karr-Gold Creek.

Development activities in 2017 are mainly focused on the 27 well Karr Program that commenced in mid-2016 and the expansion of the 6-18 Facility to double its capacity to 80 MMcf/d.

Paramount has spudded all 27 wells in the Karr Program to date. In April 2017, Paramount completed its expansion of the 6-18 Facility, increasing the capacity of the facility to 80 MMcf/d. The project was advancing ahead of schedule in mid-April when an unscheduled outage occurred at the Third-party Facility. During the outage, the Company accelerated the tie-in of new equipment, eliminating the need for a scheduled outage later in the second quarter, and commissioned the expansion early. The total cost of the expansion is expected to be approximately $40 million.

Completion operations at the four-well 16-36 pad are ongoing, with two completed wells flowing on cleanup and two wells in-progress. With the start-up of two of the four wells on the 16-36 pad, the Company now has eight Karr Program wells on production. By the end of 2017, the Company expects to have completed up to 22 of the 27 wells in the program, with the remaining wells to be completed in 2018. Production at Karr-Gold Creek will ramp up over the next few months as the remaining wells on the 16-36 pad are brought-on production and new pads are completed to feed the expanded 80 MMcf/d 6-18 Facility.

Paramount has drilled five (4.45 net) of six planned wells in a Cretaceous exploration and delineation program at Smoky/Resthaven to date. The first well in the program, a 1.4 mile horizontal Falher well, was completed in the first quarter. Completion operations for the four other wells are scheduled to commence following spring break-up. Because of the exploratory nature of this program, drilling operations took longer than planned, resulting in approximately $10 million of additional drilling costs. Drilling of the sixth well is planned for the fourth quarter of 2017.

The Company has added one (1.0 net) new Montney well in the northern portion of its lands at Smoky/Resthaven to its 2017 capital program. The well design for this new location is expected to be similar to the Karr Program, with a planned horizontal lateral length of approximately 3,000 meters, slickwater completion fluids, approximately 70 fracture stages and proppant loading of approximately 2.4 tonnes per meter. Total estimated costs for this well are approximately $13 million, as this single well pad will not benefit from the cost synergies of multi-well pads.

A total of six (3.0 net) Montney wells have been drilled to date in 2017 at the non-operated Birch property. Two of the wells have been completed and are flowing back on clean-up. The Company and its partner have added one new Montney well to the 2017 drilling program at Birch, increasing total planned wells to ten (5.0 net). Drilling of the remaining four (2.0 net) wells and completion activities are scheduled to resume later in the second quarter following break-up. The expansion of the Birch compression and dehydration facility to 40 MMcf/d (20 MMcf/d net) is progressing on schedule to start-up in the fourth quarter of 2017.

Wells drilled were as follows:

Three months ended March 31	2017		2016	
			Ongoing Operations	
	Gross (1)	Net (2)	Gross (1)	Net (2)
Natural gas	17	15	1	1
Total	17	15	1	1

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

LIQUIDITY AND CAPITAL RESOURCES

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

Net Cash (Debt) (1)

As at	March 31, 2017	December 31, 2016	March 31, 2016
Cash and cash equivalents	528.8	621.9	18.3
Accounts receivable	40.7	23.9	40.0
Prepaid expenses and other	1.5	1.7	5.5
Accounts payable and accrued liabilities	(128.4)	(81.6)	(127.2)
Adjusted working capital surplus (deficit) (2)	442.6	565.9	(63.4)
Finance lease obligations – Fox Drilling	–	–	(5.7)
Limited-recourse demand facilities	–	–	(100.7)
Credit facility	–	–	(677.1)
Senior notes	–	–	(1,033.7)
Net cash (debt)	442.6	565.9	(1,880.6)

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
(2) Adjusted working capital excludes risk management assets and liabilities, assets and liabilities held for sale, limited-recourse demand facilities, investments in securities for distribution and related dividend payable (December 31, 2016 - $119.0 million) and accounts payable and accrued liabilities relating to the Company's obligations to renounce qualifying expenditures for flow-through share issuances (March 31, 2016 - $1.2 million).

The change in net cash (debt) from December 31, 2016 to March 31, 2017 is primarily due to capital spending, partially offset by funds flow from operations. Paramount expects to fund its planned 2017 operations, obligations and capital expenditures with cash and cash equivalents and funds flow from operations.

Shareholders' Equity

As at	March 31, 2017	December 31, 2016
Share capital	1,643.7	1,639.5
Accumulated deficit	(112.3)	(152.2)
Reserves	129.2	147.5
Total shareholders' equity	1,660.6	1,634.8

Bank Credit Facility

The Company has a $100 million revolving bank credit facility (the "Facility").

The revolving period of the Facility was extended to June 30, 2017 to enable the lender to complete its annual review. Paramount expects that the size of the Facility will be increased upon completion of the annual review, based on results of the Company's 2016/2017 drilling program.

At March 31, 2017, no amounts were drawn on the Facility. Paramount had undrawn letters of credit outstanding totaling $21.6 million at March 31, 2017 that reduce the amount available to be drawn under the Facility.

Share Capital

Paramount implemented a normal course issuer bid ("NCIB") on October 13, 2016. The NCIB will terminate on the earlier of: (i) October 12, 2017; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Paramount may purchase up to 5,441,602 Common Shares under the NCIB. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Company. Any shareholder may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the TSX by contacting the Company at 403-290-3600. To May 5, 2017, the Company has purchased and cancelled 622,900 Common Shares pursuant to the NCIB at a total cost of $9.7 million.

At May 5, 2017, Paramount had 106,151,795 Common Shares and 3,865,180 Paramount Options outstanding, of which 446,880 Paramount Options are exercisable.

QUARTERLY INFORMATION

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	54.7	32.3	51.7	73.6	91.2	91.3	110.7	94.6
Net income (loss)	20.7	212.4	1,029.4	(30.6)	(46.0)	(599.0)	(171.8)	(60.2)
Per share – basic ($/share)	*0.20*	*2.01*	*9.69*	*(0.29)*	*(0.43)*	*(5.64)*	*(1.62)*	*(0.57)*
Per share – diluted ($/share)	*0.19*	*1.99*	*9.64*	*(0.29)*	*(0.43)*	*(5.64)*	*(1.62)*	*(0.57)*
Funds flow from operations	28.0	14.3	3.8	(4.9)	22.4	21.0	36.9	19.6
Per share – basic ($/share)	*0.26*	*0.14*	*0.04*	*(0.05)*	*0.21*	*0.20*	*0.35*	*0.19*
Per share – diluted ($/share)	*0.26*	*0.13*	*0.04*	*(0.05)*	*0.21*	*0.20*	*0.35*	*0.19*
Sales volumes								
Natural gas (MMcf/d)	51.4	47.5	88.6	129.8	153.9	157.8	181.8	154.4
Condensate and oil (Bbl/d)	6,348	2,943	5,335	9,490	13,245	9,991	10,214	7,595
Other NGLs (Bbl/d)	1,255	1,046	4,687	9,764	11,259	9,175	9,483	9,282
Total (Boe/d)	16,163	11,901	24,786	40,890	50,161	45,466	49,990	42,604
Average realized price								
Natural gas ($/Mcf)	3.55	3.10	2.65	1.49	2.09	2.57	3.01	2.74
Condensate and oil ($/Bbl)	61.75	60.49	51.15	52.83	42.28	46.60	52.43	65.66
Other NGLs ($/Bbl)	23.69	22.16	11.11	11.19	10.31	12.59	11.42	12.18
Total ($/Boe)	37.61	29.52	22.66	19.79	19.98	21.82	24.07	24.40

Significant Items Impacting Quarterly Results

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

- First quarter 2017 earnings include a $42.1 million reversal of impairments of oil and gas assets recorded in prior years related to the Valhalla Assets and a $10.5 million loss on the distribution of 3.8 million 7Gen Shares to Paramount shareholders by way of dividend.
- Fourth quarter 2016 earnings include a $133.2 million reversal of impairments of oil and gas assets recorded in prior years, a $99.2 million gain recorded in respect of the royalty granted by Cavalier and the recognition of $61.0 million of previously unrecognized deferred tax assets.
- Third quarter 2016 earnings include the impact of the sale of the Musreau Assets, including a $1.2 billion gain on sale, lower depletion and depreciation expense, higher income tax expense and lower Netback.
- Second quarter 2016 earnings include a $131.8 million gain on the sale of oil and gas assets primarily in respect of the sale of the Musreau Complex, partially offset by $17.7 million of share-based compensation expense.
- First quarter 2016 earnings include a foreign exchange gain of $40.3 million and a $13.7 million gain on commodity contracts.
- Fourth quarter 2015 earnings include $241.5 million of aggregate impairment write-downs of property, plant and equipment, $184.1 million of impairment write-offs of exploration and evaluation assets and deferred tax expense of $66.3 million.
- Third quarter 2015 earnings include $100.7 million of depletion and depreciation, a $22.2 million impairment write-down of oil and gas properties, a $73.0 million write-down of investments in securities and a foreign exchange loss of $41.5 million, partially offset by $38.1 million of gains on commodity contracts.

- Second quarter 2015 earnings include $82.9 million of depletion and depreciation expense and $12.0 million of debt extinguishment expense in respect of the redemption of senior notes, partially offset by an income tax recovery of $38.5 million.

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 and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company. Even if Paramount prevails in any such legal proceedings, they could be costly and time-consuming and divert the attention of management and key personnel from the Company's core business operations.

In 2016, a release occurred from a non-operated pipeline in which the Company owns a 50 percent interest. The operator, and owner of the remaining 50 percent, has initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately $45 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

CHANGE IN ACCOUNTING POLICIES

There were no new or amended accounting standards adopted by the Company for the three months ended March 31, 2017. A description of accounting standards that will be effective in the future is included in the notes to the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended March 31, 2017, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADVISORIES

Forward-looking Information

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

- projected production and sales volumes;
- forecast capital expenditures and operating costs;
- exploration, development, and associated operational plans and strategies (including planned drilling and completion programs, well tie-ins and facility expansions, and the anticipated timing and costs thereof);
- expected increases in well productivity and recoverable reserves and accelerated payouts resulting from the adoption of new well designs and completion technologies for the wells in the Karr Program (and associated increases in budgeted costs);
- the anticipated increase in the size of Paramount's Facility in June 2017 based on results from the Company's 2016/2017 drilling program;
- the anticipated timing, duration and impact of scheduled outages at the Third-party Facility;
- the projected date when the expansion of the condensate stabilization capacity at the Third-party Facility will be completed, and the Company's belief that it has secured the services of a truck fleet of sufficient size (and all related logistical services necessary) to ensure uninterrupted egress for its Karr-Gold Creek area Liquids until this additional stabilization capacity becomes available;
- the completion of the sale of the Valhalla Assets and the timing thereof following the expected approval of the Alberta Energy Regulator for the transfer of the well and facility licenses to the purchaser;
- Paramount's expectation that it will not be responsible for any of the costs of a non-operated pipeline release; and
- general business strategies and objectives.

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

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

- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

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

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

Non-GAAP Measures

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

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. Refer to the Consolidated Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Refer to the Principal Properties section of the Company's Management's Discussion and Analysis for the calculation thereof. **Net Cash (Debt)** is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the calculation of Net Cash (Debt) and **Adjusted working capital**. **Exploration and capital expenditures** consist of the Company's spending on wells and infrastructure projects, other property, plant and equipment, land and property acquisitions and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs, which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment, and excludes land acquisitions. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on wells and infrastructure projects separate from land acquisition activity and capitalized interest. The following is the calculation of exploration and capital expenditures and Principal Properties for the periods:

Three months ended March 31	2017	2016
Property, plant and equipment and exploration (consolidated statement of cash flows)	148.2	34.9
Geological and geophysical expense	1.0	1.1
Exploration and Capital Expenditures	149.2	36.0
Land and property acquisitions	(1.4)	(0.1)
Strategic Investments	(0.9)	(15.6)
Corporate	(0.2)	(0.2)
Principal Properties Capital	146.7	20.1

Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG, Blackbird, Marquee, RMP, SOG and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values. Refer to the Strategic Investments section of the Company's Management's Discussion and Analysis and Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and March 31, 2016 for information on carrying and market values.

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

Oil and Gas Measures and Definitions

The term "Liquids" means oil, condensate and Other NGLs (ethane, propane and butane).

Abbreviations

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

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

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

Measures

Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. During the three months ended March 31, 2017, the value ratio between crude oil and natural gas was approximately 23:1. 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)
March 31, 2017

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

($ thousands)

As at	Note	March 31 2017 (Unaudited)	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents	15	528,754	621,872
Investments in securities for distribution	10	–	118,978
Accounts receivable		40,693	23,895
Prepaid expenses and other		1,533	1,715
Risk management	14	6,249	–
Assets held for sale	3	81,111	–
		658,340	766,460
Exploration and evaluation	4	274,793	301,530
Property, plant and equipment, net	5	973,479	882,724
Equity-accounted investment	6	45,222	44,053
Investments in securities	7	58,499	64,193
		2,010,333	2,058,960
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Dividend payable		–	118,978
Accounts payable and accrued liabilities		128,414	81,585
Risk management	14	–	5,180
Liabilities associated with assets held for sale	3	12,379	–
		140,793	205,743
Asset retirement obligations	9	193,468	212,309
Deferred income tax		15,454	6,125
		349,715	424,177
Contingencies	16		
Shareholders' equity			
Share capital	10	1,643,693	1,639,466
Accumulated deficit		(112,299)	(152,182)
Reserves	11	129,224	147,499
		1,660,618	1,634,783
		2,010,333	2,058,960

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands)

Three months ended March 31	Note	2017	2016
Petroleum and natural gas sales		54,703	91,190
Royalties		(2,029)	(2,840)
Revenue		52,674	88,350
Gain on commodity contracts	14	12,313	13,727
		64,987	102,077
Expenses			
Operating expense		14,860	24,246
Transportation and NGLs processing		6,134	19,632
General and administrative		6,492	8,385
Share-based compensation	12	2,719	5,005
Depletion and depreciation	5	(1,186)	88,785
Exploration and evaluation	4	3,739	2,445
(Gain) loss on sale of oil and gas assets		(7,490)	810
Interest and financing		351	30,087
Accretion of asset retirement obligations	9	988	1,355
Foreign exchange		(95)	(40,288)
		26,512	140,462
Income (loss) from equity-accounted investment	6	1,169	(4,308)
Other	2	(8,178)	(6,141)
Income (loss) before tax		31,466	(48,834)
Income tax expense (recovery)	13		
Deferred		10,729	(2,867)
		10,729	(2,867)
Net income (loss)		20,737	(45,967)
Other comprehensive income (loss), net of tax			
Items that may be reclassified to net income (loss):			
Change in market value of securities		(30,922)	(4,401)
Reclassification of accumulated losses on securities to net income (loss)		10,450	5,602
Deferred tax on other comprehensive income related to securities		1,277	–
Comprehensive income (loss)		1,542	(44,766)
Net income (loss) per common share ($/share)	10		
Basic		0.20	(0.43)
Diluted		0.19	(0.43)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

Three months ended March 31	Note	2017	2016
Operating activities			
Net income (loss)		20,737	(45,967)
Add (deduct):			
Items not involving cash	15	6,255	67,223
Asset retirement obligations settled	9	(4,986)	(473)
Change in non-cash working capital		(15,981)	42,483
Cash from operating activities		6,025	63,266
Financing activities			
Net repayment of limited-recourse demand facilities		–	(229)
Net repayment of revolving long-term debt		–	(11,847)
Common shares issued, net of issue costs		2,921	–
Cash from (used in) financing activities		2,921	(12,076)
Investing activities			
Property, plant and equipment and exploration		(148,198)	(34,878)
Proceeds on sale of oil and gas assets		596	839
Change in non-cash working capital		45,557	(10,400)
Cash used in investing activities		(102,045)	(44,439)
Net increase (decrease)		(93,099)	6,751
Foreign exchange on cash and cash equivalents		(19)	(392)
Cash and cash equivalents, beginning of period		621,872	11,941
Cash and cash equivalents, end of period		528,754	18,300
Supplemental cash flow information	15		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2017		2016	
		Shares (000's)		*Shares (000's)*	
Share Capital					
Balance, beginning of period		*105,784*	1,639,466	*106,212*	1,646,984
Issued		*358*	4,219	–	–
Change in unvested common shares for stock incentive plan	12	–	8	–	78
Balance, end of period		*106,142*	1,643,693	*106,212*	1,647,062
Accumulated Deficit					
Balance, beginning of period			(152,182)		(1,197,627)
Net income (loss)			20,737		(45,967)
Decrease in value of securities prior to distribution	2		19,146		–
Balance, end of period			(112,299)		(1,243,594)
Reserves	11				
Balance, beginning of period			147,499		99,337
Other comprehensive income (loss)			(19,195)		1,201
Contributed surplus			920		4,927
Balance, end of period			129,224		105,465
Total Shareholders' Equity			1,660,618		508,933

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

1. Basis of Presentation

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

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership ("Fox Drilling"), Cavalier Energy ("Cavalier"), and MGM Energy. Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting. The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated.

These unaudited Interim Condensed Consolidated Financial Statements of the Company, as at and for the three months ended March 31, 2017 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 9, 2017.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 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, 2016 (the "Annual Financial Statements"). These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments which are stated at fair value. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

Changes in Accounting Standards

There were no new accounting standards adopted by the Company for the three months ended March 31, 2017. A description of accounting standards that will be effective in the future is included in the notes to the Company's Annual Financial Statements.

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

2. Segmented Information

Three months ended March 31, 2017	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	52,674	–	–	–	52,674
Gain on commodity contracts	12,313	–	–	–	12,313
	64,987	–	–	–	64,987
Expenses					
Operating expense	14,860	–	–	–	14,860
Transportation and NGLs processing	6,134	–	–	–	6,134
General and administrative	–	1,875	4,617	–	6,492
Share-based compensation	–	894	1,825	–	2,719
Depletion and depreciation	(2,552)	3,737	207	(2,578)	(1,186)
Exploration and evaluation	3,640	99	–	–	3,739
Gain on sale of oil and gas assets	(7,457)	(33)	–	–	(7,490)
Interest and financing	–	8	343	–	351
Accretion of asset retirement obligations	883	105	–	–	988
Foreign exchange	–	–	(95)		(95)
	15,508	6,685	6,897	(2,578)	26,512
Income from equity-accounted investment	–	1,169	–	–	1,169
Other	101	(10,450)	2,068	–	(8,281)
Drilling rig revenue	–	8,826	–	(8,767)	59
Drilling rig expense	–	(6,050)	–	6,094	44
	49,580	(13,190)	(4,829)	(95)	31,466
Inter-segment eliminations	–	(95)	–	95	–
Segment income (loss)	49,580	(13,285)	(4,829)	–	31,466
Income tax expense					(10,729)
Net income					20,737

Three months ended March 31, 2016	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	88,350	–	–	–	88,350
Gain on commodity contracts	13,727	–	–	–	13,727
	102,077	–	–	–	102,077
Expenses					
Operating expense	24,246	–	–	–	24,246
Transportation and NGLs processing	19,632	–	–	–	19,632
General and administrative	–	1,699	6,686	–	8,385
Share-based compensation	–	1,328	3,677	–	5,005
Depletion and depreciation	88,517	95	173	–	88,785
Exploration and evaluation	2,310	135	–	–	2,445
(Gain) loss on sale of oil and gas assets	830	(20)	–	–	810
Interest and financing	–	1,001	29,086	–	30,087
Accretion of asset retirement obligations	1,263	92	–	–	1,355
Foreign exchange	–	–	(40,288)	–	(40,288)
	136,798	4,330	(666)	–	140,462
Loss from equity-accounted investments	–	(4,308)	–	–	(4,308)
Other	62	(5,602)	–	–	(5,540)
Drilling rig revenue	–	1,621	–	(1,621)	–
Drilling rig expense	–	(601)	–	–	(601)
	(34,659)	(13,220)	666	(1,621)	(48,834)
Inter-segment eliminations	–	(1,621)	–	1,621	–
Segment income (loss)	(34,659)	(14,841)	666	–	(48,834)
Income tax recovery					2,867
Net loss					(45,967)

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

Other Income (Loss)

Three months ended March 31	2017	2016
Decrease in market value of securities distributed	(10,450)	–
Write-down of investments in securities	–	(5,602)
Interest income	2,090	2
Drilling rig revenue	59	–
Drilling rig expense	44	(601)
Other	79	60
	(8,178)	(6,141)

In December 2016, the Company's Board of Directors declared a dividend of 3.8 million class A common shares of Seven Generations Energy Ltd. ("7Gen Shares") to holders of record of Paramount's Common Shares on January 9, 2017, resulting in an entitlement of approximately 0.036 of a 7Gen Share for each Common Share, subject to rounding for fractions. The dividend was paid on January 16, 2017.

The decrease in the fair value of the 7Gen Shares of $10.5 million between the acquisition date and the date of the dividend was reclassified to earnings from accumulated other comprehensive income in respect of the distribution of the 7Gen Shares. An associated income tax recovery of $1.4 million was also reclassified to earnings. The value ascribed to the dividend as at December 31, 2016 of $119.0 million was reduced by $19.1 million in January 2017 due to the decrease in the market price of 7Gen Shares prior to distribution, which was recorded as an increase in Retained Earnings.

3. Assets Held for Sale

In 2017, Paramount agreed to sell its oil and gas properties in the Valhalla area of Alberta (the "Valhalla Assets") within the Principal Properties business segment for cash consideration of approximately $150 million, subject to customary post-closing adjustments. Closing of the transaction is expected to occur in May 2017, and is subject to the purchaser receiving the approval of the Alberta Energy Regulator for the transfer to it of the Valhalla Assets.

The consideration to be received for the Valhalla Assets exceeds its carrying value as at March 31, 2017, including impairment charges previously recognized in respect of the property. As a result, a reversal of previously recorded impairment charges of $42.1 million was recorded for the three months ended March 31, 2017, representing the amount required to increase the carrying value of the Valhalla Assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

The assets and liabilities associated with the Valhalla Assets have been presented as held for sale at March 31, 2017, as follows:

Exploration and evaluation	17,113
Property, plant and equipment, net	63,998
Asset retirement obligations	(12,379)

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

4. Exploration and Evaluation

	Three months ended March 31, 2017	Twelve months ended December 31, 2016
Balance, beginning of period	301,530	363,724
Additions	2,877	48,141
Transfer to assets held for sale	(17,113)	–
Change in asset retirement provision	–	2,942
Transfers to property, plant and equipment	(4,785)	(23,700)
Dry hole	94	(13,811)
Expired lease costs	(2,857)	(6,194)
Write-downs	–	(2,969)
Dispositions	(4,953)	(66,603)
Balance, end of period	274,793	301,530

Exploration and Evaluation Expense

Three months ended March 31	2017	2016
Geological and geophysical	976	1,163
Dry hole	(94)	(44)
Expired lease costs	2,857	1,326
	3,739	2,445

5. Property, Plant and Equipment

Three months ended March 31, 2017	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2016	1,982,438	156,437	30,435	2,169,310
Additions	147,800	250	358	148,408
Transfer to assets held for sale	(183,940)	–	–	(183,940)
Transfers from exploration and evaluation	4,785	–	–	4,785
Dispositions	(68,567)	–	(38)	(68,605)
Change in asset retirement provision	5,879	–	–	5,879
Cost, March 31, 2017	1,888,395	156,687	30,755	2,075,837
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2016	(1,208,652)	(55,442)	(22,492)	(1,286,586)
Transfer to assets held for sale	119,942	–	–	119,942
Depletion and depreciation	(39,705)	(3,624)	(399)	(43,728)
Reversal of prior-years' write-downs	42,111	–	–	42,111
Dispositions	65,865	–	38	65,903
Accumulated depletion, depreciation and write-downs, March 31, 2017	(1,020,439)	(59,066)	(22,853)	(1,102,358)
Net book value, December 31, 2016	773,786	100,995	7,943	882,724
Net book value, March 31, 2017	867,956	97,621	7,902	973,479

Depletion and Depreciation

Three months ended March 31	2017	2016
Depletion and depreciation	43,839	89,296
Reversal of prior-years' write-downs of property, plant and equipment	(42,111)	–
Inter-segment eliminations	(2,914)	(511)
	(1,186)	88,785

6. Equity-Accounted Investment

As at	March 31, 2017			December 31, 2016		
	Shares (000's)	Carrying Value	Market Value (1)	*Shares (000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	45,222	93,233	*19,144*	44,053	144,540

(1) Based on the period-end trading price (level one fair value hierarchy estimate).

Three months ended March 31	2017	2016
Equity income (loss)	1,169	(4,308)

The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at March 31	2017	2016
Current assets	81,934	40,726
Non-current assets (1)	1,144,372	1,212,357
Current liabilities	(80,138)	(60,348)
Non-current liabilities	(778,315)	(775,219)
Equity (1)	367,853	417,516
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	55,847	63,425
Less: portion of share-based compensation recorded in equity of Trilogy	(10,625)	(9,363)
Carrying value of Paramount's investment	45,222	54,062

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at March 31, 2017 totaled $1,149.0 million (2016 – $1,217.0 million) and equity totaled $372.5 million (2016 – $422.2 million).

Three months ended March 31	2017	2016
Revenue	69,624	42,405
Comprehensive income (loss) (1)	7,694	(28,359)
Paramount's share of Trilogy's comprehensive income (loss)	1,169	(4,308)

(1) Comprehensive loss for the three months ended March 31, 2016 includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the three months ended March 31, 2016 was $27.5 million.

Trilogy had 6.2 million stock options outstanding (2.4 million exercisable) at March 31, 2017 at exercise prices ranging from $4.49 to $26.87 per share.

7. Investments in Securities

As at	March 31, 2017		December 31, 2016	
	Shares (000's)	Carrying Value	*Shares (000's)*	Carrying Value
MEG Energy Corp.	*3,700*	24,938	*3,700*	34,151
Privateco		18,675		18,675
Other [(1)]		14,886		11,367
		58,499		64,193

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

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

8. Long-Term Debt

The Company has a $100 million revolving bank credit facility (the "Facility"). The revolving period of the Facility was extended to June 30, 2017 to enable the lender to complete its annual review. At March 31, 2017, no amounts were drawn on the Facility. Paramount had undrawn letters of credit outstanding totaling $21.6 million at March 31, 2017 that reduce the amount available to be drawn under the Facility.

9. Asset Retirement Obligations

	Three months ended March 31, 2017	Twelve months ended December 31, 2016
Asset retirement obligations, beginning of period	212,309	273,580
Transfer to liabilities associated with assets held for sale	(12,379)	–
Retirement obligations incurred	2,572	6,616
Revisions to estimated retirement costs	3,308	5,301
Obligations settled	(4,986)	(1,753)
Dispositions	(8,344)	(76,057)
Accretion expense	988	4,622
Asset retirement obligations, end of period	193,468	212,309

Asset retirement obligations at March 31, 2017 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2016 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2016 – 2.00 percent).

10. Share Capital

At March 31, 2017, 106,141,570 (December 31, 2016 – 105,784,070) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 2,865 (December 31, 2016 – 2,865) Common Shares held in trust under the stock incentive plan.

Paramount implemented a normal course issuer bid ("NCIB") on October 13, 2016. The NCIB will terminate on the earlier of: (i) October 12, 2017; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Paramount may purchase up to 5,441,602 Common Shares under the NCIB. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Company. To March 31, 2017, the Company has purchased and cancelled 622,900 Common Shares under the NCIB at a total cost of $9.7 million.

Weighted Average Common Shares

Three months ended March 31	2017		2016	
	Wtd. Avg Shares (000's)	Net income	*Wtd. Avg Shares (000's)*	Net loss
Net income (loss) – basic	*106,114*	20,737	*106,212*	(45,967)
Dilutive effect of Paramount Options	*798*	–	–	–
Net income (loss) – diluted	*106,912*	20,737	*106,212*	(45,967)

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income. The Company had 3.9 million Paramount Options outstanding at March 31, 2017 (March 31, 2016 – 9.6 million), of which 2.0 million (March 31, 2016 – 9.6 million) were anti-dilutive.

11. Reserves

	Unrealized gains on securities	Contributed surplus	Total reserves
Balance, December 31, 2016	31,724	115,775	147,499
Other comprehensive loss	(19,195)	–	(19,195)
Share-based compensation	–	2,219	2,219
Options exercised	–	(1,299)	(1,299)
Balance, March 31, 2017	12,529	116,695	129,224

12. Share-Based Compensation

Paramount Options

	Three months ended March 31, 2017		Twelve months ended December 31, 2016	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of period	*4,322,120*	13.00	*7,238,650*	34.66
Granted	–	–	*4,565,100*	12.74
Exercised[(1)]	*(357,500)*	8.17	*(175,840)*	8.34
Cancelled	*(56,680)*	12.61	*(6,227,300)*	35.41
Forfeited	–	–	*(148,040)*	21.05
Expired	–	–	*(930,450)*	29.83
Balance, end of period	*3,907,940*	13.45	*4,322,120*	13.00
Options exercisable, end of period	*454,240*	8.34	*811,740*	8.26

(1) For Paramount Options exercised during the three months ended March 31, 2017, the weighted average market price of Paramount's Common Shares on the dates exercised was $17.97 (2016 – n/a).

Cavalier Options

During the first quarter of 2017, Cavalier granted 5.0 million Cavalier Options, which vest over five years and expire in 7.7 years.

The grant date fair value of Cavalier Options awarded was estimated using the Black-Scholes-Merton model, incorporating the following inputs: expected volatility 57%, expected life 7.7 years, risk-free interest rate of 1.4%, pre-vest forfeiture rate of nil, and expected dividend yield of nil.

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

Stock Incentive Plan – Shares Held in Trust

	Three months ended March 31, 2017		Twelve months ended December 31, 2016	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	3	9	22	135
Change in vested and unvested shares	–	(8)	(19)	(126)
Balance, end of period	3	1	3	9

13. 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	2017	2016
Income (loss) before tax	31,466	(48,834)
Effective Canadian statutory income tax rate	27.0%	27.0%
Expected income tax expense (recovery)	8,496	(13,185)
Effect on income taxes of:		
Statutory and other rate differences	7	64
Change in market value of securities distributed	1,410	–
(Income) loss from equity-accounted investments	(316)	1,163
Write-down of Investments in Securities	–	1,512
Change in unrecognized deferred income tax asset	122	16,729
Flow-through share renunciations	–	1,039
Share-based compensation	599	1,330
Foreign exchange on 2023 Notes	–	(10,551)
Non-deductible items and other	411	(968)
Income tax expense (recovery)	10,729	(2,867)

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

14. Financial Instruments and Risk Management

The Company had the following financial commodity contracts in place as at March 31, 2017:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining term
Gas – NYMEX Swaps (Sale)	40,000 MMBtu/d	US$3.44/MMBtu	1,609	April 2017 – December 2017
Gas – NYMEX Swaps (Purchase)	40,000 MMBtu/d	US$3.13/MMBtu	2,619	April 2017 – December 2017
Oil – NYMEX WTI Swaps (Sale)	2,000 Bbl/d	CDN$70.43/Bbl	998	April 2017 – December 2017
Oil – NYMEX WTI Swap (Sale)	1,000 Bbl/d	US$54.50/Bbl	1,023	April 2017 – December 2017
			6,249	

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.

In April 2017, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Remaining term
Gas – NYMEX Swap (Sale)	10,000 MMBtu/d	US$3.37/MMBtu	May 2017 – October 2017
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$3.40/MMBtu	May 2017 – December 2017

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

	Three months ended March 31, 2017	Twelve months ended December 31, 2016
Fair value, beginning of period	(5,180)	40,207
Changes in fair value	12,313	253
Settlements received	(884)	(45,640)
Fair value, end of period	6,249	(5,180)

15. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

Three months ended March 31	2017	2016
Commodity contracts	(11,429)	2,025
Share-based compensation	2,719	5,005
Depletion and depreciation	(1,186)	88,785
Exploration and evaluation	2,763	1,282
(Gain) loss on sale of oil and gas assets	(7,490)	810
Accretion of asset retirement obligations	988	1,355
Foreign exchange	(104)	(39,735)
(Income) loss from equity-accounted investment	(1,169)	4,308
Write-down of investments in securities	–	5,602
Decrease in market value of securities distributed	10,450	–
Deferred income tax	10,729	(2,867)
Other	(16)	653
	6,255	67,223

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

Supplemental Cash Flow Information

Three months ended March 31	2017	2016
Interest paid	14	8,007

Components of cash and cash equivalents

As at	March 31, 2017	December 31, 2016
Cash	32,397	76,575
Cash equivalents	496,357	545,297
	528,754	621,872

16. Contingencies

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

In 2016, a release occurred from a non-operated pipeline in which the Company owns a 50 percent interest. The operator, and owner of the remaining 50 percent, has initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately $45 million. It is Paramount's assessment that it is not responsible for the costs of the Response Activities and as a result, no provision has been recorded in the Company's financial statements.

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

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Executive Chairman

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

B. K. Lee
Chief Financial Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

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

M. Ockenden
V.P. Corporate Planning

G. Stotts
V.P. Development

P. G. Tahmazian
V.P. Midstream

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

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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

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

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

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

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

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

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

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

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

CORPORATE OFFICE

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

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

BANK

Bank of Montreal
Calgary, Alberta

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)