Paramount resources ltd.

Second Quarter 2018 Results

Paramount Resources Ltd. Reports Second Quarter 2018 Results

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OIL AND GAS OPERATIONS

- Paramount's sales volumes averaged 86,741 Boe/d in the second quarter of 2018. Liquids sales volumes averaged 31,057 Bbl/d and constituted 77 percent of total revenue.

- The Karr development averaged 54 percent liquids for the quarter and generated 55 percent of Paramount's total netback.

- The Company is on target to complete liquids handling projects that will increase Karr area raw liquids handling capacity to approximately 15,000 Bbl/d by the end of 2018.

- Paramount executed its first high-intensity well completion in the Lower Montney zone at Karr and the well was flow tested in July. Preliminary results from this well are encouraging and the Company is in the process of quantifying the number of Lower Montney locations on its Karr lands (none currently recognized).

- At Wapiti, 11 Montney wells were drilled on the 9-3 pad between January and July 2018. These wells are similar in design to the recent Karr Montney wells and are expected to have similar liquids-rich production profiles. Six of these wells are scheduled to be completed in the fourth quarter.

- In the Kaybob Region, well completions were carried out at the 7-22 five-well South Duvernay pad and the 10-35 four-well Smoky Duvernay pad. These wells are currently being flow tested through temporary facilities.

- In the Central Alberta and Other Region, the 5-29 Duvernay well at Willesden Green was completed and flow tested in July. Test data from this well confirms that an over-pressure, high oil deliverability reservoir is present on the majority of the Company's Willesden Green Duvernay acreage.

- Exploration and development capital was $171.8 million in the second quarter and $303.4 million for the six months ended June 30, 2018.

- In July 2018, Paramount sold its oil and gas properties at Resthaven/Jayar in the Grande Prairie Region for $340 million. The Company expects to recognize a gain of approximately $53 million in respect of the disposition in the third quarter.

- Paramount expects 2018 average annual sales volumes to range between 88,000 Boe/d and 92,000 Boe/d (approximately 37 percent liquids).

- The Company's 2018 capital budget is unchanged at $600 million. Approximately one-third of the 2018 capital program is being directed to growth projects at Wapiti and Karr that will add material liquids-rich production and cash flow in 2019.

CORPORATE

- Adjusted funds flow was $62.6 million ($87.4 million before hedging settlements) for the second quarter and $160.3 million ($197.4 million before hedging settlements) for the six months ended June 30, 2018.

- With the closing of the Resthaven/Jayar property sale, Paramount has exceeded its 2018 disposition target. Consistent with its long-term strategy, Paramount continues to opportunistically pursue non-core property dispositions with a focus on maximizing value.

- Paramount has purchased and cancelled 3.2 million common shares under its normal course issuer bid program at a total cost of $53.8 million to July 31, 2018.

- In April 2018, the Company redeemed all $300 million principal amount of its 7.25% senior unsecured notes. The redemption was funded from Paramount's expanded $1.2 billion bank credit facility.

REVIEW OF OPERATIONS

Sales volumes averaged 86,741 Boe/d in the second quarter of 2018 compared to 18,367 Boe/d in the second quarter of 2017. Liquids volumes increased to 31,057 Bbl/d compared to 9,532 Bbl/d in the same period in 2017. Second quarter production was impacted by approximately 4,300 Boe/d as a result of scheduled and unscheduled third-party facility outages.

Paramount's netback was $103.6 million in the second quarter of 2018, nearly three times the Company's second quarter 2017 netback. Second quarter 2018 adjusted funds flow was $62.6 million compared to $35.2 million in the same period in 2017.

Operating costs averaged $12.01 per Boe in the second quarter of 2018 and $11.56 per Boe for the six months ended June 30, 2018. As a large proportion of Paramount's operating costs are fixed, operating costs per Boe are expected to decrease in the second half of 2018 as sales volumes increase and further benefits are realized from operational efficiencies. The Company is continuing to streamline its field operations, including consolidating field offices, optimizing field staff and contract operators and rationalizing software and service contracts.

Exploration and development capital was $171.8 million for the second quarter of 2018 and $303.4 million for the first half of 2018. First half exploration and development spending included $72.7 million related to growth projects at Wapiti and Karr that will add material liquids-rich production and cash flow in 2019.

2018 WELL COMPLETION PROGRAM

In the second quarter of 2018, completion operations were carried out on three multi-well pads at Kaybob and Karr and a Duvernay well was completed at Willesden Green. Paramount successfully completed 5 (2.5 net) wells on the 7-22 Kaybob South Duvernay pad and 5 (5.0 net) wells on the 1-2 Karr Montney pad. Both pads set new pacesetters on several metrics and were completed without any operational or safety issues. The completions employed a plug and perf design with a zipper fracturing operation. Pumping downtime was minimized between stages by utilizing a surface manifold on both pads. This, along with other improvements, contributed to an average of 11.4 and 10.9 fracks completed per day, with a daily maximum of 15 and 16 fracks, for the 7-22 Kaybob pad and the 1-2 Karr pad, respectively. Reductions in the duration of the mill-out portion of the completions were also achieved, as Paramount successfully tested a variety of composite and dissolvable plugs.

Paramount also continued to refine completion designs with controlled tests in perforation clusters, fluid viscosity, pump rate, fracture sequencing and landing zones. The 7-22 Kaybob pad included permanent fiber optic installations on two of its wells, which remain intact for future production tests. The fiber optic system was utilized in real time to assess the distribution of fluid and sand for specific perforations designs. The analysis from the 7-22 Kaybob pad fiber optic system was immediately incorporated in well completion designs for the 4 (4.0 net) wells on the 10-35 Kaybob Smoky Duvernay pad and the 5-29 Duvernay well at Willesden Green.

GRANDE PRAIRIE REGION

Sales volumes in the Grande Prairie Region in the second quarter of 2018 averaged 27,483 Boe/d, primarily comprised of liquids-rich production from the Karr development. Exploration and development capital totaled $73.5 million in the second quarter and $147.8 million for the six months ended June 30, 2018. Development activities in the second quarter focused on finishing drilling operations at the 5 (5.0 net) well 4-24 Karr pad and completing the five wells on the 1-2 Karr pad. Drilling operations also continued at the 11 (11.0 net) well 9-3 Wapiti pad.

In July 2018, Paramount sold its oil and gas properties at Resthaven/Jayar for $340 million to Strath Resources Ltd. ("Strath"). Total consideration included $170 million cash, 85 million common shares of Strath and 8.5 million warrants to acquire Strath common shares. Sales volumes for the properties in 2018 prior to the sale averaged approximately 5,000 Boe/d, on a restricted basis.

Karr

The Karr development generated 55 percent of Paramount's total netback in the second quarter. Cash flows at Karr benefit from a liquids-rich product mix, which generates higher per-unit revenues, and lower per-unit operating costs.

Sales volumes at Karr in the second quarter of 2018 were impacted by approximately 1,800 Boe/d as a result of planned and unplanned outages at a third-party processing facility. Second quarter sales volumes and netbacks at Karr are summarized as follows:

	Q2 2018		Q2 2017		% Change
Sales volumes					
Natural gas (MMcf/d)	**58.6**		29.4		*99*
Condensate and oil (Bbl/d)	**10,308**		7,147		*44*
Other NGLs (Bbl/d)	**1,195**		410		*191*
Total (Boe/d)	**21,269**		12,452		*71*
% liquids	***54%***		*61%*		
Netback	***$/Boe***	**($ millions)**	*$/Boe*	($ millions)	*% Change in $ millions*
Petroleum and natural gas sales	***44.51***	**86.1**	*42.04*	47.6	*81*
Royalties	***(3.33)***	**(6.4)**	*(0.58)*	(0.7)	*814*
Operating expense	***(9.14)***	**(17.7)**	*(9.51)*	(10.8)	*64*
Transportation and NGLs processing	***(2.72)***	**(5.3)**	*(5.09)*	(5.7)	*(7)*
	29.32	**56.7**	*26.86*	30.4	*87*

New wells are maintaining higher condensate rates for longer periods after initial start-up resulting in higher than expected per-well condensate production. To maximize cash flows, Paramount is prioritizing condensate production at its Karr 6-18 compression and dehydration facility (the "6-18 Facility"), fully utilizing liquids handling capacity and managing natural gas production by restricting flow rates. The Company is on target to complete debottlenecking projects at the 6-18 Facility and new trucking facilities that will increase Karr area raw liquids handling capacity to approximately 15,000 Bbl/d by the end of 2018.

Following the completion of an expansion to condensate stabilization capacity at a third-party facility in May 2018, the majority of liquids volumes at Karr are now being delivered into pipelines, which provide cost savings. The Company is continuing to truck a portion of liquids production in excess of available pipeline and stabilization capacity to maximize cash flows.

The Company executed its first high intensity well completion on a new Lower Montney horizontal well to test the deliverability of the zone. This well was flow tested in line in July 2018 and is currently shut-in for tubing installation. In the five days prior to being shut-in, the well averaged 1,776 Boe/d of test production at the wellhead on a restricted basis, with a 62 percent condensate ratio[1]. Preliminary results from this well are encouraging, and Paramount is in the process of quantifying the number of Lower Montney locations on its Karr lands. No locations have been recognized in the Lower Montney for Paramount's Karr development to date.

Test results from the five Montney wells on the 1-2 Karr pad to date have been in line with expectations. These wells will be brought on full production in the third quarter following the installation of permanent production facilities.

The expansion of natural gas capacity at the 6-18 Facility from 80 MMcf/d to 100 MMcf/d is substantially complete. The expansion will be tied-in and commissioned as the liquids handling projects are completed and the incremental capacity is required.

To support growth at Karr, Paramount has sanctioned the construction of a Company-owned and operated natural gas processing facility to be built alongside the current 6-18 Facility. The project will add 50 MMcf/d of natural gas processing capacity and 30,000 Bbl/d of condensate stabilization capacity. The Company is currently placing long-lead time equipment orders to meet the project timeline for start-up in the second half of 2020.

[1] Production measured at the wellhead. 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 are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

Paramount's production base at Karr includes 27 (27.0 net) horizontal Montney wells from the Company's 2016/2017 capital program (the "2016/2017 Karr Wells"). These 27 wells were part of the Company's initial drilling and completion program employing new well designs with longer lateral sections and high intensity fracks. The following table summarizes the performance of the 2016/2017 Karr Wells:

Well	Peak 30-Day Total (1)	Peak 30-Day Condensate (1)	Peak 30-Day Condensate	Days on Production	Cumulative Production (2)	Cumulative Condensate Production (2)	Cumulative Condensate Production
	(Boe/d)	*(Bbl/d)*	*(%)*		*(MBoe)*	*(MBbl)*	*(%)*
00/04-07-065-05W6/00	2,555	1,815	71%	526	618	435	70%
02/04-07-065-05W6/00	2,847	2,176	76%	497	738	558	76%
02/01-12-065-06W6/00	2,637	1,795	68%	470	540	354	66%
00/09-32-065-04W6/00	2,163	1,401	65%	412	600	335	56%
00/16-32-065-04W6/00	2,127	1,263	59%	394	652	340	52%
00/01-12-065-06W6/00	2,221	1,533	69%	311	355	244	69%
00/03-22-066-05W6/00	1,955	946	48%	284	322	141	44%
00/04-06-066-04W6/00	1,820	900	49%	350	467	192	41%
02/16-24-066-05W6/00	1,345	694	52%	341	346	149	43%
02/04-06-066-04W6/00	2,053	1,414	69%	347	469	209	45%
00/03-06-066-04W6/00	1,845	942	51%	345	536	227	42%
00/15-14-065-06W6/00	2,627	1,341	51%	248	477	239	50%
00/16-24-066-05W6/00	1,356	710	52%	296	326	148	45%
00/04-34-065-05W6/00	2,143	994	46%	341	420	191	46%
00/01-33-065-05W6/00	1,918	805	42%	333	405	176	43%
02/09-32-065-04W6/00	1,771	1,042	59%	292	330	175	53%
02/16-14-065-06W6/00	2,230	1,350	61%	280	436	264	60%
00/08-32-065-04W6/00	1,860	1,176	63%	204	319	195	61%
00/13-14-065-06W6/00	1,715	1,060	62%	243	271	156	57%
02/15-14-065-06W6/00	1,921	1,235	64%	185	284	171	60%
02/14-14-065-06W6/00	1,796	1,218	68%	199	310	181	58%
02/02-25-065-05W6/02	1,913	1,146	60%	208	317	179	57%
03/01-25-065-05W6/00	1,507	890	59%	203	255	148	58%
02/03-25-065-05W6/00	1,818	1,013	56%	137	223	132	59%
00/03-25-065-05W6/00	1,610	1,007	63%	126	173	108	63%
00/02-25-065-05W6/00	1,838	1,076	59%	116	177	104	58%
00/14-14-065-06W6/00	1,521	1,044	69%	96	122	80	66%
Average	**1,963**	**1,185**	**60%**	**288**			**56%**

(1) Peak 30 Day is the highest daily average production rate over a 30-day consecutive period for an individual well, measured at the wellhead. Natural gas sales volumes are approximately 10 percent lower and stabilized condensate sales volumes are approximately 15 percent lower due to shrinkage. Excludes days when the well did not produce. The production rates and volumes shown are 30 day peak rates over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. Certain of the wells were produced at restricted rates from time-to-time due to facility and gathering system constraints.

(2) Cumulative production for an individual well measured at the wellhead to July 29, 2018. Natural gas sales volumes are approximately 10 percent lower and stabilized condensate sales volumes are approximately 15 percent lower due to shrinkage. These wells were produced at restricted rates from time-to-time due to facility and gathering system constraints. The production rates and volumes shown are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

Royalty rates for the Karr development increased in the second quarter of 2018 compared to the same period in 2017 primarily as a result of fully utilizing new well royalty allowances for a portion of the 2016/2017 Karr Wells. New wells from the Company's 2018 development program will continue to benefit from a five percent initial royalty rate up to the maximum allowance.

Wapiti

Sales volumes at Wapiti for the second quarter of 2018 averaged approximately 500 Boe/d. Paramount is currently producing legacy Montney wells at Wapiti through an existing third-party processing facility.

Drilling operations for the 2018 capital program commenced at the 9-3 Wapiti pad in January, with all 11 wells being drilled by the end of July. These wells are targeting the Middle and Lower Montney formations at varied well spacings to collect additional reservoir performance data for future development. In the fourth quarter of 2018, six of these wells are scheduled to be completed and drilling operations are scheduled to commence on a new 12-well Wapiti pad. These Wapiti Montney wells are similar in design to the recent Karr development wells and are expected to have similar liquids-rich production profiles. These new Wapiti

Montney wells will be produced through a new 150 MMcf/d third-party processing facility, which the operator plans to commission in mid-2019.

Paramount has received regulatory approval for a water disposal well at Wapiti to support its development. Injection and fall-off tests were conducted to assess the well's disposal capacity over the 200 meter completed interval. Step rate test results exceeded 7,500 cubic meters per day without reaching maximum injection pressure and the long-term injection capacity of the well was confirmed by reservoir analysis. This disposal well will reduce trucking and water disposal fees, resulting in lower completion and operating costs for the Company's Wapiti development.

KAYBOB REGION

Kaybob Region sales volumes averaged 39,527 Boe/d in the second quarter of 2018, including 12,024 Bbl/d of liquids. A portion of Kaybob area production was shut-in due to the scheduled turnaround of a third-party processing facility, which reduced second quarter sales volumes by approximately 1,800 Boe/d. The outage was slightly longer than anticipated. Exploration and development capital in the Kaybob Region was $87.7 million in the second quarter of 2018 and $138.9 million for the six months ended June 30, 2018.

Kaybob Smoky Duvernay

Completion operations on the 10-35 Smoky pad were completed in June and all four wells are currently flowing on clean-up at restricted rates. Initial test results are confirming the high liquids yield nature of the area. The Company plans to evaluate the performance of these wells for the remainder of 2018 and resume drilling and completion activities at Kaybob Smoky Duvernay in 2019. Wells on this pad will be produced through the Paramount operated 6-16 Kaybob Smoky natural gas plant (the "6-16 Plant"). An expansion of the 6-16 Plant to increase throughput capacity to 12 MMcf/d of liquids-rich natural gas is expected to be operational by the end of August 2018.

Kaybob South Duvernay

The Company's 2018 capital program at the Kaybob South Duvernay development includes two multi-well pads. The 7-22 South Duvernay pad was completed and all 5 (2.5 net) wells are currently flowing on clean up at restricted rates through temporary facilities awaiting the installation of permanent production equipment. Over their initial 31 days on production, these wells averaged a restricted 1,251 Boe/d of gross production per well, including 56 percent condensate volumes, with an average condensate to gas ratio of 216 Bbl/MMcf.[2] Drilling operations for 5 (2.5 net) wells on a new South Duvernay pad are scheduled to commence by the end of the third quarter.

Kaybob Montney Oil

Second quarter 2018 sales volumes at the Kaybob Montney Oil property were 9,640 Boe/d, approximately 60 percent liquids. To date, eight (8.0 net) wells in the Company's 17-well Kaybob Montney Oil capital program for 2018 have been completed and brought on production. These new wells are currently producing at restricted rates pending the installation of additional liquids handling infrastructure later in the third quarter. Drilling operations will commence later in August for the remaining 9 (9.0 net) wells in the 2018 program.

CENTRAL ALBERTA AND OTHER REGION

Central Alberta and Other Region sales volumes averaged 19,731 Boe/d in the second quarter of 2018. Third-party outages as a result of scheduled facility turnarounds impacted second quarter sales volumes in the Region by approximately 700 Boe/d. Exploration and development capital spending in the Central Alberta and Other Region totaled $10.6 million in the second quarter of 2018.

[2] Production measured at the wellhead. 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 are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells.

Development activities in the Central and Other Region are focused on the 5-29 Duvernay oil well at Willesden Green. This well was completed in July and is being flow tested. Pressure test results from the 5-29 well indicate high over-pressure in the reservoir. The pressure data has confirmed that an over-pressure, high oil deliverability reservoir is present on the majority of the Company's Willesden Green Duvernay acreage.

OUTLOOK

Paramount expects 2018 average annual sales volumes to range between 88,000 Boe/d and 92,000 Boe/d (approximately 37 percent liquids). Production in the third quarter will be impacted by scheduled turnarounds at Paramount's operated 8-9 facility in Kaybob and a third-party facility in Karr, as well as the Resthaven/Jayar sale. The impact of these events will be largely offset by bringing onstream the new pads at Karr and Kaybob, the Duvernay well at Willesden Green and several other wells throughout the third quarter. Sales volumes are expected to increase in the fourth quarter.

The Company's 2018 capital budget remains unchanged at $600 million including exploration, optimization and maintenance programs, excluding land acquisitions, divestitures and abandonment and reclamation activities.

OPERATING AND FINANCIAL RESULTS [1]

($ millions, except as noted)

	Three months ended June 30				Six months ended June 30			
	2018		2017		**2018**		2017	
Sales volumes (Boe/d)								
Grande Prairie		**27,483**		16,658		**27,938**		15,529
Kaybob		**39,527**		199		**40,678**		209
Central Alberta and Other		**19,731**		1,510		**20,841**		1,533
Total		**86,741**		18,367		**89,457**		17,271
% liquids		***36%***		*52%*		***36%***		*50%*
Netback	***$/Boe*** [3]		*$/Boe* [3]		***$/Boe*** [3]		*$/Boe* [3]	
Natural gas revenue	***1.71***	**52.1**	*3.24*	15.6	***2.16***	**134.0**	*3.39*	32.0
Condensate and oil revenue	***77.25***	**167.4**	*57.95*	42.8	***73.58***	**327.6**	*59.61*	78.1
Other NGLs revenue [2]	***27.35***	**18.0**	*20.09*	2.6	***29.65***	**41.7**	*21.77*	5.3
Royalty and sulphur revenue	**—**	**2.2**	—	0.3	**—**	**6.2**	—	0.6
Petroleum and natural gas sales	***30.37***	**239.7**	*36.69*	61.3	***31.47***	**509.5**	*37.12*	116.0
Royalties	***(2.84)***	**(22.4)**	*(0.46)*	(0.8)	***(2.37)***	**(38.4)**	*(0.90)*	(2.8)
Operating expense	***(12.01)***	**(94.8)**	*(10.29)*	(17.2)	***(11.56)***	**(187.1)**	*(10.25)*	(32.1)
Transportation and NGLs processing [4]	***(2.40)***	**(18.9)**	*(4.89)*	(8.2)	***(2.84)***	**(46.0)**	*(4.58)*	(14.3)
Netback	***13.12***	**103.6**	*21.05*	35.1	***14.70***	**238.0**	*21.39*	66.8
Exploration and development capital [5]								
Grande Prairie		**73.5**		110.6		**147.8**		242.1
Kaybob		**87.7**		—		**138.9**		—
Central Alberta and Other		**10.6**		0.6		**16.7**		14.9
Total		**171.8**		111.2		**303.4**		257.0
Net income (loss)		**(134.6)**		45.3		**(215.6)**		66.1
per share – diluted ($/share)		***(1.01)***		*0.42*		***(1.62)***		*0.62*
Adjusted funds flow		**62.6**		35.2		**160.3**		63.2
per share – diluted ($/share)		***0.47***		*0.33*		***1.20***		*0.59*
Total assets						**5,044.7**		2,051.8
Net debt (cash)						**853.8**		(565.6)
Common shares outstanding *(thousands)*						**132,759**		106,200

(1) Readers are referred to the advisories concerning Non-GAAP Measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Other NGLs means ethane, propane and butane.
(3) Natural gas revenue shown per Mcf.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs.
(5) Excludes land and property acquisitions and spending related to corporate assets.

ABOUT PARAMOUNT

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

Paramount's second quarter 2018 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available through Paramount's website at www.paramountres.com and on SEDAR at www.sedar.com.

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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, sales volumes and cash flows and the timing thereof and the projected liquids component of such production and sales volumes;
- forecast capital expenditures and operating costs;
- estimated gain in respect of the Resthaven/Jayar property disposition;
- exploration, development, and associated operational plans and strategies;
- projected timelines for constructing and starting up new and expanded processing facilities and the processing capacity of such facilities upon completion;
- the projected availability of third party processing facilities;
- non-core property dispositions; 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, 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;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, de-ethanization, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to obtain and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the 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 "Adjusted funds flow", "Netback", "Net debt (cash)" and "Exploration and development capital", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by International Financial Reporting Standards.

Adjusted funds flow refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow 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 and six months ended June 30, 2018 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 Operating Results section of the Company's Management's Discussion and Analysis for the three and six months ended June 30, 2018 for the calculation thereof. Net debt (cash) is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of the Company's Management's Discussion and Analysis for the three and six months ended June 30, 2018 for the calculation of Net debt (cash). Exploration and development capital consists of the Company's spending on wells, infrastructure projects, other property, plant and equipment and exploration and evaluation assets and excludes spending related to land and property acquisitions and corporate assets. The Exploration and development capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the three and six months ended June 30, 2018 for the calculations thereof.

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

Oil and Gas Measures and Definitions

Abbreviations

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

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

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

This document contains disclosures expressed as "Boe", "$/Boe", "MBoe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the six months ended June 30, 2018, the value ratio between crude oil and natural gas was approximately 53:1. 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. The term "liquids" is used to represent oil, condensate and Other NGLs. NGLs consist of condensate and Other NGLs. The term "Other NGLs" means ethane, propane and butane.

Management's Discussion and Analysis
For the three and six months ended June 30, 2018

This Management's Discussion and Analysis ("MD&A"), dated August 7, 2018, should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three and six months ended June 30, 2018 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2017 (the "Annual Financial Statements"). Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented, except for changes as a result of the adoption of *IFRS 9 – Financial Instruments* ("IFRS 9") *and IFRS 15 – Revenue from Contracts with Customers* ("IFRS 15"), which are described in the Changes in Accounting Policies section of this document.

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, liquids-focused Canadian energy company that explores for and develops conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia. The Company's Class A Common Shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

The Company's operations are organized into three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which is focused on Montney and Duvernay developments at Kaybob, Smoky River, Pine Creek and Ante Creek; and
- the Central Alberta and Other Region, which includes Duvernay development plays in southern Alberta at Willesden Green and the East Shale Basin, and lands and production in northern Alberta and British Columbia.

Paramount also holds a portfolio of: (i) investments in other entities; (ii) investments in exploration and development stage assets, including oil sands and carbonate bitumen interests held by Paramount's wholly-owned subsidiary Cavalier Energy ("Cavalier") and prospective shale gas acreage in the Liard and Horn River Basins; and (iii) drilling rigs owned by Paramount's wholly-owned subsidiary, Fox Drilling Limited Partnership ("Fox Drilling").

FINANCIAL AND OPERATING HIGHLIGHTS [1]

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
FINANCIAL				
Petroleum and natural gas sales	**239.7**	61.3	**509.5**	116.0
Net income (loss)	**(134.6)**	45.3	**(215.6)**	66.1
per share – basic ($/share)	***(1.01)***	*0.43*	***(1.62)***	*0.62*
per share – diluted ($/share)	***(1.01)***	*0.42*	***(1.62)***	*0.62*
Adjusted funds flow	**62.6**	35.2	**160.3**	63.2
per share – basic ($/share)	***0.47***	*0.33*	***1.20***	*0.60*
per share – diluted ($/share)	***0.47***	*0.33*	***1.20***	*0.59*
Exploration and development capital [2]	**171.8**	111.2	**303.4**	257.0
Total assets			**5,044.7**	2,051.8
Net debt (cash)			**853.8**	(507.9)
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**334.1**	53.0	**342.5**	52.2
Condensate and oil (Bbl/d)	**23,815**	8,118	**24,599**	7,238
Other NGLs (Bbl/d) [3]	**7,242**	1,414	**7,767**	1,335
Total (Boe/d)	**86,741**	18,367	**89,457**	17,271
Net wells drilled	**22**	10	**41**	25
ADJUSTED FUNDS FLOW ($/Boe)				
Petroleum and natural gas sales	**30.37**	36.69	**31.47**	37.12
Royalties	**(2.84)**	(0.46)	**(2.37)**	(0.90)
Operating expense	**(12.01)**	(10.29)	**(11.56)**	(10.25)
Transportation and NGLs processing [4]	**(2.40)**	(4.89)	**(2.84)**	(4.58)
Netback	**13.12**	21.05	**14.70**	21.39
Commodity contract settlements	**(3.15)**	2.24	**(2.29)**	1.48
Netback including commodity contract settlements	**9.97**	23.29	**12.41**	22.87
General and administrative	**(1.57)**	(3.11)	**(1.89)**	(3.74)
Interest and financing expense	**(0.87)**	(0.05)	**(0.96)**	(0.14)
Other	**0.40**	0.95	**0.34**	1.23
Adjusted funds flow	**7.93**	21.08	**9.90**	20.22

(1) Readers are referred to the advisories concerning Non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document and to the reconciliations of such Non-GAAP measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP measures: Adjusted funds flow, Exploration and development capital, Net debt (cash) and Netback.
(2) Exploration and development capital consists of expenditures related to property, plant and equipment and exploration and evaluation assets excluding expenditures related to land and property acquisitions and corporate assets.
(3) Other NGLs means ethane, propane and butane.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs.

CONSOLIDATED RESULTS

Net Income (Loss)

Paramount recorded a net loss of $134.6 million for the three months ended June 30, 2018 compared to net income of $45.3 million in the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended June 30	
Net income – 2017	**45.3**
• Higher depletion and depreciation in 2018 mainly due to higher sales volumes	(125.0)
• Loss on commodity contracts in 2018 compared to a gain in 2017	(93.1)
• Gain on sale of oil and gas assets in 2017 compared to a loss in 2018	(83.1)
• Higher accretion of asset retirement obligations	(8.3)
• Higher general and administrative expense following the corporate acquisitions in the third quarter of 2017	(7.2)
• Higher interest and financing expense	(6.8)
• Income tax recovery in 2018 compared to income tax expense in 2017	69.6
• Higher netback in 2018 mainly due to higher sales volumes	68.5
• Write-downs of investments in securities in 2017	11.0
• Other	(5.5)
Net loss – 2018	**(134.6)**

Paramount recorded a net loss of $215.6 million for the six months ended June 30, 2018 compared to net income of $66.1 million in the same period in 2017. Significant factors contributing to the change are shown below:

Six months ended June 30	
Net income – 2017	**66.1**
• Higher depletion and depreciation in 2018 mainly due to higher sales volumes and a $42.1 million impairment reversal recorded in 2017	(290.9)
• Loss on commodity contracts in 2018 compared to a gain in 2017	(153.1)
• Lower gain on sale of oil and gas assets in 2018	(76.5)
• Higher general and administrative expense following the corporate acquisitions in the third quarter of 2017	(18.9)
• Higher accretion of asset retirement obligations	(16.7)
• Higher interest and financing expense	(15.2)
• Higher exploration and evaluation expense	(7.2)
• Higher netback in 2018 mainly due to higher sales volumes	171.2
• Income tax recovery in 2018 compared to income tax expense in 2017	108.2
• Write-downs of investments in securities in 2017	11.0
• Loss recorded in 2017 related to the decrease in the market value of securities distributed	10.5
• Other	(4.1)
Net loss – 2018	**(215.6)**

Adjusted Funds Flow [(1)]

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
Cash from operating activities	**52.0**	27.5	**137.2**	33.5
Change in non-cash working capital	**(0.6)**	2.0	**(4.0)**	18.0
Transaction and reorganization costs	**2.1**	4.7	**4.3**	4.7
Geological and geophysical expenses	**3.1**	1.2	**8.3**	2.2
Asset retirement obligations settled	**6.0**	(0.2)	**14.5**	4.8
Adjusted funds flow	**62.6**	35.2	**160.3**	63.2
Adjusted funds flow (*$/Boe*)	**7.93**	21.08	**9.90**	20.22

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

Adjusted funds flow for the three months ended June 30, 2018 was $62.6 million compared to $35.2 million for the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended June 30	
Adjusted funds flow – 2017	**35.2**
• Higher netback in 2018 mainly due to higher sales volumes	68.5
• Payments on commodity contract settlements in 2018 compared to receipts in 2017	(28.5)
• Higher general and administrative expense mainly due to corporate acquisitions in the third quarter of 2017	(7.2)
• Higher interest and financing expense	(6.8)
• Other	1.4
Adjusted funds flow – 2018	**62.6**

Adjusted funds flow for the six months ended June 30, 2018 was $160.3 million compared to $63.2 million for the same period in 2017. Significant factors contributing to the change are shown below:

Six months ended June 30	
Adjusted funds flow – 2017	**63.2**
• Higher netback in 2018 mainly due to higher sales volumes	171.2
• Payments on commodity contract settlements in 2018 compared to receipts in 2017	(41.7)
• Higher general and administrative expense mainly due to corporate acquisitions in the third quarter of 2017	(18.9)
• Higher interest and financing expense	(15.2)
• Other	1.7
Adjusted funds flow – 2018	**160.3**

OPERATING RESULTS

Netback

	Three months ended June 30				Six months ended June 30			
	2018		2017		**2018**		2017	
		($/Boe)(1)		*($/Boe)(1)*		***($/Boe)(1)***		*($/Boe)(1)*
Natural gas revenue	**52.1**	***1.71***	15.6	*3.24*	**134.0**	***2.16***	32.0	*3.39*
Condensate and oil revenue	**167.4**	***77.25***	42.8	*57.95*	**327.6**	***73.58***	78.1	*59.61*
Other NGLs revenue (2)	**18.0**	***27.35***	2.6	*20.09*	**41.7**	***29.65***	5.3	*21.77*
Royalty and sulphur revenue	**2.2**	***–***	0.3	*–*	**6.2**	***–***	0.6	*–*
Petroleum and natural gas sales	**239.7**	***30.37***	61.3	*36.69*	**509.5**	***31.47***	116.0	*37.12*
Royalties	**(22.4)**	***(2.84)***	(0.8)	*(0.46)*	**(38.4)**	***(2.37)***	(2.8)	*(0.90)*
Operating expense	**(94.8)**	***(12.01)***	(17.2)	*(10.29)*	**(187.1)**	***(11.56)***	(32.1)	*(10.25)*
Transportation and NGLs processing (3)	**(18.9)**	***(2.40)***	(8.2)	*(4.89)*	**(46.0)**	***(2.84)***	(14.3)	*(4.58)*
Netback	**103.6**	***13.12***	35.1	*21.05*	**238.0**	***14.70***	66.8	*21.39*
Commodity contract settlements	**(24.8)**	***(3.15)***	3.7	*2.24*	**(37.1)**	***(2.29)***	4.6	*1.48*
Netback including commodity contract settlements	**78.8**	***9.97***	38.8	*23.29*	**200.9**	***12.41***	71.4	*22.87*

(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.

Petroleum and natural gas sales were $239.7 million in the second quarter of 2018, an increase of $178.4 million from the second quarter of 2017. Petroleum and natural gas sales were $509.5 million for the six months ended June 30, 2018, an increase of $393.5 million compared to the same period in 2017. The increases were primarily due to higher sales volumes and higher liquids prices, partially offset by lower natural gas 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 June 30, 2017	15.6	42.8	2.6	0.3	61.3
Effect of changes in sales volumes	83.0	82.8	10.6	–	176.4
Effect of changes in prices	(46.5)	41.8	4.8	–	0.1
Change in royalty and sulphur revenue	–	–	–	1.9	1.9
Three months ended June 30, 2018	**52.1**	**167.4**	**18.0**	**2.2**	**239.7**

	Natural Gas	Condensate and Oil	Other NGLs	Royalty and Sulphur	Total
Six months ended June 30, 2017	32.0	78.1	5.3	0.6	116.0
Effect of changes in sales volumes	178.5	187.3	25.3	–	391.1
Effect of changes in prices	(76.5)	62.2	11.1	–	(3.2)
Change in royalty and sulphur revenue	–	–	–	5.6	5.6
Six months ended June 30, 2018	**134.0**	**327.6**	**41.7**	**6.2**	**509.5**

Sales Volumes

	Three months ended June 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Grande Prairie	**82.9**	47.2	*76*	**11,163**	7,616	*47*	**2,499**	1,172	*113*	**27,483**	16,658	*65*
Kaybob	**165.0**	0.6	*NM*	**9,622**	94	*NM*	**2,402**	11	*NM*	**39,527**	199	*NM*
Central Alberta & Other	**86.2**	5.2	*NM*	**3,030**	408	*NM*	**2,341**	231	*NM*	**19,731**	1,510	*NM*
Total	**334.1**	53.0	*530*	**23,815**	8,118	*193*	**7,242**	1,414	*412*	**86,741**	18,367	*372*

NM Not meaningful

In August 2017, Paramount acquired all of the outstanding shares of Apache Canada Ltd. ("Apache Canada" and the "Apache Canada Acquisition"). In September 2017, the Company completed a merger transaction with Trilogy Energy Corp. ("Trilogy" and the "Trilogy Merger"), under which Paramount acquired all of the outstanding shares of Trilogy. The majority of production from properties acquired through these transactions is focused in the Kaybob and Central Alberta and Other Regions.

Sales volumes in the second quarter of 2018 increased 372 percent to 86,741 Boe/d compared to 18,367 Boe/d in the second quarter of 2017. The increase was primarily due to incremental sales volumes from wells acquired through the Apache Canada Acquisition and the Trilogy Merger and production from new Montney wells at Karr in the Grande Prairie Region. Scheduled and unscheduled third-party facility outages impacted production by approximately 4,300 Boe/d in the second quarter of 2018.

In the first quarter of 2018, the Company brought the final well on production from its 2016/2017 27-well Montney drilling and completion program at Karr. Montney wells at Karr are maintaining higher condensate rates for longer periods after initial start-up. To maximize cash flows, the Company is prioritizing condensate production at the Karr 6-18 compression and dehydration facility (the "6-18 Facility"), fully utilizing liquids handling capacity and managing natural gas production by restricting flow rates.

The Company is on target to complete debottlenecking projects at the 6-18 Facility and new trucking facilities that will increase Karr area raw liquids handling capacity to approximately 15,000 Bbl/d by the end of 2018.

	Six months ended June 30											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Grande Prairie	**83.3**	46.2	*80*	**11,600**	6,706	*73*	**2,449**	1,122	*118*	**27,938**	15,529	*80*
Kaybob	**170.1**	0.5	*NM*	**9,815**	108	*NM*	**2,520**	12	*NM*	**40,678**	209	*NM*
Central Alberta & Other	**89.1**	5.5	*NM*	**3,184**	424	*NM*	**2,798**	201	*NM*	**20,841**	1,533	*NM*
Total	**342.5**	52.2	*556*	**24,599**	7,238	*240*	**7,767**	1,335	*482*	**89,457**	17,271	*418*

NM Not meaningful

Sales volumes increased by 418 percent to 89,457 Boe/d in the six months ended June 30, 2018 compared to 17,271 Boe/d in the same period in 2017. The increase was primarily due to incremental sales volumes from wells acquired through the Apache Canada Acquisition and the Trilogy Merger and production from new Montney wells at Karr in the Grande Prairie Region, partially offset by the impact of scheduled and unscheduled third-party outages, which reduced production by approximately 5,100 Boe/d, and the management of natural gas production at Karr in order to maximize liquids production.

Commodity Prices

	Three months ended June 30			Six months ended June 30		
	2018	2017	% Change	**2018**	2017	% Change
Natural Gas						
Paramount realized price ($/Mcf)	**1.71**	3.24	(47)	**2.16**	3.39	(36)
AECO daily spot ($/GJ)	**1.10**	2.77	(60)	**1.53**	2.66	(42)
AECO monthly index ($/GJ)	**1.06**	2.68	(60)	**1.40**	2.74	(49)
NYMEX (US$/MMbtu)	**2.83**	3.14	(10)	**2.84**	3.10	(8)
Malin (US$/MMbtu)	**1.98**	2.78	(29)	**2.24**	2.97	(25)
Crude Oil						
Paramount average realized condensate & oil price ($/Bbl)	**77.25**	57.95	33	**73.58**	59.61	23
Edmonton Light Sweet ($/Bbl)	**77.82**	59.72	30	**73.95**	62.27	19
West Texas Intermediate (US$/Bbl)	**67.88**	48.27	41	**65.38**	50.09	31
Foreign Exchange						
$CDN / 1 $US	**1.29**	1.34	(4)	**1.28**	1.33	(4)

Paramount's average realized natural gas price decreased 36 percent in the first half of 2018 compared to the same period in 2017, consistent with decreases in benchmark prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta, California and eastern Canada markets and is sold in a combination of daily and monthly contracts. The Company has firm-service arrangements in place to transport approximately 60,000 GJ/d of natural gas to the Dawn natural gas hub in Ontario, which is sold at $US NYMEX based reference prices. The Company also has firm-service arrangements in place to transport approximately 21,000 GJ/d of natural gas to California, which is sold at $US Malin based reference prices.

Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines 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. Prices for unstabilized condensate volumes trucked to terminals are based on crude oil or condensate prices quoted at Edmonton, depending on the terminal to which volumes are delivered, and are adjusted for transportation, quality and density differentials. The Company's average realized condensate and oil price increased 23 percent in the first half of 2018 compared to the same period in 2017, consistent with increases in benchmark prices.

Commodity Price Management

From time-to-time, Paramount uses financial commodity price contracts to manage exposure to commodity price volatility, protect the Company's cash flows and support its capital programs. Paramount had the following financial commodity contracts outstanding at June 30, 2018:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining Term
Oil – NYMEX WTI Swaps (Sale)	17,000 Bbl/d	CDN$71.61/Bbl	(66.3)	July 2018 – December 2018
Oil – NYMEX WTI Swaps (Sale)	12,000 Bbl/d	CDN$75.36/Bbl	(43.0)	January 2019 – December 2019
Oil – NYMEX WTI Calls (Sale)	2,000 Bbl/d	CDN$82.00 Bbl (1)	(4.9)	January 2019 – December 2019
			(114.2)	

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN$82.00 per barrel, for which the Company will receive a premium of CDN$2.65 per barrel.

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

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Fair value, beginning of period	(19.1)	(5.2)
Changes in fair value	(132.2)	(4.1)
Settlements paid (received)	37.1	(14.4)
Assumed on Trilogy Merger	–	4.6
Fair value, end of period	(114.2)	(19.1)

Royalties

	Three months ended June 30				Six months ended June 30			
	2018	**Rate**	2017	Rate	**2018**	**Rate**	2017	Rate
Royalties	22.4	9.4%	0.8	1.3%	38.4	7.6%	2.8	2.4%
$/Boe	*2.84*		*0.46*		*2.37*		*0.90*	

Second quarter royalties were $22.4 million in 2018 compared to $0.8 million in the same period in 2017. Royalties for the six months ended June 30, 2018 were $38.4 million compared to $2.8 million in the same period in 2017. The increase in royalties is primarily due to higher revenue in 2018. Applicable royalty rates for sales volumes from wells acquired through the Apache Canada Acquisition and Trilogy Merger are higher than Paramount's average royalty rates prior to the transactions, resulting in an increase to overall royalty rates in 2018. Following the Apache Canada Acquisition and Trilogy Merger, a lower proportion of the Company's sales volumes benefit from new well and other royalty incentive programs.

Royalty rates in the Grande Prairie Region increased in the first half of 2018 compared to the same period in 2017 primarily as a result of fully utilizing new well royalty allowances associated with new wells in the Karr area. New wells from the Company's 2018 development program will continue to benefit from a five percent initial royalty rate up to the maximum allowance.

Operating Expense

	Three months ended June 30			Six months ended June 30		
	2018	2017	% Change	**2018**	2017	% Change
Operating expense	**94.8**	17.2	*NM*	**187.1**	32.1	*NM*
$/Boe	***12.01***	*10.29*	*17*	***11.56***	*10.25*	*13*

NM Not meaningful

Operating expense increased by $77.6 million in the second quarter of 2018 to $94.8 million compared to $17.2 million in the same period in 2017. Operating expense was $187.1 million in the first half of 2018 compared to $32.1 million in the same period in 2017. The increase in operating expenses in 2018 is primarily due to costs associated with production from wells acquired through the Apache Canada Acquisition and Trilogy Merger and increased production at the Karr development in the Grande Prairie Region.

Operating costs averaged $11.56 per Boe for the six months ended June 30, 2018. As a result of a large proportion of the Company's operating costs being fixed, the revision to forecast sales volumes is expected to result in average operating costs of approximately $11.00 per Boe in 2018.

Transportation and NGLs Processing

	Three months ended June 30			Six months ended June 30		
	2018	2017	% Change	**2018**	2017	% Change
Transportation and NGLs processing	**18.9**	8.2	130	**46.0**	14.3	222
$/Boe	***2.40***	*4.89*	*(51)*	***2.84***	*4.58*	*(38)*

Transportation and NGLs processing was $18.9 million in the second quarter of 2018, an increase of $10.7 million compared to the same period in 2017. Transportation and NGLs processing increased $31.7 million to $46.0 million for the six months ended June 30, 2018 compared to $14.3 million in the same period in 2017. The increase was primarily the result of increased transportation costs associated with production volumes from wells acquired through the Apache Canada Acquisition and Trilogy Merger and production growth at the Karr development.

Following the completion of an expansion to condensate stabilization capacity at a third-party facility in May 2018, the majority of liquids volumes at Karr are now delivered into pipelines, which provide cost savings. The Company is continuing to truck a portion of liquids production in excess of available pipeline and stabilization capacity to maximize cash flows.

Other Operating Items

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
Depletion and depreciation (excluding de-impairment)	**(161.1)**	(36.1)	**(325.8)**	(77.0)
De-impairment of property plant and equipment	**–**	–	**–**	42.1
Gain (loss) on sale of oil and gas assets	**(2.2)**	80.9	**11.8**	88.3
Exploration and evaluation expense	**(3.9)**	(1.6)	**(12.5)**	(5.3)

Depletion and depreciation expense increased to $161.1 million ($20.41 per Boe) in the second quarter of 2018 compared to $36.1 million ($21.60 per Boe) in the second quarter of 2017. Depletion and depreciation expense increased to $325.8 million ($20.12 per Boe) in the six months ended June 30, 2018 compared to $77.0 million ($24.63 per Boe) in the same period in 2017. The increase in depletion and depreciation expense was primarily due to higher sales volumes in 2018. The $42.1 million reversal of previously recorded impairment charges in 2017 related to the Company's Valhalla property, which was sold in May 2017.

The gain on sale of oil and gas assets for the six months ended June 30, 2018 primarily related to the sale of non-core assets in the Central Alberta and Other Region. In May 2017, Paramount sold the Valhalla property and recorded a gain of $82.2 million.

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar in the Grande Prairie Region (the "Resthaven/Jayar Assets") for $340 million. Total consideration included $170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath"), and 10-year warrants to acquire 8.5 million Strath common shares. The assets and liabilities associated with the Resthaven/Jayar Assets have been presented as held for sale at June 30, 2018 in the Interim Financial Statements. The Resthaven/Jayar Assets encompass approximately 201 (152 net) sections of land and had estimated sales volumes of approximately 5,000 Boe/d (35 percent liquids) in the first half of 2018.

Exploration and evaluation expense was $12.5 million for the six months ended June 30, 2018, an increase of $7.2 million compared to the same period in 2017, primarily due to higher geological and geophysical costs.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
General and administrative	**(12.4)**	(5.2)	**(30.6)**	(11.7)
Share-based compensation	**(5.8)**	(2.7)	**(11.4)**	(5.4)
Interest and financing	**(6.9)**	(0.1)	**(15.6)**	(0.4)
Accretion of asset retirement obligations	**(9.3)**	(1.0)	**(18.6)**	(1.9)
Decrease in market value of securities distributed	**–**	–	**–**	(10.5)

General and administrative expense was higher for the six months ended June 30, 2018 compared to the same period in 2017, primarily as a result of the Apache Canada Acquisition and the Trilogy Merger.

Interest and financing expense was $15.6 million in the first half of 2018, an increase of $15.2 million from 2017, as a result of outstanding debt in 2018.

Accretion of asset retirement obligations increased to $18.6 million in the six months ended June 30, 2018 compared to $1.9 million in the same period in 2017. The increase was primarily due to higher asset retirement obligations following the Apache Canada Acquisition and the Trilogy Merger.

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 net income from accumulated other comprehensive income in 2017.

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
Drilling, completion and tie-ins	**152.6**	102.2	**265.2**	230.7
Facilities and gathering	**19.2**	9.0	**38.2**	26.3
Exploration and development capital (1)	**171.8**	111.2	**303.4**	257.0
Land and property acquisitions	**6.8**	1.8	**8.4**	3.1
Exploration and development capital including land & property acquisitions	**178.6**	113.0	**311.8**	260.1
Corporate	**3.1**	0.4	**5.9**	1.5
	181.7	113.4	**317.7**	261.6
Exploration and development capital by Region (1)				
Grande Prairie	**73.5**	110.6	**147.8**	242.1
Kaybob	**87.7**	–	**138.9**	–
Central Alberta and Other	**10.6**	0.6	**16.7**	14.9
	171.8	111.2	**303.4**	257.0

(1) Exploration and development capital consists of expenditures related to property, plant and equipment and exploration and evaluation assets, excluding expenditures related to land and property acquisitions and corporate assets.

Exploration and development capital was $171.8 million in the second quarter of 2018 compared to $111.2 million in the same period in 2017. Exploration and development capital was $303.4 million in the first half of 2018 compared to $257.0 million in the same period in 2017. Expenditures in the first half of 2018 were mainly related to drilling and completion programs and facilities projects in the Grande Prairie and Kaybob Regions.

Development activities in the Grande Prairie Region focused on the Company's Montney developments at Karr and Wapiti. At Karr, 10 (10.0 net) wells were drilled on the 1-2 and 4-24 pads. Five wells on the 1-2 pad were completed in the second quarter of 2018 and are producing on cleanup through test facilities. At Wapiti, 11 (11.0 net) wells were drilled on the 9-3 pad by the end of July. Six of these wells are scheduled to be completed in the fourth quarter.

In the Kaybob Region, development activities focused on two Duvernay pads and the Montney Oil development. At the 10-35 Smoky Duvernay pad, 4 (4.0 net) wells have been completed and are currently flowing back on clean-up. The 5 (2.5 net) well 7-22 South Duvernay pad was also completed in the second quarter and all five wells on the pad are flowing on clean-up. At the Montney Oil development, 8 (8.0 net) wells have been completed and brought on production to date. Drilling operations will commerce for nine additional Montney Oil wells in the third quarter.

In the first half of 2018, capital spending included $72.7 million related to growth projects at Wapiti and Karr that will add material liquids-rich production and cash flows in 2019.

Wells drilled were as follows:

	Three months ended June 30				Six months ended June 30			
	2018		2017		**2018**		2017	
	Gross (1)	**Net** (2)	Gross (1)	Net (2)	**Gross** (1)	**Net** (2)	Gross (1)	Net (2)
Natural gas	**20**	**18**	11	10	**38**	**30**	28	25
Oil	**4**	**4**	–	–	**11**	**11**	–	–
Total	**24**	**22**	11	10	**49**	**41**	28	25

(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.

OUTLOOK

As a result of: (i) prioritizing condensate production and delays in starting up new production at Karr due to liquids handling constraints, (ii) delays in the anticipated startup of new Kaybob wells, (iii) the deferral of new production at the non-operated Birch property (iv) unplanned third-party outages and (v) the sale of the Resthaven/Jayar properties, Paramount expects 2018 average annual sales volumes to range between 88,000 Boe/d and 92,000 Boe/d (approximately 37 percent liquids).

Production in the third quarter will be impacted by scheduled turnarounds at Paramount's operated 8-9 facility in Kaybob and a third-party facility in Karr, as well as the Resthaven/Jayar sale. The impact of these events will be largely offset by bringing onstream the new pads at Karr and Kaybob, the Duvernay well at Willesden Green and several other wells throughout the third quarter. Sales volumes are expected to increase in the fourth quarter.

With the closing of the Resthaven/Jayar property sale, Paramount has exceeded its 2018 disposition target. Consistent with its long-term strategy, Paramount continues to opportunistically pursue non-core property dispositions with a focus on maximizing value.

The Company's 2018 capital budget remains unchanged at $600 million including exploration, optimization and maintenance programs, excluding land acquisitions, divestitures and abandonment and reclamation activities.

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 assets and operations. Paramount may adjust its capital structure through a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets, and participating in joint ventures, the availability of any such means being dependent upon market conditions.

As at	June 30, 2018	December 31, 2017
Cash and cash equivalents	(21.6)	(123.3)
Accounts receivable	(119.8)	(170.3)
Prepaid expenses and other	(17.0)	(9.1)
Accounts payable and accrued liabilities	253.3	237.2
Adjusted working capital deficit (surplus) (1) (2)	94.9	(65.5)
Paramount Facility	758.9	395.0
2019 Senior Notes	–	306.7
Net Debt (2)	853.8	636.2
Share capital	2,207.8	2,249.8
Retained earnings (accumulated deficit)	(48.3)	50.3
Reserves	56.8	143.6
Total Capital	3,070.1	3,079.9

(1) Adjusted working capital excludes risk management liabilities, assets and liabilities held for sale and the current portion of asset retirement obligations.
(2) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.

The change in net debt from December 31, 2017 to June 30, 2018 is primarily due to capital expenditures and the repurchase of Common Shares under the Company's normal course issuer bid program, partially offset by cash flows from operations. Paramount expects to fund the remainder of its 2018 obligations and capital expenditures with cash flows from operations and available capacity under its bank credit facility.

Paramount Facility

As at June 30, 2018, the Company had a $1.2 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 6, 2021, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders. At Paramount's request, the size of the Paramount Facility can be increased by up to $300 million (to $1.5 billion) pursuant to an accordion feature in such facility, subject to securing incremental lender commitments.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less (or 4.00 to 1.00 or less for two full fiscal quarters after completion of a material acquisition); and

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

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

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

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all covenants under the Paramount Facility.

Paramount had letters of credit outstanding totaling $18.7 million at July 31, 2018 that reduce the amount available to be drawn on the Paramount Facility.

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a $6.7 million gain on redemption less the redemption premium of $3.6 million.

Share Capital

At July 31, 2018, Paramount had 131,887,667 Common Shares outstanding and 9,303,186 options to acquire Common Shares outstanding, of which 1,728,592 options are exercisable.

In December 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company can purchase up to 7,497,530 Common Shares for cancellation. Any shareholder may obtain, for no charge, a copy of the notice in respect of the 2018 NCIB filed with the TSX by contacting the Company at 403-290-3600. Between January 1, 2018 and July 31, 2018, the Company purchased and cancelled 3,243,300 Common Shares at a total cost of $53.8 million under the 2018 NCIB. The 2018 NCIB will terminate on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2018 NCIB are purchased.

QUARTERLY INFORMATION

	2018		2017				2016	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**239.7**	269.8	258.9	116.5	61.3	54.7	32.3	51.7
Net income (loss)	**(134.6)**	(81.1)	(106.2)	223.5	45.3	20.7	212.4	1,029.4
Per share – basic ($/share)	***(1.01)***	*(0.61)*	*(0.79)*	*1.99*	*0.43*	*0.20*	*2.01*	*9.69*
Per share – diluted ($/share)	***(1.01)***	*(0.61)*	*(0.79)*	*1.97*	*0.42*	*0.19*	*1.99*	*9.64*
Adjusted funds flow	**62.6**	97.6	110.1	45.3	35.2	28.0	14.3	3.8
Per share – basic ($/share)	***0.47***	*0.73*	*0.82*	*0.40*	*0.33*	*0.26*	*0.14*	*0.04*
Per share – diluted ($/share)	***0.47***	*0.73*	*0.82*	*0.40*	*0.33*	*0.26*	*0.13*	*0.04*
Sales volumes								
Natural gas (MMcf/d)	**334.1**	351.1	359.9	177.2	53.0	51.4	47.5	88.6
Condensate and oil (Bbl/d)	**23,815**	25,391	26,285	14,845	8,118	6,348	2,943	5,335
Other NGLs (Bbl/d)	**7,242**	8,298	9,149	4,641	1,414	1,255	1,046	4,687
Total (Boe/d)	**86,741**	92,203	95,412	49,023	18,367	16,163	11,901	24,786
Average realized price								
Natural gas ($/Mcf)	**1.71**	2.59	2.11	1.89	3.24	3.55	3.10	2.65
Condensate and oil ($/Bbl)	**77.25**	70.10	66.65	54.30	57.95	61.75	60.49	51.15
Other NGLs ($/Bbl)	**27.35**	31.68	30.15	23.05	20.09	23.69	22.16	11.11
Total ($/Boe)	**30.37**	32.51	29.49	25.84	36.69	37.61	29.52	22.66

Significant Items Impacting Quarterly Results

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

- The second quarter 2018 loss includes an $84.6 million loss on commodity contracts.
- The first quarter 2018 loss includes a $47.6 million loss on commodity contracts.
- The fourth quarter 2017 loss includes a $184.6 million write-down related to the Company's shale gas project in the Liard and Horn River Basins, a $182.9 million gain related to the Apache Canada Acquisition and $132.0 million of aggregate impairment write-downs of property, plant and equipment.
- Third quarter 2017 earnings include a $366.1 million gain related to the Apache Canada Acquisition, a $223.4 million charge related to ARO discount rate adjustments recorded in respect of the Apache

Canada Acquisition and the Trilogy Merger and a $61.8 million gain related to a fair value adjustment in respect of Trilogy Shares held prior to the Trilogy Merger.

- Second quarter 2017 earnings include an $80.9 million gain on the sale of oil and gas assets, primarily related to the sale of the Valhalla property.
- 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 property and a $10.5 million loss due to changes in the fair value of 3.8 million common shares of Seven Generations Energy Ltd. distributed 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 a 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 Company's Musreau area assets, including a $1.2 billion gain on sale, lower depletion and depreciation expense, higher income tax expense and lower netback.

OTHER INFORMATION

Commitments

In 2018, the Company secured incremental firm-service liquids transportation capacity with a third party, with commitments totaling approximately $138 million over ten years beginning in May 2019.

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 owned 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 $60 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 amounts may differ materially from amounts estimated and recorded.

CHANGE IN ACCOUNTING POLICIES

The Company adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected to not restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy as described in the Annual Financial Statements.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through other comprehensive income", "fair value through profit and loss" and "amortized cost". The following table outlines the classification categories in respect of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and IFRS 9 as at January 1, 2018:

Financial Instrument	IAS 39	IFRS 9
Risk management assets and liabilities	Fair value through profit and loss	Fair value through profit and loss
Investments in securities	Available-for-sale	Fair value through OCI
Long-term debt	Financial liabilities	Amortized cost

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

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in other comprehensive income ("OCI") under IFRS 9.

Under IFRS 9, impairment charges recognized in respect of equity investments classified as fair value through OCI are not reclassified to earnings. As a result, cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy in accordance with IFRS 9 resulted in the reclassification of previously recorded impairment charges of $117.1 million from Retained Earnings to Reserves in the Company's Balance Sheet upon adoption of the new standard. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from $50.3 million and $143.6 million, respectively, under IAS 39 to $167.4 million and $26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an equity investment, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking "expected credit loss" model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition accounting policy to recognize revenue when the customer assumes control of an asset. The transfer of control in respect of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue, however, the Company has included additional revenue disclosures in the notes to the financial statements in accordance with the new standard.

Changes in Accounting Standards

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has initiated a project to identify and review contracts to determine the extent of the potential impact. Paramount expects that the adoption of this standard may have a material impact on the Company' s financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended June 30, 2018, there was no change in the Company's internal control over financial reporting ("ICFR") that materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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, sales volumes and the timing thereof and the projected liquids component of such production and sales volumes;
- forecast capital expenditures and operating costs;
- exploration, development, and associated operational plans and strategies;
- the projected availability of third party processing facilities;
- non-core property dispositions; 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 is 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;
- the uncertainty of reserves and resources estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operations and obtain financing 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 obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "RISK FACTORS" in Paramount's 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 "Adjusted funds flow", "Netback", "Net Debt (Cash)", "Adjusted working capital" and "Exploration and development capital", collectively the "Non-GAAP Measures", are used and do not have any standardized meanings as prescribed by IFRS.

Adjusted funds flow refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements and transaction and reorganization costs. Adjusted funds flow 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 Operating Results section of the Company's Management's Discussion and Analysis for the calculation thereof. **Net Debt (Cash)** 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 Debt (Cash) and **Adjusted working capital**. **Exploration and development capital** consists of the Company's spending on wells, infrastructure projects, and other property, plant and equipment and exploration and evaluation assets and excludes spending related to land and property acquisitions and corporate assets. The Exploration and development capital measure provides management and investors with information regarding the Company's capital spending on wells and infrastructure projects separate from land and property acquisition activity and corporate expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the Company's Management's Discussion and Analysis for the calculation thereof.

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

Oil and Gas Measures and Definitions

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

Abbreviations

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

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

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

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 six months ended June 30, 2018, the value ratio between crude oil and natural gas was approximately 53:1. 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)
June 30, 2018

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

($ thousands)

As at	Note	June 30 2018	December 31 2017
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents	15	21,601	123,329
Accounts receivable		119,808	170,313
Prepaid expenses and other		16,967	9,047
Assets held for sale	2	307,353	–
		465,729	302,689
Exploration and evaluation	3	745,879	785,764
Property, plant and equipment, net	4	3,016,184	3,282,542
Investments in securities	5	75,743	53,315
Deferred income tax		741,143	666,404
		5,044,678	5,090,714
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		253,343	237,181
Risk management	12	92,680	19,060
Current portion of asset retirement obligations	7	28,000	28,000
Liabilities associated with assets held for sale	2	20,515	–
		394,538	284,241
Long-term debt	6	758,940	701,750
Risk management – long-term	12	21,503	–
Asset retirement obligations and other	7	1,653,296	1,661,073
		2,828,277	2,647,064
Commitments and contingencies	16		
Shareholders' equity			
Share capital	8	2,207,824	2,249,746
Retained earnings (accumulated deficit)	1	(48,253)	50,325
Reserves	1,9	56,830	143,579
		2,216,401	2,443,650
		5,044,678	5,090,714

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands, except as noted)

		Three months ended June 30		Six months ended June 30	
	Note	2018	2017	2018	2017
Petroleum and natural gas sales		239,730	61,328	509,543	116,031
Royalties		(22,395)	(776)	(38,443)	(2,805)
Revenue	13	217,335	60,552	471,100	113,226
Gain (loss) on commodity contracts	12	(84,581)	8,550	(132,210)	20,863
		132,754	69,102	338,890	134,089
Expenses					
Operating expense		94,801	17,197	187,107	32,057
Transportation and NGLs processing		18,936	8,177	45,968	14,312
General and administrative		12,416	5,202	30,628	11,694
Share-based compensation	10	5,769	2,712	11,364	5,431
Depletion and depreciation		161,098	36,056	325,813	34,870
Exploration and evaluation	3	3,899	1,557	12,527	5,296
(Gain) loss on sale of oil and gas assets		2,217	(80,855)	(11,799)	(88,346)
Interest and financing		6,894	88	15,576	440
Accretion of asset retirement obligations	7	9,347	962	18,573	1,949
Transaction and reorganization costs		2,080	4,737	4,252	4,737
Gain on debt extinguishment	6	–	–	(3,126)	–
Foreign exchange		573	284	(1,263)	190
		318,030	(3,883)	635,620	22,630
Income from equity-accounted investment		–	3,766	–	4,935
Decrease in market value of securities distributed		–	–	–	(10,450)
Write-down of investments in securities		–	(11,030)	–	(11,030)
Other	14	3,086	1,623	5,610	3,895
Income (loss) before tax		(182,190)	67,344	(291,120)	98,809
Income tax expense (recovery)					
Deferred	11	(47,609)	22,011	(75,485)	32,740
		(47,609)	22,011	(75,485)	32,740
Net income (loss)		(134,581)	45,333	(215,635)	66,069
Other comprehensive income (loss), net of tax					
Change in market value of securities		25,740	(11,332)	22,428	(42,253)
Reclassification of accumulated losses on securities to net income (loss)		–	11,030	–	21,480
Deferred tax on other comprehensive income (loss) related to securities		(86)	(329)	(86)	948
Comprehensive income (loss)		(108,927)	44,702	(193,293)	46,244
Net income (loss) per common share ($/share)	8				
Basic		(1.01)	0.43	(1.62)	0.62
Diluted		(1.01)	0.42	(1.62)	0.62

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

		Three months ended June 30		Six months ended June 30	
	Note	2018	2017	2018	2017
Operating activities					
Net income (loss)		(134,581)	45,333	(215,635)	66,069
Add (deduct):					
Items not involving cash	15	191,977	(16,096)	366,472	(9,841)
Asset retirement obligations settled	7	(5,983)	220	(14,504)	(4,766)
Gain on debt extinguishment	6	–	–	(3,126)	–
Change in non-cash working capital		554	(2,005)	4,008	(17,987)
Cash from operating activities		51,967	27,452	137,215	33,475
Financing activities					
Net draw of revolving long-term debt		404,549	–	363,940	–
Redemption of 2019 Senior Notes	6	(303,624)	–	(303,624)	–
Common Shares issued, net of issue costs		112	487	678	3,408
Common Shares repurchased under NCIB	8	(13,809)	–	(41,210)	–
Common Shares purchased under restricted share unit plan	10	(9,219)	–	(9,219)	–
Cash from financing activities		78,009	487	10,565	3,408
Investing activities					
Property, plant and equipment and exploration		(181,673)	(113,394)	(317,659)	(261,592)
Proceeds on sale of oil and gas assets		408	149,877	8,365	150,473
Change in non-cash working capital		40,846	(26,875)	57,775	18,684
Cash from (used in) investing activities		(140,419)	9,608	(251,519)	(92,435)
Net increase (decrease)		(10,443)	37,547	(103,739)	(55,552)
Foreign exchange on cash and cash equivalents		(254)	(680)	2,011	(699)
Cash and cash equivalents, beginning of period		32,298	528,754	123,329	621,872
Cash and cash equivalents, end of period		21,601	565,621	21,601	565,621

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)

Six months ended June 30	Note	2018 Shares (000’s)	2018	2017 Shares (000’s)	2017
Share Capital					
Balance, beginning of period		*134,713*	2,249,746	*105,784*	1,639,466
Issued		*67*	940	*413*	4,900
Common shares purchased and cancelled under NCIB	8	*(2,367)*	(41,210)	–	–
Change in vested and unvested Common Shares for restricted share unit plan	10	*(231)*	(1,652)	*3*	9
Balance, end of period		*132,182*	2,207,824	*106,200*	1,644,375
Retained Earnings (Accumulated Deficit)					
Balance, beginning of period			50,325		(152,182)
Net income (loss)			(215,635)		66,069
Decrease in value of securities prior to distribution			–		19,146
Reclassification of accumulated losses on securities to other comprehensive income (loss)	1		117,057		–
Balance, end of period			(48,253)		(66,967)
Reserves	9				
Balance, beginning of period			143,579		147,499
Other comprehensive income (loss)			22,342		(19,825)
Contributed surplus			7,966		3,111
Reclassification of accumulated losses on securities from retained earnings	1		(117,057)		–
Balance, end of period			56,830		130,785
Total Shareholders’ Equity			2,216,401		1,708,193

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 for and develops conventional and unconventional petroleum and natural gas resources. The Company also pursues long-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia.

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

These unaudited Interim Condensed Consolidated Financial Statements of the Company, as at and for the three and six months ended June 30, 2018 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 7, 2018.

These Interim Financial Statements have been prepared in accordance with *IAS 34 – Interim Financial Reporting* on a basis consistent with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2017 (the "Annual Financial Statements"), except for changes in the Company's accounting policies as a result of the adoption of *IFRS 9 – Financial Instruments* ("IFRS 9") and *IFRS 15 – Revenue From Contracts With Customers* ("IFRS 15"), which are described below.

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. Certain comparative figures have been reclassified to conform with the current year's presentation.

Changes in Accounting Policies

The Company adopted IFRS 9 effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected to not restate comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy as described in the Annual Financial Statements.

IFRS 9 sets out the recognition and measurement requirements for financial instruments. The new standard provides for three classification categories: "fair value through other comprehensive income", "fair value through profit and loss" and "amortized cost". The following table outlines the classification categories in respect of the Company's financial instruments under the previous standard, *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39"), and IFRS 9 as at January 1, 2018:

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

Financial Instrument	IAS 39	IFRS 9
Risk management assets and liabilities	Fair value through profit and loss	Fair value through profit and loss
Investments in securities	Available-for-sale	Fair value through OCI
Long-term debt	Financial liabilities	Amortized cost

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

Changes in the fair value of risk management assets and liabilities are recorded in earnings under IFRS 9, consistent with the Company's prior accounting policy for these instruments under IAS 39. Paramount has elected to recognize changes in the fair value of investments in securities in other comprehensive income ("OCI") under IFRS 9.

Under IFRS 9, impairment charges recognized in respect of equity investments classified as fair value through OCI are not reclassified to earnings. As a result, cumulative changes in the fair value of such investments are recognized in OCI until the investments are sold or derecognized. The change in the Company's accounting policy in accordance with IFRS 9 resulted in the reclassification of previously recorded impairment charges of $117.1 million from Retained Earnings to Reserves in the Company's Balance Sheet upon adoption of the new standard. As a result, the carrying value of Retained Earnings and Reserves as at January 1, 2018 has been restated from $50.3 million and $143.6 million, respectively, under IAS 39 to $167.4 million and $26.5 million, respectively, under IFRS 9.

Upon the disposition or derecognition of an equity investment, Paramount has elected to reclassify amounts previously recorded in OCI in respect of such investment to Retained Earnings in the Company's Balance Sheet.

The Company's accounting policy under IFRS 9 has also been modified to incorporate a forward-looking "expected credit loss" model, which did not result in a material change to the Company's financial statements.

IFRS 15, which establishes a single revenue recognition framework that applies to contracts with customers, also became effective as of January 1, 2018. The Company has revised its revenue recognition accounting policy to recognize revenue when the customer assumes control of an asset. The transfer of control in respect of petroleum and natural gas volumes generally coincides with the customer obtaining physical possession and title to such volumes. The change in the Company's accounting policy was applied on a modified retrospective basis in accordance with the new standard. The adoption of IFRS 15 did not materially impact the timing of recognition or measurement of revenue, however, the Company has included additional revenue disclosures in the notes to the financial statements in accordance with the new standard.

Changes in Accounting Standards

In January 2016, the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which replaces *IAS 17 – Leases* and related interpretations. IFRS 16 eliminates the classification of leases as either finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has initiated a project to identify and review contracts to determine the extent of the potential impact. Paramount expects that the adoption of this standard may have a material impact on the Company' s financial statements.

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

2. Assets Held for Sale

In July 2018, Paramount closed the sale of its oil and gas properties and related infrastructure at Resthaven/Jayar in the Grande Prairie cash generating unit (the "Resthaven/Jayar Assets") for $340 million. Total consideration included $170 million in cash, 85 million common shares of the purchaser, Strath Resources Ltd. ("Strath"), and 10-year warrants to acquire 8.5 million Strath common shares. The assets and liabilities associated with the Resthaven/Jayar Assets have been presented as held for sale at June 30, 2018, as follows:

Exploration and evaluation	23,377
Property, plant and equipment, net	283,976
Asset retirement obligations	(20,515)

3. Exploration and Evaluation

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Balance, beginning of period	785,764	301,530
Additions	5,518	14,276
Apache Canada Acquisition and Trilogy Merger	–	701,087
Transfer to assets held for sale	(23,377)	–
Change in asset retirement provision	(86)	4,304
Transfers to property, plant and equipment	(17,287)	(6,283)
Expired lease costs	(4,250)	(8,869)
Write-downs	–	(196,610)
Dispositions	(403)	(23,671)
Balance, end of period	745,879	785,764

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Geological and geophysical	3,095	1,271	8,277	2,246
Dry hole	–	110	–	17
Expired lease costs	804	176	4,250	3,033
	3,899	1,557	12,527	5,296

4. Property, Plant and Equipment

Six months ended June 30, 2018	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2017	4,570,128	157,153	33,708	4,760,989
Additions	308,273	917	7,322	316,512
Transfer to assets held for sale	(567,160)	–	–	(567,160)
Transfers from exploration and evaluation	17,287	–	–	17,287
Dispositions	(7,038)	–	(46)	(7,084)
Change in asset retirement provision	19,801	–	–	19,801
Cost, end of period	4,341,291	158,070	40,984	4,540,345
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2017	(1,386,466)	(67,840)	(24,141)	(1,478,447)
Transfer to assets held for sale	283,184	–	–	283,184
Depletion and depreciation	(321,727)	(5,608)	(1,984)	(329,319)
Dispositions	388	–	33	421
Accumulated depletion, depreciation and write-downs, end of period	(1,424,621)	(73,448)	(26,092)	(1,524,161)
Net book value, December 31, 2017	3,183,662	89,313	9,567	3,282,542
Net book value, June 30, 2018	2,916,670	84,622	14,892	3,016,184

In February 2018, Paramount closed the sale of non-core assets in the central Alberta area for cash proceeds of $5.3 million, resulting in the recognition of a gain on sale of $13.0 million.

5. Investments in Securities

As at	June 30, 2018		December 31, 2017	
	Shares (000's)	Carrying Value	*Shares (000's)*	Carrying Value
MEG Energy Corp.	*3,700*	40,552	*3,700*	19,018
Privateco		21,111		21,111
Other (1)		14,080		13,186
		75,743		53,315

(1) Includes investments in Blackbird Energy Inc., Storm Resources Ltd., and other public and private corporations.

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

6. Long-Term Debt

As at	June 30, 2018	December 31, 2017
Paramount Facility	758,940	395,000
2019 Senior Notes	–	306,750
	758,940	701,750

Paramount Facility

As at June 30, 2018, the Company had a $1.2 billion financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility"). The maturity date of the Paramount Facility is currently November 6, 2021, which may be extended from time-to-time at the option of Paramount and with the agreement of the lenders. At Paramount's request, the size of the Paramount Facility can be increased by up to $300 million (to $1.5 billion) pursuant to an accordion feature in such facility, subject to securing incremental lender commitments.

Borrowings under the Paramount Facility bear interest at the lenders' prime lending rate, US base rate, bankers' acceptance rate, or LIBOR, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of Paramount, excluding the assets of Cavalier and Fox Drilling.

Paramount is subject to the following two financial covenants under the Paramount Facility, which are tested at the end of each fiscal quarter:

i. Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less (or 4.00 to 1.00 or less for two full fiscal quarters after completion of a material acquisition); and

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

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

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

Consolidated Interest Expense is reduced by any interest income and other customary exclusions and is calculated on a trailing twelve-month basis.

Paramount is in compliance with all covenants under the Paramount Facility.

Paramount had letters of credit outstanding totaling $35.9 million at June 30, 2018 that reduce the amount available to be drawn on the Paramount Facility.

2019 Senior Notes

In April 2018, Paramount redeemed all $300 million principal amount of the Company's outstanding senior unsecured notes due 2019 (the "2019 Senior Notes") and was discharged and released from all obligations and covenants related to the notes. The redemption was funded with drawings on the Paramount Facility. The Company recorded a net gain of $3.1 million in connection with the redemption of the 2019 Senior Notes, comprised of a $6.7 million gain on redemption less the redemption premium of $3.6 million.

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

7. Asset Retirement Obligations and Other

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Asset retirement obligations – long-term	1,636,624	1,642,194
Other liabilities	16,672	18,879
	1,653,296	1,661,073

Asset Retirement Obligations

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Asset retirement obligations, beginning of period	1,670,194	212,309
Transfer to liabilities associated with assets held for sale	(20,515)	–
Retirement obligations incurred	8,799	6,003
Apache Canada Acquisition and Trilogy Merger	–	867,591
ARO Discount Rate Adjustment	–	665,998
Revisions to estimated retirement costs	10,916	(20,421)
Obligations settled	(14,504)	(21,450)
Dispositions	(8,839)	(55,806)
Accretion expense	18,573	15,970
Asset retirement obligations, end of period	1,664,624	1,670,194
Asset retirement obligations – current	28,000	28,000
Asset retirement obligations – long-term	1,636,624	1,642,194
	1,664,624	1,670,194

At June 30, 2018, estimated undiscounted asset retirement obligations were $1,729.1 million (December 31, 2017 – $1,752.0 million). Asset retirement obligations have been estimated using a weighted average risk-free discount rate of 2.25 percent (December 31, 2017 – 2.25 percent) and an inflation rate of 2.0 percent (December 31, 2017 – 2.0 percent).

8. Share Capital

At June 30, 2018, 132,182,242 (December 31, 2017 – 134,712,907) class A common shares ("Common Shares") of the Company were outstanding, net of 576,525 (December 31, 2017 – 345,904) Common Shares held in trust under the Company's restricted share unit plan.

In December 2017, Paramount implemented a normal course issuer bid (the "2018 NCIB") under which the Company may purchase up to 7,497,530 Common Shares for cancellation. Between January 1, 2018 and June 30, 2018, the Company purchased and cancelled 2,367,200 Common Shares at a total cost of $41.2 million under the 2018 NCIB. The 2018 NCIB will terminate on the earlier of: (i) December 21, 2018; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the 2018 NCIB are purchased.

Weighted Average Common Shares

Three months ended June 30	2018		2017	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net income
Net income (loss) – basic	*132,817*	(134,581)	*106,172*	45,333
Dilutive effect of Paramount Options	–	–	*938*	–
Net income (loss) – diluted	*132,817*	(134,581)	*107,110*	45,333

Six months ended June 30	2018		2017	
	Wtd. Avg Shares (000's)	Net loss	*Wtd. Avg Shares (000's)*	Net income
Net income (loss) – basic	*133,242*	(215,635)	*106,145*	66,069
Dilutive effect of Paramount Options	–	–	*891*	–
Net income (loss) – diluted	*133,242*	(215,635)	*107,036*	66,069

Outstanding stock options that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. There were 9.4 million options to acquire Common Shares outstanding at June 30, 2018 (June 30, 2017 – 3.8 million), all of which (June 30, 2017 – 2.0 million) were anti-dilutive.

9. Reserves

Six months ended June 30, 2018	Unrealized gains (losses) on securities	Contributed surplus	Total Reserves
Balance, beginning of period	15,604	127,975	143,579
Other comprehensive income	22,342	–	22,342
Reclassification of accumulated losses on securities from retained earnings (see note 1)	(117,057)	–	(117,057)
Share-based compensation	–	8,229	8,229
Options exercised	–	(263)	(263)
Balance, end of period	(79,111)	135,941	56,830

10. Share-Based Compensation

Options to Acquire Common Shares of Paramount ("Paramount Options")

	Six months ended June 30, 2018		Twelve months ended December 31, 2017	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of period	*10,028,920*	19.12	*4,322,120*	13.00
Granted	*275,000*	15.51	*5,475,000*	20.48
Trilogy Merger (1)	–	–	*1,362,375*	26.75
Exercised (2)	*(67,156)*	10.09	*(734,742)*	9.27
Cancelled or forfeited	*(835,567)*	21.55	*(395,833)*	15.61
Expired	*(2,000)*	18.23	–	–
Balance, end of period	*9,399,197*	18.86	*10,028,920*	19.12
Options exercisable, end of period	*1,777,778*	18.50	*1,986,388*	18.72

(1) In connection with the merger with Trilogy Energy Corp. ("Trilogy"), options to acquire Trilogy common shares ("Trilogy Options") were amended to provide the holders thereof the right to acquire the number of whole Paramount Common Shares determined by dividing the number of Trilogy common shares subject to such Trilogy Options by 3.75 at an adjusted exercise price approximately equal to the exercise price of such Trilogy Options multiplied by 3.75.

(2) For Paramount Options exercised during the six months ended June 30, 2018, the weighted average market price of Paramount's Common Shares on the dates exercised was $17.33 (twelve months ended December 31, 2017 – $19.97).

Restricted Share Unit Plan – Shares Held in Trust

	Six months ended June 30, 2018		Twelve months ended December 31, 2017	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	*346*	2,366	*3*	9
Common Shares purchased	*548*	9,219	*496*	11,370
Change in vested and unvested shares	*(317)*	(7,567)	*(153)*	(9,013)
Balance, end of period	*577*	4,018	*346*	2,366

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

11. Income Tax

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Income (loss) before tax	(182,190)	67,344	(291,120)	98,809
Effective Canadian statutory income tax rate	27.0%	27.0%	27.0%	27.0%
Expected income tax expense (recovery)	(49,191)	18,183	(78,602)	26,678
Effect on income taxes of:				
Change in market value of securities distributed	–	–	–	1,410
Gain on redemption of 2019 Senior Notes	–	–	(1,823)	–
Income from equity-accounted investments	–	(1,016)	–	(1,332)
Write-down of investments in securities	–	2,978	–	2,978
Change in unrecognized deferred income tax asset	195	360	387	482
Share-based compensation	1,138	644	2,222	1,243
Non-deductible items and other	249	862	2,331	1,281
Income tax expense (recovery)	(47,609)	22,011	(75,485)	32,740

12. Risk Management

The Company had the following financial commodity contracts in place as at June 30, 2018:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining Term
Oil – NYMEX WTI Swaps (Sale)	17,000 Bbl/d	CDN$71.61/Bbl	(66,242)	July 2018 – December 2018
Oil – NYMEX WTI Swaps (Sale)	12,000 Bbl/d	CDN$75.36/Bbl	(43,007)	January 2019 – December 2019
Oil – NYMEX WTI Calls (Sale)	2,000 Bbl/d	CDN$82.00 Bbl (1)	(4,934)	January 2019 – December 2019
			(114,183)	

(1) Paramount sold NYMEX WTI call options for 2,000 Bbl/d for fiscal 2019 at an exercise price of CDN$82.00 per barrel, for which the Company will receive a premium of CDN$2.65 per barrel.

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

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

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Fair value, beginning of period	(19,060)	(5,180)
Changes in fair value	(132,210)	(4,059)
Settlements paid (received)	37,087	(14,426)
Assumed on merger with Trilogy	–	4,605
Fair value, end of period	(114,183)	(19,060)

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

13. Revenue By Product

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Natural gas	52,122	15,650	133,999	32,064
Condensate and oil	167,414	42,806	327,616	78,087
Other natural gas liquids	18,023	2,585	41,679	5,261
Royalty and sulphur income	2,171	287	6,249	619
Royalties expense	(22,395)	(776)	(38,443)	(2,805)
	217,335	60,552	471,100	113,226

14. Other Income

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest income	266	1,521	636	3,611
Drilling rig revenue	30	317	30	376
Drilling rig expense	(256)	(477)	(369)	(432)
Other	3,046	262	5,313	340
	3,086	1,623	5,610	3,895

15. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Commodity contracts	59,755	(4,800)	95,123	(16,228)
Share-based compensation	5,769	2,712	11,364	5,431
Depletion and depreciation	161,098	36,056	325,813	34,870
Exploration and evaluation	804	286	4,250	3,050
(Gain) loss on sale of oil and gas assets	2,217	(80,855)	(11,799)	(88,346)
Accretion of asset retirement obligations	9,347	962	18,573	1,949
Foreign exchange	538	300	(1,349)	196
Income from equity-accounted investments	–	(3,766)	–	(4,935)
Write-down of investments in securities	–	11,030	–	11,030
Decrease in market value of securities distributed	–	–	–	10,450
Deferred income tax	(47,609)	22,011	(75,485)	32,740
Other	58	(32)	(18)	(48)
	191,977	(16,096)	366,472	(9,841)

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

Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest paid	12,119	–	15,176	2

Components of Cash and Cash Equivalents

As at	June 30, 2018	December 31, 2017
Cash	13,084	114,895
Cash equivalents	8,517	8,434
	21,601	123,329

16. Commitments & Contingencies

Commitments

In 2018, the Company secured incremental firm-service liquids transportation capacity with a third party, with commitments totaling approximately $138 million over ten years beginning in May 2019.

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 owned 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 $60 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 amounts may differ materially from amounts estimated and recorded.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

C. H. Riddell
Executive Chairman

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

B. K. Lee
Executive Vice President, Finance and
Chief Financial Officer

E. M. Shier
General Counsel and Corporate
Secretary

D. B. Reid
Executive Vice President, Operations

J. B. Williams
Executive Vice President, Kaybob
Region

P. R. Kinvig
Vice President Finance, Capital
Markets

R. R. Sousa
Vice President, Corporate
Development

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)
Chief Operating Officer and
General Counsel
Founders Advantage Capital Corp.
Calgary, Alberta

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

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

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

R. M. MacDonald (1) (4)
Independent Businessman
Calgary, Alberta

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

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

J. B. Roy (1) (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
(5) Member of Reserves Committee

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Bank of Montreal
Calgary, Alberta

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McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("POU")