



Paramount
resources ltd.

Management's Discussion and Analysis
For the three months ended March 31, 2018

This Management's Discussion and Analysis ("MD&A"), dated May 8, 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 months ended March 31, 2018 and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2017. 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* and *IFRS 15 – Revenue from Contracts with Customers*, 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, Wapiti and Resthaven / Jayar;
- 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"), 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 March 31	2018	2017	% Change
FINANCIAL			
Petroleum and natural gas sales	269.8	54.7	393
Net income (loss)	(81.1)	20.7	NM
<i>per share – basic (\$/share)</i>	(0.61)	0.20	
<i>per share – diluted (\$/share)</i>	(0.61)	0.19	
Adjusted funds flow	97.6	28.0	249
<i>per share – basic & diluted (\$/share)</i>	0.73	0.26	
Exploration and development capital ⁽²⁾	131.6	145.8	(10)
Total assets	4,978.0	2,010.3	148
Net debt (cash)	705.7	(442.6)	NM
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	351.1	51.4	583
Condensate and oil (Bbl/d)	25,391	6,348	300
Other NGLs (Bbl/d) ⁽³⁾	8,298	1,255	561
Total (Boe/d)	92,203	16,163	470
Net wells drilled	19	15	27
ADJUSTED FUNDS FLOW (\$/Boe)			
Petroleum and natural gas sales	32.51	37.61	(14)
Royalties	(1.93)	(1.39)	39
Operating expense	(11.12)	(10.22)	9
Transportation and NGLs processing ⁽⁴⁾	(3.26)	(4.22)	(23)
Netback	16.20	21.78	(26)
Commodity contract settlements	(1.48)	0.61	NM
Netback including commodity contract settlements	14.72	22.39	(34)
General and administrative	(2.19)	(4.46)	(51)
Interest and financing expense	(1.05)	(0.24)	338
Other	0.28	1.54	(82)
Adjusted funds flow	11.76	19.23	(39)

(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 include ethane, propane and butane.

(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

NM Not meaningful.

CONSOLIDATED RESULTS

Net Income (Loss)

Paramount recorded a net loss of \$81.1 million for the three months ended March 31, 2018 compared to net income of \$20.7 million in the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended March 31	
Net income – 2017	20.7
<ul style="list-style-type: none"> • Higher depletion and depreciation mainly due to higher sales volumes in 2018 and a \$42.1 million impairment reversal recorded in 2017 • Loss on commodity contracts in 2018 compared to a gain in 2017 • Higher general and administrative expense following the corporate acquisitions in the third quarter of 2017 • Higher interest and financing expense • Higher accretion of asset retirement obligations • Higher netback primarily due to higher sales volumes • Income tax recovery in 2018 compared to income tax expense in 2017 • Loss recorded in 2017 related to the decrease in the market value of securities distributed • Other 	(165.9) (59.9) (11.7) (8.3) (8.2) 102.8 38.6 10.5 0.3
Net loss – 2018	(81.1)

Adjusted Funds Flow ⁽¹⁾

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

Three months ended March 31	2018	2017
Cash from operating activities	85.2	6.0
Change in non-cash working capital	(3.5)	16.0
Transaction and reorganization costs	2.2	–
Geological and geophysical expenses	5.2	1.0
Asset retirement obligations settled	8.5	5.0
Adjusted funds flow	97.6	28.0
Adjusted funds flow (\$/Boe)	11.76	19.23

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

Adjusted funds flow for the three months ended March 31, 2018 was \$97.6 million compared to \$28.0 million for the same period in 2017. Significant factors contributing to the change are shown below:

Three months ended March 31	
Adjusted funds flow – 2017	28.0
<ul style="list-style-type: none"> • Higher netback in 2018 mainly due to higher sales volumes • Payments on commodity contract settlements in 2018 compared to receipts in 2017 • Higher general and administrative expense mainly due to corporate acquisitions in the third quarter of 2017 • Higher interest and financing expense 	102.8 (13.2) (11.7) (8.3)
Adjusted funds flow – 2018	97.6

OPERATING RESULTS

Netback

Three months ended March 31	2018		2017	
		(\$/Boe) ⁽¹⁾		(\$/Boe) ⁽¹⁾
Natural gas revenue	81.9	2.59	16.4	3.55
Condensate and oil revenue	160.2	70.10	35.3	61.75
Other NGLs revenue ⁽²⁾	23.7	31.68	2.7	23.69
Royalty and sulphur revenue	4.0	–	0.3	–
Petroleum and natural gas sales	269.8	32.51	54.7	37.61
Royalties	(16.0)	(1.93)	(2.0)	(1.39)
Operating expense	(92.3)	(11.12)	(14.9)	(10.22)
Transportation and NGLs processing ⁽³⁾	(27.0)	(3.26)	(6.1)	(4.22)
Netback	134.5	16.20	31.7	21.78
Commodity contract settlements	(12.3)	(1.48)	0.9	0.61
Netback including commodity contract settlements	122.2	14.72	32.6	22.39

(1) Natural gas revenue shown per Mcf.

(2) Other NGLs include ethane, propane and butane.

(3) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.

Petroleum and natural gas sales were \$269.8 million in the first quarter of 2018, an increase of \$215.1 million from the same period in the prior year 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 March 31, 2017	16.4	35.3	2.7	0.3	54.7
Effect of changes in sales volumes	95.8	105.8	15.0	–	216.6
Effect of changes in prices	(30.3)	19.1	6.0	–	(5.2)
Change in royalty and sulphur revenue	–	–	–	3.7	3.7
Three months ended March 31, 2018	81.9	160.2	23.7	4.0	269.8

Sales Volumes

	Three months ended March 31											
	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	83.7	45.3	85	12,041	5,787	108	2,399	1,072	124	28,398	14,408	97
Kaybob	175.2	0.5	NM	10,011	121	NM	2,639	12	NM	41,843	218	NM
Central Alberta & Other	92.2	5.6	NM	3,339	440	659	3,260	171	NM	21,962	1,537	NM
Total	351.1	51.4	583	25,391	6,348	300	8,298	1,255	561	92,203	16,163	470

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.

Sales volumes in the first quarter of 2018 increased 470 percent to 92,203 Boe/d compared to 16,163 Boe/d in the first quarter of 2017. The increase was primarily due to incremental sales volumes from wells acquired in the Apache Canada Acquisition and the Trilogy Merger and production from new Montney wells at Karr in the Grande Prairie Region. Third-party outages, due to unscheduled downtime and extreme cold weather conditions, impacted production by approximately 6,000 Boe/d in the first quarter of 2018.

In the first quarter of 2018, the Company completed its 2016/2017 Montney drilling and completion program at Karr, with the final well in the 27-well program being brought on production. 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, fully utilizing liquids handling capacity and managing natural gas production by applying a low drawdown (choke management) to the wellhead. This resulted in the curtailment of approximately 2,400 Boe/d of natural gas production in the first quarter of 2018.

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 approximately 1,100 Boe/d of new production at the non-operated Birch property and (iv) approximately 6,000 Boe/d (1,500 Boe/d annualized) of unplanned third-party outages in the first quarter, the Company expects sales volumes to average approximately 92,500 Boe/d (37 percent liquids) in 2018.

Paramount's sales volumes are anticipated to be three to five percent lower in the second and third quarters of 2018 compared to the first quarter of 2018. The Company's production in the second quarter is being impacted by third-party outages at Kaybob and Karr. In the third quarter, a scheduled turnaround will also impact production at Karr, and the Company is completing a turnaround at its 8-9 natural gas processing facility in Kaybob, which will curtail production and delay the startup of new Duvernay wells. Sales volumes will increase in the fourth quarter as facility constraints are alleviated and new wells from the 2018 capital program are brought on production.

Commodity Prices

Three months ended March 31	2018	2017	% Change
Natural Gas			
Paramount realized price (\$/Mcf)	2.59	3.55	(27)
AECO daily spot (\$/GJ)	1.96	2.55	(23)
AECO monthly index (\$/GJ)	1.75	2.79	(37)
NYMEX (US\$/MMbtu)	2.84	3.06	(7)
Malin (US\$/MMbtu)	2.50	3.16	(21)
Crude Oil			
Paramount average realized condensate & oil price (\$/Bbl)	70.10	61.75	14
Edmonton Light Sweet (\$/Bbl)	70.09	64.74	8
West Texas Intermediate (US\$/Bbl)	62.87	51.90	21
Foreign Exchange			
\$CDN / 1 \$US	1.27	1.32	(4)

Paramount's average realized natural gas price decreased 27 percent in the first quarter 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 in 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 14 percent in the first quarter 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. At March 31, 2018, the Company had the following financial commodity contracts outstanding:

Instruments	Aggregate notional	Average fixed price	Fair Value	Remaining Term
Oil – NYMEX WTI Swaps (Sale)	17,000 Bbl/d	CDN\$71.61/Bbl	(45.1)	April 2018 – December 2018
Oil – NYMEX WTI Swaps (Sale)	9,000 Bbl/d	CDN\$72.21/Bbl	(9.3)	January 2019 – December 2019
			(54.4)	

In the first quarter of 2018, Paramount sold NYMEX WTI call options for fiscal 2019 for 2,000 Bbl/d of liquids at an exercise price of CDN\$82.00 per barrel, for which the Company will receive a premium of \$2.65 per barrel.

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

	Three months ended March 31, 2018	Twelve months ended December 31, 2017
Fair value, beginning of period	(19.1)	(5.2)
Changes in fair value	(47.6)	(4.1)
Settlements paid (received)	12.3	(14.4)
Assumed on Trilogy Merger	-	4.6
Fair value, end of period	(54.4)	(19.1)

Royalties

Three months ended March 31	2018	Rate	2017	Rate
Royalties	16.0	5.9%	2.0	3.7%
<i>\$/Boe</i>	<i>1.93</i>		1.39	

Royalties increased \$14.0 million to \$16.0 million in the first quarter of 2018 compared to \$2.0 million in the first quarter of 2017, primarily due to higher revenue. Applicable royalty rates for Apache Canada and Trilogy sales volumes were higher than Paramount's average royalty rates prior to the transactions, resulting in an increase to overall royalty rates for the Company 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.

Operating Expense

Three months ended March 31	2018	2017	% Change
Operating expense	92.3	14.9	519
<i>\$/Boe</i>	<i>11.12</i>	10.22	9

Operating expense increased by \$77.4 million in the first quarter of 2018 to \$92.3 million compared to \$14.9 million in the same period in 2017. This increase was primarily due to higher production volumes in 2018 as a result of the Apache Canada Acquisition, the Trilogy Merger and the expansion of the Karr development in the Grande Prairie Region.

Operating costs were \$11.12 per Boe in the first quarter due to maintenance work and lower sales volumes. 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 March 31	2018	2017	% Change
Transportation and NGLs processing	27.0	6.1	343
<i>\$/Boe</i>	<i>3.26</i>	4.22	(23)

Transportation and NGLs processing was \$27.0 million in the first quarter of 2018, an increase of \$20.9 million compared to 2017. The increase was primarily as a result of increased production due to the Apache Canada Acquisition, the Trilogy Merger and the expansion of the Karr development. Paramount expects the majority of liquids production at Karr to be trucked until mid-2018, when an expansion to condensate stabilization capacity at a third-party facility is completed.

Other Operating Items

Three months ended March 31	2018	2017
Depletion and depreciation (excluding de-impairment)	(164.7)	(40.9)
De-impairment of property plant and equipment	–	42.1
Gain on sale of oil and gas assets	14.0	7.5
Exploration and evaluation expense	(8.6)	(3.7)

Depletion and depreciation expense increased to \$164.7 million (\$19.85 per Boe) in the first quarter of 2018 compared to \$40.9 million (\$28.12 per Boe) in 2017, primarily due to higher sales volumes in 2018. The \$42.1 million reversal of previously recorded impairment charges in the first quarter of 2017 related to the Company's Valhalla property, which was sold in May 2017.

The gain on sale of oil and gas assets in the first quarter of 2018 primarily related to the sale of non-core assets in the Central Alberta and Other Region.

Exploration and evaluation expense was \$8.6 million in the first quarter of 2018, an increase of \$4.9 million compared to the same period in 2017, primarily due to higher geological and geophysical costs.

The Company has commenced a disposition process for its fee simple and royalty lands in southern Alberta and expects the disposition to be completed in the third quarter of 2018. There is minimal production associated with these lands. The Company continues to pursue other non-core dispositions.

CORPORATE

Three months ended March 31	2018	2017
General and administrative	18.2	6.5
Share-based compensation	5.6	2.7
Interest and financing	8.7	0.4
Accretion of asset retirement obligations	9.2	1.0
Decrease in market value of securities distributed	–	10.5

General and administrative expenses were higher in the first quarter of 2018 primarily as a result of the Apache Canada Acquisition and the Trilogy Merger.

Interest and financing expense was \$8.7 million in the first quarter of 2018, an increase of \$8.3 million from 2017, primarily as a result of outstanding debt in the first quarter of 2018.

Accretion of asset retirement obligations increased to \$9.2 million in the first quarter of 2018 compared to \$1.0 million 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 March 31	2018	2017
Drilling, completion and tie-ins	112.6	128.5
Facilities and gathering	19.0	17.3
Exploration and development capital ⁽¹⁾	131.6	145.8
Land and property acquisitions	1.5	1.4
Exploration and development capital including land & property acquisitions	133.1	147.2
Corporate	2.9	1.0
	136.0	148.2

(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 \$131.6 million in the first quarter of 2018 compared to \$145.8 million in the same period in 2017. Expenditures in the first quarter 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, with drilling operations carried out at two five-well pads at Karr and an eleven-well pad at Wapiti. In the Kaybob Region, development activities focused on drilling operations for a four-well Smoky Duvernay pad, a five-well South Duvernay pad and six Montney Oil wells drilled on two pads.

First quarter 2018 capital spending included \$42.1 million related to 2019 projects at Wapiti and Karr. The Wapiti growth play will add material production and cash flows in mid-2019.

The Company's 2018 capital budget remains unchanged at \$600 million.

Wells drilled were as follows:

Three months ended March 31	2018		2017	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Natural gas	18	12	17	15
Oil	7	7	-	-
Total	25	19	17	15

(1) Gross is the number of wells in which Paramount has a working interest.

(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

LIQUIDITY AND CAPITAL RESOURCES

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

As at	March 31, 2018	December 31, 2017
Cash and cash equivalents	(32.3)	(123.3)
Accounts receivable	(140.5)	(170.3)
Prepaid expenses and other	(9.8)	(9.1)
Accounts payable and accrued liabilities	230.3	237.2
Adjusted working capital deficit (surplus) ⁽¹⁾	47.7	(65.5)
Paramount Facility	354.4	395.0
2019 Senior Notes	303.6	306.7
Net Debt ⁽²⁾	705.7	636.2
Share Capital	2,224.0	2,249.8
Retained Earnings	86.3	50.3
Reserves	27.0	143.6
Total Capital	3,043.0	3,079.9

(1) Adjusted working capital excludes risk management liabilities 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 in the first quarter of 2018 is primarily due to capital expenditures and the repurchase of Common Shares under the Company's normal course issuer bid, partially offset by cash flow from operations. Paramount expects to fund its 2018 operations, obligations and capital expenditures with cash flow from operations and available capacity under its bank credit facility.

Paramount Facility

As at March 31, 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.

As at March 31, 2018, Paramount was 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 \$35.7 million at March 31, 2018 that reduce the amount available to be drawn on the Paramount Facility.

2019 Senior Notes

As at March 31, 2018, Paramount had \$300 million principal amount of senior unsecured notes due 2019 (the "2019 Senior Notes") outstanding.

In March 2018, Paramount delivered an irrevocable redemption notice to redeem all \$300 million outstanding principal amount of the 2019 Senior Notes. In April 2018, the Company redeemed 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 gain of \$3.2 million for the three months ended March 31, 2018 in connection with the redemption, comprised of a \$6.8 million gain on redemption less the redemption premium due of \$3.6 million.

Share Capital

At May 7, 2018, Paramount had 133,669,617 Common Shares outstanding and 9,571,493 options to acquire Common Shares outstanding, of which 1,751,097 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 May 8, 2018, the Company has purchased and cancelled 1,454,100 Common Shares at a total cost of \$27.4 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		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	269.8	258.9	116.5	61.3	54.7	32.3	51.7	73.6
Net income (loss)	(81.1)	(106.2)	223.5	45.3	20.7	212.4	1,029.4	(30.6)
Per share – basic (\$/share)	(0.61)	(0.79)	1.99	0.43	0.20	2.01	9.69	(0.29)
Per share – diluted (\$/share)	(0.61)	(0.79)	1.97	0.42	0.19	1.99	9.64	(0.29)
Adjusted funds flow	97.6	110.1	45.3	35.2	28.0	14.3	3.8	(4.9)
Per share – basic (\$/share)	0.73	0.82	0.40	0.33	0.26	0.14	0.04	(0.05)
Per share – diluted (\$/share)	0.73	0.82	0.40	0.33	0.26	0.13	0.04	(0.05)
Sales volumes								
Natural gas (MMcf/d)	351.1	359.9	177.2	53.0	51.4	47.5	88.6	129.8
Condensate and oil (Bbl/d)	25,391	26,285	14,845	8,118	6,348	2,943	5,335	9,490
Other NGLs (Bbl/d)	8,298	9,149	4,641	1,414	1,255	1,046	4,687	9,764
Total (Boe/d)	92,203	95,412	49,023	18,367	16,163	11,901	24,786	40,890
Average realized price								
Natural gas (\$/Mcf)	2.59	2.11	1.89	3.24	3.55	3.10	2.65	1.49
Condensate and oil (\$/Bbl)	70.10	66.65	54.30	57.95	61.75	60.49	51.15	52.83
Other NGLs (\$/Bbl)	31.68	30.15	23.05	20.09	23.69	22.16	11.11	11.19
Total (\$/Boe)	32.51	29.49	25.84	36.69	37.61	29.52	22.66	19.79

Significant Items Impacting Quarterly Results

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

- 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 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 a \$80.9 million gain on the sale of oil and gas assets, primarily related to the sale of the Valhalla Assets.
- First quarter 2017 earnings include a \$42.1 million reversal of impairments of oil and gas assets recorded in prior years related to the Valhalla Assets and a \$10.5 million loss 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.

- The second quarter 2016 loss includes a \$131.8 million gain on the sale of oil and gas assets primarily in respect of the sale of the Musreau natural gas plant, partially offset by \$17.7 million of share-based compensation expense.

OTHER INFORMATION

Contingencies

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

In 2016, a release occurred from a non-operated pipeline in which the Company owns a 50 percent interest. The operator, and owner of the remaining 50 percent, has initiated response, containment and remediation activities ("Response Activities"). Total costs to complete the Response Activities are estimated at approximately \$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 – Financial Instruments* ("IFRS 9") effective January 1, 2018. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, has elected not to 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 *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39") standard 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 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 are not reclassified to earnings. As a result, cumulative changes in the fair value of such investments are recognized in OCI until such time as 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 the Company's 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 – Revenue From Contracts With Customers, which establishes a single revenue recognition framework that applies to contracts with customers, 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 March 31, 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 and sales volumes and the timing thereof;
- forecast capital expenditures and operating costs;
- exploration, development, and associated operational plans and strategies;
- the projected availability of third party processing facilities;
- expected funding sources for 2018 operations, obligations and capital expenditures; 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		Natural Gas	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids	GJ	Gigajoule
Condensate	Pentane and heavier hydrocarbons	MMbtu	Millions of British thermal units
		AECO	AECO-C reference price
		NYMEX	New York Mercantile Exchange
Oil Equivalent			
Boe	Barrels of oil equivalent		
Boe/d	Barrels of oil equivalent per day		

Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the three months ended March 31, 2018, the value ratio between crude oil and natural gas was approximately 40:1. 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.