PARAMOUNT ANNOUNCES Q1 2016 RESULTS; SALES VOLUMES INCREASE 31 PERCENT TO 50,161 BOE/D; LIQUIDS COMPRISE 49% OF TOTAL SALES

May 4, 2016 Calgary, Alberta

HIGHLIGHTS

- First quarter 2016 sales volumes averaged 50,161 Boe/d, 31 percent higher than the first quarter of 2015 and 10 percent higher than the previous quarter.
- First quarter 2016 condensate and oil sales volumes were 13,245 Bbl/d, double the first quarter a year ago and 33 percent higher than the previous quarter. Twelve new Ultra-Rich Montney wells were brought on in late-2015 and had average raw condensate-gas ratios of 317 Bbl/MMcf over the first quarter of 2016.
- Other NGLs sales volumes increased to 11,259 Bbl/d in the first quarter of 2016, 62 percent higher than the first quarter of 2015 and 23 percent higher than the previous quarter.
- Liquids-rich Musreau Montney volumes increased to 27,565 Boe/d, representing 55 percent of total Company sales in the first quarter of 2016 compared to 11,958 Boe/d or 31 percent in the first quarter of 2015.
- First quarter netbacks including hedging settlements increased 34 percent to $60.3 million in 2016 compared to $45.1 million a year ago, as higher sales volumes and hedging more than offset lower commodity prices.
- With no wells spudded at Musreau since the second quarter of 2015 and a turnaround at the Musreau Complex planned for the third quarter of 2016, sales volumes are expected to decline through the middle part of the year until wells from the 2016 capital program are brought on-stream in the fourth quarter.
- The Company commenced drilling a six-Montney well pad at Musreau in April 2016 using two Fox Drilling rigs. An additional three rigs are scheduled to commence drilling later in the second quarter. Initial wells from the 2016 capital program are expected to be brought on production in the fourth quarter.
- In response to lower commodity prices and to preserve financial flexibility, Paramount's first quarter 2016 capital spending for Principal Properties was $20.1 million, in line with cash flows.
- The Company closed the sale of its Musreau Complex and related midstream assets (the "Midstream Transaction") on April 20, 2016.

OIL AND GAS OPERATIONS

Sales Volumes

Q1 2016	Kaybob					Other Areas	Total
	Musreau			Other Kaybob	Total Kaybob		
Sales Volumes	Montney	Cretaceous	Total				
Natural gas *(MMcf/d)*	58.4	37.7	96.1	19.1	115.2	38.7	153.9
Condensate & oil *(Bbl/d)*	9,535	612	10,147	476	10,623	2,622	13,245
Other NGLs *(Bbl/d)*	8,299	2,348	10,647	54	10,701	558	11,259
Total *(Boe/d)*	27,565	9,243	36,808	3,723	40,531	9,630	50,161
% of Total Company	*55%*	*18%*	*73%*	*8%*	*81%*	*19%*	*100%*
Sales Mix *(Bbl/MMcf)*							
Condensate & oil (1)	163	16	106	25	92	68	86
Other NGLs (2)	142	62	111	3	93	14	73
Total Liquids (2)	305	78	217	28	185	82	159

Q1 2015	Kaybob					Other Areas	Total
	Musreau			Other Kaybob	Total Kaybob		
Sales Volumes	Montney	Cretaceous	Total				
Natural gas *(MMcf/d)*	32.0	60.4	92.4	25.2	117.6	31.0	148.6
Condensate & oil *(Bbl/d)*	3,210	680	3,890	536	4,426	2,157	6,583
Other NGLs *(Bbl/d)*	3,422	2,347	5,769	560	6,329	639	6,968
Total *(Boe/d)*	11,958	13,107	25,065	5,282	30,347	7,970	38,317
% of Total Company	*31%*	*34%*	*65%*	*14%*	*79%*	*21%*	*100%*
Sales Mix *(Bbl/MMcf)*							
Condensate & oil (1)	100	11	42	21	38	70	44
Other NGLs (2)	107	39	62	22	54	21	47
Total Liquids (2)	207	50	104	43	91	91	91

(1) Sales mix calculated as total condensate & oil sales volumes divided by natural gas sales volumes.
(2) Sales mix calculated as total Other NGLs or total Liquids sales volumes, as applicable, divided by natural gas sales volumes. Other NGLs represents ethane, propane and butane. Liquids represents Other NGLs and condensate & oil.

Paramount's sales mix continues to evolve as new Liquids-rich Musreau area Montney wells are brought on production. Montney sales volumes increased significantly in the second half of 2015 following the completion of the condensate stabilizer expansion and the amine train at the Musreau Complex. In the first quarter of 2016, Musreau Montney wells accounted for 55 percent of total Company sales compared to 31 percent of sales in the first quarter of 2015.

In the fourth quarter of 2015, Paramount completed the 02-34 and 03-33 six well Ultra-Rich Montney pads at Musreau, with all twelve wells flowing by the end of 2015. Aggregate sales volumes from these two pads in the first quarter of 2016 were approximately 10,500 Boe/d, approximately half of which was condensate. Liquids volumes from new wells, including the twelve new Ultra-Rich wells, increased Musreau Montney condensate & oil sales to 163 Bbl/MMcf in the first quarter of 2016 from 100 Bbl/MMcf in the first quarter of 2015.

The proportion of Musreau Montney sales volumes to the Company's overall sales volumes is expected to continue to increase, as Paramount's capital investments are focused on its extensive Liquids-rich Montney resources at Musreau.

Initial Production

The following table summarizes the average initial production rates and wellhead condensate-gas ratios ("CGRs") for Paramount's 62 (60.8 net) Montney wells brought on production at Musreau between January 2012 and January 2016:

MUSREAU MONTNEY WELLS – INITIAL PRODUCTION (1)

	Rich Wells					Ultra-Rich Wells					Total Rich & Ultra-Rich Wells				
	Raw Natural Gas (2)	Well-Head Liquids (2)	Well-Head CGR (3)	Total	*Wells*	Raw Natural Gas (2)	Well-Head Liquids (2)	Well-Head CGR (3)	Total	*Wells*	Natural Gas (2)	Well-Head Liquids (2)	Well-Head CGR (3)	Total	*Wells*
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	*(Boe/d)*	
IP 30	4.7	570	122	1,353	*35*	2.2	774	355	1,141	*27*	3.6	659	184	1,259	*62*
IP 90	3.9	384	98	1,034	*33*	1.9	566	304	883	*26*	3.0	464	154	964	*59*
IP 180	3.2	274	85	807	*30*	1.5	433	291	683	*9*	2.8	311	110	778	*39*
IP 270	2.7	221	82	671	*25*	1.4	393	283	626	*8*	2.4	263	111	663	*33*
IP 360	2.3	185	83	568	*16*	1.4	365	255	598	*5*	2.0	227	112	560	*21*
Less than 30 days on production					—					—					—
Wells in progress (4)					*1*					*1*					*2*
Total wells					*36*					*28*					*64*

(1) To April 30, 2016.

(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90, 180, 270 and 360 producing days commencing from the day after load oil volumes were completely recovered for wells completed with oil-based fluids and the first producing day for wells completed with water-based fluids (the "Initial Production Period"). Excludes days when the wells did not produce. Sales volumes are approximately 20 percent lower due to shrinkage.

(3) CGRs were calculated for each well over the applicable Initial Production Period by dividing total wellhead Liquids volumes by total wellhead natural gas volumes during period.

(4) Wells in progress include wells that have been drilled but have not been completed and/or tied-in.

Of the 62 IP 30 wells, the Rich Montney wells had average production of 1,353 Boe/d and CGRs of 122 Bbl/MMcf. The Ultra-Rich Montney wells had average production of 1,141 Boe/d and CGRs of 355 Bbl/MMcf.

Netback & Operations

Paramount's first quarter netbacks including hedging settlements increased 34 percent to $60.3 million in 2016 compared to $45.1 million in the same period in 2015, as the impact of increased sales volumes and hedging proceeds more than offset the decrease in commodity prices. Operating expenses averaged $5.31 per Boe in the first quarter of 2016, with Kaybob area operating costs averaging $3.15 per Boe.

The installation of gas lift equipment on liquids-rich Montney wells at Musreau and Karr-Gold Creek is substantially complete. The utilization of gas lift in these wells has stabilized production rates and reduced downtime by providing artificial lift to maintain the flow of liquids volumes to the surface.

Natural gas prices have deteriorated significantly in western Canada since the beginning of the year. In late-April, the Company temporarily shut-in approximately 1,000 Boe/d of production at Valhalla to preserve resource value. The wells will be restarted as natural gas prices recover and netbacks improve.

Capital Spending

In response to lower commodity prices and to preserve financial flexibility, Paramount's first quarter 2016 capital spending for Principal Properties was $20.1 million, in line with cash flows. Expenditures consisted mainly of maintenance capital and the completion of a previously drilled well in the Kaybob area. The Company did not drill any wells in the first quarter in its Principal Properties.

Drilling of the c-37-D vertical shale gas exploratory well in the Liard Basin was completed in March 2016, with current year expenditures totaling $15.0 million. Having drilled this well to target depth, the Company has secured its mineral rights in the region for another 10 years.

2016 Capital Program

Paramount's 2016 capital program remains flexible and activity levels will be adjusted depending on commodity prices and other factors. The Company commenced drilling operations in April 2016 on a six-Montney well pad at Musreau. Two Fox Drilling rigs, including one of the newly constructed walking rigs, are currently drilling on the pad. The utilization of two rigs on a single pad reduces per well drilling costs as a result of shared rig crews, oil field services, onsite facilities and improved logistics. An additional three Fox Drilling rigs, including the second new walking rig, are scheduled to commence drilling later in the second quarter.

Paramount's 2016 activities will focus on drilling Montney wells from multi-well pads with lateral lengths of between 1.5 and 2.0 miles to maximize operational efficiencies and control costs. The Company also plans to complete the wells with high intensity water-based fracks.

Paramount's capital spending has been reduced since 2015 in response to the deterioration in commodity prices. Drilling activity has been limited over the past twelve months and wells from the 02-34 and 03-33 six well pads were the last production additions from the 2015 drilling program. As a result, the Company's sales volumes are expected to decline through the middle part of the year until wells from the 2016 capital program are brought on production in the fourth quarter.

CORPORATE

With the closing of the Midstream Transaction in April 2016, Paramount cancelled $400 million of the $900 million Tranche A of the Company's bank credit facility (the "Facility") as well as the entire $100 million Tranche B of the Facility, which has never been drawn. Proceeds from the Midstream Transaction were used to pay down the Facility.

Because of the Midstream Transaction, the annual renewal of the Facility and the current revolving period have been extended from April 30, 2016 in order for the syndicate of lenders to complete their borrowing base review. The annual renewal is currently expected to be completed by the end of May 2016.

As of April 29, 2016, $145.5 million was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding totaling $151.7 million that reduce the amount available to be drawn under the Facility.

OPERATING AND FINANCIAL RESULTS [1]

($ millions, except as noted)

		Q1 2016		Q1 2015	% Change
Sales volumes					
Natural Gas (MMcf/d)		153.9		148.6	4
Condensate & oil (Bbl/d)		13,245		6,583	101
Other NGLs (Bbl/d) [2]		11,259		6,968	62
Total (Boe/d)		50,161		38,317	31
% Liquids		*49%*		*35%*	
Funds flow from operations	*$/Boe [3]*		*$/Boe [3]*		*% Change $/Boe*
Natural gas revenue	*2.09*	29.3	*2.99*	40.0	*(30)*
Condensate and oil revenue	*42.28*	51.0	*48.16*	28.5	*(12)*
Other NGLs revenue [2]	*10.31*	10.6	*16.43*	10.3	*(37)*
Royalty and sulphur revenue	–	0.3	–	1.4	–
Petroleum and natural gas sales	*19.98*	91.2	*23.26*	80.2	*(14)*
Royalties	*(0.62)*	(2.8)	*(0.91)*	(3.1)	*(32)*
Operating expense	*(5.31)*	(24.2)	*(5.36)*	(18.5)	*(1)*
Transportation and NGLs processing [4]	*(4.30)*	(19.6)	*(3.93)*	(13.5)	*9*
Netback	*9.75*	44.6	*13.06*	45.1	*(25)*
Commodity contract settlements	*3.45*	15.7	–	–	*100*
Netback including commodity contract settlements	*13.20*	60.3	*13.06*	45.1	*1*
General and administrative – corporate	*(1.47)*	(6.7)	*(1.50)*	(5.2)	*(2)*
General and administrative – strategic investments	*(0.37)*	(1.7)	*(0.36)*	(1.2)	*3*
Interest and financing	*(6.45)*	(29.5)	*(6.76)*	(23.3)	*(5)*
Other	–	–	*0.11*	0.3	*(100)*
Funds flow from operations	*4.91*	22.4	*4.55*	15.7	*8*
per share – diluted ($/share)		*0.21*		*0.15*	
Exploration and Capital Expenditures					
Wells and exploration		12.7		135.8	*(91)*
Facilities and gathering		7.4		52.4	*(86)*
Principal Properties Capital [5]		20.1		188.2	*(89)*
Strategic Investments		15.6		29.9	*(48)*
Other		0.3		5.5	*(95)*
Total		36.0		223.6	*(84)*
Net loss		(46.0)		(70.3)	*(35)*
per share – diluted ($/share)		*(0.43)*		*(0.67)*	
Total assets		2,713.9		3,366.3	*(19)*
Net Debt		1,880.6		1,683.3	*12*
Common shares outstanding *(thousands)*		106,212		104,893	*1*
Investments in other entities – market value [6]		124.8		260.5	*(52)*

(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 incurred by the Company.
(5) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(6) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's properties are primarily located in Alberta and British Columbia. Paramount's Class A Common Shares are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount's first quarter 2016 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be available shortly through Paramount's website at www.paramountres.com and 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 and sales volumes (including the liquids component thereof);
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and re-commencement of production from shut in wells) and the anticipated timing and costs of such activities;
- the anticipated timing of the completion of the annual renewal process for the Facility, and
- general business strategies and objectives.

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

- future natural gas and Liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations 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 it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

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

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

Non-GAAP Measures

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

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. Netback equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Net Debt is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt. Exploration and capital expenditures consist of the Company's spending on wells and infrastructure projects, other property, plant and equipment, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs for the three months ended March 31, 2016 of $1.2 million (2015 - $1.4 million), which are expensed as incurred. Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on drilling and infrastructure projects separate from land acquisition activity and capitalized interest. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis. Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy Energy Corp., MEG Energy Corp., Marquee Energy Ltd., RMP Energy Inc., Strategic Oil & Gas Ltd. and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

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

This document contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. 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, 2016, the value ratio between crude oil and natural gas was approximately 21:1. 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.

Wellhead condensate-gas ratios ("CGRs") disclosed in this document were calculated for each well for the period commencing on the date load oil volumes were completely recovered for such well and ending on April 30, 2016 (the "Post-load Recovery Period"). CGRs were calculated for each well over its applicable Post-load Recovery Period by dividing total raw liquids volumes produced by total raw natural gas volumes produced during such period. Raw volumes as measured at the wellhead. Sales volumes are lower due to shrinkage.

Management's Discussion and Analysis
For the three months ended March 31, 2016

This Management's Discussion and Analysis ("MD&A"), dated May 3, 2016, 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, 2016 and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2015. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

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

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

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

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

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

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

FINANCIAL AND OPERATING HIGHLIGHTS [1]

Three months ended March 31	2016	2015	% Change
FINANCIAL			
Petroleum and natural gas sales	91.2	80.2	14
Funds flow from operations	22.4	15.7	43
per share – basic and diluted ($/share)	*0.21*	*0.15*	
Net loss	(46.0)	(70.3)	(35)
per share – basic and diluted ($/share)	*(0.43)*	*(0.67)*	
Principal Properties Capital [2]	20.1	188.2	(89)
Investments in other entities – market value [3]	124.8	260.5	(52)
Total assets	2,713.9	3,366.3	(19)
Long-term debt	1,701.5	1,432.5	19
Net debt	1,880.6	1,683.3	12
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	153.9	148.6	4
Condensate and oil (Bbl/d)	13,245	6,583	101
Other NGLs (Bbl/d) [4]	11,259	6,968	62
Total (Boe/d)	50,161	38,317	31
Net wells drilled	1	25	(96)
FUNDS FLOW FROM OPERATIONS ($/Boe)			
Petroleum and natural gas sales	19.98	23.26	(14)
Royalties	(0.62)	(0.91)	(32)
Operating expense	(5.31)	(5.36)	(1)
Transportation and NGLs processing [5]	(4.30)	(3.93)	9
Netback	9.75	13.06	(25)
Commodity contract settlements	3.45	–	100
Netback including commodity contract settlements	13.20	13.06	1
General and administrative – corporate	(1.47)	(1.50)	(2)
General and administrative – strategic investments	(0.37)	(0.36)	3
Interest and financing	(6.45)	(6.76)	(5)
Other	–	0.11	(100)
Funds flow from operations	4.91	4.55	8

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

CONSOLIDATED RESULTS

Net Loss

Three months ended March 31	2016	2015
Principal Properties	(34.7)	(46.5)
Strategic Investments	(14.8)	(9.6)
Corporate	0.6	(30.9)
Income tax recovery	2.9	16.7
Net loss	(46.0)	(70.3)

Paramount recorded a net loss of $46.0 million for the three months ended March 31, 2016 compared to a net loss of $70.3 million in the same period in 2015. Significant factors contributing to the change are shown below:

Three months ended March 31	
Net loss – 2015	(70.3)
• Foreign exchange gain in 2016 compared to a foreign exchange loss in 2015	40.4
• Gain on commodity contracts in 2016	13.7
• Lower loss on the sale of oil and gas properties	8.1
• Lower income tax recovery	(13.8)
• Higher depletion and depreciation due to higher sales volumes	(11.4)
• Higher interest and financing expense due to increased debt	(6.3)
• Higher write-downs of investments in securities	(4.2)
• Other	(2.2)
Net loss – 2016	(46.0)

Funds Flow from Operations [(1)]

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

Three months ended March 31	2016	2015
Cash from operating activities	63.3	14.2
Change in non-cash working capital	(42.5)	(2.4)
Geological and geophysical expenses	1.1	1.4
Asset retirement obligations settled	0.5	2.5
Funds flow from operations	22.4	15.7
Funds flow from operations ($/Boe)	4.91	4.55

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

Funds flow from operations for the three months ended March 31, 2016 was $22.4 million, $6.7 million higher than the same period in 2015. Significant factors contributing to the change are shown below:

Three months ended March 31	
Funds flow from operations – 2015	15.7
• Receipts from commodity contract settlements in 2016	15.7
• Higher interest and financing expense due to increased debt	(6.1)
• Higher general and administrative expense due to lower recoveries and capital allocations	(2.0)
• Lower netback primarily due to lower commodity prices	(0.5)
• Other	(0.4)
Funds flow from operations – 2016	22.4

PRINCIPAL PROPERTIES

Netback and Segment Loss

Three months ended March 31	2016		2015	
		($/Boe) (1)		($/Boe) (1)
Natural gas revenue	29.3	2.09	40.0	2.99
Condensate and oil revenue	51.0	42.28	28.5	48.16
Other NGLs revenue (2)	10.6	10.31	10.3	16.43
Royalty and sulphur revenue	0.3	–	1.4	–
Petroleum and natural gas sales	91.2	19.98	80.2	23.26
Royalties	(2.8)	(0.62)	(3.1)	(0.91)
Operating expense	(24.2)	(5.31)	(18.5)	(5.36)
Transportation and NGLs processing (3)	(19.6)	(4.30)	(13.5)	(3.93)
Netback	44.6	9.75	45.1	13.06
Commodity contract settlements	15.7	3.45	–	–
Netback including commodity contract settlements	60.3	13.20	45.1	13.06
Other principal property items (see below)	(95.0)		(91.6)	
Segment loss	(34.7)		(46.5)	

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

Petroleum and natural gas sales were $91.2 million in the first quarter of 2016, an increase of $11.0 million from the first quarter of 2015, due to higher sales volumes, partially offset by lower commodity prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended March 31, 2015	40.0	28.5	10.3	1.4	80.2
Effect of changes in sales volumes	1.9	29.5	6.6	–	38.0
Effect of changes in prices	(12.6)	(7.0)	(6.3)	–	(25.9)
Change in royalty and sulphur revenue	–	–	–	(1.1)	(1.1)
Three months ended March 31, 2016	29.3	51.0	10.6	0.3	91.2

Sales Volumes

	Three months ended March 31											
	Natural Gas (MMcf/d)			Condensate and Oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Kaybob	115.2	117.6	*(2)*	10,623	4,426	*140*	10,701	6,329	*69*	40,531	30,347	*34*
Grande Prairie	29.4	26.3	*12*	2,138	1,764	*21*	332	491	*(32)*	7,372	6,643	*11*
Southern	2.7	2.5	*8*	186	379	*(51)*	99	148	*(33)*	734	939	*(22)*
Northern	6.6	2.2	*200*	298	14	*2,029*	127	–	*100*	1,524	388	*293*
Total	153.9	148.6	*4*	13,245	6,583	*101*	11,259	6,968	*62*	50,161	38,317	*31*

Natural gas sales volumes increased four percent to 153.9 MMcf/d in the first quarter of 2016 compared to 148.6 MMcf/d in 2015. The increase was primarily due to production from Montney formation wells brought on production at Birch in the Northern COU in late-2015.

Condensate and oil sales volumes increased 101 percent to 13,245 Bbl/d in the first quarter of 2016 compared to 6,583 Bbl/d in the same period in 2015. Other NGLs sales volumes increased to 11,259 Bbl/d in the first quarter of 2016 compared to 6,968 Bbl/d in the same period in 2015. The increase in Liquids sales volumes was primarily the result of higher condensate and Other NGLs production in the Kaybob COU.

Liquids sales volumes within the Kaybob COU increased as production from Liquids-rich Montney formation wells became a greater proportion of overall Kaybob COU production. Kaybob COU Montney sales volumes accounted for approximately 70 percent of total Kaybob COU sales volumes in the first quarter of 2016 compared to approximately 44 percent in the first quarter of 2015.

Paramount added new production from Montney formation wells as incremental Liquids processing capacity became available following the March 2015 start-up of a downstream third-party NGLs fractionation plant expansion and the start-up of the Company's 15,000 Bbl/d Musreau condensate stabilizer expansion in May 2015. The alleviation of downstream fractionation constraints also enabled NGLs recoveries to be increased at the Musreau deep cut facility. In the fourth quarter of 2015, Paramount completed twelve Montney wells located on two pads at Musreau (the "Musreau Pad Wells"), with all twelve wells flowing by the end of 2015. Aggregate sales volumes from the Musreau Pad Wells in the first quarter of 2016 were approximately 10,500 Boe/d, approximately half of which was condensate.

Commodity Prices

Three months ended March 31	2016	2015	Change %
Natural Gas			
Paramount realized price ($/Mcf)	2.09	2.99	(30)
AECO daily spot ($/GJ)	1.74	2.61	(33)
AECO monthly index ($/GJ)	2.00	2.79	(28)
Malin (US$/MMbtu)	2.07	2.85	(27)
Crude Oil			
Paramount average realized condensate and oil price ($/Bbl)	42.28	48.16	(12)
Edmonton Light Sweet ($/Bbl)	41.22	53.22	(23)
West Texas Intermediate (US$/Bbl)	33.45	48.63	(31)
Foreign Exchange			
$CDN / 1 $US	1.37	1.24	10

Paramount's average realized natural gas price decreased 30 percent in the first quarter of 2016 compared to the same period in 2015, consistent with decreases in benchmark natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market, Chicago and California markets and is sold in a combination of daily and monthly contracts.

The Company's average realized condensate and oil price decreased 12 percent in the first quarter of 2016 compared to the same period in 2015. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized volumes, and are adjusted for applicable transportation, quality and density differentials. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet oil price, which are generally lower than prices for stabilized volumes, and are adjusted for transportation, quality and density differentials. The Company's realized pricing for condensate has increased in 2016 relative to benchmark prices as a result of delivering a higher proportion of production volumes through pipelines and the strengthening of differentials.

Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Ethane sales volumes are sold under a long-term sales agreement which yields a premium to AECO prices. The Company's Other NGLs sales volumes were comprised of approximately 50 percent ethane, 30 percent propane and 20 percent butane for the three months ended March 31, 2016.

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility. At March 31, 2016, the Company had the following financial commodity contracts outstanding:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$75.72/Bbl	36.3	April 2016 – December 2016
Oil – NYMEX WTI Swap (Purchase)	2,000 Bbl/d	CDN$50.64/Bbl	1.9	April 2016 – December 2016
			38.2	

Royalties

Three months ended March 31	2016	Rate	2015	Rate
Royalties	2.8	3.1%	3.1	4.0%
$/Boe	*0.62*		*0.91*	

First quarter royalties decreased $0.3 million to $2.8 million in 2016 compared to $3.1 million in the same period in 2015, primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs and lower natural gas revenues, partially offset by higher royalties for condensate due to increased revenues and lower gas cost allowance.

Operating Expense

Three months ended March 31	2016	2015	% Change
Operating expense	24.2	18.5	31
$/Boe	*5.31*	*5.36*	*(1)*

Operating expense increased $5.7 million or 31 percent in the first quarter of 2016 to $24.2 million compared to $18.5 million in the same period in 2015, primarily due to higher third-party processing fees in the Grande Prairie COU, higher lease operating costs in the Kaybob COU related to higher production and higher operating costs at Birch in the Northern COU as a result of new production being brought on in the fourth quarter of 2015.

Paramount's per Boe operating expenses were relatively unchanged at $5.31 in the first quarter of 2016 compared to $5.36 in the same period in 2015. Operating expenses within the Kaybob COU, net of processing income, were $3.15 per Boe in the first quarter of 2016 (2015 – $3.51 per Boe).

Transportation and NGLs Processing

Three months ended March 31	2016	2015	% Change
Transportation and NGLs processing	19.6	13.5	45
$/Boe	*4.30*	*3.93*	*9*

Transportation and NGLs processing expense was $19.6 million in the first quarter of 2016, an increase of $6.1 million compared to the same period in 2015, primarily due to increased transportation and NGLs fractionation costs related to incremental firm service capacity contracted for the Company's Deep Basin production volumes. These increases were partially offset by lower trucking costs, as the majority of condensate volumes are now transported via pipeline.

Other Principal Property Items

Three months ended March 31	2016	2015
Commodity contracts – net of settlements	2.0	–
Depletion and depreciation	88.5	77.0
Exploration and evaluation	2.3	4.2
Loss on sale of oil and gas properties	0.8	8.9
Other	1.4	1.5
Total	95.0	91.6

First quarter depletion and depreciation expense increased to $88.5 million ($19.39 per Boe) in 2016 compared to $77.0 million ($22.33 per Boe) in 2015, primarily due to higher production volumes. The decrease in per Boe depletion and depreciation rates in the first quarter of 2016 was primarily due to property, plant and equipment impairment write-downs recorded in the fourth quarter of 2015.

Exploration and evaluation expense in the first quarter of 2016 includes expired undeveloped land leases costs of $1.3 million (2015 - $0.8 million), geological and geophysical costs of $1.0 million (2015 - $1.2 million) and dry hole expense of nil (2015 - $2.2 million).

Midstream Transaction

In April 2016, Paramount closed the sale of its Musreau Complex natural gas processing facility and related midstream assets (the "Midstream Transaction"). In connection with the Midstream Transaction, the Company has entered into a 20-year natural gas processing arrangement with the purchaser that includes a take-or-pay volume commitment.

STRATEGIC INVESTMENTS

Three months ended March 31	2016	2015
General and administrative	(1.7)	(1.2)
Share-based compensation	(1.3)	(2.3)
Exploration and evaluation	(0.1)	(0.5)
Interest and financing	(1.0)	(0.6)
Loss from equity-accounted investments	(4.3)	(3.5)
Write-down of investments in securities	(5.6)	(1.4)
Drilling rig revenue	–	0.4
Drilling rig expense	(0.6)	(0.2)
Other	(0.2)	(0.3)
Segment loss	(14.8)	(9.6)

Strategic Investments at March 31, 2016 include:

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

Investments

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

As at	Carrying Value March 31, 2016	 December 31, 2015	Market Value (1) March 31, 2016	 December 31, 2015
Trilogy	54.1	58.4	68.5	70.1
MEG	24.2	29.7	24.2	29.7
Other (2)	32.1	31.0	32.1	31.0
Total	110.4	119.1	124.8	130.8

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

The aggregate write-downs of investments in securities of $5.6 million in the first quarter of 2016 resulted from decreases in the market values of the Company's available-for-sale investments in securities.

Shale Gas

Drilling operations in the Liard Basin resumed at the c-37-D well at La Biche in December 2015 and the well was drilled to target depth in March 2016. With the completion of drilling operations for the c-37-D well, the Company has secured its mineral rights in the region for another 10 years.

Fox Drilling

Fox Drilling has completed the construction of its two new triple-sized built-for-purpose walking rigs at a cost of approximately $25 million each.

CORPORATE

Three months ended March 31	2016	2015
Interest and financing	29.1	23.2
General and administrative	6.7	5.2
Share-based compensation	3.7	2.5
Foreign exchange	(40.3)	0.1
Other	0.2	(0.1)
Segment (income) loss	(0.6)	30.9

Corporate segment income was $0.6 million in the first quarter of 2016 compared to a $30.9 million loss in the same period in 2015, primarily as a result of a $39.1 million unrealized foreign exchange gain recorded in respect of the Company's US senior notes due 2023 (the "2023 Senior Notes"), partially offset by higher interest and financing expense due to increased debt. General and administrative expenses were higher in the first quarter of 2016 compared to the same period in 2015, primarily due to lower cost recoveries and capital allocations as a result of reduced capital activity, partially offset by the impact of staffing and salary reductions, including the elimination of most corporate consulting positions.

EXPLORATION AND CAPITAL EXPENDITURES

Three months ended March 31	2016	2015
Geological and geophysical	1.0	1.2
Drilling, completion and tie-ins	11.7	134.6
Facilities and gathering	7.4	52.4
Principal Properties Capital (1)	20.1	188.2
Land and property acquisitions and capitalized interest	0.1	5.1
Principal Properties	20.2	193.3
Strategic Investments (2)	15.6	29.9
Corporate	0.2	0.4
	36.0	223.6
Principal Properties Capital by COU (1)		
Kaybob	13.5	141.9
Grande Prairie	5.0	22.1
Southern, Northern and Other	1.6	24.2
	20.1	188.2

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.
(2) Strategic Investments for the three months ended March 31, 2015 includes $0.2 million of capitalized interest.

Principal Properties Capital was $20.1 million in the first quarter of 2016 compared to $188.2 million in the same period in 2015. Expenditures consisted mainly of maintenance capital and the completion of a previously drilled well in the Kaybob COU. The Company did not drill any wells in the first quarter in its Principal Properties.

Strategic Investments capital expenditures for the first quarter of 2016 included $15.0 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia.

Paramount's 2016 capital program remains flexible and activity levels will be adjusted depending on commodity prices and other factors. The Company commenced drilling operations in April 2016 on a six-Montney well pad at Musreau. Two Fox Drilling rigs, including one of the newly constructed walking rigs, are currently drilling on the pad. The utilization of two rigs on a single pad reduces per well drilling costs as a result of shared rig crews, oil field services, onsite facilities and improved logistics. An additional three Fox Drilling rigs, including the second new walking rig, are scheduled to commence drilling later in the second quarter.

Paramount's 2016 activities will focus on drilling Montney wells from multi-well pads with lateral lengths of between 1.5 and 2.0 miles to maximize operational efficiencies and control costs. The Company also plans to complete the wells with high intensity water-based fracks.

Paramount's capital spending has been reduced since 2015 in response to the deterioration in commodity prices and to preserve financial flexibility. Drilling activity has been limited over the past twelve months and the Musreau Pad Wells were the last production additions from the 2015 drilling program. As a result, the Company's sales volumes are expected to decline through the middle part of the year until wells from the 2016 capital program are brought on production in the fourth quarter.

Wells drilled were as follows:

Three months ended March 31	2016		2015	
	Gross (1)	Net (2)	Gross (1)	Net (2)
Natural gas	1	1	27	25
Total	1	1	27	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.

LIQUIDITY AND CAPITAL RESOURCES

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

As at	March 31, 2016	December 31, 2015	% Change
Adjusted working capital deficit (1)	63.4	37.9	67
Finance lease obligations – Fox Drilling	5.7	–	100
Limited-recourse demand facilities	100.7	100.9	–
Credit facility	677.1	693.0	(2)
Senior Notes (2)	1,033.7	1,072.8	(4)
Net debt	1,880.6	1,904.6	(1)
Share capital	1,647.1	1,647.0	–
Accumulated deficit	(1,243.6)	(1,197.6)	4
Reserves	105.5	99.3	6
Total Capital	2,389.6	2,453.3	(3)

(1) Adjusted working capital excludes assets held for sale, liabilities associated with assets held for sale, accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (March 31, 2016 – $1.2 million, December 31, 2015 – $4.1 million), risk management assets and liabilities and limited-resource demand facilities.
(2) Excludes unamortized issue premiums and financing costs.

Paramount had an adjusted working capital deficit at March 31, 2016 of $63.4 million compared to a deficit of $37.9 million at December 31, 2015. The adjusted working capital deficit at March 31, 2016 included $18.3 million of cash and cash equivalents, $40.0 million of accounts receivable, $5.5 million of prepaid amounts and $127.2 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending and the repayment of credit facilities, partially offset by funds flow from operations.

The Company's 2016 capital program remains flexible and activity levels will be adjusted depending on commodity prices and other factors. Paramount expects to fund its 2016 operations, obligations and capital expenditures with drawings on its bank credit facilities, funds flow from operations, the sale of non-core assets and by accessing the capital markets, if required.

Bank Credit Facility

As of March 31, 2016, $677.1 million was drawn on Paramount's bank credit facility (the "Facility"). In addition, Paramount had undrawn letters of credit outstanding totaling $130.8 million that reduced the amount available to be drawn under the Facility.

With the closing of the Midstream Transaction on April 20, 2016, the Company cancelled $400 million of the $900 million Tranche A of the Facility as well as the entire $100 million Tranche B of the Facility, which has never been drawn. Proceeds from the Midstream Transaction were used to pay down the Facility.

Because of the Midstream Transaction, the annual renewal of the Facility and the current revolving period has been extended from April 30, 2016 in order for the syndicate of lenders to complete their borrowing base review. The annual renewal is currently expected to be completed by the end of May 2016.

As of April 29, 2016, $145.5 million was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding totaling $151.7 million that reduce the amount available to be drawn under the Facility.

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

Share Capital

The Company is required to incur, on or before December 31, 2016, $37.2 million of qualifying expenditures to satisfy commitments associated with Canadian exploration expense flow-through shares issued in 2015, of which $31.2 million was incurred as of March 31, 2016.

At May 2, 2016, Paramount had 106,235,655 Common Shares and 8,730,400 Paramount Options outstanding, of which 3,574,680 Paramount Options are exercisable.

QUARTERLY INFORMATION

	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	91.2	91.3	110.7	94.6	80.2	99.4	84.4	80.0
Funds flow from operations	22.4	21.0	36.9	19.6	15.7	41.6	36.4	29.5
Per share – basic and diluted ($/share)	*0.21*	*0.20*	*0.35*	*0.19*	*0.15*	*0.40*	*0.35*	*0.30*
Net income (loss)	(46.0)	(599.0)	(171.8)	(60.2)	(70.3)	(106.5)	(9.4)	53.1
Per share – basic ($/share)	*(0.43)*	*(5.64)*	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.54*
Per share – diluted ($/share)	*(0.43)*	*(5.64)*	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.53*
Sales volumes								
Natural gas (MMcf/d)	153.9	157.8	181.8	154.4	148.6	143.9	93.6	99.4
Condensate and oil (Bbl/d)	13,245	9,991	10,214	7,595	6,583	5,320	4,690	3,212
Other NGLs (Bbl/d)	11,259	9,175	9,483	9,282	6,968	5,123	1,643	810
Total (Boe/d)	50,161	45,466	49,990	42,604	38,317	34,430	21,936	20,585
Average realized price								
Natural gas ($/Mcf)	2.09	2.57	3.01	2.74	2.99	3.98	4.43	4.96
Condensate and oil ($/Bbl)	42.28	46.60	52.43	65.66	48.16	68.45	92.66	106.38
Other NGLs ($/Bbl)	10.31	12.59	11.42	12.18	16.43	26.64	32.87	43.78
Total ($/Boe)	19.98	21.82	24.07	24.40	23.26	31.37	41.80	42.72

Significant Items Impacting Quarterly Results

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

- First quarter 2016 earnings include a foreign exchange gain of $40.3 million and a $13.7 million gain on commodity contracts.
- Fourth quarter 2015 earnings include $241.5 million of aggregate impairment write-downs of property, plant and equipment, $184.1 million of impairment write-offs of exploration and evaluation assets and deferred tax income expense of $66.3 million.
- Third quarter 2015 earnings include $100.7 million of depletion and depreciation, a $22.2 million impairment write-down of oil and gas properties, a $73.0 million write-down of investments in securities and a foreign exchange loss of $41.5 million, partially offset by $38.1 million of gains on commodity contracts.
- Second quarter 2015 earnings include $82.9 million of depletion and depreciation expense and $12.0 million of debt extinguishment expense in respect of the redemption of the 2017 Senior Notes, partially offset by an income tax recovery of $38.5 million.
- First quarter 2015 earnings include $77.4 million of depletion and depreciation expense and a $8.9 million net loss on the sale of oil and gas properties.
- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of oil and gas properties and a $23.3 million loss from equity-accounted investments, partially offset by an income tax recovery of $20.7 million.
- In the third quarter of 2014, the 200 MMcf/d Musreau deep cut facility was brought on-line and the Company began to ramp-up production, which increased petroleum and natural gas sales and funds flow from operations.
- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of oil and gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.

CHANGE IN ACCOUNTING POLICIES

There were no new accounting standards adopted by the Company for the three months ended March 31, 2016. A description of accounting standards that will be effective in the future is included in the notes to the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2015.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended March 31, 2016, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADVISORIES

Forward Looking Information

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

- projected production and sales volumes (including the liquids component thereof);
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and re-commencement of production from shut in wells) and the anticipated timing and costs of such activities;
- the anticipated timing of the completion of the annual renewal process for the Facility, and
- general business strategies and objectives.

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

- future natural gas and Liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations 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 it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

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

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

Non-GAAP Measures

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

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and capital expenditures** consist of the Company's spending on wells and infrastructure projects, other property, plant and equipment, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs for the three months ended March 31, 2016 of $1.2 million (2015 - $1.4 million), which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis for the period. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on wells and infrastructure projects separate from land acquisition activity and capitalized interest. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG, Marquee, RMP, SOG and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

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

Oil and Gas Measures and Definitions

Abbreviations

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

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

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

Measures

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

During the three months ended March 31, 2016, the value ratio between crude oil and natural gas was approximately 21:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Interim Condensed Consolidated Financial Statements (Unaudited)
March 31, 2016

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
($ thousands)

As at	Note	March 31 2016	December 31 2015
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents		18,300	11,941
Accounts receivable		39,958	48,730
Prepaid expenses and other		5,516	5,049
Risk management	15	38,182	40,207
Assets held for sale	3	453,561	–
		555,517	105,927
Exploration and evaluation	4	380,837	363,724
Property, plant and equipment, net	5	1,508,223	2,034,353
Equity-accounted investments	6	54,062	58,370
Investments in securities	7	56,312	60,714
Deferred income tax		155,844	154,823
Goodwill		3,124	3,124
		2,713,919	2,781,035
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Limited-recourse demand facilities	8	100,682	100,911
Accounts payable and accrued liabilities		128,361	107,624
Liabilities associated with assets held for sale	3	21,172	–
		250,215	208,535
Long-term debt	9	1,701,477	1,750,226
Asset retirement obligations	10	253,294	273,580
		2,204,986	2,232,341
Shareholders' equity			
Share capital	11	1,647,062	1,646,984
Accumulated deficit		(1,243,594)	(1,197,627)
Reserves	12	105,465	99,337
		508,933	548,694
		2,713,919	2,781,035

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2016	2015
Petroleum and natural gas sales		91,190	80,209
Royalties		(2,840)	(3,137)
Revenue		88,350	77,072
Gain on commodity contracts		13,727	–
		102,077	77,072
Expenses			
Operating expense		24,246	18,485
Transportation and NGLs processing		19,632	13,540
General and administrative		8,385	6,415
Share-based compensation	13	5,005	4,727
Depletion and depreciation		88,785	77,428
Exploration and evaluation	4	2,445	4,705
Loss on sale of oil and gas properties		810	8,867
Interest and financing		30,087	23,744
Accretion of asset retirement obligations	10	1,355	1,413
Foreign exchange		(40,288)	117
		140,462	159,441
Loss from equity-accounted investments	6	(4,308)	(3,488)
Write-down of investments in securities		(5,602)	(1,399)
Other income (loss)		(539)	269
Loss before tax		(48,834)	(86,987)
Income tax expense (recovery)	14		
Current		–	14
Deferred		(2,867)	(16,698)
		(2,867)	(16,684)
Net loss		(45,967)	(70,303)
Other comprehensive income (loss), net of tax			
Change in market value of securities		(4,401)	12,848
Reclassification of accumulated losses on securities to net loss		5,602	1,399
Deferred tax on other comprehensive income related to securities		–	(1,320)
Comprehensive loss		(44,766)	(57,376)
Net loss per common share ($/share)	11		
Basic and diluted		(0.43)	(0.67)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

Three months ended March 31	Note	2016	2015
Operating activities			
Net loss		(45,967)	(70,303)
Add (deduct):			
Items not involving cash	16	67,223	84,577
Asset retirement obligations settled	10	(473)	(2,509)
Change in non-cash working capital		42,483	2,395
Cash from operating activities		63,266	14,160
Financing activities			
Net draw (repayment) of limited-recourse demand facilities	8	(229)	11,370
Net draw (repayment) of long-term debt	9	(11,847)	221,688
Common shares issued, net of issue costs		–	690
Cash from (used in) financing activities		(12,076)	233,748
Investing activities			
Property, plant and equipment and exploration		(34,878)	(222,196)
Proceeds on sale of oil and gas properties		839	5,455
Change in non-cash working capital		(10,400)	(25,140)
Cash used in investing activities		(44,439)	(241,881)
Net increase		6,751	6,027
Foreign exchange on cash and cash equivalents		(392)	1,015
Cash and cash equivalents, beginning of period		11,941	18,320
Cash and cash equivalents, end of period		18,300	25,362
Supplemental cash flow information	16		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2016		2015	
		Shares *(000's)*		Shares *(000's)*	
Share Capital					
Balance, beginning of period		*106,212*	1,646,984	*104,843*	1,603,436
Issued		–	–	*50*	1,619
Change in unvested common shares for stock incentive plan		–	78	–	204
Balance, end of period		*106,212*	1,647,062	*104,893*	1,605,259
Accumulated Deficit					
Balance, beginning of period			(1,197,627)		(296,326)
Net loss			(45,967)		(70,303)
Balance, end of period			(1,243,594)		(366,629)
Reserves	12				
Balance, beginning of period			99,337		46,172
Other comprehensive income			1,201		12,927
Contributed surplus			4,927		6,530
Balance, end of period			105,465		65,629
Total Shareholders' Equity			508,933		1,304,259

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 corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are primarily located in Alberta and British Columbia. The Company's operations are divided into three business segments, which have been established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Limited Partnership ("Fox Drilling") and Cavalier Energy Inc. ("Cavalier"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting. 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, as at and for the three months ended March 31, 2016 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 3, 2016.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* on a basis consistent with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2015 (the "Annual Financial Statements"). These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments. 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. Certain comparative amounts have been reclassified to conform with the current year's presentation. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

Changes in Accounting Standards

There were no new accounting standards adopted by the Company for the three months ended March 31, 2016. A description of accounting standards that will be effective in the future is included in the notes to the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2015.

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

2. Segmented Information

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

Three months ended March 31, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	77,072	–	–	–	77,072
Expenses					
Operating expense	18,485	–	–	–	18,485
Transportation and NGLs processing	13,540	–	–	–	13,540
General and administrative	–	1,248	5,167	–	6,415
Share-based compensation	–	2,257	2,470	–	4,727
Depletion and depreciation	76,995	2,578	74	(2,219)	77,428
Exploration and evaluation	4,215	490	–	–	4,705
Loss on sale of oil and gas properties	8,867	–	–	–	8,867
Interest and financing	–	566	23,178	–	23,744
Accretion of asset retirement obligations	1,413	–	–	–	1,413
Foreign exchange	–	–	117	–	117
	123,515	7,139	31,006	(2,219)	159,441
Loss from equity-accounted investments	–	(3,488)	–	–	(3,488)
Write-down of investments in securities	–	(1,399)	–	–	(1,399)
Other	(15)	–	58	–	43
Drilling rig revenue	–	10,512	–	(10,075)	437
Drilling rig expense	–	(5,173)	–	4,962	(211)
	(46,458)	(6,687)	(30,948)	(2,894)	(86,987)
Inter-segment eliminations	–	(2,894)	–	2,894	–
Segment loss	(46,458)	(9,581)	(30,948)	–	(86,987)
Income tax recovery					16,684
Net loss					(70,303)

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

3. Assets Held for Sale

In April 2016, Paramount closed the sale of its Musreau Complex natural gas processing facility and related midstream assets (the "Midstream Transaction"). These assets are included within the Principal Properties business segment. The carrying value of the assets sold and associated liabilities have been presented as assets held for sale as at March 31, 2016 as follows:

As at March 31, 2016	
Property, plant and equipment	453,561
Asset retirement obligations	(21,172)

In connection with the Midstream Transaction, the Company has entered into a 20-year natural gas processing agreement with the purchaser that includes a take-or-pay volume commitment.

4. Exploration and Evaluation

	Three months ended March 31, 2016	Twelve months ended December 31, 2015
Balance, beginning of period	363,724	567,420
Additions	18,803	93,411
Change in asset retirement provision	–	2,550
Transfers to property, plant and equipment	(90)	(112,000)
Dry hole	44	(15,019)
Expired lease costs	(1,326)	(3,728)
Write-downs	–	(162,516)
Dispositions	(318)	(6,394)
Balance, end of period	380,837	363,724

Exploration and Evaluation Expense

Three months ended March 31	2016	2015
Geological and geophysical	1,163	1,430
Dry hole	(44)	2,478
Expired lease costs	1,326	797
	2,445	4,705

5. Property, Plant and Equipment

Three months ended March 31, 2016	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2015	3,655,956	155,107	29,166	3,840,229
Additions	15,884	509	185	16,578
Transfers to assets held for sale	(497,843)	–	–	(497,843)
Transfers from exploration and evaluation	90	–	–	90
Dispositions	–	–	(61)	(61)
Change in asset retirement provision	51	–	–	51
Cost, March 31, 2016	3,174,138	155,616	29,290	3,359,044
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2015	(1,741,988)	(42,677)	(21,211)	(1,805,876)
Transfers to assets held for sale	44,282	–	–	44,282
Depletion and depreciation	(89,000)	(47)	(249)	(89,296)
Dispositions	8	–	61	69
Accumulated depletion, depreciation and write-downs, March 31, 2016	(1,786,698)	(42,724)	(21,399)	(1,850,821)
Net book value, December 31, 2015	1,913,968	112,430	7,955	2,034,353
Net book value, March 31, 2016	1,387,440	112,892	7,891	1,508,223

Depletion and Depreciation

Three months ended March 31	2016	2015
Depletion and depreciation	89,296	80,119
Inter-segment eliminations	(511)	(2,691)
	88,785	77,428

6. Equity-Accounted Investments

As at	March 31, 2016			December 31, 2015		
	Shares *(000's)*	Carrying Value	Market Value (1)	Shares *(000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	54,062	68,537	*19,144*	58,370	70,068

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

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

As at March 31	2016	2015
Current assets	40,726	40,627
Non-current assets (1)	1,212,357	1,550,634
Current liabilities	(60,348)	(102,609)
Non-current liabilities	(775,219)	(935,340)
Equity	417,516	553,312
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	63,425	84,168
Less: portion of share-based compensation recorded in equity of Trilogy	(9,363)	(7,777)
Carrying value of Paramount's investment	54,062	76,391

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at March 31, 2016 totaled $1,217.0 million (2015 – $1,552.0 million) and equity totaled $422.2 million (2015 - $554.7 million).

Three months ended March 31	2016	2015
Revenue	42,405	75,953
Comprehensive loss (1)	(28,359)	(22,927)
Paramount's share of Trilogy's comprehensive loss	(4,308)	(3,488)

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the three months ended March 31, 2016 was $27.5 million (2014 – comprehensive loss $20.7 million).

Trilogy had 10.3 million stock options outstanding (5.3 million exercisable) at March 31, 2016 at exercise prices ranging from $4.49 to $38.74 per share.

7. Investments in Securities

As at	March 31, 2016		December 31, 2015	
	Shares *(000's)*	Market Value	Shares *(000's)*	Market Value
MEG Energy Corp.	*3,700*	24,235	*3,700*	29,674
Privateco		18,675		18,675
Other (1)		13,402		12,365
		56,312		60,714

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

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

8. Limited-Recourse Demand Facilities

As at	March 31, 2016	December 31, 2015
Fox Drilling Facility	61,695	63,380
Cavalier Facility	38,987	37,531
	100,682	100,911

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

9. Long-Term Debt

As at	March 31, 2016	December 31, 2015
Bank credit facility	677,085	693,045
7⅝% Senior Notes due 2019 ("2019 Senior Notes")	450,000	450,000
6⅞% US Senior Notes due 2023 ("2023 Senior Notes")	583,695	622,800
Finance lease obligations	5,670	–
	1,716,450	1,765,845
Unamortized financing costs, net of premiums	(14,973)	(15,619)
	1,701,477	1,750,226

As of March 31, 2016, $677.1 million was drawn on Paramount's bank credit facility (the "Facility"). In addition, Paramount had undrawn letters of credit outstanding totaling $130.8 million that reduced the amount available to be drawn under the Facility.

With the closing of the Midstream Transaction on April 20, 2016, the Company has cancelled $400 million of the $900 million Tranche A of the Facility as well as the entire $100 million Tranche B of the Facility, which has never been drawn. Proceeds from the Midstream Transaction were used to pay down the Facility.

Because of the Midstream Transaction, the annual renewal of the Facility and the current revolving period has been extended from April 30, 2016 in order for the syndicate of lenders to complete their borrowing base review. The annual renewal is currently expected to be completed by the end of May 2016.

As of April 29, 2016, $145.5 million was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding totaling $151.7 million that reduce the amount available to be drawn under the Facility.

At March 31, 2016, the 2019 Senior Notes had a market value of 82.0 percent of their principal amount (December 31, 2015 – 82.0 percent). The 2023 Senior Notes had a market value of 72.0 percent of their principal amount at March 31, 2016 (December 31, 2015 – 79.0 percent). The market values of the Company's senior notes are estimated using a market approach based on prices quoted from financial institutions, which are level two fair value hierarchy inputs.

10. Asset Retirement Obligations

	Three months ended March 31, 2016	Twelve months ended December 31, 2015
Asset retirement obligations, beginning of period	273,580	287,415
Retirement obligations incurred	51	5,010
Revisions to estimated retirement costs	–	(18,791)
Obligations settled	(473)	(6,641)
Dispositions	(47)	(119)
Transfer to liabilities associated with assets held for sale	(21,172)	–
Assumed on corporate acquisition	–	1,011
Accretion expense	1,355	5,695
Asset retirement obligations, end of period	253,294	273,580

Asset retirement obligations at March 31, 2016 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2015 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2015 – 2.00 percent).

11. Share Capital

At March 31, 2016, 106,212,487 (December 31, 2015 – 106,212,487) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 21,508 (December 31, 2015 – 21,508) Common Shares held in trust under the stock incentive plan.

The Company is required to incur, on or before December 31, 2016, $37.2 million of qualifying expenditures to satisfy commitments associated with Canadian exploration expense flow-through shares issued in 2015, of which $31.2 million was incurred as of March 31, 2016.

Weighted Average Common Shares

Three months ended March 31	2016		2015	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net loss
Net loss – basic	*106,212*	(45,967)	*104,867*	(70,303)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	*106,212*	(45,967)	*104,867*	(70,303)

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income. The Company had 9.6 million Paramount Options outstanding at March 31, 2016 (March 31, 2015 – 7.2 million), all of which were anti-dilutive.

12. Reserves

Reserves at March 31, 2016 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and changes in contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, December 31, 2015	8,637	90,700	99,337
Other comprehensive income	1,201	–	1,201
Share-based compensation	–	4,927	4,927
Balance, March 31, 2016	9,838	95,627	105,465

13. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Three months ended March 31, 2016		Twelve months ended December 31, 2015	
	Number	Wtd. Avg. exercise price ($/share)	Number	Wtd. Avg. exercise price ($/share)
Balance, beginning of period	7,238,650	34.66	7,275,850	33.75
Granted	2,445,100	8.17	694,000	33.43
Exercised	–	–	(435,950)	13.69
Forfeited	(30,600)	34.67	(291,000)	40.52
Expired	(3,500)	13.20	(4,250)	25.85
Balance, end of period	9,649,650	27.96	7,238,650	34.66
Options exercisable, end of period	4,467,290	31.95	3,991,050	34.85

Stock Incentive Plan – Shares Held in Trust

	Three months ended March 31, 2016		Twelve months ended December 31, 2015	
	Shares *(000's)*		Shares *(000's)*	
Balance, beginning of period	*22*	135	*54*	508
Shares purchased	–	–	*9*	316
Change in vested and unvested shares	–	(78)	*(41)*	(689)
Balance, end of period	*22*	57	*22*	135

14. Income Tax

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

Three months ended March 31	2016	2015
Loss before tax	(48,834)	(86,987)
Effective Canadian statutory income tax rate	27.0%	25.0%
Expected income tax recovery	(13,185)	(21,747)
Effect on income taxes of:		
Statutory and other rate differences	64	292
Loss from equity-accounted investments	1,163	872
Write-down of investments in securities	1,512	350
Change in unrecognized deferred income tax asset	16,729	–
Flow-through share renunciations	1,039	956
Share-based compensation	1,330	1,801
Unrealized foreign exchange on US Senior Notes	(10,551)	–
Non-deductible items and other	(968)	792
Income tax recovery	(2,867)	(16,684)

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

15. Financial Instruments and Risk Management

The Company had the following financial commodity contracts in place at March 31, 2016:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$75.72/Bbl	36,275	April 2016–December 2016
Oil – NYMEX WTI Swap (Purchase)	2,000 Bbl/d	CDN$50.64/Bbl	1,907	April 2016–December 2016
			38,182	

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:

	Three months ended March 31, 2016	Twelve months ended December 31, 2015
Fair value, beginning of period	40,207	–
Changes in fair value	13,727	55,215
Settlements received	(15,752)	(15,008)
Fair value, end of period	38,182	40,207

16. Consolidated Statement of Cash Flows – Selected Information

Items Not Involving Cash

Three months ended March 31	2016	2015
Commodity contracts	2,025	–
Share-based compensation	5,005	4,727
Depletion and depreciation	88,785	77,428
Exploration and evaluation	1,282	3,275
Loss on sale of oil and gas properties	810	8,867
Accretion of asset retirement obligations	1,355	1,413
Foreign exchange	(39,735)	254
Loss from equity-accounted investments	4,308	3,488
Write-down of investments in securities	5,602	1,399
Deferred income tax	(2,867)	(16,698)
Other	653	424
	67,223	84,577

Supplemental Cash Flow Information

Three months ended March 31	2016	2015
Interest paid	8,007	9,408
Current tax paid (refunded)	–	(10)

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Executive Chairman

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

B. K. Lee
Chief Financial Officer

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

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

P. G. Tahmazian
V.P. Midstream

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

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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Executive Chairman
Paramount Resources Ltd.
Calgary, Alberta

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Chief Executive Officer
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Calgary, Alberta

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T. E. Claugus (4)
President
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J. C. Gorman (1) (3) (4)
Independent Businessman
Calgary, Alberta

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

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

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

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

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

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Canadian Imperial Bank of Commerce
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National Bank of Canada
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Calgary, Alberta

Barclays Bank PLC
Toronto, Ontario

Caisse centrale Desjardins
Calgary, Alberta

Canadian Western Bank
Calgary, Alberta

Business Development Bank of Canada
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)