Paramount
resources ltd.

PARAMOUNT ANNOUNCES SECOND QUARTER 2016 RESULTS

August 5, 2016 Calgary, Alberta

HIGHLIGHTS

- Paramount closed the sale of its Musreau Complex natural gas processing facility for gross cash proceeds of approximately $565 million in April 2016.
- In July 2016, Paramount entered into an agreement to sell 450 (310 net) sections of its Deep Basin oil & gas properties in the Musreau/Kakwa area (the "Musreau/Kakwa Assets") to Seven Generations Energy Ltd. ("7G" or "Seven Generations") for total consideration of approximately $1.9 billion (the "Sale Transaction"). Completion of the Sale Transaction is subject to the approval of Paramount's shareholders, regulatory approvals and other customary closing conditions.
- Consideration to Paramount for the Sale Transaction will include: $475 million in cash, 33.5 million 7G class A common shares and the assumption by 7G of Paramount's US$450 million 6.875% senior unsecured notes due 2023.
- Second quarter sales volumes averaged 40,890 Boe/d, including 9,490 Bbl/d of condensate and oil.
- Excluding the Musreau/Kakwa Assets, Paramount's sales volumes were approximately 11,000 Boe/d (31 percent liquids) in the second quarter of 2016.
- Paramount commenced its 2016 drilling program in the second quarter. The Company continued to realize improvements in capital efficiencies in its drilling operations through longer lateral lengths, deploying multiple rigs per multi-well pad, lower service costs and other operational advances.
- To the end of July, drilling operations were completed on eight 1.5 mile horizontal Montney wells at Musreau with an average of 36 drilling days per well. These wells and other wells in progress in Musreau/Kakwa are to be included as part of the Sale Transaction.
- At Karr-Gold Creek, the Company finished drilling one Montney well in July and commenced drilling a three-Montney well pad in late-July. These wells are all designed with 2.0 mile lateral lengths and are expected to be completed with high intensity 50 stage water-based fracks. The first of the Karr-Gold Creek wells is expected to be completed and brought on production in the third quarter, with the other wells to be brought on production in the fourth quarter.
- The market value of Paramount's financial portfolio following completion of the Sale Transaction is estimated to be approximately $1.2 billion, approximately $11.00 per Paramount share, based on current market prices.

- Pro forma the Sale Transaction, Paramount's June 30, 2016 net debt would be approximately $300 million. Taking into account the Company's financial portfolio, Paramount would be effectively debt free.

MUSREAU/KAKWA SALE TRANSACTION

The Sale Transaction is a transformational event for Paramount and is consistent with Paramount's long historical track record of early stage resource capture and delineation followed by strategic and creative value realization. Following the close of the Sale Transaction, Paramount will have the financial resources to continue with this strategy on its remaining Montney, Duvernay and other resource properties. In addition, Paramount intends to be an active participant in the market for acquisitions as the Company will have extensive financial flexibility and access to capital markets, providing a significant competitive advantage.

The consideration payable to Paramount by 7G for the Musreau/Kakwa Assets will be approximately $1.9 billion (subject to customary closing adjustments) which will be comprised of a combination of: $475 million in cash, 33.5 million 7G class A common shares (having a value of approximately C$837 million based on the 10 day VWAP of the 7G shares on July 5, 2016, the day immediately prior to announcement of the Sale Transaction), the assumption by 7G of Paramount's US$450 million 6.875% senior unsecured notes due 2023 and certain oil and gas properties in the Musreau/Kakwa area having a value of approximately $6 million. The cash consideration received will be used to reduce Paramount's debt and for general corporate purposes.

The Musreau/Kakwa Assets had sales volumes of approximately 30,000 Boe/d for the three month period ended June 30, 2016 and 34,000 Boe/d for the six month period ended June 30, 2016. The Musreau/Kakwa Assets also include minor facilities and gathering systems related to the oil and gas properties being sold. 7G will also assume Paramount's processing and transportation commitments relating to the Musreau/Kakwa Assets in connection with the Sale Transaction.

The Sale Transaction has an effective date of June 1, 2016 and an expected closing date of August 18, 2016. Completion of the Sale Transaction is subject to the approval of Paramount's shareholders, regulatory approvals and other customary closing conditions.

Additional information concerning the Sale Transaction can be found in Paramount's Material Change Report dated July 12, 2016 and Information Circular dated July 15, 2016, both of which are available on SEDAR at www.sedar.com.

2019 Notes Consent Solicitation

In connection with the Sale Transaction, Paramount has commenced a consent solicitation and given notice of conditional redemption in respect of its $450 million principal amount of 7.625% senior unsecured notes due 2019 (the "2019 Notes").

The consent solicitation seeks consent from the holders of the 2019 Notes (the "2019 Noteholders") to waive and amend certain provisions of the indenture for the 2019 Notes such that the Sale Transaction can be completed with consenting holders remaining as holders of their 2019 Notes post-closing. A consent fee of $5.00 per $1,000 principal amount of 2019 Notes is payable to those 2019 Noteholders who provide their consent, conditional on the Sale Transaction closing. The consent solicitation is conditional on, among other things, closing of the Sale Transaction and a minimum acceptance from 2019 Noteholders holding at least $100 million principal amount of 2019 Notes, with a maximum acceptance of $300 million principal amount (with Paramount able to waive such maximum). The Sale Transaction will be completed regardless of the results of the consent solicitation, as the 2019 Notes of all non-consenting 2019 Noteholders will be redeemed.

2019 Noteholders who wish to consent must instruct their intermediary (broker, dealer, commercial bank, trust company or other nominee) who is a CDS participant to complete and execute the consent form and mail, email or deliver the form to Computershare Trust Company of Canada, the depositary, in accordance with the procedures set forth in the consent form. Consents should not be delivered to Paramount. 2019 Noteholders who do not deliver a properly completed and executed consent on or prior to 5:00 pm (Toronto time) on August 15, 2016 will have their 2019 Notes redeemed.

The consent solicitation and notice of conditional redemption and related documents are available on Paramount's website at:
http://www.paramountres.com/investor-relations/the-musreaukakwa-disposition-documents

Scotia Capital Inc. has been retained by Paramount as sole lead solicitation agent in connection with the consent solicitation.

PARAMOUNT – POST SALE TRANSACTION

Following the Sale Transaction, Paramount will continue to have a land base (excluding emerging plays and strategic investments in the northern frontier and oil sands) of over 660,000 net acres of land, including 380,000 net acres of Montney rights. The Company plans to continue the development of its liquids-rich Deep Basin plays, comprised of:

- Karr-Gold Creek Montney;
- Smoky/Resthaven Cretaceous and Montney;
- Valhalla Montney;
- Birch/Umbach northeast British Columbia Montney; and
- Willesden Green Duvernay.

Paramount will also continue to hold a significant portfolio of emerging plays and strategic investments, including:

- exploratory shale gas assets in the Liard Basin;
- northern frontier assets in Central Mackenzie and the Mackenzie Delta;
- oil sands assets held through its wholly-owned subsidiary Cavalier Energy Inc.;
- seven triple-sized rigs held through its wholly-owned subsidiary Fox Drilling Limited Partnership; and
- investments in other public and private oil and gas companies (including, among others, Trilogy Energy Corp., MEG Energy Corp., Strategic Oil & Gas Ltd., Marquee Energy Ltd. and RMP Energy Inc.).

The market value of Paramount's investments in other public and private oil and gas companies (including Seven Generations shares) following completion of the Sale Transaction is estimated to be approximately $1.2 billion, approximately $11.00 per Paramount share, based on current market prices.

Paramount's 2016 capital spending following the closing of the Sale Transaction will be focused on expanding the Company's existing 4,500 Boe/d Karr-Gold Creek development. The Karr-Gold Creek area encompasses approximately 110 net sections of land directly north of the divested Musreau/Kakwa Assets where condensate yields and well economics are similar to that of the Kakwa/Musreau Montney.

The following tables set out the sales volumes and netback of Paramount for the six months ended June 30, 2016, excluding the Musreau/Kakwa Assets:

	Six months ended June 30	
	2016	2015
Natural gas (MMcf/d)	49.7	49.4
Condensate and oil (Bbl/d)	2,712	2,318
Other NGLs [1] (Bbl/d)	805	1,211
Total (Boe/d)	11,802	11,764
% Liquids	*30%*	*30%*

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

	Six Months ended June 30			
	2016		2015	
	($MM)	*($/Boe)[1]*	*($MM)*	*($/Boe)[1]*
Natural gas revenue	17.2	*1.90*	25.8	*2.88*
Condensate and oil revenue	22.2	*44.90*	23.2	*55.40*
Other NGLs revenue [2]	0.9	*6.04*	3.6	*16.27*
Royalty and sulphur revenue	0.6	–	1.5	–
Petroleum and natural gas sales	40.9	*19.02*	54.1	*25.42*
Royalties	(0.6)	*(0.29)*	(1.9)	*(0.89)*
Operating expense	(26.5)	*(12.34)*	(25.5)	*(11.96)*
Transportation and NGLs processing [3]	(10.0)	*(4.64)*	(6.5)	*(3.06)*
Netback	3.8	*1.75*	20.2	*9.51*

(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.

OPERATING AND FINANCIAL HIGHLIGHTS [1]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2016	2015	*% Change*	2016	2015	*% Change*
Sales volumes						
Kaybob (Boe/d)	32,584	35,473	*(8)*	36,558	32,924	*11*
Grande Prairie (Boe/d)	5,833	5,645	*3*	6,603	6,142	*8*
Other (Boe/d)	2,473	1,486	*66*	2,365	1,406	*68*
Total (Boe/d)	40,890	42,604	*(4)*	45,526	40,472	*12*
Natural gas (MMcf/d)	129.8	154.4	*(16)*	141.9	151.5	*(6)*
Condensate and oil (Bbl/d)	9,490	7,595	*25*	11,368	7,092	*60*
Other NGLs (Bbl/d) [2]	9,764	9,282	*5*	10,512	8,131	*29*
Total (Boe/d)	40,890	42,604	*(4)*	45,526	40,472	*12*
% Liquids	*47%*	*40%*		*48%*	*38%*	
Petroleum and natural gas sales	73.6	94.6	*(22)*	164.8	174.8	*(6)*
Average realized price ($/Boe)	19.79	24.40	*(19)*	19.89	23.86	*(17)*
Netback including commodity contract settlements	28.4	54.3	*(48)*	88.6	99.4	*(11)*
$/Boe	*7.64*	*14.00*		*10.70*	*13.56*	
Funds flow from operations	(4.9)	19.6	*(125)*	17.5	35.3	*(50)*
per share – diluted ($/share)	*(0.05)*	*0.19*		*0.16*	*0.34*	
Exploration and Capital Expenditures						
Principal Properties Capital [3]	26.2	88.1	*(70)*	46.3	276.3	*(83)*
Strategic Investments	4.2	12.8	*(67)*	19.8	42.7	*(54)*
Other	11.1	0.6	*nm*	11.4	6.1	*87*
Total	41.5	101.5	*(59)*	77.5	325.1	*(76)*
Net loss	(30.6)	(60.2)	*(49)*	(76.5)	(130.5)	*(41)*
per share – diluted ($/share)	*(0.29)*	*(0.57)*		*(0.72)*	*(1.24)*	
Total assets				2,158.1	3,522.4	*(39)*
Net Debt				1,363.9	1,746.2	*(22)*
Common shares outstanding (thousands)				106,241	106,212	-
Investments in other entities – market value [4]				162.1	227.3	*(29)*

nm Not meaningful

(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) 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.

(4) 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 second quarter 2016 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available through Paramount's website at www.paramountres.com and SEDAR at www.sedar.com.

For further information, please contact:

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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:

- the anticipated closing date of the Sale Transaction;
- the total value of the consideration to be received by Paramount for the Musreau/Kakwa Assets;
- Paramount's assets and projected production and land holdings following the completion of the Sale Transaction;
- The estimated value, based on current market prices, of Paramount's financial portfolio (including the 7G shares) following the closing of the Sale Transaction;
- the processing and transportation commitments that will be assigned to 7G if the Sale Transaction is completed;
- the New Facility that will be available to Paramount upon completion of the Sale Transaction and the terms thereof;
- the anticipated benefits of the Sale Transaction to Paramount and its shareholders;
- Paramount's reduced indebtedness and increased financial flexibility following the Sale Transaction;
- the conditional consent solicitation with respect to the 2019 Notes, the redemption of non-consenting holders and related matters;
- the timing of the four Karr-Gold Creek Montney wells being brought on production;
- Paramount's business plans and strategy following the Sale Transaction, including its planned capital spending for the remainder of 2016; 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:

- the terms of the Sale Transaction and the other matters disclosed herein in relation to the Sale Transaction;
- the timely receipt of shareholder and regulatory approvals for the completion of the Sale Transaction;
- the scope and effect of the expected benefits from the Sale Transaction;
- applicable post-closing adjustments in relation to the Sale Transaction;
- future natural gas and Liquids prices;

- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas and Liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, Liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

- the Sale Transaction and the other matters disclosed herein in relation to the Sale Transaction will not be completed on the terms anticipated or at all;
- the conditions to the completion of the Sale Transaction not being satisfied;
- the expected benefits of the Sale Transaction not being realized;
- 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 and six months ended June 30, 2016 of $1.0 million and $2.2 million, respectively (2015 - $1.1 million and $2.6 million, respectively), 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 for the period. 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 six months ended June 30, 2016, the value ratio between crude oil and natural gas was approximately 30:1. 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.

Paramount resources ltd.

Management's Discussion and Analysis
For the three and six months ended June 30, 2016

This Management's Discussion and Analysis ("MD&A"), dated August 4, 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 and six months ended June 30, 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
FINANCIAL				
Petroleum and natural gas sales	73.6	94.6	164.8	174.8
Funds flow from operations	(4.9)	19.6	17.5	35.3
per share – basic and diluted ($/share)	*(0.05)*	*0.19*	*0.16*	*0.34*
Net loss	(30.6)	(60.2)	(76.5)	(130.5)
per share – basic and diluted ($/share)	*(0.29)*	*(0.57)*	*(0.72)*	*(1.24)*
Principal Properties Capital [2]	26.2	88.1	46.3	276.3
Investments in other entities – market value [3]			162.1	227.3
Total assets			2,158.1	3,522.4
Long-term debt			1,244.6	1,694.7
Net debt			1,363.9	1,746.2
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	129.8	154.4	141.9	151.5
Condensate and oil (Bbl/d)	9,490	7,595	11,368	7,092
Other NGLs (Bbl/d) [4]	9,764	9,282	10,512	8,131
Total (Boe/d)	40,890	42,604	45,526	40,472
Net wells drilled	1	4	2	29
FUNDS FLOW FROM OPERATIONS ($/Boe)				
Petroleum and natural gas sales	19.79	24.40	19.89	23.86
Royalties	0.21	(0.36)	(0.25)	(0.62)
Operating expense	(9.90)	(5.81)	(7.37)	(5.59)
Transportation and NGLs processing [5]	(5.34)	(4.23)	(4.77)	(4.09)
Netback	4.76	14.00	7.50	13.56
Commodity contract settlements	2.88	–	3.20	–
Netback including commodity contract settlements	7.64	14.00	10.70	13.56
General and administrative – corporate	(1.44)	(1.51)	(1.45)	(1.50)
General and administrative – strategic investments	(0.43)	(0.37)	(0.40)	(0.37)
Interest and financing	(7.07)	(7.10)	(6.73)	(6.94)
Other	(0.02)	0.04	–	0.07
Funds flow from operations	(1.32)	5.06	2.12	4.82

(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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Principal Properties	64.7	(38.5)	30.0	(84.9)
Strategic Investments	(14.9)	(11.4)	(29.7)	(20.9)
Corporate	(47.7)	(48.8)	(47.0)	(79.8)
Income tax recovery (expense)	(32.7)	38.5	(29.8)	55.1
Net loss	(30.6)	(60.2)	(76.5)	(130.5)

Paramount recorded a net loss of $30.6 million for the three months ended June 30, 2016 compared to a net loss of $60.2 million in the same period in 2015. Significant factors contributing to the change are shown below:

Three months ended June 30	
Net loss – 2015	(60.2)
• Gain on the sale of oil and gas assets, mainly related to the Musreau Complex sale	132.0
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	12.0
• Lower depletion and depreciation due to lower sales volumes and lower depletion rates	7.4
• Income tax expense in 2016 compared to a recovery in 2015	(71.1)
• Lower netback primarily due to lower commodity prices and higher operating expense	(36.6)
• Higher share-based compensation due to options cancelled in 2016	(11.2)
• Higher loss on commodity contracts	(4.5)
• Other	1.6
Net loss – 2016	(30.6)

Paramount recorded a net loss of $76.5 million for the six months ended June 30, 2016 compared to a net loss of $130.5 million in the same period in 2015. Significant factors contributing to the change are shown below:

Six months ended June 30	
Net loss – 2015	(130.5)
• Gain on the sale of oil and gas assets in 2016 compared to a loss in 2015	140.1
• Higher foreign exchange gain, mainly related to an unrealized gain on the 2023 US Senior Notes	37.3
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	12.0
• Gain on commodity contracts in 2016 compared to a loss in 2015	9.2
• Lower exploration and evaluation expense mainly due to lower dry hole expense	4.0
• Income tax expense in 2016 compared to a recovery in 2015	(85.0)
• Lower netback primarily due to lower commodity prices and higher operating expense	(37.2)
• Higher share-based compensation due to options cancelled in 2016	(11.5)
• Higher interest and financing expense due to higher debt in 2016	(5.3)
• Higher depletion and depreciation due to higher sales volumes	(4.0)
• Other	(5.6)
Net loss – 2016	(76.5)

Funds Flow from Operations [1]

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Cash from (used in) operating activities	(20.8)	23.3	42.4	37.5
Change in non-cash working capital	14.8	(5.4)	(27.7)	(7.8)
Geological and geophysical expenses	1.0	1.1	2.2	2.5
Asset retirement obligations settled	0.1	0.6	0.6	3.1
Funds flow from operations	(4.9)	19.6	17.5	35.3
Funds flow from operations (*$/Boe*)	*(1.32)*	*5.06*	*2.12*	*4.82*

(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 June 30, 2016 was negative $4.9 million compared to $19.6 million in the same period in 2015. Significant factors contributing to the change are shown below:

Three months ended June 30	
Funds flow from operations – 2015	19.6
• Lower netback primarily due to lower commodity prices and higher operating expense	(36.6)
• Receipts from commodity contract settlements in 2016	10.7
• Lower interest and financing expense due to lower average debt balances in 2016	1.2
• Other	0.2
Funds flow from operations – 2016	(4.9)

Funds flow from operations for the six months ended June 30, 2016 was $17.5 million compared to $35.3 million in the same period in 2015. Significant factors contributing to the change are shown below:

Six months ended June 30	
Funds flow from operations – 2015	35.3
• Lower netback primarily due to lower commodity prices and higher operating expense	(37.2)
• Higher interest and financing expense due to higher average debt balances in 2016	(4.9)
• Higher general and administrative expense due to lower recoveries and capital allocations	(1.7)
• Receipts from commodity contract settlements in 2016	26.5
• Other	(0.5)
Funds flow from operations – 2016	17.5

PRINCIPAL PROPERTIES

Netback and Segment Income (Loss)

	Three months ended June 30				Six months ended June 30			
	2016		2015		2016		2015	
		($/Boe)(1)		($/Boe)(1)		($/Boe)(1)		($/Boe)(1)
Natural gas revenue	17.6	*1.49*	38.5	*2.74*	47.0	*1.82*	78.6	*2.86*
Condensate and oil revenue	45.6	*52.83*	45.4	*65.66*	96.6	*46.68*	73.9	*57.58*
Other NGLs revenue (2)	9.9	*11.19*	10.3	*12.18*	20.5	*10.72*	20.6	*13.99*
Royalty and sulphur revenue	0.5	–	0.4	–	0.7	–	1.7	–
Petroleum and natural gas sales	73.6	*19.79*	94.6	*24.40*	164.8	*19.89*	174.8	*23.86*
Royalties	0.8	*0.21*	(1.4)	*(0.36)*	(2.1)	*(0.25)*	(4.5)	*(0.62)*
Operating expense	(36.8)	*(9.90)*	(22.5)	*(5.81)*	(61.1)	*(7.37)*	(41.0)	*(5.59)*
Transportation and NGLs processing (3)	(19.9)	*(5.34)*	(16.4)	*(4.23)*	(39.5)	*(4.77)*	(29.9)	*(4.09)*
Netback	17.7	*4.76*	54.3	*14.00*	62.1	*7.50*	99.4	*13.56*
Commodity contract settlements	10.7	*2.88*	–	–	26.5	*3.20*	–	–
Netback including commodity contract settlements	28.4	*7.64*	54.3	*14.00*	88.6	*10.70*	99.4	*13.56*
Other principal property items (see below)	36.3		(92.8)		(58.6)		(184.3)	
Segment income (loss)	64.7		(38.5)		30.0		(84.9)	

(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 $73.6 million in the second quarter of 2016, a decrease of $21.0 million from the second quarter of 2015. Petroleum and natural gas sales were $164.8 million in the six months ended June 30, 2016, a decrease of $10.0 million compared to the same period of 2015. The decreases were primarily due to lower commodity prices, partially offset by higher liquids volumes.

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 June 30, 2015	38.5	45.4	10.3	0.4	94.6
Effect of changes in sales volumes	(6.1)	11.3	0.5	–	5.7
Effect of changes in prices	(14.8)	(11.1)	(0.9)	–	(26.8)
Change in royalty and sulphur revenue	–	–	–	0.1	0.1
Three months ended June 30, 2016	17.6	45.6	9.9	0.5	73.6

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Six months ended June 30, 2015	78.6	73.9	20.6	1.7	174.8
Effect of changes in sales volumes	(4.6)	45.2	6.2	–	46.8
Effect of changes in prices	(27.0)	(22.5)	(6.3)	–	(55.8)
Change in royalty and sulphur revenue	–	–	–	(1.0)	(1.0)
Six months ended June 30, 2016	47.0	96.6	20.5	0.7	164.8

Sales Volumes

	Three months ended June 30											
	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	97.2	124.1	*(22)*	7,287	5,904	*23*	9,102	8,884	*2*	32,584	35,473	*(8)*
Grande Prairie	22.2	24.7	*(10)*	1,712	1,286	*33*	418	250	*67*	5,833	5,645	*3*
Southern	2.4	3.1	*(23)*	285	401	*(29)*	93	148	*(37)*	791	1,058	*(25)*
Northern	8.0	2.5	*220*	206	4	*NM*	151	–	*100*	1,682	428	*293*
Total	129.8	154.4	*(16)*	9,490	7,595	*25*	9,764	9,282	*5*	40,890	42,604	*(4)*

NM – Not meaningful

In response to lower commodity prices, Paramount reduced its drilling program for the second half of 2015 and did not resume drilling until the second quarter of 2016. Between May 2015 and March 2016, the Company did not spud any new wells in its core Deep Basin developments. As a result, the Company's 2016 sales volumes decreased as production from existing wells declined, partially offset by production from new wells from the Company's 2015 and 2014 drilling programs that were completed and brought on-stream in 2015 and in the first quarter of 2016.

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, with all twelve wells flowing by the end of 2015.

Natural gas sales volumes decreased 16 percent to 129.8 MMcf/d in the second quarter of 2016 compared to 154.4 MMcf/d in the same period in 2015. The decrease was primarily due to natural production declines on existing wells within the Kaybob COU and the shut-in of the Valhalla property in the Grande Prairie COU due to low natural gas prices, partially offset by sales volumes from new Montney formation wells brought on production at Musreau in the Kaybob COU and at Birch in the Northern COU. Production at Valhalla resumed in July 2016.

Condensate and oil sales volumes increased 25 percent to 9,490 Bbl/d in the second quarter of 2016 compared to 7,595 Bbl/d in the same period in 2015. Other NGLs sales volumes increased to 9,764 Bbl/d in the second quarter of 2016 compared to 9,282 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 from new wells in the Kaybob COU. The majority of new wells brought on production in the Kaybob COU in 2015 and the first quarter of 2016 were Montney formation wells, which produce higher proportions of condensate and Other NGLs.

	Six months ended June 30											
	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	106.2	120.8	*(12)*	8,955	5,169	*73*	9,902	7,613	*30*	36,558	32,924	*11*
Grande Prairie	25.8	25.5	*1*	1,925	1,524	*26*	375	370	*1*	6,603	6,142	*8*
Southern	2.6	2.8	*(7)*	236	390	*(39)*	96	148	*(35)*	762	999	*(24)*
Northern	7.3	2.4	*204*	252	9	*NM*	139	–	*100*	1,603	407	*294*
Total	141.9	151.5	*(6)*	11,368	7,092	*60*	10,512	8,131	*29*	45,526	40,472	*12*

NM – Not meaningful

Natural gas sales volumes decreased six percent to 141.9 MMcf/d in the six months ended June 30, 2016 compared to 151.5 MMcf/d in the same period in 2015. The decrease was primarily due to natural production declines on existing wells within the Kaybob COU, partially offset by production from Montney formation wells brought on production at Musreau in the Kaybob COU and at Birch in the Northern COU in late-2015.

Condensate and oil sales volumes increased 60 percent to 11,368 Bbl/d in the six months ended June 30, 2016 compared to 7,092 Bbl/d in the same period in 2015. Other NGLs sales volumes increased to 10,512 Bbl/d in the six months ended June 30, 2016 compared to 8,131 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 related to new Montney formation wells brought on-stream in 2015 and the first quarter of 2016.

Commodity Prices

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Natural Gas						
Paramount realized price ($/Mcf)	1.49	2.74	(46)	1.82	2.86	(36)
AECO daily spot ($/GJ)	1.33	2.52	(47)	1.54	2.56	(40)
AECO monthly index ($/GJ)	1.18	2.53	(53)	1.59	2.66	(40)
Malin (US$/MMbtu)	1.76	2.45	(28)	1.92	2.66	(28)
Crude Oil						
Paramount average realized condensate & oil price ($/Bbl)	52.83	65.66	(20)	46.68	57.58	(19)
Edmonton Light Sweet ($/Bbl)	55.01	68.88	(20)	48.11	61.08	(21)
West Texas Intermediate (US$/Bbl)	45.59	57.94	(21)	39.52	53.29	(26)
Foreign Exchange						
$CDN / 1 $US	1.29	1.23	5	1.33	1.24	7

Paramount's average realized natural gas price decreased 36 percent in the first half 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 19 percent in the first half of 2016 compared to the same period in 2015, consistent with decreases in benchmark prices. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Stabilized condensate volumes delivered through pipelines 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.

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 55 percent ethane, 30 percent propane and 15 percent butane for the six months ended June 30, 2016.

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility. At June 30, 2016, the Company had the following financial commodity contracts outstanding:

Instruments	Total notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$75.72/Bbl	12.8	July 2016 – December 2016
Oil – NYMEX WTI Swap (Purchase)	2,000 Bbl/d	CDN$50.64/Bbl	5.1	July 2016 – December 2016
			17.9	

Royalties

	Three months ended June 30				Six months ended June 30			
	2016	Rate	2015	Rate	2016	Rate	2015	Rate
Royalties	(0.8)	(1.0)%	1.4	1.5%	2.1	1.3%	4.5	2.6%
$/Boe	*(0.21)*		*0.36*		*0.25*		*0.62*	

Second quarter royalties were a credit of $0.8 million in 2016 compared to an expense of $1.4 million in the same period in 2015. Royalties for the six months ended June 30, 2016 decreased $2.4 million to $2.1 million compared to $4.5 million in the same period in 2015. Royalties decreased primarily as a result of $1.4 million of annual gas cost allowance adjustments related to 2015 recorded in the second quarter of 2016 and a combination of lower petroleum and natural gas sales and lower royalty rates.

For the six months ended June 30, 2016, the royalty rate was 2.1 percent compared to 3.5 percent in the same period in 2015, excluding the impact of the gas cost allowance adjustments recorded in the current year related to 2015. The majority of Paramount's new wells qualify for Alberta new well royalty incentive programs, which reduce the Company's overall royalty rate.

Operating Expense

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Operating expense	36.8	22.5	64	61.1	41.0	49
$/Boe	*9.90*	*5.81*	*70*	*7.37*	*5.59*	*32*

Operating expense increased $14.3 million or 64 percent in the second quarter of 2016 to $36.8 million compared to $22.5 million in the same period in 2015. Operating expense increased $20.1 million or 49 percent in the first half of 2016 to $61.1 million compared to $41.0 million in the same period in 2015.

These increases were primarily due to higher third-party processing fees and lower processing income in the Kaybob COU following the sale of the Musreau Complex in April 2016, higher trucking costs in the Kaybob COU 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.

Transportation and NGLs Processing

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Transportation and NGLs processing	19.9	16.4	21	39.5	29.9	32
$/Boe	*5.34*	*4.23*	*26*	*4.77*	*4.09*	*17*

Transportation and NGLs processing expense was $19.9 million in the second quarter of 2016, an increase of $3.5 million compared to the same period in 2015. Transportation and NGLs processing expense for the six months ended June 30, 2016 increased $9.6 million to $39.5 million compared to $29.9 million in the same period of 2015. Transportation and NGLs processing is higher in 2016 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 condensate trucking costs, as the majority of condensate volumes are now transported via pipeline.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Commodity contracts – net of settlements	20.3	5.1	22.4	5.1
Depletion and depreciation	72.4	82.7	160.9	159.7
Exploration and evaluation	1.6	3.5	3.9	7.7
(Gain) loss on sale of oil and gas assets	(131.8)	0.3	(131.0)	9.2
Other	1.2	1.2	2.4	2.6
Total	(36.3)	92.8	58.6	184.3

Second quarter depletion and depreciation expense decreased to $72.4 million ($19.44 per Boe) in 2016 compared to $82.7 million ($21.32 per Boe) in 2015. Depletion and depreciation expense increased to $160.9 million ($19.42 per Boe) in the six months ended June 30, 2016 compared to $159.7 million ($21.80 per Boe) in the same period in 2015. The decrease in per Boe depletion and depreciation rates in 2016 is primarily due to property, plant and equipment impairment write-downs recorded in the fourth quarter of 2015.

Exploration and evaluation expense in the second quarter of 2016 includes expired undeveloped land leases costs of $0.8 million (2015 - $2.7 million) and geological and geophysical costs of $0.8 million (2015 - $1.1 million). Exploration and evaluation expense for the six months ended June 30, 2016 includes expired undeveloped land leases costs of $2.1 million (2015 - $3.5 million), geological and geophysical costs of $1.8 million (2015 - $2.3 million) and dry hole expense of nil (2015 - $1.9 million).

In April 2016, Paramount closed the sale of its Musreau Complex natural gas processing facility and related midstream assets (the "Midstream Transaction") for gross cash proceeds of $565.5 million, resulting in the recognition of a gain of $125.9 million. In connection with the Midstream Transaction, the Company entered into a 20-year natural gas processing arrangement with the purchaser that includes a take-or-pay volume commitment.

Musreau/Kakwa Transaction

In July 2016, Paramount entered into a purchase and sale agreement (the "Sale Agreement") with Seven Generations Energy Ltd. ("Seven Generations") pursuant to which Paramount agreed to sell, and Seven Generations agreed to buy, 450 (310 net) sections of Paramount's Deep Basin oil & gas properties in the Musreau/Kakwa area of west Central Alberta (collectively, the "Musreau/Kakwa Assets") (the "Sale Transaction").

The consideration payable to Paramount by Seven Generations for the Musreau/Kakwa Assets will be approximately $1.9 billion (subject to customary closing adjustments), which will be comprised of a combination of: (a) $475 million in cash, (b) 33.5 million Seven Generations class A common shares (having a value of approximately C$837 million based on the 10 day VWAP of the Seven Generations shares on July 5, 2016, the day immediately prior to announcement of the Sale Transaction), (c) the assumption of Paramount's US$450 million 6.875% senior unsecured notes due 2023 (the "2023 Senior Notes") and (d) the right, title and interest in Seven Generations to certain oil and gas properties in the Musreau/Kakwa area having a value of approximately $6 million.

The Musreau/Kakwa Assets had estimated sales volumes of approximately 30,000 Boe/d for the three month period ended June 30, 2016 and 34,000 Boe/d for the six month period ended June 30, 2016. The Musreau/Kakwa Assets also include minor facilities and gathering systems related to the oil and gas properties being sold. In connection with the Sale Transaction, Seven Generations will also assume Paramount's processing and transportation commitments relating to the Musreau/Kakwa Assets (the "Musreau/Kakwa Agreements") totaling approximately $2.4 billion (undiscounted) over the life of such agreements.

The Sale Transaction has an effective date of June 1, 2016 and an expected closing date of August 18, 2016. Completion of the Sale Transaction is subject to the approval of Paramount's shareholders, regulatory approvals and other customary closing conditions.

Additional information concerning the Sale Transaction can be found in Paramount's Material Change Report dated July 12, 2016 and Information Circular dated July 15, 2016, both of which are available on SEDAR at www.sedar.com.

The following tables set out the sales volumes and netback of Paramount for the six months ended June 30, 2016, excluding the Musreau/Kakwa Assets:

	Six months ended June 30	
	2016	2015
Natural gas (MMcf/d)	49.7	49.4
Condensate and oil (Bbl/d)	2,712	2,318
Other NGLs [(1)] (Bbl/d)	805	1,211
Total (Boe/d)	11,802	11,764
% Liquids	*30%*	*30%*

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

	Six months ended June 30			
	2016		2015	
		($/Boe)[(1)]		($/Boe)[(1)]
Natural gas revenue	17.2	*1.90*	25.8	*2.88*
Condensate and oil revenue	22.2	*44.90*	23.2	*55.40*
Other NGLs revenue [(2)]	0.9	*6.04*	3.6	*16.27*
Royalty and sulphur revenue	0.6	–	1.5	–
Petroleum and natural gas sales	40.9	*19.02*	54.1	*25.42*
Royalties	(0.6)	*(0.29)*	(1.9)	*(0.89)*
Operating expense	(26.5)	*(12.34)*	(25.5)	*(11.96)*
Transportation and NGLs processing [(3)]	(10.0)	*(4.64)*	(6.5)	*(3.06)*
Netback	3.8	*1.75*	20.2	*9.51*

(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.

STRATEGIC INVESTMENTS

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
General and administrative	(1.6)	(1.4)	(3.3)	(2.7)
Share-based compensation	(3.5)	(1.8)	(4.8)	(4.1)
Depletion and depreciation	(2.9)	–	(3.0)	–
Exploration and evaluation	(0.2)	(0.1)	(0.3)	(0.6)
Interest and financing	(1.0)	(0.5)	(2.0)	(1.1)
Income (loss) from equity-accounted investments	(4.4)	(4.1)	(8.7)	(7.6)
Write-down of investments in securities	(0.9)	(3.2)	(6.5)	(4.6)
Drilling rig revenue	–	–	–	0.4
Drilling rig expense	(0.2)	(0.1)	(0.8)	(0.3)
Other	(0.2)	(0.2)	(0.3)	(0.3)
Segment loss	(14.9)	(11.4)	(29.7)	(20.9)

Strategic Investments at June 30, 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 such entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value (1)	
As at	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Trilogy	49.6	58.4	104.7	70.1
MEG	25.0	29.7	25.0	29.7
Other (2)	32.4	31.0	32.4	31.0
Total	107.0	119.1	162.1	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.

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 completed the construction of its two new triple-sized built-for-purpose walking rigs at a cost of approximately $25 million each. Beginning in the second quarter of 2016 Fox Drilling's rigs were deployed on the Company's lands.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest and financing	25.9	27.5	55.0	50.7
Debt extinguishment	–	12.0	–	12.0
General and administrative	5.4	5.8	12.1	11.0
Share-based compensation	14.3	4.7	17.9	7.2
Foreign exchange	1.9	(1.2)	(38.4)	(1.1)
Other	0.2	–	0.4	–
Segment loss	47.7	48.8	47.0	79.8

The Corporate segment loss decreased to $47.7 million in the second quarter of 2016 compared to $48.8 million in the same period in 2015. The Corporate segment loss decreased to $47.0 million for the six months ended June 30, 2016 compared to $79.8 million in the same period in 2015. In the second quarter of 2015, the Company recorded $12.0 million of debt extinguishment expense related to the June 2015 redemption of the 2017 Senior Notes. Share-based compensation in 2016 includes $13.8 million related to options cancelled in the second quarter of 2016. A $37.4 million unrealized foreign exchange gain was recorded in respect of the 2023 Senior Notes for the six months ended June 30, 2016.

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Geological and geophysical	0.8	1.0	1.8	2.2
Drilling, completion and tie-ins	23.0	60.4	34.7	195.0
Facilities and gathering	2.4	26.7	9.8	79.1
Principal Properties Capital (1)	26.2	88.1	46.3	276.3
Land and property acquisitions and capitalized interest	10.7	0.4	10.8	5.5
Principal Properties	36.9	88.5	57.1	281.8
Strategic Investments (2)	4.2	12.8	19.8	42.7
Corporate	0.4	0.2	0.6	0.6
	41.5	101.5	77.5	325.1
Principal Properties Capital by COU (1)				
Kaybob	21.7	36.6	35.2	178.6
Grande Prairie	3.0	26.8	8.0	48.8
Southern, Northern and other	1.5	24.7	3.1	48.9
	26.2	88.1	46.3	276.3

(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 and six months ended June 30, 2015 include \$0.4 million and \$0.7 million of capitalized interest, respectively.

Principal Properties Capital was \$26.2 million in the second quarter of 2016 compared to \$88.1 million in the same period in 2015. Principal Properties Capital was \$46.3 million in the first half of 2016 compared to \$276.3 million in the same period in 2015. Expenditures consisted mainly of drilling costs related to new multi-well pads spudded in the second quarter of 2016 in the Kaybob COU and the completion of a previously drilled well in the Kaybob COU. The majority of Principal Properties Capital in the second quarter related to the Musreau/Kakwa Assets that will be sold in the Sale Transaction.

Strategic Investments capital expenditures for the first half of 2016 included \$18.7 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia.

Paramount's capital spending has been reduced since 2015 in response to the deterioration in commodity prices and to preserve financial flexibility. Paramount's 2016 capital program remains flexible and activity levels will be adjusted depending on the completion of the Sale Transaction, commodity prices and other factors. Following closing of the Sale Transaction, activities in 2016 will be focused on expanding the Company's existing Karr-Gold Creek development.

Wells drilled(1):

	Three months ended June 30				Six months ended June 30			
	2016		2015		2016		2015	
	Gross (2)	Net (3)	Gross (2)	Net (3)	Gross (2)	Net (3)	Gross (2)	Net (3)
Natural gas	1	1	4	4	2	2	31	29
Total	1	1	4	4	2	2	31	29

(1) Represents wells rig released in the period.
(2) 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.
(3) 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	June 30, 2016	December 31, 2015	% Change
Adjusted working capital deficit (1)	46.3	37.9	22
Finance lease obligations – Fox Drilling	5.6	–	100
Limited-recourse demand facilities	58.7	100.9	(42)
Credit facility	217.9	693.0	(69)
7⅞% senior unsecured notes due 2019 ("2019 Senior Notes") (2)	450.0	450.0	–
2023 Senior Notes (2)	585.4	622.8	(6)
Net debt	1,363.9	1,904.6	(28)
Share capital	1,647.2	1,647.0	–
Accumulated deficit	(1,274.2)	(1,197.6)	6
Reserves	125.1	99.3	26
Total Capital	1,862.0	2,453.3	(24)

(1) Adjusted working capital excludes accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (June 30, 2016 – $0.5 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 June 30, 2016 of $46.3 million compared to a deficit of $37.9 million at December 31, 2015. The adjusted working capital deficit at June 30, 2016 included $11.6 million of cash and cash equivalents, $36.7 million of accounts receivable, $5.2 million of prepaid amounts and $99.8 million of accounts payable and accrued liabilities.

In April 2016, Paramount closed the sale of its Musreau Complex natural gas processing facility, receiving gross cash proceeds of $565.5 million. Proceeds from the Midstream Transaction were used to pay down the Company's bank credit facility (the "Facility"). In addition, the Company cancelled Tranche B of the Facility, which had never been drawn.

In June 2016, the annual renewal of the Facility was completed. Commitments under the Facility are $350 million, with a scheduled step-down to $300 million on the earlier of October 31, 2016, or the occurrence of certain events that generate additional liquidity. The revolving period of the Facility ends on April 28, 2017. In the event the revolving period is not extended, any undrawn availability would be cancelled and all amounts then outstanding would be permitted to remaining outstanding on a non-revolving basis until April 28, 2018, the maturity date of the Facility.

The borrowing base governs the maximum amount which can be drawn under the Facility. The Lenders have the right to review and re-determine Paramount's borrowing base on a semi-annual basis and more frequently in certain other circumstances. The borrowing base amount is based on the Company's reserves, the Lenders' projections of future commodity prices and the value attributed by the Lenders to Paramount's equity investments and other assets, among other factors.

Borrowings under the Facility bear interest at the Lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio and the total amount drawn. The

Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the assets of Cavalier.

At June 30, 2016, $217.9 million was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding totaling $49.1 million that reduce the amount available to be drawn on the Facility.

Paramount continues to have no financial maintenance covenants under the terms of the Facility, the 2019 Notes or the 2023 Notes. The agreements include certain standard restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets and pay dividends.

In June 2016, the Cavalier Facility was repaid and cancelled.

Paramount expects to fund its operations, obligations and capital expenditures for the remainder of 2016 with proceeds from the sale of assets, drawings on its bank credit facilities, its netbacks and by accessing the capital markets, if required.

Musreau/Kakwa Transaction

In July 2016, Paramount entered into the Sale Transaction with Seven Generations for consideration of approximately $1.9 billion, including: $475 million in cash, 33.5 million Seven Generations class A common shares and the assumption of Paramount's 2023 Senior Notes. In connection with the Sale Transaction, Seven Generations will also assume the Musreau/Kakwa Agreements. The cash consideration received will be used to reduce Paramount's debt and for general corporate purposes.

In connection with the Sale Transaction, Paramount has commenced a consent solicitation and given notice of conditional redemption in respect of its senior unsecured notes due 2019 (the "2019 Notes").

The consent solicitation is conditional on, among other things (a) closing of the Sale Transaction and (b) a minimum acceptance from noteholders holding at least $100 million of 2019 Notes, with a maximum of $300 million (with Paramount able to waive such maximum). The consent solicitation requests that holders of the 2019 Notes (the "2019 Noteholders") agree to retain their 2019 Notes and consent to the Sale Transaction as an exception to certain covenants of the 2019 Notes indenture. In addition, the consent solicitation requests that the 2019 Noteholders agree to certain amendments that will reduce Paramount's capacity to make restricted payments under the restricted payments builder basket in the indenture. There will be no change to the tenure, coupon or redemption schedule of the 2019 Notes. A consent fee of $5.00 per $1,000 principal amount of 2019 Notes is payable to those 2019 Noteholders who provide their consent, conditional on the Sale Transaction closing. The Sale Transaction will be completed regardless of the result of the consent solicitation process, as the 2019 Notes of all non-consenting 2019 Noteholders will be redeemed at a price of $1,038.13 for every $1,000 principal amount of 2019 Notes.

A Canadian chartered bank has committed to provide Paramount with a new $410 million credit facility (the "New Facility") to amend and replace Paramount's existing Credit Facility upon the closing of the Sale Transaction. The New Facility is subject to reduction by an amount equivalent to the principal amount of 2019 Notes and the Fox Drilling Facility that remains outstanding after the completion of the Sale Transaction.

The sale of the Musreau/Kakwa Assets is a transformational event for Paramount and is consistent with Paramount's long historical track record of early stage resource capture and delineation followed by strategic and creative value realization. Post-closing, Paramount will have the financial resources to continue with this strategy on its remaining Montney, Duvernay and other resource properties. Capital spending for the remainder of 2016 is expected to be focused on expanding the Company's Karr-Gold Creek Montney development.

The market value of Paramount's financial portfolio following completion of the Sale Transaction is estimated to be approximately $1.2 billion, based on market prices as of August 4, 2016.

Pro forma the Sale Transaction, Paramount's June 30, 2016 net debt would be reduced to approximately $300 million.

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 $34.7 million was incurred as of June 30, 2016.

At August 2, 2016, Paramount had 106,253,615 Common Shares and 2,479,740 Paramount Options outstanding, of which 500,740 Paramount Options are exercisable.

QUARTERLY INFORMATION

	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	73.6	91.2	91.3	110.7	94.6	80.2	99.4	84.4
Funds flow from operations	(4.9)	22.4	21.0	36.9	19.6	15.7	41.6	36.4
Per share – basic and diluted ($/share)	*(0.05)*	*0.21*	*0.20*	*0.35*	*0.19*	*0.15*	*0.40*	*0.35*
Net loss	(30.6)	(46.0)	(599.0)	(171.8)	(60.2)	(70.3)	(106.5)	(9.4)
Per share – basic & diluted ($/share)	*(0.29)*	*(0.43)*	*(5.64)*	*(1.62)*	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*
Sales volumes								
Natural gas (MMcf/d)	129.8	153.9	157.8	181.8	154.4	148.6	143.9	93.6
Condensate and oil (Bbl/d)	9,490	13,245	9,991	10,214	7,595	6,583	5,320	4,690
Other NGLs (Bbl/d)	9,764	11,259	9,175	9,483	9,282	6,968	5,123	1,643
Total (Boe/d)	40,890	50,161	45,466	49,990	42,604	38,317	34,430	21,936
Average realized price								
Natural gas ($/Mcf)	1.49	2.09	2.57	3.01	2.74	2.99	3.98	4.43
Condensate and oil ($/Bbl)	52.83	42.28	46.60	52.43	65.66	48.16	68.45	92.66
Other NGLs ($/Bbl)	11.19	10.31	12.59	11.42	12.18	16.43	26.64	32.87
Total ($/Boe)	19.79	19.98	21.82	24.07	24.40	23.26	31.37	41.80

Significant Items Impacting Quarterly Results

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

- Second quarter 2016 earnings include a $131.8 million gain on the sale of oil and gas assets primarily in respect of the Midstream Transaction, partially offset by $17.7 million of share-based compensation expense.

- First quarter 2016 earnings include a foreign exchange gain of $40.3 million and a $13.7 million gain on commodity contracts.
- Fourth quarter 2015 earnings include $241.5 million of aggregate impairment write-downs of property, plant and equipment, $184.1 million of impairment write-offs of exploration and evaluation assets and deferred tax 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 assets, 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 assets.
- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of oil and gas assets 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.

OTHER INFORMATION

Contractual Obligations

Paramount had the following contractual obligations at June 30, 2016:

	Within 1 year	After one year but not more than three years	After three years but not more than five years	More than five years	Total
Fox Drilling Facility (1)	14	35	15	–	64
Facility (1)	10	226	–	–	236
Senior notes (1)	75	149	545	666	1,435
Transportation and processing commitments (2) (3)	147	384	424	1,908	2,863
Asset retirement obligations	3	11	60	183	257
Operating leases and other	6	10	7	2	25
	255	815	1,051	2,759	4,880

(1) Including interest.
(2) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $34.0 million at June 30, 2016 (December 31, 2015 - $104.6 million).
(3) Includes commitments related to the Musreau/Kakwa Agreements that will be assumed by Seven Generations upon closing of the Sale Transaction.

Transportation and processing commitments mainly relate to long-term firm service arrangements for the processing of natural gas, the transportation of natural gas and Liquids, and downstream processing of Other NGLs.

CHANGE IN ACCOUNTING POLICIES

There were no new accounting standards adopted by the Company for the six months ended June 30, 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 and six months ended June 30, 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:

- the anticipated closing date of the Sale Transaction;
- the total value of the consideration to be received by Paramount for the Musreau/Kakwa Assets;
- Paramount's assets and projected production and land holdings following the completion of the Sale Transaction;
- The estimated value, based on current market prices, of Paramount's financial portfolio (including Seven Generations shares) following the closing of the Sale Transaction;
- the processing and transportation commitments that will be assigned to Seven Generations if the Sale Transaction is completed;
- the New Facility that will be available to Paramount upon completion of the Sale Transaction and the terms thereof;
- the anticipated benefits of the Sale Transaction to Paramount and its shareholders;
- Paramount's reduced indebtedness and increased financial flexibility following the Sale Transaction;
- the conditional consent solicitation with respect to the 2019 Notes, the redemption of non-consenting holders and related matters;
- Paramount's business plans and strategy following the Sale Transaction, including its planned capital spending for the remainder of 2016; 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:

- the terms of the Sale Transaction and the other matters disclosed herein in relation to the Sale Transaction;

- the timely receipt of shareholder and regulatory approvals for the completion of the Sale Transaction;
- the scope and effect of the expected benefits from the Sale Transaction;
- applicable post-closing adjustments in relation to the Sale Transaction;
- future natural gas and Liquids prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- the ability of Paramount to market its natural gas and Liquids successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions, Liquids yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

- the Sale Transaction and the other matters disclosed herein in relation to the Sale Transaction will not be completed on the terms anticipated or at all;
- the conditions to the completion of the Sale Transaction not being satisfied;
- the expected benefits of the Sale Transaction not being realized;
- 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 and six months ended June 30, 2016 of $1.0 million and $2.2 million, respectively (2015 - $1.1 million and $2.6 million, respectively), which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment, and excludes land acquisitions and capitalized interest. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on wells and infrastructure projects separate from land acquisition activity and capitalized interest. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis for the period. **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		Natural Gas	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids	GJ	Gigajoule
Condensate	Pentane and heavier hydrocarbons	MMbtu	Millions of British thermal units

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 six months ended June 30, 2016, the value ratio between crude oil and natural gas was approximately 30:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Paramount resources ltd.

Interim Condensed Consolidated Financial Statements (Unaudited)
June 30, 2016

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
($ thousands)

As at	Note	June 30 2016	December 31 2015
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents		11,620	11,941
Accounts receivable		36,663	48,730
Prepaid expenses and other		5,195	5,049
Risk management	14	17,852	40,207
		71,330	105,927
Exploration and evaluation	3	388,878	363,724
Property, plant and equipment, net	4	1,465,324	2,034,353
Equity-accounted investments	5	49,621	58,370
Investments in securities	6	57,405	60,714
Deferred income tax		122,427	154,823
Goodwill		3,124	3,124
		2,158,109	2,781,035
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Limited-recourse demand facilities	7	58,710	100,911
Accounts payable and accrued liabilities		100,318	107,624
		159,028	208,535
Long-term debt	8	1,244,571	1,750,226
Asset retirement obligations	9	256,335	273,580
		1,659,934	2,232,341
Commitments	16		
Shareholders' equity			
Share capital	10	1,647,207	1,646,984
Accumulated deficit		(1,274,154)	(1,197,627)
Reserves	11	125,122	99,337
		498,175	548,694
		2,158,109	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)

	Note	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Petroleum and natural gas sales		73,634	94,596	164,823	174,805
Royalties		764	(1,406)	(2,076)	(4,543)
Revenue		74,398	93,190	162,747	170,262
Gain (loss) on commodity contracts		(9,597)	(5,114)	4,130	(5,114)
		64,801	88,076	166,877	165,148
Expenses					
Operating expense		36,850	22,510	61,095	40,995
Transportation and NGLs processing		19,863	16,397	39,495	29,937
General and administrative		6,956	7,275	15,341	13,690
Share-based compensation	12	17,737	6,519	22,743	11,246
Depletion and depreciation		75,507	82,867	164,292	160,295
Exploration and evaluation	3	1,779	3,576	4,224	8,281
(Gain) loss on sale of oil and gas assets		(131,806)	188	(130,995)	9,055
Interest and financing		26,967	28,026	57,054	51,770
Accretion of asset retirement obligations	9	1,256	1,426	2,612	2,839
Foreign exchange		1,888	(1,228)	(38,399)	(1,111)
Debt extinguishment		–	11,994	–	11,994
		56,997	179,550	197,462	338,991
Loss from equity-accounted investments	5	(4,441)	(4,081)	(8,749)	(7,569)
Write-down of investments in securities		(891)	(3,217)	(6,493)	(4,616)
Other income (loss)		(352)	121	(887)	390
Income (loss) before tax		2,120	(98,651)	(46,714)	(185,638)
Income tax expense (recovery)	13				
Current		–	(3)	–	11
Deferred		32,680	(38,460)	29,813	(55,158)
		32,680	(38,463)	29,813	(55,147)
Net loss		(30,560)	(60,188)	(76,527)	(130,491)
Other comprehensive income (loss), net of tax					
Items that may be reclassified to net loss:					
Change in market value of securities		1,093	745	(3,308)	13,593
Reclassification of accumulated losses on securities to net loss		891	3,217	6,493	4,616
Deferred tax on other comprehensive income related to securities		–	(133)	–	(1,453)
Comprehensive loss		(28,576)	(56,359)	(73,342)	(113,735)
Net loss per common share ($/share)	10				
Basic and diluted		(0.29)	(0.57)	(0.72)	(1.24)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

	Note	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Operating activities					
Net loss		(30,560)	(60,188)	(76,527)	(130,491)
Add (deduct):					
Items not involving cash	15	24,646	66,674	91,868	151,251
Asset retirement obligations settled	9	(143)	(629)	(616)	(3,138)
Debt extinguishment		–	11,994	–	11,994
Change in non-cash working capital		(14,797)	5,439	27,686	7,834
Cash from (used in) operating activities		(20,854)	23,290	42,411	37,450
Financing activities					
Net draw (repayment) of limited-recourse demand facilities	7	(41,972)	729	(42,201)	12,099
Net draw (repayment) of revolving long-term debt	8	(459,169)	80,778	(471,016)	302,466
Proceeds from US Senior Notes, net of issue costs		–	549,775	–	549,775
Redemption of 2017 Senior Notes		–	(380,175)	–	(380,175)
Common shares issued, net of issue costs		81	41,127	81	41,817
Common shares purchased under stock incentive plan		–	(316)	–	(316)
Cash from (used in) financing activities		(501,060)	291,918	(513,136)	525,666
Investing activities					
Property, plant and equipment and exploration		(40,436)	(100,381)	(75,314)	(322,577)
Proceeds on sale of oil and gas assets		564,078	–	564,917	5,455
Change in non-cash working capital		(8,393)	(99,533)	(18,792)	(124,673)
Cash from (used in) investing activities		515,249	(199,914)	470,811	(441,795)
Net increase (decrease)		(6,665)	115,294	86	121,321
Foreign exchange on cash and cash equivalents		(15)	352	(407)	1,367
Cash and cash equivalents, beginning of period		18,300	25,362	11,941	18,320
Cash and cash equivalents, end of period		11,620	141,008	11,620	141,008

Supplemental cash flow information 15

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
($ thousands, except as noted)

Six months ended June 30	Note	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		*10*	113	*1,337*	43,175
Change in vested and unvested common shares for stock incentive plan		*19*	110	32	216
Balance, end of period		*106,241*	1,647,207	*106,212*	1,646,827
Accumulated Deficit					
Balance, beginning of period			(1,197,627)		(296,326)
Net loss			(76,527)		(130,491)
Balance, end of period			(1,274,154)		(426,817)
Reserves	11				
Balance, beginning of period			99,337		46,172
Other comprehensive income			3,185		16,756
Contributed surplus			22,600		5,400
Balance, end of period			125,122		68,328
Total Shareholders' Equity			498,175		1,288,338

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 and six months ended June 30, 2016 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 4, 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 which are stated at fair value. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. 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 six months ended June 30, 2016. A description of accounting standards that will be effective in the future is included in the notes to the Company's Annual Financial Statements.

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

2. Segmented Information

Three months ended June 30, 2016	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	74,398	–	–	–	74,398
Loss on financial commodity contracts	(9,597)	–	–	–	(9,597)
	64,801	–	–	–	64,801
Expenses					
Operating expense	36,850	–	–	–	36,850
Transportation and NGLs processing	19,863	–	–	–	19,863
General and administrative	–	1,592	5,364	–	6,956
Share-based compensation	–	3,472	14,265	–	17,737
Depletion and depreciation	72,353	4,006	216	(1,068)	75,507
Exploration and evaluation	1,570	209	–	–	1,779
Gain on sale of oil and gas assets	(131,806)	–	–	–	(131,806)
Interest and financing	–	1,034	25,933	–	26,967
Accretion of asset retirement obligations	1,164	92	–	–	1,256
Foreign exchange	–	–	1,888	–	1,888
	(6)	10,405	47,666	(1,068)	56,997
Loss from equity-accounted investments	–	(4,441)	–	–	(4,441)
Write-down of investments in securities	–	(891)	–	–	(891)
Other	(106)	–	–	–	(106)
Drilling rig revenue	–	7,296	–	(7,296)	–
Drilling rig expense	–	(2,617)	–	2,371	(246)
	64,701	(11,058)	(47,666)	(3,857)	2,120
Inter-segment eliminations	–	(3,857)	–	3,857	–
Segment income (loss)	64,701	(14,915)	(47,666)	–	2,120
Income tax expense					(32,680)
Net loss					(30,560)

Three months ended June 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	93,190	–	–	–	93,190
Loss on financial commodity contracts	(5,114)	–	–	–	(5,114)
	88,076	–	–	–	88,076
Expenses					
Operating expense	22,510	–	–	–	22,510
Transportation and NGLs processing	16,397	–	–	–	16,397
General and administrative	–	1,444	5,831	–	7,275
Share-based compensation	–	1,796	4,723	–	6,519
Depletion and depreciation	82,667	1,184	85	(1,069)	82,867
Exploration and evaluation	3,484	92	–	–	3,576
(Gain) loss on sale of oil and gas assets	320	(132)	–	–	188
Interest and financing	–	545	27,481	–	28,026
Accretion of asset retirement obligations	1,339	87	–	–	1,426
Foreign exchange	–	–	(1,228)	–	(1,228)
Debt extinguishment	–	–	11,994	–	11,994
	126,717	5,016	48,886	(1,069)	179,550
Loss from equity-accounted investments	–	(4,081)	–	–	(4,081)
Write-down of investments in securities	–	(3,217)	–	–	(3,217)
Other	178	–	58	–	236
Drilling rig revenue	–	3,924	–	(3,924)	–
Drilling rig expense	–	(2,514)	–	2,399	(115)
	(38,463)	(10,904)	(48,828)	(456)	(98,651)
Inter-segment eliminations	–	(456)	–	456	–
Segment loss	(38,463)	(11,360)	(48,828)	–	(98,651)
Income tax recovery					38,463
Net loss					(60,188)

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

Six months ended June 30, 2016	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	162,747	–	–	–	162,747
Gain on financial commodity contracts	4,130	–	–	–	4,130
	166,877	–	–	–	166,877
Expenses					
Operating expense	61,095	–	–	–	61,095
Transportation and NGLs processing	39,495	–	–	–	39,495
General and administrative	–	3,290	12,051	–	15,341
Share-based compensation	–	4,800	17,943	–	22,743
Depletion and depreciation	160,871	4,101	388	(1,068)	164,292
Exploration and evaluation	3,880	344	–	–	4,224
Gain on sale of oil and gas assets	(130,975)	(20)	–	–	(130,995)
Interest and financing	–	2,035	55,019	–	57,054
Accretion of asset retirement obligations	2,429	183	–	–	2,612
Foreign exchange	–	–	(38,399)	–	(38,399)
	136,795	14,733	47,002	(1,068)	197,462
Loss from equity-accounted investments	–	(8,749)	–	–	(8,749)
Write-down of investments in securities	–	(6,493)	–	–	(6,493)
Other	(40)	–	–	–	(40)
Drilling rig revenue	–	8,916	–	(8,916)	–
Drilling rig expense	–	(3,218)	–	2,371	(847)
	30,042	(24,277)	(47,002)	(5,477)	(46,714)
Inter-segment eliminations	–	(5,477)	–	5,477	–
Segment income (loss)	30,042	(29,754)	(47,002)	–	(46,714)
Income tax expense					(29,813)
Net loss					(76,527)

Six months ended June 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	170,262	–	–	–	170,262
Loss on financial commodity contracts	(5,114)	–	–	–	(5,114)
	165,148	–	–	–	165,148
Expenses					
Operating expense	40,995	–	–	–	40,995
Transportation and NGLs processing	29,937	–	–	–	29,937
General and administrative	–	2,691	10,999	–	13,690
Share-based compensation	–	4,053	7,193	–	11,246
Depletion and depreciation	159,664	3,761	158	(3,288)	160,295
Exploration and evaluation	7,699	582	–	–	8,281
(Gain) loss on sale of oil and gas assets	9,187	(132)	–	–	9,055
Interest and financing	–	1,110	50,660	–	51,770
Accretion of asset retirement obligations	2,752	87	–	–	2,839
Foreign exchange	–	–	(1,111)	–	(1,111)
Debt extinguishment	–	–	11,994	–	11,994
	250,234	12,152	79,893	(3,288)	338,991
Loss from equity-accounted investments	–	(7,569)	–	–	(7,569)
Write-down of investments in securities	–	(4,616)	–	–	(4,616)
Other	164	–	115	–	279
Drilling rig revenue	–	14,436	–	(13,999)	437
Drilling rig expense	–	(7,688)	–	7,362	(326)
	(84,922)	(17,589)	(79,778)	(3,349)	(185,638)
Inter-segment eliminations	–	(3,349)	–	3,349	–
Segment loss	(84,922)	(20,938)	(79,778)	–	(185,638)
Income tax recovery					55,147
Net loss					(130,491)

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

3. Exploration and Evaluation

	Six months ended June 30, 2016	Twelve months ended December 31, 2015
Balance, beginning of period	363,724	567,420
Additions	30,802	93,411
Change in asset retirement provision	–	2,550
Transfers to property, plant and equipment	(3,076)	(112,000)
Dry hole	35	(15,019)
Expired lease costs	(2,078)	(3,728)
Write-downs	–	(162,516)
Dispositions	(529)	(6,394)
Balance, end of period	388,878	363,724

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Geological and geophysical	1,019	1,125	2,181	2,555
Dry hole	9	(292)	(35)	2,186
Expired lease costs	751	2,743	2,078	3,540
	1,779	3,576	4,224	8,281

4. Property, Plant and Equipment

Six months ended June 30, 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	45,778	827	903	47,508
Transfers from exploration and evaluation	3,076	–	–	3,076
Dispositions	(498,987)	–	(61)	(499,048)
Change in asset retirement provision	2,051	–	–	2,051
Cost, June 30, 2016	3,207,874	155,934	30,008	3,393,816
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2015	(1,741,988)	(42,677)	(21,211)	(1,805,876)
Depletion and depreciation	(159,862)	(5,637)	(551)	(166,050)
Dispositions	43,373	–	61	43,434
Accumulated depletion, depreciation and write-downs, June 30, 2016	(1,858,477)	(48,314)	(21,701)	(1,928,492)
Net book value, December 31, 2015	1,913,968	112,430	7,955	2,034,353
Net book value, June 30, 2016	1,349,397	107,620	8,307	1,465,324

Depletion and Depreciation

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Depletion and depreciation	76,754	84,435	166,050	164,521
Inter-segment eliminations	(1,247)	(1,568)	(1,758)	(4,226)
	75,507	82,867	164,292	160,295

In April 2016, Paramount closed the sale of its natural gas processing facility and related midstream assets at Musreau for net cash proceeds of $560.8 million, resulting in the recognition of a gain on sale of $125.9 million.

5. Equity-Accounted Investments

As at	June 30, 2016			December 31, 2015		
	Shares *(000's)*	Carrying Value	Market Value (1)	Shares *(000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	49,621	104,720	*19,144*	58,370	70,068

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

Loss from equity-accounted investments is comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Equity loss	(4,421)	(4,204)	(8,729)	(7,692)
Dilution gain (loss)	(20)	123	(20)	123
	(4,441)	(4,081)	(8,749)	(7,569)

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

As at June 30	2016	2015
Current assets	37,494	41,940
Non-current assets (1)	1,195,722	1,497,874
Current liabilities	(32,841)	(75,147)
Non-current liabilities	(806,071)	(933,978)
Equity (1)	394,304	530,689
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	59,880	80,554
Less: portion of share-based compensation recorded in equity of Trilogy	(10,259)	(8,244)
Carrying value of Paramount's investment	49,621	72,310

(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 June 30, 2016 totaled $1,200.4 million (2015 – $1,500.1 million) and equity totaled $399.0 million (2015 - $532.9 million).

Six months ended June 30	2016	2015
Revenue	78,430	153,326
Comprehensive loss (1)	(57,471)	(50,624)
Paramount's share of Trilogy's comprehensive loss	(8,729)	(7,692)

(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 six months ended June 30, 2016 was $56.7 million (2015 – comprehensive loss $47.5 million).

Trilogy had 4.7 million stock options outstanding (1.6 million exercisable) at June 30, 2016 at exercise prices ranging from $4.49 to $26.87 per share.

6. Investments in Securities

As at	June 30, 2016		December 31, 2015	
	Shares (000's)	Market Value	*Shares (000's)*	Market Value
MEG Energy Corp.	3,700	25,049	3,700	29,674
Privateco		18,675		18,675
Other (1)		13,681		12,365
		57,405		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-to-time (level two fair value hierarchy inputs).

For the six months ended June 30, 2016 aggregate unrealized losses of $6.5 million related to the Company's investments in MEG Energy Corp., Marquee Energy Ltd., and other securities previously recorded in other comprehensive loss were charged to net earnings as a result of significant decreases in the market prices of the securities. For the six months ended June 30, 2015 aggregate unrealized losses of $4.6 million related to the Company's investments in RMP Energy Inc., Strategic Oil & Gas Ltd. and other securities previously recorded in other comprehensive loss were charged to net earnings.

7. Limited-Recourse Demand Facilities

As at	June 30 2016	December 31 2015
Fox Drilling Facility	58,710	63,380
Cavalier Facility	–	37,531
	58,710	100,911

In June 2016, the Cavalier Facility was repaid and cancelled.

8. Long-Term Debt

As at	June 30 2016	December 31 2015
Bank credit facility	217,916	693,045
7⅝% Senior Notes due 2019 ("2019 Senior Notes")	450,000	450,000
6⅞% US Senior Notes due 2023 ("2023 Senior Notes")	585,405	622,800
Finance lease obligations	5,576	–
	1,258,897	1,765,845
Unamortized financing costs, net of premiums	(14,326)	(15,619)
	1,244,571	1,750,226

In June 2016, the annual renewal of the Company's bank credit facility (the "Facility") was completed. Commitments under the Facility are $350 million, with a scheduled step-down to $300 million on the earlier of October 31, 2016, or the occurrence of certain events that generate additional liquidity. Earlier in 2016, the Company cancelled Tranche B of the Facility, which had never been drawn.

The borrowing base governs the maximum amount which can be drawn under the Facility. The Lenders have the right to review and re-determine Paramount's borrowing base on a semi-annual basis and more frequently in certain other circumstances. The borrowing base amount is based on the Company's reserves, the Lenders' projections of future commodity prices and the value attributed by the Lenders to Paramount's equity investments and other assets, among other factors.

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

The revolving period of the Facility ends on April 28, 2017. In the event the revolving period is not extended, any undrawn availability would be cancelled and all amounts then outstanding would be permitted to remaining outstanding on a non-revolving basis until April 28, 2018, the maturity date of the Facility.

Borrowings under the Facility bear interest at the Lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio and the total amount drawn. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the assets of Cavalier.

Paramount continues to have no financial maintenance covenants under the terms of the Facility or the senior notes. The agreements include certain standard restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets and pay dividends.

At June 30, 2016, $217.9 million was drawn on the Facility. In addition, Paramount had undrawn letters of credit outstanding totaling $49.1 million that reduce the amount available to be drawn on the Facility.

At June 30, 2016, the 2019 Senior Notes had a market value of 88.0 percent of their principal amount (December 31, 2015 – 82.0 percent). The 2023 Senior Notes had a market value of 78.0 percent of their principal amount at June 30, 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.

9. Asset Retirement Obligations

	Six months ended June 30, 2016	Twelve months ended December 31, 2015
Asset retirement obligations, beginning of period	273,580	287,415
Retirement obligations incurred	245	5,010
Revisions to estimated retirement costs	1,806	(18,791)
Obligations settled	(616)	(6,641)
Dispositions	(21,292)	(119)
Assumed on corporate acquisition	–	1,011
Accretion expense	2,612	5,695
Asset retirement obligations, end of period	256,335	273,580

Asset retirement obligations at June 30, 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).

10. Share Capital

At June 30, 2016, 106,241,030 (December 31, 2015 – 106,212,487) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 2,865 (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 $34.7 million was incurred as of June 30, 2016.

Weighted Average Common Shares

Three months ended June 30	2016		2015	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net loss
Net loss – basic	*106,231*	(30,560)	*105,891*	(60,188)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	*106,231*	(30,560)	*105,891*	(60,188)

Six months ended June 30	2016		2015	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net loss
Net loss – basic	*106,222*	(76,527)	*105,382*	(130,491)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	*106,222*	(76,527)	*105,382*	(130,491)

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 2.4 million Paramount Options outstanding at June 30, 2016 (June 30, 2015 – 7.4 million), all of which were anti-dilutive.

11. Reserves

Reserves at June 30, 2016 include unrealized gains and losses related to changes in the market value of the Company's investments in securities classified as available for sale 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	3,185	–	3,185
Share-based compensation	–	22,633	22,633
Stock options exercised	–	(33)	(33)
Balance, June 30, 2016	11,822	113,300	125,122

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

12. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Six months ended June 30, 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	(9,900)	8.17	(435,950)	13.69
Cancelled	(6,227,300)	35.41	–	–
Forfeited	(117,640)	24.38	(291,000)	40.52
Expired	(894,450)	29.59	(4,250)	25.85
Balance, end of period	2,434,460	8.60	7,238,650	34.66
Options exercisable, end of period	502,460	9.42	3,991,050	34.85

Share-based compensation expense includes $13.8 million related to options cancelled in June 2016.

The weighted average remaining contractual life and exercise prices of Paramount Options outstanding as of June 30, 2016 are as follows:

	Awards Outstanding		
	Number	Remaining contractual life (years)	Weighted average exercise price
$8.17	2,388,460	3.8	8.17
$8.18 - $40.09	46,000	1.0	30.74
	2,434,460	3.8	8.60

The grant date fair value of Paramount Options was estimated using the Black-Scholes-Merton model incorporating the following weighted average inputs:

	Options awarded in 2016	Options awarded in 2015
Weighted average exercise price ($ / share)	8.17	33.43
Expected volatility (%)	61.8	41.9
Expected life of share options (years)	3.5	2.1
Pre-vest annual forfeiture rate (%)	4.7	3.7
Risk-free interest rate (%)	0.6	0.6
Expected dividend yield (%)	nil	nil
Weighted average fair value of awards per share ($ / share)	3.56	8.02

The estimated expected life of Paramount Options is based on historical exercise patterns. The expected volatility is estimated based on the historical volatility of the trading price of the Company's Common Shares over the most recent period that is generally commensurate with the expected term of the option.

Stock Incentive Plan – Shares Held in Trust

	Six months ended June 30, 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	*(19)*	(110)	*(41)*	(689)
Balance, end of period	*3*	25	*22*	135

13. Income Tax

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Income (loss) before tax	2,120	(98,651)	(46,714)	(185,638)
Effective Canadian statutory income tax rate	27.0%	26.9%	27.0%	26.0%
Expected income tax expense (recovery)	572	(26,519)	(12,613)	(48,266)
Effect on income taxes of:				
Statutory and other rate differences	203	(15,727)	267	(15,435)
Gain on sale of oil and gas assets	(13,448)	–	(13,448)	–
Loss from equity-accounted investments	1,199	1,096	2,362	1,968
Write-down of investments in securities	240	850	1,752	1,200
Change in unrecognized deferred income tax asset	38,439	–	55,168	–
Flow-through share renunciations	251	–	1,290	956
Share-based compensation	4,781	1,727	6,111	3,528
Unrealized foreign exchange on US Senior Notes	464	–	(10,087)	–
Non-deductible items and other	(21)	110	(989)	902
Income tax expense (recovery)	32,680	(38,463)	29,813	(55,147)

14. Financial Instruments and Risk Management

The Company had the following financial commodity contracts in place at June 30, 2016:

Instruments	Total notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$75.72/Bbl	12,763	July 2016 – December 2016
Oil – NYMEX WTI Swap (Purchase)	2,000 Bbl/d	CDN$50.64/Bbl	5,089	July 2016 – December 2016
			17,852	

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.

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

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

	Six months ended June 30, 2016	Twelve months ended December 31, 2015
Fair value, beginning of period	40,207	–
Changes in fair value	4,130	55,215
Settlements received	(26,485)	(15,008)
Fair value, end of period	17,852	40,207

15. Consolidated Statement of Cash Flows – Selected Information

Items Not Involving Cash

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Commodity contracts	20,330	5,114	22,355	5,114
Share-based compensation	17,737	6,519	22,743	11,246
Depletion and depreciation	75,507	82,867	164,292	160,295
Exploration and evaluation	760	2,451	2,043	5,726
(Gain) loss on sale of oil and gas assets	(131,806)	188	(130,995)	9,055
Accretion of asset retirement obligations	1,256	1,426	2,612	2,839
Foreign exchange	1,769	(1,272)	(37,966)	(1,018)
Loss from equity-accounted investments	4,441	4,081	8,749	7,569
Write-down of investments in securities	891	3,217	6,493	4,616
Deferred income tax	32,680	(38,460)	29,813	(55,158)
Other	1,081	543	1,729	967
	24,646	66,674	91,868	151,251

Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest paid	42,298	42,551	50,305	51,959
Current tax refunded	–	–	–	(10)

16. Commitments

Paramount had the following commitments as at June 30, 2016:

	Within one year	After one year but not more than five years	More than five years
Petroleum and natural gas transportation and processing commitments (1)	147,499	808,425	1,908,417
Operating leases and other	5,464	17,414	2,188
	152,963	825,839	1,910,605

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $34.0 million at June 30, 2016 (December 31, 2015 – $104.6 million).

17. Subsequent Events

In July 2016, Paramount entered into an agreement to sell the majority of its Deep Basin oil and gas properties in the Musreau/Kakwa area of west Central Alberta (the "Musreau/Kakwa Assets") to Seven Generations Energy Ltd. ("Seven Generations") for total consideration of approximately $1.9 billion, subject to customary closing adjustments (the "Sale Transaction"). Consideration will be comprised of: (i) $475 million in cash; (ii) 33.5 million class A common shares of Seven Generations (having a value of approximately $837 million based on the 10 day VWAP of the Seven Generations shares on the day immediately prior to announcement of the Sale Transaction), (iii) the assumption by Seven Generations of all US$450 million principal amount of the Company’s 2023 Senior Notes; and (iv) certain oil and gas properties of Seven Generations valued at approximately $6 million. In connection with the Sale Transaction, Seven Generations will also assume Paramount’s processing and transportation commitments relating to the Musreau/Kakwa Assets.

The Sale Transaction is expected to close in August 2016, subject to approval of Paramount’s shareholders, the receipt of regulatory approvals and satisfaction of other customary closing conditions.

The Musreau/Kakwa Assets are included in the Company’s Principal Properties business segment.

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

M. Ockenden
V.P. Corporate Planning

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

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

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T. E. Claugus (4)
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D. Jungé C.F.A. (2) (4)
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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
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(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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Alberta Treasury Branches
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Barclays Bank PLC
Toronto, Ontario

Caisse centrale Desjardins
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Business Development Bank of Canada
Calgary, Alberta

Wells Fargo Bank, N.A.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)