SECOND QUARTER OVERVIEW

Oil and Gas Operations

- Second quarter sales volumes exceeded guidance, averaging 20,585 Boe/d. Shorter than expected facility downtime in the Kaybob COU enabled new condensate-rich Montney wells to be brought on in place of leaner wells.
- First sales gas from the Musreau Deep Cut Facility is imminent. The facility is pressurized with natural gas, all of the systems have been successfully operated, and the Company expects to begin cooling the facility to operating temperatures imminently, with first sales to immediately follow.
- Paramount's sales volumes are expected to more than double to approximately 50,000 Boe/d later in 2014 and increase to approximately 70,000 Boe/d in 2015.
- The Company is expanding its Montney drilling program in the Kaybob area and has sanctioned the construction of two new 100 MMcf/d refrigeration plants to provide incremental processing capacity. The first new plant is scheduled to be on-stream in the second half of 2016 and the second new plant approximately six months later.
- Paramount's walking drilling rigs have finished drilling one 10-well Montney pad and the second 10-well pad will be finished in early-August.
- The Company has drilled and completed its first horizontal Duvernay well in the Willesden Green area of Alberta. The Company has also entered into a joint venture agreement that will increase its Willesden Green Duvernay land position to 86 (43 net) sections.
- In June 2014, Paramount received approximately $91.5 million cash from the sale of a 50 percent interest in its Birch property.

Strategic Investments

- Cavalier Energy received regulatory approval for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids development and has expanded its land base, acquiring approximately 23 net sections of undeveloped land at Hoole, contiguous with its Hoole lands, for $20 million.
- Fox Drilling has commenced the construction of two new walking rigs to support the Company's expanded drilling program.
- In June, Paramount completed the acquisition of all of the outstanding common shares of MGM Energy Corp. that it did not already own in exchange for 1.1 million Common Shares of Paramount.

Corporate

- Based on the results of Paramount's Deep Basin development programs, the Company's bank credit facility (the "Facility") was increased from $600 million to $700 million following a scheduled mid-year review. As of July 31, 2014, $78.7 million was drawn on the Facility.
- The Company raised gross proceeds of $350.4 million through the issuance of 5.6 million Common Shares in July 2014.

FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2014	2013	% Change	2014	2013 [2]	% Change
FINANCIAL						
Petroleum and natural gas sales	**80.0**	59.4	35	**166.2**	120.8	38
Funds flow from operations	**29.5**	22.3	32	**63.0**	38.8	62
Per share – diluted ($/share)	*0.30*	*0.24*		*0.64*	*0.42*	
Net income (loss)	**53.1**	(22.1)	340	**44.2**	(21.8)	303
Per share – diluted ($/share)	*0.53*	*(0.24)*		*0.45*	*(0.24)*	
Exploration and development expenditures	**202.6**	94.0	116	**375.6**	239.2	57
Investments in other entities – market value [3]				**757.4**	759.1	—
Total assets				**2,870.0**	2,084.4	38
Net debt				**1,356.2**	803.3	69
Common shares outstanding (thousands)				**99,047**	95,375	4
OPERATING						
Sales volumes						
Natural gas (MMcf/d)	**99.4**	107.6	(8)	**102.0**	110.6	(8)
NGLs (Bbl/d)	**3,292**	2,126	55	**3,186**	2,392	33
Oil (Bbl/d)	**730**	722	1	**615**	859	(28)
Total (Boe/d)	**20,585**	20,790	(1)	**20,805**	21,685	(4)
Average realized price						
Natural gas ($/Mcf)	**4.96**	3.97	25	**5.51**	3.71	49
NGLs ($/Bbl)	**91.22**	71.84	27	**89.18**	72.90	22
Oil ($/Bbl)	**105.27**	85.98	22	**101.76**	85.05	20
Total ($/Boe)	**42.72**	31.41	36	**44.15**	30.76	44
Operating expense ($/Boe)	**8.82**	8.46	4	**9.29**	9.35	(1)
Netback ($/Boe)	**28.71**	19.99	44	**29.06**	17.55	66
Net wells drilled (excl. oil sands evaluation)	**22**	6	267	**34**	15	127
Net oil sands evaluation wells	**—**	—	—	**—**	6	(100)

[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] Amounts include the results of discontinued operations. Refer to Management's Discussion and Analysis for the three and six months ended June 30, 2014.
[3] Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.

Forward-Looking Statements and Information

This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the three and six months ended June 30, 2014 contained herein which also includes supplemental advisories related to additional information included in this document.

REVIEW OF OPERATIONS

	Second Quarter 2014		First Quarter 2014		% Change
Sales Volumes					
Natural gas (MMcf/d)	99.4		104.7		(5)
NGLs (Bbl/d)	3,292		3,079		7
Oil (Bbl/d)	730		500		46
Total (Boe/d)	20,585		21,028		(2)
Netback ($ millions) [(1)]		($/Boe) [(2)]		($/Boe) [(2)]	% Change in $mm
Natural gas revenue	44.9	4.96	56.9	6.04	(21)
NGLs revenue	27.3	91.22	24.1	86.97	13
Oil revenue	7.0	105.27	4.3	96.56	63
Royalty and sulphur revenue	0.8	—	0.9	—	(11)
Petroleum and natural gas sales	80.0	42.72	86.2	45.56	(7)
Royalties	(3.7)	(1.98)	(5.6)	(2.97)	(34)
Operating expense	(16.5)	(8.82)	(18.4)	(9.75)	(10)
Transportation	(6.0)	(3.21)	(6.5)	(3.44)	(8)
Netback	53.8	28.71	55.7	29.40	(3)

(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) Natural gas revenue shown per Mcf.

Paramount's second quarter sales volumes averaged 20,585 Boe/d, above guidance of 17,500 Boe/d to 20,000 Boe/d, because of production from new condensate-rich Montney wells in the Kaybob COU. Downtime in the Musreau area associated with commissioning activities for the 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") was shorter than anticipated, enabling the Kaybob COU to bring-on new Montney wells at restricted flow rates in May and June in place of leaner Cretaceous wells. In addition, the planned June shut-down of the non-operated Smoky facility to integrate its new deep cut expansion was deferred until July, which allowed the Company to maintain production at Smoky and Resthaven throughout the second quarter.

Petroleum and natural gas sales in the second quarter totaled $80.0 million, $6.2 million lower than the first quarter, mainly because of an 18 percent decrease in realized natural gas prices as demand for natural gas subsided with warmer spring weather. Partially offsetting the lower natural gas revenues, liquids revenues increased $5.9 million mainly due to higher condensate sales volumes and prices. The Company's second quarter netback decreased $1.9 million from the first quarter, as the impact of lower revenues was moderated by lower operating expenses and royalties.

First sales gas from the Musreau Deep Cut Facility is imminent. Commissioning was completed at the end of June and the facility was handed over to Paramount's operations team for start-up. The facility is pressurized with natural gas, all of the systems have been successfully operated, and the Company expects to begin cooling the facility to operating temperatures imminently, with first sales to immediately follow. The Company expects to more than double sales volumes to reach approximately 50,000 Boe/d later in 2014 and more than triple its sales volumes to approximately 70,000 Boe/d in 2015 as additional components of the Company's Kaybob area infrastructure are completed and third-party de-ethanization capacity becomes available. Over the same period, Paramount's production mix is anticipated to evolve from approximately 15% liquids / 85% natural gas to approximately 45% liquids / 55% natural gas.

Kaybob	Second Quarter 2014		First Quarter 2014		% Change
Sales Volumes					
Natural gas (MMcf/d)	71.6		71.9		—
NGLs (Bbl/d)	2,139		1,360		57
Oil (Bbl/d)	20		20		—
Total (Boe/d)	14,098		13,368		5
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	79		66		20
Facilities and gathering	53		45		18
	132		111		19
	Gross	Net	Gross	Net	
Wells Drilled	18	18	5	5	

Kaybob COU sales volumes increased five percent to 14,098 Boe/d in the second quarter, as Paramount continued to maximize production through available Company-owned and third-party capacity. In the second quarter, new condensate-rich Montney wells were brought-on production at restricted flow rates in place of leaner Cretaceous wells, resulting in NGLs sales increasing to 2,139 Bbl/d, including approximately 1,900 Bbl/d of condensate.

Musreau Deep Cut Facility

Following first sales gas from the Musreau Deep Cut Facility, the Company will begin to ramp-up production from its inventory of behind-pipe wells. Initial volumes processed will mainly be from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes.

The Kaybob COU currently has condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d in the fourth quarter when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing. The Stabilizer Expansion is expected to be completed at a cost of approximately $45 million.

Site work is continuing for the amine processing train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. This project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million.

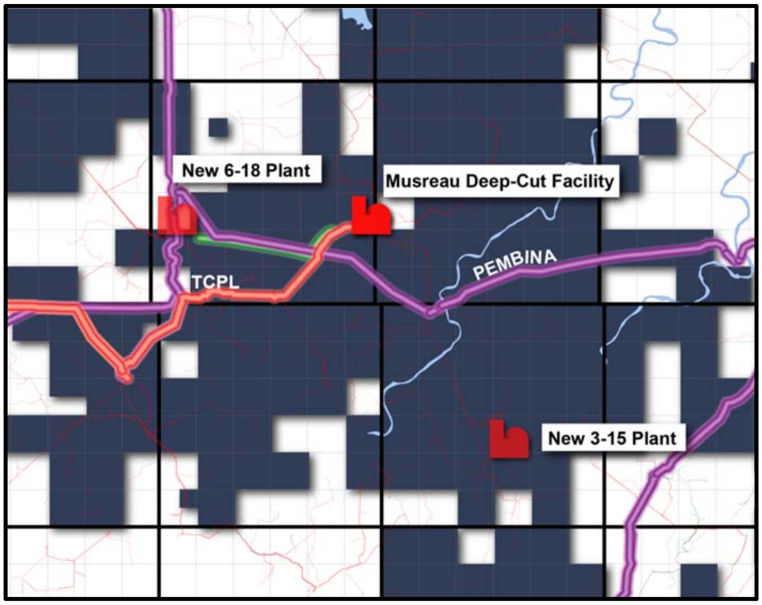
Paramount's 8-13 Musreau Complex:
45 MMcf/d Refrigeration Facility (foreground) & 200 MMcf/d Deep Cut Facility (background)

Smoky Deep Cut Facility

The deep cut expansion of the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") is scheduled to start-up in the third quarter of 2014. The Company will have a 20 percent interest in the Smoky Deep Cut Facility, which will initially have a working capacity of 200 MMcf/d (40 MMcf/d net), increasing to 300 MMcf/d (60 MMcf/d net) through the later installation of an incremental 100 MMcf/d of compression. The existing Smoky 100 MMcf/d (10 MMcf/d net) dew-point facility was shut down at the beginning of July to accommodate the integration of the new expansion.

Kaybob Area Development

The Company is expanding the development of its liquids-rich Montney lands in the Kaybob area. To provide incremental natural gas processing capacity, Paramount has sanctioned the construction of two new wholly-owned 100 MMcf/d refrigeration plants. The first new plant is scheduled to be on-stream in the second half of 2016 and the second new plant is scheduled to be on-stream approximately six months later. Paramount's total sales volumes are projected to surpass 100,000 Boe/d by the end of 2016 and 125,000 Boe/d in 2017 once the second new plant is on-stream.



Locations for new 100 MMcf/d refrigeration plants:
6-18 Plant & 3-15 Plant

The new facilities will utilize a refrigeration process to extract propane, butane and heavier hydrocarbons, leaving ethane in the gas stream to be sold as higher heat content natural gas. The plants are expected to cost approximately $180 million each, and will include an oversized condensate stabilization system, on-site natural gas power generation and an amine processing train. Each of the new plants is designed to allow for future expansions to double capacity to 200 MMcf/d. Front-end engineering and design for the new facilities is currently being finalized, and the Company plans to start placing orders for long-lead-time equipment in the third quarter. Pending regulatory approvals, construction will begin in the first half of 2015. To ensure access to downstream transportation and fractionation, Paramount has secured incremental long-term firm-service capacity for the transportation of natural gas, NGLs and condensate to be delivered from the new plants, as well as $C3^+$ fractionation capacity at Fort Saskatchewan.

Upon completion of the Company's new plants, Paramount's net owned and firm-service natural gas processing capacity in the Kaybob area will increase to approximately 500 MMcf/d, providing potential sales volumes of over 135,000 Boe/d, depending on the liquids content of the natural gas processed. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee. The Company's processing capacity and capacity under construction in the Kaybob area is shown below:

	Gross Raw Gas Capacity	Net Paramount Raw Gas Capacity	Potential Sales Volumes[1]
	(MMcf/d)	(MMcf/d)	(Boe/d)
Processing Capacity			
Musreau Deep-Cut Facility	200	200	50,000
Musreau Refrig Facility	45	45	8,500
Smoky Facility	100	10	2,500
Other Musreau area capacity	70	24	4,500
Subtotal	415	279	65,500
Capacity Under Construction			
Musreau Condensate Stabilizer Expansion	—	—	15,000
Smoky Deep-Cut Facility	200	30	7,500
6-18 Plant	100	100	25,000[2]
3-15 Plant	100	100	25,000[2]
Subtotal	400	230	72,500
Projected Total	815	509	138,000

(1) Refer to the heading "Potential Sales Volumes" in the Advisories section for further information.
(2) These volumes exclude approximately 5,000 Bbl/d of potential sales volumes that could be produced from each of the 6-18 Plant and the 3-15 Plant through their condensate stabilization systems which, once constructed, will have oversized capacity to provide operational flexibility to accommodate potential higher condensate yields and stabilization capacity for potential future expansions.

Kaybob Wells

Drilling activities in the first half of 2014 were focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands, where condensate yields are expected to be the highest.

Paramount's walking drilling rigs have finished drilling one 10-well Montney pad and the final well on the second 10-well pad will be finished in early-August. Drilling days for these pads averaged about 30 days per well, compared to an average of 41 days for Montney wells drilled in 2013. Drilling of the 5-well Montney pad is expected to be completed in the third quarter of 2014. Completion operations will commence in the next few weeks on the first 10-well Montney pad, which is planned to be tied-in by the end of the year. All 25 pad wells are expected to be on production in 2015. Each of these wells is anticipated to cost approximately $10 million to drill, complete and tie-in.

In August, one of the walking rigs will move onto a new six-well Montney pad site located to the northeast of the Musreau Deep Cut Facility, where the Company is continuing to target high-condensate yield areas. The drilling of six-well pads reduces the time from spud to initial production date compared to the larger 10-well pads, while continuing to realize the capital efficiencies of using multi-well pad sites, including minimizing mobilization and de-mobilization costs and lowering equipping and tie-in costs through the use of common facilities. These new pads have been designed with 160 meter well spacing, allowing an additional six wells to be drilled from the same pad at a later date after the commencement of production from the initial six wells. The next pad location for the second walking rig is currently being determined.

In the second quarter of 2014, Paramount made regulatory applications to increase well densities on 57 sections of its Montney lands at Musreau to 16 wells per section. Densities of ten or more wells per section per formation are anticipated to be required to achieve a resource recovery ratio of 70 percent. Having the flexibility to drill 16 wells per section will provide opportunities to reduce the horizontal spacing of wells drilled, drill higher or lower within the 200 meter thickness of the Montney formation and complete the heels of horizontal wells drilled into other sections, all of which will increase resource recoveries.

Grande Prairie

	Second Quarter 2014		First Quarter 2014		% Change
Sales Volumes					
Natural gas (MMcf/d)	22.4		22.4		—
NGLs (Bbl/d)	936		1,466		*(36)*
Oil (Bbl/d)	634		363		*75*
Total (Boe/d)	5,308		5,553		*(4)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	47		42		*12*
Facilities and gathering	11		9		*22*
	58		51		*14*
	Gross	Net	Gross	Net	
Wells Drilled	2	2	7	6	

The Grande Prairie COU achieved record sales volumes of approximately 7,700 Boe/d in April 2014, as new liquids-rich middle-Montney wells were brought on production at Karr-Gold Creek. Subsequent outages at third-party processing facilities and pipelines in May resulted in production being constrained for the remainder of the second quarter. Sales volumes for the quarter averaged 5,308 Boe/d.

The Company has secured additional long-term firm-service natural gas processing and liquids transportation capacity, which is expected to commence later in the third quarter of 2014 once third-party pipeline expansions have been completed. Access to the new third-party infrastructure will enable the Grande Prairie COU to produce its Karr-Gold Creek area wells more consistently and should lower per-unit operating costs.

In the second quarter of 2014, Paramount continued its middle-Montney development program, drilling two (2.0 net) horizontal wells and completing four (4.0 net) wells at Karr-Gold Creek. During the remainder of 2014, the Company plans to drill up to seven (5.0 net) wells, including four (4.0 net) middle-Montney wells at Karr-Gold Creek, and to complete and tie-in wells previously drilled. Access to the new third-party plant will enable the Grande Prairie COU to ramp-up Karr-Gold Creek area production from existing wells and bring new wells on-stream.

Southern and Northern

	Second Quarter 2014		First Quarter 2014		% Change
Sales Volumes					
Natural gas (MMcf/d)	5.4		10.4		*(48)*
NGLs (Bbl/d)	217		253		*(14)*
Oil (Bbl/d)	76		117		*(35)*
Total (Boe/d)	1,179		2,107		*(44)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	13		11		*18*
Facilities and gathering	—		—		—
	13		11		*18*
	Gross	Net	Gross	Net	
Wells Drilled	2	2	1	1	

Second quarter 2014 sales volumes for the Southern and Northern COUs decreased to 1,179 Boe/d because of the March 2014 sale of coal bed methane properties in the Chain-Delia area of southern Alberta.

The Company has drilled and completed its first exploratory Duvernay well in the Willesden Green area of southern Alberta. During the first half of 2014, the well was initially drilled to a vertical depth of 3,200 meters, cored and logged. Based on the encouraging results, a 2,400 meter horizontal leg was then drilled. The well was completed in July and is scheduled to be tied-in by the end of the year. By the end of 2014, Paramount expects to have drilled and completed an additional horizontal Duvernay well and to have spud its third Duvernay well in the Willesden Green area.

Paramount also entered into a joint venture agreement in the second quarter that will increase its Willesden Green Duvernay land position to 86 (43 net) sections, after the completion of earning obligations.

The Company received approximately $91.5 million cash in June for the sale of a 50 percent interest in approximately 65 sections of land and three producing wells at Birch in northeast British Columbia. Paramount plans to drill four (2.0 net) wells at Birch in the second half of 2014.

STRATEGIC INVESTMENTS

Cavalier Energy Inc. ("Cavalier Energy"), Paramount's wholly-owned subsidiary, received regulatory approval for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids project in the second quarter of 2014. Development of this phase is dependent upon Cavalier Energy securing financing and sanctioning by the Board of Directors. In July 2014, Cavalier acquired approximately 23 net sections of undeveloped land at Hoole, contiguous with its Hoole lands, for $20 million.

To support the Company's expanded Kaybob Deep Basin development, Paramount is constructing two new walking drilling rigs through its wholly-owned drilling subsidiary, Fox Drilling. The two new triple-sized, built-for-purpose walking rigs are expected to cost approximately $25 million each and enter service in the second half of 2015. The Company is working with Fox Drilling's lender to increase the size of the drilling rig loan facilities to provide funding for the construction of the new walking rigs.

SHALE GAS

The Company will resume shale gas exploration activities in northeast British Columbia towards the end of the year as the 2014 / 2015 winter drilling program commences. Drilling operations are planned to restart at Dunedin and the Company also plans to drill a new shale gas well at La Biche to the north of the Dunedin lands.

In June, Paramount acquired all of the common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for 1.1 million Paramount Common Shares. Through the acquisition, Paramount added approximately 1,300,000 (725,000 net) acres of undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and approximately 300,000 (155,000 net) acres of undeveloped land in the Mackenzie Delta prospective for natural gas.

CORPORATE

Based on the results of Paramount's Deep Basin development programs, the Company's bank credit facility (the "Facility") was increased from $600 million to $700 million following a scheduled mid-year review. The credit limit of Tranche A of the Facility was increased by $100 million and the credit limit of Tranche B of the Facility remains at $100 million. All other terms of the Facility remain unchanged. As of July 31, 2014, $78.7 million was drawn on the Facility.

In July 2014, Paramount issued 4.6 million Common Shares at a price of $60.00 per share and 1.0 million Common Shares on a "flow-through" basis in respect of Canadian exploration expenses at a price of $74.40 per share for aggregate gross proceeds of $350.4 million.

OUTLOOK

Paramount's 2014 capital budget for exploration and development and strategic investments, excluding land acquisitions and capitalized interest, was increased in June 2014 by $150 million to $800 million. The increased capital budget includes incremental spending of approximately $70 million for the two new refrigeration plants, $50 million for Willesden Green Duvernay activities and $20 million to commence construction of the two new walking drilling rigs.

Following first sales from the Musreau Deep Cut Facility, sales volumes will increase as the Company ramps-up production from its inventory of behind-pipe wells, additional components of the Company's Kaybob area infrastructure are completed and incremental third-party de-ethanization capacity becomes available. Sales volumes are expected to reach approximately 50,000 Boe/d later in 2014 and increase to approximately 70,000 Boe/d in 2015, depending upon the availability of downstream third-party de-ethanization capacity.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 6, 2014, 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, 2014 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2013. 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.

This document contains forward-looking information, non-GAAP measures and disclosure of certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. 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 longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's principal properties are 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, 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 northern Alberta and northeast British Columbia.

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 interests held by Paramount's wholly-owned subsidiary Cavalier Energy Inc. ("Cavalier Energy") 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.

Highlights[1]

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
FINANCIAL				
Petroleum and natural gas sales – continuing operations	**80.0**	59.4	**166.2**	119.0
Petroleum and natural gas sales – discontinued operations	**—**	—	**—**	1.8
Petroleum and natural gas sales	**80.0**	59.4	**166.2**	120.8
Funds flow from operations – continuing operations	**29.5**	22.3	**63.0**	40.1
Funds flow from operations – discontinued operations	**—**	—	**—**	(1.3)
Funds flow from operations	**29.5**	22.3	**63.0**	38.8
per share – basic ($/share)	*0.30*	*0.24*	*0.65*	*0.42*
per share – diluted ($/share)	*0.30*	*0.24*	*0.64*	*0.42*
Income (loss) from continuing operations	**53.1**	(22.1)	**44.2**	(49.8)
per share – basic ($/share)	*0.54*	*(0.24)*	*0.45*	*(0.55)*
per share – diluted ($/share)	*0.53*	*(0.24)*	*0.45*	*(0.55)*
Net income (loss)	**53.1**	(22.1)	**44.2**	(21.8)
per share – basic ($/share)	*0.54*	*(0.24)*	*0.45*	*(0.24)*
per share – diluted ($/share)	*0.53*	*(0.24)*	*0.45*	*(0.24)*
Exploration and development expenditures	**202.6**	94.0	**375.6**	239.2
Investments in other entities – market value [2]			**757.4**	759.1
Total assets			**2,870.0**	2,084.4
Long-term debt			**1,156.7**	661.4
Net debt			**1,356.2**	803.3
OPERATIONAL				
Sales volumes [3]				
Natural gas (MMcf/d)	**99.4**	107.6	**102.0**	110.6
NGLs (Bbl/d)	**3,292**	2,126	**3,186**	2,392
Oil (Bbl/d)	**730**	722	**615**	859
Total (Boe/d)	**20,585**	20,790	**20,805**	21,685
Net wells drilled (excluding oil sands evaluation)	**22**	6	**34**	15
Net oil sands evaluation wells drilled	**—**	—	**—**	6
FUNDS FLOW FROM OPERATIONS ($/Boe) [3]				
Petroleum and natural gas sales	**42.72**	31.41	**44.15**	30.76
Royalties	**(1.98)**	(0.22)	**(2.48)**	(1.22)
Operating expense	**(8.82)**	(8.46)	**(9.29)**	(9.35)
Transportation	**(3.21)**	(2.74)	**(3.32)**	(2.64)
Netback	**28.71**	19.99	**29.06**	17.55
Financial commodity contract settlements	**(1.72)**	—	**(1.38)**	—
Netback including commodity contract settlements	**26.99**	19.99	**27.68**	17.55
General and administrative – corporate	**(2.30)**	(2.16)	**(2.40)**	(1.81)
General and administrative – strategic investments	**(0.88)**	(0.96)	**(1.01)**	(0.97)
Interest	**(8.94)**	(6.84)	**(8.47)**	(6.47)
Dividends from investments	**1.07**	1.06	**1.07**	1.02
Other	**(0.18)**	0.67	**(0.14)**	0.58
Funds flow from operations	**15.76**	11.76	**16.73**	9.90

(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) Based on the period-end closing prices of publicly-traded investments and the book value of the remaining investments.
(3) Amounts for the six months ended June 30, 2013 include the results of discontinued operations.

Consolidated Results

Net Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Principal Properties	**81.1**	(4.1)	**99.7**	(12.3)
Strategic Investments	**11.7**	(1.2)	**10.5**	(1.2)
Corporate	**(25.1)**	(22.4)	**(50.0)**	(42.5)
Income tax (expense) recovery	**(14.6)**	5.6	**(16.0)**	6.2
Income (loss) from continuing operations	**53.1**	(22.1)	**44.2**	(49.8)
Income from discontinued operations, net of tax	—	—	—	28.0
Net income (loss)	**53.1**	(22.1)	**44.2**	(21.8)

Paramount recorded income from continuing operations of $53.1 million for the three months ended June 30, 2014 compared to a loss from continuing operations of $22.1 million in the second quarter of 2013. Significant factors contributing to the change are shown below:

Three months ended June 30	
Loss from continuing operations – 2013	**(22.1)**
• Higher gains on the sale of property, plant and equipment	68.4
• Higher netback primarily due to higher realized prices	16.0
• Higher income from equity-accounted investments due to a gain realized on the MGM Energy acquisition	11.4
• Lower exploration and evaluation expense	8.1
• Income tax expense in 2014 compared to a recovery in 2013	(20.1)
• Loss on financial commodity contracts in 2014 compared to a gain in 2013	(4.5)
• Higher interest expense due to increased debt	(3.9)
• Other	(0.2)
Income from continuing operations – 2014	**53.1**

Paramount recorded income from continuing operations of $44.2 million for the six months ended June 30, 2014 compared to a loss from continuing operations of $49.8 million in the same period of 2013. Significant factors contributing to the change are shown below:

Six months ended June 30	
Loss from continuing operations – 2013	**(49.8)**
• Higher gains on the sale of property, plant and equipment related to continuing operations	74.2
• Higher netback primarily due to higher realized prices	39.3
• Higher income from equity-accounted investments due to a gain realized on the MGM Energy acquisition	11.8
• Lower exploration and evaluation expense	10.4
• Income tax expense in 2014 compared to a recovery in 2013	(22.2)
• Loss on financial commodity contracts in 2014 compared to a gain in 2013	(6.8)
• Higher interest expense due to increased debt	(6.6)
• Higher accretion of asset retirement obligations	(3.0)
• Other	(3.1)
Income from continuing operations – 2014	**44.2**

In March 2013, Paramount sold its Northern COU properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories (the "Northern Discontinued Operations") for proceeds of $9.1 million. Income from discontinued operations for the six months ended June 30, 2013 of $28.0 million includes a pre-tax loss of $1.6 million from ordinary activities of the Northern Discontinued Operations, a $39.0 million pre-tax gain on the sale of the properties and tax expense of $9.4 million. These properties were included in the Company's Principal Properties business segment.

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 (2)	
	2014	2013	**2014**	2013
Cash from operating activities	**7.2**	8.4	**46.8**	31.5
Change in non-cash working capital	**19.9**	11.3	**9.5**	1.5
Geological and geophysical expenses	**2.0**	1.9	**4.2**	3.4
Asset retirement obligations settled	**0.4**	0.7	**2.5**	2.4
Funds flow from operations	**29.5**	22.3	**63.0**	38.8
Funds flow from operations ($/Boe)	**15.76**	11.76	**16.73**	9.90

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
(2) Amounts for the six months ended June 30, 2013 include the results of discontinued operations.

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Funds flow from operations				
Continuing operations	**29.5**	22.3	**63.0**	40.1
Discontinued operations	**—**	—	**—**	(1.3)
Funds flow from operations	**29.5**	22.3	**63.0**	38.8

Funds flow from operations for the three months ended June 30, 2014 attributable to continuing operations was $29.5 million, $7.2 million higher than the second quarter of 2013. Significant factors contributing to the change are shown below:

Three months ended June 30	
Funds flow from operations – continuing operations – 2013	**22.3**
• Higher netback primarily due to higher realized prices	16.0
• Higher interest due to increased debt	(3.8)
• Payments on financial commodity contract settlements in 2014	(3.2)
• Lower other income	(1.6)
• Other	(0.2)
Funds flow from operations – continuing operations – 2014	**29.5**

Funds flow from operations for the six months ended June 30, 2014 attributable to continuing operations was $63.0 million, $22.9 million higher than the same period of 2013. Significant factors contributing to the change are shown below:

Six months ended June 30	
Funds flow from operations – continuing operations – 2013	**40.1**
• Higher netback primarily due to higher realized prices	39.3
• Higher interest due to increased debt	(6.5)
• Payments on financial commodity contract settlements in 2014	(5.2)
• Lower other income	(2.8)
• Other	(1.9)
Funds flow from operations – continuing operations – 2014	**63.0**

Principal Properties

The Principal Properties section of this MD&A provides an analysis of the results of the Company's continuing operations and therefore excludes results of the Northern Discontinued Operations. A summary of the results of the Northern Discontinued Operations is included in the Discontinued Operations section of this document.

Netback and Segment Income (Loss) – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2014		2013		**2014**		2013	
		($/Boe) (1)		*($/Boe)* (1)		*($/Boe)* (1)		*($/Boe)* (1)
Natural gas	**44.9**	*4.96*	38.9	*3.97*	**101.7**	*5.51*	73.7	*3.73*
NGLs	**27.3**	*91.22*	13.9	*71.84*	**51.4**	*89.18*	31.5	*72.90*
Oil	**7.0**	*105.27*	5.6	*85.98*	**11.3**	*101.76*	12.2	*85.08*
Royalty and sulphur revenue	**0.8**	—	1.0	—	**1.8**	—	1.6	—
Petroleum and natural gas sales	**80.0**	*42.72*	59.4	*31.41*	**166.2**	*44.15*	119.0	*30.73*
Royalties	**(3.7)**	*(1.98)*	(0.4)	*(0.22)*	**(9.3)**	*(2.48)*	(4.8)	*(1.23)*
Operating expense	**(16.5)**	*(8.82)*	(16.0)	*(8.46)*	**(35.0)**	*(9.29)*	(33.9)	*(8.75)*
Transportation	**(6.0)**	*(3.21)*	(5.2)	*(2.74)*	**(12.5)**	*(3.32)*	(10.2)	*(2.62)*
Netback	**53.8**	*28.71*	37.8	*19.99*	**109.4**	*29.06*	70.1	*18.13*
Financial commodity contract settlements	**(3.2)**	*(1.72)*	—	—	**(5.2)**	*(1.38)*	—	—
Netback including commodity contract settlements	**50.6**	*26.99*	37.8	*19.99*	**104.2**	*27.68*	70.1	*18.13*
Other principal property items (see below)	**30.5**		(41.9)		**(4.5)**		(82.4)	
Segment income (loss)	**81.1**		(4.1)		**99.7**		(12.3)	

(1) Natural gas revenue shown per Mcf.

Petroleum and natural gas sales were $80.0 million in the second quarter of 2014, an increase of $20.6 million from the second quarter of 2013. Petroleum and natural gas sales were $166.2 million in the six months ended June 30, 2014, an increase of $47.2 million compared to the same period of 2013. The increases were primarily due to higher realized prices and higher NGLs sales volumes, partially offset by lower natural gas sales volumes.

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

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Three months ended June 30, 2013	38.9	13.9	5.6	1.0	59.4
Effect of changes in prices	9.0	5.8	1.3	–	16.1
Effect of changes in sales volumes	(3.0)	7.6	0.1	–	4.7
Change in royalty and sulphur revenue	–	–	–	(0.2)	(0.2)
Three months ended June 30, 2014	**44.9**	**27.3**	**7.0**	**0.8**	**80.0**

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Six months ended June 30, 2013	73.7	31.5	12.2	1.6	119.0
Effect of changes in prices	32.8	9.4	1.9	–	44.1
Effect of changes in sales volumes	(4.8)	10.5	(2.8)	–	2.9
Change in royalty and sulphur revenue	–	–	–	0.2	0.2
Six months ended June 30, 2014	**101.7**	**51.4**	**11.3**	**1.8**	**166.2**

Sales Volumes

	Three months ended June 30											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Kaybob	**71.6**	76.4	(6)	**2,139**	1,137	88	**20**	33	(39)	**14,098**	13,901	1
Grande Prairie	**22.4**	18.6	20	**936**	661	42	**634**	305	108	**5,308**	4,063	31
Southern	**2.5**	9.6	(74)	**204**	317	(36)	**76**	384	(80)	**705**	2,315	(70)
Northern	**2.9**	3.0	(3)	**13**	11	18	**–**	–	–	**474**	511	(7)
Total	**99.4**	107.6	(8)	**3,292**	2,126	55	**730**	722	1	**20,585**	20,790	(1)

Second quarter natural gas sales volumes decreased 8.2 MMcf/d or eight percent to 99.4 MMcf/d in 2014 compared to 107.6 MMcf/d in the same period in 2013. The decrease was primarily due to the sale of the Chain area properties in southern Alberta in the first quarter of 2014 and third-party processing facility constraints at Musreau within the Kaybob COU, partially offset by new well production at Karr-Gold Creek in the Grande Prairie COU.

Second quarter NGLs sales volumes increased 1,166 Bbl/d or 55 percent to 3,292 Bbl/d in 2014 compared to 2,126 Bbl/d in the same period in 2013. The increase in NGLs sales volumes was primarily related to new Montney formation wells brought-on production at restricted flow rates in place of leaner Cretaceous wells at Musreau in the Kaybob COU. The addition of new Montney wells to the Company's production has resulted in condensate volumes comprising 75 percent of total NGLs sales volumes in the second quarter of 2014 compared to 58 percent in the second quarter of 2013.

Second quarter oil sales volumes were 730 Bbl/d in 2014 compared to 722 Bbl/d in the same period in 2013, as increased oil production from new wells in the Grande Prairie COU was offset by decreases in the Southern COU due to property dispositions.

Paramount's second quarter sales volumes of 20,585 Boe/d exceeded guidance of 17,500 Boe/d to 20,000 Boe/d because of shorter than expected facility downtime in the Kaybob COU.

	Six months ended June 30											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Kaybob	**71.8**	76.2	(6)	**1,752**	1,294	35	**20**	39	(49)	**13,735**	14,028	(2)
Grande Prairie	**22.4**	20.0	12	**1,200**	799	50	**499**	314	59	**5,429**	4,452	22
Southern	**4.7**	9.0	(48)	**201**	230	(13)	**96**	438	(78)	**1,077**	2,172	(50)
Northern	**3.1**	4.0	(23)	**33**	66	(50)	**—**	—	—	**564**	732	(23)
Continuing Ops	**102.0**	109.2	(7)	**3,186**	2,389	33	**615**	791	(22)	**20,805**	21,384	(3)
Discontinued Ops	—	1.4	(100)	—	3	(100)	—	68	(100)	—	301	(100)
Total	102.0	110.6	(8)	3,186	2,392	33	615	859	(28)	20,805	21,685	(4)

Natural gas sales volumes decreased 7.2 MMcf/d or seven percent to 102.0 MMcf/d in the six months ended June 30, 2014 compared to 109.2 MMcf/d in the same period in 2013. The decrease was primarily due to the sale of the Chain area properties in southern Alberta in the first quarter of 2014 and third party processing facility constraints at Musreau within the Kaybob COU. These decreases were partially offset by new well production at Karr-Gold Creek in the Grande Prairie COU.

NGLs sales volumes increased 797 Bbl/d or 33 percent to 3,186 Bbl/d in the six months ended June 30, 2014 compared to 2,389 Bbl/d in the same period in 2013. The increase in NGLs sales volumes was primarily related to new Montney formation wells brought-on production at Musreau and Karr-Gold Creek. The addition of new Montney wells to the Company's production has resulted in condensate volumes comprising 73 percent of total NGLs sales volumes in the first half of 2014 compared to 58 percent in the first half of 2013.

Oil sales volumes decreased 22 percent to 615 Bbl/d in the first half of 2014 compared to 791 Bbl/d in the same period in 2013 as a result of property dispositions in the Southern COU, partially offset by new well production in the Grande Prairie COU.

In the first half of 2014, Paramount's production within the Kaybob COU continued to be constrained by available owned and contracted natural gas processing capacity, pending completion of the new and expanded deep cut facilities at Musreau and Smoky. First sales from Paramount's 200 MMcf/d Musreau Deep Cut Facility (the "Musreau Deep Cut Facility") are imminent. Commissioning was completed at the end of June and the facility was handed over to Paramount's operations team for start-up. The facility is pressurized with natural gas, all of the systems have been successfully operated, and the Company expects to begin cooling the facility to operating temperatures imminently, with first sales to immediately follow. Sales volumes are expected to increase throughout the remainder of the year as the Company systematically works to bring wells on production from its behind-pipe inventory and increase plant throughput levels.

Average Realized Prices – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2014	2013	% Change	**2014**	2013	% Change
Natural gas ($/Mcf)	**4.96**	3.97	25	**5.51**	3.73	48
NGLs ($/Bbl)	**91.22**	71.84	27	**89.18**	72.90	22
Oil ($/Bbl)	**105.27**	85.98	22	**101.76**	85.08	20
Total ($/Boe)	**42.72**	31.41	36	**44.15**	30.73	44

North America experienced an unusually cold and prolonged winter in 2013 / 2014 which resulted in increased demand for natural gas and a significant increase in market prices. Paramount's average realized natural gas price increased 48 percent in the first half of 2014 compared to 2013, consistent with increases in benchmark AECO natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market and California market and is sold in a combination of daily and monthly contracts.

Paramount's NGLs and oil sales portfolio primarily consists of sales priced relative to Alberta and United States market indexes, adjusted for transportation and quality differentials.

Commodity Prices

Key average commodity price benchmarks and foreign exchange rates are as follows:

	Three months ended June 30			Six months ended June 30		
	2014	2013	% Change	**2014**	2013	% Change
Natural gas						
AECO daily spot (CAD$/GJ)	**4.71**	3.49	35	**5.17**	3.29	57
AECO monthly index (CAD$/GJ)	**4.43**	3.40	30	**4.47**	3.16	41
NYMEX (Henry Hub US$/MMbtu)	**4.59**	4.09	12	**4.66**	3.40	37
Crude Oil						
Edmonton par (CAD$/Bbl)	**106.67**	92.94	15	**103.42**	90.77	14
West Texas Intermediate (US$/Bbl)	**102.96**	94.29	9	**100.82**	94.32	7
Foreign Exchange						
$CAD / 1 $US	**1.09**	1.02	7	**1.10**	1.02	8

Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility. Paramount has not designated any of its financial commodity contracts as hedges and, as a result, changes in the fair value of these contracts are recognized in earnings.

Payments made by Paramount on the settlement of financial commodity contracts are as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Commodity Contracts	**3.2**	—	**5.2**	—

At June 30, 2014, Paramount had the following financial commodity contracts outstanding:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	2,000 Bbl/d	US $91.78/Bbl	**(4.5)**	July – December 2014
Natural Gas – AECO Swap	20,000 GJ/d	CAD$4.45/GJ	**0.5**	July – October 2014
			(4.0)	

Royalties – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2014	*Rate*	2013	*Rate*	**2014**	*Rate*	2013	*Rate*
Royalties	**3.7**	*4.7%*	0.4	*0.7%*	**9.3**	*5.7%*	4.8	*4.1%*

Second quarter royalties increased $3.3 million to $3.7 million in 2014 compared to $0.4 million in the same period in 2013. Royalties for the second quarter of 2013 included $2.6 million in annual gas cost allowance adjustments that reduced royalty expense. Royalties for the second quarter of 2014 increased due to higher current year revenues, partially offset by lower average royalty rates.

Royalties for the six months ended June 30, 2014 increased $4.5 million to $9.3 million compared to $4.8 million in the comparable period in 2013, primarily as a result of the annual gas cost allowance adjustments recorded in the second quarter of 2013 and because of higher current year natural gas and NGLs revenue.

For the six months ended June 30, 2014, the royalty rate was 5.7 percent versus 6.3 percent in the same period in 2013, excluding the impact of the gas cost allowance adjustments in the prior year. 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 – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2014	2013	% Change	**2014**	2013	% Change
Operating expense	**16.5**	16.0	3	**35.0**	33.9	3

Operating expense in the second quarter of 2014 increased by $0.5 million or three percent to $16.5 million compared to $16.0 million in the same quarter in 2013, primarily related to higher processing fees in the Kaybob COU due to increased third-party facility usage, lower processing income from the Company's Musreau refrigeration facility and higher costs associated with production from new Montney formation wells, which temporarily require additional liquids handling and wellsite sweetening. These increases were partially offset by lower operating expenses in the Southern COU due to property dispositions and lower repairs and maintenance costs in the Grande Prairie COU.

Operating expense increased $1.1 million or three percent to $35.0 million in the first half of 2014 compared to $33.9 million in the same period in 2013, primarily related to higher costs in the Kaybob and Grande Prairie COUs associated with production from new Montney formation wells, increased snow removal and road maintenance costs due to heavy snowfall and severe weather conditions in the first quarter of 2014, higher processing fees in the Kaybob COU due to increased third party facility usage and lower processing income from the Company's Musreau refrigeration facility. These increases were partially offset by the impact of property dispositions in the Southern COU. Paramount's per-unit operating costs are expected to decrease following the start-up of the Musreau Deep Cut Facility, as lower-cost Musreau area volumes will comprise a greater proportion of the Company's overall production.

Transportation – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2014	2013	% Change	**2014**	2013	% Change
Transportation expense	**6.0**	5.2	15	**12.5**	10.2	23

Transportation expense was $6.0 million in the second quarter of 2014, an increase of $0.8 million compared to the second quarter of 2013. Transportation expense increased $2.3 million to $12.5 million for the first half of 2014 compared to $10.2 million in the first half of 2013. Transportation costs are higher in 2014 mainly due to the costs of trucking higher condensate sales volumes and increased firm-service natural gas transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility. Paramount incurred incremental trucking costs in the first half of 2014 in order to produce new liquids-rich wells that would have otherwise been shut-in.

Other Principal Property Items – Continuing Operations

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Commodity contracts – net of settlements	**(0.3)**	(1.6)	**—**	(1.6)
Depletion and depreciation	**39.2**	38.5	**81.6**	80.0
Exploration and evaluation	**7.8**	15.7	**15.8**	26.0
Gain on sale of property, plant and equipment	**(79.0)**	(10.2)	**(96.6)**	(22.0)
Accretion of asset retirement obligations	**1.5**	—	**3.0**	—
Other	**0.3**	(0.5)	**0.7**	—
Total	**(30.5)**	41.9	**4.5**	82.4

Second quarter depletion and depreciation expense increased to $39.2 million ($20.91 per Boe) in 2014 compared to $38.5 million ($20.35 per Boe) for the same quarter in 2013. Depletion and depreciation expense increased to $81.6 million ($21.67 per Boe) in the six months ended June 30, 2014 compared to $80.0 million ($20.66 per Boe) in the same period in 2013.

Second quarter 2014 exploration and evaluation expense includes expired undeveloped land lease costs of $6.2 million (2013 – $8.5 million), geological and geophysical costs of $1.6 million (2013 – $1.3 million) and dry hole expense of nil (2013 – $5.9 million). Exploration and evaluation expense for the six months ended June 30, 2014 includes expired undeveloped land lease costs of $11.7 million (2013 – $15.2 million), geological and geophysical costs of $3.7 million (2013 – $2.8 million) and dry hole expense of $0.4 million (2013 – $8.0 million).

The $96.6 million in aggregate gains recorded on the sale of property, plant and equipment in 2014 primarily relates to the second quarter sale of a 50 percent working interest in the Birch property within the Northern COU in exchange for $91.5 million cash and the first quarter sale of coal bed methane properties in the Chain-Delia area within the Southern COU in exchange for $11.7 million in shares of Marquee Energy Ltd. ("Marquee").

Discontinued Operations

Results of the Northern Discontinued Operations have been presented as discontinued operations for the six months ended June 30, 2013.

The following table reconciles Paramount's loss from continuing operations, income from discontinued operations and net income for the six months ended June 30, 2013:

Income (loss) from Continuing Operations ("CO") and Discontinued Operations ("DO")

Six months ended June 30, 2013	CO	DO	Total	CO	DO	Total
		($ millions)			($/Boe except natural gas) (1)	
Natural gas revenue	73.7	0.7	74.4	*3.73*	*2.82*	*3.71*
NGLs revenue	31.5	—	31.5	*72.90*	—	*72.90*
Oil revenue	12.2	1.1	13.3	*85.08*	*84.75*	*85.05*
Royalty and sulphur revenue	1.6	—	1.6	—	—	—
Petroleum and natural gas sales	119.0	1.8	120.8	*30.73*	*32.95*	*30.76*
Royalties	(4.8)	—	(4.8)	*(1.23)*	—	*(1.22)*
Operating expense	(33.9)	(2.9)	(36.8)	*(8.75)*	*(52.54)*	*(9.35)*
Transportation	(10.2)	(0.2)	(10.4)	*(2.62)*	*(4.27)*	*(2.64)*
Netback	70.1	(1.3)	68.8	*18.13*	*(23.86)*	*17.55*
General and administrative	(10.9)	—	(10.9)	*(2.82)*	—	*(2.78)*
Interest	(25.4)	—	(25.4)	*(6.56)*	—	*(6.47)*
Dividends from investments	4.0	—	4.0	*1.04*	—	*1.02*
Other	2.3	—	2.3	*0.59*	—	*0.58*
Funds flow from operations	40.1	(1.3)	38.8	*10.38*	*(23.86)*	*9.90*
Depletion, depreciation and accretion	(81.1)	(0.3)	(81.4)			
Gain on sale of property, plant and equipment	22.4	39.0	61.4			
Stock-based compensation	(11.5)	—	(11.5)			
Income from equity-accounted investments	4.3	—	4.3			
Other	(30.2)	—	(30.2)			
Income tax (expense) recovery	6.2	(9.4)	(3.2)			
Net income (loss)	(49.8)	28.0	(21.8)			

(1) Natural gas revenue shown per Mcf.

Strategic Investments

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Income from equity-accounted investments	**14.2**	2.8	**16.1**	4.3
Drilling rig revenue	**—**	1.4	**—**	4.0
Drilling rig expense	**—**	(0.7)	**—**	(1.7)
General and administrative	**(1.7)**	(1.8)	**(3.8)**	(3.8)
Stock-based compensation	**(1.6)**	(1.9)	**(3.1)**	(1.8)
Interest	**(0.7)**	(0.5)	**(1.3)**	(1.1)
Other	**1.5**	(0.5)	**2.6**	(1.1)
Segment Income (Loss)	**11.7**	(1.2)	**10.5**	(1.2)

Strategic Investments at June 30, 2014 include:

- investments in the shares of Trilogy Energy Corp. ("Trilogy"), MEG Energy Corp. ("MEG"), Marquee, RMP Energy Inc. ("RMP Energy"), Strategic Oil & Gas Ltd. ("SOG") and other public and private corporations;

- oil sands and carbonate interests owned by Paramount's wholly-owned subsidiary, Cavalier Energy, including oil sands reserves and resources 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

- five 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 the spin-out from Paramount. Investments in the shares of most other entities, including MEG, were received as consideration for properties sold to the entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value [1]	
	June 30, 2014	December 31, 2013	**June 30, 2014**	December 31, 2013
Trilogy	**99.8**	97.4	**559.0**	528.4
MEG	**143.9**	113.3	**143.9**	113.3
MGM Energy Corp.	**—**	1.2	**—**	8.7
Other [2]	**54.5**	38.1	**54.5**	38.1
Total	**298.2**	250.0	**757.4**	688.5

[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 Energy, SOG and other public and private corporations.

In June 2014, Paramount acquired all 338.3 million of the issued and outstanding common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for the issuance by Paramount of 1.1 million Common Shares. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). On the acquisition, Paramount recognized a gain of $10.8 million on the MGM Energy shares previously held, which was recorded in income from equity-accounted investments. Through the acquisition, Paramount added approximately 1,300,000 (725,000 net) acres of undeveloped land in the Central Mackenzie Valley prospective for shale oil and natural gas and approximately 300,000 (155,000 net) acres of undeveloped land in the Mackenzie Delta prospective for natural gas.

Cavalier Energy

In June 2014, Cavalier Energy received regulatory approval for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids development ("Hoole Phase 1"). Construction of Hoole Phase 1 is dependent upon securing funding and sanctioning by the Board of Directors. Cavalier Energy is continuing to evaluate funding alternatives for Hoole Phase 1.

In July 2014, Cavalier Energy acquired approximately 23 net sections of undeveloped land at Hoole, contiguous with its Hoole lands, for $20 million.

Fox Drilling

To support the Company's expanded Kaybob Deep Basin development, Paramount is constructing two new walking drilling rigs through its wholly-owned drilling subsidiary, Fox Drilling. The two new triple-sized, built-for-purpose walking rigs are expected to cost approximately $25 million each and enter service in the second half of 2015. The Company is working with Fox Drilling's lender to increase the size of the drilling rig loan facilities to provide funding for the construction of the new walking rigs.

Shale Gas

The Company will resume shale gas exploration activities in northeast British Columbia towards the end of the year as the 2014 / 2015 winter drilling program commences. Drilling operations are planned to restart at Dunedin and the Company also plans to drill a new shale gas well at La Biche to the north of the Dunedin lands.

Corporate

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Interest	**16.5**	12.8	**31.5**	25.1
General and administrative	**4.3**	4.1	**9.1**	7.1
Stock-based compensation	**4.2**	4.4	**9.2**	9.6
Depreciation	**0.2**	0.1	**0.3**	0.2
Foreign exchange	**—**	1.0	**0.1**	0.5
Other	**(0.1)**	—	**(0.2)**	—
	25.1	22.4	**50.0**	42.5

The Corporate segment loss increased to $25.1 million in the second quarter of 2014 compared to $22.4 million in the same period of 2013. The Corporate segment loss increased to $50.0 million for the six months ended June 30, 2014 compared to $42.5 million for the same period in 2013. The increases primarily relate to higher interest expense and higher general and administrative expenses.

Exploration and Capital Expenditures

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Geological and geophysical	**1.7**	1.3	**3.7**	2.8
Drilling, completion and tie-ins	**136.8**	71.4	**253.7**	178.0
Facilities and gathering	**64.1**	21.3	**118.2**	58.4
Exploration and development expenditures [1]	**202.6**	94.0	**375.6**	239.2
Land and property acquisitions	**1.3**	12.6	**3.6**	13.5
Principal Properties	**203.9**	106.6	**379.2**	252.7
Strategic Investments [2]	**12.5**	14.5	**35.7**	62.6
Corporate	**0.4**	0.1	**0.6**	3.7
	216.8	121.2	**415.5**	319.0

(1) Exploration and development expenditures for the three and six months ended June 30, 2014 include $4.7 million and $9.0 million of capitalized interest, respectively (2013 - $2.7 million and $5.0 million, respectively).
(2) Strategic Investments for the three and six months ended June 30, 2014 include $0.2 million and $0.3 million of capitalized interest, respectively (2013 - $0.1 million and $0.2 million, respectively).

Exploration and development expenditures in the second quarter of 2014 were $202.6 million compared to $94.0 million in the same period of 2013. Exploration and development expenditures in the first half of 2014 were $375.6 million compared to $239.2 million in the same period in 2013. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. The Company also drilled wells in the Southern COU, including at Willesden Green. Facilities and gathering expenditures focused on the new and expanded deep cut facilities at Musreau and Smoky and expansions to liquids handling facilities and gathering systems at Karr-Gold Creek.

Strategic investments capital expenditures for the first half of 2014 included $32.1 million related to the Company's exploratory shale gas drilling activities at Dunedin in northeast British Columbia.

Wells drilled were as follows:

	Three months ended June 30				Six months ended June 30			
	2014		2013		**2014**		2013	
	Gross[1]	**Net[2]**	Gross[1]	Net[2]	**Gross[1]**	**Net[2]**	Gross[1]	Net[2]
Gas	**21**	**21**	8	6	**32**	**32**	18	13
Oil	**1**	**1**	—	—	**3**	**2**	2	2
Oil sands evaluation	**—**	**—**	—	—	**—**	**—**	6	6
Total	**22**	**22**	8	6	**35**	**34**	26	21

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

Kaybob COU Major Projects

The Kaybob COU currently has condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d in the fourth quarter when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing. The Stabilizer Expansion is expected to be completed at a cost of approximately $45 million.

Site work is continuing for the amine processing train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. This project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million.

The deep cut expansion of the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") is scheduled to start-up in the third quarter of 2014. The Company will have a 20 percent interest in the Smoky Deep Cut Facility, which will initially have a working capacity of 200 MMcf/d (40 MMcf/d net), increasing to 300 MMcf/d (60 MMcf/d net) through the later installation of an incremental 100 MMcf/d of compression. The existing Smoky 100 MMcf/d (10 MMcf/d net) dew-point facility was shut down at the beginning of July to accommodate the integration of the new expansion.

Kaybob Area Expansion

The Company is expanding the development of its liquids-rich Montney lands in the Kaybob area. To provide incremental natural gas processing capacity, Paramount has sanctioned the construction of two new wholly-owned 100 MMcf/d refrigeration plants. The first new plant is scheduled to be on-stream in the second half of 2016 and the second new plant is scheduled to be on-stream approximately six months later. Paramount's total sales volumes are projected to surpass 100,000 Boe/d by the end of 2016 and 125,000 Boe/d in 2017 once the second new plant is on-stream.

The new facilities will utilize a refrigeration process to extract propane, butane and heavier hydrocarbons, leaving ethane in the gas stream to be sold as higher heat content natural gas. The plants are expected to cost approximately $180 million each, and will include an oversized condensate stabilization system, on-site natural gas power generation and an amine processing train. Each of the new plants is designed to allow for future expansions to double capacity to 200 MMcf/d. Front-end engineering and design for the new facilities is currently being finalized, and the Company plans to start placing orders for long-lead-time equipment in the third quarter. Pending regulatory approvals, construction will begin in the first half of 2015. To ensure access to downstream transportation and fractionation, Paramount has secured incremental long-term firm-service capacity for the transportation of natural gas, NGLs and condensate to be delivered from the new plants, as well as $C3^+$ fractionation capacity at Fort Saskatchewan.

Kaybob Multi-Well Pads

Drilling activities in the first half of 2014 were focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands, where condensate yields are expected to be the highest.

Paramount's walking drilling rigs have finished drilling one 10-well Montney pad and the final well on the second 10-well pad will be finished in early-August. Drilling of the 5-well Montney pad is expected to be completed in the third quarter of 2014. Completion operations will commence in the next few weeks on the first 10-well Montney pad, which is planned to be tied-in by the end of the year. All 25 pad wells are expected to be on production in 2015.

Outlook

Paramount's 2014 capital budget for exploration and development and strategic investments, excluding land acquisitions and capitalized interest, was increased in June 2014 by $150 million to $800 million. The increased capital budget includes incremental spending of approximately $70 million for the two new refrigeration plants, $50 million for Willesden Green Duvernay activities and $20 million to commence construction of the two new walking drilling rigs.

Following first sales from the Musreau Deep Cut Facility, sales volumes will increase as the Company ramps-up production from its inventory of behind-pipe wells, additional components of the Company's Kaybob area infrastructure are completed and incremental third-party de-ethanization capacity becomes available. Sales volumes are expected to reach approximately 50,000 Boe/d later in 2014 and increase to approximately 70,000 Boe/d in 2015, depending upon the availability of downstream third-party de-ethanization capacity.

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.

	June 30, 2014	December 31, 2013	% Change
Adjusted working capital deficit [(1)]	**114.0**	151.8	(25)
Demand facilities	**77.2**	75.6	2
Credit facility	**345.0**	71.8	381
Senior Notes [(2)]	**820.0**	820.0	—
Net debt [(3)]	**1,356.2**	1,119.2	21
Share capital	**1,267.9**	1,169.2	8
Accumulated deficit	**(180.4)**	(224.6)	(20)
Reserves	**119.6**	87.6	37
Total Capital	**2,563.3**	2,151.4	19

(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, 2014 – nil, December 31, 2013 – $9.5 million), risk management assets and liabilities, and demand facilities.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt excludes the $20 million deposit on account with the Canada Revenue Agency, pending resolution of the Company's notices of objection.

Paramount had an adjusted working capital deficit at June 30, 2014 of $114.0 million compared to a deficit of $151.8 million at December 31, 2013. The adjusted working capital deficit at June 30, 2014 included $31.3 million of cash and cash equivalents, $37.4 million of accounts receivable and $186.3 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to drawings on credit facilities, funds flow from operations, and proceeds from the sale of non-core properties and investments, partially offset by capital spending related to the Company’s 2014 capital program.

Paramount expects to fund its 2014 operations, obligations and capital expenditures with funds flow from operations, proceeds from the July 2014 issuance of Common Shares, drawings on its bank credit facilities, proceeds from the sale of non-core assets, existing cash and cash equivalents and by accessing the capital markets, if required. The Company’s bank credit facility was increased to $700 million in June 2014, of which $78.7 million was drawn as of July 31, 2014. As the Kaybob COU increases production in the second half of the year, funds flow from operations is expected to increase as a result of higher sales volumes and netbacks.

Demand Facilities

Drilling Rig Facilities

Fox Drilling’s demand loan facilities (the "Drilling Rig Facilities") include a $57.0 million non-revolving facility used to fund the construction of the existing drilling rigs and an $8.0 million non-revolving facility used to fund the purchase of auxiliary equipment for the rigs. Net payments of $3.1 million were made on the Drilling Rig Facilities in the first half of 2014, resulting in a balance of $49.9 million outstanding at June 30, 2014.

Cavalier Facility

Cavalier Energy has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the first half of 2014, $4.8 million was drawn on the Cavalier Facility resulting in $27.3 million being outstanding at June 30, 2014.

Bank Credit Facility

In June 2014, Paramount’s bank credit facility (the "Facility") was increased from $600 million to $700 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $600 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2014 in the event the due date is not earlier extended. Paramount had undrawn letters of credit outstanding at June 30, 2014 totaling $47.8 million that reduce the amount available to the Company.

Share Capital

In October 2013, Paramount issued 1,360,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses (the "FTS") for gross proceeds of $59.8 million. The Company has incurred sufficient qualifying expenditures to satisfy commitments associated with the FTS issued in 2013.

In July 2014, Paramount issued 4,600,000 Common Shares at a price of $60.00 per share and 900,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $74.40 per share for aggregate gross proceeds of $343.0 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued 100,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to Paramount’s Chairman and Chief Executive Officer for gross proceeds of $7.4 million. The net proceeds from the offering of Common Shares will be applied to Paramount’s exploration and development activities which are primarily focused on its Kaybob Deep

Basin lands, including an expanded drilling program and construction of the two new 100 MMcf/d refrigeration gas processing plants, and for general corporate purposes. The gross proceeds from the offering of flow-through shares will be used by Paramount to incur eligible CEE. The net proceeds from the offerings were used to temporarily reduce indebtedness under the Company's bank credit facility.

At August 1, 2014, Paramount had 104,655,595 Common Shares and 5,808,300 Paramount Options outstanding, of which 1,556,600 Paramount Options are exercisable.

Quarterly Information

	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales – CO	**80.0**	86.2	57.8	53.9	59.5	59.5	51.0	38.8
Petroleum and natural gas sales – DO	**—**	—	—	—	—	1.8	3.6	2.5
Petroleum and natural gas sales	**80.0**	86.2	57.8	53.9	59.5	61.3	54.6	41.3
Funds flow from operations – CO	**29.5**	33.5	18.3	13.4	22.3	17.9	16.9	15.9
Funds flow from operations – DO	**—**	—	—	—	—	(1.3)	0.8	(0.4)
Funds flow from operations	**29.5**	33.5	18.3	13.4	22.3	16.6	17.7	15.5
Per share – basic and diluted ($/share)	*0.30*	*0.34*	*0.19*	*0.14*	*0.24*	*0.18*	*0.20*	*0.18*
Income (loss) – CO	**53.1**	(8.9)	0.3	(37.6)	(22.1)	(27.7)	(128.6)	(33.5)
Per share – basic ($/share)	*0.54*	*(0.09)*	—	*(0.39)*	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*
Per share – diluted ($/share)	*0.53*	*(0.09)*	—	*(0.39)*	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*
Net income (loss)	**53.1**	(8.9)	0.3	(37.6)	(22.1)	0.3	(151.8)	(34.6)
Per share – basic ($/share)	*0.54*	*(0.09)*	—	*(0.39)*	*(0.24)*	—	*(1.69)*	*(0.40)*
Per share – diluted ($/share)	*0.53*	*(0.09)*	—	*(0.39)*	*(0.24)*	—	*(1.69)*	*(0.40)*
Sales volumes								
Natural gas (MMcf/d)	**99.4**	104.7	102.5	100.9	107.6	110.8	99.4	90.6
NGLs (Bbl/d)	**3,292**	3,079	2,668	2,535	2,126	2,655	2,098	1,745
Oil (Bbl/d)	**730**	500	536	656	722	861	947	900
Total Continuing Operations (Boe/d)	**20,585**	21,028	20,290	20,022	20,790	21,985	19,606	17,745
Discontinued Operations (Boe/d)	**—**	—	—	—	—	606	1,068	967
Total (Boe/d)	**20,585**	21,028	20,290	20,022	20,790	22,591	20,674	18,712
Average realized price								
Natural gas ($/Mcf)	**4.96**	6.04	3.73	3.10	3.97	3.48	3.45	2.58
NGLs ($/Bbl)	**91.22**	86.97	74.30	78.55	71.84	73.76	61.14	60.55
Oil ($/Bbl)	**105.27**	96.56	78.92	100.73	85.98	84.32	79.20	81.45
Continuing Operations ($/Boe)	**42.72**	45.56	30.99	29.27	31.41	30.08	28.27	23.78
Discontinued Operations ($/Boe)	**—**	—	—	—	—	32.95	36.61	27.96
Total ($/Boe)	**42.72**	45.56	30.99	29.27	31.41	30.16	28.70	24.00

Significant Items Impacting Quarterly Results

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

- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of petroleum and natural gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.
- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- Fourth quarter 2013 earnings include a $25.1 million dilution gain on the Company's investment in Trilogy as a result of common shares issued by Trilogy during the quarter and a $7.3 million net impairment reversal of petroleum and natural gas properties.
- Third quarter 2013 earnings include a $13.8 million net impairment write-down of petroleum and natural gas properties.
- Second quarter 2013 earnings include $16.2 million of exploration expenses and $10.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- First quarter 2013 earnings include $50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.
- Fourth quarter 2012 earnings include a $135.6 million write-down of petroleum and natural gas properties and goodwill, and $6.5 million in dry hole charges.
- Third quarter 2012 earnings includes $6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at the Musreau refrigeration facility in the fourth quarter of 2011.

Other

Accounting Policies

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

Critical Accounting Estimates

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on revenue and expenses in future periods. A detailed description of Paramount's significant accounting estimates, assumptions and judgments is provided in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2013.

Internal Controls Over Financial Reporting

During the three and six months ended June 30, 2014, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Advisories

FORWARD-LOOKING INFORMATION

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

- projected production and sales volumes and the growth and the timing thereof (including the liquids component of such volumes);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and potential future facility expansions and additions), and the anticipated timing of and/or sources of funding for such activities;
- anticipated increases in funds flow from operations;
- projected timelines for, and the anticipated costs of, constructing, commissioning and/or starting-up new and expanded natural gas processing and associated facilities;
- projected timelines for, and the anticipated costs of, constructing new walking drilling rigs;
- anticipated increases in the size of Fox Drilling's drilling rig loan facilities;
- anticipated decreases in operating costs;
- the projected availability of third party processing, transportation, fractionation, de-ethanization and other facilities;
- the expected use of proceeds from the offerings of Common Shares and "flow-through" Common Shares; and
- business strategies and objectives.

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

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

- the ability of Paramount to market its oil, bitumen, natural gas and NGLs 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 and NGLs yields) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

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

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

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

NON-GAAP MEASURES

In this document "Funds flow from operations", "Netback", "Net Debt", "Adjusted Working Capital", "Exploration and development expenditures" 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 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 development expenditures** refer to capital expenditures and geological and geophysical costs incurred by the Company's COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity. **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 Energy, Marquee, 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	
NGLs	Natural gas liquids
Bbl	Barrels of crude oil or NGLs
Bbl/d	Barrels of crude oil or NGLs per day

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

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

Equivalency Measures

All oil and 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 and natural gas liquids.

During the first half of 2014, the value ratio between crude oil and natural gas was approximately 18:1. 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.

Potential Sales Volumes

"Potential Sales Volumes" means the potential volumes of saleable natural gas and NGLs (expressed on a combined basis in Boe/d) that could result from processing the associated quantities of raw natural gas set out in the "Net Paramount Raw Gas Capacity" column. These potential sales volumes should not be construed as a projection of Paramount's Kaybob area production at or by any particular date, as they will include some unavoidably commingled third-party production, and are subject to a number of factors and contingencies including the following: (a) production volumes sufficient to fill Paramount's processing capacity will not be available in all periods and under certain conditions; (b) during maintenance periods and at other times, the processing facilities will not operate at design capacity; and (c) NGLs sales volumes will vary depending on the liquids content of individual wells and the manner in which the facilities are operated.

The potential sales volumes for each facility, other than the 6-18 Plant and 3-15 Plant (the "New Plants"), have been estimated assuming that natural gas processing and condensate stabilization capacity is fully utilized. The potential sales volumes for the New Plants have been estimated assuming that natural gas processing and condensate stabilization capacity is fully utilized, except for approximately 5,000 Bbl/d of potential sales volumes for each New Plant related to oversized condensate stabilization capacity.

PARAMOUNT RESOURCES LTD.
Interim Condensed Consolidated Balance Sheet
($ thousands)

As at	Note	June 30 2014	December 31 2013
ASSETS		**(Unaudited)**	
Current assets			
Cash and cash equivalents		**$ 31,337**	$ 10,703
Accounts receivable		**37,426**	39,300
Risk management	16	**489**	—
Prepaid expenses and other		**3,614**	2,252
		72,866	52,255
Deposit		**20,539**	20,437
Exploration and evaluation	5	**554,755**	429,911
Property, plant and equipment, net	6	**1,757,884**	1,573,011
Equity-accounted investments	7	**105,340**	104,314
Investments in securities	8	**192,836**	145,661
Deferred income tax		**141,071**	119,090
Goodwill		**24,733**	3,124
		$ 2,870,024	$ 2,447,803
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	**$ 77,226**	$ 75,550
Accounts payable and accrued liabilities		**186,346**	213,581
Risk management	16	**4,476**	3,972
		268,048	293,103
Long-term debt	10	**1,156,739**	882,603
Asset retirement obligations	11	**238,068**	239,853
		1,662,855	1,415,559
Shareholders' equity			
Share capital	12	**1,267,907**	1,169,178
Accumulated deficit		**(180,387)**	(224,612)
Reserves	13	**119,649**	87,678
		1,207,169	1,032,244
		$ 2,870,024	$ 2,447,803

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

($ thousands, except as noted)

	Note	Three months ended June 30 **2014**	Three months ended June 30 2013	Six months ended June 30 **2014**	Six months ended June 30 2013
Petroleum and natural gas sales		**$ 80,028**	$ 59,428	**$ 166,246**	$ 118,952
Royalties		**(3,704)**	(415)	**(9,332)**	(4,755)
Revenue		**76,324**	59,013	**156,914**	114,197
Gain (loss) on financial commodity contracts	16	**(2,882)**	1,594	**(5,215)**	1,594
		73,442	60,607	**151,699**	115,791
Expenses					
Operating expense		**16,518**	16,008	**34,966**	33,856
Transportation		**6,028**	5,192	**12,525**	10,150
General and administrative		**5,961**	5,903	**12,849**	10,920
Stock-based compensation	14	**5,738**	6,365	**12,295**	11,461
Depletion and depreciation		**39,436**	39,015	**82,154**	81,068
Exploration and evaluation	5	**8,107**	16,249	**16,208**	26,604
Gain on sale of property, plant and equipment		**(79,029)**	(10,611)	**(96,601)**	(22,407)
Interest		**17,184**	13,327	**32,792**	26,168
Accretion of asset retirement obligations	11	**1,487**	—	**3,036**	—
Foreign exchange		**33**	964	**124**	504
		21,463	92,412	**110,348**	178,324
Income from equity-accounted investments	7	**14,166**	2,807	**16,147**	4,309
Other income		**1,530**	1,278	**2,676**	2,198
Income (loss) from continuing operations before tax		**67,675**	(27,720)	**60,174**	(56,026)
Income tax expense (recovery)	15				
Current		**—**	316	**82**	4,609
Deferred		**14,566**	(5,897)	**15,867**	(10,824)
		14,566	(5,581)	**15,949**	(6,215)
Income (loss) from continuing operations		**53,109**	(22,139)	**44,225**	(49,811)
Income from discontinued operations, net of tax	4	**—**	—	**—**	28,030
Net income (loss)		**$ 53,109**	$ (22,139)	**$ 44,225**	$ (21,781)
Other comprehensive income (loss), net of tax	13				
Change in market value of securities		**8,756**	(13,222)	**37,370**	(5,635)
Exchange differences on translation of US subsidiaries		**—**	980	**—**	393
		8,756	(12,242)	**37,370**	(5,242)
Comprehensive income (loss)		**$ 61,865**	$ (34,381)	**$ 81,595**	$ (27,023)
Net income (loss) per common share ($/share)	12				
Basic – continuing operations		**$ 0.54**	$ (0.24)	**$ 0.45**	$ (0.55)
Basic – discontinued operations		**—**	—	**—**	0.31
Basic		**0.54**	(0.24)	**0.45**	(0.24)
Diluted – continuing operations		**0.53**	(0.24)	**0.45**	(0.55)
Diluted – discontinued operations		**—**	—	**—**	0.31
Diluted		**$ 0.53**	$ (0.24)	**$ 0.45**	$ (0.24)

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

($ thousands)

	Note	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Operating activities					
Net income (loss)		**$ 53,109**	$ (22,139)	**$ 44,225**	$ (21,781)
Add (deduct):					
Items not involving cash	17	**(27,550)**	40,237	**10,595**	48,654
Dividends from equity-accounted investments		**2,010**	2,010	**4,020**	4,020
Asset retirement obligations settled	11	**(467)**	(696)	**(2,514)**	(2,416)
Current tax related to the sale of U.S. properties		**—**	274	**—**	4,547
Change in non-cash working capital		**(19,903)**	(11,326)	**(9,512)**	(1,483)
Cash from operating activities		**7,199**	8,360	**46,814**	31,541
Financing activities					
Net draw of demand loans	9	**71**	6,928	**1,676**	20,343
Net draw of revolving long-term debt	10	**129,525**	—	**273,174**	—
Common shares issued, net of issue costs		**5,578**	153,842	**13,239**	155,455
Common shares purchased under stock incentive plan		**(4,617)**	(3,998)	**(4,617)**	(3,998)
Cash from financing activities		**130,557**	156,772	**283,472**	171,800
Investing activities					
Property, plant and equipment and exploration		**(214,821)**	(119,412)	**(411,414)**	(315,646)
Proceeds on sale of property, plant and equipment		**93,996**	1,119	**97,925**	22,762
Proceeds on sale of discontinued operations, net		**—**	—	**—**	9,062
Cash of MGM Energy Corp. on acquisition	3	**3,200**	—	**3,200**	—
Proceeds on sale of investments, net		**3,736**	—	**10,179**	—
Investments in securities		**—**	—	**—**	(9,000)
Change in non-cash working capital		**(8,199)**	(85,517)	**(9,283)**	(48,092)
Cash used in investing activities		**(122,088)**	(203,810)	**(309,393)**	(340,914)
Net increase (decrease)		**15,668**	(38,678)	**20,893**	(137,573)
Foreign exchange on cash and cash equivalents		**(448)**	592	**(259)**	775
Cash and cash equivalents, beginning of period		**16,117**	47,972	**10,703**	146,684
Cash and cash equivalents, end of period		**$ 31,337**	$ 9,886	**$ 31,337**	$ 9,886
Supplemental cash flow information	17				

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

PARAMOUNT RESOURCES LTD.
Interim Condensed Consolidated Statement of Shareholders' Equity (Unaudited)
($ thousands, except as noted)

Six months ended June 30		2014		2013	
	Note	*Shares (000's)*		*Shares (000's)*	
Share Capital					
Balance, beginning of period		*96,993*	**$ 1,169,178**	*89,857*	$ 921,680
Issued		*854*	**29,763**	*5,444*	190,280
Issued on acquisition of MGM Energy	3	*1,128*	**69,382**	—	—
Change in unvested common shares for stock incentive plan	14	*18*	**(416)**	3	(474)
Balance, end of period		*98,993*	**$ 1,267,907**	*95,304*	$ 1,111,486
Accumulated Deficit					
Balance, beginning of period			**$ (224,612)**		$ (165,527)
Net income (loss)			**44,225**		(21,781)
Balance, end of period			**$ (180,387)**		$ (187,308)
Reserves	13				
Balance, beginning of period			**$ 87,678**		$ 94,947
Other comprehensive income (loss)			**37,370**		(5,242)
Change in contributed surplus			**(5,399)**		(20,359)
Balance, end of period			**$ 119,649**		$ 69,346
Total Shareholders' Equity			**$ 1,207,169**		$ 993,524

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 located in Alberta and British Columbia. The Company's operations are divided into three business segments, 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 Energy"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting along with certain other investees. 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, 2014 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 6, 2014.

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, 2013 (the "Annual Financial Statements"). These Interim Financial Statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted.

These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

Change in Accounting Policies

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

($ thousands, except as noted)

2. SEGMENTED INFORMATION

Three months ended June 30, 2014	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 76,324	$ —	$ —	$ —	**$ 76,324**
Loss on financial commodity contracts	(2,882)	—	—	—	**(2,882)**
	73,442	—	—	—	**73,442**
Expenses					
Operating expense and transportation	22,546	—	—	—	**22,546**
General and administrative	—	1,657	4,304	—	**5,961**
Stock-based compensation	—	1,579	4,159	—	**5,738**
Depletion and depreciation	39,169	2,563	169	(2,465)	**39,436**
Exploration and evaluation	7,827	280	—	—	**8,107**
Gain on sale of property, plant and equipment	(79,029)	—	—	—	**(79,029)**
Interest	—	671	16,513	—	**17,184**
Accretion of asset retirement obligations	1,478	9	—	—	**1,487**
Foreign exchange	—	—	33	—	**33**
	(8,009)	6,759	25,178	(2,465)	**21,463**
Income from equity-accounted investments	—	14,166	—	—	**14,166**
Other	(396)	1,869	57	—	**1,530**
Drilling rig revenue	—	10,721	—	(10,721)	**—**
Drilling rig expense	—	(4,936)	—	4,936	**—**
	81,055	15,061	(25,121)	(3,320)	**67,675**
Inter-segment eliminations	—	(3,320)	—	3,320	**—**
Segment income (loss)	$ 81,055	$ 11,741	$ (25,121)	$ —	**67,675**
Income tax expense					**(14,566)**
Net income					**$ 53,109**

Three months ended June 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 59,013	$ —	$ —	$ —	$ 59,013
Gain on financial commodity contracts	1,594	—	—	—	1,594
	60,607	—	—	—	60,607
Expenses					
Operating expense and transportation	21,200	—	—	—	21,200
General and administrative	—	1,814	4,089	—	5,903
Stock-based compensation	—	1,925	4,440	—	6,365
Depletion and depreciation	38,498	2,569	89	(2,141)	39,015
Exploration and evaluation	15,747	502	—	—	16,249
Gain on sale of property, plant and equipment	(10,198)	(413)	—	—	(10,611)
Interest	—	529	12,798	—	13,327
Foreign exchange	—	—	964	—	964
	65,247	6,926	22,380	(2,141)	92,412
Income from equity-accounted investments	—	2,807	—	—	2,807
Other	558	—	—	—	558
Drilling rig revenue	—	10,607	—	(9,165)	1,442
Drilling rig expense	—	(4,986)	—	4,264	(722)
	(4,082)	1,502	(22,380)	(2,760)	(27,720)
Inter-segment eliminations	—	(2,760)	—	2,760	—
Segment loss	$ (4,082)	$ (1,258)	$ (22,380)	$ —	(27,720)
Income tax recovery					5,581
Net loss					$ (22,139)

($ thousands, except as noted)

Six months ended June 30, 2014	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 156,914	$ —	$ —	$ —	**$ 156,914**
Loss on financial commodity contracts	(5,215)	—	—	—	**(5,215)**
	151,699	—	—	—	**151,699**
Expenses					
Operating expense and transportation	47,491	—	—	—	**47,491**
General and administrative	—	3,799	9,050	—	**12,849**
Stock-based compensation	—	3,137	9,158	—	**12,295**
Depletion and depreciation	81,589	5,511	340	(5,286)	**82,154**
Exploration and evaluation	15,765	443	—	—	**16,208**
Gain on sale of property, plant and equipment	(96,601)	—	—	—	**(96,601)**
Interest	—	1,324	31,468	—	**32,792**
Accretion of asset retirement obligations	3,017	19	—	—	**3,036**
Foreign exchange	—	—	124	—	**124**
	51,261	14,233	50,140	(5,286)	**110,348**
Income from equity-accounted investments	—	16,147	—	—	**16,147**
Other	(789)	3,354	114	—	**2,679**
Drilling rig revenue	—	23,044	—	(23,044)	**—**
Drilling rig expense	—	(11,008)	—	11,005	**(3)**
	99,649	17,304	(50,026)	(6,753)	**60,174**
Inter-segment eliminations	—	(6,753)	—	6,753	**—**
Segment income (loss)	$ 99,649	$ 10,551	$ (50,026)	$ —	**60,174**
Income tax expense					**(15,949)**
Net income					**$ 44,225**

Six months ended June 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 114,197	$ —	$ —	$ —	$ 114,197
Gain on financial commodity contracts	1,594	—	—	—	1,594
	115,791	—	—	—	115,791
Expenses					
Operating expense and transportation	44,006	—	—	—	44,006
General and administrative	—	3,825	7,095	—	10,920
Stock-based compensation	—	1,856	9,605	—	11,461
Depletion and depreciation	79,983	4,137	177	(3,229)	81,068
Exploration and evaluation	26,016	588	—	—	26,604
Gain on sale of property, plant and equipment	(21,994)	(413)	—	—	(22,407)
Interest	—	1,091	25,077	—	26,168
Foreign exchange	—	—	504	—	504
	128,011	11,084	42,458	(3,229)	178,324
Income from equity-accounted investments	—	4,309	—	—	4,309
Other	(84)	—	—	—	(84)
Drilling rig revenue	—	17,854	—	(13,846)	4,008
Drilling rig expense	—	(8,088)	—	6,362	(1,726)
	(12,304)	2,991	(42,458)	(4,255)	(56,026)
Inter-segment eliminations	—	(4,255)	—	4,255	—
Segment loss	$ (12,304)	$ (1,264)	$ (42,458)	$ —	(56,026)
Income tax recovery					6,215
Income from discontinued operations, net of tax					28,030
Net loss					$ (21,781)

($ thousands, except as noted)

3. ACQUISITION

MGM Energy Corp.

On June 11, 2014, Paramount acquired all 338.3 million of the issued and outstanding common shares of MGM Energy Corp. ("MGM Energy") not already owned in exchange for the issuance by Paramount of 1.1 million Class A Common Shares ("Common Shares"), based on an exchange ratio of one Common Share of Paramount for every 300 common shares of MGM Energy. Immediately prior to the acquisition, Paramount owned 54.1 million common shares of MGM Energy (14 percent voting interest). MGM Energy was a publicly traded development stage energy company, the principal business of which was to acquire, exploit and produce oil and natural gas in northern Canada. MGM Energy did not generate revenues and, except for limited periods of testing, MGM Energy's assets have not been placed on production. The acquisition of MGM Energy increased the Company's exploratory land holdings in the Northwest Territories. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction.

The acquisition of MGM Energy was accounted for using the acquisition method whereby all of the assets acquired and liabilities assumed were recorded at fair value. The following table summarizes the net assets acquired:

Cash	$ 3,200
Accounts receivable	234
Prepaid expenses	76
Exploration and evaluation assets	13,909
Deferred income tax asset	48,420
Goodwill	21,609
Accounts payable and accrued liabilities	(108)
Asset retirement obligations	(6,856)
Net assets acquired	**$ 80,484**

Paramount Common Shares issued (1)	$ 69,382
Fair value of MGM Energy shares previously held (2)	11,102
Total	**$ 80,484**

(1) Based on 1.1 million Paramount Common Shares issued and the acquisition date closing price of Paramount Common Shares of $61.52 per share.
(2) Based on 54.1 million MGM Energy common shares held by Paramount prior to the acquisition and the acquisition date closing price of MGM Energy common shares of $0.205 per share.

On the acquisition of MGM Energy, a gain of $10.8 million related to the MGM Energy common shares held by Paramount at the acquisition date was recognized in income from equity-accounted investments, based on the closing market price of the MGM Energy common shares of $0.205 per share. Goodwill recorded on the acquisition is the result of an increase in the trading price of Paramount's Common Shares between the date the Company offered to acquire MGM Energy and the date the transaction closed. The goodwill recognized in the transaction is not deductible for tax purposes. The net assets acquired, including goodwill, have been allocated to the Strategic Investments business segment.

($ thousands, except as noted)

4. DISCONTINUED OPERATIONS

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million. These properties were included in the Company's Principal Properties business segment. Amounts related to these properties from January 1, 2013 to their sale in March 2013 have been classified as discontinued operations and are excluded from the results of the Company's continuing operations.

Details of the income from discontinued operations are presented below:

Six months ended		**June 30, 2013**
Petroleum and natural gas sales	$	1,796
Royalties		(24)
Revenue		1,772
Expenses		
Operating expense		2,841
Transportation		233
Depletion and depreciation		267
Exploration and evaluation		29
		3,370
Loss from ordinary activities of discontinued operations before tax		(1,598)
Gain on sale of discontinued operations		38,985
Income from discontinued operations before tax		37,387
Deferred income tax expense – discontinued operations		9,357
Income from discontinued operations	$	28,030

The cash flows from discontinued operations, including changes in related non-cash working capital items, are as follows:

Six months ended		**June 30, 2013**
Operating	$	(926)
Investing		9,062
Cash flow from discontinued operations	$	8,136

($ thousands, except as noted)

5. EXPLORATION AND EVALUATION

	Six months ended June 30, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	$ 429,911	$ 405,090
Additions	135,089	203,642
Transfers to property, plant and equipment	(1,076)	(137,355)
Corporate acquisition	13,909	—
Dry hole	(318)	(13,862)
Expired lease costs	(11,718)	(14,429)
Dispositions	(11,042)	(13,143)
Foreign exchange	—	(32)
Balance, end of period	$ 554,755	$ 429,911

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Geological and geophysical	$ 1,957	$ 1,876	$ 4,172	$ 3,399
Dry hole	(45)	5,884	318	7,986
Expired lease costs	6,195	8,489	11,718	15,219
	$ 8,107	$ 16,249	$ 16,208	$ 26,604

6. PROPERTY, PLANT AND EQUIPMENT

Six months ended June 30, 2014	Petroleum & natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2013	$ 2,489,356	$ 101,517	$ 27,173	$ 2,618,046
Additions	282,618	1,039	330	283,987
Transfers from exploration and evaluation	1,076	—	—	1,076
Dispositions	(141,711)	—	—	(141,711)
Change in asset retirement provision	20,448	—	—	20,448
Cost, June 30, 2014	2,651,787	102,556	27,503	2,781,846
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2013	$ (997,486)	$ (27,802)	$ (19,747)	$ (1,045,035)
Depletion and depreciation	(82,078)	(5,410)	(443)	(87,931)
Dispositions	109,004	—	—	109,004
Accumulated depletion, depreciation and write-downs, June 30, 2014	(970,560)	(33,212)	(20,190)	(1,023,962)
Net book value, December 31, 2013	1,491,870	73,715	7,426	1,573,011
Net book value, June 30, 2014	$ 1,681,227	$ 69,344	$ 7,313	$ 1,757,884

In the first quarter of 2014, the Company sold its properties in the Chain-Delia area of Alberta in exchange for $11.7 million in common shares of Marquee Energy Ltd. ("Marquee"). In the second quarter of 2014, Paramount sold a 50 percent working interest in its Birch properties in northeast British Columbia for $91.5 million cash.

7. EQUITY ACCOUNTED INVESTMENTS

As at	June 30, 2014			December 31, 2013		
	Shares (000's)	**Carrying Value**	**Market Value (1)**	*Shares (000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	**$ 99,784**	**$ 559,015**	*19,144*	$ 97,391	$ 528,383
MGM Energy	—	—	—	*54,147*	1,212	8,664
Other		**5,556**			5,711	
		$105,340			$104,314	

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

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Equity earnings	**$ 3,251**	$ 2,505	**$ 5,206**	$ 3,821
Dilution gain	**125**	302	**151**	488
Gain on MGM Energy shares on acquisition	**10,790**	—	**10,790**	—
	$ 14,166	$ 2,807	**$ 16,147**	$ 4,309

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

As at June 30	2014	2013
Current assets	**$ 83,173**	$ 82,365
Non-current assets (1)	**1,647,091**	1,460,712
Current liabilities	**(175,758)**	(106,743)
Non-current liabilities	**(858,011)**	(898,305)
Equity	**$ 696,495**	$ 538,029
Multiply by: Paramount's equity interest	**15.22%**	16.25%
Paramount's proportionate share of equity	**$ 106,031**	$ 87,408
Less: share of share-based compensation recorded in equity of Trilogy	**(6,247)**	(4,088)
Carrying value of Paramount's investment	**$ 99,784**	$ 83,320

(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, 2014 totaled $1,643,322 (2013 – $1,426,848) and equity totaled $692,726 (2013 – $504,165).

	Six months ended June 30	
	2014	2013
Revenue	**$ 292,967**	$ 262,460
Comprehensive income (1)	**41,007**	27,224
Paramount's share of Trilogy's comprehensive income	**$ 6,254**	$ 4,433

(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 the open market in prior years. Excluding such adjustments, Trilogy's comprehensive income for the six months ended June 30, 2014 was $45,618 (2013 – $29,661).

Trilogy had 6.6 million stock options outstanding (2.0 million exercisable) at June 30, 2014 at exercise prices ranging from $4.85 to $38.74 per share.

8. INVESTMENTS IN SECURITIES

As at	June 30, 2014		December 31, 2013	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	*3,700*	**$ 143,893**	*3,700*	$ 113,257
Other (1)		**48,943**		32,404
		$ 192,836		$ 145,661

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

9. DEMAND FACILITIES

As at	June 30, 2014	December 31, 2013
Drilling Rig Facilities	**$ 49,920**	$ 53,000
Cavalier Facility	**27,306**	22,550
	$ 77,226	$ 75,550

10. LONG-TERM DEBT

As at	June 30, 2014	December 31, 2013
Bank credit facility	**$ 345,000**	$ 71,826
8¼% Senior Notes due 2017	**370,000**	370,000
7⅝% Senior Notes due 2019	**450,000**	450,000
	1,165,000	891,826
Unamortized financing costs, net of premiums	**(8,261)**	(9,223)
	$ 1,156,739	$ 882,603

In June 2014, Paramount's bank credit facility (the "Facility") was increased from $600 million to $700 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $600 million and is available on a revolving basis to November 30, 2014. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $100 million and is due November 30, 2014 in the event the due date is not earlier extended.

As at June 30, 2014, $345.0 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at June 30, 2014 totaling $47.8 million that reduce the amount available to the Company.

The Senior Notes due 2017 had a market value of 104.3 percent of their principal amount at June 30, 2014 (December 31, 2013 – 103.5 percent). The Senior Notes due 2019 had a market value of 106.4 percent of their principal amount at June 30, 2014 (December 31, 2013 – 101.0 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.

11. ASSET RETIREMENT OBLIGATIONS

	Six months ended June 30, 2014	Twelve months ended December 31, 2013
Asset retirement obligations, beginning of period	$ 239,853	$ 300,468
Retirement obligations incurred	4,870	35,749
Revisions to estimated retirement costs and discount rates	16,081	(45,321)
Obligations settled	(2,514)	(6,336)
Dispositions	(30,114)	(48,087)
Assumed on corporate acquisition	6,856	—
Accretion expense	3,036	3,099
Other	—	281
Asset retirement obligations, end of period	$ 238,068	$ 239,853

Asset retirement obligations at June 30, 2014 were determined using a weighted average risk-free rate of 2.50 percent (December 31, 2013 – 3.00 percent) and an inflation rate of 2.00 percent (December 31, 2013 – 2.00 percent).

12. SHARE CAPITAL

At June 30, 2014, 98,992,596 (December 31, 2013 – 96,993,129) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 54,199 (December 31, 2013 – 71,495) Common Shares held in trust under the stock incentive plan.

In July 2014, Paramount issued 4,600,000 Common Shares at a price of $60.00 per share and 900,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of $74.40 per share for aggregate gross proceeds of $343.0 million pursuant to a public offering. Concurrent with the public offering, Paramount issued 100,000 Common Shares on a "flow-through" basis in respect of CEE at a price of $74.40 per share to Paramount's Chairman and Chief Executive Officer for gross proceeds of $7.4 million.

Income (Loss) per Weighted Average Common Share

Three months ended June 30	**2014**		2013	
	Wtd. Avg. Shares (000's)	**Income from continuing operations**	*Wtd. Avg. Shares (000's)*	Loss from continuing operations
Income (loss) from continuing operations – basic	*98,043*	$ 53,109	*92,826*	$ (22,139)
Dilutive effect of Paramount options	*1,904*	—	—	—
Income (loss) from continuing operations – diluted	*99,947*	$ 53,109	*92,826*	$ (22,139)

Six months ended June 30	**2014**		2013	
	Wtd. Avg. Shares (000's)	**Income from continuing operations**	*Wtd. Avg. Shares (000's)*	Loss from continuing operations
Income (loss) from continuing operations – basic	*97,675*	$ 44,225	*91,407*	$ (49,811)
Dilutive effect of Paramount options	*1,488*	—	—	—
Income (loss) from continuing operations – diluted	*99,163*	$ 44,225	*91,407*	$ (49,811)

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 considered potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to income from continuing operations. The Company had 5.8 million Paramount Options outstanding at June 30, 2014 (June 30, 2013 – 5.5 million) of which 0.1 million (June 30, 2013 – 5.5 million) were anti-dilutive.

($ thousands, except as noted)

13. RESERVES

Reserves at June 30, 2014 include unrealized gains and losses related to changes in the market value of the Company's investments in available-for-sale securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains on securities	Contributed surplus	Total
Balance, December 31, 2013	$ 12,787	$ 74,891	**$ 87,678**
Other comprehensive income	37,370	—	**37,370**
Stock-based compensation	—	11,196	**11,196**
Stock options exercised	—	(16,595)	**(16,595)**
Balance, June 30, 2014	**$ 50,157**	**$ 69,492**	**$ 119,649**

Other Comprehensive Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Unrealized gain (loss) on securities				
Change in market value of securities	**$ 11,135**	$ (13,123)	**$ 41,265**	$ (5,536)
Reclassification of other comprehensive income to earnings	**(1,877)**	—	**(2,914)**	—
Deferred tax	**(502)**	(99)	**(981)**	(99)
	8,756	(13,222)	**37,370**	(5,635)
Translation of foreign subsidiaries				
Exchange differences on translation of US subsidiaries	**—**	—	**—**	(587)
Reclassification of other comprehensive income to earnings	**—**	980	**—**	980
	—	980	**—**	393
Other comprehensive income (loss)	**$ 8,756**	$ (12,242)	**$ 37,370**	$ (5,242)

14. SHARE-BASED COMPENSATION

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Six months ended June 30, 2014		Twelve months ended December 31, 2013	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		($/share)		*($/share)*
Balance, beginning of period	**6,632,200**	**$ 31.20**	6,667,850	$ 23.58
Granted	**115,000**	**49.43**	1,865,000	37.37
Exercised	**(856,100)**	**15.39**	(1,747,650)	8.66
Forfeited	**(104,000)**	**35.14**	(153,000)	31.98
Balance, end of period	**5,787,100**	**$ 33.82**	6,632,200	$ 31.20
Options exercisable, end of period	**1,554,150**	**$ 29.04**	2,407,250	$ 24.21

Stock Incentive Plan – Shares Held in Trust

	Six months ended June 30, 2014		Twelve months ended December 31, 2013	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	*72*	**$ 500**	*75*	$ 416
Shares purchased	*92*	**4,617**	*113*	3,998
Change in vested and unvested shares	*(110)*	**(4,201)**	*(116)*	(3,914)
Balance, end of period	*54*	**$ 916**	*72*	$ 500

15. 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**	
	2014	2013	**2014**	2013
Income (loss) from continuing operations before tax	**$ 67,675**	$ (27,720)	**$ 60,174**	$ (56,026)
Effective Canadian statutory income tax rate	**25.0%**	25.0%	**25.0%**	25.0%
Expected income tax expense (recovery)	**$ 16,919**	$ (6,930)	**$ 15,044**	$ (14,007)
Effect on income taxes of:				
Statutory and other rate differences	**109**	241	**128**	1,976
Income from equity-accounted investments	**(3,542)**	(703)	**(4,037)**	(1,075)
Investment in subsidiaries	**—**	382	**—**	1,709
Flow-through share renunciations	**—**	—	**2,617**	3,618
Stock-based compensation	**1,325**	1,497	**2,619**	2,434
Non-deductible items and other	**(245)**	(68)	**(422)**	(870)
Income tax expense (recovery)	**$ 14,566**	$ (5,581)	**$ 15,949**	$ (6,215)

($ thousands, except as noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at June 30, 2014 are as follows:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil - NYMEX WTI Swap	2,000 Bbl/d	US$91.78/Bbl	(4,476)	July - December 2014
Natural Gas - AECO Swap	20,000 GJ/d	CAD$4.45/GJ	489	July - October 2014
			$ (3,987)	

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

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

	Six months ended June 30, 2014	Twelve months ended December 31, 2013
Fair value, beginning of period	$ (3,972)	$ —
Changes in fair value	(5,215)	(3,972)
Settlements paid	5,200	—
Fair value, end of period	$ (3,987)	$ (3,972)

17. CONSOLIDATED STATEMENT OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Financial commodity contracts	$ (347)	$ (1,594)	$ 15	$ (1,594)
Stock-based compensation	5,738	6,365	12,295	11,461
Depletion and depreciation	39,436	39,015	82,154	81,068
Exploration and evaluation	6,150	14,373	12,036	23,205
Gain on sale of property, plant, and equipment	(79,029)	(10,611)	(96,601)	(22,407)
Accretion of asset retirement obligations	1,487	—	3,036	—
Foreign exchange	7	979	304	607
Income from equity-accounted investments	(14,166)	(2,807)	(16,147)	(4,309)
Deferred income tax	14,566	(5,897)	15,867	(10,824)
Discontinued operations	—	—	—	(29,361)
Other	(1,392)	414	(2,364)	808
	$ (27,550)	$ 40,237	$ 10,595	$ 48,654

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Interest paid	$ 38,037	$ 29,060	$ 42,109	$ 30,853
Current tax paid	$ —	$ 5,266	$ 502	$ 5,266

($ thousands, except as noted)

18. COMMITMENTS

Paramount had the following commitments as at June 30, 2014:

	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)	$ 62,008	$ 445,231	$ 669,885
Operating leases	2,346	8,228	5,940
Capital spending commitments and other	2,760	13,000	–
	$ 67,114	**$ 466,459**	**$ 675,825**

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $31.8 million at June 30, 2014 (December 31, 2013 - $32.3 million).

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Chairman of the Board and
Chief Executive Officer

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P. G. Tahmazian
V.P. Midstream

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

L. A. Friesen
Assistant Corporate Secretary

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Chief Executive Officer
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Calgary, Alberta

J. H. T. Riddell
President and
Chief Operating Officer
Paramount Resources Ltd.
Calgary, Alberta

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

D. Jungé C.F.A. (2) (4)
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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.
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J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

B. M. Wylie (2)
Business Executive
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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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The Toronto-Dominion Bank
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Canadian Imperial Bank of Commerce
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Canadian Western Bank
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Caisse centrale Desjardins
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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)