Paramount resources ltd.

Q2

Second Quarter Report 2015

PARAMOUNT RESOURCES LTD. ANNOUNCES SECOND QUARTER 2015 RESULTS; SALES VOLUMES INCREASE 107% TO 42,604 BOE/D; LIQUIDS SALES VOLUMES INCREASE 320% TO 16,877 BBL/D

August 5, 2015 Calgary, Alberta

OIL AND GAS OPERATIONS

- Second quarter 2015 sales volumes were 42,604 Boe/d, 107 percent higher than the second quarter of 2014, despite transportation curtailments and processing facility outages in May and June.

- Sales volumes averaged approximately 50,000 Boe/d in July 2015 as production increased following the easing of downstream disruptions.

- Second quarter 2015 liquids sales volumes totaled 16,877 Bbl/d, 320 percent higher than the same period in 2014, including 7,595 Bbl/d of condensate and oil.

- Liquids sales comprised 59 percent of total revenue and 40 percent of total sales volumes in the second quarter of 2015.

- Operating expense per Boe was $5.81 in the second quarter of 2015, a 29 percent improvement from the second quarter of 2014.

- Netbacks in the second quarter of 2015 were $54.3 million compared to $53.8 million in the same period in 2014, as the growth in sales volumes and the reduction in per-unit operating costs were offset by significantly lower natural gas and liquids prices.

CORPORATE

- In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 and redeemed its $370 million senior unsecured notes due 2017, yielding net proceeds of $170 million.

- Also in June 2015, the Company's bank credit facility (the "Facility") was increased by $100 million to $1.0 billion following a scheduled mid-year review. As of July 31, 2015, the Company had $39.8 million in cash and $627.0 million of borrowings outstanding under the Facility.

- In May 2015, Moody's Investors Services upgraded Paramount's Corporate Family Rating to "B1", stable outlook based on projected increases in production, particularly higher condensate and Other NGLs volumes. Standard and Poor's Ratings Services affirmed Paramount's corporate credit rating of "B", positive outlook.

- In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

- The Company continues to have liquids hedging contracts in place for 3,000 Bbl/d for the second half of 2015 at an average WTI price of C$74.06/Bbl and 6,000 Bbl/d for calendar 2016 at an average WTI price of C$75.72/Bbl.

OUTLOOK

Paramount's ability to increase sales volumes following the start-up of the condensate stabilizer expansion in May 2015 was impacted by natural gas transportation curtailments, a downstream NGLs fractionation facility turnaround and operational maintenance at the Musreau Deep Cut Facility. With downstream capacity constraints easing in July, the Company has increased throughput at the Musreau Deep Cut Facility and begun to bring additional liquids-rich Montney wells on production.

Paramount's Kaybob area production volumes are anticipated to be impacted by scheduled maintenance outages in the second half of 2015, including a third-party NGLs pipeline outage the Company recently became aware of. Sales volumes for the remainder of the year are expected to average approximately 56,000 Boe/d, with liquids comprising approximately 45 percent of total volumes.

The Company's 2015 capital budget remains at $400 million, of which $319.0 million was incurred in the first half of the year. Activities for the remainder of the year will be focused on completing, equipping and producing previously drilled wells.

FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2015	2014	*% Change*	2015	2014	*% Change*
Sales volumes						
Natural gas (MMcf/d)	154.4	99.4	*55*	151.5	102.0	*49*
Condensate and oil (Bbl/d)	7,595	3,212	*136*	7,092	2,950	*140*
Other NGLs (Bbl/d) [2]	9,282	810	*1,046*	8,131	851	*855*
Total (Boe/d)	42,604	20,585	*107*	40,472	20,805	*95*
% Liquids	*40%*	*20%*		*38%*	*18%*	
Petroleum and natural gas sales	94.6	80.0	*18*	174.8	166.2	*5*
Average realized price ($/Boe)	24.40	42.72	*(43)*	23.86	44.15	*(46)*
Operating expense per Boe ($/Boe)	5.81	8.21	*(29)*	5.59	8.92	*(37)*
Netback	54.3	53.8	*1*	99.4	109.4	*(9)*
$/Boe	*14.00*	*28.71*		*13.56*	*29.06*	
Funds flow from operations	19.6	29.5	*(34)*	35.3	63.0	*(44)*
per share – diluted ($/share)	*0.19*	*0.30*		*0.34*	*0.64*	
Net Income (loss)	(60.2)	53.1	*(213)*	(130.5)	44.2	*(395)*
per share – diluted ($/share)	*(0.57)*	*0.53*		*(1.24)*	*0.45*	
Principal Properties Capital [3]	88.1	197.9	*(55)*	276.3	366.6	*(25)*
Cash proceeds from divestitures [4]	–	94.0	*(100)*	5.5	97.9	*(94)*
Investments in other entities – market value [5]				227.3	757.4	*(70)*
Total assets				3,522.4	2,870.0	*23*
Net Debt				1,746.2	1,356.2	*29*
Common shares outstanding (thousands)				106,212	99,047	*7*

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Other NGLs means ethane, propane and butane.
(3) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.
(4) Excludes shares of other companies and/or properties received in consideration for properties sold.
(5) Based on the period-end closing prices of publicly-traded investments 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 six months ended June 30, 2015 contained herein which also includes supplemental advisories related to additional information included in this document.

REVIEW OF OPERATIONS

FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

	Q2 2015	Q1 2015	% Change
Sales volumes			
Natural gas (MMcf/d)	154.4	148.6	4
Condensate and oil (Bbl/d)	7,595	6,583	15
Other NGLs (Bbl/d) [2]	9,282	6,968	33
Total (Boe/d)	42,604	38,317	11
Liquids proportion	*40%*	*35%*	
Sales volumes by COU (Boe/d)			
Kaybob	35,473	30,347	17
Grande Prairie	5,645	6,643	(15)
Other	1,486	1,327	12
Total	42,604	38,317	11

Netback	$/Boe [3]	Q2 2015	$/Boe [3]	Q1 2015	% change in $/Boe
Natural gas revenue	2.74	38.5	2.99	40.0	(8)
Condensate and oil revenue	65.66	45.4	48.16	28.5	36
Other NGLs revenue [2]	12.18	10.3	16.43	10.3	(26)
Royalty and sulphur revenue	–	0.4	–	1.4	–
Petroleum and natural gas sales	24.40	94.6	23.26	80.2	5
Royalties	(0.36)	(1.4)	(0.91)	(3.1)	(60)
Operating expense	(5.81)	(22.5)	(5.36)	(18.5)	8
Transportation and NGLs processing [4]	(4.23)	(16.4)	(3.93)	(13.5)	8
Netback	14.00	54.3	13.06	45.1	7

	Q2 2015	Q1 2015	% Change
Capital Expenditures [5]			
Wells and exploration	61.4	135.8	(55)
Facilities and gathering	26.7	52.4	(49)
Principal Properties Capital [6]	88.1	188.2	(53)
Strategic Investments	12.8	29.9	(57)
	100.9	218.1	(54)
Principal Properties Capital By COU			
Kaybob	36.6	141.9	(74)
Grande Prairie	26.8	22.1	21
Other	24.7	24.2	2
	88.1	188.2	(53)

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Other NGLs means ethane, propane and butane.
(3) Natural gas revenue shown per Mcf.
(4) Includes downstream natural gas, NGLs and oil transportation costs and NGLs fractionation costs incurred by the Company.
(5) Includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties and Strategic Investments, and excludes land and property acquisitions, capitalized interest and corporate capital expenditures.
(6) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, and excludes land acquisitions and capitalized interest.

PRINCIPAL PROPERTIES

Paramount's sales volumes increased to approximately 47,000 Boe/d in May 2015 following the successful start-up of the Company's 15,000 Bbl/d Musreau condensate stabilizer expansion (the "Stabilizer Expansion"). In late-May and for portions of June, transportation curtailments and outages at processing facilities limited the Company's production, including a turnaround at a downstream fractionation facility which required Paramount to shut down its 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") for ten days. These production curtailments also delayed the start-up of additional wells planned for the second quarter. As a result, the Company's second quarter sales volumes averaged 42,604 Boe/d. Sales volumes increased to approximately 50,000 Boe/d in July 2015 as the disruptions were alleviated.

Second quarter liquids sales volumes averaged 16,877 Bbl/d, 25 percent higher than the previous quarter, of which 7,595 Bbl/d was condensate and oil. Liquids volumes increased to 40 percent of total sales volumes compared to 35 percent in the first quarter of 2015. As additional liquids-rich 100 percent working interest wells are brought on production in the second half of the year, Musreau area Montney production is expected to be in excess of 55 percent of total Company sales volumes. These wells will contribute to an increasing proportion of liquids in the Company's sales mix.

Paramount's Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Despite negative market prices for propane in the second quarter of 2015 due to a supply and demand imbalance, the Company's liquids-rich natural gas project continues to be economic. Propane is only a small fraction of the Company's sales mix, representing approximately seven percent of total sales volumes in the second quarter of 2015.

Paramount's netbacks in the second quarter of 2015 increased 20 percent to $54.3 million compared to $45.1 million in the previous quarter as a result of higher condensate prices and higher sales volumes, partially offset by higher operating and transportation costs. The Company's second quarter operating expenses were approximately $3.50 per Boe for the Kaybob area and $5.81 per Boe for the total Company.

Principal Properties Capital spending was $88.1 million in the second quarter of 2015, a decrease of 53 percent from the $188.2 million invested in the first quarter of 2015. The majority of well capital in the first half of 2015 was focused on drilling and completion programs in the Kaybob and Grande Prairie areas. Facilities and gathering expenditures were primarily related to the completion of the Stabilizer Expansion at Musreau, expansions to Kaybob area gathering systems and the construction of a new compression facility at Birch in northeast British Columbia.

Kaybob – Musreau, Resthaven, Smoky

The Musreau Deep Cut Facility was shut down for five days at the beginning of May to complete final tie-in work for the Stabilizer Expansion. The additional condensate stabilization capacity has allowed new 100 percent working interest Montney wells to be brought on and resulted in the Company's working interest share of natural gas volumes processed through the facility increasing from 78 percent in January 2015 to 87 percent in July 2015.

Paramount's ability to ramp-up Musreau area production volumes following the start-up of the Stabilizer Expansion was impacted by unscheduled transportation curtailments and an unanticipated turnaround at a third-party downstream fractionation facility, which caused the shutdown of the Musreau Deep Cut

Facility for ten days in June. As a result of these disruptions, raw natural gas volumes at the inlet of the Musreau Deep Cut Facility were curtailed and June sales volumes were reduced by approximately 10,000 Boe/d. Throughput at the Musreau Deep Cut Facility was also constrained at times during May and June for operational maintenance of sales compressors and other equipment, which reduced second quarter sales volumes by approximately 2,500 Boe/d.

The Company is working to optimize operating conditions at the Musreau Deep Cut Facility, including reducing operating temperatures, to maximize the recovery of ethane. Second quarter sales volumes were impacted by approximately 2,500 Bbl/d because the facility was operating at temperatures warmer than design levels.

The start-up of new wells previously scheduled for the second quarter was delayed as a result of the constraints at the Musreau Deep Cut Facility and at downstream facilities. These wells are being brought on in the third quarter along with other wells that are currently being completed and tied-in.

The table below summarizes the average production rates and wellhead condensate-gas ratios ("CGRs") for Paramount's Musreau area Montney wells over their initial 30, 90 and 180 days of production. Most of these wells have been produced intermittently and/or at restricted rates at times during their initial production periods because of processing and transportation constraints.

	MUSREAU MONTNEY WELLS (1)											
	Rich Wells				Ultra-Rich Wells				Total Rich & Ultra-Rich Wells			
	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Wells	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Wells	Natural Gas (2)	Wellhead Liquids (2)	CGR (3)	Wells
	(MMcf/d)	*(Bbl/d)*	*(Bbl/MMcf)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*		*(MMcf/d)*	*(Bbl/d)*	*(Bbl/MMcf)*	
IP30	5.0	627	126	*26*	2.2	820	365	*8*	4.3	672	155	*34*
IP90	3.8	408	108	*17*	1.8	576	312	*8*	3.2	462	146	*25*
IP180	2.8	230	82	*10*	1.7	494	296	*6*	2.4	329	138	*16*

(1) As of July 31, 2015. Onstream dates of wells range from January 2012 to May 2015.
(2) Production rates are the average gross volumes per day measured at the wellhead over the initial 30, 90 and 180 producing days commencing from the day after load oil volumes were completely recovered (the "Post-load Recovery Period). Sales volumes are approximately 20% lower due to shrinkage.
(3) CGRs were calculated for each well over the applicable Post-load Recovery Period by dividing total liquids volumes by total natural gas volumes during such period.

In July, completion operations commenced on nine previously drilled wells at Musreau. Four of the wells were completed by the end of the month using oil-based fluids and 100 tonnes of proppant per stage. Two additional wells were completed using water-based fluids with 125 tonnes of proppant per stage to evaluate an alternative completion approach. The remaining three wells will be completed using oil-based fluids in early August. All nine wells are scheduled to be brought on production in the third quarter as completion operations conclude and surface equipment is installed.

Paramount recently commissioned gathering system expansions in the Musreau area which provides incremental field gathering capacity from existing pads to the Musreau Deep Cut Facility and capacity for future developments.

Grande Prairie – Karr

Sales volumes in the Grande Prairie area were 5,645 Boe/d in the second quarter of 2015 compared to 6,643 Boe/d in the prior quarter. Second quarter sales volumes were impacted by approximately 1,100 Boe/d due to the temporary shut-in of wells at Karr-Gold Creek for the installation of wellsite equipment to optimize long-term production. A scheduled turnaround at a third-party natural gas processing facility also shut-in production at Karr-Gold Creek for 13 days in June, which reduced second quarter sales volumes by approximately 500 Boe/d.

The Company drilled 6 (5.5 net) wells at Karr-Gold Creek in 2015 and has completed its drilling program for the year. Activities at Karr-Gold Creek in the second half of the year will focus on re-starting the wells temporarily shut-in for equipment installation and completing and bringing-on new wells drilled earlier in the year. Long-lead-time equipment for the 40 MMcf/d expansion of the Karr-Gold Creek compression facility is currently being fabricated.

Future Montney Development

Paramount is continuing to plan for the construction of the next natural gas processing plant and related infrastructure at Musreau. The new facility is being designed with refrigeration processing capacity of 100 MMcf/d and will include oversized condensate stabilization, amine processing and infrastructure components to allow for future expansion. The Company is currently evaluating financing alternatives, with construction anticipated to commence before the end of the year.

Other Areas

Paramount has drilled a total of 4 (2 net) Duvernay wells at Willesden Green in southern Alberta. Two of the wells have been brought on production and a third well is currently being completed.

Paramount is participating in the construction of a new compression and dehydration facility at Birch in northeast British Columbia that is scheduled to be completed in the third quarter. This new facility will allow currently shut in wells to be produced.

STRATEGIC INVESTMENTS

FOX drilling

Fox Drilling's two new triple-sized built-for-purpose walking rigs are expected to be completed in the fourth quarter. Construction is ahead of schedule and the final cost of the new rigs is expected to be less than the $50 million total budget. These new rigs are expected to be deployed on Paramount's Deep Basin lands in the coming winter drilling season.

CORPORATE

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 and redeemed its $370 million senior unsecured notes due 2017, yielding net proceeds of $170 million. Also in June 2015, the Company's bank credit facility (the "Facility") was increased by $100 million to $1.0 billion following a scheduled mid-year review. As of July 31, 2015, the Company had $39.8 million in cash and $627.0 million of borrowings outstanding under the Facility.

In May 2015, Moody’s Investors Services upgraded Paramount’s Corporate Family Rating to "B1", stable outlook based on projected increases in production, particularly higher condensate and Other NGLs volumes. Standard and Poor’s Ratings Services affirmed Paramount’s corporate credit rating of "B", positive outlook.

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million. The Company continues to have liquids hedging contracts in place for 3,000 Bbl/d for the second half of 2015 at an average WTI price of C$74.06/Bbl and 6,000 Bbl/d for calendar 2016 at an average WTI price of C$75.72/Bbl.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 5, 2015, 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, 2015 and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2014. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

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

ABOUT PARAMOUNT

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

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

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

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

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

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

FINANCIAL AND OPERATING HIGHLIGHTS [(1)]

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
FINANCIAL				
Petroleum and natural gas sales	94.6	80.0	174.8	166.2
Funds flow from operations	19.6	29.5	35.3	63.0
per share – basic ($/share)	*0.19*	*0.30*	*0.34*	*0.65*
per share – diluted ($/share)	*0.19*	*0.30*	*0.34*	*0.64*
Net income (loss)	(60.2)	53.1	(130.5)	44.2
per share – basic ($/share)	*(0.57)*	*0.54*	*(1.24)*	*0.45*
per share – diluted ($/share)	*(0.57)*	*0.53*	*(1.24)*	*0.45*
Principal Properties Capital [(2)]	88.1	197.9	276.3	366.6
Investments in other entities – market value [(3)]			227.3	757.4
Total assets			3,522.4	2,870.0
Long-term debt			1,694.7	1,156.7
Net debt			1,746.2	1,356.2
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	154.4	99.4	151.5	102.0
Condensate and oil (Bbl/d)	7,595	3,212	7,092	2,950
Other NGLs (Bbl/d) [(4)]	9,282	810	8,131	851
Total (Boe/d)	42,604	20,585	40,472	20,805
Net wells drilled	4	22	29	34
FUNDS FLOW FROM OPERATIONS ($/Boe)				
Petroleum and natural gas sales	24.40	42.72	23.86	44.15
Royalties	(0.36)	(1.98)	(0.62)	(2.48)
Operating expense	(5.81)	(8.21)	(5.59)	(8.92)
Transportation and NGLs processing [(5)]	(4.23)	(3.82)	(4.09)	(3.69)
Netback	14.00	28.71	13.56	29.06
Financial commodity contract settlements	–	(1.72)	–	(1.38)
Netback including commodity contract settlements	14.00	26.99	13.56	27.68
General and administrative – corporate	(1.51)	(2.30)	(1.50)	(2.40)
General and administrative – strategic investments	(0.37)	(0.88)	(0.37)	(1.01)
Interest and financing	(7.10)	(8.94)	(6.94)	(8.47)
Dividends from investments	–	1.07	–	1.07
Other	0.04	(0.18)	0.07	(0.14)
Funds flow from operations	5.06	15.76	4.82	16.73

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

CONSOLIDATED RESULTS

Net Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Principal Properties	(38.5)	81.1	(84.9)	99.7
Strategic Investments	(11.4)	11.7	(20.9)	10.5
Corporate	(48.8)	(25.1)	(79.8)	(50.0)
Income tax recovery (expense)	38.5	(14.6)	55.1	(16.0)
Net income (loss)	(60.2)	53.1	(130.5)	44.2

Paramount recorded a net loss of $60.2 million for the three months ended June 30, 2015 compared to net income of $53.1 million in the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended June 30	
Net income – 2014	53.1
• Loss on the sale of oil and gas properties in 2015 compared to a gain in 2014	(79.2)
• Higher depletion and depreciation due to higher sales volumes	(43.4)
• Loss from equity-accounted investments in 2015 compared to income in 2014	(18.2)
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	(12.0)
• Higher interest and financing expense due to increased debt	(10.8)
• Write-down of investments in securities in 2015	(3.2)
• Higher loss on financial commodity contracts	(2.2)
• Income tax recovery in 2015 compared to an expense in 2014	53.0
• Lower exploration and evaluation expense mainly due to lower expired lease costs	4.5
• Other	(1.8)
Net loss – 2015	(60.2)

Paramount recorded a net loss of $130.5 million for the six months ended June 30, 2015 compared to net income of $44.2 million in the same period in 2014. Significant factors contributing to the change are shown below:

Six months ended June 30	
Net income – 2014	44.2
• Loss on the sale of oil and gas properties in 2015 compared to a gain in 2014	(105.7)
• Higher depletion and depreciation due to higher sales volumes	(78.1)
• Loss from equity-accounted investments in 2015 compared to income in 2014	(23.7)
• Higher interest and financing expense due to increased debt	(19.0)
• Debt extinguishment expense in 2015 due to the 2017 Senior Notes redemption	(12.0)
• Lower netback primarily due to lower commodity prices	(10.0)
• Higher write-downs of investments in securities in 2015	(2.8)
• Income tax recovery in 2015 compared to an expense in 2014	71.0
• Lower exploration and evaluation expense mainly due to lower expired lease costs	7.9
• Other	(2.3)
Net loss – 2015	(130.5)

Funds Flow from Operations [1]

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Cash from operating activities	23.3	7.2	37.5	46.8
Change in non-cash working capital	(5.4)	19.9	(7.8)	9.5
Geological and geophysical expenses	1.1	2.0	2.5	4.2
Asset retirement obligations settled	0.6	0.4	3.1	2.5
Funds flow from operations	19.6	29.5	35.3	63.0
Funds flow from operations (*$/Boe*)	*5.06*	*15.76*	*4.82*	*16.73*

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

Funds flow from operations for the three months ended June 30, 2015 was $19.6 million, $9.9 million lower than the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended June 30	
Funds flow from operations – 2014	29.5
• Higher interest and financing expense due to increased debt	(10.8)
• Dividends from equity-accounted investments in 2014	(2.0)
• Payments on financial commodity contract settlements in 2014	3.2
• Other	(0.3)
Funds flow from operations – 2015	19.6

Funds flow from operations for the six months ended June 30, 2015 was $35.3 million, $27.7 million lower than the same period in 2014. Significant factors contributing to the change are shown below:

Six months ended June 30	
Funds flow from operations – 2014	63.0
• Higher interest and financing expense due to increased debt	(18.9)
• Lower netback primarily due to lower commodity prices	(10.0)
• Dividends from equity-accounted investments in 2014	(4.0)
• Payments on financial commodity contract settlements in 2014	5.2
Funds flow from operations – 2015	35.3

PRINCIPAL PROPERTIES

Netback and Segment Income (Loss)

	Three months ended June 30				Six months ended June 30			
		2015		2014		2015		2014
	($/Boe)[1]		($/Boe)[1]		($/Boe)[1]		($/Boe)[1]	
Natural gas revenue	*2.74*	38.5	*4.96*	44.9	*2.86*	78.6	*5.51*	101.7
Condensate and oil revenue	*65.66*	45.4	*106.38*	31.1	*57.58*	73.9	*103.29*	55.1
Other NGLs revenue [2]	*12.18*	10.3	*43.78*	3.2	*13.99*	20.6	*49.37*	7.6
Royalty and sulphur revenue	–	0.4	–	0.8	–	1.7	–	1.8
Petroleum and natural gas sales	*24.40*	94.6	*42.72*	80.0	*23.86*	174.8	*44.15*	166.2
Royalties	*(0.36)*	(1.4)	*(1.98)*	(3.7)	*(0.62)*	(4.5)	*(2.48)*	(9.3)
Operating expense	*(5.81)*	(22.5)	*(8.21)*	(15.4)	*(5.59)*	(41.0)	*(8.92)*	(33.6)
Transportation and NGLs processing [3]	*(4.23)*	(16.4)	*(3.82)*	(7.1)	*(4.09)*	(29.9)	*(3.69)*	(13.9)
Netback	*14.00*	54.3	*28.71*	53.8	*13.56*	99.4	*29.06*	109.4
Financial commodity contract settlements	–	–	*(1.72)*	(3.2)	–	–	*(1.38)*	(5.2)
Netback including commodity contract settlements	*14.00*	54.3	*26.99*	50.6	*13.56*	99.4	*27.68*	104.2
Other principal property items (see below)		(92.8)		30.5		(184.3)		(4.5)
Segment income (loss)		(38.5)		81.1		(84.9)		99.7

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

Petroleum and natural gas sales were $94.6 million in the second quarter of 2015, an increase of $14.6 million from the second quarter of 2014. Petroleum and natural gas sales were $174.8 million in the six months ended June 30, 2015, an increase of $8.6 million compared to the same period of 2014. The increases were due to higher sales volumes, partially offset by lower commodity prices.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended June 30, 2014	44.9	31.1	3.2	0.8	80.0
Effect of changes in sales volumes	24.8	42.4	33.8	–	101.0
Effect of changes in prices	(31.2)	(28.1)	(26.7)	–	(86.0)
Change in royalty and sulphur revenue	–	–	–	(0.4)	(0.4)
Three months ended June 30, 2015	38.5	45.4	10.3	0.4	94.6

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Six months ended June 30, 2014	101.7	55.1	7.6	1.8	166.2
Effect of changes in sales volumes	49.4	77.5	65.1	–	192.0
Effect of changes in prices	(72.5)	(58.7)	(52.1)	–	(183.3)
Change in royalty and sulphur revenue	–	–	–	(0.1)	(0.1)
Six months ended June 30, 2015	78.6	73.9	20.6	1.7	174.8

Sales Volumes

	Three months ended June 30											
	Natural Gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Kaybob	124.1	71.6	73	5,904	1,938	205	8,884	221	3,920	35,473	14,098	152
Grande Prairie	24.7	22.4	10	1,286	1,124	14	250	446	(44)	5,645	5,308	6
Southern	3.1	2.5	24	401	137	193	148	143	3	1,058	705	50
Northern	2.5	2.9	(14)	4	13	(69)	–	–	–	428	474	(10)
Total	154.4	99.4	55	7,595	3,212	136	9,282	810	1,046	42,604	20,585	107

The Company's production within the Kaybob COU was constrained by available owned and contracted natural gas processing capacity until August 2014, when the Company's wholly-owned 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") commenced operations. With this incremental capacity available, Paramount's sales volumes increased 107 percent to 42,604 Boe/d in the second quarter of 2015 compared to 20,585 Boe/d in the same period in 2014. Sales volumes within the Kaybob COU increased 152 percent in the second quarter of 2015 compared to the same period in 2014.

Paramount's sales volumes increased to approximately 47,000 Boe/d in May 2015 following the start-up of the Company's 15,000 Bbl/d Musreau condensate stabilizer expansion (the "Stabilizer Expansion"). Paramount's ability to ramp-up Musreau area production volumes following the start-up of the Stabilizer Expansion was impacted by unscheduled transportation curtailments and an unanticipated turnaround at a third-party downstream fractionation facility, which caused the shutdown of the Musreau Deep Cut Facility for ten days in June. As a result of these disruptions, raw natural gas volumes at the inlet of the Musreau Deep Cut Facility were curtailed and June sales volumes were reduced by approximately 10,000 Boe/d. Throughput at the Musreau Deep Cut Facility was also constrained at times during May and June for operational maintenance of sales compressors and other equipment, which reduced second quarter sales volumes by approximately 2,500 Boe/d.

Natural gas sales volumes increased 55.0 MMcf/d or 55 percent to 154.4 MMcf/d in the second quarter of 2015 compared to 99.4 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney wells brought on production in the Kaybob COU.

Condensate and oil sales volumes increased 4,383 Bbl/d or 136 percent to 7,595 Bbl/d in the second quarter of 2015 compared to 3,212 Bbl/d in the same period in 2014. The increase in condensate and oil sales volumes was primarily the result of new condensate-rich Montney wells being brought on production at Musreau.

Other NGLs sales volumes increased to 9,282 Bbl/d in the second quarter of 2015 compared to 810 Bbl/d in the same period in 2014. The increase was primarily due to new Montney wells being brought on production, and increased volumes of Other NGLs being extracted from natural gas streams in the Kaybob COU following the start-up of the Musreau Deep Cut Facility and the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") in the third quarter of 2014.

	Six months ended June 30											
	Natural Gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Kaybob	120.8	71.8	68	5,169	1,561	231	7,613	210	3,525	32,924	13,735	140
Grande Prairie	25.5	22.4	14	1,524	1,203	27	370	496	(25)	6,142	5,429	13
Southern	2.8	4.7	(40)	390	154	153	148	143	3	999	1,077	(7)
Northern	2.4	3.1	(23)	9	32	(72)	–	2	(100)	407	564	(28)
Total	151.5	102.0	49	7,092	2,950	140	8,131	851	855	40,472	20,805	95

Natural gas sales volumes increased 49.5 MMcf/d or 49 percent to 151.5 MMcf/d in the six months ended June 30, 2015 compared to 102.0 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney formation wells brought on in the Kaybob COU and Grande Prairie COUs.

Condensate and oil sales volumes increased 4,142 Bbl/d or 140 percent to 7,092 Bbl/d in the six months ended June 30, 2015 compared to 2,950 Bbl/d in the same period in 2014. The increase in condensate and oil sales volumes was primarily related to condensate volumes produced from new liquids-rich Montney wells brought on at Musreau in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU.

Other NGLs sales volumes increased to 8,131 Bbl/d in the six months ended June 30, 2015 compared to 851 Bbl/d in the same period in 2014, primarily as a result of new Montney wells brought on production, and increased Other NGLs volumes being extracted from natural gas streams in the Kaybob COU following the start-up of the Musreau Deep Cut Facility and the non-operated Smoky Deep Cut Facility in the third quarter of 2014.

Paramount’s Other NGLs volumes are fractionated and marketed under long-term agreements which provide the Company with secure access to markets for its Other NGLs production. Despite negative market prices for propane in the second quarter of 2015 due to a supply and demand imbalance, the Company’s liquids-rich natural gas project continues to be economic. For the three and six months ended June 30, 2015, the Company’s Other NGLs sales volumes were comprised of approximately 50 percent ethane, 35 percent propane and 15 percent butane.

Paramount’s sales volumes in the first half of 2015 were impacted by downtime for maintenance and third-party downstream transportation and processing constraints. Incremental fractionation capacity became available at the end of March 2015 under the Company’s long-term firm processing agreement following the completion of a downstream third-party de-ethanization facility expansion.

Sales volumes averaged approximately 50,000 Boe/d in July 2015 as downstream capacity constraints eased and the Company brought additional wells on production. Paramount’s Kaybob area production volumes are anticipated to be impacted by scheduled maintenance outages in the second half of 2015, including a third-party NGLs pipeline outage the Company recently became aware of. Sales volumes for the remainder of the year are expected to average approximately 56,000 Boe/d, with liquids comprising approximately 45 percent of total volumes.

Commodity Prices

	Three months ended June 30			Six months ended June 30		
	2015	2014	% Change	2015	2014	% Change
Natural Gas						
Paramount realized price ($/Mcf)	2.74	4.96	(45)	2.86	5.51	(48)
AECO daily spot ($/GJ)	2.52	4.71	(46)	2.56	5.17	(50)
AECO monthly index ($/GJ)	2.53	4.43	(43)	2.66	4.47	(40)
Malin (US$/MMbtu)	2.45	4.51	(46)	2.66	4.74	(44)
Crude Oil						
Paramount average realized condensate & oil price ($/Bbl)	65.66	106.38	(38)	57.58	103.29	(44)
Edmonton Light Sweet ($/Bbl)	68.88	104.14	(34)	61.08	101.95	(40)
West Texas Intermediate (US$/Bbl)	57.94	102.96	(44)	53.29	100.82	(47)
Foreign Exchange						
$CDN / 1 $US	1.23	1.09	13	1.24	1.10	13

Paramount's average realized natural gas price decreased 48 percent in the first half of 2015 compared to the same period in 2014, consistent with decreases in benchmark 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.

The Company's average realized condensate and oil price decreased 44 percent in the first half of 2015 compared to the same period in 2014, consistent with decreases in benchmark prices. Paramount sells its condensate volumes in both stabilized and unstabilized condition, depending upon the location of production and the availability of stabilization capacity. Unstabilized condensate volumes trucked to receipt terminals typically receive prices based on the Edmonton Light Sweet price, adjusted for transportation and quality differentials. Stabilized condensate volumes delivered through pipelines receive prices for condensate quoted at Edmonton, which are generally higher than prices for unstabilized volumes, and are adjusted for applicable transportation, and quality and density differentials.

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.

At June 30, 2015, Paramount had the following financial commodity contracts outstanding:

Instruments	Total notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$74.06/Bbl	(4.8)	July 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$77.37/Bbl	(0.4)	January 2016 – December 2016
Oil – NYMEX WTI Swap	2,000 Bbl/d	US$62.28/Bbl	0.1	January 2016 – December 2016
			(5.1)	

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

Royalties

	Three months ended June 30				Six months ended June 30			
	2015	Rate	2014	Rate	2015	Rate	2014	Rate
Royalties	1.4	1.5%	3.7	4.7%	4.5	2.6%	9.3	5.7%
$/Boe	*0.36*		*1.98*		*0.62*		*2.48*	

Second quarter royalties decreased $2.3 million to $1.4 million in 2015 compared to $3.7 million in the same period in 2014. Royalties for the six months ended June 30, 2015 decreased $4.8 million to $4.5 million compared to $9.3 million in the same period. Royalties are lower in 2015 primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs, lower natural gas revenues and $1.0 million in annual gas cost allowance adjustments relating to 2014 recorded in the second quarter of 2015, partially offset by higher royalties for liquids due to increased revenues.

Excluding the impact of the annual gas cost allowance adjustments recorded in the second quarter of 2015, the Company's average royalty rate was 3.2 percent for the six months ended June 30, 2015 compared to 5.7 percent in the same period in 2014. The majority of Paramount's new wells in Alberta qualify for royalty incentive programs, which reduce the Company's overall royalty rate.

Operating Expense

	Three months ended June 30			Six months ended June 30		
	2015	2014	% Change	2015	2014	% Change
Operating expense	22.5	15.4	46	41.0	33.6	22
$/Boe	*5.81*	*8.21*	*(29)*	*5.59*	8.92	(37)

Operating expense increased $7.1 million or 46 percent in the second quarter of 2015 to $22.5 million compared to $15.4 million in the same period in 2014. Operating expense increased $7.4 million or 22 percent in the first half of 2015 to $41.0 million compared to $33.6 million in the same period in 2014. These increases were primarily due to higher plant operating costs in the Kaybob COU associated with the new deep cut facilities at Musreau and Smoky, higher processing fees in the Grande Prairie COU and higher lease operating costs related to higher production, partially offset by increased processing income.

Paramount's per Boe operating expenses decreased 37 percent to $5.59 in the six months ended June 30, 2015 compared to $8.92 in the same period in 2014, mainly as a result of lower-cost Kaybob area volumes becoming a greater proportion of the Company's overall production. Operating expenses within the Kaybob COU, net of processing income, were approximately $3.50 per Boe in the first half of 2015.

Transportation and NGLs Processing

	Three months ended June 30			Six months ended June 30		
	2015	2014	% Change	2015	2014	% Change
Transportation and NGLs processing	16.4	7.1	131	29.9	13.9	115
$/Boe	*4.23*	*3.82*	*11*	*4.09*	*3.69*	*11*

Transportation and NGLs processing expense includes the costs of downstream natural gas, NGLs and oil transportation and NGLs fractionation costs incurred by the Company.

Transportation and NGLs processing expense was $16.4 million in the second quarter of 2015, an increase of $9.3 million compared to the same period in 2014. Transportation and NGLs processing expense for the six months ended June 30, 2015 increased $16.0 million to $29.9 million compared to $13.9 million in the same period of 2014. Transportation and NGLs processing expense is higher in 2015 primarily due to higher pipeline tolls and trucking costs as a result of increased production, higher fractionation costs associated with higher Other NGLs production and increased firm-service transportation costs related to incremental downstream transportation capacity contracted for the Musreau Deep Cut Facility.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Commodity contracts – net of settlements	5.1	(0.3)	5.1	–
Depletion and depreciation	82.7	39.2	159.7	81.6
Exploration and evaluation	3.5	7.8	7.7	15.8
(Gain) loss on sale of oil and gas properties	0.3	(79.0)	9.2	(96.6)
Other	1.2	1.8	2.6	3.7
Total	92.8	(30.5)	184.3	4.5

Second quarter depletion and depreciation expense increased to $82.7 million ($21.32 per Boe) in 2015 compared to $39.2 million ($20.91 per Boe) in 2014. Depletion and depreciation expense increased to $159.7 million ($21.80 per Boe) in the six months ended June 30, 2015 compared to $81.6 million ($21.67 per Boe) in the same period in 2014. Depletion and depreciation expense increased in 2015 due to higher sales volumes.

Exploration and evaluation expense in the second quarter of 2015 includes expired undeveloped land leases costs of $2.7 million (2014 - $6.2 million) and geological and geophysical costs of $1.1 million (2014 - $1.6 million). Exploration and evaluation expense for the six months ended June 30, 2015 includes dry hole expense of $1.9 million (2014 - $0.4 million), geological and geophysical costs of $2.3 million (2014 - $3.7 million) and expired undeveloped land leases costs of $3.5 million (2014 - $11.7 million).

The $96.6 million in aggregate gains on sale of oil and gas properties in 2014 primarily related 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").

STRATEGIC INVESTMENTS

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
General and administrative	(1.4)	(1.7)	(2.7)	(3.8)
Share-based compensation	(1.8)	(1.6)	(4.1)	(3.1)
Exploration and evaluation	(0.1)	(0.3)	(0.6)	(0.4)
Interest and financing	(0.5)	(0.7)	(1.1)	(1.3)
Income (loss) from equity-accounted investments	(4.1)	14.2	(7.6)	16.1
Write-down of investments in securities	(3.2)	–	(4.6)	(1.8)
Drilling rig revenue	–	–	0.4	–
Drilling rig expense	(0.1)	–	(0.3)	–
Other	(0.2)	1.8	(0.3)	4.8
Segment income (loss)	(11.4)	11.7	(20.9)	10.5

The write-down of investments in securities of $4.6 million in 2015 resulted from the recognition of unrealized losses due to significant decreases in the market values of certain securities in the six months ended June 30, 2015.

Strategic Investments at June 30, 2015 included:

- 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 bitumen interests owned by Paramount's wholly-owned subsidiary, Cavalier, 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, and two rigs currently under construction, owned by Paramount's wholly-owned subsidiary, Fox Drilling.

Investments

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

	Carrying Value		Market Value (1)	
As at	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Trilogy	72.3	79.9	108.2	151.4
MEG	75.4	72.3	75.4	72.3
Other (2)	43.7	33.1	43.7	33.2
Total	191.4	185.3	227.3	256.9

(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.

Shale Gas

Drilling operations in the Liard Basin resumed at the Dunedin d-71-G vertical exploratory shale gas well in the fourth quarter of 2014, and the well was drilled to targeted depth by mid-February. Paramount then moved to the c-37-D well at La Biche, where drilling operations continued until spring break-up. The Company expects to return to La Biche during the 2015/2016 winter season when access can be safely re-established and complete drilling operations.

Fox Drilling

Fox Drilling's two new triple-sized built-for-purpose walking rigs are expected to be completed in the fourth quarter. Construction is ahead of schedule and the final cost of the new rigs is expected to be less than the $50 million total budget. These new rigs are expected to be deployed on Paramount's Deep Basin lands in the coming winter drilling season.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest and financing	27.5	16.5	50.7	31.5
Debt extinguishment	12.0	–	12.0	–
General and administrative	5.8	4.3	11.0	9.1
Share-based compensation	4.7	4.2	7.2	9.2
Other	(1.2)	0.1	(1.1)	0.2
Segment loss	48.8	25.1	79.8	50.0

The Corporate segment loss increased to $48.8 million in the second quarter of 2015 compared to $25.1 million in the same period in 2014. The Corporate segment loss increased to $79.8 million for the six months ended June 30, 2015 compared to $50.0 million in the same period in 2014. The increases primarily relate to higher interest and financing expense due to increased debt and debt extinguishment expense on the redemption of the Company's 8.25% senior notes due 2017 (the "2017 Senior Notes").

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Geological and geophysical	1.0	1.7	2.2	3.7
Drilling, completion and tie-ins	60.4	136.8	195.0	253.7
Facilities and gathering	26.7	59.4	79.1	109.2
Principal Properties Capital (1)	88.1	197.9	276.3	366.6
Land and property acquisitions and capitalized interest	0.4	6.0	5.5	12.6
Principal Properties	88.5	203.9	281.8	379.2
Strategic Investments (2)	12.8	12.5	42.7	35.7
Corporate	0.2	0.4	0.6	0.6
	101.5	216.8	325.1	415.5
Principal Properties Capital by COU (1)				
Kaybob	36.6	121.7	178.6	222.8
Grande Prairie	26.8	57.3	48.8	106.4
Southern, Northern and other	24.7	18.9	48.9	37.4
	88.1	197.9	276.3	366.6

(1) Principal Properties Capital includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, excluding land acquisitions and capitalized interest.
(2) Strategic Investments for the three and six months ended June 30, 2015 include $0.4 million and $0.7 million of capitalized interest, respectively (2014 - $0.2 million and $0.3 million, respectively).

Principal Properties Capital was $88.1 million in the second quarter of 2015 compared to $197.9 million in the same period in 2014. Principal Properties Capital was $276.3 million in the first half of 2015 compared to $366.6 million in the same period in 2014. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Resthaven and Smoky in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. The Company also drilled and completed wells in the Southern COU. Facilities and gathering expenditures were focused on the Stabilizer Expansion at Musreau, expansions to Kaybob area gathering systems and the construction of a new compression facility at Birch in the Northern COU.

Strategic investments capital expenditures for the first half of 2015 included $23.7 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia and $15.1 million related to the two new triple-sized rigs being constructed by Fox Drilling.

Wells drilled were as follows:

	Three months ended June 30				Six months ended June 30			
	2015		2014		2015		2014	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Natural gas	4	4	21	21	31	29	32	32
Oil	–	–	1	1	–	–	3	2
Total	4	4	22	22	31	29	35	34

(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 Stabilizer Expansion at the Musreau Deep Cut Facility was completed in May 2015. The start-up of new wells previously scheduled for the second quarter was delayed as a result of constraints at the Musreau Deep Cut Facility and at downstream facilities. These wells are being brought on in the third quarter along with other wells that are currently being completed and tied-in.

In July, completion operations commenced on nine previously drilled wells at Musreau. Six of the wells were completed by the end of the month and the remaining three wells will be completed in early August. All nine wells are scheduled to be brought on production in the third quarter as completion operations conclude and surface equipment is installed.

Paramount recently commissioned gathering system expansions in the Musreau area which provides incremental field gathering capacity from existing pads to the Musreau Deep Cut Facility and capacity for future developments.

Paramount is continuing to plan for the construction of the next natural gas processing plant and related infrastructure at Musreau. The new facility is being designed with refrigeration processing capacity of 100 MMcf/d and will include oversized condensate stabilization, amine processing and infrastructure components to allow for future expansion. The Company is currently evaluating financing alternatives, with construction anticipated to commence before the end of the year.

2015 Capital Budget

The Company's 2015 capital budget remains at $400 million, of which $319.0 million was incurred in the first half of the year. Activities for the remainder of the year will be focused on completing, equipping and producing previously drilled wells.

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, among other things, issuing or repurchasing shares, altering debt levels, modifying capital programs, acquiring or disposing of assets or participating in joint ventures.

As at	June 30, 2015	December 31, 2014	% Change
Adjusted working capital deficit (surplus) (1)	(58.8)	183.3	(132)
Limited-recourse demand facilities	93.6	81.5	15
Credit facility	700.1	397.7	76
Senior Notes (2)	1,011.3	820.0	23
Net debt (3)	1,746.2	1,482.5	18
Share capital	1,646.8	1,603.4	3
Accumulated deficit	(426.8)	(296.3)	44
Reserves	68.3	46.2	48
Total Capital	3,034.5	2,835.8	7

(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, 2015 – $7.4 million, December 31, 2014 – $3.3 million), risk management assets and liabilities and limited-recourse demand facilities.
(2) Excludes unamortized issue premiums and discounts and financing costs.
(3) Net debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Paramount had an adjusted working capital surplus at June 30, 2015 of $58.8 million compared to a deficit of $183.3 million at December 31, 2014. The adjusted working capital surplus at June 30, 2015 included $141.0 million of cash and cash equivalents, $53.0 million of accounts receivable, $8.3 million of prepaid amounts and $143.5 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to the proceeds from the second quarter 2015 issuance of US$450 million principal amount of senior unsecured notes due 2023 (the "2023 Senior Notes"), drawings on credit facilities, proceeds from the issuance of Common Shares and funds flow from operations, partially offset by the redemption of the 2017 Senior Notes and capital spending related to the Company's 2015 capital program. Paramount expects to fund its operations, obligations and capital expenditures for the remainder of the year with funds flow from operations and available capacity under its bank credit facility, if required.

Limited-Recourse Demand Facilities

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with an outstanding principal amount of $41.8 million as at June 30, 2015. Payments of $4.1 million were made on Fox Tranche A in the first half of 2015. The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new rigs. At June 30, 2015, $17.5 million was outstanding under Fox Tranche B. The Fox Drilling Facility is non-recourse to Paramount. Recourse is limited to Fox Drilling and its assets, including its drilling rigs (and new drilling rigs currently being constructed) and drilling contracts with Paramount.

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the six months ended June 30, 2015, $3.8 million was drawn on the Cavalier Facility resulting in $34.4 million being outstanding at June 30, 2015. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets.

Bank Credit Facility

In June 2015, Paramount's bank credit facility (the "Facility") was increased from $900 million to $1.0 billion, following a scheduled mid-year review, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $900 million and is available on a revolving basis to May 31, 2016. 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 May 31, 2016 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

Borrowings under the Facility bear interest at the lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review and is dependent upon the Company's reserves, lenders' projections of future commodity prices, the value attributed by lenders to Paramount's other property, and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors.

On July 2, 2015, $125.3 million of cash and cash equivalents was applied to reduce the outstanding balance of the Facility. At July 31, 2015, $627.0 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at July 31, 2015 totaling $119.0 million that reduce the amount available to the Company.

Senior Notes

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman.

The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023. The 2023 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2023 Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In June 2015, Paramount redeemed all $370 million aggregate principal amount of 2017 Senior Notes by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

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

Share Capital

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of Canadian exploration expense ("CEE") at a price of $41.35 per share for gross proceeds of $37.2 million. The Company is committed to incur $37.2 million of qualifying expenditures by December 31, 2016.

The Company has incurred sufficient qualifying expenditures to satisfy commitments associated with CEE flow-through shares issued in July 2014.

At July 31, 2015, Paramount had 106,233,995 Common Shares and 7,409,900 Paramount Options outstanding, of which 2,512,900 Paramount Options are exercisable.

QUARTERLY INFORMATION

	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	94.6	80.2	99.4	84.4	80.0	86.2	57.8	53.9
Funds flow from operations	19.6	15.7	41.6	36.4	29.5	33.5	18.3	13.4
Per share – basic and diluted ($/share)	*0.19*	*0.15*	*0.40*	*0.35*	*0.30*	*0.34*	*0.19*	*0.14*
Net income (loss)	(60.2)	(70.3)	(106.5)	(9.4)	53.1	(8.9)	0.3	(37.6)
Per share – basic ($/share)	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.54*	*(0.09)*	–	*(0.39)*
Per share – diluted ($/share)	*(0.57)*	*(0.67)*	*(1.02)*	*(0.09)*	*0.53*	*(0.09)*	–	*(0.39)*
Sales volumes								
Natural gas (MMcf/d)	154.4	148.6	143.9	93.6	99.4	104.7	102.5	100.9
Condensate and oil (Bbl/d)	7,595	6,583	5,320	4,690	3,212	2,686	2,530	2,231
Other NGLs (Bbl/d)	9,282	6,968	5,123	1,643	810	893	674	960
Total (Boe/d)	42,604	38,317	34,430	21,936	20,585	21,028	20,290	20,022
Average realized price								
Natural gas ($/Mcf)	2.74	2.99	3.98	4.43	4.96	6.04	3.73	3.10
Condensate and oil ($/Bbl)	65.66	48.16	68.45	92.66	106.38	99.55	82.22	102.96
Other NGLs ($/Bbl)	12.18	16.43	26.64	32.87	43.78	54.50	48.28	36.95
Total ($/Boe)	24.40	23.26	31.37	41.80	42.72	45.56	30.99	29.27

Significant Items Impacting Quarterly Results

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

- Second quarter 2015 earnings include $82.9 million of depletion and depreciation expense and $12.0 million of debt extinguishment expense in respect of the redemption of the 2017 Senior Notes, partially offset by an income tax recovery of $38.5 million.
- First quarter 2015 earnings include $77.4 million of depletion and depreciation expense and a $8.9 million net loss on the sale of oil and gas properties.
- Fourth quarter 2014 earnings include $108.5 million of depletion, depreciation and impairment write-downs of oil and gas properties and a $23.3 million loss from equity-accounted investments, partially offset by an income tax recovery of $20.7 million.
- In the third quarter of 2014, the Musreau Deep Cut Facility was brought on-line and the Company began to ramp-up production, which increased petroleum and natural gas sales and funds flow from operations.
- Second quarter 2014 earnings include $79.0 million in aggregate gains on the sale of oil and gas properties and $14.2 million of income from equity-accounted investments, partially offset by income tax expense of $14.6 million.
- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of oil and 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 oil and gas properties.
- Third quarter 2013 earnings include a $13.8 million net impairment write-down of oil and gas properties.

CHANGE IN ACCOUNTING POLICIES

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on its financial statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on its financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended June 30, 2015, there was no change in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADVISORIES

Forward Looking Information

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

- projected production and sales volumes (including the liquids component thereof);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling and completion programs, well tie-ins and potential facilities expansions and additions), and the anticipated timing of and sources of funding for such activities;
- the projected date for commencing construction of the Company's new natural gas processing plant and related infrastructure;
- the projected availability of third party processing, transportation, de-ethanization, fractionation and other capacity;

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

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

- fluctuations in natural gas, condensate, Other NGLs, oil and bitumen prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, liquids yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, de-ethanization, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing natural gas, condensate, Other NGLs, oil and bitumen;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- 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 resources 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 Capital Expenditures", "Principal Properties Capital", "Cash proceeds from divestitures", and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs and transportation and NGLs processing costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and capital expenditures** consist of the Company's spending on drilling and infrastructure projects, land and property acquisitions, capitalized interest and geological and geophysical costs incurred. The closest GAAP measure to exploration and development expenditures is property, plant and equipment and exploration cash flows under investing activities in the Company's Consolidated Statement of Cash Flows, which includes all of the items included in exploration and capital expenditures, except for geological and geophysical costs for the three and six months ended June 30, 2015 of $1.1 million and $2.6 million, respectively (2014 - $2.0 million and $4.2 million, respectively), which are expensed as incurred. **Principal Properties Capital**

includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties business segment. Refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis. The Principal Properties Capital measure provides management and investors with information regarding the Company's Principal Properties spending on drilling and infrastructure projects separate from land acquisition activity and capitalized interest. **Cash Proceeds From Divestitures** represents cash proceeds received by the Company on dispositions of oil and gas properties and excludes any non-cash consideration received. This measure is equivalent to Proceeds on Sale of Property, Plant and Equipment in the Company's Consolidated Statement of Cashflows. **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		Natural Gas	
Bbl	Barrels	Mcf	Thousands of cubic feet
Bbl/d	Barrels per day	MMcf/d	Millions of cubic feet per day
Other NGLs	Ethane, propane and butane	GJ	Gigajoule
Condensate	Pentane and heavier hydrocarbons	MMbtu	Millions of British thermal units

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

Measures

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 ("NGLs") volumes. NGLs consist of condensate and Other NGLs. The term "Other NGLs" means ethane, propane and butane.

During the six months ended June 30, 2015, the value ratio between crude oil and natural gas was approximately 23:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
($ thousands)

As at	Note	June 30 2015	December 31 2014
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents	16	141,008	18,320
Accounts receivable		53,026	57,040
Prepaid expenses and other		8,281	4,883
Risk management	15	351	–
		202,666	80,243
Deposit		20,745	20,643
Exploration and evaluation	4	551,796	567,420
Property, plant and equipment, net	5	2,328,838	2,168,565
Equity-accounted investments	6	74,875	82,444
Investments in securities	7	116,486	102,894
Deferred income tax		202,246	152,487
Goodwill		24,733	24,733
		3,522,385	3,199,429
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Limited-recourse demand facilities	8	93,629	81,530
Accounts payable and accrued liabilities		150,850	266,847
Risk management	15	5,465	–
		249,944	348,377
Long-term debt	9	1,694,687	1,210,355
Asset retirement obligations	10	289,416	287,415
		2,234,047	1,846,147
Shareholders' equity			
Share capital	11	1,646,827	1,603,436
Accumulated deficit		(426,817)	(296,326)
Reserves	12	68,328	46,172
		1,288,338	1,353,282
		3,522,385	3,199,429

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands, except as noted)

	Note	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Petroleum and natural gas sales		94,596	80,028	174,805	166,246
Royalties		(1,406)	(3,704)	(4,543)	(9,332)
Revenue		93,190	76,324	170,262	156,914
Loss on financial commodity contracts	15	(5,114)	(2,882)	(5,114)	(5,215)
		88,076	73,442	165,148	151,699
Expenses					
Operating expense		22,510	15,381	40,995	33,579
Transportation and NGLs processing		16,397	7,165	29,937	13,912
General and administrative		7,275	5,961	13,690	12,849
Share-based compensation	13	6,519	5,738	11,246	12,295
Depletion and depreciation		82,867	39,436	160,295	82,154
Exploration and evaluation	4	3,576	8,107	8,281	16,208
(Gain) loss on sale of oil and gas properties		188	(79,029)	9,055	(96,601)
Interest and financing		28,026	17,184	51,770	32,792
Accretion of asset retirement obligations	10	1,426	1,487	2,839	3,036
Foreign exchange		(1,228)	33	(1,111)	124
Debt extinguishment	9	11,994	–	11,994	–
		179,550	21,463	338,991	110,348
Income (loss) from equity-accounted investments	6	(4,081)	14,166	(7,569)	16,147
Write-down of investments in securities		(3,217)	–	(4,616)	(1,800)
Other income		121	1,530	390	4,476
Income (loss) before tax		(98,651)	67,675	(185,638)	60,174
Income tax expense (recovery)	14				
Current		(3)	–	11	82
Deferred		(38,460)	14,566	(55,158)	15,867
		(38,463)	14,566	(55,147)	15,949
Net income (loss)		(60,188)	53,109	(130,491)	44,225
Other comprehensive income, net of tax	12				
Items that may be reclassified to net income or loss					
Change in market value of securities		3,829	8,756	16,756	37,370
Comprehensive income (loss)		(56,359)	61,865	(113,735)	81,595
Net income (loss) per common share ($/share)	11				
Basic		(0.57)	0.54	(1.24)	0.45
Diluted		(0.57)	0.53	(1.24)	0.45

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ thousands)

	Note	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Operating activities					
Net income (loss)		(60,188)	53,109	(130,491)	44,225
Add (deduct):					
Items not involving cash	16	66,674	(27,550)	151,251	10,595
Dividends from equity-accounted investments		–	2,010	–	4,020
Asset retirement obligations settled	10	(629)	(467)	(3,138)	(2,514)
Debt extinguishment	9	11,994	–	11,994	–
Change in non-cash working capital		5,439	(19,903)	7,834	(9,512)
Cash from operating activities		23,290	7,199	37,450	46,814
Financing activities					
Net draw of demand facilities	8	729	71	12,099	1,676
Net draw of revolving long-term debt	9	80,778	129,525	302,466	273,174
Proceeds from US Senior Notes, net of issue costs	9	549,775	–	549,775	–
Redemption of 2017 Senior Notes	9	(380,175)	–	(380,175)	–
Common shares issued, net of issue costs		41,127	5,578	41,817	13,239
Common shares purchased under stock incentive plan		(316)	(4,617)	(316)	(4,617)
Cash from financing activities		291,918	130,557	525,666	283,472
Investing activities					
Property, plant and equipment and exploration		(100,381)	(214,821)	(322,577)	(411,414)
Proceeds on sale of oil and gas properties		–	93,996	5,455	97,925
Cash of MGM Energy Corp. on acquisition	3	–	3,200	–	3,200
Proceeds on sale of investment, net		–	3,736	–	10,179
Change in non-cash working capital		(99,533)	(8,199)	(124,673)	(9,283)
Cash used in investing activities		(199,914)	(122,088)	(441,795)	(309,393)
Net increase		115,294	15,668	121,321	20,893
Foreign exchange on cash and cash equivalents		352	(448)	1,367	(259)
Cash and cash equivalents, beginning of period		25,362	16,117	18,320	10,703
Cash and cash equivalents, end of period		141,008	31,337	141,008	31,337
Supplemental cash flow information	16				

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

($ thousands, except as noted)

Six months ended June 30	Note	2015		2014	
		Shares *(000's)*		Shares *(000's)*	
Share Capital					
Balance, beginning of period		*104,843*	1,603,436	*96,993*	1,169,178
Issued		*1,337*	43,175	*854*	29,763
Issued on acquisition of MGM Energy Corp.		–	–	1,128	69,382
Change in unvested common shares for stock incentive plan	13	*32*	216	18	(416)
Balance, end of period		*106,212*	1,646,827	*98,993*	1,267,907
Accumulated Deficit					
Balance, beginning of period			(296,326)		(224,612)
Net income (loss)			(130,491)		44,225
Balance, end of period			(426,817)		(180,387)
Reserves	12				
Balance, beginning of period			46,172		87,678
Other comprehensive income			16,756		37,370
Contributed surplus			5,400		(5,399)
Balance, end of period			68,328		119,649
Total Shareholders' Equity			1,288,338		1,207,169

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 properties are primarily located in Alberta, British Columbia and the Northwest Territories. The Company's operations are divided into three business segments, which have been established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount is the ultimate parent company of a consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Limited Partnership ("Fox Drilling") and Cavalier Energy Inc. ("Cavalier"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for using the equity method of investment accounting 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, 2015 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 5, 2015.

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, 2014 (the "Annual Financial Statements"). These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. Certain comparative amounts have been reclassified to conform with the current year's presentation.

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

Future Changes in Accounting Standards

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

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

2. Segmented Information

Three months ended June 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	93,190	–	–	–	93,190
Loss on financial commodity contracts	(5,114)	–	–	–	(5,114)
	88,076	–	–	–	88,076
Expenses					
Operating expense	22,510	–	–	–	22,510
Transportation and NGLs processing	16,397	–	–	–	16,397
General and administrative	–	1,444	5,831	–	7,275
Share-based compensation	–	1,796	4,723	–	6,519
Depletion and depreciation	82,667	1,184	85	(1,069)	82,867
Exploration and evaluation	3,484	92	–	–	3,576
(Gain) loss on sale of oil and gas properties	320	(132)	–	–	188
Interest and financing	–	545	27,481	–	28,026
Debt extinguishment	–	–	11,994	–	11,994
Other	1,339	87	(1,228)	–	198
	126,717	5,016	48,886	(1,069)	179,550
Loss from equity-accounted investments	–	(4,081)	–	–	(4,081)
Write-down of investments in securities	–	(3,217)	–	–	(3,217)
Other	178	–	58	–	236
Drilling rig revenue	–	3,924	–	(3,924)	–
Drilling rig expense	–	(2,514)	–	2,399	(115)
	(38,463)	(10,904)	(48,828)	(456)	(98,651)
Inter-segment eliminations	–	(456)	–	456	–
Segment loss	(38,463)	(11,360)	(48,828)	–	(98,651)
Income tax recovery					38,463
Net loss					(60,188)

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	15,381	–	–	–	15,381
Transportation and NGLs processing	7,165	–	–	–	7,165
General and administrative	–	1,657	4,304	–	5,961
Share-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 oil and gas properties	(79,029)	–	–	–	(79,029)
Interest and financing	–	671	16,513	–	17,184
Other	1,478	9	33	–	1,520
	(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

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

Six months ended June 30, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	170,262	–	–	–	170,262
Loss on financial commodity contracts	(5,114)	–	–	–	(5,114)
	165,148	–	–	–	165,148
Expenses					
Operating expense	40,995	–	–	–	40,995
Transportation and NGLs processing	29,937	–	–	–	29,937
General and administrative	–	2,691	10,999	–	13,690
Share-based compensation	–	4,053	7,193	–	11,246
Depletion and depreciation	159,664	3,761	158	(3,288)	160,295
Exploration and evaluation	7,699	582	–	–	8,281
(Gain) loss on sale of oil and gas properties	9,187	(132)	–	–	9,055
Interest and financing	–	1,110	50,660	–	51,770
Debt extinguishment	–	–	11,994	–	11,994
Other	2,752	87	(1,111)	–	1,728
	250,234	12,152	79,893	(3,288)	338,991
Loss from equity-accounted investments	–	(7,569)	–	–	(7,569)
Write-down of investments in securities	–	(4,616)	–	–	(4,616)
Other	164	–	115	–	279
Drilling rig revenue	–	14,436	–	(13,999)	437
Drilling rig expense	–	(7,688)	–	7,362	(326)
	(84,922)	(17,589)	(79,778)	(3,349)	(185,638)
Inter-segment eliminations	–	(3,349)	–	3,349	–
Segment loss	(84,922)	(20,938)	(79,778)	–	(185,638)
Income tax recovery					55,147
Net loss					(130,491)

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	33,579	–	–	–	33,579
Transportation and NGLs processing	13,912	–	–	–	13,912
General and administrative	–	3,799	9,050	–	12,849
Share-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 oil and gas properties	(96,601)	–	–	–	(96,601)
Interest and financing	–	1,324	31,468	–	32,792
Other	3,017	19	124	–	3,160
	51,261	14,233	50,140	(5,286)	110,348
Income from equity-accounted investments	–	16,147	–	–	16,147
Write-down of investments in securities	–	(1,800)	–	–	(1,800)
Other	(789)	5,154	114	–	4,479
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

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

3. Acquisition

MGM Energy Corp.

On June 11, 2014, Paramount acquired all 338.3 million 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, 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.

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

4. Exploration and Evaluation

	Six months ended June 30, 2015	Twelve months ended December 31, 2014
Balance, beginning of period	567,420	429,911
Additions	74,962	295,949
Transfers to property, plant and equipment	(79,899)	(143,217)
Corporate acquisition	–	13,909
Dry hole	(2,186)	(4,719)
Expired lease costs	(3,540)	(12,780)
Dispositions	(4,961)	(11,633)
Balance, end of period	551,796	567,420

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Geological and geophysical	1,125	1,957	2,555	4,172
Dry hole	(292)	(45)	2,186	318
Expired lease costs	2,743	6,195	3,540	11,718
	3,576	8,107	8,281	16,208

5. Property, Plant and Equipment

Six months ended June 30, 2015	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2014	3,189,927	127,410	28,082	3,345,419
Additions	235,016	16,486	675	252,177
Transfers from exploration and evaluation	79,899	–	–	79,899
Dispositions	(9,681)	–	(276)	(9,957)
Change in asset retirement provision	2,423	–	–	2,423
Cost, June 30, 2015	3,497,584	143,896	28,481	3,669,961
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2014	(1,117,596)	(38,722)	(20,536)	(1,176,854)
Depletion and depreciation	(160,513)	(3,589)	(419)	(164,521)
Dispositions	–	–	252	252
Accumulated depletion, depreciation and write-downs, June 30, 2015	(1,278,109)	(42,311)	(20,703)	(1,341,123)
Net book value, December 31, 2014	2,072,331	88,688	7,546	2,168,565
Net book value, June 30, 2015	2,219,475	101,585	7,778	2,328,838

In the first quarter of 2015, Paramount sold certain non-core properties in the Alder Flats area of Alberta for proceeds of $5.2 million. 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.

6. Equity-Accounted Investments

As at	June 30, 2015			December 31, 2014		
	Shares *(000's)*	Carrying Value	Market Value (1)	Shares *(000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	72,310	108,165	*19,144*	79,879	151,432
Other		2,565			2,565	
		74,875			82,444	

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

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Equity earnings (loss)	(4,204)	3,251	(7,692)	5,206
Dilution gain	123	125	123	151
Gain on MGM Energy shares on acquisition (Note 3)	–	10,790	–	10,790
	(4,081)	14,166	(7,569)	16,147

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

As at June 30	2015	2014
Current assets	41,940	83,173
Non-current assets (1)	1,497,874	1,647,091
Current liabilities	(75,147)	(175,758)
Non-current liabilities	(933,978)	(858,011)
Equity (1)	530,689	696,495
Multiply by: Paramount's equity interest	15.2%	15.2%
Paramount's proportionate share of equity	80,554	106,031
Less: portion of share-based compensation recorded in equity of Trilogy	(8,244)	(6,247)
Carrying value of Paramount's investment	72,310	99,784

(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, 2015 totaled $1,500,100 (2014 – $1,643,322) and equity totaled $532,915 (2014 - $692,726).

Six months ended June 30	2015	2014
Revenue	153,326	292,967
Comprehensive income (loss) (1)	(50,624)	41,007
Paramount's share of Trilogy's comprehensive income (loss)	(7,692)	6,254

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the six months ended June 30, 2015 was $47,543 (2014 – comprehensive income $45,619).

Trilogy had 8.6 million stock options outstanding (3.3 million exercisable) at June 30, 2015 at exercise prices ranging from $7.38 to $38.74 per share.

7. Investments in Securities

As at	June 30, 2015		December 31, 2014	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	75,369	3,700	72,335
Other (1)		41,117		30,559
		116,486		102,894

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

Publicly traded investments in securities are carried at their period-end trading price, which are level one fair value hierarchy inputs. The Company's investments in securities that are not traded on a public exchange are carried at fair value, which are estimated based on observable market transactions (level two fair value hierarchy inputs).

8. Limited-Recourse Demand Facilities

As at	June 30 2015	December 31 2014
Fox Drilling Facility	59,260	50,940
Cavalier Facility	34,369	30,590
	93,629	81,530

Fox Drilling Facility

The Fox Drilling bank credit facility (the "Fox Drilling Facility") is divided into two tranches. The first tranche ("Fox Tranche A") is a non-revolving demand loan with a principal amount of $41.8 million outstanding at June 30, 2015. Scheduled principal repayments on Fox Tranche A are $4.1 million for the remainder of 2015, $8.2 million in each of 2016 and 2017, with the remaining outstanding balance payable in 2018.

The second tranche ("Fox Tranche B") is a non-revolving demand loan with a credit limit of $27.0 million that is available to be drawn to fund the construction of two new drilling rigs. At June 30, 2015, $17.5 million was drawn under Fox Tranche B. Once construction of the new drilling rigs is completed in 2015, scheduled quarterly principal repayments will commence over a five year term.

The Fox Drilling Facility is non-recourse to Paramount. Recourse is limited to Fox Drilling and its assets, including its drilling rigs (and new drilling rigs currently being constructed) and drilling contracts with Paramount. Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin.

Cavalier Facility

Cavalier has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). Drawings on the Cavalier Facility bear interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of the Company, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and recourse is limited to Cavalier and its assets.

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

9. Long-Term Debt

As at	June 30 2015	December 31 2014
Bank credit facility	700,139	397,673
8¼% Senior Notes due 2017 ("2017 Senior Notes")	–	370,000
7⅝% Senior Notes due 2019 ("2019 Senior Notes")	450,000	450,000
6⅞% US Senior Notes due 2023 ("2023 Senior Notes")	561,330	–
	1,711,469	1,217,673
Unamortized financing costs, net of premiums and discounts	(16,782)	(7,318)
	1,694,687	1,210,355

In June 2015, Paramount's bank credit facility (the "Facility") was increased from $900 million to $1.0 billion, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $900 million and is available on a revolving basis to May 31, 2016. 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 May 31, 2016 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Fox Drilling Facility and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments from time-to-time.

Borrowings under the Facility bear interest at the lenders' prime lending rates, US base rates, bankers' acceptance rates, or LIBOR rates, as selected at the discretion of the Company, plus an applicable margin which is dependent upon the Company's debt-to-cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review and is dependent upon the Company's reserves, lenders' projections of future commodity prices, the value attributed by lenders to Paramount's other property, and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors.

At June 30, 2015, $700.1 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at June 30, 2015 totaling $98.1 million that reduce the amount available to the Company.

In June 2015, Paramount issued US$450 million principal amount of senior unsecured notes due 2023 at a price of US$995.33 per US$1,000 principal amount, of which US$9.0 million principal amount was purchased by entities that are controlled by the Company's Executive Chairman.

The 2023 Senior Notes bear interest at 6⅞ percent per annum, payable semi-annually in arrears on June 30 and December 31 of each year, and mature on June 30, 2023. The 2023 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The Company has the right to redeem all or a portion of the 2023 Notes at par, plus accrued and unpaid interest to the date of redemption, plus a redemption premium, if applicable, which varies based on the date of redemption.

In June 2015, Paramount redeemed all $370 million aggregate principal amount of 2017 Senior Notes by irrevocably depositing $380.2 million with the trustee (representing a redemption price of 102.75 percent of the principal amount of the 2017 Senior Notes). As a result, Paramount's obligations under the 2017 Senior Notes indenture were satisfied and discharged. The redemption premium of $10.2 million and unamortized financing fees totaling $1.8 million were recorded as debt extinguishment expense.

At June 30, 2015, the 2019 Senior Notes had a market value of 103 percent of their principal amount (December 31, 2014 – 94 percent), and the 2023 Senior Notes had a market value of 100 percent of their principal amount. The market values of the Company's senior notes are estimated using a market approach based on prices quoted from financial institutions, which are level two fair value hierarchy inputs.

10. Asset Retirement Obligations

	Six months ended June 30, 2015	Twelve months ended December 31, 2014
Asset retirement obligations, beginning of period	287,415	239,853
Retirement obligations incurred	772	23,190
Revisions to estimated retirement costs	1,651	6,126
Change in discount rates	–	40,164
Obligations settled	(3,138)	(4,576)
Dispositions	(123)	(30,134)
Assumed on corporate acquisition	–	6,856
Accretion expense	2,839	5,936
Asset retirement obligations, end of period	289,416	287,415

Asset retirement obligations at June 30, 2015 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2014 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2014 – 2.00 percent).

11. Share Capital

At June 30, 2015, 106,212,487 (December 31, 2014 – 104,843,846) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 21,508 (December 31, 2014 – 54,199) Common Shares held in trust under the stock incentive plan.

In April 2015, pursuant to a private placement, Paramount issued 0.9 million Common Shares to arms-length investors on a "flow-through" basis in respect of Canadian exploration expense ("CEE") at a price of $41.35 per share for gross proceeds of $37.2 million. A liability of $7.4 million was recognized in accounts payable and accrued liabilities on the issuance of the flow-through shares in respect of the Company's obligation to renounce qualifying expenditures. The Company incurred $1.0 million of transaction costs in respect of the transaction, net of tax benefits of $0.4 million.

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with the CEE flow-through shares issued in July 2014.

Weighted Average Common Shares

Three months ended June 30	2015		2014	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net income
Net income (loss) – basic	*105,891*	(60,188)	*98,043*	53,109
Dilutive effect of Paramount options	–	–	*1,904*	–
Net income (loss) – diluted	*105,891*	(60,188)	*99,947*	53,109

Six months ended June 30	2015		2014	
	Wtd. Avg. Shares *(000's)*	Net loss	Wtd. Avg. Shares *(000's)*	Net income
Net income (loss) – basic	*105,382*	(130,491)	*97,675*	44,225
Dilutive effect of Paramount options	–	–	*1,488*	–
Net income (loss) – diluted	*105,382*	(130,491)	*99,163*	44,225

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income. The Company had 7.4 million Paramount Options outstanding at June 30, 2015 (June 30, 2014 – 5.8 million), of which all (June 30, 2014 – 0.1 million) were anti-dilutive.

12. Reserves

Reserves at June 30, 2015 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and changes in contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, December 31, 2014	(29,688)	75,860	46,172
Other comprehensive income	16,756	–	16,756
Share-based compensation	–	13,773	13,773
Stock options exercised	–	(8,373)	(8,373)
Balance, June 30, 2015	(12,932)	81,260	68,328

Other Comprehensive Income

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Unrealized gain (loss) on securities				
Change in market value of securities	745	11,135	13,593	41,265
Reclassification of other comprehensive loss (income) to earnings	3,217	(1,877)	4,616	(2,914)
Deferred tax	(133)	(502)	(1,453)	(981)
Other comprehensive income	3,829	8,756	16,756	37,370

13. Share-Based Compensation

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Six months ended June 30, 2015		Twelve months ended December 31, 2014	
	Number	Wtd. Avg. exercise price ($/share)	Number	Wtd. Avg. exercise price ($/share)
Balance, beginning of period	7,275,850	33.75	6,632,200	31.20
Granted	659,000	34.51	1,922,500	33.22
Exercised	(435,950)	13.69	(1,107,350)	17.22
Forfeited	(87,000)	39.76	(171,500)	35.67
Expired	(2,000)	40.09	–	–
Balance, end of period	7,409,900	34.93	7,275,850	33.75
Options exercisable, end of period	2,512,900	35.08	2,592,750	31.58

Stock Incentive Plan – Shares Held in Trust

	Six months ended June 30, 2015		Twelve months ended December 31, 2014	
	Shares *(000's)*		Shares *(000's)*	
Balance, beginning of period	*54*	508	*72*	500
Shares purchased	*9*	316	*92*	4,617
Change in vested and unvested shares	*(41)*	(532)	*(110)*	(4,609)
Balance, end of period	*22*	292	*54*	508

14. 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	
	2015	2014	2015	2014
Income (loss) before tax	(98,651)	67,675	(185,638)	60,174
Effective Canadian statutory income tax rate	26.9%	25.0%	26.0%	25.0%
Expected income tax expense (recovery)	(26,519)	16,919	(48,266)	15,044
Effect on income taxes of:				
Statutory and other rate differences	(15,727)	109	(15,435)	128
Loss (income) from equity-accounted investments	1,096	(3,542)	1,968	(4,037)
Write-down of investments in securities	850	–	1,200	450
Flow-through share renunciations	–	–	956	2,617
Share-based compensation	1,727	1,325	3,528	2,619
Non-deductible items and other	110	(245)	902	(872)
Income tax expense (recovery)	(38,463)	14,566	(55,147)	15,949

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

15. Financial Instruments and Risk Management

Risk management financial instruments outstanding at June 30, 2015 are as follows:

Instruments	Total notional	Average fixed price	Fair Value	Remaining term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$74.06/Bbl	(4,814)	July 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN$77.37/Bbl	(429)	January 2016 – December 2016
Oil – NYMEX WTI Swap	2,000 Bbl/d	US$62.28/Bbl	129	January 2016 – December 2016
			(5,114)	

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

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

	Six months ended June 30, 2015	Twelve months ended December 31, 2014
Fair value, beginning of period	–	(3,972)
Changes in fair value	(5,114)	2,852
Settlements paid	–	1,120
Fair value, end of period	(5,114)	–

16. Consolidated Statement of Cash Flows – Selected Information

Items Not Involving Cash

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Financial commodity contracts	5,114	(347)	5,114	15
Share-based compensation	6,519	5,738	11,246	12,295
Depletion and depreciation	82,867	39,436	160,295	82,154
Exploration and evaluation	2,451	6,150	5,726	12,036
(Gain) loss on sale of oil and gas properties	188	(79,029)	9,055	(96,601)
Accretion of asset retirement obligations	1,426	1,487	2,839	3,036
Foreign exchange	(1,272)	7	(1,018)	304
(Income) loss from equity-accounted investments	4,081	(14,166)	7,569	(16,147)
Write-down of investments in securities	3,217	–	4,616	1,800
Deferred income tax	(38,460)	14,566	(55,158)	15,867
Other	543	(1,392)	967	(4,164)
	66,674	(27,550)	151,251	10,595

Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest paid	42,551	38,037	51,959	42,109
Current tax paid (refunded)	–	–	(10)	502

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

Components of Cash and Cash Equivalents

As at	June 30 2015	December 31 2014
Cash	16,268	18,320
Cash equivalents	124,740	–
	141,008	18,320

17. Subsequent Events

On July 2, 2015, $125.3 million of cash and cash equivalents was applied to reduce the outstanding balance of the Facility.

In July 2015, Paramount settled its 2,000 Bbl/d NYMEX WTI swaps (calendar 2016; average fixed price – US$62.28/Bbl) for cash proceeds of $6.4 million.

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
Executive Chairman

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

B. K. Lee
Chief Financial Officer

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

M. S. Han
V.P. Information Services

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

P. G. Tahmazian
V.P. Midstream

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

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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Executive Chairman of the Board
Paramount Resources Ltd.
Calgary, Alberta

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

J. G. M. Bell (1) (3) (4)
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T. E. Claugus (4)
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J. C. Gorman (1) (3) (4)
Independent Businessman
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D. Jungé C.F.A. (2) (4)
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Bryn Athyn, Pennsylvania

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Managing General Partner
Knott Partners, L.P.
Syosset, New York

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

J. B. Roy (1) (2) (3) (4)
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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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Barclays Bank PLC
Toronto, Ontario

Caisse centrale Desjardins
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Canadian Western Bank
Calgary, Alberta

Business Development Bank of Canada
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)