



# Q1

## First Quarter Report 2015

### **PARAMOUNT RESOURCES LTD. ANNOUNCES Q1 2015 RESULTS; APRIL 2015 SALES VOLUMES AVERAGE APPROXIMATELY 42,000 BOE/D; CONDENSATE STABILIZER EXPANSION TO START-UP IMMINENTLY**

**May 6, 2015 Calgary, Alberta**

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#### **OIL AND GAS OPERATIONS**

- First quarter 2015 sales volumes were 38,317 Boe/d, 82 percent higher than the first quarter of 2014. Sales volumes averaged over 40,000 Boe/d in February before being impacted by a five-day shut-down at Musreau due to a third-party natural gas pipeline outage.
- First quarter 2015 liquids sales volumes totaled 13,551 Bbl/d, 279 percent higher than the same period in 2014, including 6,583 Bbl/d of condensate and oil. Approximately 35 percent of first quarter sales volumes and 48 percent of total revenue were from liquids.
- Paramount's sales volumes averaged approximately 42,000 Boe/d in April 2015, as the Company increased production levels and liquids recoveries following the completion of a third-party downstream NGLs facility expansion.
- Sales volumes are expected to surpass 70,000 Boe/d following the start-up of Paramount's 15,000 Bbl/d condensate stabilizer expansion. Construction is complete and the new facility has been handed over to Paramount's operations team for imminent start-up.
- The Kaybob COU's first quarter 2015 operating expense was approximately \$3.50 per Boe. Paramount's operating expense per Boe was \$5.36 in the first quarter of 2015, 44 percent lower than the first quarter of 2014. The Company's per-unit operating costs are expected to continue to decrease.
- Netbacks in the first quarter of 2015 were \$45.1 million compared to \$55.7 million in the same period in 2014, as the growth in sales volumes and the reduction in per-unit operating costs was more than offset by the collapse in commodity prices.
- First quarter 2015 exploration and capital expenditures totaled \$223.6 million, including \$188.2 million for Principal Properties and \$29.9 million for Strategic Investments.

## STRATEGIC INVESTMENTS

- Drilling operations commenced at the c-37-D La Biche shale gas well in the Liard Basin in the first quarter and have now been suspended for the season due to spring break-up. The Company expects to complete drilling operations in the 2015/2016 winter drilling season.

## CORPORATE

- General and administrative expense per Boe decreased 49 percent to \$1.86 in the first quarter of 2015 compared to \$3.64 in the first quarter of 2014.
- Paramount has liquids hedging contracts in place for 3,000 Bbl/d in the second half of 2015 at an average WTI price of CDN\$74.06/Bbl and 8,000 Bbl/d for calendar 2016 at an average WTI price of CDN\$75.62/Bbl<sup>1</sup>.
- Standard & Poor's Ratings Services ("S&P") upgraded its rating on the Company's senior unsecured notes to "BB-" in April 2015, following the significant increase in Paramount's year-end 2014 reserves. S&P continues to assign Paramount a corporate credit rating of "B", positive outlook.
- Pursuant to a private placement, Paramount raised \$37.2 million in April 2015 through the issuance of 0.9 million flow-through Common Shares to arms-length investors.

## OUTLOOK

- Annual sales volumes for 2015 are expected to average between 55,000 and 65,000 Boe/d, with liquids representing about 45 percent of total volumes, as new wells are brought on production from the Company's inventory of 45 behind-pipe Deep Basin wells (as of April 30, 2015).
- The Company's current 2015 capital budget is \$400 million, focused on its Deep Basin development and maintaining the optionality of future growth initiatives. The Company's capital budget remains flexible and activity levels may be adjusted depending on commodity prices and other factors.
- Paramount has incurred over 50 percent of its 2015 capital budget to date. Activity levels are expected to slow down for the balance of the year. As sales volumes continue to ramp up, the Company expects that funds flow from operations will exceed capital spending in the second half of the year, resulting in the repayment of bank debt and the strengthening of leverage metrics.
- Paramount continues to focus on reducing costs while expanding its liquids-rich developments in the Deep Basin, despite the collapse in commodity prices.

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<sup>1</sup> Certain of the 2016 contracts are denominated in \$USD. These contracted prices have been converted using a foreign exchange rate of \$1.21 CDN / \$1 USD.

## FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)</sup>

(\$ millions, except as noted)

Three months ended March 31	2015	2014	% Change
<b>Sales volumes</b>			
Natural gas (MMcf/d)	148.6	104.7	42
Condensate and oil (Bbl/d)	6,583	2,686	145
Other NGLs (Bbl/d) <sup>(2)</sup>	6,968	893	680
<b>Total (Boe/d)</b>	<b>38,317</b>	<b>21,028</b>	<b>82</b>
<i>% Liquids</i>	<i>35%</i>	<i>17%</i>	
<b>Petroleum and natural gas sales</b>	<b>80.2</b>	<b>86.2</b>	<b>(7)</b>
<b>Average realized price (\$/Boe)</b>	<b>23.26</b>	<b>45.56</b>	<b>(49)</b>
<b>Operating expense per Boe (\$/Boe)</b>	<b>5.36</b>	<b>9.62</b>	<b>(44)</b>
<b>Netback</b>	<b>45.1</b>	<b>55.7</b>	<b>(19)</b>
<i>\$/Boe</i>	<i>13.06</i>	<i>29.40</i>	
<b>Funds flow from operations</b>	<b>15.7</b>	<b>33.5</b>	<b>(53)</b>
<i>per share – diluted (\$/share)</i>	<i>0.15</i>	<i>0.34</i>	
<b>Net loss</b>	<b>(70.3)</b>	<b>(8.9)</b>	<b>690</b>
<i>per share – diluted (\$/share)</i>	<i>(0.67)</i>	<i>(0.09)</i>	
<b>Principal Properties Capital <sup>(3)</sup></b>	<b>188.2</b>	<b>168.9</b>	<b>11</b>
<b>Cash proceeds from divestitures <sup>(4)</sup></b>	<b>5.5</b>	<b>3.9</b>	<b>41</b>
<b>Investments in other entities – market value <sup>(5)</sup></b>	<b>260.5</b>	<b>718.5</b>	<b>(64)</b>
<b>Total assets</b>	<b>3,366.3</b>	<b>2,614.6</b>	<b>29</b>
<b>Net Debt</b>	<b>1,683.3</b>	<b>1,273.7</b>	<b>32</b>
<b>Common shares outstanding (thousands)</b>	<b>104,893</b>	<b>97,532</b>	<b>8</b>

(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 three months ended March 31, 2015 contained herein which also includes supplemental advisories related to additional information included in this document.

# REVIEW OF OPERATIONS

## FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)</sup>

(\$ millions, except as noted)

	Q1 2015	Q4 2014	% Change
<b>Sales volumes</b>			
Natural gas (MMcf/d)	148.6	143.9	3
Condensate and oil (Bbl/d)	6,583	5,320	24
Other NGLs (Bbl/d) <sup>(2)</sup>	6,968	5,123	36
<b>Total (Boe/d)</b>	<b>38,317</b>	<b>34,430</b>	<b>11</b>
<i>Liquids proportion</i>	<i>35%</i>	<i>30%</i>	
<b>Sales volumes by COU (Boe/d)</b>			
Kaybob	30,347	25,062	21
Grande Prairie	6,643	8,157	(19)
Other	1,327	1,211	10
<b>Total</b>	<b>38,317</b>	<b>34,430</b>	<b>11</b>
<b>Netback</b>			
	<i>\$/Boe <sup>(3)</sup></i>	<i>\$/Boe <sup>(3)</sup></i>	<i>% change in \$/Boe</i>
Natural gas revenue	2.99 40.0	3.98 52.7	(25)
Condensate and oil revenue	48.16 28.5	68.45 33.5	(30)
Other NGLs revenue <sup>(2)</sup>	16.43 10.3	26.64 12.6	(38)
Royalty and sulphur revenue	- 1.4	- 0.6	-
<b>Petroleum and natural gas sales</b>	<b>23.26 80.2</b>	<b>31.37 99.4</b>	<b>(26)</b>
Royalties	(0.91) (3.1)	(1.48) (4.7)	(39)
Operating expense	(5.36) (18.5)	(7.02) (22.2)	(24)
Transportation and NGLs processing <sup>(4)</sup>	(3.93) (13.5)	(3.62) (11.5)	9
<b>Netback</b>	<b>13.06 45.1</b>	<b>19.25 61.0</b>	<b>(32)</b>
<b>Capital Expenditures <sup>(5)</sup></b>			
Wells and exploration	135.8	183.4	(26)
Facilities and gathering	52.4	41.2	27
<b>Principal Properties Capital <sup>(6)</sup></b>	<b>188.2</b>	<b>224.6</b>	<b>(16)</b>
<b>Strategic Investments</b>	<b>29.9</b>	<b>20.4</b>	<b>47</b>
	<b>218.1</b>	<b>245.0</b>	<b>(11)</b>
<b>Principal Properties Capital By COU</b>			
Kaybob	141.9	182.4	(22)
Grande Prairie	22.1	39.4	(44)
Other	24.2	2.8	764
	<b>188.2</b>	<b>224.6</b>	<b>(16)</b>

(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

Sales volumes in the first quarter of 2015 increased 11 percent to 38,317 Boe/d compared to 34,430 Boe/d in the fourth quarter of 2014. Sales volumes averaged over 40,000 Boe/d in February before being impacted by a five-day shut-down at Musreau due to a third-party natural gas pipeline outage. Liquids sales volumes totaled 13,551 Bbl/d, 30 percent higher than the previous quarter, of which 6,583 Bbl/d were condensate and oil. Higher liquids recoveries at the Company's 200 MMcf/d deep cut facility (the "Musreau Deep Cut Facility") and incremental production from new 100 percent working interest Montney wells were the reasons for the increase in sales volumes.

Liquids sales volumes were 35 percent of total sales volumes in the first quarter and 48 percent of total revenue. The Company's sales product mix will continue to evolve towards approximately 50 percent gas and 50 percent liquids as additional liquids-rich Montney production is brought on-stream and liquids recoveries at the Musreau Deep Cut Facility continue to increase.

Paramount's sales volumes averaged approximately 42,000 Boe/d in April 2015, as the Company increased production and liquids recoveries following the completion of a third-party downstream NGLs facility expansion. Sales volumes are expected to surpass 70,000 Boe/d following the start-up of the Company's 15,000 Bbl/d condensate stabilizer expansion (the "Stabilizer Expansion"). Annual sales volumes for 2015 are expected to average between 55,000 and 65,000 Boe/d, with liquids representing about 45 percent of total volumes, as new wells are brought-on production from the Company's inventory of 45 behind-pipe Deep Basin wells (as of April 30, 2015).

Paramount's netbacks in the first quarter were \$45.1 million compared to \$61.0 million in the fourth quarter of 2014, as the growth in sales volumes, higher liquids content, and the reduction in per-unit operating costs were more than offset by further deteriorations in commodity prices. Operating expenses decreased 24 percent to \$5.36 per Boe as a result of the increase in low-cost production from the Kaybob COU, where operating expenses were approximately \$3.50 per Boe.

Principal Properties Capital spending was \$188.2 million in the first quarter of 2015. Well capital was focused at Musreau, Smoky and Resthaven in the Kaybob area and at Karr-Gold Creek in Grande Prairie. The majority of facilities and gathering expenditures were related to 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**

As incremental downstream NGLs processing capacity has become available, the Company has brought additional 100 percent working interest Montney wells on production. With the start-up of the Stabilizer Expansion, Paramount expects to produce all ten wells on the 3-20 Montney pad and start flowing wells on the 8-22 10-well Montney pad. The projected increase in sales volumes to over 70,000 Boe/d will primarily be the result of incremental production from these pads.

Completion operations are scheduled to commence after spring break-up for the 8-03 pad and five additional wells. Paramount's two walking rigs have completed drilling operations on two six-well Montney pads located to the northeast of the Company's Musreau Complex. These pads are currently scheduled to be completed in early-2016.

Construction of the Stabilizer Expansion at the Musreau Complex is complete and the new facility has been handed over to Paramount's operations team for imminent start-up. In the first quarter, the Company continued to expand its gathering network in the Musreau area, constructing new pipelines to service wells on the new large pads to the northeast of the Musreau Complex and future developments planned for areas to the northwest.

### **Grande Prairie – Karr**

Sales volumes in the Grande Prairie area were 6,643 Boe/d in the first quarter of 2015 compared to 8,157 Boe/d in the fourth quarter of 2014. New wells brought-on production at Karr-Gold Creek in the first quarter are being produced at restricted rates to control well and gathering system pressures. Sales volumes were lower at Valhalla in the first quarter of 2015 due to third-party facilities constraints.

The Company drilled 4 (3.5 net) wells at Karr-Gold Creek in the first quarter. Paramount expects to drill an additional 2 (2.0 net) wells over the remainder of 2015, with a total of 7 (6.5 net) wells being tied-in and brought-on production during the year. Compression equipment for the 40 MMcf/d expansion of the Karr-Gold Creek compression facility has been ordered and the incremental capacity is expected to be ready in the first quarter of 2016.

### **Future Montney Development**

Front-end engineering and design for the new wholly-owned \$150 million refrigeration plant is continuing. Paramount expects the plant to be on-stream approximately 18 to 22 months following the placement of long-lead-time orders. The decision to place long-lead-time orders has been deferred until later in the year.

### **Other Areas**

At Willesden Green in southern Alberta, the Company drilled 2 (1 net) wells in the first quarter of 2015. Paramount has now drilled a total of 4 (2 net) Duvernay wells. Two of the wells are currently on production, and one additional well is scheduled to be brought-on later in 2015.

Paramount is participating in the construction of a new compression and dehydration facility at Birch that is scheduled to be completed in mid-2015. There are 7 (3.5 net) wells at Birch currently behind pipe that will be brought-on production through the new facility.

## **STRATEGIC 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. Upon completion of these drilling operations, the Company will have secured the mineral rights for its shale gas properties for another 10 years.



To support Paramount's future growth initiatives, Fox Drilling is completing the construction of two new triple-sized built-for-purpose walking rigs. These new rigs are scheduled to be commissioned in the fourth quarter of 2015 and cost approximately \$25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial funding for the new rigs.

## CORPORATE

Paramount has liquids hedging contracts in place for 3,000 Bbl/d in the second half of 2015 at an average WTI price of CDN\$74.06/Bbl and 8,000 Bbl/d for calendar 2016 at an average WTI price of CDN\$75.62/Bbl<sup>1</sup>.

Standard & Poor's Ratings Services ("S&P") upgraded its rating on the Company's senior unsecured notes to "BB-" in April 2015, following the significant increase in Paramount's year-end 2014 reserves. S&P continues to assign Paramount a corporate credit rating of "B", positive outlook.

Pursuant to a private placement, Paramount raised \$37.2 million in April 2015 through the issuance of 0.9 million flow-through Common Shares to arms-length investors.

Paramount continues to focus on reducing costs while expanding its liquids-rich developments in the Deep Basin, despite the collapse in commodity prices.

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<sup>1</sup> Certain of the 2016 contracts are denominated in \$USD. These contracted prices have been converted using a foreign exchange rate of \$1.21 CDN / \$1 USD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated May 6, 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 months ended March 31, 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](http://www.sedar.com).

### ABOUT PARAMOUNT

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

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

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

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

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

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



## FINANCIAL AND OPERATING HIGHLIGHTS <sup>(1)</sup>

Three months ended March 31	2015	2014	% Change
<b>FINANCIAL</b>			
Petroleum and natural gas sales	80.2	86.2	(7)
Funds flow from operations	15.7	33.5	(53)
<i>per share – basic and diluted (\$/share)</i>	<i>0.15</i>	<i>0.34</i>	
Net loss	(70.3)	(8.9)	690
<i>per share – basic and diluted (\$/share)</i>	<i>(0.67)</i>	<i>(0.09)</i>	
Principal Properties Capital <sup>(2)</sup>	188.2	168.9	11
Investments in other entities – market value <sup>(3)</sup>	260.5	718.5	(64)
Total assets	3,366.3	2,614.6	29
Long-term debt	1,432.5	1,026.7	40
Net debt	1,683.3	1,273.7	32
<b>OPERATIONAL</b>			
<b>Sales volumes</b>			
Natural gas (MMcf/d)	148.6	104.7	42
Condensate and oil (Bbl/d)	6,583	2,686	145
Other NGLs (Bbl/d) <sup>(4)</sup>	6,968	893	680
Total (Boe/d)	38,317	21,028	82
Net wells drilled	25	12	108
<b>FUNDS FLOW FROM OPERATIONS (\$/Boe)</b>			
Petroleum and natural gas sales	23.26	45.56	(49)
Royalties	(0.91)	(2.97)	(69)
Operating expense	(5.36)	(9.62)	(44)
Transportation and NGLs processing <sup>(5)</sup>	(3.93)	(3.57)	10
<b>Netback</b>	<b>13.06</b>	<b>29.40</b>	<b>(56)</b>
Financial commodity contract settlements	–	(1.04)	(100)
<b>Netback including commodity contract settlements</b>	<b>13.06</b>	<b>28.36</b>	<b>(54)</b>
General and administrative – corporate	(1.50)	(2.51)	(40)
General and administrative – strategic investments	(0.36)	(1.13)	(68)
Interest and financing	(6.76)	(8.01)	(16)
Dividends from investments	–	1.06	(100)
Other	0.11	(0.08)	(238)
<b>Funds flow from operations</b>	<b>4.55</b>	<b>17.69</b>	<b>(74)</b>

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

## CONSOLIDATED RESULTS

### Net Loss

Three months ended March 31	2015	2014
Principal Properties	(46.5)	18.6
Strategic Investments	(9.6)	(1.2)
Corporate	(30.9)	(24.9)
Income tax recovery (expense)	16.7	(1.4)
<b>Net loss</b>	<b>(70.3)</b>	<b>(8.9)</b>

Paramount recorded a net loss of \$70.3 million for the three months ended March 31, 2015 compared to a net loss of \$8.9 million in the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended March 31	
<b>Net loss – 2014</b>	<b>(8.9)</b>
<ul style="list-style-type: none"> <li>• Higher depletion and depreciation due to higher sales volumes</li> <li>• Loss on the sale of oil and gas properties in 2015 compared to a gain in 2014</li> <li>• Lower netback primarily due to lower commodity prices</li> <li>• Higher interest and financing expense due to increased debt</li> <li>• Loss from equity-accounted investments in 2015 compared to income in 2014</li> <li>• Income tax recovery in 2015 compared to an expense in 2014</li> <li>• Lower exploration and evaluation expense due to lower expired lease costs</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>(34.7)</li> <li>(26.4)</li> <li>(10.6)</li> <li>(8.1)</li> <li>(5.5)</li> <li>18.0</li> <li>3.4</li> <li>2.5</li> </ul>
<b>Net loss – 2015</b>	<b>(70.3)</b>

### Funds Flow from Operations <sup>(1)</sup>

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

Three months ended March 31	2015	2014
Cash from operating activities	14.2	39.6
Change in non-cash working capital	(2.4)	(10.4)
Geological and geophysical expenses	1.4	2.2
Asset retirement obligations settled	2.5	2.1
<b>Funds flow from operations</b>	<b>15.7</b>	<b>33.5</b>
<b>Funds flow from operations (\$/Boe)</b>	<b>4.55</b>	<b>17.69</b>

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

Funds flow from operations for the three months ended March 31, 2015 was \$15.7 million, \$17.8 million lower than the same period in 2014. Significant factors contributing to the change are shown below:

Three months ended March 31	
<b>Funds flow from operations – 2014</b>	<b>33.5</b>
<ul style="list-style-type: none"> <li>• Lower netback primarily due to lower commodity prices</li> <li>• Higher interest and financing expense due to increased debt</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>(10.6)</li> <li>(8.1)</li> <li>0.9</li> </ul>
<b>Funds flow from operations – 2015</b>	<b>15.7</b>

## PRINCIPAL PROPERTIES

### Netback and Segment Income (Loss)

Three months ended March 31	2015		2014	
	(\$/Boe) <sup>(1)</sup>		(\$/Boe) <sup>(1)</sup>	
Natural gas revenue	40.0	2.99	56.9	6.04
Condensate and oil revenue	28.5	48.16	24.0	99.55
Other NGLs revenue <sup>(2)</sup>	10.3	16.43	4.4	54.50
Royalty and sulphur revenue	1.4	–	0.9	–
<b>Petroleum and natural gas sales</b>	<b>80.2</b>	<b>23.26</b>	<b>86.2</b>	<b>45.56</b>
Royalties	(3.1)	(0.91)	(5.6)	(2.97)
Operating expense	(18.5)	(5.36)	(18.2)	(9.62)
Transportation and NGLs processing <sup>(3)</sup>	(13.5)	(3.93)	(6.7)	(3.57)
<b>Netback</b>	<b>45.1</b>	<b>13.06</b>	<b>55.7</b>	<b>29.40</b>
Financial commodity contract settlements	–	–	(2.0)	(1.04)
<b>Netback including commodity contract settlements</b>	<b>45.1</b>	<b>13.06</b>	<b>53.7</b>	<b>28.36</b>
Other principal property items (see below)	(91.6)		(35.1)	
<b>Segment income (loss)</b>	<b>(46.5)</b>		<b>18.6</b>	

(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 \$80.2 million in the first quarter of 2015, a decrease of \$6.0 million from the first quarter of 2014, due to lower commodity prices, partially offset by higher sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and sulphur	Total
Three months ended March 31, 2014	56.9	24.0	4.4	0.9	86.2
Effect of changes in sales volumes	23.8	34.9	29.8	–	88.5
Effect of changes in prices	(40.7)	(30.4)	(23.9)	–	(95.0)
Change in royalty and sulphur revenue	–	–	–	0.5	0.5
<b>Three months ended March 31, 2015</b>	<b>40.0</b>	<b>28.5</b>	<b>10.3</b>	<b>1.4</b>	<b>80.2</b>

## Sales Volumes

	Three months ended March 31											
	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	117.6	71.9	64	4,426	1,181	275	6,329	199	3,080	30,347	13,368	127
Grande Prairie	26.3	22.4	17	1,764	1,282	38	491	547	(10)	6,643	5,553	20
Southern	2.5	6.8	(63)	379	171	122	148	144	3	939	1,455	(35)
Northern	2.2	3.6	(39)	14	52	(73)	–	3	(100)	388	652	(40)
<b>Total</b>	<b>148.6</b>	<b>104.7</b>	<b>42</b>	<b>6,583</b>	<b>2,686</b>	<b>145</b>	<b>6,968</b>	<b>893</b>	<b>680</b>	<b>38,317</b>	<b>21,028</b>	<b>82</b>

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. Paramount's sales volumes increased 82 percent to 38,317 Boe/d in the first quarter of 2015 compared to 21,028 Boe/d in the same period in 2014. Sales volumes within the Kaybob COU increased 127 percent in the first quarter of 2015 compared to the same period in 2014.

Natural gas sales volumes increased 43.9 MMcf/d or 42 percent to 148.6 MMcf/d in the first quarter of 2015 compared to 104.7 MMcf/d in the same period in 2014. The increase was primarily due to production from new Montney wells brought-on in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. These increases were partially offset by the impact of property dispositions in the Southern COU in the first quarter of 2014.

Condensate and oil sales volumes increased 3,897 Bbl/d or 145 percent to 6,583 Bbl/d in the first quarter of 2015 compared to 2,686 Bbl/d in the first quarter of 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 680 percent to 6,968 Bbl/d in the first quarter of 2015 compared to 893 Bbl/d in the same period in 2014, primarily as a result of 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 natural gas processing facility (the "Smoky Deep Cut Facility") in the third quarter of 2014.

Paramount's production in the first quarter of 2015 continued to be impacted by downstream third-party NGLs fractionation capacity constraints. Incremental fractionation capacity became available at the end of March 2015 under the Company's long-term firm processing agreement when the first phase of a downstream third-party de-ethanization expansion started-up. The second phase of the expansion, a storage cavern expansion, is expected to be in-service by the third quarter of 2015.

Sales volumes are expected to surpass 70,000 Boe/d following the start-up of Paramount's 15,000 Bbl/d condensate stabilizer expansion (the "Stabilizer Expansion"). Construction of the expansion has been completed and the new facility has been handed over to Paramount's operations team for imminent start-up. Annual sales volumes in 2015 are expected to average between 55,000 and 65,000 Boe/d.

## Commodity Prices

Three months ended March 31	2015	2014	Change %
<b>Natural Gas</b>			
Paramount realized price (CDN\$/Mcf)	2.99	6.04	(50)
AECO daily spot (CDN\$/GJ)	2.61	5.63	(54)
AECO monthly index (CDN\$/GJ)	2.79	4.51	(38)
Malin (US\$/MMbtu)	2.85	4.97	(43)
<b>Crude Oil</b>			
Paramount average realized condensate and oil price (CDN\$/Bbl)	48.16	99.55	(52)
Edmonton Light Sweet (CDN\$/Bbl)	53.22	99.76	(47)
West Texas Intermediate (US\$/Bbl)	48.63	98.68	(51)
<b>Foreign Exchange</b>			
\$CDN / 1 \$US	1.24	1.10	13

Paramount's average realized natural gas price decreased 50 percent in the first quarter 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.

Paramount's average realized condensate and oil price decreased 52 percent in the first quarter 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, adjusted for transportation, and quality and density differentials, which are generally higher than prices for unstabilized volumes.

## Commodity Price Management

From time-to-time Paramount uses financial and physical commodity price contracts to manage exposure to commodity price volatility.

Paramount did not have any financial commodity contracts in place at March 31, 2015. Subsequent to March 31, 2015, the Company entered into the following contracts:

Instruments	Total Notional	Average Fixed Price	Remaining Term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN\$74.06/Bbl	July 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN\$77.37/Bbl	January 2016 – December 2016
Oil – NYMEX WTI Swap	2,000 Bbl/d	US\$62.28/Bbl	January 2016 – December 2016

## Royalties

Three months ended March 31	2015	Rate	2014	Rate
Royalties	3.1	4.0%	5.6	6.6%
<i>\$/Boe</i>	<i>0.91</i>		<i>2.97</i>	

First quarter royalties decreased \$2.5 million to \$3.1 million in 2015 compared to \$5.6 million in the same period in 2014, primarily as a result of lower average royalty rates due to the start-up of new wells that qualify for royalty incentive programs and lower natural gas royalties due to lower natural gas revenues, partially offset by higher royalties for liquids due to increased revenues.

The Company's average royalty rate was 4.0 percent in the first quarter of 2015 compared to 6.6 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 March 31	2015	2014	% Change
Operating expense	18.5	18.2	2
<i>\$/Boe</i>	<i>5.36</i>	<i>9.62</i>	<i>(44)</i>

Operating expense increased \$0.3 million or two percent in the first quarter of 2015 to \$18.5 million compared to \$18.2 million in the same period in 2014, primarily due to higher operating costs in the Kaybob COU associated with the new deep cut facilities at Musreau and Smoky and higher lease operating costs resulting from increased production. This increase was partially offset by lower operating costs in the Grande Prairie COU as a result of lower natural gas processing fees, equipment rental costs and other costs. Operating costs were also lower due to property dispositions in the first quarter of 2014 in the Southern COU and higher current year processing income.

Paramount's per Boe operating expenses decreased 44 percent to \$5.36 in the first quarter of 2015 compared to \$9.62 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 quarter of 2015.

## Transportation and NGLs Processing

Three months ended March 31	2015	2014	% Change
Transportation and NGLs processing	13.5	6.7	101
<i>\$/Boe</i>	<i>3.93</i>	<i>3.57</i>	<i>10</i>

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 \$13.5 million in the first quarter of 2015, an increase of \$6.8 million compared to the same period in 2014, 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 capacity contracted for the Musreau Deep Cut Facility.

## Other Principal Property Items

Three months ended March 31	2015	2014
Commodity contracts – net of settlements	–	0.4
Depletion and depreciation	77.0	42.4
Exploration and evaluation	4.2	7.9
(Gain) loss on sale of oil and gas properties	8.9	(17.6)
Other	1.5	2.0
<b>Total</b>	<b>91.6</b>	<b>35.1</b>

First quarter depletion and depreciation expense increased to \$77.0 million (\$22.33 per Boe) in 2015 compared to \$42.4 million (\$22.40 per Boe) in 2014 due to higher production volumes.

Exploration and evaluation expense in the first quarter of 2015 includes dry hole expense of \$2.2 million (2014 - \$0.4 million), geological and geophysical costs of \$1.2 million (2014 - \$2.0 million) and expired undeveloped land leases costs of \$0.8 million (2014 - \$5.5 million).

The first quarter 2015 loss on sale of oil and gas properties related mainly to the sale of non-core properties in the Alder Flats area of Alberta. The first quarter 2014 gain on sale of oil and gas properties primarily related to the sale of coal bed methane properties in the Chain-Delia within the Southern COU in exchange for \$11.7 million in shares of Marquee Energy Ltd. ("Marquee").

## STRATEGIC INVESTMENTS

Three months ended March 31	2015	2014
General and administrative	(1.2)	(2.1)
Share-based compensation	(2.3)	(1.6)
Exploration and evaluation	(0.5)	(0.2)
Interest and financing	(0.6)	(0.7)
Income (loss) from equity-accounted investments	(3.5)	2.0
Drilling rig revenue	0.4	–
Drilling rig expense	(0.2)	–
Other	(1.7)	1.4
<b>Segment loss</b>	<b>(9.6)</b>	<b>(1.2)</b>

Strategic Investments at March 31, 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.

As at	Carrying Value		Market Value <sup>(1)</sup>	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Trilogy	76.4	79.9	142.2	151.4
MEG	75.7	72.3	75.7	72.3
Other <sup>(2)</sup>	42.6	33.1	42.6	33.2
<b>Total</b>	<b>194.7</b>	<b>185.3</b>	<b>260.5</b>	<b>256.9</b>

(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.

## 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

To support the Company's future growth initiatives, Fox Drilling is completing the construction of two new triple-sized built-for-purpose walking rigs. These new rigs are expected to be commissioned in the fourth quarter of 2015 and cost approximately \$25 million each. Fox Drilling's loan facilities were expanded in 2014 to provide partial funding for the new rigs.

## CORPORATE

Three months ended March 31	2015	2014
Interest and financing	23.2	15.0
General and administrative	5.2	4.7
Share-based compensation	2.5	5.0
Other	–	0.2
<b>Segment loss</b>	<b>30.9</b>	<b>24.9</b>

The Corporate segment loss increased to \$30.9 million in the first quarter of 2015 compared to \$24.9 million in the same period in 2014, primarily as a result of higher interest and financing expense, partially offset by lower share-based compensation expense.



## EXPLORATION AND CAPITAL EXPENDITURES

Three months ended March 31	2015	2014
Geological and geophysical	1.2	2.0
Drilling, completion and tie-ins	134.6	117.0
Facilities and gathering	52.4	49.9
<b>Principal Properties Capital <sup>(1)</sup></b>	<b>188.2</b>	<b>168.9</b>
Land and property acquisitions and capitalized interest	5.1	6.6
<b>Principal Properties</b>	<b>193.3</b>	<b>175.5</b>
<b>Strategic Investments <sup>(2)</sup></b>	<b>29.9</b>	<b>23.1</b>
<b>Corporate</b>	<b>0.4</b>	<b>0.2</b>
	<b>223.6</b>	<b>198.8</b>
<b>Principal Properties Capital by COU <sup>(1)</sup></b>		
Kaybob	141.9	106.7
Grande Prairie	22.1	50.9
Southern, Northern and Other	24.2	11.3
	<b>188.2</b>	<b>168.9</b>

(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 include \$0.2 million of capitalized interest (2014 - \$0.2 million).

Principal Properties Capital was \$188.2 million in the first quarter of 2015 compared to \$168.9 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 quarter of 2015 included \$21.3 million related to the Company's exploratory shale gas drilling activities in northeast British Columbia and \$6.2 million related to the two new triple-sized rigs being constructed by Fox Drilling.

Wells drilled were as follows:

Three months ended March 31	2015		2014	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Natural gas	27	25	11	11
Oil	-	-	2	1
<b>Total</b>	<b>27</b>	<b>25</b>	<b>13</b>	<b>12</b>

(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

Construction of the Stabilizer Expansion at the Musreau Complex is complete and the new facility has been handed over to Paramount's operations team for imminent start-up. In the first quarter, the Company continued to expand its gathering network in the Musreau area, constructing new pipelines to service wells on the new large pads to the northeast of the Musreau Complex and future developments planned for areas to the northwest.

As incremental downstream NGLs processing capacity has become available, the Company has brought additional 100 percent working interest Montney wells on production. With the start-up of the Stabilizer Expansion, Paramount expects to produce all ten wells on the 3-20 Montney pad and start flowing wells on the 8-22 10-well Montney pad.

Completion operations are scheduled to commence after spring break-up for the 8-03 pad and five additional wells. Paramount's two walking rigs have completed drilling operations on two six-well Montney pads located to the northeast of the Company's Musreau Complex. These pads are currently scheduled to be completed in early-2016.

Front-end engineering and design for the new wholly-owned \$150 million refrigeration plant is continuing. Paramount expects the plant to be on-stream approximately 18 to 22 months following the placement of long-lead-time orders. The decision to place long-lead-time orders has been deferred until later in the year.

### 2015 Capital Budget

Paramount's current 2015 capital budget is \$400 million, focused on its Deep Basin development and maintaining the optionality of future growth initiatives. The Company's capital budget remains flexible and activity levels may be adjusted depending on commodity prices and other factors.

## LIQUIDITY AND CAPITAL RESOURCES

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

As at	March 31, 2015	December 31, 2014	% Change
Adjusted working capital deficit <sup>(1)</sup>	151.0	183.3	(18)
Demand facilities	92.9	81.5	14
Credit facility	619.4	397.7	56
Senior Notes <sup>(2)</sup>	820.0	820.0	–
<b>Net debt <sup>(3)</sup></b>	<b>1,683.3</b>	<b>1,482.5</b>	<b>14</b>
Share capital	1,605.3	1,603.4	–
Accumulated deficit	(366.6)	(296.3)	24
Reserves	65.6	46.2	42
<b>Total Capital</b>	<b>2,987.6</b>	<b>2,835.8</b>	<b>5</b>

(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 (March 31, 2015 – nil, December 31, 2014 – \$3.3 million), risk management assets and liabilities and demand facilities.

(2) Excludes unamortized issue premiums and financing costs.

(3) Net debt excludes the \$20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Paramount had an adjusted working capital deficit at March 31, 2015 of \$151.0 million compared to a deficit of \$183.3 million at December 31, 2014. The adjusted working capital deficit at March 31, 2015 included \$25.4 million of cash and cash equivalents, \$65.2 million of accounts receivable, \$7.3 million of prepaid amounts and \$248.9 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending related to the Company's 2015 capital program, partially offset by proceeds from drawings on credit facilities, funds flow from operations and proceeds from the sale of non-core properties.

Paramount expects to fund its 2015 operations, obligations and capital expenditures with funds flow from operations, available capacity under its bank credit facility and proceeds from the April 2015 issuance of flow-through Common Shares. With over half of the Company's 2015 capital budget incurred to date and further increases in sales volumes expected throughout 2015, Paramount expects to begin generating funds flow from operations in excess of capital spending in the second half of 2015.

## **Demand Facilities**

### *Fox Drilling 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 \$43.8 million as at March 31, 2015. A \$2.0 million payment was made on Fox Tranche A in the first quarter 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 March 31, 2015, \$16.1 million was outstanding under Fox Tranche B.

### *Cavalier Facility*

Cavalier has a \$40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the three months ended March 31, 2015, \$2.4 million was drawn on the Cavalier Facility resulting in \$33.0 million being outstanding at March 31, 2015.

## **Bank Credit Facility**

Paramount's \$900 million bank credit facility (the "Facility") is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of \$800 million and is available on a revolving basis to November 30, 2015. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to \$100 million and is due November 30, 2015 in the event the due date is not earlier extended.

At March 31, 2015, \$619.4 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at March 31, 2015 totaling \$98.1 million that reduce the amount available to the Company.

## **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 expenses ("CEE") at a price of \$41.35 per share for gross proceeds of \$37.2 million.

At May 4, 2015, Paramount had 106,231,995 Common Shares and 7,405,900 Paramount Options outstanding, of which 2,516,450 Paramount Options are exercisable.

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

## QUARTERLY INFORMATION

	2015		2014			2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	80.2	99.4	84.4	80.0	86.2	57.8	53.9	59.5
Funds flow from operations	15.7	41.6	36.4	29.5	33.5	18.3	13.4	22.3
<i>Per share – basic and diluted (\$/share)</i>	0.15	0.40	0.35	0.30	0.34	0.19	0.14	0.24
Net income (loss)	(70.3)	(106.5)	(9.4)	53.1	(8.9)	0.3	(37.6)	(22.1)
<i>Per share – basic and diluted (\$/share)</i>	(0.67)	(1.02)	(0.09)	0.54	(0.09)	–	(0.39)	(0.24)
Sales volumes								
Natural gas (MMcf/d)	148.6	143.9	93.6	99.4	104.7	102.5	100.9	107.6
Condensate and oil (Bbl/d)	6,583	5,320	4,690	3,212	2,686	2,530	2,231	1,946
Other NGLs (Bbl/d)	6,968	5,123	1,643	810	893	674	960	902
Total (Boe/d)	38,317	34,430	21,936	20,585	21,028	20,290	20,022	20,790
Average realized price								
Natural gas (\$/Mcf)	2.99	3.98	4.43	4.96	6.04	3.73	3.10	3.97
Condensate and oil (\$/Bbl)	48.16	68.45	92.66	106.38	99.55	82.22	102.96	95.96
Other NGLs (\$/Bbl)	16.43	26.64	32.87	43.78	54.50	48.28	36.95	31.16
Total (\$/Boe)	23.26	31.37	41.80	42.72	45.56	30.99	29.27	31.41

### Significant Items Impacting Quarterly Results

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

- 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.
- Second quarter 2013 earnings include \$16.2 million of exploration expenses and \$10.6 million in aggregate gains on the sale 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, 2017. The Company has not yet determined the impact of the IFRS on the Company's 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 Company's financial statements.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended March 31, 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;
- anticipated increases in funds flow from operations and decreases in per unit operating and other costs;
- the repayment of bank debt and strengthening of the Company's leverage metrics that is expected to occur in the second half of 2015;

- projected timelines for, and the estimated costs of, constructing and starting-up new and expanded natural gas processing and/or associated facilities;
- 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", "Capital Expenditures", "Investments in other entities – market value" and "Cash Proceeds from Divestitures", 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 months ended March 31, 2015 of \$1.4 million (2014 - \$2.2 million), which are expensed as incurred. **Principal Properties Capital** includes capital expenditures and geological and geophysical costs related to the Company's Principal Properties, 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. **Capital Expenditures** consist of Principal Properties Capital and Strategic Investments exploration and capital expenditures, refer to the Exploration and Capital Expenditures section of the Company's Management's Discussion and Analysis. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, 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. **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.

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 three months ended March 31, 2015, the value ratio between condensate and oil and natural gas was approximately 16:1. 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.

Behind-pipe wells includes new wells that have been rig-released but have not been placed on production, including wells that have not been completed, wells that have been completed but not yet tied-in and wells that have been completed and tied-in.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(\$ thousands)

As at	Note	March 31 2015	December 31 2014
		(Unaudited)	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		25,362	18,320
Accounts receivable		65,165	57,040
Prepaid expenses and other		7,337	4,883
		97,864	80,243
Deposit		20,694	20,643
Exploration and evaluation	3	628,110	567,420
Property, plant and equipment, net	4	2,236,886	2,168,565
Equity-accounted investments	5	78,956	82,444
Investments in securities	6	115,742	102,894
Deferred income tax		163,318	152,487
Goodwill		24,733	24,733
		3,366,303	3,199,429
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Demand facilities	7	92,900	81,530
Accounts payable and accrued liabilities		248,854	266,847
		341,754	348,377
Long-term debt	8	1,432,483	1,210,355
Asset retirement obligations	9	287,807	287,415
		2,062,044	1,846,147
Shareholders' equity			
Share capital	10	1,605,259	1,603,436
Accumulated deficit		(366,629)	(296,326)
Reserves	11	65,629	46,172
		1,304,259	1,353,282
		3,366,303	3,199,429

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Unaudited)

(\$ thousands, except as noted)

Three months ended March 31	Note	2015	2014
Petroleum and natural gas sales		80,209	86,218
Royalties		(3,137)	(5,628)
Revenue		77,072	80,590
Loss on financial commodity contracts		–	(2,333)
		77,072	78,257
Expenses			
Operating expense		18,485	18,198
Transportation and NGLs processing		13,540	6,748
General and administrative		6,415	6,889
Share-based compensation	12	4,727	6,558
Depletion and depreciation		77,428	42,718
Exploration and evaluation	3	4,705	8,101
(Gain) loss on sale of oil and gas properties		8,867	(17,572)
Interest and financing		23,744	15,609
Accretion of asset retirement obligations	9	1,413	1,549
Foreign exchange		117	91
		159,441	88,889
Income (loss) from equity-accounted investments	5	(3,488)	1,981
Write-down of investments in securities		(1,399)	(1,800)
Other income		269	2,951
Loss before tax		(86,987)	(7,500)
Income tax expense (recovery)	13		
Current		14	82
Deferred		(16,698)	1,302
		(16,684)	1,384
Net Loss		(70,303)	(8,884)
Other comprehensive income, net of tax	11		
Items that may be reclassified to net income or loss			
Change in market value of securities		12,927	28,614
Comprehensive income (loss)		(57,376)	19,730
Net loss per common share (\$/share)	10		
Basic and diluted		(0.67)	(0.09)

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(\$ thousands)

Three months ended March 31	Note	2015	2014
<b>Operating activities</b>			
Net loss		(70,303)	(8,884)
Add (deduct):			
Items not involving cash	15	84,577	38,145
Dividends from equity-accounted investments		–	2,010
Asset retirement obligations settled	9	(2,509)	(2,047)
Change in non-cash working capital		2,395	10,390
<b>Cash from operating activities</b>		<b>14,160</b>	<b>39,614</b>
<b>Financing activities</b>			
Net draw of demand facilities	7	11,370	1,605
Net draw of revolving long-term debt	8	221,688	143,649
Common shares issued, net of issue costs		690	7,661
<b>Cash from financing activities</b>		<b>233,748</b>	<b>152,915</b>
<b>Investing activities</b>			
Property, plant and equipment and exploration		(222,196)	(196,593)
Proceeds on sale of oil and gas properties		5,455	3,929
Proceeds on sale of investment, net		–	6,443
Change in non-cash working capital		(25,140)	(1,083)
<b>Cash used in investing activities</b>		<b>(241,881)</b>	<b>(187,304)</b>
Net increase		6,027	5,225
Foreign exchange on cash and cash equivalents		1,015	189
Cash and cash equivalents, beginning of period		18,320	10,703
<b>Cash and cash equivalents, end of period</b>		<b>25,362</b>	<b>16,117</b>

### Supplemental cash flow information

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

(\$ thousands, except as noted)

Three months ended March 31	Note	2015		2014	
		Shares (000's)		Shares (000's)	
<b>Share Capital</b>					
Balance, beginning of period		104,843	1,603,436	96,993	1,169,178
Issued		50	1,619	539	18,391
Change in unvested common shares for stock incentive plan		–	204	–	195
<b>Balance, end of period</b>		<b>104,893</b>	<b>1,605,259</b>	<b>97,532</b>	<b>1,187,764</b>
<b>Accumulated Deficit</b>					
Balance, beginning of period			(296,326)		(224,612)
Net loss			(70,303)		(8,884)
<b>Balance, end of period</b>			<b>(366,629)</b>		<b>(233,496)</b>
<b>Reserves</b>					
Balance, beginning of period	11		46,172		87,678
Other comprehensive income			12,927		28,614
Contributed surplus			6,530		(5,194)
<b>Balance, end of period</b>			<b>65,629</b>		<b>111,098</b>
<b>Total Shareholders' Equity</b>			<b>1,304,259</b>		<b>1,065,366</b>

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

**(Unaudited)**

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

## 1. Basis of Presentation

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia. The Company's operations are divided into three business segments, 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 months ended March 31, 2015 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 6, 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, 2017. 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

**(Unaudited)**

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

beginning on or after January 1, 2018. The Company has not yet determined the impact of the IFRS on the Consolidated Financial Statements.

**2. Segmented Information**

Three months ended March 31, 2015	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	77,072	–	–	–	77,072
<b>Expenses</b>					
Operating expense	18,485	–	–	–	18,485
Transportation and NGLs processing	13,540	–	–	–	13,540
General and administrative	–	1,248	5,167	–	6,415
Share-based compensation	–	2,257	2,470	–	4,727
Depletion and depreciation	76,995	2,578	74	(2,219)	77,428
Exploration and evaluation	4,215	490	–	–	4,705
Loss on sale of oil and gas properties	8,867	–	–	–	8,867
Interest and financing	–	566	23,178	–	23,744
Other	1,413	–	117	–	1,530
	123,515	7,139	31,006	(2,219)	159,441
Loss from equity-accounted investments	–	(3,488)	–	–	(3,488)
Write-down of investments in securities	–	(1,399)	–	–	(1,399)
Other	(15)	–	58	–	43
Drilling rig revenue	–	10,512	–	(10,075)	437
Drilling rig expense	–	(5,173)	–	4,962	(211)
	(46,458)	(6,687)	(30,948)	(2,894)	(86,987)
<b>Inter-segment eliminations</b>	–	(2,894)	–	2,894	–
<b>Segment loss</b>	(46,458)	(9,581)	(30,948)	–	(86,987)
Income tax recovery					16,684
<b>Net loss</b>					(70,303)

Three months ended March 31, 2014	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	80,590	–	–	–	80,590
Loss on financial commodity contracts	(2,333)	–	–	–	(2,333)
	78,257	–	–	–	78,257
<b>Expenses</b>					
Operating expense	18,198	–	–	–	18,198
Transportation and NGLs processing	6,748	–	–	–	6,748
General and administrative	–	2,143	4,746	–	6,889
Share-based compensation	–	1,558	5,000	–	6,558
Depletion and depreciation	42,421	2,947	171	(2,821)	42,718
Exploration and evaluation	7,938	163	–	–	8,101
Gain on sale of oil and gas properties	(17,572)	–	–	–	(17,572)
Interest and financing	–	653	14,956	–	15,609
Other	1,539	10	91	–	1,640
	59,272	7,474	24,964	(2,821)	88,889
Income from equity-accounted investments	–	1,981	–	–	1,981
Write-down of investments in securities	–	(1,800)	–	–	(1,800)
Other	(387)	3,286	56	–	2,955
Drilling rig revenue	–	12,323	–	(12,323)	–
Drilling rig expense	–	(6,072)	–	6,068	(4)
	18,598	2,244	(24,908)	(3,434)	(7,500)
<b>Inter-segment eliminations</b>	–	(3,434)	–	3,434	–
<b>Segment income (loss)</b>	18,598	(1,190)	(24,908)	–	(7,500)
Income tax expense					(1,384)
<b>Net loss</b>					(8,884)

**(Unaudited)**

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

**3. Exploration and Evaluation**

	Three months ended March 31, 2015	Twelve months ended December 31, 2014
Balance, beginning of period	567,420	429,911
Additions	70,976	295,949
Transfers to property, plant and equipment	(2,050)	(143,217)
Corporate acquisition	–	13,909
Dry hole	(2,478)	(4,719)
Expired lease costs	(797)	(12,780)
Dispositions	(4,961)	(11,633)
Balance, end of period	628,110	567,420

**Exploration and Evaluation Expense**

Three months ended March 31	2015	2014
Geological and geophysical	1,430	2,215
Dry hole	2,478	364
Expired lease costs	797	5,522
	4,705	8,101

**4. Property, Plant and Equipment**

Three months ended March 31, 2015	Petroleum and natural gas assets	Drilling rigs	Other	Total
<b>Cost</b>				
Balance, December 31, 2014	3,189,927	127,410	28,082	3,345,419
Additions	146,639	7,161	466	154,266
Transfers from exploration and evaluation	2,050	–	–	2,050
Dispositions	(9,511)	–	–	(9,511)
Change in asset retirement provision	1,611	–	–	1,611
Cost, March 31, 2015	3,330,716	134,571	28,548	3,493,835
<b>Accumulated depletion, depreciation and write-downs</b>				
Balance, December 31, 2014	(1,117,596)	(38,722)	(20,536)	(1,176,854)
Depletion and depreciation	(77,399)	(2,482)	(214)	(80,095)
Accumulated depletion, depreciation and write-downs, March 31, 2015	(1,194,995)	(41,204)	(20,750)	(1,256,949)
Net book value, December 31, 2014	2,072,331	88,688	7,546	2,168,565
Net book value, March 31, 2015	2,135,721	93,367	7,798	2,236,886

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").



**(Unaudited)**

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

**5. Equity-Accounted Investments**

As at	March 31, 2015			December 31, 2014		
	Shares (000's)	Carrying Value	Market Value <sup>(1)</sup>	Shares (000's)	Carrying Value	Market Value <sup>(1)</sup>
Trilogy	19,144	76,391	142,242	19,144	79,879	151,432
Other		2,565			2,565	
		78,956			82,444	

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

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

Three months ended March 31	2015	2014
Equity earnings (loss)	(3,488)	1,955
Dilution gain	-	26
	(3,488)	1,981

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

As at March 31	2015	2014
Current assets	40,627	80,890
Non-current assets <sup>(1)</sup>	1,550,634	1,601,620
Current liabilities	(102,609)	(226,275)
Non-current liabilities	(935,340)	(780,283)
Equity	553,312	675,952
Multiply by: Paramount's equity interest	15.2%	15.3%
Paramount's proportionate share of equity	84,168	103,393
Less: portion of share-based compensation recorded in equity of Trilogy	(7,777)	(5,679)
Carrying value of Paramount's investment	76,391	97,714

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at March 31, 2015 totaled \$1,552,041 (2014 - \$1,595,569) and equity totaled \$554,719 (2014 - \$669,901).

Three months ended March 31	2015	2014
Revenue	75,953	138,362
Comprehensive income (loss) <sup>(1)</sup>	(22,927)	15,086
Paramount's share of Trilogy's comprehensive income (loss)	(3,488)	2,308

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in prior years in the open market. Excluding such adjustments, Trilogy's comprehensive loss for the three months ended March 31, 2015 was \$20,662 (2014 - comprehensive income \$17,386).

Trilogy had 8.2 million stock options outstanding (3.3 million exercisable) at March 31, 2015 at exercise prices ranging from \$7.59 to \$38.74 per share.

**(Unaudited)**

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

**6. Investments in Securities**

As at	March 31, 2015		December 31, 2014	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	75,702	3,700	72,335
Other <sup>(1)</sup>		40,040		30,559
		<u>115,742</u>		<u>102,894</u>

(1) Includes investments in Marquee, RMP Energy Inc., Strategic Oil &amp; 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).

**7. Demand Facilities**

As at	March 31, 2015	December 31, 2014
Fox Drilling Facility	59,900	50,940
Cavalier Facility	33,000	30,590
	<u>92,900</u>	<u>81,530</u>

**8. Long-Term Debt**

As at	March 31, 2015	December 31, 2014
Bank credit facility	619,361	397,673
8¼% Senior Notes due 2017 ("2017 Senior Notes")	370,000	370,000
7½% Senior Notes due 2019 ("2019 Senior Notes")	450,000	450,000
	<u>1,439,361</u>	<u>1,217,673</u>
Unamortized financing costs, net of premiums	(6,878)	(7,318)
	<u>1,432,483</u>	<u>1,210,355</u>

Paramount's bank credit facility (the "Facility") has a credit limit of \$900 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of \$800 million and is available on a revolving basis to November 30, 2015. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to \$100 million and is due November 30, 2015 in the event the due date is not earlier extended.

As at March 31, 2015, \$619.4 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at March 31, 2015 totaling \$98.1 million that reduce the amount available to the Company.

The 2017 Senior Notes had a market value of 100.5 percent of their principal amount at March 31, 2015 (December 31, 2014 – 97.3 percent). The 2019 Senior Notes had a market value of 98.3 percent of their principal amount at March 31, 2015 (December 31, 2014 – 93.6 percent). The market values of the Company's senior notes are estimated using a market approach based on prices quoted from financial institutions, which are level two fair value hierarchy inputs.

**(Unaudited)**

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

**9. Asset Retirement Obligations**

	Three months ended March 31, 2015	Twelve months ended December 31, 2014
Asset retirement obligations, beginning of period	287,415	239,853
Retirement obligations incurred	543	23,190
Revisions to estimated retirement costs	1,068	6,126
Change in discount rates	–	40,164
Obligations settled	(2,509)	(4,576)
Dispositions	(123)	(30,134)
Assumed on corporate acquisition	–	6,856
Accretion expense	1,413	5,936
Asset retirement obligations, end of period	287,807	287,415

Asset retirement obligations at March 31, 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).

**10. Share Capital**

At March 31, 2015, 104,893,346 (December 31, 2014 – 104,843,846) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 54,199 (December 31, 2014 – 54,199) Common Shares held in trust under the stock incentive plan.

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with the Canadian exploration expense ("CEE") flow-through shares issued in July 2014.

**Weighted Average Common Shares**

Three months ended March 31	2015		2014	
	Wtd. Avg. Shares (000's)	Net loss	Wtd. Avg. Shares (000's)	Net loss
Net loss – basic	104,867	(70,303)	97,303	(8,884)
Dilutive effect of Paramount options	–	–	–	–
Net loss – diluted	104,867	(70,303)	97,303	(8,884)

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 7.2 million Paramount Options outstanding at March 31, 2015 (March 31, 2014 – 6.1 million), all of which were anti-dilutive.

**11. Reserves**

Reserves at March 31, 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:

**(Unaudited)**

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

	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, December 31, 2014	(29,688)	75,860	46,172
Other comprehensive income	12,927	–	12,927
Share-based compensation	–	7,459	7,459
Stock options exercised	–	(929)	(929)
Balance, March 31, 2015	(16,761)	82,390	65,629

**Other Comprehensive Income**

Three months ended March 31	2015	2014
Unrealized gain (loss) on securities		
Change in market value of securities	12,848	30,130
Reclassification of other comprehensive loss (income) to earnings	1,399	(1,037)
Deferred tax	(1,320)	(479)
Other comprehensive income	12,927	28,614

**12. Share-Based Compensation****Paramount Options**

Changes in outstanding Paramount Options are as follows:

	March 31, 2015		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	10,000	26.54	1,922,500	33.22
Exercised	(49,500)	13.94	(1,107,350)	17.22
Forfeited	(70,000)	41.09	(171,500)	35.67
Balance, end of period	7,166,350	33.81	7,275,850	33.75
Options exercisable, end of period	2,526,500	31.87	2,592,750	31.58

**Stock Incentive Plan – Shares Held in Trust**

	Three months ended March 31, 2015		Twelve months ended December 31, 2014	
	Shares (000's)	Shares (000's)	Shares (000's)	Shares (000's)
Balance, beginning of period	54	508	72	500
Shares purchased	–	–	92	4,617
Change in vested and unvested shares	–	(204)	(110)	(4,609)
Balance, end of period	54	304	54	508

**(Unaudited)**

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

**13. Income Tax**

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

Three months ended March 31	2015	2014
Loss before tax	(86,987)	(7,500)
Effective Canadian statutory income tax rate	25.0%	25.0%
Expected income tax recovery	(21,747)	(1,875)
Effect on income taxes of:		
Statutory and other rate differences	292	19
Loss (income) from equity-accounted investments	872	(495)
Write-down of investments in securities	350	450
Flow-through share renunciations	956	2,617
Share-based compensation	1,801	1,294
Non-deductible items and other	792	(626)
Income tax recovery	(16,684)	(1,384)

**14. Financial Instruments and Risk Management**

The Company did not have any financial commodity contracts in place at March 31, 2015.

Subsequent to March 31, 2015, the Company entered into the following financial commodity sales contracts:

Instruments	Total notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN\$74.06/Bbl	July 2015 – December 2016
Oil – NYMEX WTI Swap	3,000 Bbl/d	CDN\$77.37/Bbl	January 2016 – December 2016
Oil – NYMEX WTI Swap	2,000 Bbl/d	US\$62.28/Bbl	January 2016 – December 2016

**15. Consolidated Statement of Cash Flows – Selected Information****Items Not Involving Cash**

Three months ended March 31	2015	2014
Financial commodity contracts	–	362
Share-based compensation	4,727	6,558
Depletion and depreciation	77,428	42,718
Exploration and evaluation	3,275	5,886
(Gain) loss on sale of oil and gas properties	8,867	(17,572)
Accretion of asset retirement obligations	1,413	1,549
Foreign exchange	254	297
(Income) loss from equity-accounted investments	3,488	(1,981)
Write-down of investments in securities	1,399	1,800
Deferred income tax	(16,698)	1,302
Other	424	(2,774)
	84,577	38,145

**(Unaudited)**

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

**Supplemental Cash Flow Information**

Three months ended March 31	2015	2014
Interest paid	9,408	4,072
Current tax paid (refunded)	(10)	502

**16. Subsequent Events**

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 CEE at a price of \$41.35 per share for gross proceeds of \$37.2 million.

# CORPORATE INFORMATION

## OFFICERS

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

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

**B. K. Lee**  
Chief Financial Officer

**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**  
Corporate Secretary

**L. A. Friesen**  
Assistant Corporate Secretary

## DIRECTORS

**C. H. Riddell**  
Chairman of the Board and  
Chief Executive Officer  
Paramount Resources Ltd.  
Calgary, Alberta

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

**J. G. M. Bell** <sup>(1) (3) (4)</sup>  
General Counsel  
Olympia Trust Company  
Calgary, Alberta

**T. E. Claugus** <sup>(4)</sup>  
President  
GMT Capital Corp.  
Atlanta, Georgia

**J. C. Gorman** <sup>(1) (3) (4)</sup>  
Independent Businessman  
Calgary, Alberta

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

**D. M. Knott** <sup>(4)</sup>  
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** <sup>(1) (2) (3) (4)</sup>  
Independent Businessman  
Calgary, Alberta

**B. M. Wylie** <sup>(2)</sup>  
Business Executive  
Calgary, Alberta

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

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## HEAD OFFICE

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## CONSULTING ENGINEERS

**McDaniel & Associates  
Consultants Ltd.**  
Calgary, Alberta

## AUDITORS

**Ernst & Young LLP**  
Calgary, Alberta

## BANKERS

**Bank of Montreal**  
Calgary, Alberta

**HSBC Bank Canada**  
Calgary, Alberta

**The Bank of Nova Scotia**  
Calgary, Alberta

**Royal Bank of Canada**  
Calgary, Alberta

**Alberta Treasury Branches**  
Calgary, Alberta

**The Toronto-Dominion Bank**  
Calgary, Alberta

**Canadian Imperial Bank of  
Commerce**  
Calgary, Alberta

**National Bank of Canada**  
Calgary, Alberta

**Wells Fargo Bank, N.A.**  
Calgary, Alberta

**Caisse centrale Desjardins**  
Calgary, Alberta

**Canadian Western Bank**  
Calgary, Alberta

**Business Development Bank  
of Canada**  
Calgary, Alberta

## REGISTRAR AND TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
Calgary, Alberta  
Toronto, Ontario

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
("POU")