Second Quarter 2021 Results

Paramount Resources Ltd. Reports Second Quarter 2021 Results and Announces August Dividend

Calgary, Alberta – August 4, 2021

HIGHLIGHTS

- Sales volumes averaged 79,995 Boe/d (43 percent liquids) in the second quarter of 2021, ahead of the Company's guidance of 77,000 Boe/d to 78,000 Boe/d (42 percent liquids), driven by continued outperformance at Karr.(1)

  - Sales volumes at Karr averaged 38,679 Boe/d (54 percent liquids) in the second quarter, ahead of expectations and approximately 5,500 Boe/d higher than first quarter production, despite a seven-day scheduled curtailment at the third-party 6-18 facility in May. The six-well 3-10 pad continues to outperform and achieved payout in four months after coming onstream in February.

  - Sales volumes at Wapiti averaged 10,604 Boe/d (59 percent liquids) in the second quarter, in line with expectations. The Company expects Wapiti sales volumes to increase in the second half of 2021 as new production is brought onstream.

- Operating costs averaged $11.23/Boe in the second quarter of 2021, down from $11.63/Boe in the first quarter. Paramount achieved another important milestone at Karr, with second quarter operating costs coming in at $9.40/Boe, beating the Company's target of $10.00/Boe at plateau production of approximately 40,000 Boe/d.

- Cash from operating activities was $112.1 million in the second quarter. Adjusted funds flow was $86.0 million or $0.65 per share. Free cash flow was ($0.7) million. Full year 2021 free cash flow is now forecast to be $45 million higher at approximately $185 million resulting in anticipated year-end net debt to adjusted funds flow of approximately 1.0x, reflecting stronger commodity prices and year-to-date performance.(2)

- Second quarter capital spending, which was focused on drilling and completion activities at Karr, Wapiti and the Willesden Green Duvernay, totaled $83.5 million. Strong execution resulted in faster drilling and completion times on certain projects, translating into lower than budgeted costs and allowing the Company to complete certain activities in the second quarter that were initially planned for the third quarter. The Company remains on track for 2021 annual capital spending to be between $265 million and $285 million.

  - Preliminary all-in lease construction, drilling, completion, equip and tie-in (collectively "DCET") costs at the five well Karr 7-18 pad that was brought on production in late July 2021 averaged

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(1) In this press release, "liquids" refers to NGLs (including condensate) and oil combined, "natural gas" refers to conventional natural gas and shale gas combined, "condensate and oil" refers to condensate, light and medium crude oil and tight oil combined and "other NGLs" refers to ethane, propane and butane combined. See the Product Type Information section for a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. See also "Oil and Gas Measures and Definitions" in the Advisories section.

(2) "Adjusted funds flow", "free cash flow" and "net debt to adjusted funds flow" are Non-GAAP financial measures. See "Non-GAAP Financial Measures" in the Advisories section.

a pacesetting $6.0 million per well, approximately 11 percent lower than average DCET costs of the last two pads at Karr.

- DCET costs for the seven well Wapiti 6-4 pad averaged a pacesetting $6.9 million per well, nine percent lower than average Wapiti DCET costs in 2020.
- Paramount's use of the drilling rigs and crews of its wholly-owned Fox Drilling subsidiary has resulted in consistency of execution and efficiencies that have contributed to well cost reductions at Karr and Wapiti.
- The Company finished drilling the two well 4-7 pad in the Willesden Green Duvernay during the second quarter. The wells were completed in July and are expected to be brought on production in late August. One of these wells was drilled to a lateral length of approximately 4,000 meters and a total measured depth of approximately 7,400 meters, representing the longest horizontal well ever drilled by the Company.

- Abandonment and reclamation expenditures in the second quarter totaled $3.2 million, net of $0.8 million in funding under the Alberta Site Rehabilitation Program.
- The Company's strong financial outlook and operating results enabled it to implement a monthly dividend of $0.02 per class A common share ("Common Share") and a normal course issuer bid ("NCIB") under which up to 7.3 million Common Shares may be purchased for cancellation. The inaugural cash dividend was paid on July 30, 2021.
- The Company's senior secured revolving bank credit facility (the "Paramount Facility") was amended in the second quarter to extend the maturity date to June 2, 2024 and change its size to $900 million, with an accordion feature providing flexibility to increase the size to $1.0 billion.
- In the second quarter, Paramount received $67 million cash in settlement of its previously disclosed dissent proceedings respecting Strath Resources Ltd. and for the sale of its remaining securities in Strathcona Resources Ltd.
- The Company closed the sale of its non-operated Birch assets in July for gross proceeds of approximately $88 million before customary closing adjustments.
- Subsequent to quarter-end, Paramount entered into several additional hedges to further protect its free cash flow profile. See below under "Hedging".

GUIDANCE

Paramount is reaffirming its 2021 average sales volumes guidance of between 80,000 Boe/d and 82,000 Boe/d (44 percent liquids). Second half 2021 sales volumes guidance remains unchanged at between 80,000 Boe/d and 84,000 Boe/d (45 percent liquids).

The Company continues to expect 2021 annual capital spending to be between $265 million and $285 million, excluding land acquisitions and abandonment and reclamation activities.

Paramount is updating its forecast of 2021 free cash flow from approximately $140 million to approximately $185 million to reflect year-to-date actual results and revised commodity price and other assumptions for the second half of 2021. This forecast is based on the following assumptions for 2021: (i) the midpoint of forecast capital spending and production, (ii) $25 million in abandonment and reclamation costs, (iii) realized pricing of $44.00/Boe (US$64.05/Bbl WTI, US$3.41/MMBtu NYMEX, $3.37/GJ AECO), (iv) royalties of $3.90/Boe, (v) operating costs of $11.20/Boe and (vi) transportation and processing costs of $4.00/Boe.

Approximately 53 percent of forecast midpoint production is hedged over the second half of 2021. After taking such hedging into account, 2021 forecast free cash flow would still be approximately $140 million at an average WTI oil price of US$50.00/Bbl over the second half of the year and would rise to $210 million at an average WTI oil price of US$75.00/Bbl over the second half of the year.

The Company currently prioritizes the allocation of free cash flow to: (i) achieving a targeted range of net debt to adjusted funds flow of between 1.0x and 2.0x; (ii) shareholder returns; and (iii) incremental growth. Free cash flow in 2021 is expected to be directed towards debt reduction and the payment of dividends, with the Company maintaining the flexibility to make purchases of Common Shares under the NCIB. Year-end net debt to adjusted funds flow is now anticipated to be approximately 1.0x based on forecast 2021 free cash flow and a monthly dividend of $0.02 per Common Share.

Paramount's previously announced preliminary 2022 capital spending and sales volumes guidance remains unchanged. The Company continues to anticipate 2022 spending, excluding land acquisitions and abandonment and reclamation activities, to range between $325 million and $385 million. A capital program in this range would be expected to result in 2022 annual sales volumes of between 84,000 Boe/d and 88,000 Boe/d (45 percent liquids) and free cash flow of approximately $320 million, based on the following updated assumptions for 2022: (i) the midpoint of forecast capital spending and production, (ii) $30 million in abandonment and reclamation costs, (iii) realized pricing of $43.20/Boe (US$62.18/Bbl WTI, US$3.30/MMBtu NYMEX, $3.10/GJ AECO), (iv) royalties of $4.15/Boe, (v) operating costs of $11.00/Boe and (vi) transportation and processing costs of $3.85/Boe. If all free cash flow was directed towards debt reduction, year-end 2022 net debt to adjusted funds flow would be less than 0.5x.

AUGUST DIVIDEND

The Board of Directors has declared a cash dividend of $0.02 per Common Share that will be payable on August 31, 2021 to shareholders of record on August 16, 2021. The dividend will be designated as an "eligible dividend" for Canadian income tax purposes.

REVIEW OF OPERATIONS

GRANDE PRAIRIE REGION

Grande Prairie Region sales volumes and netbacks are summarized below:[1]

	Q2 2021		Q1 2021		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**134.3**		122.6		*10*
Condensate and oil (Bbl/d)	**24,090**		23,974		-
Other NGLs (Bbl/d)	**2,874**		2,984		*(4)*
Total (Boe/d)	**49,345**		47,385		*4*
% liquids	***55%***		*57%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**217.7**	***48.47***	194.0	*45.50*	*12*
Royalties	**(15.3)**	***(3.40)***	(11.6)	*(2.72)*	*32*
Operating expense	**(48.8)**	***(10.88)***	(49.0)	*(11.49)*	-
Transportation and NGLs processing	**(21.4)**	***(4.76)***	(20.0)	*(4.69)*	*7*
	132.2	***29.43***	113.4	*26.60*	*17*

KARR AREA

Karr sales volumes and netbacks are summarized below:

	Q2 2021		Q1 2021		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**107.6**		90.2		*19*
Condensate and oil (Bbl/d)	**18,458**		16,095		*15*
Other NGLs (Bbl/d)	**2,281**		2,108		*8*
Total (Boe/d)	**38,679**		33,230		*16*
% liquids	***54%***		*55%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**168.0**	***47.72***	132.5	*44.31*	*27*
Royalties	**(13.1)**	***(3.72)***	(8.6)	*(2.89)*	*52*
Operating expense	**(33.1)**	***(9.40)***	(31.9)	*(10.67)*	*4*
Transportation and NGLs processing	**(16.0)**	***(4.52)***	(14.0)	*(4.68)*	*14*
	105.8	***30.08***	78.0	*26.07*	*36*

Second quarter sales volumes at Karr averaged 38,679 Boe/d (54 percent liquids) compared to 33,230 Boe/d (55 percent liquids) in the first quarter. The increase in sales volumes was driven by strong performance from the six well 3-10 pad that was brought onstream in February and continues to outperform internal type well projections as well as production contributions from the three well 4-28 pad that was brought onstream in late April. Sales volumes also benefitted from additional gas lift compression installed in the first quarter that became fully operational in April. Combined, these more than offset the impact of scheduled curtailments at the third-party Karr 6-18 facility related to inlet separation and liquids handling optimization that reduced sales volumes by approximately 50 percent for seven days in May.

(1) "Netback" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

The 4-28 pad has performed in line with internal type well projections, averaging gross peak 30-day production per well of 1,295 Boe/d (3.4 MMcf/d of shale gas and 728 Bbl/d of NGLs) with an average CGR of 214 Bbl/MMcf.(1)

Paramount continues to focus on driving DCET costs lower while maintaining well performance and has realized cost improvements relative to previous pacesetting results. Preliminary all-in DCET costs at the five well Karr 7-18 pad, which was brought on production in late July 2021, averaged a pacesetting $6.0 million per well. This represents an approximate 11 percent reduction relative to average DCET costs of the last two pads at Karr. Continued outperformance from the 3-10 pad coupled with strong commodity prices has resulted in all wells on the 3-10 pad paying out in June, four months after coming onstream.

Drilling operations on the five well 5-16 East pad were completed in the second quarter. The average spud to rig release time for this pad came in at just under 24 days, 12 percent faster than on the 5-16 West pad drilled last year from the same surface location. The Company plans to complete the pad late in the third quarter and equip and tie-in the wells in the fourth quarter. The Company recently started drilling operations on the ten well 16-17 pad and expects that seven of the ten wells will be drilled by year-end.

Karr unit operating costs trended lower in the second quarter as a result of higher production volumes combined with a continued focus on capturing efficiencies and streamlining operations. Paramount achieved operating costs at Karr of $9.40/Boe in the second quarter of 2021, lower than targeted operating costs of $10.00/Boe at plateau production of approximately 40,000 Boe/d.

Royalties at Karr increased in the second quarter of 2021 compared to the first quarter as a result of higher volumes and prices as well as a number of wells having fully utilized their new well royalty incentives.

WAPITI AREA

Wapiti sales volumes and netbacks are summarized below:

	Q2 2021		Q1 2021		*% Change*
Sales volumes					
Natural gas (MMcf/d)	**26.4**		32.1		*(18)*
Condensate and oil (Bbl/d)	**5,629**		7,884		*(29)*
Other NGLs (Bbl/d)	**582**		867		*(33)*
Total (Boe/d)	**10,604**		14,107		*(25)*
% liquids	***59%***		*62%*		
Netback	($ millions)	*($/Boe)*	($ millions)	*($/Boe)*	*% Change in $ millions*
Petroleum and natural gas sales	**49.6**	***51.41***	61.4	*48.42*	*(19)*
Royalties	**(2.1)**	***(2.24)***	(2.9)	*(2.32)*	*(30)*
Operating expense	**(15.4)**	***(16.00)***	(16.8)	*(13.25)*	*(8)*
Transportation and NGLs processing	**(5.5)**	***(5.65)***	(6.0)	*(4.73)*	*(9)*
	26.6	***27.52***	35.7	*28.12*	*(26)*

Second quarter sales volumes at Wapiti averaged 10,604 Boe/d (59 percent liquids) compared to 14,107 Boe/d (62 percent liquids) in the first quarter due to natural declines, the temporary shut-in of certain offsetting wells due to completion activities at the 6-4 pad and production curtailments at the third-party Wapiti natural gas processing facility caused by high ambient temperatures in June.

Production in July 2021 was impacted by the previously disclosed scheduled ten-day outage at the third-party Wapiti natural gas processing facility. This outage, which was undertaken to permanently address

(1) Production measured at the wellhead. Natural gas sales volumes are lower by approximately 7% and liquids sales volumes are lower by approximately 6% due to shrinkage. Excludes days when the wells did not produce. The production rates and volumes stated are over a short period of time and, therefore, are not necessarily indicative of average daily production, long-term performance or of ultimate recovery from the wells. CGR means condensate to gas ratio and is calculated by dividing raw wellhead liquids volumes by raw wellhead natural gas volumes. See Oil and Gas Measures and Definitions in the Advisories section.

the source of the unscheduled outage that occurred at the facility in the third quarter of 2020, was completed as planned and the Company has restored production.

The seven well 6-4 pad was brought onstream in early July with encouraging initial results. DCET costs averaged a pacesetting $6.9 million per well, representing a nine percent reduction compared to average Wapiti DCET costs in 2020.

The Company has commenced drilling the seven well 9-22 pad, which is scheduled to be brought onstream in December 2021 along with the previously drilled and completed 10-22 well. The Company has also commenced the installation of infrastructure that will be operational later in 2021 and will accommodate production growth at Wapiti.

KAYBOB REGION

Kaybob Region sales volumes averaged 22,688 Boe/d (28 percent liquids) in the second quarter of 2021 compared to 24,938 Boe/d (28 percent liquids) in the first quarter. The decrease in production was due to natural declines and non-core asset dispositions completed in the first quarter.

Paramount holds material positions in the Duvernay and Montney resource plays in the Kaybob Region that will compete for capital in the medium term. In 2022, the Company has preliminary plans to drill, complete and tie-in a four well Duvernay pad at Kaybob Smoky and a three well Duvernay pad at Kaybob North on an existing pad where one of the three wells was previously drilled in 2019. The Company expects to realize capital cost efficiencies in its Kaybob Duvernay plays, similar to the gains achieved over the past 18 months at Karr and Wapiti, as it commences pad development and captures economies of scale. These lower costs are expected to materially improve Duvernay economics.

CENTRAL ALBERTA AND OTHER REGION

Central Alberta and Other Region sales volumes averaged 7,962 Boe/d (13 percent liquids) in the second quarter of 2021 compared to 8,217 Boe/d (14 percent liquids) in the first quarter.

The Company holds a material, contiguous Duvernay position at Willesden Green and continues to actively evaluate longer-term full field development plans for this asset. Drilling, completion and equipping of a two well, liquids rich Duvernay pad in the Willesden Green area was recently completed and Paramount plans to tie-in and bring both wells on production in late August.

HEDGING

Subsequent to June 30, 2021, the Company entered into the following oil and natural gas hedges:

- Oil:
  October 2021 – March 2022 — 6,000 Bbl/d at $87.18/Bbl (WTI)

- Natural Gas:
  October 2021 – March 2022 — 20,000 MMBtu/d at US$4.10/MMBtu (NYMEX)
  October 2021 – March 2022 — 20,000 GJ/d at $4.01/GJ (AECO)

Further details of Paramount’s commodity hedging position are provided in its second quarter 2021 Management’s Discussion and Analysis and Consolidated Financial Statements.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources, including longer-term strategic exploration and pre-development plays, 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 are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount's second quarter 2021 results, including Management's Discussion and Analysis and the Company's Consolidated Financial Statements will be made available through Paramount's website at www.paramountres.com and on SEDAR at www.sedar.com.

A summary of historical financial and operating results is also available on Paramount's website at http://www.paramountres.com/investor-relations/financial-reports#2021.

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FINANCIAL AND OPERATING RESULTS [(1)]

($ millions, except as noted)

	Q2 2021		Q1 2021	
Net loss		(74.3)		(82.5)
per share – basic and diluted ($/share)		*(0.56)*		*(0.62)*
Cash from operating activities		112.1		81.3
per share – basic and diluted ($/share)		*0.84*		*0.61*
Adjusted funds flow		86.0		90.9
per share – basic and diluted ($/share)		*0.65*		*0.69*
Total assets		3,655.6		3,583.1
Long-term debt		608.4		712.7
Net debt		724.5		761.7
Common shares outstanding *(thousands)* [(2)]		133,314		132,754
Sales volumes				
Natural gas (MMcf/d)		273.1		273.1
Condensate and oil (Bbl/d)		29,543		29,854
Other NGLs (Bbl/d) [(3)]		4,938		5,170
Total (Boe/d)		79,995		80,540
% liquids		*43%*		*43%*
Grande Prairie Region (Boe/d)		49,345		47,385
Kaybob Region (Boe/d)		22,688		24,938
Central Alberta and Other Region (Boe/d)		7,962		8,217
Total (Boe/d)		79,995		80,540
Netback		*$/Boe* [(4)]		*$/Boe* [(4)]
Natural gas revenue	74.8	*3.01*	77.3	*3.14*
Condensate and oil revenue	209.6	*77.96*	185.9	*69.20*
Other NGLs revenue [(3)]	14.4	*32.11*	15.0	*32.29*
Royalty and other revenue	0.9	—	1.7	—
Petroleum and natural gas sales	299.7	*41.17*	279.9	*38.61*
Royalties	(24.9)	*(3.43)*	(18.6)	*(2.57)*
Operating expense	(81.8)	*(11.23)*	(84.3)	*(11.63)*
Transportation and NGLs processing [(5)]	(30.3)	*(4.16)*	(27.9)	*(3.84)*
Netback	162.7	*22.35*	149.1	*20.57*
Financial commodity contract settlements	(54.1)	*(7.44)*	(32.7)	*(4.51)*
Netback including financial commodity contract settlements	108.6	*14.91*	116.4	*16.06*
Total Capital Expenditures				
Grande Prairie Region		66.5		51.3
Kaybob Region		3.9		5.0
Central Alberta and Other Region		11.8		1.2
Corporate [(6)]		1.2		1.8
Land acquisitions		0.1		—
Total capital expenditures		83.5		59.3
Asset retirement obligation settlements		3.2		8.4

(1) Readers are referred to the advisories concerning Non-GAAP Financial Measures and Oil and Gas Measures and Definitions in the Advisories section of this document. This table contains the following Non-GAAP financial measures: Adjusted funds flow, Net debt, Netback and Total capital expenditures. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes for applicable periods by the specific product types.
(2) Common shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of common shares): Q2 2021: 1,538 and Q1 2021: 1,914.
(3) Other NGLs means ethane, propane and butane.
(4) Natural gas revenue presented as $/Mcf.
(5) Includes downstream transportation costs and NGLs fractionation costs.
(6) Includes transfers between regions.

PRODUCT TYPE INFORMATION

This press release refers to sales volumes of "liquids", "natural gas", "condensate and oil" and "other NGLs". "Liquids" means NGLs (including condensate) and oil combined, "natural gas" refers to conventional natural gas and shale gas combined, "condensate and oil" refers to condensate, light and medium crude oil and tight oil combined and "other NGLs" refers to ethane, propane and butane combined. Below is a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. Numbers may not add due to rounding.

	Total		Grande Prairie Region		Kaybob Region		Central Alberta and Other Region	
	Q2 2021	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q1 2021
Shale gas (MMcf/d)	205.8	197.8	132.2	120.6	39.3	42.1	34.3	35.1
Conventional natural gas (MMcf/d)	67.3	75.3	2.1	2.0	58.0	65.8	7.2	7.5
Natural gas (MMcf/d)	273.1	273.1	134.3	122.6	97.3	107.9	41.5	42.6
Condensate (Bbl/d)	26,784	27,017	24,086	23,974	2,319	2,611	379	433
Other NGLs (Bbl/d)	4,938	5,170	2,874	2,984	1,569	1,677	495	509
NGLs (Bbl/d)	31,722	32,187	26,960	26,958	3,888	4,288	874	942
Tight oil (Bbl/d)	494	479	–	–	354	342	140	136
Light and medium crude oil (Bbl/d)	2,265	2,358	4	–	2,224	2,321	37	37
Crude oil (Bbl/d)	2,759	2,837	4	–	2,578	2,663	177	173
Total (Boe/d)	79,995	80,540	49,345	47,385	22,688	24,938	7,962	8,217

	Karr		Wapiti	
	Q2 2021	Q1 2021	Q2 2021	Q1 2021
Shale gas (MMcf/d)	106.3	89.1	25.9	31.5
Conventional natural gas (MMcf/d)	1.3	1.1	0.5	0.6
Natural gas (MMcf/d)	107.6	90.2	26.4	32.1
NGLs (Bbl/d)	20,739	18,203	6,211	8,751
Total (Boe/d)	38,679	33,230	10,604	14,107

The Company forecasts that 2021 sales volumes will average between 80,000 Boe/d and 82,000 Boe/d (56% shale gas and conventional natural gas combined, 38% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second half 2021 sales volumes are expected to average between 80,000 Boe/d and 84,000 Boe/d (55% shale gas and conventional natural gas combined, 39% light and medium crude oil, tight oil and condensate combined and 6% other NGLs).

ADVISORIES

Forward-looking Information

Certain statements in this press release 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 press release includes, but is not limited to:

- the expectation that sales volumes at Wapiti will increase in the second half of 2021;
- preliminary estimated drilling, completion and equipping costs;
- forecast free cash flow in 2021;
- forecast 2021 year-end net debt to annual adjusted funds flow;
- planned capital expenditures in 2021;
- forecast sales volumes for 2021 and certain periods therein;
- the Company's expectation that 2021 free cash flow will be directed towards debt reduction and the payment of dividends;
- preliminary anticipated capital expenditures in 2022 and the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- the payment of future dividends under the Company's monthly dividend program;
- planned exploration, development and production activities, including the expected timing of completing and bringing new wells on production; and
- the expectation that the Company will realize capital cost efficiencies in its Kaybob Duvernay plays and the expectation that lower costs will materially improve Duvernay economics.

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 press release:

- future commodity prices and the potential impact of the COVID-19 pandemic thereon;
- the likely impact of the COVID-19 pandemic on operations;
- the ability to realize expected cost savings;
- royalty rates, taxes and capital, operating, processing, transportation, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms and the capacity and reliability of facilities;
- the ability of Paramount to market its production 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, product yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals;
- the receipt of benefits under government programs;
- the application of regulatory requirements respecting abandonment and reclamation; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities, and facility turnarounds and maintenance).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this press release, undue reliance should not be placed on the forward-looking information 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 commodity prices, including in relation to the impact of the COVID-19 pandemic;
- changes in capital spending plans and planned exploration and development activities;
- the potential for changes to preliminary anticipated 2022 capital expenditures prior to finalization and changes to the resulting expected 2022 average sales volumes and free cash flow;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, free cash flow, production, reserve additions, product yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;

- the ability to secure adequate product processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting natural gas and liquids, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash from operating activities and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- 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, insurance claims, 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.

There are risks that may result in the Company changing, suspending or discontinuing its monthly dividend program, including changes to free cash flow, operating results, capital requirements, financial position, market conditions or corporate strategy and the need to comply with requirements under debt agreements and applicable laws respecting the declaration and payment of dividends. There are no assurances as to the continuing declaration and payment of future dividends under the Company's monthly dividend program or the amount or timing of any such dividends.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the sections titled "*Risk Factors*" in Paramount's annual information form for the year ended December 31, 2020, which is available on SEDAR at www.sedar.com. The forward-looking information contained in this press release 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.

Certain forward-looking information in this press release, including forecast free cash flow in 2021 and forecast 2021 year-end net debt to annual adjusted funds flow, may also constitute a "financial outlook" within the meaning of applicable securities laws. A financial outlook involves statements about Paramount's prospective financial performance or position and is based on and subject to the assumptions and risk factors described above in respect of forward-looking information generally as well as any other specific assumptions and risk factors in relation to such financial outlook noted in this press release. Such assumptions are based on management's assessment of the relevant information currently available and any financial outlook included in this press release is provided for the purpose of helping readers understand Paramount's current expectations and plans for the future. Readers are cautioned that reliance on any financial outlook may not be appropriate for other purposes or in other circumstances and that the risk factors described above or other factors may cause actual results to differ materially from any financial outlook.

Non-GAAP Financial Measures

In this press release, "adjusted funds flow", "free cash flow", "netback", "net debt", "net debt to adjusted funds flow" and "total capital expenditures", together the "Non-GAAP financial measures", are used and do not have any standardized meanings as prescribed by International Financial Reporting Standards. Certain comparative figures have been reclassified to conform to the current years' presentation.

"Adjusted funds flow" refers to cash from (used in) operating activities before net changes in non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements, closure costs, provisions and other, dispute settlements and transaction and reorganization costs. Adjusted funds flow is used to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary significantly from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. The following are the calculations of adjusted funds flow from the nearest GAAP measure for the three months ended June 30, 2021 and March 31, 2021:

Three months ended	Jun 30, 2021 (MM$)	Mar 31, 2021 (MM$)
Cash from operating activities	**112.1**	**81.3**
Change in non-cash working capital	(47.6)	(7.9)
Geological and geophysical expenses	1.8	1.6
Asset retirement obligations settled	3.2	8.4
Closure costs	–	–
Provisions and other	16.5	7.5
Dispute settlements	–	–
Transaction and reorganization costs	–	–
Adjusted funds flow	**86.0**	**90.9**

"Free cash flow" refers to adjusted funds flow less total capital expenditures and asset retirement obligation settlements. Free cash flow is used by management and investors to assess the amount of internally generated cash available to repay debt, reinvest in the business or return to shareholders. The following is the calculation of free cash flow from the nearest GAAP measure for the three months ended June 30, 2021 and March 31, 2021:

Three months ended	Jun 30, 2021 (MM$)	Mar 31, 2021 (MM$)
Cash from operating activities	**112.1**	**81.3**
Change in non-cash working capital	(47.6)	(7.9)
Geological and geophysical expenses	1.8	1.6
Asset retirement obligations settled	3.2	8.4
Closure costs	–	–
Provisions and other	16.5	7.5
Dispute settlements	–	–
Transaction and reorganization costs	–	–
Adjusted funds flow	**86.0**	**90.9**
Total capital expenditures	(83.5)	(59.3)
Asset retirement obligation settlements	(3.2)	(8.4)
Free cash flow	**(0.7)**	**23.2**

"Netback" equals petroleum and natural gas sales less royalties, operating expense 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. Refer to the tables under the headings "Review of Operations" and "Financial and Operating Results" for the calculation thereof.

"Net debt" is a measure of the Company's overall debt position after adjusting for certain working capital and other 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 three months and six months ended June 30, 2021 (the "MD&A") for the calculation of net debt.

"Net debt to adjusted funds flow" is a ratio calculated as the period end net debt divided by adjusted funds flow for the trailing four quarters. The ratio of net debt to adjusted funds flow is commonly used by management and investors to assess the Company's overall debt position and to measure the strength of the Company's balance sheet.

"Total capital expenditures" refers to the Company's property, plant and equipment and exploration expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of the MD&A for the calculation thereof.

Non-GAAP financial 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 financial measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

Abbreviations

Liquids	
Bbl	Barrels
Bbl/d	Barrels per day
MBbl	Thousands of barrels
NGLs	Natural gas liquids
Condensate	Pentane and heavier hydrocarbons
WTI	West Texas Intermediate

Natural Gas	
GJ	Gigajoules
GJ/d	Gigajoules per day
Mcf	Thousands of cubic feet
MMcf	Millions of cubic feet
MMcf/d	Millions of cubic feet per day
AECO	AECO-C reference price
NYMEX	New York Mercantile Exchange
MMbtu	Millions of British thermal units
MMbtu/d	Millions of British thermal units per day

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

This press release contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the six months ended June 30, 2021, the value ratio between crude oil and natural gas was approximately 26:1. 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.

This press release refers to "CGR", a metric commonly used in the oil and natural gas industry. "CGR" means condensate to gas ratio and is calculated by dividing wellhead raw liquids volumes by wellhead raw natural gas volumes. This metric does not have a standardized meaning and may not be comparable to similar measures presented by other companies. As such, it should not be used to make comparisons. Management uses oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare the Company's performance over time; however, such measures are not reliable indicators of the Company's future performance and future performance may not compare to the performance in previous periods and therefore should not be unduly relied upon.

Additional information respecting the Company's oil and gas properties and operations is provided in the Company's annual information form for the year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

Management's Discussion and Analysis
For the three and six months ended June 30, 2021

This Management's Discussion and Analysis ("MD&A"), dated August 3, 2021 should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three and six months ended June 30, 2021 (the "Interim Financial Statements") and Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2020 (the "Annual Financial Statements"). 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 and financial outlooks, Non-GAAP financial measures and certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Certain comparative figures have been reclassified to conform to the current years' presentation. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources. Paramount's principal properties are located in Alberta and British Columbia. Paramount commenced operations as a public company in 1978 and has adapted to a multitude of operating and economic climates over the years. The Company's Class A common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "POU".

Paramount's operations are organized into the following three regions:

- the Grande Prairie Region, located in the Peace River Arch area of Alberta, which is focused on Montney developments at Karr and Wapiti;
- the Kaybob Region, located in west-central Alberta, which includes the Kaybob North and Ante Creek Montney oil developments, Duvernay developments at Kaybob Smoky, Kaybob North and Kaybob South and other shale gas and conventional natural gas producing properties; and
- the Central Alberta and Other Region, which includes the Willesden Green Duvernay development in central Alberta and shale gas producing properties in the Horn River Basin in northeast British Columbia.

The Company's assets include: (i) strategic investments in exploration and pre-development stage assets, including prospective shale gas acreage in the Liard Basin, prospective natural gas and oil acreage in the Mackenzie Delta and Central Mackenzie and interests held by the Company's wholly-owned subsidiary Cavalier Energy Inc. prospective for in-situ thermal oil recovery and heavy oil production; (ii) drilling rigs owned by the Company's wholly-owned limited partnership Fox Drilling Limited Partnership; and (iii) investments in other entities.

NOTE REGARDING PRODUCT TYPES

This MD&A includes references to sales volumes of "natural gas", "condensate and oil" and "Other NGLs". "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

FINANCIAL AND OPERATING HIGHLIGHTS [(1)] [(2)]

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
FINANCIAL				
Petroleum and natural gas sales	**299.7**	113.2	**579.6**	285.3
Net loss	**(74.3)**	(75.7)	**(156.8)**	(310.8)
Per share – basic & diluted ($/share)	***(0.56)***	*(0.57)*	***(1.18)***	*(2.33)*
Cash from (used in) operating activities	**112.1**	(14.2)	**193.4**	16.3
Per share – basic & diluted ($/share)	***0.84***	*(0.11)*	***1.46***	*0.12*
Adjusted funds flow	**86.0**	19.0	**176.9**	52.6
Per share – basic & diluted ($/share)	***0.65***	*0.14*	***1.33***	*0.39*
Total assets			**3,655.6**	3,066.4
Long-term debt			**608.4**	754.9
Net debt			**724.5**	810.7
Total liabilities			**1,601.1**	1,343.3
Common shares outstanding (thousands) [(3)]			**133,314**	133,784
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**273.1**	253.2	**273.1**	257.5
Condensate and oil (Bbl/d)	**29,543**	22,823	**29,698**	22,361
Other NGLs (Bbl/d)	**4,938**	3,817	**5,054**	4,178
Total (Boe/d)	**79,995**	68,839	**80,266**	69,430
% Liquids	***43%***	*39%*	***43%***	*38%*
Realized prices				
Natural gas ($/Mcf)	**3.01**	1.94	**3.08**	2.10
Condensate and oil ($/Bbl)	**77.96**	29.05	**73.58**	42.21
Other NGLs ($/Bbl)	**32.11**	12.28	**32.20**	11.45
Petroleum and natural gas sales ($/Boe)	**41.17**	18.07	**39.89**	22.58
Total capital expenditures	**83.5**	41.4	**142.8**	105.3

(1) Readers are referred to the advisories concerning Non-GAAP financial measures and Oil and Gas Measures and Definitions in the Advisories section and to the reconciliations of such Non-GAAP financial measures to their most directly comparable measure under GAAP in the applicable sections of this document. This table contains the following Non-GAAP financial measures: Adjusted funds flow, Net debt and Total capital expenditures.

(2) "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Readers are referred to the Product Type Information section of this document for a complete breakdown of sales volumes and revenues for all applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

(3) Common Shares are presented net of shares held in trust under the Company's restricted share unit plan (000's of Common Shares): 2021: 1,538 and 2020: 414.

Q2 2021 OVERVIEW

In the second quarter of 2021, Paramount delivered operating results exceeding guidance, continued to realize cost savings in its capital program and further reduced indebtedness. While Paramount continues to prioritize the allocation of free cash flow to debt reduction, the Company's strong financial outlook and operating results enabled it to announce in June 2021 the implementation of a monthly dividend of $0.02 per Common Share and a normal course issuer bid ("NCIB"). See "Liquidity and Capital Resources".

Sales volumes averaged 79,995 Boe/d (43% liquids) in the second quarter of 2021 compared to 80,540 Boe/d (43% liquids) in the first quarter. Second quarter sales volumes were ahead of guidance of 77,000 to 78,000 Boe/d (42% liquids) driven by continued outperformance at Karr. Sales volumes at Karr averaged 38,679 Boe/d (54% liquids) in the second quarter of 2021 compared to 33,230 Boe/d (55% liquids) in the first quarter, despite a seven-day scheduled curtailment at the third-party Karr 6-18 facility in May. The increase in sales volumes at Karr was driven by strong performance from six Montney wells brought onstream in the first quarter of 2021 and contributions from three Montney wells brought onstream in the second quarter of 2021. Sales volumes at Wapiti averaged 10,604 Boe/d (59% liquids) in the second quarter compared to 14,107 Boe/d (62% liquids) in the first quarter. The decrease in sales volumes at Wapiti was primarily due to natural declines, the temporary shut-in of certain offsetting wells due to completion activities at an adjacent pad and production curtailments at the third-party Wapiti natural gas processing facility caused by high ambient temperatures in June. The Company expects Wapiti sales volumes to increase in the second half of 2021 as new production is brought onstream.

Capital spending in the second quarter of 2021 totaled $83.5 million, which was focused on drilling and completion activities at Karr, Wapiti and the Willesden Green Duvernay. Strong execution resulted in faster drilling and completion times on certain projects, translating into lower than budgeted costs and allowing the Company to complete certain activities in the second quarter that were initially planned for the third quarter. The Company remains on track for 2021 annual capital spending to be between $265 million and $285 million. Preliminary all-in lease construction, drilling, completion, equip and tie-in (collectively "DCET") costs for a five well pad brought on production at Karr in July 2021 averaged a pacesetting $6.0 million per well, approximately 11 percent lower than average DCET costs of the last two pads at Karr. DCET costs for seven wells brought onstream at Wapiti in July 2021 averaged a pacesetting $6.9 million per well, nine percent lower than average DCET costs for Wapiti wells in 2020. The Company finished drilling two wells in the Willesden Green Duvernay during the second quarter. The wells were completed in July and are expected to be brought on production in late August.

Cash from operating activities was $112.1 million in the second quarter of 2021 compared to $81.3 million in the first quarter. Adjusted funds flow was $86.0 million in the second quarter compared to $90.9 million in the first quarter. Free cash flow was ($0.7) million in the second quarter compared to $23.2 million in the first quarter. [(1)]

Paramount received $67 million cash in the second quarter of 2021 in settlement of its previously disclosed dissent proceedings respecting Strath Resources Ltd. ("Strath") and for the sale of its remaining securities in Strathcona Resources Ltd. ("Strathcona"). See "Corporate".

The Company's senior secured revolving bank credit facility (the "Paramount Facility") was amended in the quarter to extend the maturity date to June 2, 2024 and change its size to $900 million, with an accordion feature providing flexibility to increase the size to $1.0 billion. The proceeds of the Strathcona settlement

(1) "Adjusted funds flow" and "Free cash flow" are Non-GAAP financial measures. See "Non-GAAP Financial Measures" in the Advisories section.

were applied to reduce indebtedness under the Paramount Facility, contributing to a $37.2 million reduction in net debt quarter over quarter.(1)

In July 2021, the Company closed the sale of its non-operated Birch assets for gross proceeds of approximately $88 million before customary closing adjustments.

Crude oil and condensate prices continued to improve in the second quarter of 2021 as the global economy recovers from the COVID-19 pandemic. However, the recovery and pricing conditions remain, in part, dependent on the course of the virus. The Company continues to proactively respond to the pandemic and the risks that it poses, including the risks described in this MD&A under "Risk Factors".

GUIDANCE

Paramount is reaffirming its 2021 average sales volumes guidance of between 80,000 Boe/d and 82,000 Boe/d (44% liquids). Second half 2021 sales volumes guidance remains unchanged at between 80,000 Boe/d and 84,000 Boe/d (45% liquids).

The Company continues to expect 2021 annual capital spending to be between $265 million and $285 million, excluding land acquisitions and abandonment and reclamation activities.

Paramount is updating its forecast of 2021 free cash flow from approximately $140 million to approximately $185 million to reflect year-to-date actual results and revised commodity price and other assumptions for the second half of 2021. This forecast is based on the following assumptions for 2021: (i) the midpoint of forecast capital spending and production, (ii) $25 million in abandonment and reclamation costs, (iii) realized pricing of $44.00/Boe (US$64.05/Bbl WTI, US$3.41/MMBtu NYMEX, $3.37/GJ AECO), (iv) royalties of $3.90/Boe, (v) operating costs of $11.20/Boe and (vi) transportation and processing costs of $4.00/Boe.

Approximately 53 percent of forecast midpoint production is hedged over the second half of 2021. After taking such hedging into account, 2021 forecast free cash flow would be approximately $140 million at an average WTI oil price of US$50.00/Bbl over the second half of the year and would rise to $210 million at an average WTI oil price of US$75.00/Bbl over the second half of the year.

The Company currently prioritizes the allocation of free cash flow to: (i) achieving a targeted range of net debt to adjusted funds flow of between 1.0x and 2.0x; (ii) shareholder returns; and (iii) incremental growth. Free cash flow in 2021 is expected to be directed towards debt reduction and the payment of dividends, with the Company maintaining the flexibility to make purchases of Common Shares under the NCIB. Year-end net debt to adjusted funds flow is now anticipated to be approximately 1.0x based on forecast 2021 free cash flow and a monthly dividend of $0.02 per Common Share.(2)

Paramount’s previously announced preliminary 2022 capital spending and sales volumes guidance remains unchanged. The Company continues to anticipate 2022 spending, excluding land acquisitions and abandonment and reclamation activities, to range between $325 million and $385 million. A capital program in this range would be expected to result in 2022 annual sales volumes of between 84,000 Boe/d and 88,000 Boe/d (45% liquids) and free cash flow of approximately $320 million, based on the following updated assumptions for 2022: (i) the midpoint of forecast capital spending and production, (ii) $30 million in abandonment and reclamation costs, (iii) realized pricing of $43.20/Boe (US$62.18/Bbl WTI, US$3.30/MMBtu NYMEX, $3.10/GJ AECO), (iv) royalties of $4.15/Boe, (v) operating costs of $11.00/Boe

(1) "Net debt " is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.
(2) "Net debt to adjusted funds flow" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

and (vi) transportation and processing costs of $3.85/Boe. If expected free cash flow was directed towards debt reduction, year-end 2022 net debt to adjusted funds flow would be less than 0.5x.

CONSOLIDATED RESULTS

Net Loss

Paramount recorded a net loss of $74.3 million for the three months ended June 30, 2021 compared to a net loss of $75.7 million in the same period in 2020. Significant factors contributing to the change are shown below:

Three months ended June 30	
Net loss – 2020	**(75.7)**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	141.0
• Lower exploration and evaluation expense in 2021	9.4
• Higher loss on financial commodity contracts in 2021	(68.5)
• Higher depletion, depreciation and net impairment in 2021, mainly due to a charge related to changes in asset retirement obligations in 2021	(39.1)
• Loss on settlement of dissent payment entitlement in 2021	(22.6)
• Provision in 2021	(16.5)
• Other	(2.3)
Net loss – 2021	**(74.3)**

Paramount recorded a net loss of $156.8 million for the six months ended June 30, 2021 compared to a net loss of $310.8 million in the same period in 2020. Significant factors contributing to the change are shown below:

Six months ended June 30	
Net loss – 2020	**(310.8)**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	245.6
• Income tax recovery in 2021 compared to an expense in 2020; 2020 included the derecognition of $130.0 million of the deferred income tax asset	133.2
• Gain on the sale of oil and gas assets in 2021 compared to a loss in 2020	40.6
• Loss on financial commodity contracts in 2021 compared to a gain in 2020	(192.0)
• Loss on settlement of dissent payment entitlement in 2021	(22.6)
• Higher provisions in 2021	(19.3)
• Higher depletion, depreciation and net impairment in 2021, mainly due to a charge related to changes in asset retirement obligations in 2021 compared to a gain in 2020, partially offset by impairment charges of $191.8 million in 2020	(11.6)
• Higher interest and financing expense in 2021	(10.7)
• Higher share-based compensation expense in 2021	(7.5)
• Other	(1.7)
Net loss – 2021	**(156.8)**

Cash From (Used in) Operating Activities

Cash from operating activities for the three months ended June 30, 2021 was $112.1 million compared to cash used in operating activities of $14.2 million for the same period in 2020. Significant factors contributing to the change are shown below:

Three months ended June 30	
Cash used in operating activities – 2020	**(14.2)**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	141.0
• Change in non-cash working capital	71.6
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(67.0)
• Provision in 2021	(16.5)
• Other	(2.8)
Cash from operating activities – 2021	**112.1**

Cash from operating activities for the six months ended June 30, 2021 was $193.4 million compared to $16.3 million for the same period in 2020. Significant factors contributing to the change are shown below:

Six months ended June 30	
Cash from operating activities – 2020	**16.3**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	245.6
• Change in non-cash working capital	45.2
• Lower asset retirement obligation settlements in 2021	22.7
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(106.6)
• Higher provisions in 2021	(19.3)
• Higher interest and financing expense in 2021	(8.9)
• Other	(1.6)
Cash from operating activities – 2021	**193.4**

Adjusted Funds Flow (1)

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Cash from (used in) operating activities	**112.1**	(14.2)	**193.4**	16.3
Change in non-cash working capital	**(47.6)**	24.0	**(55.5)**	(10.3)
Geological and geophysical expenses	**1.8**	1.9	**3.5**	4.5
Asset retirement obligations settled	**3.2**	4.0	**11.5**	34.2
Provisions and other	**16.5**	0.3	**24.0**	4.9
Transaction and reorganization costs	**–**	3.0	**–**	3.0
Adjusted funds flow	**86.0**	19.0	**176.9**	52.6
Adjusted funds flow (*$/Boe*)	**11.81**	3.04	**12.18**	4.16

(1) "Adjusted funds flow" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Adjusted funds flow was $86.0 million in the second quarter of 2021 compared to $19.0 million in the second quarter of 2020. Significant factors contributing to the change are shown below:

Three months ended June 30	
Adjusted funds flow – 2020	**19.0**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	141.0
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(67.0)
• Other	(7.0)
Adjusted funds flow – 2021	**86.0**

Adjusted funds flow for the six months ended June 30, 2021 was $176.9 million compared to $52.6 million for the same period in 2020. Significant factors contributing to the change are shown below:

Six months ended June 30	
Adjusted funds flow – 2020	**52.6**
• Higher netback in 2021, mainly due to higher commodity prices and condensate and oil sales volumes	245.6
• Payments on financial commodity contract settlements in 2021 compared to receipts in 2020	(106.6)
• Higher interest and financing expense in 2021	(8.9)
• Other	(5.8)
Adjusted funds flow – 2021	**176.9**

OPERATING RESULTS

Netback (1)

	Three months ended June 30				Six months ended June 30			
	2021		**2020**		**2021**		**2020**	
		($/Boe)(2)		*($/Boe)(2)*		***($/Boe)(2)***		*($/Boe)(2)*
Natural gas revenue	**74.8**	***3.01***	44.7	*1.94*	**152.1**	***3.08***	98.3	*2.10*
Condensate and oil revenue	**209.6**	***77.96***	60.3	*29.05*	**395.5**	***73.58***	171.8	*42.21*
Other NGLs revenue	**14.4**	***32.11***	4.3	*12.28*	**29.5**	***32.20***	8.7	*11.45*
Royalty and other revenue	**0.9**	**–**	3.9	–	**2.5**	**–**	6.5	–
Petroleum and natural gas sales	**299.7**	***41.17***	113.2	*18.07*	**579.6**	***39.89***	285.3	*22.58*
Royalties	**(24.9)**	***(3.43)***	(3.6)	*(0.57)*	**(43.6)**	***(3.00)***	(15.3)	*(1.21)*
Operating expense	**(81.8)**	***(11.23)***	(62.6)	*(9.99)*	**(166.1)**	***(11.43)***	(154.9)	*(12.26)*
Transportation and NGLs processing (3)	**(30.3)**	***(4.16)***	(25.3)	*(4.04)*	**(58.1)**	***(4.00)***	(48.9)	*(3.87)*
Netback	**162.7**	***22.35***	21.7	*3.47*	**311.8**	***21.46***	66.2	*5.24*
Financial commodity contract settlements	**(54.1)**	***(7.44)***	12.9	*2.05*	**(86.8)**	***(5.98)***	19.8	*1.57*
Netback including financial commodity contract settlements	**108.6**	***14.91***	34.6	*5.52*	**225.0**	***15.48***	86.0	*6.81*

(1) "Netback" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.
(2) Natural gas revenue presented per Mcf.
(3) Includes downstream transportation costs and NGLs fractionation costs.

Petroleum and natural gas sales were $299.7 million in the second quarter of 2021, an increase of $186.5 million from the second quarter of 2020. Petroleum and natural gas sales were $579.6 million for the six months ended June 30, 2021, an increase of $294.3 million compared to the same period in 2020. These increases are mainly due to higher commodity prices and condensate and oil sales volumes.

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

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Three months ended June 30, 2020	44.7	60.3	4.3	3.9	113.2
Effect of changes in sales volumes	3.5	17.8	1.3	–	22.6
Effect of changes in prices	26.6	131.5	8.8	–	166.9
Change in royalty and other revenue	–	–	–	(3.0)	(3.0)
Three months ended June 30, 2021	**74.8**	**209.6**	**14.4**	**0.9**	**299.7**

	Natural gas	Condensate and oil	Other NGLs	Royalty and other	Total
Six months ended June 30, 2020	98.3	171.8	8.7	6.5	285.3
Effect of changes in sales volumes	5.4	55.1	1.8	–	62.3
Effect of changes in prices	48.4	168.6	19.0	–	236.0
Change in royalty and other revenue	–	–	–	(4.0)	(4.0)
Six months ended June 30, 2021	**152.1**	**395.5**	**29.5**	**2.5**	**579.6**

Sales Volumes (1)

	Three months ended June 30											
	Natural gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2021	2020	*% Change*	**2021**	2020	*% Change*	**2021**	2020	*% Change*	**2021**	2020	*% Change*
Grande Prairie	**134.3**	78.3	*72*	**24,090**	16,309	*48*	**2,874**	1,680	*71*	**49,345**	31,039	*59*
Kaybob	**97.3**	131.5	*(26)*	**4,897**	5,919	*(17)*	**1,569**	1,718	*(9)*	**22,688**	29,561	*(23)*
Central Alberta & Other	**41.5**	43.4	*(4)*	**556**	595	*(7)*	**495**	419	*18*	**7,962**	8,239	*(3)*
Total	**273.1**	253.2	*8*	**29,543**	22,823	*29*	**4,938**	3,817	*29*	**79,995**	68,839	*16*

(1) Readers are referred to the Product Type Information section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Sales volumes were 79,995 Boe/d (43% liquids) in the second quarter of 2021 compared to 68,839 Boe/d (39% liquids) in the same period in 2020. The Company focused its capital program in 2020 and the first half of 2021 on its developments at Karr and Wapiti, which resulted in higher 2021 sales volumes in the liquids rich Grande Prairie Region and lower sales volumes in the Kaybob and Central Alberta & Other Regions due to declines. Second quarter 2021 sales volumes in the Kaybob and Central Alberta & Other Regions were also lower by approximately 2,900 Boe/d (16.4 MMcf/d of conventional gas and 147 Bbl/d of NGLs) compared to the second quarter of 2020 due to non-core dispositions completed in the first quarter of 2021.

At Karr, second quarter 2021 sales volumes were 38,679 Boe/d (54% liquids) compared to 16,009 Boe/d (52% liquids) in the same period in 2020. The increase resulted from development activities where Paramount brought nine new wells on production in the first half of 2021 in addition to 15 new wells brought onstream in the second half of 2020.

Sales volumes at Wapiti decreased to 10,604 Boe/d (59% liquids) in the second quarter of 2021 compared to 14,940 Boe/d (64% liquids) in the second quarter of 2020. The decrease was mainly due to natural declines and the temporary shut-in of certain offsetting wells due to completion activities at an adjacent pad, partially offset by new production from five wells brought onstream in the fourth quarter of 2020.

Production in July 2021 was impacted by the previously disclosed scheduled ten-day outage at the third-party Wapiti natural gas processing facility. This outage, which was undertaken to permanently address the source of the unscheduled outage that occurred at the facility in the third quarter of 2020, was completed as planned and the Company has restored production.

	Six months ended June 30											
	Natural gas (MMcf/d)			Condensate and oil (Bbl/d)			Other NGLs (Bbl/d)			Total (Boe/d)		
	2021	2020	*% Change*	**2021**	2020	*% Change*	**2021**	2020	*% Change*	**2021**	2020	*% Change*
Grande Prairie	**128.5**	76.5	*68*	**24,033**	15,203	*58*	**2,928**	1,680	*74*	**48,371**	29,627	*63*
Kaybob	**102.6**	135.9	*(25)*	**5,085**	6,521	*(22)*	**1,623**	1,968	*(18)*	**23,807**	31,131	*(24)*
Central Alberta & Other	**42.0**	45.1	*(7)*	**580**	637	*(9)*	**503**	530	*(5)*	**8,088**	8,672	*(7)*
Total	**273.1**	257.5	*6*	**29,698**	22,361	*33*	**5,054**	4,178	*21*	**80,266**	69,430	*16*

(1) Readers are referred to the Product Type Information section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Sales volumes were 80,266 Boe/d (43% liquids) in the six months ended June 30, 2021 compared to 69,430 Boe/d (38% liquids) in the same period in 2020. The Company focused its capital program in 2020 and the first half of 2021 on its developments at Karr and Wapiti, which resulted in higher 2021 sales volumes in the liquids rich Grande Prairie Region and lower sales volumes in the Kaybob and Central Alberta & Other Regions due to declines. For the six months ended June 30, 2021, sales volumes in the Kaybob and Central Alberta & Other Regions were also lower by approximately 2,400 Boe/d (13.9 MMcf/d of conventional gas and 123 Bbl/d of NGLs) compared to the same period in 2020 due to non-core dispositions completed in the first quarter of 2021.

At Karr, sales volumes were 35,969 Boe/d (54% liquids) for the six months ended June 30, 2021 compared to 18,461 Boe/d (52% liquids) in the same period in 2020. The increase resulted from development activities where Paramount brought nine new wells on production in the first half of 2021 in addition to 15 new wells brought onstream in the second half of 2020.

Sales volumes at Wapiti increased to 12,346 Boe/d (61% liquids) in the six months ended June 30, 2021 compared to 11,059 Boe/d (65% liquids) in the same period in 2020. The increase was mainly due to five wells being brought onstream in the fourth quarter of 2020. First quarter 2020 Wapiti sales volumes were impacted by approximately 4,300 Boe/d due to downtime at the third-party Wapiti natural gas processing plant.

Commodity Prices

	Three months ended June 30			Six months ended June 30		
	2021	2020	% Change	**2021**	2020	% Change
Natural Gas						
Paramount realized price ($/Mcf)	**3.01**	1.94	*55*	**3.08**	2.10	*47*
AECO daily spot ($/GJ)	**2.93**	1.89	*55*	**2.96**	1.91	*55*
AECO monthly index ($/GJ)	**2.70**	1.81	*49*	**2.74**	1.92	*43*
Dawn ($/MMbtu)	**3.43**	2.28	*50*	**3.58**	2.32	*54*
NYMEX (US$/MMbtu)	**2.97**	1.76	*69*	**2.85**	1.81	*57*
Malin – monthly index (US$/MMbtu)	**2.75**	1.52	*81*	**2.72**	1.89	*44*
Condensate and Oil						
Paramount realized condensate & oil price ($/Bbl)	**77.96**	29.05	*168*	**73.58**	42.21	*74*
Edmonton light sweet crude oil ($/Bbl)	**76.29**	31.45	*143*	**72.46**	41.74	*74*
West Texas Intermediate (US$/Bbl)	**66.03**	27.84	*137*	**61.94**	37.01	*67*
Other NGLs (1)						
Paramount realized Other NGLs price ($/Bbl)	**32.11**	12.28	*161*	**32.20**	11.45	*181*
Conway – propane ($/Bbl)	**42.96**	23.79	*81*	**45.87**	21.29	*115*
Belvieu – butane ($/Bbl)	**48.32**	23.77	*103*	**49.33**	27.79	*78*
Foreign Exchange						
$CDN / 1 $US	**1.23**	1.39	*(12)*	**1.25**	1.37	*(9)*

(1) "Other NGLs" refers to ethane, propane and butane combined. Readers are referred to the Product Type Information section of this document.

Paramount's natural gas portfolio primarily consists of sales priced at Alberta, British Columbia, California, Chicago, Ventura and Eastern Canada markets, which are sold in a combination of daily, monthly, seasonal and fixed-priced physical contracts. The Company's natural gas portfolio includes arrangements to sell approximately 60,000 GJ/d of natural gas at Dawn, approximately 22,000 GJ/d of natural gas at Malin and 40,000 GJ/d of natural gas sales priced at the US Midwest.

The Company had the following AECO fixed-price physical contracts in place at June 30, 2021:

Quantity	Location	Average fixed price	Remaining term
50,000 GJ/d	AECO	CDN$2.52/GJ	July 2021 – October 2021
50,000 GJ/d	AECO	CDN$2.51/GJ	July 2021 – December 2021

Subsequent to June 30, 2021, the Company entered into the following AECO natural gas fixed-price physical contracts:

Quantity	Location	Average fixed price	Remaining term
20,000 GJ/d	AECO	CDN$4.00/GJ	October 2021 – December 2021
20,000 GJ/d	AECO	CDN$4.02/GJ	January 2022 – March 2022

Paramount ships a portion of its condensate and crude oil production on third-party pipelines for sale in Edmonton, Alberta, where volumes generally receive higher prices due to the greater diversity of potential purchasers. A limited portion of the Company's production continues to be sold at truck terminals or at the lease when warranted by economic or operational factors. Sales prices for condensate and oil are based on West Texas Intermediate reference prices, adjusted for transportation, quality and density differentials.

The Company's butane and propane volumes are generally sold under contracts that are renewed annually in April each year. The Company's propane and butane contracts in place in the first half of 2021 had more favorable differentials to West Texas Intermediate reference prices than in the same period in 2020.

Financial Commodity Contracts

From time-to-time Paramount uses financial commodity contracts to manage exposure to commodity price volatility. Changes in the fair value of the Company's financial commodity contracts are as follows:

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	**(22.7)**	6.1
Changes in fair value	**(156.8)**	8.8
Settlements paid (received)	**86.8**	(37.6)
Fair value, end of period	**(92.7)**	(22.7)

For further details on the Company's financial commodity contracts, refer to Note 13 of the Interim Financial Statements.

Subsequent to June 30, 2021, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$88.45/Bbl	October 2021 – December 2021
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$85.88/Bbl	January 2022 – March 2022
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$4.10/MMBtu	October 2021 – March 2022

The following table summarizes the Company's financial commodity contracts and fixed-price physical contracts at August 3, 2021:

	Type (1)	Q3 2021	Q4 2021	Q1 2022	Average Price (2)
Oil –WTI Swaps (Sale) (Bbl/d)	Financial	15,000	10,000	–	US$45.85/Bbl
Oil – WTI Swap (Sale) (Bbl/d)	Financial	3,000	–	–	C$64.67/Bbl
Oil – WTI Swap (Sale) (Bbl/d)	Financial	–	6,000	6,000	C$87.18/Bbl
Gas – NYMEX Swaps (Sale) (MMbtu/d)	Financial	60,000	60,000	–	US$2.71/MMbtu
Gas – NYMEX Swaps (Sale) (MMbtu/d)	Financial	–	20,000	20,000	US$4.10/MMbtu
Gas – AECO fixed price (GJ/d)	Physical	100,000	66,848	–	C$2.51/GJ
Gas – AECO fixed price (GJ/d)	Physical	–	20,000	20,000	C$4.01/GJ

(1) Financial, refers to financial commodity contracts. Physical, refers to fixed-priced physical contracts.
(2) Average price is calculated using a weighted average of notional volumes and prices.

Royalties

	Three months ended June 30				Six months ended June 30			
	2021	**Rate**	**2020**	Rate	**2021**	**Rate**	**2020**	Rate
Royalties	**24.9**	**8.3%**	3.6	3.3%	**43.6**	**7.6%**	15.3	5.5%
$/Boe	***3.43***		*0.57*		***3.00***		*1.21*	

Royalties were $24.9 million in the second quarter of 2021, compared to $3.6 million in the same period in 2020. Royalties for the six months ended June 30, 2021 were $43.6 million compared to $15.3 million in the first six months of 2020. Royalties increased in the three and six months ended June 30, 2021 primarily as a result of higher commodity prices and increased sales volumes.

Operating Expense

	Three months ended June 30			Six months ended June 30		
	2021	**2020**	% Change	**2021**	**2020**	% Change
Operating expense	**81.8**	62.6	*31*	**166.1**	154.9	*7*
$/Boe	***11.23***	*9.99*	*12*	***11.43***	*12.26*	*(7)*

Operating expenses were $81.8 million in the second quarter of 2021 compared to $62.6 million in the same period in 2020. Operating expenses were $166.1 million in the first six months of 2021 compared to $154.9 million in the same period in 2020.

Operating costs for the three and six months ended June 30, 2021 were higher than the same periods in 2020, primarily as a result of higher processing fees in the Grande Prairie Region in 2021, partially offset by lower costs related to maintenance, water disposal and labour, supplier cost savings and lower production in the Kaybob Region. Second quarter 2020 operating expenses were reduced by approximately $11 million because of processing cost equalizations relating to prior years, supplier cost reductions unique to that quarter and benefits received under the temporary Canada Emergency Wage Subsidy ("CEWS").

Operating expense was $11.23 per Boe and $11.43 per Boe in the three and six months ended June 30, 2021, respectively, compared to $9.99 per Boe and $12.26 per Boe in the same periods in 2020, mainly due to the impact of higher production and the changes in costs as described above.

Transportation and NGLs Processing

	Three months ended June 30			Six months ended June 30		
	2021	**2020**	% Change	**2021**	**2020**	% Change
Transportation and NGLs processing	**30.3**	25.3	20	**58.1**	48.9	19
$/Boe	***4.16***	*4.04*	*3*	***4.00***	*3.87*	*3*

Transportation and NGLs processing was $30.3 million and $58.1 million for the three and six months ended June 30, 2021, respectively, compared to $25.3 million and $48.9 million for the corresponding periods in 2020. Transportation and NGLs processing costs increased in 2021 mainly as a result of higher contracted transportation capacity for Karr.

Other Operating Items

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Depletion and depreciation (excluding impairment)	(71.9)	(61.3)	(145.1)	(134.5)
(Impairment) reversal of petroleum and natural gas assets	14.1	–	14.1	(191.8)
Change in asset retirement obligations	(42.0)	0.5	(111.5)	95.4
Gain (loss) on sale of oil and gas assets	(1.6)	(3.1)	39.8	(0.8)
Exploration and evaluation expense	(2.1)	(11.5)	(23.0)	(23.4)

Depletion and depreciation expense increased to $71.9 million in the second quarter of 2021 compared to $61.3 million in the same period of 2020. Depletion and depreciation expense increased to $145.1 million in the six months ended June 30, 2021 compared to $134.5 million in the same period in 2020. The increase in depletion and depreciation expense in 2021 was mainly attributable to the impact of higher sales volumes, which was partially offset by lower depletion rates in the Grande Prairie Region.

In July 2021, Paramount closed the sale of its non-operated Birch assets in northeast British Columbia, which were included in the Central Alberta and Other Region, for gross proceeds of approximately $88 million before customary closing adjustments. The assets and liabilities associated with the Birch assets have been presented as held for sale at June 30, 2021 in the Interim Financial Statements. The Birch assets had average sales volumes of approximately 2,300 Boe/d (10.7 MMcf/d of shale gas and 524 Bbl/d of NGLs) and a netback of approximately $3.2 million in the second quarter of 2021.

The consideration received on the Birch disposition exceeded the carrying value of the assets, which had previously been reduced by impairment charges. As a result, a reversal of previously recorded impairment charges of $14.1 million was recorded for the three months ended June 30, 2021, representing the amount required to increase the carrying value of the Birch assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

At March 31, 2020, the Company recorded impairments of $188.3 million and $3.5 million related to petroleum and natural gas assets in the Kaybob and Northern cash-generating units ("CGUs"), respectively. At December 31, 2020, the Company recorded aggregate impairment reversals of $333.7 million from previously recorded impairment charges, comprised of $287.7 million, $30.6 million and $15.4 million related to petroleum and natural gas assets in the Kaybob, Northern and Central Alberta CGUs, respectively. For additional information on impairments and impairment reversals in 2020, refer to Note 5 of the Annual Financial Statements.

For the six months ended June 30, 2021, the Company recorded a charge of $111.5 million (six months ended June 30, 2020 – a recovery of $95.4 million) to earnings related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the credit-adjusted risk-free rate used to discount obligations.

In the first quarter of 2021, the Company sold certain properties in the Kaybob and Central Alberta CGUs for gross cash proceeds of approximately $80 million. These assets had average sales volumes of approximately 2,700 Boe/d (15.4 MMcf/d of conventional natural gas and 142 Bbl/d of NGLs) and a netback of approximately $3 million in the fourth quarter of 2020, the last full quarter prior to sale. A gain of $39.4 million was recognized on these sales.

Exploration and Evaluation expense was $2.1 million and $23.0 million for the three and six months ended June 30, 2021, respectively, compared to $11.5 million and $23.4 million for the corresponding periods in 2020. The decrease in the second quarter of 2021 compared to the same period in 2020 was primarily due to lower expenses for expired mineral leases.

INVESTMENTS IN SECURITIES

As at	June 30, 2021	December 31, 2020
Level one fair value hierarchy securities ("Level One Securities")	181.8	48.4
Level three fair value hierarchy securities ("Level Three Securities")	46.4	11.1
	228.2	59.5

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three and six months ended June 30, 2021, the Company recorded $97.5 million and $167.7 million, respectively, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of investments in securities.

Changes in the fair value of investments in securities are as follows:

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Investments in securities, beginning of period	59.5	156.9
Changes in fair value of Level One Securities – recorded in OCI	132.4	(50.6)
Changes in fair value of Level Three Securities – recorded in OCI	35.3	32.5
Transfer to dissent payment entitlement	–	(89.3)
Derecognition of Strathcona warrants	(0.1)	–
Changes in fair value of Strathcona warrants – recorded in earnings	0.1	(1.7)
Additions	1.0	11.7
Investments in securities, end of period	228.2	59.5

ASSET RETIREMENT OBLIGATIONS

The Alberta Energy Regulator's area-based closure program allows companies to approach abandonment and reclamation activities in an efficient and cost-effective manner by targeting efforts in a concentrated area. Paramount's strategy is to utilize the advantages of the area-based closure program by focusing its abandonment and reclamation activities on the Hawkeye property, which was shut-in in 2018, and the Zama property, which was shut-in in 2019.

Abandonment and reclamation expenditures in the first half of 2021 totaled $11.5 million, net of approximately $2.5 million in funding under the Alberta Site Rehabilitation Program (the "ASRP"). Activities in the first six months of 2021 included the abandonment of 121 wells, 119 of which were abandoned under the Company's ongoing area-based closure program at Zama.

The Company's budget for abandonment and reclamation activities in 2021 remains unchanged at approximately $31 million. Approximately $6 million is to be funded directly under the ASRP, resulting in approximately $25 million net to Paramount. The majority of 2021 activities will be performed at Zama.

As at June 30, 2021, estimated undiscounted, uninflated asset retirement obligations were $1,299.6 million (December 31, 2020 – $1,351.7 million). As at June 30, 2021, the Company's discounted asset retirement obligations were $629.0 million (discounted at 7.0% and using an inflation rate of 2.0%) compared to $419.5 million as at December 31, 2020 (discounted at 11.0% and using an inflation rate of 2.0%). For further details concerning the Company's asset retirement obligations, refer to the Interim Financial Statements.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
General and administrative	**(10.6)**	(5.8)	**(19.3)**	(16.0)
Share-based compensation	**(2.1)**	(0.6)	**(8.1)**	(0.6)
Interest and financing	**(12.6)**	(9.3)	**(29.4)**	(18.7)
Accretion of asset retirement obligations	**(10.8)**	(10.7)	**(21.6)**	(21.1)
Loss on dissent payment entitlement	**(22.6)**	–	**(22.6)**	–
Deferred income tax (expense) recovery	**18.0**	13.6	**40.1**	(93.1)

General and administrative expenses were higher for the three and six months ended June 30, 2021 compared to the same periods in 2020 mainly due to the impact in 2020 of benefits received under the CEWS program.

Share-based compensation expenses were higher for the three and six months ended June 30, 2021 compared to the same periods in 2020 mainly due to the reinstatement of incentive compensation programs that had been suspended in the first half of 2020.

Interest and financing expenses were higher for the three and six months ended June 30, 2021 compared to the same periods in 2020 mainly as a result of higher interest rates under the Paramount Facility and higher average debt balances.

Paramount held 85 million common shares of Strath prior to its amalgamation with Cona Resources Ltd. in August 2020 to form Strathcona. Paramount objected to the amalgamation and exercised its right of dissent under section 191 of the *Business Corporations Act* (Alberta) with respect to its Strath shares. As a result, the Company was entitled to be paid in cash the fair value of its Strath shares, determined as of the close of business on July 24, 2020. In June 2021, Paramount received $67 million cash in settlement of the dissent proceedings and for the sale of its remaining securities in Strathcona. A loss of $22.6 million was recognized on the settlement.

PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Drilling, completion and tie-ins	80.3	37.2	136.0	90.5
Facilities and gathering	1.9	2.1	3.8	11.5
Corporate	1.2	1.5	2.9	2.7
Land and property acquisitions	0.1	0.6	0.1	0.6
Total capital expenditures (1)	83.5	41.4	142.8	105.3
Grande Prairie Region	66.5	36.7	117.7	86.5
Kaybob Region	3.9	1.8	9.0	11.9
Central Alberta and Other Region	11.8	0.8	13.1	3.6
Corporate	1.2	1.5	2.9	2.7
Land and property acquisitions	0.1	0.6	0.1	0.6
Total capital expenditures (1)	83.5	41.4	142.8	105.3

(1) "Total Capital Expenditures" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Total capital expenditures were $83.5 million in the second quarter of 2021 compared to $41.4 million in the second quarter of 2020. Total capital expenditures were $142.8 million in the first half of 2021 compared to $105.3 million in the same period in 2020. Expenditures in the first half of 2021 were mainly directed to drilling and completion programs in the Grande Prairie Region. Significant capital program activities undertaken in the first half of 2021 are described below:

- At Karr, the Company drilled 13 (13.0 net) wells, commenced drilling operations on 7 (7.0 net) wells, commenced completion activities on 5 (5.0 net) wells and completed and brought on production 9 (9.0 net) wells.
- At Wapiti, Paramount drilled 4 (4.0 net) wells, commenced drilling operations on 7 (7.0 net) wells and completed 7 (7.0 net) wells which were brought on production in early July.
- In the Kaybob Region, the Company completed and brought on production 1 (1.0 net) oil well at Ante Creek.
- In the Central Alberta & Other region, the Company drilled and commenced completion activities on 2 (2.0 net) wells at Willesden Green.

Paramount has continued to realize cost savings in its capital program to date in 2021 as described in this MD&A under "Q2 2021 Overview".

LIQUIDITY AND CAPITAL RESOURCES

Paramount's primary objectives in managing its capital structure are to:

i. maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;

ii. maintain sufficient liquidity to support ongoing operations, capital expenditure programs, planned dividend payments, strategic initiatives and the settlement of obligations when due; and

iii. maximize shareholder returns.

Paramount targets net debt to adjusted funds flow of between 1.0x (during periods of higher commodity prices) and 2.0x (during periods of lower commodity prices).

Paramount manages its capital structure to support current and long-term 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 through a number of means, including by issuing or repurchasing shares, altering debt levels, modifying capital spending programs, acquiring or disposing of assets, and participating in joint ventures, the availability of any such means being dependent upon market conditions.

As at	June 30, 2021	December 31, 2020
Cash and cash equivalents	(2.0)	(4.6)
Accounts receivable [(1)]	(105.6)	(97.7)
Prepaid expenses and other	(8.9)	(9.9)
Accounts payable and accrued liabilities	232.6	152.8
Adjusted working capital deficit [(1)] [(2)]	116.1	40.6
Long-term debt	608.4	813.5
Net debt [(2)]	724.5	854.1
Share capital	2,209.9	2,207.4
Accumulated deficit	(385.0)	(235.1)
Equity component of convertible debentures	1.7	–
Reserves	228.0	65.4
Total Capital	2,779.1	2,891.8

(1) Adjusted working capital excludes risk management assets and liabilities, accounts receivable relating to subleases (June 30, 2021 – $2.4 million, December 31, 2020 – $2.3 million), assets and liabilities held for sale and the current portion of asset retirement obligations and other.
(2) "Net Debt" is a Non-GAAP financial measure. See "Non-GAAP Financial Measures" in the Advisories section.

Paramount's operations are capital intensive and adequate sources of liquidity are required to fund ongoing exploration and development activities, discharge asset retirement obligations and satisfy contractual commitments. Paramount's available capital resources include cash from operating activities and available capacity under the Paramount Facility, the terms of which are described further below.

Based on the forecasts of 2021 sales volumes and the pricing and other assumptions set out in this MD&A under "Guidance", Paramount expects to fully fund budgeted 2021 capital expenditures of between $265 million and $285 million with cash from operating activities. Paramount may utilize borrowing capacity under the Paramount Facility for liquidity from time to time to temporarily fund operations during periods of the year in which expenditures exceed cash from operating activities.

The ability of cash from operating activities to satisfy the Company's funding requirements in 2021 and future years is dependent on a number of factors, including commodity prices, sales volumes, royalties, operating and transportation costs, general and administrative and interest expenses and foreign exchange rates.

Paramount may also determine to divest of assets or investments in securities from time to time to reduce indebtedness or fund operations. In the first half of 2021, the Company sold non-core properties for aggregate cash proceeds of approximately $80 million and received $67 million cash in settlement of the Strath dissent proceedings and for the sale of its remaining securities in Strathcona, which proceeds were used to reduce indebtedness under the Paramount Facility. In July 2021, the Company closed the sale of its non-operated Birch asset for gross proceeds of approximately $88 million before customary closing adjustments.

Subject to market conditions and availability, proceeds from new debt and/or equity financings also provide additional sources of capital from time to time. In January 2021, as described below under "Convertible Debentures", the Company issued $35.0 million of senior unsecured convertible debentures and used the proceeds to reduce indebtedness under the Paramount Facility.

Paramount Facility

In June 2021, the Company renewed its financial covenant-based senior secured revolving bank credit facility.

The Paramount Facility currently has a size of $900 million, which can be increased to $1.0 billion at Paramount's request pursuant to an accordion feature in the facility, subject to incremental lender commitments. The maturity date of the Paramount Facility is June 2, 2024. The Paramount Facility is secured by a charge over substantially all of the assets of the Company and its subsidiaries.

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, CDOR, or LIBOR, as selected by the Company, plus an applicable margin which varies based on the Company's Senior Secured Debt to Consolidated EBITDA ratio.

Paramount is subject to the following two financial covenants under the Paramount Facility which are tested at the end of each fiscal quarter and calculated on a trailing twelve-month basis:

- Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and
- Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

Senior Secured Debt currently consists of amounts drawn on the Paramount Facility.

Consolidated EBITDA is adjusted for material acquisitions and dispositions and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including gains or losses on dispositions of oil and gas assets, unrealized mark-to-market amounts on derivatives, unrealized foreign exchange gains and losses, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by customary adjustments including interest income.

The Paramount Facility contains a covenant requiring prior lender consent for the payment of dividends and other distributions if the Senior Secured Debt to Consolidated EBITDA ratio is greater than 2.50 to 1.00 *pro forma* the payment of the distribution.

Paramount was in compliance with the financial covenants under the Paramount Facility at June 30, 2021.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling $2.3 million at June 30, 2021 that reduce the amount available to be drawn on the facility.

Unsecured Letter of Credit Facility

The Company has a $70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada. In May 2021, the PSG was extended to June 30, 2022.

At June 30, 2021, $38.4 million in undrawn letters of credit were outstanding under the LC Facility (December 31, 2020 – $40.7 million).

Convertible Debentures

In January 2021, the Company completed a private placement of $35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased $25.0 million of the Convertible Debentures. The Convertible Debentures mature on January 31, 2024 (the "Maturity Date"), bear interest at 7.50 percent per annum payable monthly in arrears and are convertible by the holder into Common Shares at any time prior to the Maturity Date. At June 30, 2021, the conversion price of the debentures was $6.72 per Common Share if converted prior to January 31, 2022, $7.33 per Common Share if converted on or after January 31, 2022 and prior to January 31, 2023 and $7.94 per Common Share if converted on or after January 31, 2023. These prices are subject to customary anti-dilution adjustments.

The Convertible Debentures are redeemable by Paramount, in whole or in part, at any time prior to the Maturity Date, at a redemption price (expressed as percentages of principal amount) equal to 107.50 percent prior to January 31, 2022, 103.75 percent on or after January 31, 2022 and prior to January 31, 2023 and 101.875 percent on or after January 31, 2023.

The Convertible Debentures are treated as a compound financial instrument that contain a liability and an equity component and were initially recognized at fair value, net of issue costs of $0.1 million. The fair value of the liability component was initially recognized at the date of issuance using the effective interest method, discounted using the estimated interest rate of a debt instrument having similar terms but without a conversion feature. The fair value of the conversion feature was determined at the date of issuance as the difference between the principal amount and the fair value of the liability component at the date of issue, which has been classified within shareholders' equity.

The liability component of the Convertible Debentures is carried at amortized cost and is accreted over the term of the Convertible Debentures to the principal amount using the effective interest method. This accretion, along with interest on the Convertible Debentures, is recorded as interest and financing expense. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component will be reclassified to share capital should the Convertible Debentures be converted into Common Shares.

As at June 30, 2021, there were $35.0 million aggregate principal amount of Convertible Debentures outstanding.

Cash Flow Hedges

The Company had the following floating-to-fixed interest rate and electricity swaps in place at June 30, 2021:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	$250 million	July 2021 – January 2023	2.3%	CDOR (1)	(6.3)
Interest Rate Swaps	$250 million	July 2021 – January 2026	2.4%	CDOR (1)	(11.7)
Electricity Swaps (Buy)	5 MWh (2)	July 2021 – December 2021	$51.68/MWh	AESO Pool Price (3)	0.8
					(17.2)

(1) Canadian Dollar Offered Rate.
(2) "MWh" means MegaWatt per hour for the remaining term.
(3) Floating hourly rate established by the Alberta Electric System Operator.

Subsequent to June 30, 2021, the Company entered into the following electricity swap contract:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference
Electricity Swaps (Buy)	5 MWh (1)	January 2023 - December 2023	$62.50/MWh	AESO Pool Price (2)

(1) "MWh" means MegaWatt per hour for the remaining term.
(2) Floating hourly rate established by the Alberta Electric System Operator.

The Company classified its floating-to-fixed interest rate swaps and electricity swaps as cash flow hedges and has applied hedge accounting. As at June 30, 2021, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

Share Capital

As at July 30, 2021, Paramount had 133,325,280 Common Shares outstanding (net of 1,537,817 Common Shares held in trust under the Company's restricted share unit plan) and 11,990,215 options to acquire Common Shares outstanding, of which 1,740,190 options are exercisable.

As at July 30, 2021, $35.0 million aggregate principal amount of Convertible Debentures were issued and outstanding and 5.2 million Common Shares were issuable upon conversion of the outstanding Convertible Debentures at the current conversion price of $6.71 per Common Share.

In June 2021, Paramount implemented a monthly dividend program with respect to its Common Shares. The first dividend of $0.02 per Common Share was paid on July 30, 2021 to shareholders of record on July 15, 2021.

The Board of Directors has declared a dividend of $0.02 per Common Share that will be payable on August 31, 2021 to shareholders of record on August 16, 2021.

In June 2021, Paramount implemented the NCIB. The NCIB will terminate on the earlier of June 29, 2022 and the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Purchases of Common Shares under the NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase. The Company has not purchased any Common Shares under the NCIB to date.

Paramount may purchase up to 7,308,743 Common Shares under the NCIB. Pursuant to the rules of the TSX, the Company may purchase a maximum of 100,195 Common Shares under the NCIB in one day. Paramount may also make one block purchase per calendar week which exceeds such daily purchase restriction, subject to the rules of the TSX. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Company. Any shareholder may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the TSX by contacting the Company at 403-290-3600.

QUARTERLY INFORMATION

	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**299.7**	279.9	202.0	138.8	113.2	172.1	259.9	199.8
Net income (loss)	**(74.3)**	(82.5)	311.5	(23.3)	(75.7)	(235.1)	(31.1)	141.0
Per share – basic & diluted ($/share)	***(0.56)***	*(0.62)*	*2.35*	*(0.17)*	*(0.57)*	*(1.76)*	*(0.24)*	*1.08*
Cash from (used in) operating activities	**112.1**	81.3	53.2	11.4	(14.2)	30.5	70.5	48.6
Per share – basic & diluted ($/share)	***0.84***	*0.61*	*0.40*	*0.09*	*(0.11)*	*0.23*	*0.54*	*0.37*
Adjusted funds flow	**86.0**	90.9	67.9	29.5	19.0	33.5	93.5	50.9
Per share – basic & diluted ($/share)	***0.65***	*0.69*	*0.51*	*0.22*	*0.14*	*0.25*	*0.71*	*0.39*
Sales volumes (1)								
Natural gas (MMcf/d)	**273.1**	273.1	256.3	224.0	253.2	261.5	299.0	296.6
Condensate and oil (Bbl/d)	**29,543**	29,854	25,752	19,782	22,823	21,898	28,516	24,761
Other NGLs (Bbl/d)	**4,938**	5,170	4,987	3,952	3,817	4,539	7,064	6,851
Total (Boe/d)	**79,995**	80,540	73,460	61,064	68,839	70,022	85,411	81,046
Realized prices								
Natural gas ($/Mcf)	**3.01**	3.14	2.83	1.94	1.94	2.25	2.73	1.58
Condensate and oil ($/Bbl)	**77.96**	69.20	52.03	48.74	29.05	55.92	66.70	65.73
Other NGLs ($/Bbl)	**32.11**	32.29	20.61	18.10	12.28	10.75	13.03	9.78
Total ($/Boe)	**41.17**	38.61	29.89	24.70	18.07	27.01	33.08	26.80

(1) Readers are referred to the Product Type Information section of this document for more information respecting the composition of sales volumes by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil.

Significant Items Impacting Quarterly Results

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

- The second quarter 2021 loss includes a $75.7 million loss on financial commodity contracts and a charge of $42.0 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.
- The first quarter 2021 loss includes an $81.2 million loss on financial commodity contracts, a charge of $69.5 million mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value and a $41.4 million gain on the sale of oil and gas assets.
- Fourth quarter 2020 earnings include aggregate impairment reversals of $333.7 million from previously recorded impairment charges of petroleum and natural gas assets and a deferred income tax recovery of $64.4 million, partially offset by a charge of $29.7 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.

- The third quarter 2020 loss includes a recovery of $25.6 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value.
- The second quarter 2020 loss includes a recovery of $13.6 million related to deferred income tax.
- The first quarter 2020 loss includes a $191.8 million impairment of petroleum and natural gas assets, and a derecognition of $130.0 million of the deferred income tax asset, partially offset by a recovery of $94.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- The fourth quarter 2019 loss includes a recovery of $33.8 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.
- Third quarter 2019 earnings include a $157.3 million gain on the sale of oil and gas assets, primarily related to the sale of the Karr 6-18 facility and related midstream assets and a recovery of $73.5 million related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment.

OTHER INFORMATION

Provision

For the six months ended June 30, 2021, the Company recorded a provision of $24.0 million with respect to arrangements with a service provider. The Company has unsettled claims of a greater amount against the same service provider with respect to certain related matters which have not been recognized. The outcome of all of these matters remains uncertain.

Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually change. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

ADOPTION OF ACCOUNTING STANDARDS

Financial Instruments

Effective January 1, 2021, the Company adopted the phase two amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures,* IFRS 4 – *Insurance Contracts* and IFRS 16 – *Leases*. These amendments provide guidance in applying IFRS when changes are made to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate from the Interbank Offered Rate ("IBOR") reform. There has been no impact on the recognized assets, liabilities or comprehensive income (loss) of the Company resulting from the adoption of these amendments. The Company's floating-to-fixed interest rate swaps, which are described in Note 13 of the Interim Financial Statements, may be impacted by these amendments in the future as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended June 30, 2021, there was no change in the Company's internal control over financial reporting ("ICFR") that materially affected, or is reasonably likely to materially affect, the Company's ICFR. Paramount does not believe that process changes put in place in connection with the COVID-19 pandemic have materially affected ICFR.

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.

RISK FACTORS

Readers should, in conjunction with their review of this MD&A, carefully review the "Risk Factors" section in the Company's Annual Information Form for the year ended December 31, 2020, which is available under the Company's profile on SEDAR at www.sedar.com.

The course of the COVID-19 pandemic and its ultimate impact remain highly uncertain. The ultimate impact of the pandemic on Paramount's future operations and financial performance is unknown and is dependent on a number of unpredictable factors outside of the knowledge and control of Management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. See "Risk Factors – COVID 19 Pandemic" in the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on assets, liabilities, revenues and expenses recognized in future periods.

The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of the Interim Financial Statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future periods as additional information becomes available.

PRODUCT TYPE INFORMATION

This MD&A includes references to sales volumes of "natural gas", "condensate and oil" and "Other NGLs" and revenues therefrom. "Natural gas" refers to conventional natural gas and shale gas combined. "Condensate and oil" refers to condensate, light and medium crude oil and tight oil combined. "Other NGLs" refers to ethane, propane and butane combined. Below is a complete breakdown of sales volumes for applicable periods by the specific product types of shale gas, conventional natural gas, NGLs, tight oil and light and medium crude oil. Numbers may not add due to rounding.

	2021		2020				2019		YTD	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	2021	2020
SALES VOLUMES - BY PRODUCT TYPE										
Shale gas (MMcf/d)	205.8	197.8	170.7	141.0	156.0	158.9	176.6	159.3	201.9	157.5
Conventional natural gas (MMcf/d)	67.3	75.3	85.6	83.0	97.2	102.6	122.4	137.3	71.2	100.0
Natural gas (MMcf/d)	273.1	273.1	256.3	224.0	253.2	261.5	299.0	296.6	273.1	257.5
Condensate (Bbl/d)	26,784	27,017	22,782	17,020	19,615	17,908	23,956	20,230	26,900	18,757
Other NGLs (Bbl/d)	4,938	5,170	4,987	3,952	3,817	4,539	7,064	6,851	5,054	4,178
NGLs (Bbl/d)	31,722	32,187	27,769	20,972	23,432	22,447	31,020	27,081	31,954	22,935
Tight oil (Bbl/d)	494	479	437	457	381	575	745	523	487	479
Light and medium crude oil (Bbl/d)	2,265	2,358	2,533	2,305	2,827	3,416	3,815	4,008	2,311	3,125
Crude oil (Bbl/d)	2,759	2,837	2,970	2,762	3,208	3,991	4,560	4,531	2,798	3,604
Total (Boe/d)	79,995	80,540	73,460	61,064	68,839	70,022	85,411	81,046	80,266	69,430

SALES VOLUMES – BY REGION BY PRODUCT TYPE										
GRANDE PRAIRIE REGION										
Shale gas (MMcf/d)	132.2	120.6	92.7	66.0	76.8	73.1	91.5	70.5	126.5	75.0
Conventional natural gas (MMcf/d)	2.1	2.0	1.6	1.3	1.5	1.5	1.9	1.6	2.0	1.5
Natural gas (MMcf/d)	134.3	122.6	94.3	67.3	78.3	74.6	93.4	72.1	128.5	76.5
Condensate (Bbl/d)	24,086	23,974	19,635	13,959	16,292	14,058	18,760	14,269	24,031	15,169
Other NGLs (Bbl/d)	2,874	2,984	2,429	2,060	1,680	1,680	2,376	1,587	2,928	1,680
NGLs (Bbl/d)	26,960	26,958	22,064	16,019	17,972	15,738	21,136	15,856	26,959	16,849
Tight oil (Bbl/d)	–	–	–	–	–	–	–	–	–	–
Light and medium crude oil (Bbl/d)	4	–	–	1	17	39	91	61	2	34
Crude oil (Bbl/d)	4	–	–	1	17	39	91	61	2	34
Total (Boe/d)	49,345	47,385	37,782	27,237	31,039	28,214	36,789	27,927	48,371	29,627

KAYBOB REGION										
Shale gas (MMcf/d)	39.3	42.1	41.9	40.4	44.4	48.6	48.3	52.4	40.7	46.5
Conventional natural gas (MMcf/d)	58.0	65.8	76.3	73.4	87.1	91.6	89.1	91.8	61.9	89.4
Natural gas (MMcf/d)	97.3	107.9	118.2	113.8	131.5	140.2	137.4	144.2	102.6	135.9
Condensate (Bbl/d)	2,319	2,611	2,631	2,577	2,954	3,385	3,899	4,411	2,464	3,170
Other NGLs (Bbl/d)	1,569	1,677	1,953	1,363	1,718	2,218	2,504	2,450	1,623	1,968
NGLs (Bbl/d)	3,888	4,288	4,584	3,940	4,672	5,603	6,403	6,861	4,087	5,138
Tight oil (Bbl/d)	354	342	299	308	203	394	541	329	349	300
Light and medium crude oil (Bbl/d)	2,224	2,321	2,480	2,257	2,762	3,343	3,331	3,391	2,272	3,051
Crude oil (Bbl/d)	2,578	2,663	2,779	2,565	2,965	3,737	3,872	3,720	2,621	3,351
Total (Boe/d)	22,688	24,938	27,056	25,477	29,561	32,700	33,167	34,615	23,807	31,131

	2021		2020				2019		YTD	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	2021	2020
CENTRAL ALBERTA & OTHER REGION										
Shale gas (MMcf/d)	**34.3**	35.1	36.1	34.6	34.8	37.1	36.8	36.4	34.7	36.0
Conventional natural gas (MMcf/d)	**7.2**	7.5	7.7	8.3	8.6	9.6	31.4	43.9	7.3	9.1
Natural gas (MMcf/d)	**41.5**	42.6	43.8	42.9	43.4	46.7	68.2	80.3	42.0	45.1
Condensate (Bbl/d)	**379**	433	515	484	369	465	1,298	1,551	405	418
Other NGLs (Bbl/d)	**495**	509	605	529	419	641	2,184	2,814	503	530
NGLs (Bbl/d)	**874**	942	1,120	1,013	788	1,106	3,482	4,365	908	948
Tight oil (Bbl/d)	**140**	136	138	149	178	180	203	194	138	179
Light and medium crude oil (Bbl/d)	**37**	37	54	47	48	33	393	556	37	40
Crude oil (Bbl/d)	**177**	173	192	196	226	213	596	750	175	219
Total (Boe/d)	**7,962**	8,217	8,622	8,350	8,239	9,108	15,455	18,504	8,088	8,672

	2021		2020				2019		YTD	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	2021	2020
SALES VOLUMES – KARR BY PRODUCT TYPE										
Shale gas (MMcf/d)	**106.3**	89.1	69.6	48.6	45.5	58.7	68.6	57.9	97.7	52.1
Conventional natural gas (MMcf/d)	**1.3**	1.1	0.9	0.6	0.6	0.7	0.5	0.4	1.2	0.7
Natural gas (MMcf/d)	**107.6**	90.2	70.5	49.2	46.1	59.4	69.1	58.3	98.9	52.8
Condensate (Bbl/d)	**18,458**	16,095	13,348	9,541	7,501	9,691	11,816	8,712	17,283	8,602
Other NGLs (Bbl/d)	**2,281**	2,108	1,817	1,503	829	1,290	1,614	1,117	2,195	1,061
NGLs (Bbl/d)	**20,739**	18,203	15,165	11,044	8,330	10,981	13,430	9,829	19,478	9,663
Total (Boe/d)	**38,679**	33,230	26,914	19,246	16,009	20,885	24,943	19,542	35,969	18,461
SALES VOLUMES – WAPITI BY PRODUCT TYPE										
Shale gas (MMcf/d)	**25.9**	31.5	22.8	17.4	31.3	14.5	22.9	12.6	28.7	22.9
Conventional natural gas (MMcf/d)	**0.5**	0.6	0.5	0.4	0.6	0.3	0.7	0.4	0.5	0.4
Natural gas (MMcf/d)	**26.4**	32.1	23.3	17.8	31.9	14.8	23.6	13.0	29.2	23.3
Condensate (Bbl/d)	**5,629**	7,884	6,286	4,414	8,786	4,364	6,865	5,548	6,750	6,563
Other NGLs (Bbl/d)	**582**	867	589	548	841	386	706	454	724	612
NGLs (Bbl/d)	**6,211**	8,751	6,875	4,962	9,627	4,750	7,571	6,002	7,474	7,175
Total (Boe/d)	**10,604**	14,107	10,764	7,925	14,940	7,209	11,498	8,163	12,346	11,059

The Company forecasts 2021 sales volumes will average between 80,000 Boe/d and 82,000 Boe/d (56% shale gas and conventional natural gas combined, 38% light and medium crude oil, tight oil and condensate combined and 6% other NGLs). Second half 2021 sales volumes are expected to average between 80,000 Boe/d and 84,000 Boe/d (55% shale gas and conventional natural gas combined, 39% light and medium crude oil, tight oil and condensate combined and 6% other NGLs).

ADVISORIES

Forward-looking Information

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

- the expectation that sales volumes at Wapiti will increase in the second half of 2021;
- preliminary estimated drilling, completion and equipping costs;
- forecast sales volumes for 2021 and certain periods therein;
- planned capital expenditures in 2021;
- forecast free cash flow in 2021;
- the Company's expectation that 2021 free cash flow will be directed towards debt reduction and the payment of dividends;
- forecast 2021 year-end net debt to annual adjusted funds flow;
- preliminary anticipated capital expenditures in 2022 and the resulting expected 2022 average sales volumes, free cash flow and year-end net debt to adjusted funds flow;
- the payment of future dividends under the Company's monthly dividend program;
- planned exploration, development and production activities, including the expected timing of drilling, completing and bringing new wells on production;
- planned abandonment and reclamation expenditures and activities in 2021 and anticipated funding under the ASRP;
- the expectation that the Company will be able to fund budgeted capital expenditures with cash from operating activities;
- the anticipation that legal proceedings will not have a material impact on Paramount's financial position; and
- the potential impacts of the COVID-19 pandemic.

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 commodity prices and the potential impact of the COVID-19 pandemic thereon;
- the likely impact of the COVID-19 pandemic on operations;
- the ability to realize expected cost savings;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms and the capacity and reliability of facilities;
- the ability of Paramount to market its production 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, product yields and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;

- the timely receipt of required governmental and regulatory approvals;
- the receipt of benefits under government programs;
- the application of regulatory requirements respecting abandonment and reclamation;
- the merits of outstanding and pending legal proceedings; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins, the construction, commissioning and start-up of new and expanded facilities, including third-party facilities and facility turnarounds and maintenance).

Although Paramount believes that the expectations reflected in such forward-looking information are reasonable based on the information available at the time of this MD&A, undue reliance should not be placed on the forward-looking information 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:

- those risks set out in this MD&A under "Risk Factors";
- fluctuations in commodity prices, including in relation to the impact of the COVID-19 pandemic;
- changes in capital spending plans and planned exploration and development activities;
- the potential for changes to preliminary anticipated 2022 capital expenditures prior to finalization and changes to the resulting expected 2022 average sales volumes and free cash flow;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, free cash flow, production, reserves additions, product yields (including condensate to natural gas ratios), resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing, producing and transporting sales volumes, including the risk of spills, leaks or blowouts;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities (including third-party facilities);
- processing, pipeline and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- general business, economic and market conditions;
- the ability to generate sufficient cash flow from operating activities and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations (including product processing, transportation, fractionation and similar commitments and obligations);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- 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.

There are risks that may result in the Company changing, suspending or discontinuing its monthly dividend program, including changes to free cash flow, operating results, capital requirements, financial position, market conditions or corporate strategy and the need to comply with requirements under debt agreements and applicable laws respecting the declaration and payment of dividends. There are no assurances as to the continuing declaration and payment of future dividends under the Company's monthly dividend program or the amount or timing of any such dividends.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in Paramount's annual information form for the year ended December 31, 2020, which is available on SEDAR at www.sedar.com. 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.

Certain forward-looking information in this MD&A, including forecast free cash flow in 2021 and forecast 2021 year-end net debt to adjusted funds flow, may also constitute a "financial outlook" within the meaning of applicable securities laws. A financial outlook involves statements about Paramount's prospective financial performance or position and is based on and subject to the assumptions and risk factors described above in respect of forward-looking information generally as well as any other specific assumptions and risk factors in relation to such financial outlook noted in this MD&A. Such assumptions are based on management's assessment of the relevant information currently available and any financial outlook included in this MD&A is provided for the purpose of helping readers understand Paramount's current expectations and plans for the future. Readers are cautioned that reliance on any financial outlook may not be appropriate for other purposes or in other circumstances and that the risk factors described above or other factors may cause actual results to differ materially from any financial outlook.

Non-GAAP Financial Measures

In this document, "adjusted funds flow", "free cash flow", "netback", "net debt", "adjusted working capital" "net debt to adjusted funds flow" and "total capital expenditures", collectively the "Non-GAAP Financial Measures", are used and do not have any standardized meanings as prescribed by IFRS.

"Adjusted funds flow" refers to cash from (used in) operating activities before net changes in non-cash working capital, geological and geophysical expenses, asset retirement obligation settlements, closure costs, provisions and other, dispute settlements and transaction and reorganization costs. Adjusted funds flow is used to assist Management and investors in measuring the Company's ability to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations. Asset retirement obligation settlements are excluded from the calculation of adjusted funds flow because such expenditures are not directly linked to the revenue generating activities of the Company. Paramount manages the timing of expenditures related to asset retirement obligation settlements in accordance with regulatory requirements and its overall approach to managing its asset retirement obligations and, as a result, amounts incurred may vary significantly from period to period. Adjusted funds flow is not intended to represent cash from operating activities, net loss or any other GAAP measure and should not be construed as being an alternative to, or more meaningful than, cash from operating activities as determined in accordance with IFRS. Refer to the Consolidated Results section of this MD&A for the calculation thereof.

"Free cash flow" refers to adjusted funds flow less total capital expenditures and asset retirement obligation settlements. Free cash flow is used by Management and investors to assess the amount of internally generated cash available to repay debt, reinvest in the business or return to shareholders.

The following is the reconciliation of free cash flow from the nearest GAAP measure for the three months ended June 30, 2021 and March 31, 2021:

Three months ended	June 30, 2021 ($ Millions)	March 31, 2021 ($ Millions)
Cash from operating activities	**112.1**	**81.3**
Change in non-cash working capital	(47.6)	(7.9)
Geological and geophysical expenses	1.8	1.6
Asset retirement obligations settled	3.2	8.4
Closure costs	–	–
Provision and other	16.5	7.5
Transaction and reorganization costs	–	–
Adjusted funds flow	**86.0**	**90.9**
Total capital expenditures	(83.5)	(59.3)
Asset retirement obligation settlements	(3.2)	(8.4)
Free cash flow	**(0.7)**	**23.2**

"Netback" equals petroleum and natural gas sales less royalties, operating expense 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. Refer to the Operating Results section of this MD&A for the calculation thereof.

"Net debt" is a measure of the Company's overall debt position after adjusting for certain working capital and other amounts and is used by Management to assess the Company's overall leverage position. Refer to the Liquidity and Capital Resources section of this MD&A for the calculation of "Net debt" and "Adjusted working capital".

"Net debt to adjusted funds flow" is a ratio calculated as the period end net debt divided by adjusted funds flow for the trailing four quarters. The ratio of net debt to adjusted funds flow is commonly used by management and investors to assess the Company's overall debt position and to measure the strength of the Company's balance sheet.

"Total capital expenditures" refers to the Company's property, plant and equipment and exploration expenditures. Refer to the Property, Plant and Equipment and Exploration Expenditures section of this MD&A for the calculation thereof.

The Non-GAAP Financial 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 Financial Measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

The term "liquids" includes oil, condensate and Other NGLs (ethane, propane and butane). NGLs consist of condensate and Other NGLs.

Abbreviations

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

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

Natural Gas	
Mcf	Thousands of cubic feet
MMcf/d	Millions of cubic feet per day
GJ	Gigajoule
GJ/d	Gigajoule per day
MMbtu	Millions of British thermal units
MMbtu/d	Millions of British thermal units per day
NYMEX	New York Mercantile Exchange
AECO	AECO-C reference price

This MD&A contains disclosures expressed as "Boe", "$/Boe" and "Boe/d". Natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil when converting natural gas to Boe. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For the six months ended June 30, 2021, the value ratio between crude oil and natural gas was approximately 26:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

Interim Condensed Consolidated Financial Statements (Unaudited)
For the three and six months ended June 30, 2021

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ thousands)

As at	Note	June 30 2021	December 31 2020
ASSETS			
Current assets			
Cash and cash equivalents	16	1,977	4,590
Accounts receivable		107,996	99,986
Risk management – current	13	812	408
Prepaid expenses and other		8,870	9,931
Assets held for sale	2	52,566	–
		172,221	114,915
Lease receivable	8	1,561	2,758
Dissent payment entitlement	5	–	89,250
Investments in securities	6	228,235	59,529
Exploration and evaluation	3	555,861	612,129
Property, plant and equipment, net	4	2,007,628	1,959,603
Deferred income tax	12	690,102	658,811
		3,655,608	3,496,995
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		232,572	152,756
Risk management – current	13	102,061	32,281
Asset retirement obligations and other – current	8	33,382	32,229
Liabilities associated with assets held for sale	2	3,602	–
		371,617	217,266
Long-term debt	7	608,367	813,491
Risk management – long-term	13	8,691	19,441
Asset retirement obligations and other – long-term	8	612,403	409,016
		1,601,078	1,459,214
Commitments and contingencies	17		
Shareholders' equity			
Share capital	9	2,209,934	2,207,408
Accumulated deficit		(385,036)	(235,061)
Equity component of convertible debentures	7	1,673	–
Reserves	10	227,959	65,434
		2,054,530	2,037,781
		3,655,608	3,496,995

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands, except as noted)

	Note	Three months ended June 30		Six months ended June 30	
		2021	2020	2021	2020
Petroleum and natural gas sales		299,702	113,174	579,567	285,264
Royalties		(24,950)	(3,599)	(43,569)	(15,282)
Revenue	14	274,752	109,575	535,998	269,982
Gain (loss) on financial commodity contracts	13	(75,717)	(7,246)	(156,895)	35,078
		199,035	102,329	379,103	305,060
Expenses					
Operating expense		81,771	62,605	166,070	154,941
Transportation and NGLs processing		30,282	25,309	58,147	48,911
General and administrative		10,616	5,802	19,324	15,986
Share-based compensation	11	2,121	557	8,093	571
Depletion, depreciation and net impairment	4	99,872	60,810	242,549	230,915
Exploration and evaluation	3	2,124	11,516	23,015	23,446
(Gain) loss on sale of oil and gas assets	4	1,587	3,086	(39,808)	780
Interest and financing		12,640	9,266	29,351	18,747
Accretion of asset retirement obligations	8	10,791	10,672	21,567	21,142
Reorganization costs		–	3,048	–	3,048
Settlement of dissent payment entitlement	5	22,595	–	22,595	–
Foreign exchange		822	435	1,097	(318)
		275,221	193,106	552,000	518,169
Other income (loss)	15	(16,070)	1,431	(23,961)	(4,603)
Loss before tax		(92,256)	(89,346)	(196,858)	(217,712)
Income tax expense (recovery)					
Deferred	12	(17,977)	(13,622)	(40,102)	93,094
		(17,977)	(13,622)	(40,102)	93,094
Net loss		(74,279)	(75,724)	(156,756)	(310,806)
Other comprehensive income (loss), net of tax	10				
Items that will be reclassified to net income (loss)					
Change in fair value of cash flow hedges, net of tax		316	(3,043)	5,779	(21,406)
Reclassification to net income (loss), net of tax		1,435	1,599	3,010	2,065
Items that will not be reclassified to net income (loss)					
Change in fair value of securities, net of tax	6	86,607	83,311	152,584	(32,355)
Comprehensive income (loss)		14,079	6,143	4,617	(362,502)
Net loss per common share ($/share)	9				
Basic and diluted		(0.56)	(0.57)	(1.18)	(2.33)

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
($ thousands)

	Note	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Operating activities					
Net loss		**(74,279)**	(75,724)	**(156,756)**	(310,806)
Add (deduct):					
Items not involving cash	16	**141,942**	89,471	**306,159**	351,046
Asset retirement obligations settled	8	**(3,151)**	(3,960)	**(11,502)**	(34,215)
Change in non-cash working capital		**47,588**	(24,022)	**55,480**	10,272
Cash from (used in) operating activities		**112,100**	(14,235)	**193,381**	16,297
Financing activities					
Net draw (repayment) of revolving long-term debt	7	**(105,193)**	103,448	**(239,571)**	122,633
Lease liabilities – principal repayments	8	**(1,887)**	(1,898)	**(3,785)**	(3,774)
Convertible debentures issued, net of issue costs		**–**	–	**34,919**	–
Common shares issued, net of issue costs		**1,218**	–	**4,493**	15
Common shares purchased under restricted share unit plan		**(10,691)**	–	**(10,691)**	–
Cash from (used in) financing activities		**(116,553)**	101,550	**(214,635)**	118,874
Investing activities					
Property, plant and equipment and exploration		**(83,542)**	(41,401)	**(142,806)**	(105,251)
Sale of oil and gas assets		**(418)**	(3,621)	**79,220**	(2,133)
Investments		**(1,000)**	(38)	**(1,012)**	(938)
Proceeds from dissent payment entitlement, net	5	**66,782**	–	**66,782**	–
Change in non-cash working capital		**17,341**	(45,996)	**16,502**	(30,976)
Cash from (used in) investing activities		**(837)**	(91,056)	**18,686**	(139,298)
Net decrease		**(5,290)**	(3,741)	**(2,568)**	(4,127)
Foreign exchange on cash and cash equivalents		**(154)**	(318)	**(45)**	(280)
Cash and cash equivalents, beginning of period		**7,421**	5,668	**4,590**	6,016
Cash and cash equivalents, end of period		**1,977**	1,609	**1,977**	1,609

Supplemental cash flow information 16

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

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

Six months ended June 30	Note	2021		2020	
		Shares (000's)		*Shares (000's)*	
Share capital	9				
Balance, beginning of period		*132,284*	2,207,408	*133,337*	2,207,485
Issued		*653*	5,759	*1*	19
Change in Common Shares for restricted share unit plan	11	*377*	(3,233)	*446*	(27)
Balance, end of period		*133,314*	2,209,934	*133,784*	2,207,477
Accumulated deficit					
Balance, beginning of period			(235,061)		(128,487)
Net loss			(156,756)		(310,806)
Dividend			(2,697)		–
Recognition of deferred income tax asset	12		9,478		–
Reclassification of accumulated losses on securities			–		(14,000)
Balance, end of period			(385,036)		(453,293)
Equity component of convertible debentures	7				
Balance, beginning of period			–		–
Issued			1,673		–
Balance, end of period			1,673		–
Reserves	10				
Balance, beginning of period			65,434		4,182
Other comprehensive income (loss)			161,373		(51,696)
Contributed surplus			1,152		2,460
Reclassification of accumulated losses on securities			–		14,000
Balance, end of period			227,959		(31,054)
Total Shareholders' Equity			2,054,530		1,723,130

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

1. Basis of Presentation

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, liquids-focused Canadian energy company that explores for and develops both conventional and unconventional petroleum and natural gas reserves and resources. The Company also pursues longer-term strategic exploration and pre-development plays and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta and British Columbia.

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 2800, 421 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9. The consolidated group includes wholly-owned subsidiaries Fox Drilling Limited Partnership, Cavalier Energy Inc. and MGM Energy. 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. Intercompany balances and transactions have been eliminated.

These unaudited Interim Condensed Consolidated Financial Statements of the Company, as at and for the three and six months ended June 30, 2021 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on August 3, 2021.

These Interim Financial Statements have been prepared in accordance with *IAS 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, 2020 (the "Annual Financial Statements"). Certain comparative figures have been reclassified to conform to the current years' presentation.

These Interim Financial Statements are stated in thousands of Canadian dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments which are stated at fair value. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements have been condensed or omitted. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

Adoption of Accounting Standards

Financial Instruments

Effective January 1, 2021, the Company adopted the phase two amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures,* IFRS 4 – *Insurance Contracts and* IFRS 16 – *Leases*. These amendments provide guidance in applying IFRS when changes are made to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate from the Interbank Offered Rate ("IBOR") reform. There has been no impact on the recognized assets, liabilities or comprehensive income (loss) of the Company resulting from the adoption of these amendments. The Company's floating-to-fixed interest rate swaps, which are described in Note 13, may be impacted by these amendments in the future as hedge accounting is applied to these instruments and hedging relationships may be impacted by the IBOR reform.

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

Significant Accounting Estimates, Assumptions & Judgments

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Estimates and assumptions are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgments, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on assets, liabilities, revenues and expenses recognized in future periods.

The course of the COVID-19 pandemic and its ultimate impact remain highly uncertain. The ultimate impact of the pandemic on Paramount's future operations and financial performance is unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of Management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth, commodity prices and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of these Interim Financial Statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

2. Assets Held for Sale

In July 2021, Paramount closed the sale of its non-operated Birch assets in northeast British Columbia, which were included in the Northern cash-generating unit ("CGU"), for gross proceeds of approximately $88 million before customary closing adjustments (the "Birch Disposition").

The consideration received on the Birch Disposition exceeded the carrying value of the asset, which had previously been reduced by impairment charges. As a result, a reversal of previously recorded impairment charges of $14.1 million was recorded for the three months ended June 30, 2021, representing the amount required to increase the carrying value of the Birch assets to the amount that would have been determined, net of depletion and amortization, had no impairment charges been recognized in prior periods.

The assets and liabilities associated with the sale have been presented as held for sale at June 30, 2021, as follows:

Property, plant and equipment, net	49,006
Exploration and evaluation	3,560
Assets held for sale	52,566
Asset retirement obligations	(3,602)
Liabilities associated with assets held for sale	(3,602)

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

3. Exploration and Evaluation

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Balance, beginning of period	612,129	650,414
Additions	4,747	3,294
Change in asset retirement provision	1,138	(724)
Transfers to property, plant and equipment	(3,821)	(8,735)
Expired lease costs	(19,440)	(25,585)
Dispositions (see Note 4)	(35,332)	(6,535)
Transfer to assets held for sale	(3,560)	–
Balance, end of period	555,861	612,129

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Geological and geophysical	1,797	1,921	3,575	4,525
Expired lease costs	327	9,595	19,440	18,921
	2,124	11,516	23,015	23,446

At June 30, 2021, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

4. Property, Plant and Equipment

Six months ended June 30, 2021	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, beginning of period	4,125,044	162,476	15,459	48,053	4,351,032
Additions	141,217	1,788	57	1,543	144,605
Transfers from exploration and evaluation	3,821	–	–	–	3,821
Dispositions	(50,617)	–	(137)	–	(50,754)
Change in asset retirement provision	92,250	–	–	–	92,250
Transfer to assets held for sale (see Note 2)	(122,318)	–	–	–	(122,318)
Cost, end of period	4,189,397	164,264	15,379	49,596	4,418,636
Accumulated depletion, depreciation and impairment					
Balance, beginning of period	(2,245,733)	(99,902)	(8,670)	(37,124)	(2,391,429)
Depletion and depreciation	(139,133)	(4,679)	(1,675)	(1,722)	(147,209)
Impairment reversals (see Note 2)	14,064	–	–	–	14,064
Dispositions	40,160	–	94	–	40,254
Transfer to assets held for sale (see Note 2)	73,312	–	–	–	73,312
Accumulated depletion, depreciation and impairment, end of period	(2,257,330)	(104,581)	(10,251)	(38,846)	(2,411,008)
Net book value, December 31, 2020	1,879,311	62,574	6,789	10,929	1,959,603
Net book value, June 30, 2021	1,932,067	59,683	5,128	10,750	2,007,628

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

Depletion, Depreciation and Net Impairment

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Depletion and depreciation	**71,934**	61,339	**145,077**	134,476
Change in asset retirement obligations	**42,002**	(529)	**111,536**	(95,357)
Impairment (reversal) of petroleum and natural gas assets	**(14,064)**	–	**(14,064)**	191,796
	99,872	60,810	**242,549**	230,915

In the first quarter of 2021, the Company sold certain properties in the Kaybob and Central Alberta CGUs for gross cash proceeds of approximately $80 million. A gain of $39.4 million was recognized on these sales.

For the six months ended June 30, 2021, the Company recorded a charge of $111.5 million (six months ended June 30, 2020 a recovery of $95.4 million) to earnings mainly related to changes in the discounted carrying value of estimated asset retirement obligations in respect of properties that had a nil carrying value ascribed to property, plant and equipment. The changes mainly resulted from a revision in the credit-adjusted risk-free rate used to discount obligations and also included a recovery for the six months ended June 30, 2021 of $2.5 million (twelve months ended December 31, 2020 - $4.4 million) in respect of funding under the Alberta site rehabilitation program (refer to Note 8).

At June 30, 2021, the Company assessed its property, plant and equipment assets for indicators of potential impairment or impairment reversal and none were identified.

At December 31, 2020, the Company recorded aggregate impairment reversals of $333.7 million from previously recorded impairment charges to petroleum and natural gas assets in the Kaybob, Northern and Central Alberta CGUs, comprised of $287.7 million, $30.6 million and $15.4 million, respectively. The impairment reversals resulted from an increase in the estimated recoverable amount of such CGUs compared to the prior impairment assessment performed at March 31, 2020. The increase in the estimated recoverable amount of these CGUs was mainly attributable to lower operating and capital costs than previously forecasted and changes in the development plan.

At March 31, 2020, the Company recorded impairments of $188.3 million and $3.5 million related to petroleum and natural gas assets in the Kaybob and Northern CGUs, respectively. The impairments were recorded because the carrying value of the CGUs exceeded their estimated recoverable amounts, which were estimated based on expected net cash flows from the production of proved plus probable reserves ascribed to each CGU. The impairments resulted from decreases in estimated future net revenues, mainly due to lower forecasted oil and natural gas prices.

For additional information on impairments and impairment reversals in 2020, refer to Note 5 of the Annual Financial Statements.

5. Dissent Payment Entitlement

As at	June 30, 2021	December 31, 2020
Dissent Payment Entitlement	**–**	89,250

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

Paramount held 85 million common shares of Strath Resources Ltd. ("Strath") prior to its amalgamation with Cona Resources Ltd. in August 2020 to form Strathcona Resources Ltd. ("Strathcona"). Paramount objected to the amalgamation and exercised its right of dissent under section 191 of the *Business Corporations Act* (Alberta) with respect to its Strath shares. As a result, the Company was entitled to be paid in cash the fair value of its Strath shares, determined as of the close of business on July 24, 2020 (the "Dissent Payment Entitlement").

In June 2021, Paramount received $67 million cash in settlement of the dissent proceedings and for the sale of its remaining securities in Strathcona. A loss of $22.6 million was recognized on the settlement.

6. Investments in Securities

As at	June 30, 2021	December 31, 2020
Level one fair value hierarchy securities ("Level One Securities")	**181,798**	48,425
Level three fair value hierarchy securities ("Level Three Securities")	**46,437**	11,104
	228,235	59,529

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of investments. Investments that are categorized as Level One Securities are carried at their period-end trading prices. Estimates of fair values for investments that are categorized as Level Three Securities are based on valuation techniques that incorporate unobservable inputs. The valuation techniques utilize market-based metrics of comparable companies and transactions, indications of value based on equity transactions of the entities and other indicators of value including financial and operating results of the entities. Fair value estimates of Level Three Securities are updated at each balance sheet date to confirm whether the carrying value of the investment continues to fall within a range of possible fair values indicated by such techniques.

For the three and six months ended June 30, 2021, the Company recorded $97.5 million and $167.7 million, respectively, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of investments in securities.

Changes in the fair value of investments in securities are as follows:

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Investments in securities, beginning of period	**59,529**	156,889
Changes in fair value of Level One Securities – recorded in OCI	**132,373**	(50,632)
Changes in fair value of Level Three Securities – recorded in OCI	**35,336**	32,547
Transfer to Dissent Payment Entitlement	**–**	(89,250)
Derecognition of Strathcona warrants – see Note 5	**(127)**	–
Changes in fair value of Strathcona warrants – recorded in earnings	**112**	(1,692)
Additions	**1,012**	11,667
Investments in securities, end of period	**228,235**	59,529

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

7. Long-Term Debt

As at	June 30, 2021	December 31, 2020
Paramount Facility (1)	575,322	813,491
Convertible Debentures	33,045	–
Long-term debt	608,367	813,491

(1) Paramount Facility presented net of $3.8 million in unamortized transaction costs (December 31, 2020 - $2.2 million).

Paramount Facility

In June 2021, the Company renewed its financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility").

The Paramount Facility currently has a size of $900 million, which can be increased to $1.0 billion at Paramount's request pursuant to an accordion feature in the facility, subject to incremental lender commitments. The maturity date of the facility is June 2, 2024. The Paramount Facility is secured by a charge over substantially all of the assets of the Company and its subsidiaries.

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, CDOR, or LIBOR, as selected by the Company, plus an applicable margin which varies based on the Company's Senior Secured Debt to Consolidated EBITDA ratio.

Paramount is subject to the following two financial covenants under the Paramount Facility which are tested at the end of each fiscal quarter and calculated on a trailing twelve-month basis:

- Senior Secured Debt to Consolidated EBITDA to be 3.50 to 1.00 or less; and
- Consolidated EBITDA to Consolidated Interest Expense to be 2.50 to 1.00 or greater.

Senior Secured Debt currently consists of amounts drawn on the Paramount Facility.

Consolidated EBITDA is adjusted for material acquisitions and dispositions and is generally calculated as net income before Consolidated Interest Expense, taxes, depletion, depreciation, amortization, impairment and exploration and evaluation expense and is also adjusted to exclude non-recurring items and other non-cash items including gains or losses on dispositions of oil and gas assets, unrealized mark-to-market amounts on derivatives, unrealized foreign exchange gains and losses, share-based compensation expense and accretion.

Consolidated Interest Expense is reduced by customary adjustments including interest income.

Paramount was in compliance with the financial covenants under the Paramount Facility at June 30, 2021.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling $2.3 million at June 30, 2021 that reduce the amount available to be drawn on the facility.

Unsecured Letter of Credit Facility

The Company has a $70 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Paramount's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada. In May 2021, the PSG was extended to June 30, 2022.

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

At June 30, 2021, $38.4 million in undrawn letters of credit were outstanding under the LC Facility (December 31, 2020 – $40.7 million).

Convertible Debentures

Six months ended June 30, 2021	Liability Component (1)	Equity Component
Balance, beginning of period	–	–
Issued, net of issue costs	32,746	2,176
Deferred taxes	–	(503)
Accretion	299	–
Balance, end of period	**33,045**	**1,673**

(1) For the six months ended June 30, 2021, total interest payments made in respect of the Convertible Debentures was $1.1 million.

In January 2021, the Company completed a private placement of $35.0 million of senior unsecured convertible debentures (the "Convertible Debentures"). An entity controlled by Paramount's President and Chief Executive Officer and Chairman purchased $25.0 million of the Convertible Debentures. The Convertible Debentures mature on January 31, 2024 (the "Maturity Date"), bear interest at 7.50 percent per annum payable monthly in arrears and are convertible by the holder into Common Shares at any time prior to the Maturity Date. At June 30, 2021, the conversion price of the debentures was $6.72 per Common Share if converted prior to January 31, 2022, $7.33 per Common Share if converted on or after January 31, 2022 and prior to January 31, 2023 and $7.94 per Common Share if converted on or after January 31, 2023. These prices are subject to customary anti-dilution adjustments.

The Convertible Debentures are redeemable by Paramount, in whole or in part, at any time prior to the Maturity Date, at a redemption price (expressed as percentages of principal amount) equal to 107.50 percent prior to January 31, 2022, 103.75 percent on or after January 31, 2022 and prior to January 31, 2023 and 101.875 percent on or after January 31, 2023.

The Convertible Debentures are treated as a compound financial instrument that contain a liability and an equity component and were initially recognized at fair value, net of issue costs of $0.1 million. The fair value of the liability component was initially recognized at the date of issuance using the effective interest method, discounted using the estimated interest rate of a debt instrument having similar terms but without a conversion feature. The fair value of the conversion feature was determined at the date of issuance as the difference between the principal amount and the fair value of the liability component at the date of issue, which has been classified within shareholders' equity.

The liability component of the Convertible Debentures is carried at amortized cost and is accreted over the term of the Convertible Debentures to the principal amount using the effective interest method. This accretion, along with interest on the Convertible Debentures, is recorded as interest and financing expense. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component will be reclassified to share capital should the Convertible Debentures be converted into Common Shares.

As at June 30, 2021, there were $35.0 million aggregate principal amount of Convertible Debentures outstanding.

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

8. Asset Retirement Obligations and Other

As at June 30, 2021	Current	Long-term	Total
Asset retirement obligations	23,000	605,988	628,988
Lease liabilities	10,382	6,415	16,797
Asset retirement obligations and other	**33,382**	**612,403**	**645,785**

As at December 31, 2020	Current	Long-term	Total
Asset retirement obligations	22,250	397,276	419,526
Lease liabilities	9,979	11,740	21,719
Asset retirement obligations and other	**32,229**	**409,016**	**441,245**

Asset Retirement Obligations

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Asset retirement obligations, beginning of period	419,526	569,897
Additions	730	507
Change in estimates	257	(7,605)
Change in discount rate	206,410	(145,178)
Obligations settled – cash	(11,502)	(34,994)
Obligations settled – funding under the Alberta site rehabilitation program	(2,474)	(4,423)
Dispositions	(1,924)	(2,036)
Accretion expense	21,567	43,358
Transfer to held for sale (see Note 2)	(3,602)	–
Asset retirement obligations, end of period	628,988	419,526

As at June 30, 2021, estimated undiscounted, uninflated asset retirement obligations were $1,299.6 million (December 31, 2020 – $1,351.7 million). Asset retirement obligations have been determined using a credit-adjusted risk-free discount rate of 7.0 percent (December 31, 2020 – 11.0 percent) and an inflation rate of 2.0 percent (December 31, 2020 – 2.0 percent).

Lease Liabilities

Paramount has lease liabilities in respect of office space and vehicles, which have been recognized at the discounted value of the remaining fixed lease payments. For the six months ended June 30, 2021, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were $4.2 million (June 30, 2020 – $4.4 million) of which $0.4 million (June 30, 2020 – $0.6 million) was recognized as interest and financing expense.

For the six months ended June 30, 2021, expenses related to arrangements containing variable operating costs, short-term and low value leases which have not been included in the lease liability were approximately $1.2 million (June 30, 2020 – $1.8 million).

As at June 30, 2021, $4.0 million (December 31, 2020 - $5.1 million) was due to the Company in respect of sublease arrangements for Paramount's office space, of which $2.4 million (December 31, 2020 - $2.3 million) was classified as current and $1.6 million (December 31, 2020 - $2.8 million) was classified as non-current. For the six months ended June 30, 2021, $1.3 million (June 30, 2020 - $1.3 million) was received in respect of office sublease arrangements, of which $0.1 million (June 30, 2020 - $0.2 million) was recognized as interest revenue.

9. Share Capital

As at June 30, 2021, 133,314,280 (December 31, 2020 – 132,284,323) class A common shares of the Company ("Common Shares") were outstanding, net of 1,537,817 (December 31, 2020 – 1,914,394) Common Shares held in trust under the restricted share unit plan.

In June 2021, Paramount implemented a monthly dividend program with respect to its Common Shares. The first dividend of $0.02 per Common Share was paid on July 30, 2021 to shareholders of record on July 15, 2021.

The Board of Directors has declared a dividend of $0.02 per Common Share that will be payable on August 31, 2021 to shareholders of record on August 16, 2021.

In June 2021, Paramount implemented a normal course issuer bid program (the "NCIB") under which the Company may purchase up to 7,308,743 Common Shares for cancellation. The NCIB will terminate on the earlier of June 29, 2022 and the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Purchases of Common Shares under the NCIB will be effected through the facilities of the TSX or alternative Canadian trading systems at the market price at the time of purchase. The Company has not purchased any Common Shares under the NCIB to date.

Weighted Average Common Shares

Three months ended June 30	2021		2020	
	Wtd. Avg. Shares (000's)	Net loss	*Wtd. Avg. Shares (000's)*	Net loss
Net loss – basic	*132,901*	(74,279)	*133,712*	(75,724)
Dilutive effect of Convertible Debentures	–	–	–	–
Dilutive effect of Paramount Options	–	–	–	–
Net loss – diluted	*132,901*	(74,279)	*133,712*	(75,724)

Six months ended June 30	2021		2020	
	Wtd. Avg. Shares (000's)	Net loss	*Wtd. Avg. Shares (000's)*	Net loss
Net loss – basic	*132,829*	(156,756)	*133,529*	(310,806)
Dilutive effect of Convertible Debentures	–	–	–	–
Dilutive effect of Paramount Options	–	–	–	–
Net loss – diluted	*132,829*	(156,756)	*133,529*	(310,806)

Outstanding stock options and Convertible Debentures that can be exchanged for the Company's Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. At June 30, 2021 there were 12.0 million options to acquire Common Shares ("Paramount Options") outstanding (June 30, 2020 – 10.6 million) and 5.2 million Common Shares that are currently issuable upon conversion of the Convertible Debentures, all of which were anti-dilutive.

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

10. Reserves

Six months ended June 30, 2021	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of period	(22,011)	(79,638)	167,083	65,434
Other comprehensive income, before tax	11,450	167,709	–	179,159
Deferred tax	(2,661)	(15,125)	–	(17,786)
Share-based compensation	–	–	2,417	2,417
Paramount Options exercised	–	–	(1,265)	(1,265)
Balance, end of period	**(13,222)**	**72,946**	**168,235**	**227,959**

11. Share-Based Compensation

Paramount Options

	Six months ended June 30, 2021		Twelve months ended December 31, 2020	
	Number	Weighted average exercise price ($/share)	*Number*	Weighted average exercise price ($/share)
Balance, beginning of period	*9,681,395*	6.91	*12,311,462*	12.16
Granted	*3,130,000*	16.19	*3,111,500*	3.82
Exercised (1)	*(653,380)*	6.88	*(2,000)*	7.28
Cancelled or forfeited	*(131,500)*	6.01	*(4,366,829)*	17.97
Expired	*(11,800)*	8.17	*(1,372,738)*	11.82
Balance, end of period	*12,014,715*	9.34	*9,681,395*	6.91
Options exercisable, end of period	*1,751,691*	10.82	*2,416,871*	9.74

(1) For Paramount Options exercised during the six months ended June 30, 2021, the weighted average market price of Paramount's Common Shares on the dates exercised was $10.99 per share (twelve months ended December 31, 2020 – $7.77 per share).

The grant date fair value of Paramount Options and related weighted average inputs, estimated using the Black-Scholes-Merton model, are as follows:

	Options awarded in 2021
Weighted average exercise price ($ / share)	16.19
Volatility (%)	44
Expected life of share options (years)	4.3
Pre-vest annual forfeiture rate (%)	12.8
Risk-free interest rate (%)	0.8
Expected dividend yield (%)	1.5
Weighted average fair value of awards ($ / option)	5.16

The expected life of Paramount Options is based on historical exercise patterns. Volatility is generally estimated based on the historical volatility of the trading price of the Company's Common Shares over the most recent period that is commensurate with the expected term of the option, and is normalized for significant transactions and other factors.

Restricted Share Unit Plan – Shares Held in Trust

	Six months ended June 30, 2021		Twelve months ended December 31, 2020	
	Shares (000's)		*Shares (000's)*	
Balance, beginning of period	*1,915*	1,484	*860*	1,388
Shares purchased	*1,088*	10,691	*1,600*	4,081
Change in vested and unvested shares	*(1,465)*	(7,458)	*(545)*	(3,985)
Balance, end of period	*1,538*	4,717	*1,915*	1,484

12. Income Tax

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

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Loss before tax	**(92,256)**	(89,346)	**(196,858)**	(217,712)
Effective Canadian statutory income tax rate	**23.1%**	25.1%	**23.1%**	25.1%
Expected income tax recovery	**(21,311)**	(22,426)	**(45,474)**	(54,646)
Effect on income taxes of:				
Change in statutory and other rates	**85**	4,218	**1,185**	8,713
Loss on dissent payment entitlement	**2,610**	–	**2,610**	–
Change in unrecognized deferred income tax asset	**424**	4,292	**(545)**	134,252
Share-based compensation	**285**	101	**558**	618
Loss on sale of oil and gas assets	**–**	411	**–**	411
Flow-through share renunciations	**–**	–	**–**	3,617
Non-deductible items and other	**(70)**	(218)	**1,564**	129
Income tax expense (recovery)	**(17,977)**	(13,622)	**(40,102)**	93,094

For the three months ended June 30, 2021 the Company recognized $82.0 million of deductible temporary differences for which no deferred income tax asset had been previously recorded as a result of taxable temporary differences arising in the period in respect of investments in securities. The deferred income tax asset was increased by $9.5 million, the tax effected amount of such temporary differences, and the accumulated deficit was reduced by a corresponding amount as the previously unrecognized temporary differences relate to disposed or derecognized investments in securities.

13. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at June 30, 2021 consist of accounts receivable, risk management assets and liabilities, investments in securities, accounts payable, the Paramount Facility and Convertible Debentures. The carrying values of these financial instruments, other than the Convertible Debentures, approximate their fair values. The Convertible Debentures are a compound financial instrument and are described further in Note 7.

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

Risk Management

Assets

As at	June 30, 2021	December 31, 2020
Electricity swaps – current	812	408
Risk management asset	812	408

Liabilities

As at	June 30, 2021	December 31, 2020
Interest rate swaps – current	(9,320)	(9,616)
Financial commodity contracts – current	(92,741)	(22,665)
Risk management – current	(102,061)	(32,281)
Interest rate swaps – long-term	(8,691)	(19,441)
Risk management liability	(110,752)	(51,722)

From time-to-time, Paramount enters into derivative financial instruments to manage commodity price, interest rate and foreign currency exchange risks.

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

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

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	408	6,062
Changes in fair value – financial commodity contract assets	–	31,539
Changes in fair value – electricity swaps	1,454	408
Settlements received – financial commodity contract assets	–	(37,601)
Settlements received – electricity swaps	(1,050)	–
Fair value, end of period	812	408

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

	Six months ended June 30, 2021	Twelve months ended December 31, 2020
Fair value, beginning of period	(51,722)	(8,032)
Changes in fair value – interest rate swaps	6,204	(26,608)
Changes in fair value – financial commodity contract liabilities	(156,895)	(22,665)
Settlements paid – interest rate swaps	4,842	5,583
Settlements paid – financial commodity contract liabilities	86,819	–
Fair value, end of period	(110,752)	(51,722)

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

The Company had the following financial commodity contracts at June 30, 2021:

Instruments	Aggregate notional	Average fixed price	Fair value	Remaining term
Oil – NYMEX WTI Swaps (Sale)	3,000 Bbl/d	CDN$64.67/Bbl	(6,920)	July 2021 – September 2021
Oil – NYMEX WTI Swaps (Sale)	15,000 Bbl/d	US$45.87/Bbl	(45,490)	July 2021 – September 2021
Oil – NYMEX WTI Swaps (Sale)	10,000 Bbl/d	US$45.82/Bbl	(27,370)	October 2021 – December 2021
Gas – NYMEX Swaps (Sale)	60,000 MMBtu/d	US$2.71/MMBtu	(12,961)	July 2021 – December 2021
			(92,741)	

Subsequent to June 30, 2021, the Company entered into the following financial commodity contracts:

Instruments	Aggregate notional	Average fixed price	Remaining term
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$88.45/Bbl	October 2021 – December 2021
Oil – NYMEX WTI Swaps (Sale)	6,000 Bbl/d	CDN$85.88/Bbl	January 2022 – March 2022
Gas – NYMEX Swaps (Sale)	20,000 MMBtu/d	US$4.10/MMBtu	October 2021 – March 2022

The Company had the following floating-to-fixed interest rate and electricity swaps at June 30, 2021:

Contract type	Aggregate Notional	Remaining term	Average fixed contract rate	Reference	Fair value
Interest Rate Swaps	$250 million	July 2021 - January 2023	2.3%	CDOR (1)	(6,351)
Interest Rate Swaps	$250 million	July 2021 - January 2026	2.4%	CDOR (1)	(11,660)
Electricity Swaps (Buy)	5 MWh (2)	July 2021 - December 2021	$51.68/MWh	AESO Pool Price (3)	812
					(17,199)

(1) Canadian Dollar Offered Rate.
(2) "MWh" means MegaWatt per hour for the remaining term.
(3) Floating hourly rate established by the Alberta Electric System Operator.

Subsequent to June 30, 2021, the Company entered into the following electricity swap contract:

Contract type	Aggregate notional	Remaining term	Average fixed contract rate	Reference
Electricity Swaps (Buy)	5 MWh (1)	January 2023 - December 2023	$62.50/MWh	AESO Pool Price (2)

(1) "MWh" means MegaWatt per hour for the remaining term.
(2) Floating hourly rate established by the Alberta Electric System Operator.

The Company classified its floating-to-fixed interest rate swaps and electricity swaps as cash flow hedges and has applied hedge accounting. As at June 30, 2021, there were no changes to the critical terms of the hedging relationship and no hedge ineffectiveness was identified.

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

14. Revenue By Product

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Natural gas	74,838	44,659	152,114	98,262
Condensate and oil	209,577	60,335	395,506	171,777
Other natural gas liquids	14,430	4,266	29,456	8,709
Royalty and other	857	3,914	2,491	6,516
Royalties	(24,950)	(3,599)	(43,569)	(15,282)
	274,752	109,575	535,998	269,982

15. Other Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Change in fair value of securities - warrants	–	3,189	112	1,640
Provision	(16,500)	–	(24,000)	(4,669)
Other	430	(1,758)	(73)	(1,574)
	(16,070)	1,431	(23,961)	(4,603)

For the six months ended June 30, 2021, the Company recorded a provision of $24.0 million with respect to arrangements with a service provider. The Company has unsettled claims of a greater amount against the same service provider with respect to certain related matters which have not been recognized. The outcome of all of these matters remains uncertain.

16. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Financial commodity contracts	21,568	20,100	70,077	(15,243)
Share-based compensation	2,121	557	8,093	571
Depletion, depreciation and net impairment	99,872	60,810	242,549	230,915
Exploration and evaluation	327	9,595	19,440	18,921
(Gain) loss on sale of oil and gas assets	1,587	3,086	(39,808)	780
Accretion of asset retirement obligations	10,791	10,672	21,567	21,142
Settlement of dissent payment entitlement	22,595	–	22,595	–
Foreign exchange	154	331	44	281
Change in fair value of securities - warrants	–	(3,189)	(112)	(1,640)
Deferred income tax	(17,977)	(13,622)	(40,102)	93,094
Other	904	1,131	1,816	2,225
	141,942	89,471	306,159	351,046

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

Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Interest paid	10,148	7,951	23,936	15,573

Components of Cash and Cash Equivalents

As at	June 30, 2021	December 31, 2020
Cash	1,977	4,590
Cash equivalents	–	–
	1,977	4,590

17. Commitments and Contingencies

Commitments – Physical Sale Contracts

The Company had the following AECO natural gas fixed-price physical contracts at June 30, 2021:

Quantity	Location	Average fixed price	Remaining term
50,000 GJ/d	AECO	CDN$2.52/GJ	July 2021 – October 2021
50,000 GJ/d	AECO	CDN$2.51/GJ	July 2021 – December 2021

Subsequent to June 30, 2021, the Company entered into the following AECO natural gas fixed-price physical contracts:

Quantity	Location	Average fixed price	Remaining term
20,000 GJ/d	AECO	CDN$4.00/GJ	October 2021 – December 2021
20,000 GJ/d	AECO	CDN$4.02/GJ	January 2022 – March 2022

Contingencies

In the normal course of Paramount's operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Paramount does not anticipate that these claims will have a material impact on its financial position.

Tax and royalty legislation and regulations, and government interpretation and administration thereof, continually change. As a result, there are often tax and royalty matters under review by relevant government authorities. All tax and royalty filings are subject to subsequent government audit and potential reassessments. Accordingly, the final amounts may differ materially from amounts estimated and recorded.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

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

P. R. Kinvig
Chief Financial Officer

B. K. Lee
Executive Vice President, Finance

E. M. Shier
General Counsel and Vice President, Land

D. B. Reid
Executive Vice President, Operations

R. R. Sousa
Executive Vice President, Corporate Development and Planning

J. B. Williams
Executive Vice President, Kaybob Region

DIRECTORS

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

J. G. M. Bell (1) (3) (4)
President and Chief Executive Officer
Founders Advantage Capital Corp.
Calgary, Alberta

W. A. Gobert (3) (4) (5)
Independent Businessman
Calgary, Alberta

D. Jungé C.F.A. (2) (4)
Independent Businessman
Bryn Athyn, Pennsylvania

K. Lynch Proctor (1) (4) (5)
Independent Businesswoman
Calgary, Alberta

R. M. MacDonald (1) (3) (4)
Independent Businessman
Oakville, Ontario

R. K. MacLeod (2) (4) (5)
Independent Businessman
Calgary, Alberta

S. L. Riddell Rose
President and Chief Executive Officer
Perpetual Energy Inc.
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
(5) Member of Reserves Committee

CORPORATE OFFICE

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Facsimile: (403) 262-7994
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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

RESERVES EVALUATORS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
(“POU”)