Interim Condensed Consolidated Financial Statements (Unaudited)
As at and for the three months ended March 31, 2022

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ millions)

As at	Note	March 31 2022	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents	14	**1.5**	1.7
Accounts receivable		**210.0**	141.9
Risk management – current	11	**1.8**	5.8
Prepaid expenses and other		**8.4**	7.3
		221.7	156.7
Lease receivable	6	**–**	0.5
Investments in securities	4	**479.2**	372.1
Risk management – long-term	11	**4.3**	0.7
Exploration and evaluation	2	**534.0**	539.9
Property, plant and equipment, net	3	**2,338.5**	2,269.7
Deferred income tax	10	**517.8**	545.5
		4,095.5	3,885.1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**276.3**	219.1
Risk management – current	11	**99.3**	6.5
Asset retirement obligations and other – current	6	**28.7**	30.4
		404.3	256.0
Long-term debt	5	**302.6**	386.3
Risk management – long-term	11	**–**	3.1
Asset retirement obligations and other – long-term	6	**636.4**	633.3
		1,343.3	1,278.7
Commitments and contingencies	16		
Shareholders' equity			
Share capital	7	**2,260.5**	2,251.9
Accumulated deficit		**(16.0)**	(15.5)
Reserves	8	**507.7**	370.0
		2,752.2	2,606.4
		4,095.5	3,885.1

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ millions, except as noted)

Three months ended March 31	Note	2022	2021
Petroleum and natural gas sales		499.6	280.1
Royalties		(76.2)	(18.6)
Sales of commodities purchased		48.8	8.6
Revenue	12	472.2	270.1
Loss on risk management contracts	11	(152.0)	(81.2)
		320.2	188.9
Expenses			
Operating expense		89.2	84.3
Transportation and NGLs processing		31.3	27.9
Commodities purchased		49.1	8.8
General and administrative		9.3	8.7
Share-based compensation	9	7.5	6.0
Depletion and depreciation	3	79.3	142.6
Exploration and evaluation	2	16.0	20.9
Gain on sale of oil and gas assets	3	(1.7)	(41.4)
Interest and financing		4.7	16.7
Accretion of asset retirement obligations	6	10.8	10.8
Other	13	0.8	8.2
		296.3	293.5
Income (loss) before tax		23.9	(104.6)
Income tax expense (recovery)			
Deferred	10	7.3	(22.1)
		7.3	(22.1)
Net income (loss)		16.6	(82.5)
Other comprehensive income (loss), net of tax	8		
Items that will be reclassified to net income (loss)			
Change in fair value of cash flow hedges, net of tax		6.9	5.4
Reclassification to net income (loss), net of tax		1.5	1.6
Items that will not be reclassified to net income (loss)			
Change in fair value of securities, net of tax	4	140.2	66.0
Comprehensive income (loss)		165.2	(9.5)
Net income (loss) per common share ($/share)	7		
Basic		0.12	(0.62)
Diluted		0.11	(0.62)

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ millions, except as noted)

Three months ended March 31	Note	2022	2021
Operating activities			
Net income (loss)		16.6	(82.5)
Add (deduct):			
Items not involving cash	14	218.6	164.3
Asset retirement obligations settled	6	(14.8)	(8.4)
Change in non-cash working capital		(45.5)	7.9
Cash from operating activities		174.9	81.3
Financing activities			
Net repayment of revolving long-term debt	5	(84.3)	(134.4)
Lease liabilities – principal repayments	6	(2.0)	(1.9)
Convertible debentures issued, net of issue costs	5	–	34.9
Dividends	7	(28.2)	–
Common shares issued, net of issue costs	9	6.0	3.3
Cash used in financing activities		(108.5)	(98.1)
Investing activities			
Capital expenditures	2,3	(117.0)	(59.3)
Land and property acquisitions	2,3	(29.2)	–
Proceeds of disposition	3,4	51.3	79.6
Change in non-cash working capital		28.5	(0.8)
Cash from (used in) investing activities		(66.4)	19.5
Net increase (decrease)		–	2.7
Foreign exchange on cash and cash equivalents		(0.2)	0.1
Cash and cash equivalents, beginning of period		1.7	4.6
Cash and cash equivalents, end of period		1.5	7.4

See the accompanying notes to these Interim Condensed Consolidated Financial Statements

Supplemental cash flow information 14

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

($ millions, except as noted)

Three months ended March 31	Note	2022		2021	
		Shares (millions)		*Shares (millions)*	
Share capital					
Balance, beginning of period		***139.2***	**2,251.9**	*132.3*	2,207.4
Issued on exercise of Paramount Options		***0.8***	**7.9**	*0.5*	4.2
Change in Common Shares for restricted share unit plan	9	**–**	**0.7**	–	0.6
Balance, end of period		***140.0***	**2,260.5**	*132.8*	2,212.2
Accumulated deficit					
Balance, beginning of period			**(15.5)**		(235.1)
Net income (loss)			**16.6**		(82.5)
Dividends			**(28.2)**		–
Reclassification of accumulated gain on securities	4		**11.1**		–
Balance, end of period			**(16.0)**		(317.6)
Equity component of convertible debentures					
Balance, beginning of period			**–**		–
Issued			**–**		1.7
Balance, end of period			**–**		1.7
Reserves	8				
Balance, beginning of period			**370.0**		65.5
Other comprehensive income			**148.6**		73.0
Contributed surplus			**0.2**		0.2
Reclassification of accumulated gain on securities	4		**(11.1)**		–
Balance, end of period			**507.7**		138.7
Total Shareholders' Equity			**2,752.2**		2,035.0

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. 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 months ended March 31, 2022 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 3, 2022.

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, 2021 (the "Annual Financial Statements"). Certain comparative figures have been reclassified to conform to the current year's presentation.

These Interim Financial Statements are stated in millions 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.

2. Exploration and Evaluation

	Three months ended March 31, 2022	Twelve months ended December 31, 2021
Balance, beginning of period	539.9	612.1
Additions	0.1	1.3
Land acquisitions	6.4	8.9
Change in asset retirement provision	1.0	1.3
Transfers to property, plant and equipment	–	(14.0)
Expired lease costs	(13.4)	(29.8)
Dry hole	–	(1.1)
Dispositions	–	(38.8)
Balance, end of period	534.0	539.9

Exploration and Evaluation Expense

Three months ended March 31	2022	2021
Geological and geophysical expense	2.6	1.6
Expired lease costs	13.4	19.3
	16.0	20.9

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

At March 31, 2022, the Company assessed its exploration and evaluation assets for indicators of potential impairment or impairment reversal and none were identified.

3. Property, Plant and Equipment

Three months ended March 31, 2022	Petroleum and natural gas assets	Drilling rigs	Right-of-use assets	Other	Total
Cost					
Balance, beginning of period	4,317.6	167.1	16.1	50.7	**4,551.5**
Additions	116.6	0.9	0.1	0.8	**118.4**
Land and property acquisitions	24.4	–	–	–	**24.4**
Dispositions	(1.4)	–	–	–	**(1.4)**
Change in asset retirement provision	0.5	–	–	–	**0.5**
Cost, end of period	4,457.7	168.0	16.2	51.5	**4,693.4**
Accumulated depletion and depreciation					
Balance, beginning of period	(2,119.6)	(109.5)	(11.7)	(41.0)	**(2,281.8)**
Depletion and depreciation	(69.7)	(2.5)	(0.8)	(0.7)	**(73.7)**
Dispositions	0.6	–	–	–	**0.6**
Accumulated depletion and depreciation	(2,188.7)	(112.0)	(12.5)	(41.7)	**(2,354.9)**
Net book value, December 31, 2021	2,198.0	57.6	4.4	9.7	**2,269.7**
Net book value, March 31, 2022	2,269.0	56.0	3.7	9.8	**2,338.5**

Effective January 1, 2022, Northern cash-generating unit ("CGU") petroleum and natural gas assets were combined with the Central Alberta CGU to form the Central Alberta and Other CGU.

In the first quarter of 2021, the Company sold certain non-core properties in the Kaybob and Central Alberta and Other CGUs for gross cash proceeds of approximately $80 million. A gain of $41.4 million was recognized on these sales.

Depletion and Depreciation

Three months ended March 31	2022	2021
Depletion and depreciation	**72.6**	73.1
Change in asset retirement obligations	**11.5**	71.2
Alberta site rehabilitation program funding	**(4.8)**	(1.7)
	79.3	142.6

At March 31, 2022, the Company assessed its property, plant and equipment assets for indicators of potential impairment and none were identified.

For the three months ended March 31, 2022, the Company recorded a charge of $11.5 million (March 31, 2021 – $71.2 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. In the first quarter of 2022, the changes resulted from revisions to the estimated costs. The changes in 2021 were primarily due to revisions in the credit-adjusted risk-free rate used to discount obligations.

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

4. Investments in Securities

As at	March 31, 2022	December 31, 2021
Level one fair value hierarchy securities ("Level One Securities")	402.8	300.2
Level three fair value hierarchy securities ("Level Three Securities")	76.4	71.9
	479.2	372.1

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, indicators 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 months ended March 31, 2022, the Company recorded $158.1 million, before tax, to other comprehensive income ("OCI") as a result of changes in the fair value estimates of its investments in securities.

Paramount sold a portion of its Level One Securities in the first quarter of 2022 for cash proceeds of $51.0 million, resulting in $11.1 million of accumulated gains, net of tax, being reclassified from reserves to accumulated deficit.

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

	Three months ended March 31, 2022	Twelve months ended December 31, 2021
Investments in securities, beginning of period	372.1	59.5
Changes in fair value of Level One Securities	153.6	256.0
Changes in fair value of Level Three Securities	4.5	60.8
Acquired	–	1.0
Proceeds of dispositions	(51.0)	(5.2)
Investments in securities, end of period	479.2	372.1

5. Long-Term Debt

As at	March 31, 2022	December 31, 2021
Paramount Facility (1)	302.6	386.3

(1) Presented net of $2.4 million in unamortized transaction costs (December 31, 2021 - $2.8 million).

Paramount Facility

Paramount was in compliance with the financial covenants under its financial covenant-based senior secured revolving bank credit facility (the "Paramount Facility") at March 31, 2022.

The Company had undrawn letters of credit outstanding under the Paramount Facility totaling $2.3 million at March 31, 2022 that reduce the amount available to be drawn on the facility.

In May 2022, the Company increased the capacity and extended the maturity date of the Paramount Facility.

The Paramount Facility has a credit limit of $1.0 billion, which can be increased by up to $250 million 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 May 3, 2026.

Borrowings under the Paramount Facility bear interest at the prime lending rate, US base rate, CDOR, or Adjusted Term SOFR, as selected by the Company, plus an applicable margin which varies based on the Company's Senior Secured Debt to Consolidated EBITDA ratio. The Paramount Facility is secured by a charge over substantially all of the assets of the Company and its subsidiaries.

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.

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 ("EDC"). The PSG is valid to June 30, 2022 and may be extended from time-to-time with the agreement of EDC. At March 31, 2022, $26.9 million in undrawn letters of credit were outstanding under the LC Facility (December 31, 2021 – $38.7 million).

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

6. Asset Retirement Obligations and Other

As at March 31, 2022	Current	Long-term	Total
Asset retirement obligations	19.4	635.7	**655.1**
Lease liabilities	9.3	0.7	**10.0**
Asset retirement obligations and other	**28.7**	**636.4**	**665.1**

As at December 31, 2021	Current	Long-term	Total
Asset retirement obligations	20.4	630.7	651.1
Lease liabilities	10.0	2.6	12.6
Asset retirement obligations and other	**30.4**	**633.3**	**663.7**

Asset Retirement Obligations

	Three months ended March 31, 2022	Twelve months ended December 31, 2021
Asset retirement obligations, beginning of period	**651.1**	419.5
Additions	**0.6**	1.3
Change in estimates	**12.4**	23.8
Change in discount rate	**–**	206.4
Obligations settled – cash	**(14.8)**	(25.4)
Obligations settled – funding under Alberta site rehabilitation program	**(4.8)**	(9.7)
Dispositions	**(0.2)**	(7.4)
Accretion expense	**10.8**	42.6
Asset retirement obligations, end of period	**655.1**	651.1

As at March 31, 2022, estimated undiscounted, uninflated asset retirement obligations were $1,313.9 million (December 31, 2021 – $1,318.7 million). Asset retirement obligations have been determined using a credit-adjusted risk-free discount rate of 7.0 percent (December 31, 2021 – 7.0 percent) and an inflation rate of 2.0 percent (December 31, 2021 – 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 three months ended March 31, 2022, total cash payments made in respect of these lease liabilities, net of sublease arrangements, were $2.1 million, (March 31, 2021 – $2.1 million) of which $0.1 million (March 31, 2021 – $0.2 million) was recognized in interest and financing expense.

For the three months ended March 31, 2022, 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 $0.6 million (March 31, 2021 – $0.6 million).

As at March 31, 2022, $2.2 million (December 31, 2021 – $2.7 million) was receivable by the Company in respect of sublease arrangements for Paramount's office space, of which $2.1 million (December 31, 2021 – $2.2 million) was classified as current and $nil (December 31, 2021 – $0.5 million) was classified as non-current. For the three months ended March 31, 2022, $0.6 million (March 31, 2021 – $0.6 million) was received in respect of office sublease arrangements, of which $nil (March 31, 2021 – $0.1 million) was recognized in interest revenue.

7. Share Capital

As at March 31, 2022, 140.0 million (December 31, 2021 – 139.2 million) class A common shares of Paramount ("Common Shares") were outstanding, net of 1.5 million (December 31, 2021 – 1.5 million) Common Shares held in trust under the Company's restricted share unit plan.

Dividends declared for the three months ended March 31, 2022 totaled $28.2 million or $0.20 per Common Share. Subsequent to March 31, 2022, the Company paid a regular monthly dividend of $11.3 million, or $0.08 per Common Share.

In June 2021, Paramount implemented a normal course issuer bid (the "NCIB") under which the Company may purchase up to 7.3 million 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 Toronto Stock Exchange or alternative Canadian trading systems at the market price at the time of purchase. The Company has repurchased and cancelled 197,500 Common Shares at a total cost of $2.7 million under the NCIB. No shares were purchased under the NCIB during the three months ended March 31, 2022.

Weighted Average Common Shares

Three months ended March 31	2022		2021	
	Wtd. Avg. Shares (millions)	**Net income**	*Wtd. Avg. Shares (millions)*	Net loss
Net income (loss) – basic	***139.5***	**16.6**	*132.5*	(82.5)
Dilutive effect of Convertible Debentures	**–**	**–**	–	–
Dilutive effect of Paramount Options	***6.3***	**–**	–	–
Net income (loss) – diluted	***145.8***	**16.6**	*132.5*	(82.5)

Outstanding options to acquire Common Shares ("Paramount Options") that can be exchanged for Common Shares are potentially dilutive and are included in Paramount's diluted per share calculations when they are dilutive to net income per share. Convertible debentures that were outstanding in 2021 were also potentially dilutive and were included in Paramount's diluted per share calculations in 2021 when they were dilutive to net income per share. All $35.0 million of the Company's senior unsecured convertible debentures ("Convertible Debentures") were converted into Common Shares in the fourth quarter of 2021, which resulted in the issuance of 5.2 million Common Shares.

For the three months ended March 31, 2022, 0.1 million Paramount Options were anti-dilutive (March 31, 2021 – 9.2 million Paramount Options and 5.2 million Common Shares that were issuable upon conversion of the Convertible Debentures were anti-dilutive).

8. Reserves

Three months ended March 31, 2022	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on securities	Contributed surplus	Total reserves
Balance, beginning of period	(5.3)	204.5	170.8	**370.0**
Other comprehensive income, before tax	10.9	158.1	–	**169.0**
Deferred tax	(2.5)	(17.9)	–	**(20.4)**
Reclassification of accumulated gain on securities, net of tax (see Note 4)	–	(11.1)	–	**(11.1)**
Share-based compensation	–	–	2.0	**2.0**
Paramount Options exercised	–	–	(1.8)	**(1.8)**
Balance, end of period	**3.1**	**333.6**	**171.0**	**507.7**

9. Share-Based Compensation

Paramount Options

	Three months ended March 31, 2022		Twelve months ended December 31, 2021	
	Paramount Options (millions)	Weighted average exercise price ($/share)	*Paramount Options (millions)*	Weighted average exercise price ($/share)
Balance, beginning of period	***11.0***	**9.55**	*9.7*	6.91
Granted	***0.1***	**25.62**	*3.2*	16.31
Exercised [(1)]	***(0.8)***	**8.06**	*(1.5)*	7.03
Cancelled or forfeited	**–**	**–**	*(0.3)*	8.49
Expired	**–**	**–**	*(0.1)*	15.97
Balance, end of period	***10.3***	**9.72**	*11.0*	9.55
Options exercisable, end of period	***2.0***	**9.67**	*2.7*	9.23

(1) For Paramount Options exercised during the three months ended March 31, 2022, the weighted average market price of Common Shares on the dates exercised was $28.30 per share (twelve months ended December 31, 2021 - $17.05 per share).

Restricted Share Unit Plan – Shares Held in Trust

	Three months ended March 31, 2022		Twelve months ended December 31, 2021	
	Shares (millions)		*Shares (millions)*	
Balance, beginning of period	***1.5***	**3.5**	*1.9*	1.5
Shares purchased	**–**	**–**	*1.1*	10.8
Change in vested and unvested shares	**–**	**(0.7)**	*(1.5)*	(8.8)
Balance, end of period	***1.5***	**2.8**	*1.5*	3.5

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

10. Income Tax

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

Three months ended March 31	**2022**	**2021**
Income (loss) before tax	**23.9**	(104.6)
Effective Canadian statutory income tax rate	**23.0%**	23.1%
Expected income tax expense (recovery)	**5.5**	(24.2)
Effect on income taxes of:		
Change in statutory and other rates	**1.1**	1.1
Share-based compensation	**0.5**	0.3
Change in unrecognized deferred income tax asset	**0.3**	(1.0)
Non-deductible items and other	**(0.1)**	1.7
Income tax expense (recovery)	**7.3**	(22.1)

11. Financial Instruments and Risk Management

Financial Instruments

Financial instruments at March 31, 2022 consist of accounts receivable, risk management assets and liabilities, investments in securities, accounts payable and the Paramount Facility. The carrying values of these financial instruments approximate their fair values.

Risk Management

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.

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

Changes in the fair value of risk management assets and liabilities for the three months ended March 31, 2022 are as follows:

Three months ended March 31, 2022	Financial commodity contracts	Foreign currency exchange contracts	Interest rate swaps	Electricity swaps	Total
Fair value of asset (liability), December 31, 2021	5.4	0.4	(9.6)	0.7	**(3.1)**
Changes in fair value – profit or loss (1)	(153.1)	1.1	0.6	–	**(151.4)**
Changes in fair value – OCI	–	–	9.1	0.3	**9.4**
Risk management contract settlements paid (received) (2)	49.8	(0.1)	2.2	–	**51.9**
Fair value of asset (liability), March 31, 2022	(97.9)	1.4	2.3	1.0	**(93.2)**
Risk management asset – current	–	1.4	–	0.4	**1.8**
Risk management asset – long-term	–	–	3.7	0.6	**4.3**
Risk management asset, March 31, 2022	–	1.4	3.7	1.0	**6.1**
Risk management liability – current	(97.9)	–	(1.4)	–	**(99.3)**
Risk management liability, March 31, 2022	(97.9)	–	(1.4)	–	**(99.3)**

(1) Changes in fair value of ($152.0) million related to financial commodity and foreign currency exchange contracts are recorded as loss on risk management contracts. Changes in fair value of $0.6 million related to hedge ineffectiveness on interest rate swaps are recorded in interest and financing expense.
(2) Payments on risk management contract settlements related to financial commodity and foreign currency exchange contracts totaled $49.7 million. Risk management contract settlements relating to interest rate swap and electricity swap contracts, where hedge accounting is applied, are recorded in interest and financing and operating expense, respectively.

The Company had the following risk management contracts as at March 31, 2022:

Instruments	Aggregate amount / notional	Average price or rate	Remaining term
Financial Commodity Contracts (1)			
Oil – NYMEX WTI Swaps (Sale)	3,500 Bbl/d	US$75.79/Bbl	April 2022 – December 2022
Oil – NYMEX WTI Swaps (Sale)	3,500 Bbl/d	CDN$91.38/Bbl	April 2022 – December 2022
Oil – NYMEX WTI Collars	7,000 Bbl/d	CDN$82.50/Bbl (Floor) CDN$100.47/Bbl (Ceiling)	April 2022 – December 2022
Gas – NYMEX Swaps (Sale)	30,000 MMBtu/d	US$4.62/MMBtu	April 2022 – June 2022
Gas – NYMEX Swaps (Sale)	30,000 MMBtu/d	US$4.67/MMBtu	July 2022 – September 2022
Gas – NYMEX Swaps (Sale)	10,000 MMBtu/d	US$4.91/MMBtu	October 2022
Foreign Currency Exchange Contracts			
Forwards	US$5 million / month	1.27 C$ / US$1.00	April 2022 – December 2022
Collars	US$5 million / month	1.25 C$ / US$1.00 (Floor) 1.30 C$ / US$1.00 (Ceiling)	April 2022 – November 2022
Interest Rate Contracts (2)			
Swaps	$250 million	2.3%	April 2022 – January 2023
Swaps	$250 million	2.4%	April 2022 – January 2026
Electricity Contracts (3)			
Swaps	120 MWh/d (4)	$62.50/MWh	January 2023 – December 2023
Swaps	120 MWh/d (4)	$53.25/MWh	January 2024 – December 2024

(1) "WTI" means West Texas Intermediate and "NYMEX" means New York Mercantile Exchange.
(2) Reference interest rate: Canadian Dollar Offered Rate.
(3) Reference electricity rate: Floating hourly rate established by the Alberta Electric System Operator ("AESO Pool Price").
(4) "MWh" means megawatt-hour.

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

The Company has classified its floating-to-fixed interest and electricity swaps as cash flow hedges and applied hedge accounting. At March 31, 2022, $250 million (December 31, 2021 – $150 million) of the $500 million floating-to-fixed interest rate swaps were de-designated as cash flow hedges due to declines in borrowings under the Paramount Facility, resulting in $0.3 million (December 31, 2021 – $1.9 million) of unrealized losses being reclassified from other comprehensive income to interest and financing expense. There were no other changes to the critical terms of the hedging relationships and no hedge ineffectiveness was identified on the floating-to-fixed electricity swaps.

Subsequent to March 31, 2022, the Company entered into the following foreign currency exchange contracts:

	Aggregate amount	Average rate	Remaining term
Foreign currency exchange forwards	US$10 million / month	1.2813 C$ / US$1.00	May 2022 – December 2022
Foreign currency exchange forwards	US$5 million / month	1.2850 C$ / US$1.00	May 2022 – March 2023
Foreign currency exchange swaps	US$10 million / month	1.2888 C$ / US$1.00	May 2022 – March 2023
Foreign currency exchange forwards	US$5 million / month	1.2900 C$ / US$1.00	January 2023 – March 2023

12. Revenue By Product

Three months ended March 31	2022	2021
Natural gas	**127.1**	77.3
Condensate and oil	**331.9**	185.9
Other natural gas liquids	**29.3**	15.0
Royalty and other	**11.3**	1.9
Royalties	**(76.2)**	(18.6)
Sales of commodities purchased	**48.8**	8.6
	472.2	270.1

Royalty and other revenue for the three months ended March 31, 2022 includes $10.6 million in respect of the Company’s business interruption insurance claim arising from outages that occurred at a third-party natural gas processing facility in 2020 and 2021.

Paramount purchases commodities from third parties from time-to-time to fulfill sales commitments and for its blending operations. These transactions are presented as separate revenue and expense items in the statements of comprehensive income (loss).

13. Other

Three months ended March 31	2022	2021
Provisions	**–**	7.5
Other	**0.8**	0.7
	0.8	8.2

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

14. Consolidated Statement of Cash Flows - Selected Information

Items Not Involving Cash

Three months ended March 31	2022	2021
Risk management contracts	102.3	48.5
Share-based compensation	7.5	6.0
Depletion and depreciation	79.3	142.6
Exploration and evaluation	13.4	19.1
Gain on sale of oil and gas assets	(1.7)	(41.4)
Accretion of asset retirement obligations	10.8	10.8
Deferred income tax	7.3	(22.1)
Other	(0.3)	0.8
	218.6	164.3

Supplemental Cash Flow Information

Three months ended March 31	2022	2021
Interest paid	4.2	13.8

Components of Cash and Cash Equivalents

As at	March 31, 2022	December 31, 2021
Cash	1.5	1.7
Cash equivalents	–	–
	1.5	1.7

15. Capital Structure

Paramount's capital structure consists of shareholders' equity plus net debt.

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

i. ensure liquidity to fund ongoing operations and capital programs, the settlement of obligations when due and the payment of regular monthly dividends;

ii. preserve financial flexibility and access to capital markets, including for the pursuit of strategic initiatives; and

iii. maximize shareholder returns considering the risk environment.

Paramount monitors and assesses its capital structure for alignment with its current and long-term business plans and will, guided by its primary capital management objectives, seek to adjust the structure as necessary in response to changes in its business plans, plans for shareholder returns, economic and operating conditions, financial and operating results, strategic initiatives and the Company's assessment of the risk environment. Paramount may adjust its capital structure through a number of means, including by modifying capital spending programs, seeking to issue or repurchase shares, altering debt levels, modifying dividend levels or acquiring or disposing of assets.

The key capital management measures used by the Company in monitoring and assessing its capital structure are net debt, adjusted funds flow, the ratio of net debt to adjusted funds flow and free cash flow. The use and composition of each of these measures is described below. These measures are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

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

Net Debt

Net debt, in conjunction with capacity under existing credit facilities, is used to monitor and assess liquidity by providing Management and investors with a measure of the Company's overall leverage position.

The calculation of net debt is as follows:

As at	March 31, 2022	December 31, 2021
Cash and cash equivalents	(1.5)	(1.7)
Accounts receivable (1)	(207.8)	(139.7)
Prepaid expenses and other	(8.4)	(7.3)
Accounts payable and accrued liabilities	276.3	219.1
Long-term debt	302.6	386.3
Net Debt	361.2	456.7

(1) Accounts receivable excludes amounts relating to subleases (March 31, 2022 – $2.2 million, December 31, 2021 – $2.2 million).

Adjusted Funds Flow

Adjusted funds flow is used to monitor and assess liquidity and the flexibility of the Company's capital structure by providing Management and investors with a measure of the cash flows generated by the Company's assets available to fund capital programs and meet financial obligations, including the settlement of asset retirement obligations.

The calculation of adjusted funds flow is as follows:

Three months ended March 31	2022	2021
Cash from operating activities	174.9	81.3
Change in non-cash working capital	45.5	(7.9)
Geological and geophysical expense	2.6	1.6
Asset retirement obligations settled	14.8	8.4
Closure costs	–	–
Provisions	–	7.5
Settlements	–	–
Transaction and reorganization costs	–	–
Adjusted funds flow	237.8	90.9

Net Debt to Adjusted Funds Flow Ratio

The ratio of net debt to adjusted funds flow is used to monitor and assess liquidity and the flexibility of the Company's capital structure by showing the relation of the cash flows generated by the Company's assets to its overall leverage position.

The net debt to adjusted funds flow ratio is calculated as the period end net debt divided by adjusted funds flow for the trailing four quarters.

	March 31, 2022	December 31, 2021
Net debt	361.2	456.7
Adjusted funds flow, trailing four quarters	646.8	499.8
Net debt to adjusted funds flow ratio	0.6x	0.9x

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

Free Cash Flow

Free cash flow is used to monitor and assess liquidity, the flexibility of the Company's capital structure and the financial capacity to maximize shareholder returns by providing Management and investors with a measure of the internally generated cash available, after funding capital programs and asset retirement obligation settlements, to service the Company's financial obligations, pay dividends, repurchase Common Shares and fund additional growth opportunities.

The calculation of free cash flow is as follows:

Three months ended March 31	2022	2021
Cash from operating activities	**174.9**	81.3
Change in non-cash working capital	**45.5**	(7.9)
Geological and geophysical expense	**2.6**	1.6
Asset retirement obligations settled	**14.8**	8.4
Closure costs	**–**	–
Provisions	**–**	7.5
Settlements	**–**	–
Transaction and reorganization costs	**–**	–
Adjusted funds flow	**237.8**	90.9
Capital expenditures	**(117.0)**	(59.3)
Geological and geophysical expense	**(2.6)**	(1.6)
Asset retirement obligations settled	**(14.8)**	(8.4)
Free cash flow	**103.4**	21.6

16. Commitments and Contingencies

Commitments – Physical Sales Contracts

The Company had the following fixed-price and basis differential physical contracts at March 31, 2022:

	Volume	Location	Average fixed price	Remaining term
Natural gas	80,000 GJ/d	AECO	CDN$3.78/GJ	April 2022 – October 2022
Natural gas	20,000 MMBtu/d	Dawn	US$4.03/MMBtu	April 2022 – October 2022
Peace sweet crude oil	5,186 Bbl/d	Peace (1)	WTI – US$2.15/Bbl	April 2022 – June 2022

(1) Peace refers to Peace Pipeline at Edmonton

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 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.