FIRST QUARTER REPORT 2013

FIRST QUARTER OVERVIEW

Principal Properties

- Paramount achieved record sales volumes of 23,600 Boe/d in March 2013, the highest since the spin-out of Trilogy in 2005, despite 800 Boe/d of property dispositions and 2,000 Boe/d of third party disruptions.
- First quarter 2013 sales volumes increased 20 percent from the first quarter of 2012 to 22,591 Boe/d. Kaybob COU sales volumes increased 46 percent to 14,156 Boe/d.
- Netbacks increased 38 percent to $31.1 million in the first quarter of 2013 from $22.5 million in the first quarter of 2012 as a result of higher sales volumes and higher natural gas prices.
- Construction of the Company's wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") remains on-schedule and in-line with budget. Commissioning is scheduled to commence towards the end of the third quarter of 2013.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. The Company currently has an inventory of 45 (35.5 net) Kaybob Deep Basin wells awaiting startup of the new facilities.
- In the first quarter of 2013, the Company sold its remaining US properties for US$21.8 million and properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million. The Company continues to rationalize its asset base to focus on the opportunities that generate the best returns.

Strategic Investments

- Four of Fox Drilling's rigs are drilling through break-up in the Kaybob COU. Both of the new walking rigs are currently drilling on multi-well pad sites.
- Paramount's wholly-owned subsidiary, Cavalier Energy Inc., continued with front-end engineering and design work for the first phase of the Hoole Grand Rapids project. These activities are being funded with drawings on Cavalier's $40 million credit facility.
- The Company's shale gas exploratory well at Patry is expected to be tied-in later in the year. Drilling operations at Dunedin were suspended in March due to warm weather, and will resume after break-up.

Corporate

- At March 31, 2013, Paramount had cash balances of $48.0 million and its credit facility was undrawn.
- Corporate segment general and administrative costs per Boe decreased 16 percent to $1.48 in the first quarter of 2013 compared to $1.77 in the first quarter of 2012.

Financial and Operating Highlights[1][2]

($ millions, except as noted)

Three months ended March 31	2013	2012	% Change
Financial			
Petroleum and natural gas sales	**61.3**	54.7	12
Funds flow from operations	**16.6**	12.8	30
Per share – diluted ($/share)	***0.18***	*0.15*	*20*
Net income	**0.4**	124.5	(100)
Per share – basic ($/share)	**–**	*1.46*	
Per share – diluted ($/share)	**–**	*1.42*	
Exploration and development expenditures	**145.2**	142.2	2
Investments in other entities – market value[3]	**719.6**	675.6	7
Total assets	**2,076.5**	1,810.9	15
Net debt[4]	**857.9**	474.0	81
Common shares outstanding (thousands)	**90,130**	85,569	5
Operating			
Sales volumes			
Natural gas (MMcf/d)	**113.6**	88.6	28
NGLs (Bbl/d)	**2,662**	1,652	61
Oil (Bbl/d)	**998**	2,386	(58)
Total (Boe/d)	**22,591**	18,813	20
Average realized price			
Natural gas ($/Mcf)	**3.47**	2.77	25
NGLs ($/Bbl)	**73.78**	78.57	(6)
Oil ($/Bbl)	**84.37**	89.21	(5)
Total ($/Boe)	**30.16**	31.95	(6)
Net wells drilled (excluding oil sands evaluation)	**9**	11	(18)
Net oil sands evaluation wells drilled	**6**	1	500

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three months ended March 31, 2013.
(3) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.
(4) Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Paramount's Management's Discussion and Analysis for the three months ended March 31, 2013.

Forward-Looking Statements and Information
This quarterly report includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions in light of our experience and our perception of historical trends. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to page 25 for our forward looking statements and other advisories.

REVIEW OF OPERATIONS[1]

	First Quarter 2013		Fourth Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**113.6**		104.1		*9*
NGLs (Bbl/d)	**2,662**		2,110		*26*
Oil (Bbl/d)	**998**		1,213		*(18)*
Total (Boe/d)	**22,591**		20,674		*9*
Netbacks ($ millions)[2]		***($/Boe)*** [3]		*($/Boe)*[3]	*% Change in $mm*
Natural gas revenue	**35.4**	***3.47***	33.1	*3.45*	*7*
NGLs revenue	**17.7**	***73.78***	11.9	*61.23*	*49*
Oil revenue	**7.6**	***84.37***	8.9	*79.72*	*(15)*
Royalty and sulphur revenue	**0.6**	–	0.7	–	*(14)*
Petroleum and natural gas sales	**61.3**	***30.16***	54.6	*28.70*	*12*
Royalties	**(4.3)**	***(2.15)***	(4.5)	*(2.38)*	*(4)*
Operating expense	**(20.7)**	***(10.18)***	(17.9)	*(9.41)*	*16*
Transportation	**(5.2)**	***(2.55)***	(5.5)	*(2.91)*	*(5)*
Netback	**31.1**	***15.28***	26.7	*14.00*	*16*
Financial commodity contract settlements	–	–	0.7	*0.38*	*(100)*
Netback including financial commodity contract settlements	**31.1**	***15.28***	27.4	*14.38*	*14*

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three months ended March 31, 2013.
(2) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the Advisories section of this document.
(3) Natural gas revenue shown per Mcf.

Paramount's sales volumes increased nine percent in the first quarter of 2013 compared to the fourth quarter of 2012 due to record Kaybob COU production. The Company's production continues to be impacted by various third party downstream disruptions and capacity constraints (the "Third Party Disruptions"), which curtailed sales volumes by approximately 2,000 Boe/d in the first quarter, mainly in the Grande Prairie COU.

Oil sales volumes decreased 18 percent to 998 Bbl/d in the first quarter of 2013 compared to 1,213 Bbl/d in the fourth quarter of 2012, primarily because of property dispositions in the Cameron Hills / Bistcho area.

The Company's netback increased 16 percent mainly due to higher natural gas and NGLs sales volumes and higher realized prices. First quarter 2013 sales revenue increased 12 percent to $61.3 million compared to $54.6 million in the fourth quarter of 2012. Operating expenses increased $2.8 million compared to the fourth quarter of 2012 as a result of higher production volumes, scheduled seasonal maintenance in the Northern COU and processing facility operating cost equalizations for 2012. First quarter operating costs were $9.02 per Boe excluding operating costs related to the Bistcho / Cameron Hills properties, which were sold in the quarter.

Kaybob

	First Quarter 2013		Fourth Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**75.9**		63.3		*20*
NGLs (Bbl/d)	**1,454**		901		*61*
Oil (Bbl/d)	**45**		64		*(30)*
Total (Boe/d)	**14,156**		11,501		*23*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**81.6**		72.4		*13*
Facilities and gathering	**35.6**		69.9		*(49)*
	117.2		142.3		*(18)*
	Gross	**Net**	Gross	Net	
Wells Drilled	**8**	**5.9**	7	6.3	

Average first quarter 2013 sales volumes in the Kaybob COU were 14,156 Boe/d, an increase of 23 percent compared to the fourth quarter of 2012. Third Party Disruptions affecting Kaybob production partially abated in the first quarter, allowing the Company to bring new higher working interest, liquids-rich wells on through Paramount's 45 MMcf/d refrigeration facility at Musreau (the "Musreau Refrig Facility") and through incremental interruptible processing capacity. During March, Kaybob COU sales volumes averaged approximately 16,000 Boe/d and the Musreau Refrig Facility operated near capacity, with Paramount's share of volumes processed increasing to approximately 80 percent.

The Company expects Kaybob COU production to be impacted by apportionments of downstream third party NGLs pipeline capacity until the fourth quarter, when network expansions are scheduled to be completed. Kaybob COU production is expected to increase further once the Musreau Deep Cut Facility is brought on-stream.

Deep Cut Projects

Construction of the Musreau Deep Cut Facility continues to be on-schedule and in-line with budget. Concrete foundation work has been completed, most of the major equipment has been delivered and set in place and structural steel has been fabricated for delivery on-site beginning in early-May. The mechanical contract has been awarded and the last of the major contracts, electrical and instrumentation, is expected to be awarded in the second quarter. Work is continuing through spring breakup, as most of the heavy loads and equipment were delivered over the winter, allowing work to continue during the spring road bans.

Paramount is developing its commissioning plan for the Musreau Deep Cut Facility. The commissioning process is expected to begin towards the end of the third quarter and span approximately two months. The Company is also exploring a variety of alternatives to obtain interruptible NGLs fractionation capacity for the period between the planned December 2013 start-up of the Musreau Deep Cut Facility and the commencement of the long-term firm service fractionation arrangement in April 2014.

Condensate yields from Paramount's new Montney wells at Musreau have exceeded expectations. As a result, the Company is designing a 12,000 Bbl/d expansion to the condensate stabilizer system servicing the Company's Musreau facilities in order to process the anticipated incremental condensate volumes. The expansion is expected to be completed in 2014 at a cost of approximately $35 million, the majority of which will be incurred in 2014.

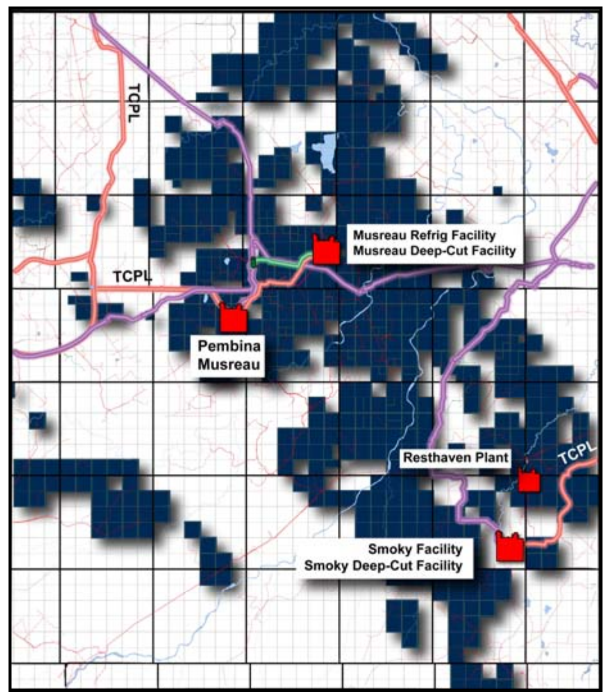
The deep cut expansion of the non-operated processing facility at Smoky continued in the first quarter, with concrete foundations being completed and the delivery of some of the major equipment. The expansion is scheduled to be commissioned in the third quarter of 2014.

Kaybob Processing Capacity

Upon completion of the Musreau and Smoky deep cut facilities, Paramount expects to have over 300 MMcf/d of net owned and third party firm-service processing capacity in the Deep Basin which, when fully utilized by Paramount and its partners, will yield over 85,000 Boe/d of gross sales volumes. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee. Paramount currently has 79 MMcf/d of net owned and firm-service processing capacity and up to 14 MMcf/d of interruptible processing capacity, which is fully utilized when available. The Company's current and future owned and firm-service processing capacity in the Deep Basin is as follows:

	Gross Raw Gas Capacity	Net Paramount Raw Gas Capacity	Net Paramount Sales Capacity(1)
	(MMcf/d)	(MMcf/d)	(Boe/d)
Current Processing Capacity			
Musreau Refrig Facility	45	45	**8,500**
Resthaven Facility	20	10	**2,000**
Smoky Facility	100	10	**2,500**
Kakwa Facility	40	4	**700**
Firm Contracted Capacity	10	10	**1,800**
Subtotal – Current Capacity	**215**	**79**	**15,500**
Future Processing Capacity			
Musreau Deep-Cut Facility	200	200	**50,000**
Musreau Condensate Stabilizer Expansion	–	–	**12,000**
Smoky Deep-Cut Facility	200	30	**7,500**
Subtotal – Future Capacity	**400**	**230**	**69,500**
Projected Total	**615**	**309**	**85,000**

(1) Estimated



Drilling activities over the past few years have substantially de-risked the Company's Deep Basin lands, and as a result, Paramount is in the preliminary stages of planning for an additional natural gas processing plant within the Kaybob COU. The NGLs recovery process, capacity and timing for construction are currently under review and will, in part, depend on takeaway agreements and downstream capacities.

Kaybob Drilling Activity

Paramount drilled 8 (5.9 net) wells and completed 10 (7.8 net) wells at Musreau, Smoky and Resthaven in the first quarter of 2013. Paramount is currently using four Fox Drilling Inc. ("Fox Drilling") rigs in the Deep Basin, including the two new walking rigs, and plans to drill approximately 30 additional wells during the remainder of 2013, approximately 50 percent of which will target the Montney formation.

The Fox Drilling rigs were moved onto leases prior to spring break-up and are expected to drill throughout the second quarter. One of the walking rigs is currently deployed on a five-well pad site and the other walking rig is deployed on a four-well pad site. The walking feature allows the rigs to move between wells and resume drilling operations within two hours, with the drill pipe standing in the derrick.

During the first quarter, a number of wells were placed on production at restricted rates as Third Party Disruptions partially abated. As of April 30, 2013, the Company's behind pipe well inventory in the Kaybob Deep Basin was 45 (35.5 net) wells, including wells that are produced on an intermittent basis as capacity and operational constraints permit. The behind pipe well inventory will grow throughout the remainder of 2013 as the Company's advance drilling program continues.

Grande Prairie

	First Quarter 2013		Fourth Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**21.5**		23.5		*(9)*
NGLs (Bbl/d)	**938**		1,008		*(7)*
Oil (Bbl/d)	**324**		317		*2*
Total (Boe/d)	**4,844**		5,243		*(8)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**22.2**		10.5		*111*
Facilities and gathering	**0.6**		4.0		*(85)*
	22.8		14.5		*57*
	Gross	**Net**	Gross	Net	
Wells Drilled	**2**	**0.6**	2	1.2	

First quarter 2013 sales volumes in the Grande Prairie COU averaged 4,844 Boe/d, a decrease of eight percent from the fourth quarter of 2012. Third Party Disruptions persisted in the first quarter, impacting sales volumes at times by up to 2,000 Boe/d. The Company is mitigating these disruptions where possible by routing volumes to third party facilities with available capacity.

At Karr-Gold Creek, first quarter activity focused on middle Montney formation wells. One well was brought on production, one well was completed, and one well finished drilling in early-April and was completed by the end of the month. In early-May, one of the new wells was brought on production and the second is scheduled to be brought on later in the year. Production volumes from these wells are being routed to the Company's wholly-owned Karr dehydration and compression facility. The positive results of these wells have demonstrated that the middle Montney trend extends from the Kaybob area northwest onto the Company's Karr-Gold Creek lands.

At Valhalla, Third Party Disruptions are impacting the Company's ability to flow producing wells and add new production. The Company's focus for the remainder of 2013 will be to maximize production through available third party capacity.

Southern

	First Quarter 2013		Fourth Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**8.4**		9.0		*(7)*
NGLs (Bbl/d)	**142**		150		*(5)*
Oil (Bbl/d)	**492**		566		*(13)*
Total (Boe/d)	**2,028**		2,223		*(9)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**3.4**		10.3		*(67)*
Facilities and gathering	**–**		0.3		*(100)*
	3.4		10.6		*(68)*
	Gross	**Net**	Gross	Net	
Wells Drilled	**1**	**1.0**	1	0.2	

Southern COU sales volumes decreased nine percent to 2,028 Boe/d in the first quarter of 2013 compared to 2,223 Boe/d in the fourth quarter of 2012, mainly as a result of the disposition of Summit's remaining non-operated joint venture operations and lands in North Dakota. Net proceeds on the disposition were US$21.8 million, which included approximately 200 Boe/d of production and undeveloped land. With the closing of this transaction, substantially all of Paramount's US assets and operations have been sold.

At Harmattan in southern Alberta, a previously-drilled well was completed and brought-on production in April 2013.

Northern(1)

	First Quarter 2013		Fourth Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**7.8**		8.3		*(6)*
NGLs (Bbl/d)	**128**		51		*151*
Oil (Bbl/d)	**137**		266		*(48)*
Total (Boe/d)	**1,563**		1,707		*(8)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**0.6**		–		*100*
Facilities and gathering	**0.8**		0.8		*–*
	1.4		0.8		*75*
	Gross	**Net**	Gross	Net	
Wells Drilled	**1**	**1.0**	–	–	

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three months ended March 31, 2013.

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million. Average sales volumes for these properties were approximately 600 Boe/d in the first quarter of 2013.

Sales volumes in the Northern COU decreased to 1,563 Boe/d in the first quarter of 2013 as a result of having only two months of production from the Bistcho / Cameron Hills properties, which were already producing at reduced rates because of scheduled seasonal maintenance activities. The reduction was partially offset by new production from the Company's liquids-rich natural gas Montney development at Birch in Northeast British Columbia.

Paramount's initial well at Birch was brought on-stream in December 2012 following the completion of modifications to surface facilities. Two additional wells drilled in 2012 were brought-on production in the first quarter. Production at Birch was disrupted at the end of March as a result of high line pressure in a downstream third party pipeline. The Company is currently working with the operators to resolve the issue.

STRATEGIC INVESTMENTS

SHALE GAS

Paramount drilled and completed its first horizontal shale gas exploration well at Patry in Northeast British Columbia in the first quarter. The well flowed on clean-up for 16 days in March before being shut-in to await equipping and tie-in. The data obtained during the flow period confirmed that all 10 stages of the fracture stimulation are open and contributing. The Company plans to tie the well into existing infrastructure and bring it on production by the end of 2013 to further evaluate well performance.

The Company re-commenced drilling operations on its initial shale gas evaluation well at Dunedin in February 2013. Drilling activities at the wellsite have been suspended due to warm weather, and will resume after breakup. The Company plans to perform completion operations on this well in the winter of 2013 / 2014.

CAVALIER Energy Inc.

In the first quarter of 2013, Cavalier Energy Inc. ("Cavalier Energy") continued front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Grand Rapids development ("Hoole Grand Rapids Phase 1") along with geotechnical work and drilling additional source water and disposal wells. Cavalier Energy's activities are currently being funded with drawings on its $40 million credit facility.

Construction of Hoole Grand Rapids Phase 1 is dependent upon the receipt of regulatory approvals, securing funding, and sanctioning by the Board of Directors. Cavalier Energy anticipates regulatory approvals to be received by mid-2014 and continues to evaluate funding alternatives.

FOX drilling inc.

Fox Drilling, Paramount's wholly-owned subsidiary, owns five triple-sized rigs in Canada. Two newly constructed walking rigs have been deployed on multi-well pad sites in the Kaybob COU's Deep Basin development and two other rigs drilled on the Company's lands in Alberta throughout the first quarter of 2013. The remaining rig is being refitted, and is expected to be recertified and returned to service on the Company's lands after spring break-up.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated May 7, 2013, should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three months ended March 31, 2013 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2012. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

This document contains forward-looking information, non-GAAP measures and disclosures of barrels of oil equivalent volumes. 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, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's principal properties are located primarily in Alberta and British Columbia.

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

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

- the Kaybob COU, which includes properties in West Central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in Southern Alberta; and
- the Northern COU, which includes properties in Northern Alberta and Northeast British Columbia.

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

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

First Quarter Overview

Principal Properties

- Sales volumes increased 20 percent from the first quarter of 2012 to 22,591 Boe/d despite the impact of property dispositions and 2,000 Boe/d of third party disruptions. Kaybob COU sales volumes increased 46 percent to 14,156 Boe/d.
- Netbacks increased 38 percent to $31.1 million in the first quarter of 2013 from $22.5 million in the first quarter of 2012 as a result of higher sales volumes and higher natural gas prices.
- Construction of the Company's wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") remains on-schedule and in-line with budget. Commissioning is scheduled to commence towards the end of the third quarter of 2013.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. The Company currently has an inventory of 45 (35.5 net) Kaybob Deep Basin wells awaiting startup of the new facilities.
- In the first quarter of 2013, the Company sold its remaining US properties for US$21.8 million and its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million.

Strategic Investments

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- Paramount's wholly-owned subsidiary, Cavalier Energy, continued with front-end engineering and design work for the first phase of the Hoole Grand Rapids project. These activities are being funded with drawings on Cavalier Energy's $40 million credit facility.
- The Company's shale gas exploratory well at Patry is expected to be tied-in later in the year. Drilling operations at Dunedin were suspended in March due to warm weather, and will resume after break-up.

Corporate

- At March 31, 2013, Paramount had cash balances of $48.0 million and its credit facility was undrawn.
- Corporate segment general and administrative costs per Boe decreased 16 percent to $1.48 in the first quarter of 2013 compared to $1.77 in the first quarter of 2012.

Highlights[1]

Three months ended March 31	2013	2012	% Change
FINANCIAL			
Petroleum and natural gas sales – continuing operations	**59.5**	43.1	38
Petroleum and natural gas sales – discontinued operations	**1.8**	11.6	(84)
Petroleum and natural gas sales	**61.3**	54.7	12
Funds flow from operations – continuing operations	**17.9**	8.9	101
Funds flow from operations – discontinued operations	**(1.3)**	3.9	(133)
Funds flow from operations	**16.6**	12.8	30
Per share – diluted ($/share)	**0.18**	0.15	20
Income (loss) from continuing operations	**(27.7)**	127.2	(122)
Per share – basic ($/share)	**(0.31)**	1.49	
Per share – diluted ($/share)	**(0.31)**	1.45	
Net income	**0.4**	124.5	(100)
Per share – basic ($/share)	**–**	1.46	
Per share – diluted ($/share)	**–**	1.42	
Exploration and development expenditures	**145.2**	142.2	2
Investments in other entities – market value[2]	**719.6**	675.6	7
Total assets	**2,076.5**	1,810.9	15
Long-term debt	**661.0**	366.0	81
Net debt	**857.9**	474.0	81
OPERATIONAL			
Sales volumes[3]			
Natural gas (MMcf/d)	**113.6**	88.6	28
NGLs (Bbl/d)	**2,662**	1,652	61
Oil (Bbl/d)	**998**	2,386	(58)
Total (Boe/d)	**22,591**	18,813	20
Net wells drilled (excluding oil sands evaluation)	**9**	11	(18)
Net oil sands evaluation wells drilled	**6**	1	500
FUNDS FLOW FROM OPERATIONS ($/Boe)[3]			
Petroleum and natural gas sales	**30.16**	31.95	(6)
Royalties	**(2.15)**	(3.09)	(30)
Operating expense and production tax	**(10.18)**	(12.45)	(18)
Transportation	**(2.55)**	(3.29)	(22)
Netback	**15.28**	13.12	16
Financial commodity contract settlements	**–**	(0.84)	100
Netback including financial commodity contract settlements	**15.28**	12.28	24
General and administrative – corporate	**(1.48)**	(1.77)	(16)
General and administrative – strategic investments	**(0.99)**	(0.95)	4
Interest	**(6.13)**	(4.32)	42
Dividends from investments	**0.99**	1.17	(15)
Other	**0.49**	1.05	(53)
Funds flow from operations	**8.16**	7.46	9

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas measures and definitions in the "Advisories" section of this document.
(2) Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.
(3) Amounts include the results of discontinued operations.

Consolidated Results

Net Income

Three months ended March 31	2013	2012
Principal Properties	**(8.2)**	10.2
Strategic Investments	**–**	153.0
Corporate	**(20.1)**	(16.1)
Income tax recovery (expense)	**0.6**	(19.9)
Income (loss) from continuing operations	**(27.7)**	127.2
Discontinued operations, net of tax	**28.1**	(2.7)
Net income	**0.4**	124.5

Paramount recorded a loss from continuing operations of $27.7 million for the three months ended March 31, 2013 compared to income from continuing operations of $127.2 million in the first quarter of 2012. Significant factors contributing to the change are shown below:

	Three months ended March 31
Income from continuing operations – 2012	**127.2**
• Lower income from equity-accounted investments mainly due to a $157.2 million gain in 2012 on the sale of 5.0 million non-voting shares of Trilogy Energy Corp. ("Trilogy")	(155.0)
• Lower gains on the sale of property, plant and equipment related to continuing operations	(16.5)
• Higher depletion and depreciation mainly due to higher production	(13.0)
• Higher interest expense due to increased debt	(5.3)
• Higher exploration and evaluation expense mainly due to increased expired lease costs	(5.2)
• Income tax recovery compared to an expense in the first quarter of 2012	20.6
• Higher netback primarily due to a 32 percent increase in sales volumes and a 26 percent increase in realized natural gas prices	13.4
• Prior year loss on financial commodity contracts	3.6
• Lower stock-based compensation	1.9
• Other	0.6
Loss from continuing operations – 2013	**(27.7)**

In March 2013, Paramount sold its Northern COU properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories (the "Northern Discontinued Operations") for net proceeds of $9.1 million.

In May 2012, Paramount's wholly-owned subsidiary, Summit Resources, Inc., closed the sale of all of its operated properties in North Dakota and all of its properties in Montana (the "Southern Discontinued Operations") for after-tax cash proceeds of $66.5 million.

These properties were included in the Company's Principal Properties business segment.

Discontinued operations for the first quarter of 2013 include the results of the Northern Discontinued Operations. Discontinued operations for the first quarter of 2012 include the results of the Northern Discontinued Operations and Southern Discontinued Operations.

Income from discontinued operations ("IFDO") in the first quarter of 2013 of $28.1 million includes a $39.0 million pre-tax gain on the sale of the Northern Discontinued Operations, a pre-tax loss of $1.6 million from ordinary activities of the discontinued operations, and deferred tax expense of $9.3 million. IFDO in the first quarter of 2012 includes a pre-tax loss from ordinary operations of the Northern

Discontinued Operations of $2.7 million, pre-tax income from the Southern Discontinued Operations of $3.1 million, and tax expense of $3.1 million.

Funds Flow From Operations[1] [2]

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

Three months ended March 31	2013	2012
Cash from operating activities	23.2	14.0
Change in non-cash working capital	(9.8)	(7.4)
Geological and geophysical expenses	1.5	2.4
Asset retirement obligations settled	1.7	3.8
Funds flow from operations	**16.6**	12.8
Funds flow from operations ($/Boe)	**8.16**	7.46

(1) Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
(2) Includes the results of discontinued operations.

Three months ended March 31	2013	2012
Funds flow from operations – continuing operations	17.9	8.9
Funds flow from operations – discontinued operations	(1.3)	3.9
Funds flow from operations	**16.6**	12.8

Funds flow from operations attributable to continuing operations in the first quarter of 2013 was $17.9 million, $9.0 million higher than the first quarter of 2012, primarily because of higher netbacks due to higher natural gas and NGLs sales volumes and higher realized prices for natural gas, partially offset by higher interest and operating expenses.

Funds flow from operations attributable to discontinued operations in the first quarter of 2013 decreased by $5.2 million compared to the first quarter of 2012 because the 2012 results included funds flow from operations of $4.6 million from the Southern Discontinued Operations, which were sold in May 2012. The Northern Discontinued Operations had a negative funds flow from operations in both periods as a result of scheduled seasonal maintenance.

Discontinued Operations

Results of the Northern Discontinued Operations have been presented as discontinued operations in the current and prior year. Results of the Southern Discontinued Operations have been presented as discontinued operations in 2012. Comparative results have been adjusted to conform to the current year's basis of presentation. The Principal Properties section of this Management's Discussion & Analysis provides an analysis of the results of the Company's continuing operations. The following table reconciles Paramount's income (loss) from continuing operations, income (loss) from discontinued operations and net income:

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

Three months ended March 31	**2013**						2012					
	CO	**DO**	**Total**	**CO**	**DO**	**Total**	CO	DO	Total	CO	DO	Total
	($ millions)			***($/Boe except natural gas[1])***			($ millions)			*($/Boe except natural gas[1])*		
Natural gas revenue	**34.7**	0.7	**35.4**	***3.48***	*2.82*	***3.47***	21.0	1.3	22.3	*2.77*	*2.75*	*2.77*
NGLs revenue	**17.7**	–	**17.7**	***73.76***	*81.46*	***73.78***	11.4	0.4	11.8	*78.96*	*69.16*	*78.57*
Oil revenue	**6.5**	1.1	**7.6**	***84.32***	*84.75*	***84.37***	9.5	9.9	19.4	*89.99*	*88.50*	*89.21*
Royalty and sulphur revenue	**0.6**	–	**0.6**	–	–	–	1.2	–	1.2	–	–	–
Petroleum and natural gas sales	**59.5**	1.8	**61.3**	***30.08***	*32.95*	***30.16***	43.1	11.6	54.7	*28.43*	*58.81*	*31.95*
Royalties	**(4.3)**	–	**(4.3)**	***(2.19)***	–	***(2.15)***	(3.8)	(1.5)	(5.3)	*(2.52)*	*(7.46)*	*(3.09)*
Operating expense	**(17.8)**	(2.9)	**(20.7)**	***(9.02)***	*(52.54)*	***(10.18)***	(15.1)	(6.2)	(21.3)	*(9.97)*	*(31.40)*	*(12.45)*
Transportation	**(5.0)**	(0.2)	**(5.2)**	***(2.51)***	*(4.27)*	***(2.55)***	(5.2)	(0.4)	(5.6)	*(3.42)*	*(2.29)*	*(3.29)*
Netback	**32.4**	(1.3)	**31.1**	***16.36***	*(23.86)*	***15.28***	19.0	3.5	22.5	*12.52*	*17.66*	*13.12*
Financial commodity contract settlements	–	–	–	–	–	–	(1.4)	–	(1.4)	*(0.95)*	–	*(0.84)*
Netback including financial commodity contract settlements	**32.4**	(1.3)	**31.1**	***16.36***	*(23.86)*	***15.28***	17.6	3.5	21.1	*11.57*	*17.66*	*12.28*
General and administrative	**(5.0)**	–	**(5.0)**	***(2.54)***	–	***(2.47)***	(4.7)	–	(4.7)	*(3.08)*	–	*(2.72)*
Interest	**(12.5)**	–	**(12.5)**	***(6.29)***	–	***(6.13)***	(7.4)	–	(7.4)	*(4.88)*	–	*(4.32)*
Dividends from investments	**2.0**	–	**2.0**	***1.02***	–	***0.99***	2.0	–	2.0	*1.33*	–	*1.17*
Other	**1.0**	–	**1.0**	***0.50***	–	***0.49***	1.4	0.4	1.8	*0.92*	*1.95*	*1.05*
Funds flow from operations	**17.9**	(1.3)	**16.6**	***9.05***	*(23.86)*	***8.16***	8.9	3.9	12.8	*5.86*	*19.61*	*7.46*
DD&A / Accretion	**(42.1)**	(0.2)	**(42.3)**				(30.5)	(3.0)	(33.5)			
Gain on sale of PP&E	**11.8**	39.0	**50.8**				28.3	–	28.3			
Other	**(15.9)**	–	**(15.9)**				140.4	(0.5)	139.9			
Income tax (expense) recovery	**0.6**	(9.4)	**(8.8)**				(19.9)	(3.1)	(23.0)			
Net income (loss)	**(27.7)**	28.1	**0.4**				127.2	(2.7)	124.5			

(1) Natural gas revenue shown per Mcf.

Principal Properties

Netback and Segment Earnings (Loss) – Continuing Operations

Three months ended March 31	2013		2012	
		($/Boe)		($/Boe)
Petroleum and natural gas sales	**59.5**	***30.08***	43.1	*28.43*
Royalties	**(4.3)**	***(2.19)***	(3.8)	*(2.52)*
Operating expenses	**(17.8)**	***(9.02)***	(15.1)	*(9.97)*
Transportation	**(5.0)**	***(2.51)***	(5.2)	*(3.42)*
Netback	**32.4**	***16.36***	19.0	*12.52*
Financial commodity contract settlements	**–**	**–**	(1.4)	*(0.95)*
Netback including financial commodity contract settlements	**32.4**	***16.36***	17.6	*11.57*
Other principal property items (see below)	**(40.6)**		(7.4)	
Segment earnings (loss)	**(8.2)**		10.2	

Petroleum and Natural Gas Sales – Continuing Operations

Three months ended March 31	2013	2012	% Change
Natural gas	**34.7**	21.0	65
NGLs	**17.7**	11.4	55
Oil	**6.5**	9.5	(32)
Royalty and sulphur revenue	**0.6**	1.2	(50)
	59.5	43.1	38

Petroleum and natural gas sales were $59.5 million in the first quarter of 2013, an increase of $16.4 million from the first quarter of 2012, primarily due to higher natural gas and NGLs sales volumes and higher realized prices for natural gas, partially offset by lower oil sales volumes and lower realized prices for NGLs and oil.

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

	Natural Gas	NGLs	Oil	Royalty and Sulphur	Total
Three months ended March 31, 2012	21.0	11.4	9.5	1.2	43.1
Effect of changes in prices	7.1	(1.2)	(0.4)	–	5.5
Effect of changes in sales volumes	6.6	7.5	(2.6)	–	11.5
Change in royalty and sulphur	–	–	–	(0.6)	(0.6)
Three months ended March 31, 2013	**34.7**	**17.7**	**6.5**	**0.6**	**59.5**

Sales Volumes

	Three months ended March 31											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Kaybob	**75.9**	52.7	44	**1,454**	821	77	**45**	65	(31)	**14,156**	9,675	46
Grande Prairie	**21.5**	16.8	28	**938**	596	57	**324**	391	(17)	**4,844**	3,792	28
Southern	**8.4**	10.7	(21)	**142**	168	(15)	**492**	697	(29)	**2,028**	2,660	(24)
Northern	**5.0**	3.1	61	**121**	4	100	–	–	–	**957**	510	88
Continuing Ops	**110.8**	83.3	33	**2,655**	1,589	67	**861**	1,153	(25)	**21,985**	16,637	32
Discontinued Ops	2.8	5.3	(47)	7	63	(89)	137	1,233	(89)	606	2,176	(72)
Total	113.6	88.6	28	2,662	1,652	61	998	2,386	(58)	22,591	18,813	20

First quarter natural gas sales volumes increased 27.5 MMcf/d or 33 percent to 110.8 MMcf/d in 2013 compared to 83.3 MMcf/d in 2012. First quarter NGLs sales volumes increased 1,066 Bbl/d or 67 percent to 2,655 Bbl/d in 2013 compared to 1,589 Bbl/d in 2012. First quarter oil sales volumes decreased 25 percent to 861 Bbl/d in 2013 compared to 1,153 Bbl/d in 2012. Increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2012 / 2013 drilling program at Musreau and Smoky within the Kaybob COU, including liquids-rich Montney wells, and at Valhalla within the Grande Prairie COU. The Company's 45 MMcf/d natural gas refrigeration processing facility at Musreau (the "Musreau Refrig Facility") was re-commissioned in March 2012, allowing the Company to begin producing incremental volumes that had been shut-in because of the lack of processing capacity. New well production at Birch within the Northern COU also contributed to the increase.

The ability of Paramount to maximize production through third party capacity and owned facilities in 2013 was impacted by various third party downstream disruptions and capacity constraints (the "Third Party Disruptions"), which constrained sales volumes by approximately 2,000 Boe/d during the first quarter. Third Party Disruptions primarily related to volume curtailments and unscheduled down-time at third party processing facilities, which primarily impacted production within the Grande Prairie COU.

Paramount's production within the Kaybob COU remains constrained by available owned and contracted natural gas processing capacity, pending completion of deep cut facilities expansions at Musreau and Smoky. Paramount continues to utilize its own facilities and third party processing capacity, where available, to maximize production while the expansions are in progress.

Average Realized Prices – Continuing Operations

Three months ended March 31	**2013**	2012	% Change
Natural gas ($/Mcf)	**3.48**	2.77	26
NGLs ($/Bbl)	**73.76**	78.96	(7)
Oil ($/Bbl)	**84.32**	89.99	(6)
Total ($/Boe)	**30.08**	28.43	6

Paramount's average realized natural gas price in the first quarter of 2013 increased 26 percent compared to the first quarter of 2012, consistent with increases in benchmark AECO and NYMEX natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot market, Eastern Canadian Market, and California market and is sold in a combination of daily and monthly contracts.

Paramount's average realized NGLs and oil prices in the first quarter of 2013 decreased by seven and six percent, respectively. Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to Alberta and United States market indexes, adjusted for transportation and quality differentials.

Commodity Prices

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

Three months ended March 31	2013	2012	% Change
Natural Gas			
AECO (Cdn$/GJ)	**2.92**	2.38	23
NYMEX (Henry Hub US$/MMbtu)	**3.34**	2.74	22
Crude Oil			
Edmonton par (Cdn$/Bbl)	**88.65**	92.81	(4)
West Texas Intermediate (US$/Bbl)	**94.35**	102.93	(8)
Foreign Exchange			
$Cdn / 1 $US	**1.01**	1.00	1

Commodity Price Management

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

Paramount had no financial commodity contracts outstanding in the first quarter of 2013. Payments on the settlement of financial commodity contracts are as follows:

Three months ended March 31	2013	2012
Oil contracts	–	(1.4)

Royalties – Continuing Operations

Three months ended March 31	2013	Rate	2012	Rate
Royalties	**4.3**	**7.3%**	3.8	9.1%

First quarter royalties increased $0.5 million to $4.3 million in 2013 compared to $3.8 million in 2012. The increase in royalties was primarily due to an increase in natural gas and NGLs revenue, partially offset by lower oil revenue. The royalty rate decreased during the first quarter of 2013 mainly due to a greater proportion of production qualifying for Alberta new well royalty incentive programs.

Operating Expense – Continuing Operations

Three months ended March 31	2013	2012	% Change
Operating expense	**17.8**	15.1	18

Operating expense in the first quarter of 2013 increased by $2.7 million or 18 percent compared to the same quarter in 2012, primarily as a result of a 32 percent increase in sales volumes. First quarter 2013 operating expenses also include third party processing fee and operating cost adjustments related to 2012. Operating expenses per Boe decreased 10 percent to $9.02 in 2013 mainly due to lower third party processing fees, with a portion of Kaybob production being processed through the Musreau Refrig Facility.

Transportation Expense – Continuing Operations

Three months ended March 31	2013	2012	% Change
Transportation expense	**5.0**	5.2	(4)

Transportation expense decreased $0.2 million in the first quarter of 2013, primarily as a result of the expiry of a long-term natural gas export transportation agreement in the fourth quarter of 2012, partially offset by increased transportation costs due to increased sales volumes. Transportation costs per Boe decreased to $2.51 in the first quarter of 2013 compared to $3.42 in 2012.

Other Principal Property Items – Continuing Operations

Three months ended March 31	2013	2012
Commodity contracts – net of settlements	–	2.1
Depletion and depreciation	**41.5**	28.3
Exploration and evaluation	**10.3**	4.2
Gain on sale of property, plant and equipment	**(11.8)**	(28.3)
Accretion of asset retirement obligations	–	1.4
Other (income) expense	**0.6**	(0.3)
Total	**40.6**	7.4

First quarter depletion and depreciation expense increased to $41.5 million ($20.97 per Boe) in 2013 compared to $28.3 million ($18.70 per Boe) in the prior year mainly due to higher production volumes.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. First quarter 2013 exploration and evaluation expense includes expired lease costs of $6.7 million and $2.1 million of dry hole expense. First quarter 2012 exploration and evaluation expense included $2.4 million of expired lease costs and nil dry hole expenses.

The $11.8 million gain on sale of property, plant and equipment in the first quarter of 2013 related primarily to the sale of Paramount's remaining non-operated joint venture operations and lands in North Dakota for proceeds of US$21.8 million.

Strategic Investments

Three months ended March 31	2013	2012
Income from equity–accounted investments	**1.5**	156.5
Drilling rig revenue	**2.6**	3.4
Drilling rig expense	**(1.0)**	(1.8)
General and administrative	**(2.0)**	(1.6)
Stock-based compensation	**0.1**	(1.4)
Interest	**(0.6)**	(0.3)
Other	**(0.6)**	(1.8)
Segment Earnings	–	153.0

Income from equity-accounted investments in the first quarter of 2013 includes $1.3 million of equity earnings and a $0.2 million dilution gain. Income from equity-accounted investments for the three months ended March 31, 2012 included a $157.2 million gain recognized on the sale of 5.0 million non-voting Trilogy shares, a $0.1 million dilution gain and $0.8 million of equity losses.

General and administrative costs related to the Company's Strategic Investments increased $0.4 million in the first quarter of 2013 compared to the prior year mainly because of higher staff and office costs related to Cavalier Energy.

Strategic Investments at March 31, 2013 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy and other public and private corporations;

- oil sands and carbonate bitumen interests owned by Paramount's wholly-owned subsidiary, Cavalier Energy, including oil sands reserves and resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta, including at Saleski;

- prospective shale gas acreage in the Liard and Horn River Basins in Northeast British Columbia and the Northwest Territories; and

- five drilling rigs owned by Paramount's wholly-owned subsidiary, Fox Drilling.

The Company's investments in other entities are as follows:

	Carrying Value		**Market Value**[1]	
	March 31, 2013	December 31, 2012	**March 31, 2013**	December 31, 2012
Trilogy	**82.1**	82.4	**560.9**	557.3
MEG	**120.7**	112.6	**120.7**	112.6
MGM Energy	**2.2**	2.3	**12.2**	13.5
Other[2]	**25.8**	21.4	**25.8**	21.4
Total	**230.8**	218.7	**719.6**	704.8

(1) Based on the period-end closing price of publicly-traded investments and book value of remaining investments.
(2) Includes investments in Strategic Oil and Gas Ltd., Paxton Corporation and other public and private corporations.

Cavalier Energy Inc.

In the first quarter of 2013, Cavalier Energy continued front-end engineering and design work for the initial 10,000 Bbl/d phase of the Hoole Grand Rapids development ("Hoole Grand Rapids Phase 1") along with geotechnical work and drilling additional source water and disposal wells. Cavalier Energy's activities are currently being funded with drawings on its $40 million credit facility.

Construction of Hoole Grand Rapids Phase 1 is dependent upon the receipt of regulatory approvals, securing funding, and sanctioning by the Board of Directors. Cavalier Energy anticipates regulatory approvals to be received by mid-2014 and continues to evaluate funding alternatives.

Shale Gas

Paramount drilled and completed its first horizontal shale gas exploration well at Patry in Northeast British Columbia in the first quarter. The well flowed on clean-up for a period in early March before being shut-in awaiting equipping and tie-in. The data obtained during the flow period confirmed that all 10 stages of the fracture stimulation are open and contributing. The Company plans to tie the well into existing infrastructure and bring it on production by the end of 2013 to further evaluate well performance.

The Company re-commenced drilling operations on its initial shale gas evaluation well at Dunedin in February 2013. Drilling activities at the well-site have been suspended due to warm weather, and will resume after breakup. The Company plans to perform completion operations on this well in the winter of 2013 / 2014.

Fox Drilling

Fox Drilling, Paramount's wholly-owned subsidiary, owns five triple-sized rigs in Canada. Two newly constructed walking rigs have been deployed on multi-well pad sites in the Kaybob COU's Deep Basin development and two other rigs drilled on the Company's lands in Alberta throughout the first quarter of 2013. The remaining rig is being refitted, and is expected to be recertified and returned to service on the Company's lands after spring break-up.

Corporate

Three months ended March 31	**2013**	2012
General and administrative	**3.0**	3.0
Stock-based compensation	**5.2**	5.6
Depreciation	**0.1**	0.1
Interest	**12.3**	7.2
Foreign exchange	**(0.5)**	0.2
Segment Loss	**20.1**	16.1

The first quarter corporate segment loss increased to $20.1 million in 2013 compared to $16.1 million in 2012, primarily as a result of a $5.1 million increase in interest expense as a result of the December 2012 senior notes issuance.

Paramount's first quarter corporate general and administrative costs remained consistent with the same quarter of the prior year at $3.0 million. Corporate general and administrative expense in the first quarter of 2013 was $1.48 per Boe, compared to $1.77 per Boe in the first quarter of 2012.

Exploration and Capital Expenditures

Three months ended March 31	**2013**	2012
Geological and geophysical	**1.5**	1.4
Drilling, completion and tie-ins	**106.6**	92.9
Facilities and gathering	**37.1**	47.9
Exploration and development expenditures(1)	**145.2**	142.2
Land and property acquisitions	**0.9**	2.7
Principal Properties	**146.1**	144.9
Strategic Investments	**48.1**	38.0
Corporate	**3.6**	0.1
	197.8	183.0

(1) Exploration and development expenditures include $2.2 million (2012 - $1.6 million) of capitalized interest.

Exploration and development expenditures in the first quarter of 2013 were $145.2 million compared to $142.2 million in 2012. Current quarter drilling, completion and tie-in costs were focused on new wells at Musreau and Smoky in the Kaybob COU where advance drilling is continuing for the deep cut facilities expansions. The Company also drilled and completed wells at Karr in the Grande Prairie COU. Facilities and gathering expenditures focused on the deep cut facility expansions at Musreau and Smoky.

Strategic investments capital expenditures for the first quarter of 2013 included $29.3 million related to the Company's shale gas drilling activities at Dunedin and Patry in Northeast British Columbia, $9.0 million related to completing the construction of two triple-sized walking drilling rigs and $9.8 million related to Cavalier Energy.

Wells drilled are as follows:

Three months ended March 31	**2013**		2012	
(wells drilled)	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]
Gas	**10**	**7**	14	10
Oil	**2**	**2**	1	1
Oil sands evaluation	**6**	**6**	1	1
Dry and abandoned	**–**	**–**	–	–
Total	**18**	**15**	16	12

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

Kaybob Deep Basin Development

Construction of the Musreau Deep Cut Facility continues to be on-schedule and in-line with budget. Concrete foundation work has been completed, most of the major equipment has been delivered and set in place and structural steel has been fabricated for delivery on-site beginning in early-May. The mechanical contract has been awarded and the last of the major contracts, electrical and instrumentation, is expected to be awarded in the second quarter. Work is continuing through spring breakup, as most of the heavy loads and equipment were delivered over the winter, allowing work to continue during the spring road bans.

Paramount is developing its commissioning plan for the Musreau Deep Cut Facility. The commissioning process is expected to begin towards the end of the third quarter and span approximately two months. The Company is also exploring a variety of alternatives to obtain interruptible NGLs fractionation capacity for the period between the planned December 2013 start-up of the Musreau Deep Cut Facility and the commencement of the long-term firm service fractionation arrangement in April 2014.

Condensate yields from Paramount's new Montney wells at Musreau have exceeded expectations. As a result, the Company is designing a 12,000 Bbl/d expansion to the condensate stabilizer system servicing the Company's Musreau facilities in order to process the anticipated incremental condensate volumes. The expansion is expected to be completed in 2014 at a cost of approximately $35 million, the majority of which will be incurred in 2014.

The deep cut expansion of the non-operated processing facility at Smoky continued in the first quarter, with concrete foundations being completed and the delivery of some of the major equipment. The expansion is scheduled to be commissioned in the third quarter of 2014.

Outlook

Paramount's 2013 capital budget for exploration and development ("E&D") and Strategic Investments remains at approximately $550 million, excluding land acquisitions and capitalized interest. E&D spending will focus primarily on the Kaybob COU's Deep Basin development. Construction of the Musreau Deep Cut Facility is progressing on-schedule for completion in the fourth quarter and construction of the third-party Smoky Deep Cut Facility will continue into 2014. Drilling activities are continuing in the Kaybob COU through breakup in preparation for the start-up of the deep cut facilities. Strategic Investment capital spending will be directed towards shale gas exploration activities in the Liard Basin and continued front-end engineering and design work for the initial phase of the Hoole Grand Rapids development within Cavalier Energy.

Sales volumes for the second and third quarters of 2013 are expected to range between 21,000 Boe/d and 25,000 Boe/d, depending upon the availability of downstream NGLs transportation and processing capacity. Sales volumes are expected to increase in the fourth quarter once the expansion of a third-party

NGLs pipeline is completed, additional fractionation capacity is secured and the Musreau Deep Cut Facility is on-stream.

After the Musreau Deep Cut Facility starts up in late-2013, the Company will have owned and firm-service contracted natural gas processing capacity of 279 MMcf/d, which will increase to over 300 MMcf/d in 2014 with the addition of the Smoky Deep Cut Facility. Corporate production is expected to ramp up in 2014 to over 50,000 Boe/d, with the timing dependent on the completion of downstream fractionation facilities expansions in which Paramount has secured long-term firm service capacity.

Liquidity and Capital Resources

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

	March 31, 2013	December 31, 2012	% Change
Adjusted working capital deficit (surplus)[1]	**133.8**	(9.3)	1,539
Demand facilities	**54.1**	40.7	33
Credit facility	**–**	–	–
Senior Notes[2]	**670.0**	670.0	–
Net debt[3]	**857.9**	701.4	22
Share capital	**928.1**	921.7	1
Accumulated deficit	**(165.2)**	(165.5)	–
Reserves	**103.6**	94.9	9
Total Capital	**1,724.4**	1,552.5	11

(1) Adjusted working capital excludes demand facilities, assets and liabilities held for sale, and accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (March 31, 2013 – nil, December 31, 2012 – $10.8 million).

(2) Excludes unamortized issue premiums and financing costs.

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

Adjusted Working Capital

Paramount had an adjusted working capital deficit at March 31, 2013 of $133.8 million compared to a surplus of $9.3 million at December 31, 2012. The working capital deficit at March 31, 2013 included $48.0 million of cash and cash equivalents, $49.9 million of accounts receivable and $233.5 million of accounts payable and accrued liabilities. The change in working capital is primarily due to capital spending related to the Company's 2013 capital program, partially offset by proceeds from the sale of non-core properties and funds flow from operations.

Paramount expects to fund its 2013 operations, obligations and capital expenditures with funds flow from operations, existing cash and cash equivalents, drawings on its bank credit facilities, proceeds from the sale of non-core assets and by accessing the capital markets, if required. The Company anticipates that its funds flow from operations will increase when the Musreau Deep Cut Facility is brought on-stream in late-2013.

Demand Facilities

Drilling Rig Loans

In 2009, Paramount entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $13.9 million have been made to March 31, 2013. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are $3.8 million for the remainder of 2013, with the remaining outstanding balance payable in 2014.

In 2012, Paramount entered into a new $30.0 million non-revolving demand loan facility with the same Canadian bank to partially fund the construction of two new triple-sized walking rigs ("Drilling Rig Loan II"). During the first quarter of 2013, an additional $9.0 million was drawn and a $1.0 million principal payment was made on Drilling Rig Loan II. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan II are $2.5 million for the remainder of 2013, $6.2 million in 2014, $6.3 million in each of 2015 and 2016, with the remainder due in 2017.

Cavalier Facility

In 2012, Cavalier Energy entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In March 2013, the size of the Cavalier Facility was increased to $40.0 million, with all other material terms remaining unchanged.

Bank Credit Facility

Paramount's $300 million bank credit facility (the "Facility") is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to November 30, 2013. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due November 30, 2013 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Loans and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

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

At March 31, 2013, no amounts were drawn on the Facility (December 31, 2012 - $nil). Paramount had undrawn letters of credit outstanding at March 31, 2013 totalling $45.6 million that reduce the amount available to the Company.

Senior Notes

Paramount has outstanding, $370 million principal amount of senior unsecured notes, due 2017 (the "2017 Senior Notes"). The 2017 Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The 2017 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company.

The Company also has outstanding, $300 million principal amount of senior unsecured notes, due 2019 (the "2019 Senior Notes"). The 2019 Senior Notes bear interest at 7.625 percent per annum, payable semi-annually in arrears on June 4 and December 4 in each year and mature on December 4, 2019. The

2019 Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company.

Share Capital

In September 2012, Paramount issued 646,000 Common Shares on a flow-through basis in respect of Canadian Exploration Expenses ("CEE") at a price of $31.00 per share and 1,244,000 Common Shares on a flow-through basis in respect of Canadian Development Expenses ("CDE") at a price of $28.15 per share to a corporation controlled by the Company's Chairman and Chief Executive Officer for aggregate proceeds of $55.0 million.

In October 2012, Paramount issued 1,936,000 Common Shares on a flow-through basis in respect of CEE at a price of $31.00 per share and 356,000 Common Shares on a flow-through basis in respect of CDE at a price of $28.15 per share for aggregate gross proceeds of $70.0 million, pursuant to a public offering. Certain officers and Management of the Company participated in this offering.

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with the CEE and CDE flow-through Common Shares issued in 2012.

At May 3, 2013, Paramount had 91,324,424 Common Shares and 5,485,300 Paramount Options outstanding, of which 1,469,084 Paramount Options are exercisable.

Quarterly Information

	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales – CO	**59.5**	51.0	38.8	40.5	43.1	50.5	57.8	49.6
Petroleum and natural gas sales – DO	**1.8**	3.6	2.5	6.0	11.6	12.8	12.7	11.5
Petroleum and natural gas sales	**61.3**	54.6	41.3	46.5	54.7	63.3	70.5	61.1
Funds flow from operations – CO	**17.9**	16.9	15.9	10.2	8.9	19.0	26.7	18.4
Funds flow from operations – DO	**(1.3)**	0.8	(0.4)	1.9	3.9	7.1	6.1	5.0
Funds flow from operations	**16.6**	17.7	15.5	12.1	12.8	26.1	32.8	23.4
Total per share – diluted ($/share)	**0.18**	0.20	0.18	0.15	0.15	0.33	0.42	0.29
Income (loss) - CO	**(27.7)**	(128.6)	(33.5)	(29.8)	127.2	(197.8)	(24.0)	12.1
Per share – basic ($/share)	**(0.31)**	(1.49)	(0.39)	(0.35)	1.49	(2.52)	(0.30)	0.16
Per share – diluted ($/share)	**(0.31)**	(1.49)	(0.39)	(0.35)	1.45	(2.52)	(0.30)	(0.02)
Net income (loss)	**0.4**	(151.8)	(34.6)	–	124.5	(209.9)	(22.4)	12.2
Per share – basic ($/share)	**–**	(1.69)	(0.40)	–	1.46	(2.54)	(0.28)	0.16
Per share – diluted ($/share)	**–**	(1.69)	(0.40)	–	1.42	(2.54)	(0.28)	(0.02)
Sales volumes								
Natural gas (MMcf/d)	**110.8**	99.4	90.6	101.4	83.3	85.5	90.9	70.7
NGLs (Bbl/d)	**2,655**	2,098	1,745	1,957	1,589	1,577	1,998	1,475
Oil (Bbl/d)	**861**	948	900	1,064	1,153	1,081	938	1,046
Total Continuing (Boe/d)	**21,985**	19,606	17,745	19,904	16,637	16,907	18,096	14,302
Discontinued (Boe/d)	**606**	1,068	967	1,570	2,176	2,316	2,611	2,270
Total (Boe/d)	**22,591**	20,674	18,712	21,474	18,813	19,223	20,707	16,572
Average realized price								
Natural gas ($/Mcf)	**3.48**	3.45	2.58	2.08	2.77	3.63	4.13	4.39
NGLs ($/Bbl)	**73.76**	61.14	60.55	69.52	78.96	77.79	81.50	82.13
Oil ($/Bbl)	**84.32**	79.20	81.45	82.74	89.99	97.12	83.85	98.90
Continuing ($/Boe)	**30.08**	28.27	23.78	22.36	28.43	32.47	34.73	38.10
Discontinued ($/Boe)	**32.95**	36.61	27.96	42.31	58.51	60.06	53.06	55.75
Total ($/Boe)	**30.16**	28.70	24.00	23.82	31.95	35.80	37.03	40.52

Significant Items Impacting Quarterly Results

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

- First quarter 2013 earnings include $50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.

- Fourth quarter 2012 earnings include a $135.6 million write-down of petroleum and natural gas properties and goodwill, and $6.5 million in dry hole charges.

- Third quarter 2012 earnings includes $6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

- Second quarter 2012 earnings include a $50.7 million pre-tax gain recognized on the disposition of United States properties.

- First quarter 2012 earnings include a $157.2 million pre-tax gain on the sale of 5.0 million Trilogy shares and a $28.3 million gain on the sale of property, plant and equipment, partially offset by higher tax expense, operating expenses and depletion and depreciation.

- Fourth quarter 2011 earnings include a $225.7 million write-down of petroleum and natural gas properties and goodwill, and $7.6 million of losses on financial commodity contracts, partially offset by an $8.4 million decrease in stock-based compensation expense and a $3.1 million gain on the sale of property, plant and equipment.

- Third quarter 2011 earnings include $14.6 million of stock-based compensation expense, a decrease of $15.4 million in gains on the sale of securities and an increase of $8.3 million in depletion and depreciation.

- Second quarter 2011 earnings include the recognition of $15.4 million of gains on investments in securities and a $10.6 million stock-based compensation recovery, partially offset by higher depletion and depreciation and interest.

Change in Accounting Policies

Effective January 1, 2013, the Company adopted IFRS 10 - *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IFRS 13 – *Fair Value Measurement*, and IAS 28 – *Investments in Associates and Joint Ventures*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of these standards.

Advisories

FORWARD-LOOKING INFORMATION

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "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:

- expected production and sales volumes and funds flow from operations and the timing thereof;
- exploration, development and strategic investment plans and strategies and the anticipated costs, timing, and results thereof;
- budget allocations and capital spending flexibility;
- the availability and adequacy of facilities to process, fractionate and transport natural gas and NGLs production;
- the scope, timing, and cost of proposed new facilities and facilities expansions and the expected capacity and benefits of such facilities;
- the negotiation and completion of arrangements for the transportation and sales of natural gas, NGLs, and bitumen;
- the timing and scope of the anticipated development of oilsands, carbonate bitumen, and shale gas assets;
- future taxes payable or owing;
- business strategies and objectives;
- sources of and plans for funding Paramount's exploration, development, facilities and other expenditures;
- acquisition and disposition plans;
- operating and other costs and royalty rates;
- regulatory applications and the anticipated timing, results and scope thereof;
- expected drilling programs, well tie-ins, facility construction and expansions, completions and the timing, scope and results thereof; and
- the outcome and timing of any legal claims, insurance claims, audits, assessments and regulatory matters and proceedings.

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

- future oil, gas, NGLs, and bitumen prices and general economic, business, and market conditions;
- the ability to obtain required capital, through access to capital markets and other means, to finance exploration and development activities and new and expanded facilities;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out activities;
- the ability to market oil, natural gas, NGLs and bitumen successfully to current and new customers;
- the ability to secure adequate product processing, fractionation, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success and production levels consistent with expectations, including with respect to anticipated reserves additions and NGLs yields;
- the timely receipt of required regulatory approvals;
- expected timelines and budgets being met and anticipated results achieved, in respect of facilities and infrastructure development;
- anticipated rates of return from existing and planned projects relative to other opportunities;
- estimates of input and labour costs; and
- currency exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward looking information is reasonable, undue reliance should not be placed on it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on current 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. These risks and uncertainties include, but are not limited to:

- fluctuations in oil, natural gas, NGLs and bitumen prices and commodity price differentials;
- fluctuations in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, NGLs yields, costs and expenses and the timing thereof;
- the ability to secure adequate product processing, de-ethanization, fractionation, transportation and storage;
- uncertainties associated with exploration and development drilling and related activities;
- operational risks in exploring for, developing and producing oil, natural gas, NGLs and bitumen and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, unexpected technical difficulties or other constraints in designing, developing, operating or utilizing new, expanded or existing facilities, including third party facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and obtain other sources of financing at an acceptable cost to fund planned operational, exploration and development activities, including costs of anticipated new and expanded facilities and other projects, and to meet current and future obligations;
- the ability to fulfill pipeline transportation, processing, de-ethanization and fractionation commitments;
- changes to, or in the interpretation or application of, laws, regulations or policies;
- changes in environmental laws including potential emission reduction obligations and fracing regulations;
- the receipt, timing, and scope of governmental or regulatory approvals;
- potential title defects affecting Paramount's properties;
- uncertainties regarding aboriginal land claims and co-existing with local populations and stakeholders;
- the effects of weather;
- the timing and cost of future abandonment and reclamation activities;
- clean-up costs or business interruptions resulting from environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions;
- general economic, business and market conditions;
- industry wide pipeline, processing, de-ethanization and fractionation constraints; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. Additional information concerning these and other factors which could impact Paramount, its operations and its financial condition are included in Paramount's most recent Annual Information Form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including financial commodity contract settlements", "Net Debt", "Adjusted Working Capital", "Exploration and development expenditures" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by IFRS.

Funds flow from operations refers to cash from operating activities before net changes in operating non-cash working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to fund capital programs and meet financial obligations. **Netback** equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of Management's Discussion and Analysis for the calculation of Net Debt and **Adjusted Working Capital**. **Exploration and development expenditures** refer to capital expenditures and geological and geophysical costs incurred by the Company's COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy, MGM Energy and others), and investments in all other entities at book value. Paramount provides this information because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers.

OIL AND GAS MEASURES AND DEFINITIONS

This document contains disclosures expressed as "Boe" and "Boe/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. The term "liquids" is used to represent oil and natural gas liquids.

During the first quarter of 2013, the value ratio between crude oil and natural gas was approximately 24:1. 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.

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

As at	Note	March 31 2013	December 31 2012
ASSETS		**(Unaudited)**	
Current assets			
Cash and cash equivalents	16	**$ 47,972**	$ 146,684
Accounts receivable		**49,867**	32,790
Prepaid expenses and other		**1,919**	2,504
Assets held for sale	4	**–**	12,433
		99,758	194,411
Deposit		**20,284**	20,234
Exploration and evaluation	5	**451,949**	405,090
Property, plant and equipment, net	6	**1,169,197**	1,078,451
Equity-accounted investments	7	**90,469**	90,977
Investments in securities	8	**140,326**	127,767
Deferred income tax		**101,422**	116,901
Goodwill		**3,124**	3,124
		$ 2,076,529	$ 2,036,955
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	**$ 54,118**	$ 40,703
Accounts payable and accrued liabilities		**233,538**	183,512
Liabilities associated with assets held for sale	4	**–**	470
		287,656	224,685
Long-term debt	10	**661,026**	660,702
Asset retirement obligations	11	**261,332**	300,468
		1,210,014	1,185,855
Shareholders' equity			
Share capital	13	**928,055**	921,680
Accumulated deficit		**(165,169)**	(165,527)
Reserves	14	**103,629**	94,947
		866,515	851,100
		$ 2,076,529	$ 2,036,955

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

PARAMOUNT RESOURCES LTD.
Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)
($ thousands, except as noted)

Three months ended March 31	Note	2013	2012 (restated see note 2)
Petroleum and natural gas sales		$ 59,524	$ 43,048
Royalties		(4,341)	(3,814)
Revenue		55,183	39,234
Loss on financial commodity contracts		–	(3,583)
		55,183	35,651
Expenses			
Operating expense		17,848	15,087
Transportation		4,958	5,181
General and administrative		5,017	4,662
Stock-based compensation	15	5,096	7,036
Depletion and depreciation		42,053	29,070
Exploration and evaluation	5	10,355	5,161
Gain on sale of property, plant and equipment		(11,796)	(28,336)
Interest		12,840	7,568
Accretion of asset retirement obligations		–	1,392
Foreign exchange		(460)	180
		85,911	47,001
Income from equity-accounted investments	7	1,502	156,543
Other income		920	1,974
Income (loss) from continuing operations before tax		(28,306)	147,167
Income tax expense (recovery)	12		
Current		4,293	108
Deferred		(4,927)	19,837
		(634)	19,945
Income (loss) from continuing operations		(27,672)	127,222
Income (loss) from discontinued operations, net of tax	2	28,030	(2,720)
Net income		$ 358	$ 124,502
Other comprehensive income (loss), net of tax	14		
Change in market value of securities		7,587	(14,006)
Exchange differences on translation of US subsidiaries		(587)	(648)
		7,000	(14,654)
Comprehensive income		$ 7,358	$ 109,848
Net income (loss) per common share ($/share)	13		
Basic – continuing operations		(0.31)	1.49
Basic – discontinued operations		0.31	(0.03)
Basic		–	1.46
Diluted – continuing operations		(0.31)	1.45
Diluted – discontinued operations		0.31	(0.03)
Diluted		–	1.42

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

PARAMOUNT RESOURCES LTD.
Interim Condensed Consolidated Statement of Cash Flows (Unaudited)
($ thousands)

Three months ended March 31	Note	2013	2012
Operating activities			
Net income		**$ 358**	$ 124,502
Add (deduct):			
Items not involving cash	16	**8,417**	(116,725)
Dividends from equity-accounted investments		**2,010**	2,010
Asset retirement obligations settled	11	**(1,720)**	(3,784)
Current tax related to the sale of U.S. properties		**4,273**	616
Change in non-cash working capital		**9,843**	7,431
Cash from operating activities		**23,181**	14,050
Financing activities			
Net draw of demand loans		**13,415**	1,731
Net repayment of revolving long-term debt		**–**	(61,383)
Senior Notes issue costs		**(61)**	–
Common shares issued, net of issue costs		**1,674**	818
Cash from (used in) financing activities		**15,028**	(58,834)
Investing activities			
Property, plant and equipment and exploration		**(196,234)**	(180,689)
Proceeds on sale of property, plant and equipment		**21,643**	44,582
Proceeds on sale of discontinued operations, net		**9,062**	–
Proceeds on sale of investment, net		**–**	181,718
Investments in securities		**(9,000)**	(13,023)
Change in non-cash working capital		**37,425**	37,341
Cash from (used in) investing activities		**(137,104)**	69,929
Net increase (decrease)		**(98,895)**	25,145
Foreign exchange on cash and cash equivalents		**183**	(118)
Cash and cash equivalents, beginning of period		**146,684**	29,000
Cash and cash equivalents, end of period		**$ 47,972**	$ 54,027
Supplemental cash flow information	16		

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

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

Three months ended March 31	Note	2013		2012	
		Shares (000's)		*Shares (000's)*	
Share Capital					
Balance, beginning of period		***89,857***	**$ 921,680**	*85,414*	$ 810,781
Issued		***198***	**6,209**	*70*	2,560
Change in unvested Common Shares for stock incentive plan	15	**–**	**166**	–	(169)
Balance, end of period		***90,055***	**$ 928,055**	*85,484*	$ 813,172
Accumulated Earnings (Deficit)					
Balance, beginning of period			**$ (165,527)**		$ (103,615)
Net income			**358**		124,502
Balance, end of period			**$ (165,169)**		$ 20,887
Reserves	14				
Balance, beginning of period			**$ 94,947**		$ 116,670
Other comprehensive income (loss)			**7,000**		(14,654)
Contributed surplus			**1,682**		5,067
Balance, end of period			**$ 103,629**		$ 107,083
Total Shareholders' Equity			**$ 866,515**		$ 941,142

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

1. BASIS OF PRESENTATION

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are primarily located in Alberta and British Columbia. Paramount's operations are divided into three business segments, established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives: i) Principal Properties; ii) Strategic Investments; and iii) Corporate.

Paramount is the ultimate parent company of the consolidated group of companies and is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5.

These unaudited Interim Condensed Consolidated Financial Statements (the "Interim Financial Statements") were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 7, 2013.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* on a consistent basis 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, 2012 (the "Annual Financial Statements"), except as disclosed below. These Interim Financial Statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to Annual Financial Statements have been condensed or omitted. Certain amounts for the three months ended March 31, 2012 have been restated to exclude amounts related to discontinued operations, refer to note 2.

These Interim Financial Statements include the accounts of Paramount and its subsidiaries and partnerships, including Summit Resources, Inc. ("Summit"), Cavalier Energy Inc. ("Cavalier Energy") and Fox Drilling Inc. ("Fox Drilling"). The financial statements of Paramount's subsidiaries and partnerships are prepared for the same reporting periods as the parent in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated. Certain comparative figures have been reclassified to conform with the current years' presentation.

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

Change in Accounting Policies

Effective January 1, 2013, the Company adopted IFRS 10 - *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IFRS 13 – *Fair Value Measurement*, and IAS 28 – *Investments in Associates and Joint Ventures*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of these standards.

($ thousands, except as noted)

2. DISCONTINUED OPERATIONS

In March 2013, Paramount sold its properties in the Bistcho area of Alberta and the Cameron Hills area of the Northwest Territories for net proceeds of $9.1 million.

In May 2012, Paramount's wholly-owned subsidiary, Summit, closed the sale of all of its operated properties in North Dakota and all of its properties in Montana for after-tax cash proceeds of $66.5 million.

These properties were included in the Company's Principal Properties business segment.

Details of income (loss) from discontinued operations are presented below:

Three months ended March 31	**2013**	2012
Petroleum and natural gas sales	**$ 1,796**	$ 11,647
Royalties	**(24)**	(1,478)
Revenue	**1,772**	10,169
Expenses		
Operating expense and production tax	**2,841**	6,219
Transportation	**233**	453
Depletion and depreciation	**267**	2,793
Exploration and evaluation	**29**	25
Loss on sale of property, plant and equipment	**–**	48
Accretion of asset retirement obligations	**–**	256
	3,370	9,794
Income (loss) from ordinary activities of discontinued operations before tax	**(1,598)**	375
Gain on sale of discontinued operations	**38,985**	–
Income from discontinued operations before tax	**37,387**	375
Income tax expense – discontinued operations		
Current	**–**	616
Deferred	**9,357**	2,479
	9,357	3,095
Income (loss) from discontinued operations	**$ 28,030**	$ (2,720)

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

Three months ended March 31	**2013**	2012
Operating	**$ (926)**	$ 5,068
Investing	**9,062**	(843)
Cash flow from discontinued operations	**$ 8,136**	$ 4,225

($ thousands, except as noted)

3. SEGMENTED INFORMATION

Paramount's operations are divided into three business segments established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives:

- **Principal Properties:** Principal properties consist of: (i) the Kaybob Corporate Operating Unit ("COU"), which includes properties in West Central Alberta; (ii) the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta; (iii) the Southern COU, which includes properties in Southern Alberta; and (iv) the Northern COU, which includes properties in Northern Alberta and Northeast British Columbia.

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

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

Three months ended March 31, 2013	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 55,183	$ –	$ –	$ –	**$ 55,183**
Expenses					
Operating expense	17,848	–	–	–	**17,848**
Transportation	4,958	–	–	–	**4,958**
General and administrative	–	2,011	3,006	–	**5,017**
Stock-based compensation	–	(69)	5,165	–	**5,096**
Depletion and depreciation	41,485	1,568	88	(1,088)	**42,053**
Exploration and evaluation	10,269	86	–	–	**10,355**
Gain on sale of property, plant and equipment	(11,796)	–	–	–	**(11,796)**
Interest	–	561	12,279	–	**12,840**
Foreign exchange	–	–	(460)	–	**(460)**
	62,764	4,157	20,078	(1,088)	**85,911**
Income from equity-accounted investments	–	1,502	–	–	**1,502**
Other	(641)	–	–	–	**(641)**
Drilling rig revenue	–	7,246	–	(4,680)	**2,566**
Drilling rig expense	–	(3,102)	–	2,097	**(1,005)**
	(8,222)	1,489	(20,078)	(1,495)	**(28,306)**
Inter-segment eliminations	–	(1,495)	–	1,495	**–**
Segment loss	$ (8,222)	$ (6)	$ (20,078)	$ –	**$ (28,306)**
Income tax recovery					**634**
Income from discontinued operations, net of tax					**28,030**
Net income					**$ 358**

($ thousands, except as noted)

Three months ended March 31, 2012 (restated see note 2)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 39,234	$ –	$ –	$ –	$39,234
Loss on financial commodity contracts	(3,583)	–	–	–	(3,583)
	35,651	–	–	–	35,651
Expenses					
Operating expense	15,087	–	–	–	15,087
Transportation	5,181	–	–	–	5,181
General and administrative	–	1,622	3,040	–	4,662
Stock-based compensation	–	1,407	5,629	–	7,036
Depletion and depreciation	28,305	1,406	66	(707)	29,070
Exploration and evaluation	4,170	991	–	–	5,161
Gain on sale of property, plant and equipment	(28,336)	–	–	–	(28,336)
Interest	–	321	7,247	–	7,568
Accretion of asset retirement obligations	1,382	10	–	–	1,392
Foreign exchange	–	18	162	–	180
	25,789	5,775	16,144	(707)	47,001
Income from equity-accounted investments	–	156,543	–	–	156,543
Other	361	–	–	–	361
Drilling rig revenue	–	6,515	–	(3,100)	3,415
Drilling rig expense	–	(3,137)	–	1,335	(1,802)
	10,223	154,146	(16,144)	(1,058)	147,167
Inter-segment eliminations	–	(1,058)	–	1,058	–
Segment earnings (loss)	$ 10,223	$ 153,088	$ (16,144)	$ –	147,167
Income tax expense					(19,945)
Loss from discontinued operations, net of tax					(2,720)
Net income					$ 124,502

4. ASSETS HELD FOR SALE

During the first quarter of 2013, Summit closed the sale of its non-operated joint venture operations and lands in North Dakota for pre-tax proceeds of US$21.8 million. The carrying value of the properties and associated liabilities were presented as assets held for sale as at December 31, 2012:

Exploration and evaluation	$ 12,270
Property, plant and equipment, net	163
Asset retirement obligations	$ (470)

5. EXPLORATION AND EVALUATION

	Three months ended March 31, 2013	Twelve months ended December 31, 2012
Balance, beginning of period	**$ 405,090**	$ 390,742
Additions	**74,084**	166,214
Transfer to assets held for sale	**–**	(12,270)
Transfers to property, plant and equipment	**(17,676)**	(111,416)
Dry hole	**(2,102)**	(6,842)
Expired lease costs	**(6,730)**	(18,550)
Dispositions	**(685)**	(2,548)
Foreign exchange	**(32)**	(240)
Balance, end of period	**$ 451,949**	$ 405,090

Exploration and Evaluation Expense

Three months ended March 31	2013	2012
Geological and geophysical	**$ 1,523**	$ 2,714
Dry hole	**2,102**	43
Expired lease costs	**6,730**	2,404
	$ 10,355	$ 5,161

6. PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2013	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2012	$ 1,960,833	$ 84,100	$ 20,374	**$ 2,065,307**
Additions	113,440	8,964	3,552	**125,956**
Transfers from exploration and evaluation	17,676	–	–	**17,676**
Dispositions	(95,938)	–	(103)	**(96,041)**
Change in asset retirement provision	2,724	–	–	**2,724**
Currency translation differences	4	–	11	**15**
Cost, March 31, 2013	**$ 1,998,739**	**$ 93,064**	**$ 23,834**	**$ 2,115,637**
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2012	$ (949,699)	$ (18,420)	$ (18,737)	**$ (986,856)**
Depletion and depreciation	(41,443)	(1,564)	(94)	**(43,101)**
Dispositions	83,518	–	–	**83,518**
Currency translation differences	3	–	(4)	**(1)**
Accumulated depletion, depreciation and write-downs, March 31, 2013	**$ (907,621)**	**$ (19,984)**	**$ (18,835)**	**$ (946,440)**
Net book value, December 31, 2012	1,011,134	65,680	1,637	1,078,451
Net book value, March 31, 2013	**$ 1,091,118**	**$ 73,080**	**$ 4,999**	**$ 1,169,197**

7. EQUITY-ACCOUNTED INVESTMENTS

	March 31, 2013			December 31, 2012		
	Shares (000's)	**Carrying Value**	**Market Value(1)**	*Shares (000's)*	Carrying Value	Market Value(1)
Trilogy Energy Corp. ("Trilogy")	***19,144***	**$ 82,129**	**$ 560,929**	*19,144*	$ 82,419	$ 557,292
MGM Energy Corp.	***54,147***	**2,228**	**12,183**	*54,147*	2,299	13,537
Paxton Corporation	***1,750***	**3,540**		*1,750*	3,687	
Other		**2,572**			2,572	
		$ 90,469			$ 90,977	

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

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

Three months ended March 31	2013			2012			
	Equity income (loss)	**Dilution gain**	**Total**	Equity income (loss)	Dilution gain	Gain on sale	Total
Trilogy	**$ 1,534**	**$ 186**	**$ 1,720**	$ (932)	$ 128	$ 157,228	$ 156,424
MGM Energy Corp.	**(71)**	**–**	**(71)**	(228)	–	–	(228)
Paxton Corporation	**(147)**	**–**	**(147)**	(88)	–	–	(88)
Other	**–**	**–**	**–**	435	–	–	435
	$ 1,316	**$ 186**	**$ 1,502**	$ (813)	$ 128	$ 157,228	$ 156,543

The following table summarizes the assets, liabilities, revenue and income of Trilogy. These amounts have been derived directly from Trilogy's published financial statements as at and for the three months ended March 31, 2013 and 2012. The amounts presented do not include Paramount's adjustments in applying the equity method of investment accounting. As a result, these amounts cannot be used directly to derive Paramount's equity income and net investment in Trilogy.

As at	March 31, 2013	March 31, 2012
Assets	**$ 1,516,855**	$ 1,391,120
Liabilities	**$ 1,025,955**	$ 870,736
Shares outstanding (thousands)	**117,000**	116,216
Paramount's equity interest	**16%**	16%

Three months ended March 31	2013	2012
Revenue	**$ 124,123**	$ 96,500
Net income (loss)	**$ 9,644**	$ (3,003)

Note: Readers are cautioned that Paramount does not have any direct or indirect interest in or right to Trilogy's assets or revenue, nor does Paramount have any direct or indirect obligation in respect of or liability for the expenses or obligations of Trilogy.

Trilogy had 7.0 million stock options outstanding (2.4 million exercisable) at March 31, 2013 at exercise prices ranging from $4.85 to $38.74 per share.

8. INVESTMENTS IN SECURITIES

	March 31, 2013		December 31, 2012	
	Shares (000's)	**Market Value**	*Shares (000's)*	Market Value
MEG Energy Corp.	***3,700***	**$ 120,657**	*3,700*	$ 112,628
Strategic Oil & Gas Ltd.	***7,200***	**8,208**	–	–
Other		**11,461**		15,139
		$ 140,326		$ 127,767

9. DEMAND FACILITIES

	March 31, 2013	December 31, 2012
Drilling Rig Loan I	**$ 16,497**	$ 17,766
Drilling Rig Loan II	**29,000**	21,000
Cavalier Facility	**8,621**	1,937
	$ 54,118	$ 40,703

($ thousands, except as noted)

Drilling Rig Loans

In 2009, Paramount entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $13.9 million have been made to March 31, 2013. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are $3.8 million for the remainder of 2013, with the remaining outstanding balance payable in 2014.

In 2012, Paramount entered into a new $30.0 million non-revolving demand loan facility with the same Canadian bank to partially fund the construction of two new triple-sized walking rigs ("Drilling Rig Loan II"). During the first quarter of 2013, an additional $9.0 million was drawn and a $1.0 million principal payment was made on Drilling Rig Loan II. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan II are $2.5 million for the remainder of 2013, $6.2 million in 2014, $6.3 million in each of 2015 and 2016, with the remainder due in 2017.

Cavalier Facility

In 2012, Cavalier Energy entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In March 2013, the size of the Cavalier Facility was increased to $40.0 million, with all other material terms remaining unchanged.

10. LONG-TERM DEBT

	March 31, 2013	December 31, 2012
Bank credit facility	**$ –**	$ –
8 ¼ % Senior Notes due 2017	**370,000**	370,000
7 ⅝ % Senior Notes due 2019	**300,000**	300,000
	670,000	670,000
Unamortized financing costs, net of premiums	**(8,974)**	(9,298)
	$ 661,026	$ 660,702

Bank Credit Facility

Paramount's $300 million bank credit facility (the "Facility") is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to November 30, 2013. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due November 30, 2013 in the event the due date is not earlier extended.

At March 31, 2013, no amounts were drawn on the Facility (December 31, 2012 - nil). Paramount had undrawn letters of credit outstanding at March 31, 2013 totaling $45.6 million that reduce the amount available to the Company.

($ thousands, except as noted)

11. ASSET RETIREMENT OBLIGATIONS

	Three months ended March 31, 2013	Twelve months ended December 31, 2012
Asset retirement obligations, beginning of period	**$ 300,468**	$ 299,202
Retirement obligations incurred	**2,924**	14,626
Revisions to estimated retirement costs and discount rates	**–**	441
Obligations settled	**(1,720)**	(8,002)
Disposal of properties	**(40,620)**	(8,500)
Accretion expense – continuing operations	**–**	2,116
Accretion expense – discontinued operations	**–**	1,267
Transfer to liabilities associated with assets held for sale	**–**	(470)
Other	**280**	(212)
Asset retirement obligations, end of period	**$ 261,332**	$ 300,468

Asset retirement obligations at March 31, 2013 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2012 – 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2012 – 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 39 years.

12. INCOME TAX

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

Three months ended March 31	**2013**	2012
Income (loss) from continuing operations before tax	**$ (28,306)**	$ 147,167
Effective Canadian statutory income tax rate	**25.0%**	25.1%
Expected income tax expense (recovery)	**$ (7,076)**	$ 36,939
Increase (decrease) resulting from:		
Statutory and other rate differences	**1,735**	585
Income from equity-accounted investments	**(372)**	(23,341)
Investment in subsidiaries	**1,327**	–
Flow-through share renunciations	**3,618**	1,612
Stock-based compensation	**937**	1,619
Non-deductible items and other	**(803)**	2,531
Income tax expense (recovery)	**$ (634)**	$ 19,945

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with Canadian Exploration Expense and Canadian Development Expense flow-through Common Shares issued in 2012.

13. SHARE CAPITAL

At March 31, 2013, 90,055,478 Class A common shares ("Common Shares") of the Company were outstanding, net of 74,396 Common Shares held in trust under the stock incentive plan.

Weighted Average Common Shares Outstanding

Three months ended March 31	**2013**			2012		
	Shares (000's)	**Loss from continuing operations**		*Shares (000's)*	Income from continuing operations	
Income (loss) from continuing operations – basic	***89,972***	**$**	**(27,672)**	*85,470*	$	127,222
Dilutive effect of Paramount options	**–**		**–**	*1,997*		–
Income (loss) from continuing operations - diluted	***89,972***	**$**	**(27,672)**	*87,467*	$	127,222

Outstanding Paramount Options can be exchanged for Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted per share calculations when they are dilutive to income from continuing operations. The Company had 6.6 million Paramount Options outstanding at March 31, 2013 (March 31, 2012 – 5.7 million), of which 6.6 million (March 31, 2012 – 1.4 million) were anti-dilutive.

14. RESERVES

Reserves at March 31, 2013 include unrealized gains on the Company's investments in securities, foreign exchange differences on the translation of foreign subsidiaries' balances, and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

	Unrealized Gains on Securities		**Translation of Foreign Subsidiaries**		**Contributed Surplus**		**Total Reserves**	
Balance, December 31, 2012	$	8,879	$	(393)	$	86,461	**$**	**94,947**
Other comprehensive income (loss)		7,587		(587)		–		**7,000**
Stock-based compensation		–		–		6,217		**6,217**
Stock options exercised		–		–		(4,535)		**(4,535)**
Balance, March 31, 2013	**$**	**16,466**	**$**	**(980)**	**$**	**88,143**	**$**	**103,629**

Other Comprehensive Income

Three months ended March 31	**2013**		2012	
Unrealized gain (loss) on securities				
Change in market value of securities	**$**	**7,587**	$	(14,271)
Deferred tax		**–**		265
		7,587		(14,006)
Translation of foreign subsidiaries				
Exchange differences on translation of US subsidiaries		**(682)**		(1,201)
Reclassification of other comprehensive loss to earnings		**95**		172
Deferred tax		**–**		381
		(587)		(648)
Other comprehensive income (loss)	**$**	**7,000**	$	(14,654)

15. SHARE-BASED PAYMENTS

Paramount Options

Changes in the Company's outstanding options are as follows:

	Three months ended March 31, 2013			Twelve months ended December 31, 2012		
	Number	**Weighted average exercise price**		Number	Weighted average exercise price	
		($/share)			($/share)	
Balance, beginning of period	**6,667,850**	**$**	**23.58**	5,767,450	$	20.76
Granted	**140,000**		**33.31**	1,340,000		34.01
Exercised	**(198,000)**		**8.46**	(258,600)		11.13
Forfeited	**–**		**–**	(171,000)		28.15
Expired	**–**		**–**	(10,000)		40.09
Balance, end of period	**6,609,850**	**$**	**24.24**	6,667,850	$	23.58
Options exercisable, end of period	**2,666,634**	**$**	**14.85**	2,862,134	$	14.42

Stock Incentive Plan

	Three months ended March 31, 2013			Twelve months ended December 31, 2012		
Stock incentive plan shares held in trust	***Shares (000's)***			*Shares (000's)*		
Balance, beginning of period	***75***	**$**	**416**	*86*	$	419
Shares purchased	**–**		**–**	*124*		3,052
Change in vested and unvested shares	**–**		**(166)**	*(135)*		(3,055)
Balance, end of period	***75***	**$**	**250**	*75*	$	416

16. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

Three months ended March 31		**2013**		2012
Financial commodity contracts	**$**	**–**	$	2,142
Stock-based compensation		**5,096**		7,036
Depletion and depreciation		**42,053**		29,070
Exploration and evaluation		**8,832**		2,447
Gain on sale of property, plant, and equipment		**(11,796)**		(28,336)
Accretion of asset retirement obligations		**–**		1,392
Foreign exchange		**(372)**		99
Income from equity-accounted investments		**(1,502)**		(156,543)
Deferred income tax		**(4,927)**		19,837
Discontinued operations		**(29,361)**		5,952
Other		**394**		179
	$	**8,417**	$	(116,725)

($ thousands, except as noted)

Supplemental cash flow information

Three months ended March 31	2013	2012
Interest paid	$ 1,793	$ 1,381
Current tax paid	$ –	$ 653

Components of cash and cash equivalents

As at	March 31, 2013	December 31, 2012
Cash	$ 29,696	$ 4,575
Cash equivalents	18,276	142,109
	$ 47,972	$ 146,684

CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P. G. Tahmazian
Vice President, Midstream

P. R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

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

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

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T. E. Claugus (4)
President, GMT Capital Corp.
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D. Jungé C.F.A. (2)(4)
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Bryn Athyn, Pennsylvania

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Knott Partners, L.P.
Syosset, New York

S. L. Riddell Rose
President and Chief Executive Officer
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J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

B. M. Wylie(2)
Business Executive
Calgary, Alberta

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

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