

A large, stylized 'Q1' logo in a light blue color, positioned on the left side of the header banner.

2009 first quarter report

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

(\$ millions, except as noted)

Three Months Ended	March 31, 2009	March 31, 2008	Change %
<b>Financial</b>			
Petroleum and natural gas sales	40.2	77.0	(48)
Funds flow from operations	17.6	24.2	(27)
Per share – diluted (\$/share)	0.27	0.36	(25)
Net loss	(23.7)	(38.0)	38
Per share – diluted (\$/share)	(0.36)	(0.56)	36
Exploration and development capital expenditures	55.5	64.1	(13)
Investments <sup>(2)</sup>	256.2	386.2	(34)
Total assets	1,109.7	1,217.0	(9)
Net debt <sup>(3)</sup>	143.0	74.8	91
Common shares outstanding (thousands)	66,125	67,693	(2)
<b>Operating</b>			
Sales volumes:			
Natural gas (MMcf/d)	51.1	65.8	(22)
Oil and NGLs (Bbl/d)	3,398	3,811	(11)
Total (Boe/d)	11,912	14,775	(19)
Gas weighting	71%	74%	(3)
Average realized price			
Natural gas (\$/Mcf)	5.73	7.68	(25)
Oil and NGLs (\$/Bbl)	45.38	89.44	(49)
Total wells drilled (net)	16	16	-

<sup>(1)</sup> Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the "Advisories" section of this document.

<sup>(2)</sup> Based on the period-end closing prices of publicly traded enterprises and book value of the remaining investments.

<sup>(3)</sup> Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Management's Discussion and Analysis.

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## **FIRST QUARTER OVERVIEW**

- Funds flow from operations in 2009 decreased by \$6.6 million to \$17.6 million from the prior year due to lower realized prices and lower production, partially offset by higher natural gas financial contract receipts, lower royalties, operating and Corporate costs.
- First quarter net loss was \$23.7 million compared to a net loss of \$38.0 million in 2008. The current year loss includes higher Principal Properties losses due to a lower netback; lower Strategic Investment losses, as 2008 included a \$12.4 million loss associated with MGM Energy; and lower Corporate costs due to lower stock-based compensation, foreign exchange, and general and administrative expenses.

### ***Principal Properties***

- Kaybob drilled nine wells, including Paramount's first horizontal tight gas well in the area.
- In Grande Prairie, production at Crooked Creek contributed approximately 500 Boe/d for the quarter, largely due to waterflood, and one liquids rich gas deep well was drilled at Karr.
- Completed Northern's winter drilling program and the Bistcho plant turnaround.
- Suspended Southern's light oil drilling program in North Dakota due to project economics.
- Eight (4.7 net) wells drilled in the quarter commenced production in April 2009 and are expected to qualify for a lower Alberta royalty rate.
- Received \$11.2 million from the settlement of natural gas financial contracts.
- Exploration and development capital spending decreased to \$55.5 million from \$64.4 million in the first quarter of 2008.
- Realized prices declined by 25 percent for natural gas and 49 percent for crude oil and NGLs from the first quarter of 2008.
- Netback decreased to \$9.5 million in the first quarter 2009 from \$34.8 million in 2008.

### ***Strategic Investments***

- Drilled seven additional oil sands evaluation wells at Hoole for \$2.0 million.
- Assembly of the third drilling rig continued with completion expected in mid 2009.
- Signed contract for third party short-term usage of a drilling rig for the summer of 2009.

### ***Corporate***

- Purchased 615,600 Paramount shares for \$4.2 million for an average cost of \$6.85 per share under the Company's Normal Course Issuer Bid.
- Received \$12.2 million on settlement of the foreign exchange collar.
- Corporate costs decreased from \$15.7 million to \$6.6 million in the first quarter 2009.

## REVIEW OF OPERATIONS

Paramount's average daily sales volumes by corporate operating unit for the three months ended March 31, 2009 and 2008 are summarized below:

	Q1 2009			Q1 2008			Change		
	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	17.7	553	3,500	20.3	770	4,144	(2.6)	(217)	(644)
Grande Prairie	7.8	795	2,102	8.8	689	2,161	(1.0)	106	(59)
Northern	14.0	336	2,660	19.3	760	3,983	(5.3)	(424)	(1,323)
Southern	11.6	1,714	3,650	15.6	1,586	4,183	(4.0)	128	(533)
Other	-	-	-	1.8	6	304	(1.8)	(6)	(304)
<b>Total</b>	<b>51.1</b>	<b>3,398</b>	<b>11,912</b>	<b>65.8</b>	<b>3,811</b>	<b>14,775</b>	<b>(14.7)</b>	<b>(413)</b>	<b>(2,863)</b>

### *Kaybob*

Kaybob first quarter sales volumes decreased 16 percent to 3,500 Boe/d consisting of 17.7 MMcf/d of natural gas and 553 Bbl/d of crude oil and NGLs. The decrease was mainly due to natural production declines partly offset by drilling and tie-in activities completed in Smoky and Musreau during the quarter.

Capital expenditures for the quarter were approximately \$30 million, excluding land. Activities included drilling nine (4.0 net) wells in the quarter, of which one (0.5 net) well was brought on production in the quarter. Four (1.4 net) wells commenced production in April 2009 and are expected to qualify for a lower Alberta royalty rate. The remaining four (2.1 net) wells are expected to be brought on production later in 2009, the timing of which is subject to commodity prices and lease accessibility. During the quarter, seven (4.5 net) wells drilled in previous quarters were completed and brought on production. The Company currently anticipates drilling four (2.2 net) wells during the remainder of the year in addition to continuing completion and tie-in activities.

Kaybob continues to focus its efforts on reducing per-well drilling, completion, equipping, and tie-in costs by a targeted one third. Regulatory approval has now been received allowing the drilling of up to four wells per section in 112 sections of land in the Musreau, Resthaven and Smoky areas. Cost savings from downspacing are expected to be realized through pad drilling, by reducing equipment mobilization costs, lease preparation expenses and shared production facilities and pipelines. Paramount has realized some of the benefits of reduced spacing by drilling a second well on an existing Smoky area lease saving in excess of \$100,000 in new lease construction costs. During the quarter, Paramount equipped and tied-in the two wells on the Smoky lease as well as two wells drilled in the fourth quarter of 2008 on a pad in Resthaven. The savings realized with shared lease equipment and pipelines for these projects is estimated to be approximately \$300,000 per well. Achievement of the Company's cost reduction target is expected to be realized over the next two to three year's drilling programs as additional wells are drilled from pads and drilling, completion and facilities designs are optimized.

## ***Grande Prairie***

Grande Prairie first quarter sales volumes were 2,102 Boe/d, a decrease of 3 percent from the prior year. Increased oil production at Crooked Creek from waterflood and increased liquids rich gas production at Karr partially offset natural declines at Mirage and Ante Creek.

Total capital expenditures in Grande Prairie for the first quarter were approximately \$15 million, excluding land. At Crooked Creek and Karr, Paramount invested the majority of the capital program developing infrastructure and increasing facility capacity, as well as measuring and optimizing production from the new project defining wells, before putting them on production in the second quarter.

At Crooked Creek one (1.0 net) well was drilled during the quarter, in addition to one (0.2 net) waterflood injector well. Two (1.3 net) wells were tied-in, with production commencing in the second quarter.

At Karr, Paramount drilled one (1.0 net) exploratory well in the quarter which was brought on production in the second quarter. One (1.0 net) well, drilled in 2008, was tied-in, and brought on production during the first quarter.

## ***Northern***

Northern sales volumes decreased 33 percent to 2,660 Boe/d due to normal declines, the three week Bistcho plant turnaround, and the suspension of production from the West Liard facility in March 2008.

Northern drilled, completed, and tied-in three 100 percent working interest wells in the Bistcho area. Production commenced from two of the three wells at the start of the second quarter, the third well is expected to commence production late in the fourth quarter.

Northern's 2009 capital program of approximately \$10 million is substantially complete with minimal expenditures planned for the remainder of the year as the properties are predominately accessible only during winter.

## ***Southern***

Southern sales volumes decreased 13 percent to 3,650 Boe/d consisting of 11.6 MMcf/d of natural gas and 1,714 Bbl/d of crude oil and NGLs. The decrease was mainly due to natural gas and coal bed methane declines in Alberta, partially offset by oil production increases from Southern's 2008 United States drilling program.

Southern's capital expenditures for the quarter were limited as the Company has suspended the United States drilling program until input costs are lower and commodity prices warrant additional spending.

The Company continues to evaluate the 2008 United States crude oil drilling program, with the objective of identifying areas where improvements and cost reductions can be made, including completion techniques. Paramount continues to believe its North Dakota properties can be a significant growth platform.

The majority of Southern's capital budget will be spent during the later half of the year on a 17 well shallow gas drilling program at Chain.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A"), dated May 6, 2009, should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three months ended March 31, 2009 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2008. Amounts are presented in Canadian dollars unless otherwise stated. The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada.*

*This document contains forward-looking statements, non-GAAP measures and disclosures of barrels of oil equivalent volumes. Readers are referred to the "Advisories" heading in this document concerning such matters.*

*In this document "funds flow from operations", "funds flow from operations per share - diluted", "netback" and "net debt", collectively the "Non-GAAP measures", are presented as indicators of Paramount's financial performance. The Non-GAAP measures do not have standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other issuers. Certain comparative figures have been reclassified to conform to the current year's presentation.*

*Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).*

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of petroleum and natural gas. Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's Principal Properties while maintaining a large inventory of undeveloped acreage, and to selectively pursue higher risk/higher return prospects. Paramount has spun-out three public entities: (i) Paramount Energy Trust in February, 2003; (ii) Trilogy Energy Trust ("Trilogy") in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy and also holds investments in other corporations as part of its portfolio of Strategic Investments.

Paramount has divided its operations into three business segments, established by management to assist in resource allocation, assessing operating performance and achieving 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:

- Kaybob consisting of properties in West Central Alberta;
- Grande Prairie consisting of properties in Central Alberta;
- Northern consisting of properties in Northern Alberta, the Northwest Territories and Northeast British Columbia; and
- Southern consisting of properties in Southern Alberta, Saskatchewan, Montana and North Dakota.

Strategic Investments include investments in other entities, including affiliates, and development stage assets where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, sales, or future revenue generation.

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

## First Quarter 2009 Highlights

<b>Three months ended March 31</b>	<b>2009</b>	2008
(\$ millions, except as noted)		
<b>Financial</b>		
Petroleum and natural gas sales	<b>40.2</b>	77.0
Funds flow from operations	<b>17.6</b>	24.2
per share - diluted (\$/share)	<b>0.27</b>	0.36
Net loss	<b>(23.7)</b>	(38.0)
per share - basic and diluted (\$/share)	<b>(0.36)</b>	(0.56)
Total assets	<b>1,109.7</b>	1,217.0
Long-term debt	<b>138.2</b>	94.6
Net debt	<b>143.0</b>	74.8
<b>Operational</b>		
Sales volumes		
Natural gas (MMcf/d)	<b>51.1</b>	65.8
Oil and NGLs (Bbl/d)	<b>3,398</b>	3,811
Total (Boe/d)	<b>11,912</b>	14,775
Average realized price		
Natural gas (\$/Mcf)	<b>5.73</b>	7.68
Oil and NGLs (\$/Bbl)	<b>45.38</b>	89.44
Wells drilled (net)	<b>16</b>	16

## **First Quarter Overview**

### ***Principal Properties***

- Kaybob drilled nine wells, including Paramount's first horizontal tight gas well in the area.
- In Grande Prairie, production at Crooked Creek contributed approximately 500 Boe/d for the quarter, largely due to waterflood, and one liquids rich gas deep well was drilled at Karr.
- Completed Northern's winter drilling program and the Bistcho plant turnaround.
- Suspended Southern's light oil drilling program in North Dakota due to project economics.
- Eight (4.7 net) wells drilled in the quarter commenced production in April 2009 and are expected to qualify for a lower Alberta royalty rate.
- Received \$11.2 million from the settlement of natural gas financial contracts.
- Exploration and development capital spending decreased to \$55.5 million from \$64.4 million in the first quarter of 2008.
- Realized prices declined by 25 percent for natural gas and 49 percent for crude oil and NGLs from the first quarter of 2008.
- Netback decreased to \$9.5 million in the first quarter 2009 from \$34.8 million in 2008.

### ***Strategic Investments***

- Drilled seven additional oil sands evaluation wells at Hoole for \$2.0 million.
- Assembly of the third drilling rig continued with completion expected in mid 2009.
- Signed contract for third party short-term usage of a drilling rig for the summer of 2009.

### ***Corporate***

- Purchased 615,600 Paramount shares for \$4.2 million for an average cost of \$6.85 per share under the Company's Normal Course Issuer Bid ("NCIB").
- Received \$12.2 million on settlement of the foreign exchange collar.
- Corporate costs decreased from \$15.7 million to \$6.6 million in the first quarter 2009.



## Segment Earnings (Loss)

(\$ millions)	Q1 2009	Q1 2008
Principal Properties	(21.3)	(17.4)
Strategic Investments	(4.7)	(13.4)
Corporate	(6.6)	(15.7)
Taxes	8.9	8.5
<b>Net Loss</b>	<b>(23.7)</b>	<b>(38.0)</b>

- First quarter net loss was \$23.7 million compared to a net loss of \$38.0 million in 2008. The current year loss includes higher Principal Properties losses due to lower realized prices and lower production partially offset by lower royalties and operating expenses; lower Strategic Investment losses, as 2008 included a \$12.4 million loss associated with MGM Energy; and lower Corporate costs due to lower stock-based compensation, foreign exchange, and general and administrative expenses.

## Funds Flow From Operations

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

(\$ millions, except as noted)	Q1 2009	Q1 2008
Cash from operating activities	18.2	33.1
Change in non-cash working capital	(0.6)	(8.9)
<b>Funds flow from operations</b>	<b>17.6</b>	<b>24.2</b>
<b>Funds flow from operations (\$/Boe)</b>	<b>16.40</b>	<b>17.98</b>

- Funds flow from operations in 2009 decreased by \$6.6 million to \$17.6 million from the prior year due to a decrease in netback of \$25.3 million partially offset by a \$13.4 million increase in natural gas financial contract receipts and \$5.3 million of reduced Corporate costs and other items.

## Principal Properties

### Netbacks and Segment Loss

(\$ millions, except as noted)	Q1 2009		Q1 2008	
		(\$/Boe)		(\$/Boe)
Petroleum and natural gas sales	40.2	37.53	77.0	57.25
Royalties	(5.4)	(5.05)	(13.3)	(9.89)
Operating expense and production tax	(21.5)	(20.09)	(24.9)	(18.54)
Transportation	(3.8)	(3.50)	(4.0)	(2.99)
<b>Netback</b>	<b>9.5</b>	<b>8.89</b>	34.8	25.83
Settlements of financial commodity contracts	11.2	10.41	(2.2)	(1.64)
<b>Netback including settlements of financial commodity contracts</b>	<b>20.7</b>	<b>19.30</b>	32.6	24.19
Other Principal Property items (see below)	(42.0)		(50.0)	
<b>Segment loss</b>	<b>(21.3)</b>		(17.4)	

### Petroleum and Natural Gas Sales

(\$ millions)	Q1 2009	Q1 2008	% change
Natural gas sales	26.3	45.9	(43)
Oil and NGLs sales	13.9	31.1	(55)
Total	40.2	77.0	(48)

First quarter revenue from natural gas, oil and NGLs sales in 2009 was \$40.2 million, down 48 percent from 2008 due to the impact of lower sales volumes and prices.

The impact of changes in prices and volumes on petroleum and natural gas sales revenue for the three months ended March 31, 2009 are as follows:

(\$ millions)	Natural gas	Oil and NGLs	Total
Three months ended March 31, 2008	45.9	31.1	77.0
Effect of changes in prices	(8.9)	(13.5)	(22.4)
Effect of changes in sales volumes	(10.7)	(3.7)	(14.4)
<b>Three months ended March 31, 2009</b>	<b>26.3</b>	<b>13.9</b>	<b>40.2</b>

### Sales Volumes

	Q1 2009			Q1 2008			Change		
	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	17.7	553	3,500	20.3	770	4,144	(2.6)	(217)	(644)
Grande Prairie	7.8	795	2,102	8.8	689	2,161	(1.0)	106	(59)
Northern	14.0	336	2,660	19.3	760	3,983	(5.3)	(424)	(1,323)
Southern	11.6	1,714	3,650	15.6	1,586	4,183	(4.0)	128	(533)
Other	-	-	-	1.8	6	304	(1.8)	(6)	(304)
Total	51.1	3,398	11,912	65.8	3,811	14,775	(14.7)	(413)	(2,863)

First quarter average daily natural gas sales volumes decreased to 51.1 MMcf/d in 2009 compared to 65.8 MMcf/d in 2008. The decrease was primarily a result of a three week plant turnaround at Bistcho that also affected production from Cameron Hills and Larne, production declines in Northern and the shut-in of the Liard West in March of 2008. Other decreases included normal production declines at Chain in Southern and in Kaybob and the impact of various 2008 property sales. Certain wells drilled in the quarter were brought on production in April 2009 and are expected to qualify for a lower royalty rate – see Royalty below. An additional four (2.1 net) wells drilled in the quarter are expected to be brought on production later in 2009, the timing of which is subject to commodity prices and lease accessibility.

First quarter average daily crude oil and NGLs sales volumes decreased to 3,398 Bbl/d in 2009 compared to 3,811 Bbl/d in 2008 as a result of the Bistcho plant turnaround and declines in Northern at Cameron Hills and Kaybob partially offset by increases from North Dakota oil sales and waterflood at Crooked Creek in Grande Prairie.

### ***Average Realized Prices***

	<b>Q1 2009</b>	Q1 2008	% change
Natural gas (\$/Mcf)	<b>5.73</b>	7.68	(25)
Oil and NGLs (\$/Bbl)	<b>45.38</b>	89.44	(49)
Total (\$/Boe)	<b>37.53</b>	57.25	(34)

### ***Commodity Prices***

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

	<b>Q1 2009</b>	Q1 2008	% change
<b>Natural Gas</b>			
New York Mercantile Exchange (Henry Hub Close) (US\$/MMbtu)	<b>4.89</b>	8.03	(39)
AECO (Cdn\$/GJ)	<b>5.34</b>	6.76	(21)
<b>Crude Oil</b>			
West Texas Intermediate (US\$/Bbl)	<b>43.16</b>	97.90	(56)
Edmonton Par (Cdn\$/Bbl)	<b>48.23</b>	98.13	(51)
<b>Foreign Exchange</b>			
Cdn\$/1US\$	<b>1.25</b>	1.00	(25)

### ***Commodity Price Management***

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

Settlements of financial commodity contracts are as follows:

(\$ millions)	Q1 2009	Q1 2008
Received (paid) on settlement		
Gas contracts	11.2	-
Crude oil contracts	-	(2.2)
<b>Total</b>	<b>11.2</b>	<b>(2.2)</b>

At March 31, 2009, Paramount did not have any financial commodity contracts outstanding. Paramount has a long-term physical contract to sell 3,400 GJ/d of natural gas at a fixed price of \$2.52/GJ plus an escalation factor, expiring in 2011.

### ***Royalties***

(\$ millions, except as noted)	Q1 2009	Q1 2008	% change
Natural gas	2.1	8.7	(76)
Oil and NGLs	3.3	4.6	(28)
<b>Total</b>	<b>5.4</b>	<b>13.3</b>	<b>(60)</b>
Royalty rate (%)	13.5	17.3	(22)

First quarter royalties decreased to \$5.4 million in 2009 compared to \$13.3 million in 2008. Natural gas royalties decreased by 76 percent, primarily as a result of lower natural gas revenue and lower royalty rates in connection with Alberta's new royalty framework ("NRF") because of low market prices and adjustments for deep wells. First quarter oil and NGLs royalties also declined due to lower revenue, partially offset by higher royalty rates on high productivity wells in Alberta under the NRF.

Eight (4.7 net) wells drilled in the quarter commenced production in April 2009 and are expected to qualify for a lower Alberta royalty rate under the Government of Alberta's energy incentive program, announced March 3, 2009. The energy incentive program provides a maximum five percent gross royalty rate for all new conventional wells that begin producing between April 1, 2009 and March 31, 2010 for a period of either one year or 0.5 Bcfe or 50,000 Boe of production, whichever occurs first.

The impact of changes in revenue and royalty rates on royalty expense for the three months ended March 31, 2009 is as follows:

(\$ millions)	Total
Three months ended March 31, 2008	13.3
Effect of changes in revenue	(6.3)
Effect of changes in royalty rates	(1.6)
<b>Three months ended March 31, 2009</b>	<b>5.4</b>

### ***Operating Expense and Production Tax***

(\$ millions)	Q1 2009	Q1 2008	% change
Operating expense	21.0	24.2	(13)
Production tax	0.5	0.7	(29)
Total	21.5	24.9	(14)

Operating expense in the first quarter of 2009 decreased to \$21.0 million compared to \$24.2 million in 2008. Northern's operating costs decreased by over \$5 million from the prior year, primarily because incremental costs were incurred in 2008 to suspend production at Liard West.

Northern's properties are accessible only during winter and as a result, the majority of repairs and maintenance occurs during the first quarter. Northern's operating costs represented approximately 40 percent of Paramount's total operating costs in the first quarter of 2009, compared with approximately 55 percent in 2008.

In addition, first quarter 2009 operating costs increased in Grande Prairie, primarily because of the commencement of waterflood, and in Kaybob at Pine Creek due to well suspension activities.

Production tax has decreased consistent with lower volumes and prices.

### ***Transportation Expense***

(\$ millions)	Q1 2009	Q1 2008	% change
Transportation expense	3.8	4.0	(5)

First quarter transportation expense decreased to \$3.8 million in 2009 compared to \$4.0 million in 2008, primarily as a result of lower volumes, particularly in Northern. Transportation costs per Boe increased in the current year due to the impacts of less production volume over fixed costs.

### ***Other Principal Property Items***

(\$ millions)	Q1 2009	Q1 2008
Depletion, depreciation and accretion	30.7	27.5
Exploration	1.1	3.8
Dry hole	-	5.3
Loss on sale of property plant and equipment	0.3	0.5
Commodity contracts – net of settlements	9.8	12.9
Other items	0.1	-
Total	42.0	50.0

Depletion, depreciation and accretion expense ("DD&A expense") for the first quarter increased to \$30.7 million or \$28.59/Boe in 2009 compared to \$27.5 million or \$20.45/Boe in 2008.

Exploration expense decreased consistent with a lower capital budget. The 2008 dry hole expense related primarily to unsuccessful wells in Northern and Grande Prairie.

## Strategic Investments

(\$ millions)	Q1 2009	Q1 2008
Loss from investments	<b>(4.0)</b>	(12.7)
Drilling, net	<b>(0.6)</b>	(0.9)
Other items	<b>(0.1)</b>	0.2
Segment Loss	<b>(4.7)</b>	(13.4)

Strategic Investments at March 31, 2009 include the following:

- investments in Trilogy, MGM Energy, Nuloch Resources Inc., and Paxton Corporation;
- oil sands investments, including shares in MEG Energy Corp. and carbonate bitumen holdings; and
- drilling rigs in the United States operated by Paramount's wholly owned subsidiary, Paramount Drilling U.S. LLC ("Paramount Drilling").

Paramount increased its equity holdings in Trilogy from 23.3 percent at December 31, 2008 to 23.6 percent at March 31, 2009 through participation in Trilogy's distribution reinvestment plan.

The first quarter 2009 loss from equity investments included a \$2.4 million of equity losses, in addition to a \$1.5 million dilution loss related to flow through share renunciations by MGM Energy. The prior year comparable period included a flow through share dilution loss related to MGM Energy and equity losses of \$8.2 million.

Paramount Drilling owns two drilling rigs and is completing the assembly of a third rig which is expected to be finished in mid 2009. Because of current project economics, Paramount is not presently drilling in North Dakota and has contracted rig usage to a third party on a short-term basis. Paramount is evaluating alternative uses for the rigs including moving a rig or rigs to Canada and continuing to seek third party contracts.

## Corporate

(\$ millions)	Q1 2009	Q1 2008
General and administrative	<b>4.5</b>	7.3
Stock-based compensation	<b>0.3</b>	4.0
Interest and financing charges	<b>2.6</b>	2.7
Debt extinguishment and other	-	1.5
Foreign exchange (gain) loss	<b>(0.8)</b>	2.1
Other (income) expense	-	(1.9)
Corporate costs	<b>6.6</b>	15.7

First quarter Corporate segment net costs of \$6.6 million in 2009 compared to \$15.7 million in 2008. General and administrative costs decreased due to lower personnel costs, occupancy costs and higher overhead recoveries. The prior year also included debt extinguishment fees in connection with repaying a portion of the US Senior Notes.

## Capital Expenditures

(\$ millions)	Q1 2009		Q1 2008	
Geological and geophysical	1.3		3.8	
Drilling and completions	37.2		47.4	
Production equipment and facilities	17.0		12.9	
<b>Exploration and development expenditures</b>	<b>55.5</b>		64.1	
Land and property acquisitions	1.2		2.2	
Cash proceeds on property dispositions	(0.2)		(6.4)	
<b>Principal Properties</b>	<b>56.5</b>		59.9	
Strategic Investments	7.2		-	
Corporate	-		0.2	
<b>Net capital expenditures</b>	<b>63.7</b>		60.1	

First quarter exploration and development expenditures were \$55.5 million compared to \$64.1 million in 2008. Spending in the first quarter was primarily for Kaybob's deep gas program, drilling and facility development at Gold Creek-Karr and Crooked Creek in Grande Prairie, and Northern's gas program at Bistcho. The 2009 exploration and development budget remains at \$90 million and capital spending for the remainder of the year is expected to be primarily directed at Grande Prairie's Gold Creek-Karr and Valhalla projects, the Musreau area in Kaybob, and Chain in Southern Alberta. Capital spending in Northern is substantially complete for 2009.

Strategic Investment capital expenditures included \$5.2 million for the third drilling rig and \$2.0 million for drilling seven oil sands evaluation wells at Hoole to further delineate the pool.

Wells drilled are as follows:

(wells drilled)	Q1 2009		Q1 2008	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Gas	13	8	16	10
Oil	1	1	10	5
Oil sands evaluation	7	7	-	-
Dry and abandoned	-	-	2	1
<b>Total</b>	<b>21</b>	<b>16</b>	28	16

<sup>(1)</sup> Gross is the number of wells that Paramount has a working interest or a royalty interest that may be converted to a working interest.

<sup>(2)</sup> Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

## Liquidity and Capital Resources

(\$ millions)	March 31, 2009	December 31, 2008	Change
Working capital deficit (surplus) <sup>(1)</sup>	3.8	(12.9)	16.7
Credit facility	25.5	-	25.5
US Senior Notes (excluding unamortized financing fees)	113.7	110.4	3.3
Net debt	143.0	97.5	45.5
Share capital	300.3	302.7	(2.4)
Contributed surplus	2.4	2.4	-
Retained earnings	447.9	473.4	(25.5)
Accumulated Other Comprehensive Income	(0.1)	-	(0.1)
Total	893.5	876.0	17.5

(1) Excludes risk management assets and liabilities and stock-based compensation.

The current economic environment remains challenging and uncertain. The global recession, weak commodity prices, volatile financial markets and limited access to capital markets continue to influence Paramount's business environment and future plans.

### ***Working Capital***

Paramount's working capital deficit at March 31, 2009 was \$3.8 million compared to a surplus of \$12.9 million at December 31, 2008. Included in working capital at March 31, 2009 was \$32.4 million in cash and cash equivalents. The decrease in working capital is primarily due to capital spending, partially offset by funds flow from operations and \$12.2 million received on the foreign exchange collar settlement.

Paramount expects to finance the remainder of its 2009 operations, contractual obligations, and capital expenditures from funds flow from operations, its existing cash and cash equivalents, and from available borrowing capacity.

### ***Bank Credit Facility***

Subsequent to March 31, 2009, Paramount renewed its credit facility. Both the borrowing base and lender commitments are \$125 million. The credit facility is available on a revolving basis to April 30, 2010 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. The amount available under the credit facility is reduced by \$16.6 million for outstanding undrawn letters of credit.

As of March 31, 2009, \$25.5 million was drawn on the credit facility.

### ***US Senior Notes***

At March 31, 2009 Paramount's 8.5% US Senior Notes outstanding balance remains at US\$90.2 million (\$113.7 million).

### ***Share Capital***

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a NCIB, commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount may purchase for cancellation up to 3,387,456 Common Shares. For the three months ended March 31, 2009, Paramount purchased 615,600 Common Shares under the NCIB for a total cost of \$4.2 million.

At April 30, 2009, Paramount had 66,125,224 Common Shares and 3,848,000 Stock Options outstanding (696,167 exercisable).



## Quarterly Information

(\$ millions, except as noted)	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	<b>40.2</b>	54.7	83.5	102.9	77.0	61.8	61.9	80.9
Funds flow from operations	<b>17.6</b>	68.2	40.9	46.3	24.2	22.9	21.7	18.0
per share - diluted (\$/share)	<b>0.27</b>	1.01	0.60	0.68	0.36	0.33	0.31	0.25
Net earnings (loss)	<b>(23.7)</b>	(150.5)	103.9	(31.9)	(38.0)	(156.5)	(82.2)	671.0
per share - basic (\$/share)	<b>(0.36)</b>	(2.23)	1.53	(0.47)	(0.56)	(2.29)	(1.17)	9.46
per share - diluted (\$/share)	<b>(0.36)</b>	(2.23)	1.53	(0.47)	(0.56)	(2.29)	(1.17)	9.34
Sales volumes								
Natural gas (MMcf/d)	<b>51.1</b>	53.4	57.3	67.7	65.8	67.6	73.5	89.5
Oil and NGLs (Bbl/d)	<b>3,398</b>	3,298	3,657	3,611	3,811	2,984	3,977	3,561
Total (Boe/d)	<b>11,912</b>	12,202	13,206	14,895	14,775	14,248	16,231	18,480
Average realized price								
Natural gas (\$/Mcf)	<b>5.73</b>	7.43	8.65	10.54	7.68	6.43	5.31	7.35
Oil and NGLs (\$/Bbl)	<b>45.38</b>	60.04	112.64	115.55	89.44	79.77	70.99	64.66

## Significant Items Impacting Quarterly Results

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

First quarter 2009 earnings include lower Corporate costs and Strategic Investment losses.

Fourth quarter 2008 earnings include a \$54.9 million write-down of petroleum and natural gas properties and goodwill and a \$96.9 million investment impairment provision.

Third quarter 2008 earnings include \$79.6 million of mark-to-market gains on financial commodity contracts and \$29.8 million of equity investment income.

Second quarter 2008 earnings include \$5.9 million of equity investment losses and mark-to-market losses of \$56.4 million on financial commodity contracts.

First quarter 2008 earnings include \$12.7 million of equity investment losses primarily related to MGM Energy and mark-to-market losses of \$15.0 million on financial commodity contracts.

Fourth quarter 2007 earnings include a \$192.4 million write-down of petroleum and natural gas properties, primarily related to natural gas producing properties.

Third quarter 2007 earnings include a write-down of petroleum and natural gas properties of \$79.6 million related to Kaybob and Northern.

Second quarter 2007 earnings include a pre-tax \$528.6 million gain on the sale of North American and a pre-tax gain of \$282.2 million on the sale of property, plant and equipment, including \$271.0 million related to the sale of assets in the Surmont, Alberta area.

## Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees. The amounts summarized have been derived directly from the investees' financial statements as at and for the periods ended March 31, 2009 and 2008, and do not include Paramount's adjustments when applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy and MGM Energy.

(\$ millions)	Trilogy		MGM Energy	
	2009	2008	2009	2008
As at March 31				
Current assets	\$ 60.2	\$ 55.2	\$ 54.4	\$ 80.0
Long term assets	889.1	897.3	231.5	252.0
Current liabilities	72.5	112.4	29.7	57.2
Long term liabilities	457.4	469.3	2.5	1.4
Equity	\$ 419.3	\$ 370.8	\$ 253.7	\$ 273.4
Three months ended March 31				
Revenue	\$ 60.0	\$ 69.9	\$ 0.2	\$ 1.0
Expenses	62.3	65.8	36.9	60.3
Taxes	(7.6)	3.2	-	(13.7)
Net Earnings (loss)	\$ (5.8)	\$ 0.9	\$ (36.7)	\$ (45.6)
Units/shares outstanding at March 31 (thousands)	98,249	95,642	263,195	128,945
Paramount's equity interest at March 31 <sup>(1)</sup>	23.6%	21.1%	16.7%	16.7%

(1) Readers are cautioned that Paramount does not have any direct or indirect interest in or right to the equity investees' assets or revenue nor does Paramount have any direct or indirect obligation in respect of or liability for the equity investees' expenses or obligations.

Trilogy had 3.8 million trust unit options outstanding (0.3 million exercisable) at March 31, 2009 at exercise prices ranging from \$4.85 to \$12.88 per unit. MGM Energy had 11.3 million stock options outstanding (1.0 million exercisable) at March 31, 2009 at exercise prices ranging from \$0.16 to \$5.00 per share.

## Outlook Update

The 2009 exploration and development budget of \$90 million excluding land purchases remains unchanged. The Company's current capital plan remains flexible and depending upon future economic conditions, the Company may increase or decrease capital spending. First quarter production of 11,912 Boe/d is consistent with expectations and Paramount continues to forecast annual average production of 12,500 Boe/d, based on the current exploration and development budget.

## Future Accounting Changes

### *International Financial Reporting Standards*

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") for fiscal years beginning on January 1, 2011. The Company commenced the IFRS transition process in 2008, which includes of four key phases:

- **Project Management** – A steering committee has been established to monitor the transition and a project team has been assembled to research and analyze IFRS and implement the transition according to the project plan.
- **Diagnostic** - A diagnostic has been completed to identify key differences between existing Canadian GAAP and IFRS, as they relate to the Company.

- **Research and policy design** – This phase will identify policy changes from current practice and an analysis of policy alternatives where applicable. This phase is ongoing and expected to be completed in mid 2009. In addition, Paramount has secured the services of an external advisor to provide technical accounting advice where necessary and permitted.
- **Implementation** – This phase will include employee and stakeholders training, approval and implementation of accounting policy changes, implementation of new processes and process changes, implementation and testing of new systems and controls as well as the preparation of an opening IFRS balance sheet. This phase is expected to commence in mid to late 2009.

Paramount's steering committee consists of senior members of management who are responsible for approval of policy recommendations where alternatives are permitted. Through the diagnostic, the Company has identified property plant and equipment as one key difference, among others. Although Paramount follows successful efforts accounting for oil and gas operations, the transition to IFRS will require certain policy, process and disclosure changes, including impairment testing levels and exploration phase accounting. Prior year's impairments and depreciation will also be required to be calculated on a retroactive basis and reversed in certain circumstances.

Other significant differences include, but are not limited to, accounting for stock-based compensation and asset retirement obligations. The project team is in the process finalizing the determination of its cash generating units, which will impact impairment and depreciation, and continues to research policy alternatives, and process changes related to these items.

## **Advisories**

### ***Forward-looking Statements***

Certain statements included in this document constitute forward-looking statements or information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook and include an assessment of the fair value and impairment charges of investments. Forward-looking statements or information in this document include, but are not limited to: business strategies and objectives, financing plans, planned capital expenditures, anticipated tax liabilities, future production levels, exploration and development plans and the timing thereof, abandonment and reclamation plans and costs, acquisition and disposition plans, operating and other costs and royalty rates.

Such forward-looking statements or information are 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 and gas prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to secure adequate product transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals; and
- currency, exchange and interest rates.

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

- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- general economic and business conditions;
- loss of the services of any of Paramount's executive officers or key employees;
- the ability of Paramount's management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand for oil and gas;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of resource estimates and resource life;
- the ability of Paramount to add production and reserves through development and exploration activities;
- the impact of market competition;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- the availability of future growth prospects and Paramount's expected financial requirements;
- risks inherent in Paramount's marketing operations, including counterparty credit risk;
- Paramount's ability to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- Paramount's ability to enter into or continue leases;
- Paramount's ability to secure adequate product transportation and storage;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- weather conditions;
- the ability to obtain necessary regulatory approvals;
- the possibility that government laws, regulations or policies may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and changes to royalty regimes and government regulations regarding royalty payments;
- changes in taxation laws and regulations and the interpretation thereof;
- health, safety and environmental risks;
- changes in environmental laws and regulations and the interpretation thereof;
- the value and liquidity of Paramount's investments in other entities and the returns on such investments;
- the cost of future abandonment activities and site restoration;
- risks associated with existing and potential future law suits and regulatory actions against Paramount;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- occurrence of a significant event against which the Company is not fully insured; and
- other risks and uncertainties described elsewhere in this document or in Paramount's other filings with Canadian securities authorities and the United States Securities and Exchange Commission.

The forward-looking statements or information contained in this document are made as of the date hereof and, except as required by 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**

“Funds flow from operations” and “Netback” are used to assist management in measuring the Company’s ability to finance capital programs and meet financial obligations. Funds flow from operations refers to cash flows from operating activities before net changes in operating working capital. “Netback” equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Refer to the calculation of “Net debt” in the liquidity and capital resources section of this document. 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.

### **Oil and Gas Measures and Definitions**

This document contains disclosure expressed as “Boe”, “Bcfe” 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.

**PARAMOUNT RESOURCES LTD.**  
**Consolidated Balance Sheet (Unaudited)**

(\$ thousands)

	<b>March 31 2009</b>	December 31 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 32,409	\$ 54,131
Accounts receivable	44,204	41,319
Risk management assets (Note 8)	–	19,690
Prepaid expenses and other	2,456	1,661
	<b>79,069</b>	116,801
<b>Property, plant and equipment</b>	<b>800,469</b>	766,103
<b>Investments</b> (Note 3)	<b>230,190</b>	234,423
	<b>\$ 1,109,728</b>	\$ 1,117,327
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 82,903	\$ 84,192
Current portion of stock-based compensation liability (Note 7)	–	19
	<b>82,903</b>	84,211
<b>Long-term debt</b> (Note 4)	<b>138,249</b>	109,452
<b>Asset retirement obligations</b> (Note 5)	<b>88,388</b>	87,237
<b>Future income taxes</b>	<b>49,638</b>	57,940
	<b>359,178</b>	338,840
<b>Shareholders' equity</b> (Note 6)		
Share capital	300,313	302,727
Contributed surplus	2,407	2,398
Retained earnings	447,948	473,362
Accumulated other comprehensive loss	(118)	–
	<b>750,550</b>	778,487
	<b>\$ 1,109,728</b>	\$ 1,117,327

See the accompanying notes to these Interim Consolidated Financial Statements.

## PARAMOUNT RESOURCES LTD.

### Consolidated Statement of Earnings (Loss) (Unaudited)

(\$ thousands, except as noted)

Three months ended March 31	2009	2008
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 40,232	\$ 76,976
Gain (loss) on financial commodity contracts (Note 8)	1,350	(15,022)
Royalties	(5,418)	(13,295)
	<b>36,164</b>	48,659
<b>Expenses</b>		
Operating expense and production tax	21,534	24,928
Transportation	3,747	4,021
General and administrative	4,550	7,783
Stock-based compensation	250	3,977
Depletion, depreciation and accretion	30,926	28,177
Exploration	1,144	3,786
Dry hole	—	5,307
Loss on sale of property, plant and equipment	282	506
Interest and financing charges	2,593	2,690
Foreign exchange (Note 8)	(775)	2,083
Debt extinguishment and other	100	1,567
	<b>64,351</b>	84,825
<b>Income (loss) from investments</b> (Note 3)	<b>(3,970)</b>	(12,704)
<b>Other income (loss)</b>	<b>(427)</b>	2,340
<b>Loss before tax</b>	<b>(32,584)</b>	(46,530)
<b>Income and other tax expense (recovery)</b>		
Current and other	(519)	228
Future	(8,380)	(8,720)
	<b>(8,899)</b>	(8,492)
<b>Net loss</b>	<b>\$ (23,685)</b>	\$ (38,038)
<b>Net loss per common share</b> (\$/share) (Note 6)		
Basic and diluted	<b>\$ (0.36)</b>	\$ (0.56)

See the accompanying notes to these Interim Consolidated Financial Statements.

**PARAMOUNT RESOURCES LTD.**  
**Consolidated Statement of Cash Flows (Unaudited)**

(\$ thousands)

<b>Three months ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>		
Net loss	\$ (23,685)	\$ (38,038)
Add (deduct)		
Items not involving cash (Note 9)	41,777	55,052
Asset retirement obligation expenditures	(1,654)	(2,558)
Exploration and dry hole	1,144	9,093
Debt extinguishment costs	–	626
	<b>17,582</b>	24,175
Change in non-cash working capital	600	8,920
Cash from operating activities	<b>18,182</b>	33,095
<b>Financing activities</b>		
Net draw of revolving long-term debt	25,523	–
Repayment of long-term debt	–	(45,990)
Settlement of foreign exchange contract	12,205	(22,335)
Common shares issued, net of issuance costs	–	147
Common shares repurchased (Note 6)	(4,219)	(84)
Cash from (used in) financing activities	<b>33,509</b>	(68,262)
<b>Investing activities</b>		
Expenditures on property, plant and equipment and exploration	(63,907)	(66,474)
Proceeds on sale of property, plant and equipment	169	6,363
Purchase of investments	(4,518)	(28,270)
Settlement of note receivable	–	75,000
Change in non-cash working capital	(5,157)	16,992
Cash from (used in) investing activities	<b>(73,413)</b>	3,611
Net decrease in cash and cash equivalents	<b>(21,722)</b>	(31,556)
Cash and cash equivalents, beginning of period	<b>54,131</b>	83,304
<b>Cash and cash equivalents, end of period</b>	<b>\$ 32,409</b>	<b>\$ 51,748</b>

**Supplemental cash flow information** (Note 9)

See the accompanying notes to these Interim Consolidated Financial Statements.



## PARAMOUNT RESOURCES LTD.

### Consolidated Statement of Shareholders' Equity (Unaudited)

(\$ thousands, except as noted)

Three months ended March 31	2009		2008	
	Shares (000's)		Shares (000's)	
<b>Share Capital</b>				
Balance, beginning of period	66,741	\$ 302,727	67,681	\$ 313,828
Issued on exercise of stock options	–	–	18	275
Tax effect of flow-through share renunciations and other	–	–	–	(7,753)
Common shares repurchased	(616)	(2,815)	(6)	(30)
Change in unvested common shares for stock incentive plan	–	401	–	370
<b>Balance, end of period</b>	<b>66,125</b>	<b>\$ 300,313</b>	<b>67,693</b>	<b>\$ 306,690</b>
<b>Contributed Surplus</b>				
Balance, beginning of period		\$ 2,398		\$ 1,375
Stock-based compensation expense on investees' options		9		221
<b>Balance, end of period</b>		<b>\$ 2,407</b>		<b>\$ 1,596</b>
<b>Retained Earnings</b>				
Balance, beginning of period		\$ 473,362		\$ 593,450
Common shares repurchased		(1,404)		(54)
Change in value of unvested stock incentive plan common shares		(325)		–
Net loss		(23,685)		(38,038)
<b>Balance, end of period</b>		<b>\$ 447,948</b>		<b>\$ 555,358</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>				
Balance, beginning of period		\$ –		\$ (4)
Other comprehensive income (loss), net of tax		(118)		98
<b>Balance, end of period</b>		<b>\$ (118)</b>		<b>\$ 94</b>
<b>Total Shareholders' Equity</b>		<b>\$ 750,550</b>		<b>\$ 863,738</b>

See the accompanying notes to these Interim Consolidated Financial Statements.

### Consolidated Statement of Comprehensive Loss (Unaudited)

(\$ thousands)

Three months ended March 31	2009		2008	
Net loss		\$ (23,685)		\$ (38,038)
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available-for-sale investments		(118)		98
<b>Comprehensive loss</b>		<b>\$ (23,803)</b>		<b>\$ (37,940)</b>

See the accompanying notes to these Interim Consolidated Financial Statements.

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(\$ thousands, except as noted)

### **1. Basis of Presentation**

The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries ("Paramount" or the "Company"), are stated in Canadian dollars, and have been prepared in accordance with Canadian Generally Accepted Accounting Principles using accounting policies and methods of application that are consistent with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2008. Paramount conducts its business through two business segments: Principal Properties and Strategic Investments.

Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2008.

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

### **2. Segmented Information**

Paramount segregates its operations into the following segments, which have been established by management to assist in resource allocation, assessing operating performance, and achieving 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 Central Alberta; (iii) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia; and (iv) the Southern COU, which includes properties in Southern Alberta, Saskatchewan, Montana and North Dakota.
- **Strategic Investments:** Strategic investments include investments in other entities, including affiliates, and development stage assets where there is no near-term expectation of production, but a longer-term value proposition, based on spin-outs, sales, or future revenue generation. Paramount Drilling U.S. LLC. ("Paramount Drilling") is included in Strategic Investments.
- **Corporate:** Corporate is comprised of income and expense items, including general and administrative expense and interest expense that have not been specifically allocated to Principal Properties or Strategic Investments.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(\$ thousands, except as noted)

Three months ended March 31, 2009	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
<b>Revenue</b>					
Petroleum and natural gas sales, net of royalties	\$ 34,814	\$ –	\$ –	\$ –	\$ 34,814
Gain on financial commodity contracts	1,350	–	–	–	1,350
	36,164	–	–	–	36,164
<b>Expenses</b>					
Operating expense, production tax and transportation	25,281	–	–	–	25,281
General and administrative	–	97	4,453	–	4,550
Stock-based compensation	–	–	250	–	250
Depletion, depreciation and accretion	30,657	34	235	–	30,926
Exploration and dry hole	1,144	–	–	–	1,144
Loss on sale of property, plant and equipment	282	–	–	–	282
Interest and financing charges	–	–	2,593	–	2,593
Foreign exchange	–	–	(775)	–	(775)
Debt extinguishment and other	100	–	–	–	100
	57,464	131	6,756	–	64,351
<b>Loss from investments</b>	–	(3,970)	–	–	(3,970)
<b>Interest and other income</b>	–	–	150	–	150
<b>Drilling rig revenue</b>	–	377	–	(377)	–
<b>Drilling rig expense</b>	–	(954)	–	377	(577)
<b>Segment loss</b>	\$ (21,300)	\$ (4,678)	\$ (6,606)	\$ –	(32,584)
<b>Income and other tax recovery</b>					(8,899)
<b>Net loss</b>					\$ (23,685)

Three months ended March 31, 2008	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
<b>Revenue</b>					
Petroleum and natural gas sales, net of royalties	\$ 63,681	\$ –	\$ –	\$ –	\$ 63,681
Loss on financial commodity contracts	(15,022)	–	–	–	(15,022)
	48,659	–	–	–	48,659
<b>Expenses</b>					
Operating expense, production tax and transportation	28,949	–	–	–	28,949
General and administrative	–	468	7,315	–	7,783
Stock-based compensation	–	–	3,977	–	3,977
Depletion, depreciation and accretion	27,491	686	–	–	28,177
Exploration and dry hole	9,093	–	–	–	9,093
Loss on sale of property, plant and equipment	506	–	–	–	506
Interest and financing charges	–	–	2,690	–	2,690
Foreign exchange	–	–	2,083	–	2,083
Debt extinguishment and other	–	–	1,567	–	1,567
	66,039	1,154	17,632	–	84,825
<b>Loss from investments</b>	–	(12,704)	–	–	(12,704)
<b>Interest and other income</b>	–	225	1,906	–	2,131
<b>Drilling rig revenue</b>	–	5,182	–	(4,756)	426
<b>Drilling rig expense</b>	–	(2,418)	–	2,201	(217)
	(17,380)	(10,869)	(15,726)	(2,555)	(46,530)
<b>Inter-segment eliminations</b>	–	(2,555)	–	2,555	–
<b>Segment loss</b>	\$ (17,380)	\$ (13,424)	\$ (15,726)	\$ –	(46,530)
<b>Income and other tax recovery</b>					(8,492)
<b>Net loss</b>					\$ (38,038)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(\$ thousands, except as noted)

In August 2008, Paramount entered into an agreement with a supplier for the construction of a significant portion of a third drilling rig for US\$8.2 million, of which \$6.5 million had been paid as of December 31, 2008. In January 2009, the final payment of US\$1.7 million was made to the supplier. An individual who indirectly owns part of the supplier is also a director of a company affiliated with Paramount.

### 3. Investments

	March 31, 2009		December 31, 2008	
	(Shares/Units) (000's)		(Shares/Units) (000's)	
Equity accounted investments:				
Trilogy Energy Trust ("Trilogy")	23,190	\$ 111,424	22,338	\$ 113,641
MGM Energy Corp. ("MGM Energy")	43,834	6,528	43,834	8,328
Paxton Corporation	1,750	4,804	1,750	4,884
Other		4,000		4,000
		<u>126,756</u>		<u>130,853</u>
Available for sale investments:				
MEG Energy Corp.	3,700	101,750	3,700	101,750
NuLoch Resources Inc.	6,141	1,351	6,141	1,412
Other		333		408
		<u>\$ 230,190</u>		<u>\$ 234,423</u>

Loss from investments is composed of the following:

Three months ended March 31	2009	2008
Trilogy	\$ (2,090)	\$ (315)
MGM Energy	(1,800)	(12,389)
Paxton Corporation	(80)	—
	<u>\$ (3,970)</u>	<u>\$ (12,704)</u>

In the first quarter of 2009, Paramount participated in Trilogy's distribution reinvestment plan ("DRIP"), acquiring an additional 0.9 million units, increasing its ownership from 23.3 percent at December 31, 2008 to 23.6 percent at March 31, 2009.

In the first quarter of 2009, MGM Energy filed renunciation documents with tax authorities relating to flow-through shares issued during 2008, resulting in Paramount recording a \$1.5 million dilution loss.

### 4. Long-Term Debt

	March 31, 2009	December 31, 2008
<b>Canadian Dollar Denominated Debt</b>		
Bank credit facility	\$ 25,523	\$ —
<b>U.S. Dollar Denominated Debt</b>		
8 1/2 percent US Senior Notes due 2013 (US\$90.2 million)	113,659	110,448
	<u>139,182</u>	<u>110,448</u>
Unamortized debt financing costs	(933)	(996)
	<u>\$ 138,249</u>	<u>\$ 109,452</u>

Subsequent to March 31, 2009, Paramount renewed its credit facility. Both the borrowing base and lender commitments are \$125 million. The credit facility is available on a revolving basis to April 30, 2010 and can

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(\$ thousands, except as noted)

be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. The amount available under the credit facility is reduced by \$16.6 million for outstanding undrawn letters of credit.

The US Senior Notes had a market value of 87 percent of their principal amount at March 31, 2009.

### **5. Asset Retirement Obligations**

	<b>Three months ended March 31, 2009</b>	Twelve months ended December 31, 2008
Asset retirement obligations, beginning of period	<b>\$ 87,237</b>	\$ 97,359
Disposal of properties	–	(3,664)
Liabilities incurred	<b>648</b>	1,920
Revision in estimated costs of abandonment	–	(9,587)
Liabilities settled	<b>(1,654)</b>	(8,400)
Accretion expense	<b>2,141</b>	8,877
Foreign exchange	<b>16</b>	732
Asset retirement obligations, end of period	<b>\$ 88,388</b>	\$ 87,237

### **6. Share Capital**

#### ***Normal Course Issuer Bid***

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"), commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount may purchase for cancellation up to 3,387,456 Common Shares. For the three months ended March 31, 2009, Paramount purchased 615,600 Common Shares under the NCIB for a total cost of \$4.2 million, of which \$2.8 million was charged to share capital and \$1.4 million was charged to retained earnings. A total of 1,623,900 Common Shares have been purchased by Paramount under the NCIB for a total cost of \$11.4 million to March 31, 2009.

#### ***Weighted Average Shares Outstanding***

<b>Three months ended March 31</b>	<b>2009</b>	2008
(thousands of Common Shares)		
Weighted average Common Shares outstanding – Basic and Diluted	<b>66,258</b>	67,685

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(\$ thousands, except as noted)

### 7. Stock-based Compensation

#### Paramount Options

Paramount Options	Three months ended March 31, 2009		Year ended December 31, 2008	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
	(\$ / share)		(\$ / share)	
Balance, beginning of period	\$ 14.48	6,117,700	\$ 19.49	6,430,000
Granted	7.34	1,345,000	7.54	2,551,000
Exercised	7.12	(8,000)	7.66	(292,600)
Cancelled or surrendered	19.30	(3,606,700)	20.88	(2,570,700)
Balance, end of period	\$ 7.48	3,848,000	\$ 14.48	6,117,700
Options exercisable, end of period	\$ 7.81	696,167	\$ 12.79	1,708,433

#### Stock Appreciation Rights

In February 2009, the 1,280,000 stock appreciation rights issued in 2008 were surrendered and cancelled in exchange for the same number of Paramount Options with the same exercise price and vesting terms.

### 8. Risk Management Assets and Liabilities

As of March 31, 2009, Paramount does not have any financial commodity or foreign exchange contracts outstanding. The changes in fair values of risk management assets and liabilities are as follows:

	Three months ended March 31, 2009			Year ended December 31, 2008		
	Commodity	Foreign Exchange	Total	Commodity	Foreign Exchange	Total
Fair value, beginning of period	\$ 9,807	\$ 9,883	\$ 19,690	\$ (6,941)	\$ (22,039)	\$ (28,980)
Changes in fair value	1,350	2,322	3,672	34,140	16,148	50,288
Settlements paid (received)	(11,157)	(12,205)	(23,362)	(17,392)	15,774	(1,618)
Fair value, end of period	\$ -	\$ -	\$ -	\$ 9,807	\$ 9,883	\$ 19,690

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at \$2.52/GJ plus an escalation factor to 2011, which has a fair value loss of \$5.9 million at March 31, 2009 (December 31, 2008 – loss of \$10.7 million). The Company has designated this contract as normal usage, and as a result, does not recognize the fair value of the contract in the Consolidated Financial Statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(\$ thousands, except as noted)

**9. Consolidated Statements of Cash Flows – Selected Information***Items not involving cash*

<b>Three months ended March 31</b>	<b>2009</b>	<b>2008</b>
Financial commodity contracts	\$ 9,807	\$ 12,804
Stock-based compensation	228	2,466
Depletion, depreciation and accretion	30,926	28,177
Loss on sale of property, plant and equipment	282	506
Foreign exchange	(897)	2,047
Distributions in excess of equity earnings and dilution	9,648	16,687
Future income tax	(8,380)	(8,720)
Debt extinguishment, interest and other	163	1,085
	\$ 41,777	\$ 55,052

*Supplemental cash flow information*

<b>Three months ended March 31</b>	<b>2009</b>	<b>2008</b>
Interest paid	\$ 4,760	\$ 6,327
Current and other tax paid	\$ 98	\$ 391

## CORPORATE INFORMATION

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### 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.R. Kinvig**

Controller

**L. A. Friesen**

Assistant Corporate Secretary

### DIRECTORS

**C. H. Riddell**<sup>(3)</sup>

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

**J. H.T. Riddell**

President and Chief Operating Officer  
Paramount Resources Ltd.  
Calgary, Alberta

**J. C. Gorman**<sup>(1)(4)</sup>

Retired  
Calgary, Alberta

**D. Jungé C.F.A.**<sup>(4)</sup>

Chairman, Chief Executive Officer and President,  
Pitcairn Trust Company  
Bryn Athyn, Pennsylvania

**D. M. Knott**

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

**W. B. Macinnes, Q.C.**<sup>(1) (2) (3) (4)</sup>

Retired  
Calgary, Alberta

**V. S. A. Riddell**

Business Executive  
Calgary, Alberta

**S. L. Riddell Rose**

President and Chief Executive Officer  
Paramount Energy Operating Corp.<sup>(5)</sup>  
Calgary, Alberta

**J.B. Roy**<sup>(1) (2) (3) (4)</sup>

Independent Businessman  
Calgary, Alberta

**A.S. Thomson**<sup>(1) (4)</sup>

Retired  
Sidney, British Columbia

**B. M. Wylie**<sup>(2)</sup>

Business Executive  
Calgary, Alberta

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### CONSULTING ENGINEERS

**McDaniel & Associates**

**Consultants Ltd.**  
Calgary, Alberta

### AUDITORS

**Ernst & Young LLP**

Calgary, Alberta

### BANKERS

**Bank of Montreal**

Calgary, Alberta

**The Bank of Nova Scotia**

Calgary, Alberta

**Royal Bank of Canada**

Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

**Computershare Investor Services**

Calgary, Alberta  
Toronto, Ontario

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange ("POU")

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Environmental, Health and Safety Committee

<sup>(3)</sup> Member of Compensation Committee

<sup>(4)</sup> Member of Corporate Governance Committee

<sup>(5)</sup> Paramount Energy Operating Corp. is a wholly owned subsidiary of Paramount Energy Trust