FIRST QUARTER OVERVIEW

Oil and Gas Operations

- Average sales volumes increased 44 percent to 18,813 Boe/d in the first quarter of 2012 from 13,097 Boe/d in the same period of 2011, with NGLs volumes increasing by 71 percent.
- The Company's sales volumes increased to approximately 23,000 Boe/d in April; including 13,500 Boe/d in the Kaybob COU following the successful re-commissioning of the 45 MMcf/d Musreau processing facility and 4,500 Boe/d in the Grande Prairie COU.
- In the Kaybob COU, work continued on the 200 MMcf/d deep cut expansion of the Musreau facility. Site construction is scheduled to commence in the second half of the year.
- Advance drilling to feed the deep cut facilities expansions at Musreau and Smoky continued. The Company currently has an inventory of 18 net wells with estimated first month deliverability of 26,400 Boe/d and first year deliverability of 13,700 Boe/d.
- In the Grande Prairie COU, construction of the Valhalla compression and gathering system expansion to 28 MMcf/d was completed in May and commissioning is underway.
- The Company's first quarter netback was $22.5 million, as the 44 percent increase in sales volumes was offset by the impact of low natural gas prices.
- In April, Paramount's wholly-owned subsidiary, Summit Resources, Inc., entered into an agreement to sell a portion of its producing properties in North Dakota and Montana for cash proceeds of approximately US$70 million. The transaction is scheduled to close in late-May.
- The Southern COU closed the previously announced sales of non-core properties in Southern Alberta and Saskatchewan for total proceeds of $49.2 million.

Strategic Investments

- In January, the Company closed the sale of 5.0 million of its Trilogy shares for net proceeds of $181.7 million.
- The Company began drilling a vertical shale gas evaluation well at a winter access location at Dunedin in Northeast British Columbia.
- Cavalier Energy Inc. continued to focus on finalizing its regulatory application for development of the Hoole property.
- Fox Drilling Inc. continued the construction of two new triple-sized walking drilling rigs, which are expected to be operational in late-2012.

Corporate

- Upon closing the United States property disposition in May 2012, Paramount will have raised over $500 million since October 2011 through equity issuances and the sale of investments and properties. Combined with funds flow from operations, the Company has more than sufficient capacity to fund its 2012 capital program.
- The Company has commenced its annual credit facility renewal process and anticipates that its current $300 million credit limit will be increased due to reserves growth and increased asset coverage.
- General and administrative costs per Boe decreased 34 percent in the first quarter of 2012 to $1.77 per Boe from $2.68 in 2011.

FINANCIAL AND OPERATING HIGHLIGHTS(1)

($ millions, except as noted)

Three months ended March 31	2012	2011	% Change
Financial			
Petroleum and natural gas sales	**54.7**	46.8	17
Funds flow from operations	**12.8**	13.9	(8)
Per share – diluted ($/share)	**0.15**	0.19	(21)
Net income (loss)	**124.5**	(11.9)	1,146
Per share – basic ($/share)	**1.46**	(0.16)	1,013
Per share – diluted ($/share)	**1.42**	(0.16)	988
Exploration and development expenditures	**142.2**	160.2	(11)
Investments in other entities – market value(2)	**675.6**	717.6	(6)
Total assets	**1,810.9**	1,590.9	14
Net debt(3)	**474.0**	432.3	10
Common shares outstanding (thousands)	**85,569**	75,397	13
Operating			
Sales Volumes:			
Natural gas (MMcf/d)	**88.6**	58.7	51
NGLs (Bbl/d)	**1,652**	968	71
Oil (Bbl/d)	**2,386**	2,353	1
Total (Boe/d)	**18,813**	13,097	44
Average realized price:			
Natural gas ($/Mcf)	**2.77**	4.15	(33)
NGLs ($/Bbl)	**78.57**	75.56	4
Oil ($/Bbl)	**89.21**	81.40	10
Total ($/Boe)	**31.95**	39.67	(19)
Net wells drilled (excluding oil sands evaluation)	**11**	12	(8)
Net oil sands evaluation wells drilled	**1**	26	(96)

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas 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) 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.

REVIEW OF OPERATIONS

	First Quarter 2012		Fourth Quarter 2011		% Change
Sales Volumes					
Natural Gas (MMcf/d)	**88.6**		91.5		*(3)*
NGLs (Bbl/d)	**1,652**		1,620		*2*
Oil (Bbl/d)	**2,386**		2,356		*1*
Total (Boe/d)	**18,813**		19,223		*(2)*
Average realized price					
Natural gas ($/Mcf)	**2.77**		3.62		*(23)*
NGLs ($/Bbl)	**78.57**		78.08		*1*
Oil ($/Bbl)	**89.21**		93.25		*(4)*
Total ($/Boe)	**31.95**		35.80		*(11)*
Netbacks ($ millions)		***($/Boe)***		*($/Boe)*	*% Change in $/Boe*
Petroleum and natural gas sales	**54.7**	***31.95***	63.3	*35.80*	*(11)*
Royalties	**(5.3)**	***(3.09)***	(5.5)	*(3.13)*	*(1)*
Operating expense and production tax	**(21.3)**	***(12.45)***	(21.2)	*(11.98)*	*4*
Transportation	**(5.6)**	***(3.29)***	(5.1)	*(2.88)*	*14*
Netback	**22.5**	***13.12***	31.5	*17.81*	*(26)*
Financial commodity contract settlements	**(1.4)**	***(0.84)***	0.3	*0.17*	*(594)*
Netback including financial commodity contract settlements	**21.1**	***12.28***	31.8	*17.98*	*(32)*

Paramount's sales volumes averaged 18,813 Boe/d in the first quarter of 2012 compared to 19,223 Boe/d in the fourth quarter of 2011, primarily as a result of the annual Bistcho plant turnaround in the Northern COU and third party processing facility constraints at Valhalla in the Grande Prairie COU. Average sales volumes increased to approximately 23,000 Boe/d in April as the 45 MMcf/d Musreau plant was re-commissioned. Following start-up of the Valhalla gathering and processing expansion and the addition of other new well production in the second quarter, sales volumes for the remainder of the year are expected to range between 26,000 and 28,000 Boe/d, before accounting for the impact of the United States property disposition.

Petroleum and natural gas sales decreased by $8.6 million compared to the fourth quarter of 2011, mainly due to a 23 percent decline in realized natural gas prices. Operating costs per Boe increased four percent in the first quarter as the Company incurred seasonal scheduled maintenance costs in the Northern COU and other winter access locations. Operating costs per Boe are expected to decrease throughout the remainder of 2012 as fixed costs are spread over higher production volumes.

The Company is continuing to proceed with its previously announced liquids-rich natural gas developments despite current low natural gas prices, as associated NGLs revenues continue to support the economics of these projects. The Company monitors the contribution from all of its properties and evaluates alternatives to mitigate the impact of low natural gas prices.

KAYBOB

	First Quarter 2012		Fourth Quarter 2011		% Change
Sales Volumes					
Natural Gas (MMcf/d)	**52.7**		50.8		*4*
NGLs (Bbl/d)	**821**		901		*(9)*
Oil (Bbl/d)	**65**		62		*5*
Total (Boe/d)	**9,675**		9,437		*3*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**40.4**		69.5		*(42)*
Facilities and gathering	**31.1**		37.4		*(17)*
	71.5		106.9		*(33)*
	Gross	**Net**	Gross	Net	
Wells drilled	**6**	**4.5**	19	12.5	

First quarter sales volumes in the Kaybob COU averaged 9,675 Boe/d. The 45 MMcf/d processing facility at Musreau was successfully re-commissioned in mid-March and was operating at design capacity by the end of the month. Average sales volumes increased to approximately 13,500 Boe/d in April 2012. Sales volumes are expected to remain near this level until the phase two deep cut expansion of the Musreau facility is commissioned in the second half of 2013. The Company is actively investigating opportunities to access additional processing capacity in the region to increase production in the interim.

Phase two of the Musreau facility will be a wholly-owned incremental 200 MMcf/d deep cut liquids extraction facility. Most of the facility's capacity will be used to process Paramount's natural gas production and partner volumes from joint ownership wells for a fee. The majority of the design work and procurement of long lead-time equipment have been completed and construction is scheduled to begin this fall upon receipt of regulatory approvals. The facility is expected to be commissioned in the second half of 2013 at an estimated total cost of $180 million. The incremental investment in deep cut facilities will add significant value to Paramount's natural gas production due to the price premium realized from the sale of additional NGLs volumes that would otherwise be sold as higher heat content natural gas.

At Smoky, Paramount is participating in the expansion of a non-operated processing facility, increasing the Company's 10 percent share of the existing 100 MMcf/d facility to a 20 percent share of the expanded 200 MMcf/d facility, which is being upgraded to operate as a deep cut liquids extraction facility. The Company will have an option to participate in a further expansion of the plant to 300 MMcf/d in the future with the addition of an incremental 100 MMcf/d of compression.

The Kaybob COU continued its drilling program during the first quarter, with four rigs working in Musreau and Resthaven, drilling two (1.5 net) Falher formation wells, two (1.0 net) Dunvegan formation wells and two (2.0 net) Montney formation wells. Results from the wells have been consistent with expectations and further confirm well performance profiles. These wells will be included in inventory as the Company builds production capability in advance of completing the expansions of processing facilities. The following table summarizes the current status of Kaybob Deep Basin wells awaiting production, estimated additional costs to complete and anticipated production and sales volumes:

	Wells		Total Additional Capital (net)	Net Raw Gas Production		Net Sales Volumes[1]	
				First Month	First Year	First Month	First Year
	Gross	Net	($ millions)	(MMcf/d)	(MMcf/d)	(Boe/d)	(Boe/d)
Tied-in, capable of producing	6	3	–	18	9	4,000	2,000
Completed, awaiting tie-in	7	5	3	33	18	8,900	4,800
Drilled, awaiting completion	11	10	44	56	28	13,500	6,900
	24	18	47	107	55	26,400	13,700

(1) Based on processing through a deep cut facility

The Company plans to drill up to an additional 20 wells for the remainder of 2012 with additional wells to be drilled throughout 2013 to continue to build Paramount's well inventory ahead of the deep cut facilities expansions. The Company continues to utilize its own facilities and third party processing capacity to maximize production while the expansions are being constructed. In the interim, behind pipe wells will be produced where capacity is available.

GRANDE PRAIRIE

	First Quarter 2012		Fourth Quarter 2011		*% Change*
Sales Volumes					
Natural Gas (MMcf/d)	**16.8**		19.4		*(13)*
NGLs (Bbl/d)	**596**		480		*24*
Oil (Bbl/d)	**391**		333		*17*
Total (Boe/d)	**3,792**		4,048		*(6)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**31.4**		21.2		*48*
Facilities and gathering	**12.5**		11.2		*12*
	43.9		32.4		*35*
	Gross	**Net**	Gross	Net	
Wells drilled	**5**	**3.4**	4	3.6	

First quarter sales volumes in the Grande Prairie COU averaged 3,792 Boe/d compared to 4,048 Boe/d in the fourth quarter of 2011, primarily because of capacity restrictions at a non-operated processing facility at Valhalla. During March, the Company re-routed its Valhalla production to a different non-operated processing facility and sales volumes increased by approximately 9 MMcf/d. On May 1, 2012, a disruption at a downstream third party ethane extraction facility resulted in a partial shut-in of Paramount's production at Valhalla. This disruption is expected to last for up to six weeks. Paramount has re-routed some of its production to alternate facilities.

The Company was active at Valhalla during the first quarter, drilling four (2.4 net) wells, completing the construction of its compression and gathering facilities expansion and re-routing the gathering system to an alternate processing facility. Three (2.5 net) wells previously drilled were brought on production late in the quarter. The Company is currently commissioning the expansion of its gathering and compression facilities at Valhalla and will have total raw gas capacity of 28 MMcf/d fully operational in the second quarter, once the third party ethane extraction facility disruption has been resolved. With the additional wells drilled to date, the Company has sufficient production behind pipe to operate the expanded gathering system at capacity. No further drilling is planned for the remainder of 2012.

At Karr/Gold Creek, one (1.0 net) well was drilled in the quarter, and one (1.0 net) well drilled in 2011 was brought on production. Surface equipment that had been ordered as part of a well performance enhancement program was delivered and installed on two (2.0 net) wells that had previously been completed but not placed on production. The wells were brought on in April and the Company will evaluate the results over the coming months.

SOUTHERN

	First Quarter 2012		Fourth Quarter 2011		*% Change*
Sales Volumes					
Natural Gas (MMcf/d)	**11.0**		11.4		*(4)*
NGLs (Bbl/d)	**217**		216		*–*
Oil (Bbl/d)	**1,663**		1,551		*7*
Total (Boe/d)	**3,718**		3,670		*1*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**4.4**		2.8		*57*
Facilities and gathering	**1.4**		1.3		*8*
	5.8		4.1		*41*
	Gross	**Net**	Gross	Net	
Wells drilled	**1**	**0.5**	5	2.6	

First quarter sales volumes in the Southern COU were consistent with the fourth quarter of 2011. First quarter capital expenditures primarily related to an oil well drilled and tied-in at Harmattan in Southern Alberta.

CANADA

In the first quarter, Paramount closed the previously announced dispositions of non-core properties at West Pembina, Alberta and Kindersley, Saskatchewan for total proceeds of $49.2 million. These properties did not have significant production volumes.

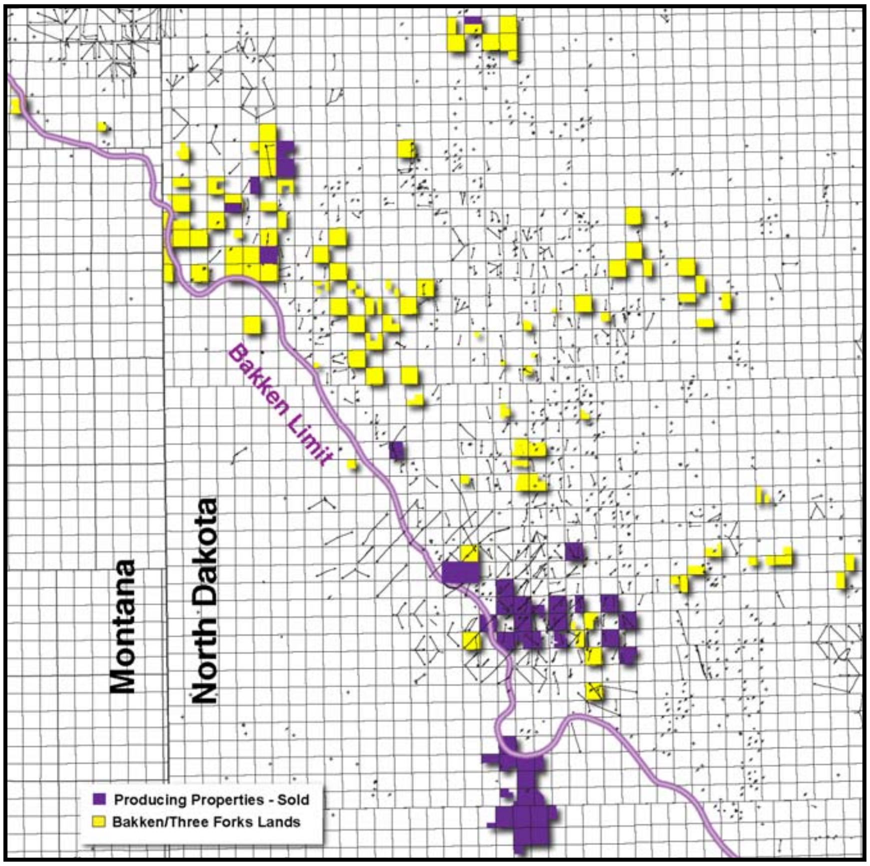
At Chain, three (2.4 net) natural gas wells were brought on production in the first quarter of 2012 to replace natural declines. The Company does not plan to carry out any more drilling activities at Chain for the remainder of the year due to the current low natural gas price environment.

The Southern COU plans to drill up to eight (7.0 net) wells in Harmattan, Ricinis and Pembina for the remainder of 2012 targeting oil and liquids-rich natural gas prospects.

UNITED STATES

In April 2012, Paramount's wholly-owned subsidiary, Summit Resources, Inc. ("Summit"), entered into an agreement to sell a portion of its producing properties in North Dakota and Montana for cash proceeds of approximately US$70 million, subject to customary closing adjustments. The properties had approximately 900 Boe/d of production in the first quarter, and include approximately 38,000 (27,000 net) acres of land. The transaction is scheduled to close in late-May.

The transaction does not include approximately 58,000 (41,000 net) acres of Summit's Bakken / Three Forks lands in North Dakota with first quarter production of approximately 200 Boe/d. Paramount and Summit are continuing the sales process for these properties.



NORTHERN

	First Quarter 2012		Fourth Quarter 2011		% Change
Sales Volumes					
Natural Gas (MMcf/d)	**8.1**		9.9		*(18)*
NGLs (Bbl/d)	**18**		23		*(22)*
Oil (Bbl/d)	**267**		410		*(35)*
Total (Boe/d)	**1,628**		2,068		*(21)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**18.5**		3.9		*374*
Facilities and gathering	**2.3**		0.1		*2,200*
	20.8		4.0		*420*
	Gross	**Net**	Gross	Net	
Wells drilled	**2**	**2.0**	–	–	

First quarter sales volumes in the Northern COU decreased by 21 percent in the first quarter of 2012, primarily as a result of the annual Bistcho plant turnaround.

The Company's first well at Birch was completed in the third quarter of 2011 and brought on production in April 2012. Two (2.0 net) additional wells were drilled and completed at Birch in the first quarter of 2012 and will be brought-on after break-up. Production results from these wells will be evaluated over the coming months.

STRATEGIC INVESTMENTS

Cavalier Energy Inc. ("Cavalier Energy") continued to build its management team during the first quarter of 2012 with the addition of key technical personnel. The team's efforts are focused on finalizing the regulatory application for development of the Hoole property, which is expected to be submitted in the fourth quarter of 2012, and developing detailed project plans for the construction of a thermal in-situ project. Also during the quarter, Cavalier Energy acquired 9,200 hectares of oil sands rights at a cost of $7.0 million.

SHALE GAS

The Company began drilling a vertical evaluation well at a winter access location at Dunedin in Northeast British Columbia during the first quarter. The targeted depth was not achieved before breakup and drilling operations have been suspended due to warm weather. The Company will evaluate further plans prior to the 2013 winter drilling season. The Company is taking a cautious approach to de-risking its shale gas holdings in the current low natural gas price environment while taking steps to maintain its mineral rights.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated May 8, 2012, 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, 2012 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2011.

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 long-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in North Dakota and Montana in the United States.

Paramount has spun-out three public entities: (i) Paramount Energy Trust, now Perpetual Energy Inc., in February, 2003; (ii) Trilogy Energy Trust, now Trilogy Energy Corp. ("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 in its portfolio of Strategic Investments.

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, North Dakota and Montana; and
- the Northern COU, which includes properties in Northern Alberta, the Northwest Territories 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 resources 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 subsidiaries Fox Drilling Inc. ("Fox Drilling") in Canada and Paramount Drilling U.S. L.L.C. ("Paramount Drilling") in the United States.

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

- Net income increased to $124.5 million in the first quarter of 2012 compared to a net loss of $11.9 million in the first quarter of 2011, primarily due to a gain on the sale of 5.0 million Trilogy shares.
- Funds flow from operations was $12.8 million in the first quarter of 2012, $1.1 million lower than in the first quarter of 2011, as the impact of a 44 percent increase in sales volumes was more than offset by lower realized natural gas prices and higher operating and transportation expenses associated with increased production.

Principal Properties

- Average sales volumes in the first quarter of 2012 increased 44 percent to 18,813 Boe/d compared to 13,097 Boe/d in the first quarter of 2011. The Company's sales volumes increased to approximately 23,000 Boe/d in April 2012 following re-commissioning of the 45 MMcf/d Musreau facility and a reduction in capacity constraints at Valhalla.
- Construction of the 200 MMcf/d deep cut expansion of the Musreau facility is scheduled to begin in the fall of 2012, following the receipt of regulatory approvals. The facility expansion is expected to be completed in the second half of 2013.
- The Grande Prairie COU completed the construction of the Valhalla compression and gathering system expansion to 28 MMcf/d in May 2012 and commissioning is underway.
- In April 2012, Paramount's wholly-owned subsidiary, Summit Resources, Inc., entered into an agreement to sell a portion of its producing properties in North Dakota and Montana for cash proceeds of approximately US$70 million, subject to customary closing adjustments. The transaction is scheduled to close in late-May 2012.
- In the first quarter of 2012, the Southern COU closed the previously announced sales of non-core properties in Southern Alberta and Saskatchewan for total proceeds of $49.2 million.

Strategic Investments

- The Company closed the sale of 5.0 million of its non-voting Trilogy shares for net proceeds of $181.7 million in the first quarter of 2012.
- Cavalier Energy continued to focus on finalizing its regulatory application for development of the Hoole property.
- Fox Drilling continued the construction of two new triple-sized walking drilling rigs, expected to be operational in late 2012. Paramount entered into a new $30.0 million non-revolving demand loan facility to partially fund the construction costs.

Corporate

- The Company has commenced its annual credit facility renewal process and anticipates that its current $300 million credit limit will be increased due to reserves growth and increased asset coverage.
- Corporate general and administrative costs per Boe decreased 34 percent in the first quarter of 2012 to $1.77 per Boe from $2.68 in the same quarter of 2011.

All amounts in Management's Discussion and Analysis are presented in millions of Canadian dollars unless otherwise noted.

HIGHLIGHTS[1]

Three months ended March 31	2012	2011	Change %
FINANCIAL			
Petroleum and natural gas sales	**54.7**	46.8	17
Funds flow from operations	**12.8**	13.9	(8)
per share – diluted ($/share)	**0.15**	0.19	(21)
Net income (loss)	**124.5**	(11.9)	1,146
per share – basic ($/share)	**1.46**	(0.16)	1,013
per share – diluted ($/share)	**1.42**	(0.16)	988
Exploration and development expenditures	**142.2**	160.2	(11)
Investments in other entities – market value[2]	**675.6**	717.6	(6)
Total assets	**1,810.9**	1,590.9	14
Long-term debt	**366.0**	365.3	–
Net debt	**474.0**	432.3	10
OPERATIONAL			
Sales volumes			
Natural gas (MMcf/d)	**88.6**	58.7	51
NGLs (Bbl/d)	**1,652**	968	71
Oil (Bbl/d)	**2,386**	2,353	1
Total (Boe/d)	**18,813**	13,097	44
Net wells drilled (excluding oil sands evaluation)	**11**	12	(8)
Net oil sands evaluation wells drilled	**1**	26	(96)
FUNDS FLOW FROM OPERATIONS ($/Boe)			
Petroleum and natural gas sales	**31.95**	39.67	(19)
Royalties	**(3.09)**	(4.01)	(23)
Operating expense and production tax	**(12.45)**	(13.20)	(6)
Transportation	**(3.29)**	(3.47)	(5)
Netback	**13.12**	18.99	(31)
Financial commodity contract settlements	**(0.84)**	(0.23)	265
Netback including financial commodity contract settlements	**12.28**	18.76	(35)
General and administrative – corporate	**(1.77)**	(2.68)	(34)
General and administrative – strategic investments	**(0.95)**	(0.88)	8
Interest	**(4.32)**	(6.37)	(32)
Dividends from investments	**1.17**	2.73	(57)
Other	**1.05**	0.25	320
	7.46	11.81	(37)

(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.

CONSOLIDATED RESULTS

Net Income (Loss)

Three months ended March 31	**2012**	2011
Principal Properties	**10.6**	21.6
Strategic Investments	**153.0**	(7.1)
Corporate	**(16.1)**	(23.1)
Tax Expense	**(23.0)**	(3.3)
Net Income (Loss)	**124.5**	(11.9)

The Company recorded net income of $124.5 million in the first quarter of 2012 compared to a net loss of $11.9 million in the same period of 2011, primarily as a result of:

- a gain of $157.2 million within the Strategic Investments business segment on the sale of 5.0 million non-voting shares of Trilogy;
- an increase of $7.9 million in petroleum and natural gas sales;
- a decrease of $4.3 million in stock–based compensation expense;
- a decrease of $4.2 million in exploration and evaluation expense; and
- a decrease of $4.0 million in foreign exchange;

partially offset by:

- an increase of $19.7 million in income tax expense;
- a decrease of $11.4 million in gain on sale of property, plant and equipment within the Principal Properties business segment;
- an increase of $5.8 million in operating expenses; and
- an increase of $4.2 million in depletion and depreciation expense.

Funds Flow From Operations(1)

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

Three months ended March 31	**2012**	2011
Cash from operating activities	**14.0**	39.9
Change in non-cash working capital	**(7.4)**	(34.1)
Geological and geophysical expenses	**2.4**	2.8
Asset retirement obligations settled	**3.8**	5.3
Funds flow from operations	**12.8**	13.9
Funds flow from operations ($/Boe)	**7.46**	11.81

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

Funds flow from operations in the first quarter of 2012 decreased by $1.1 million from the first quarter of 2011, primarily due to the impact of a 33 percent decrease in realized natural gas prices, higher operating and transportation expenses associated with higher sales volumes, lower dividends from investments and higher payments on the settlement of oil financial commodity contracts, partially offset by the impact of a 44 percent increase in sales volumes.

PRINCIPAL PROPERTIES

Netback and Segment Earnings

Three months ended March 31	2012		2011	
		($/Boe)		($/Boe)
Petroleum and natural gas sales	**54.7**	***31.95***	46.8	*39.67*
Royalties	**(5.3)**	***(3.09)***	(4.7)	*(4.01)*
Operating expense and production tax	**(21.3)**	***(12.45)***	(15.6)	*(13.20)*
Transportation	**(5.6)**	***(3.29)***	(4.1)	*(3.47)*
Netback	**22.5**	***13.12***	22.4	*18.99*
Financial commodity contract settlements	**(1.4)**	***(0.84)***	(0.3)	*(0.23)*
Netback including financial commodity contract settlements	**21.1**	***12.28***	22.1	*18.76*
Other principal property items (see below)	**(10.5)**		(0.5)	
Segment earnings	**10.6**		21.6	

Petroleum and Natural Gas Sales

Three months ended March 31	2012	2011	% Change
Natural gas	**22.3**	21.9	2
NGLs	**11.8**	6.6	79
Oil	**19.4**	17.2	13
Royalty and sulphur revenue	**1.2**	1.1	9
	54.7	46.8	17

Petroleum and natural gas sales in the first quarter of 2012 were $54.7 million, an increase of $7.9 million from the first quarter of 2011, primarily due to the impact of higher natural gas and NGLs sales volumes, partially offset by lower natural gas prices.

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, 2011	21.9	6.6	17.2	1.1	46.8
Effect of changes in prices	(11.1)	0.5	1.7	–	(8.9)
Effect of changes in sales volumes	11.5	4.7	0.5	–	16.7
Change in royalty and sulphur	–	–	–	0.1	0.1
Three months ended March 31, 2012	**22.3**	**11.8**	**19.4**	**1.2**	**54.7**

Sales Volumes

	Three months ended March 31											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2012	2011	Change %	**2012**	2011	Change %	**2012**	2011	Change %	**2012**	2011	Change %
Kaybob	**52.7**	27.7	90	**821**	535	53	**65**	95	(32)	**9,675**	5,246	84
Grande Prairie	**16.8**	13.0	29	**596**	367	62	**391**	426	(8)	**3,792**	2,954	28
Southern	**11.0**	8.7	26	**217**	51	325	**1,663**	1,435	16	**3,718**	2,939	27
Northern	**8.1**	9.3	(13)	**18**	15	20	**267**	397	(33)	**1,628**	1,958	(17)
	88.6	58.7	51	**1,652**	968	71	**2,386**	2,353	1	**18,813**	13,097	44

First quarter natural gas sales volumes increased 29.9 MMcf/d or 51 percent to 88.6 MMcf/d in 2012 compared to 58.7 MMcf/d in 2011. First quarter NGLs sales volumes increased 71 percent to 1,652 Bbl/d in 2012 compared to 968 Bbl/d in the same period of the prior year. The increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2011/2012 drilling program at Musreau and Resthaven within the Kaybob COU and at Valhalla within the Grande Prairie COU and wells added through the May 2011 acquisition of Prospex Resources Ltd. ("Prospex"). The Company's new 45 MMcf/d natural gas refrigeration processing facility at Musreau was re-commissioned during March, allowing the Company to begin producing incremental volumes that had been shut-in due to capacity constraints since the fourth quarter of 2011. By the end of March, the plant was operating at its design capacity.

First quarter oil sales volumes were consistent year-over-year as increased sales volumes from new well production in North Dakota in the Southern COU were offset by declines at Cameron Hills in the Northern COU and at Crooked Creek / Puskwa in the Grande Prairie COU.

On May 1, 2012, a disruption at a downstream third party ethane extraction facility resulted in a partial shut-in of Paramount's production at Valhalla in the Grande Prairie COU. This disruption is expected to last for up to six weeks. The impact on second quarter production volumes will depend on the duration of the outage and Paramount's ability to re-route production to alternate facilities.

Average Realized Prices

Three months ended March 31	**2012**	2011	% Change
Natural gas ($/Mcf)	**2.77**	4.15	(33)
NGLs ($/Bbl)	**78.57**	75.56	4
Oil ($/Bbl)	**89.21**	81.40	10
Total ($/Boe)	**31.95**	39.67	(19)

Paramount's average realized natural gas price in the first quarter of 2012 decreased 33 percent compared to the first quarter of 2011, consistent with declines in benchmark AECO and NYMEX natural gas prices. Paramount's natural gas sales 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 price during the first quarter of 2012 increased to $78.57/Bbl compared to $75.56/Bbl in 2011. The Company's average realized oil price, before financial commodity contract impacts, during the first quarter of 2012 increased to $89.21/Bbl compared to $81.40/Bbl in 2011. Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to Edmonton Par and United States market hubs, adjusted for transportation and quality differentials. The

Company's United States oil and NGLs sales portfolio is sold at the well head with negotiated differentials relative to West Texas Intermediate crude oil prices.

Commodity Prices

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

Three months ended March 31	**2012**	2011	% Change
Natural Gas			
AECO (Cdn$/GJ)	**2.38**	3.58	(34)
NYMEX (Henry Hub US$/MMbtu)	**2.74**	4.13	(34)
Crude Oil			
Edmonton par (Cdn$/Bbl)	**92.81**	88.44	5
West Texas Intermediate (US$/Bbl)	**102.93**	94.10	9
Foreign Exchange			
$Cdn / 1 $US	**1.00**	0.99	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.

Payments by Paramount on the settlement of financial commodity contracts are as follows:

Three months ended March 31	**2012**	2011
Oil contracts	**(1.4)**	(0.3)

At March 31, 2012, Paramount had the following financial commodity contracts outstanding:

Instruments	**Notional**	**Average Fixed Price**	**Fair Value**	**Remaining Term**
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.01/Bbl	**$ (0.1)**	April – May 2012
Oil – NYMEX WTI Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**–**	April – May 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.65/Bbl	**(0.1)**	April – June 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $97.25/Bbl	**(1.0)**	April – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $91.50/Bbl	**(3.5)**	April – December 2012
			$ (4.7)	

Royalties

Three months ended March 31	**2012**	2011	% Change
Royalties	**5.3**	4.7	13
Rate	**9.9 %**	10.3 %	

First quarter royalties increased by $0.6 million to $5.3 million in 2012 compared to $4.7 million in 2011. The increase in royalties was primarily due to an increase in petroleum and natural gas sales revenue, partially offset by lower royalty rates. The royalty rate decreased during the first quarter of 2012 mainly due to a greater proportion of production qualifying for Alberta new well royalty incentive programs.

Operating Expense and Production Tax

Three months ended March 31	2012	2011	% Change
Operating Expense	**20.6**	15.1	36
Production Tax	**0.7**	0.5	40
Total	**21.3**	15.6	37

Operating expenses in the first quarter of 2012 increased by $5.5 million or 36 percent compared to the same quarter in 2011, primarily as a result of a 44 percent increase in sales volumes. Operating expenses per Boe decreased six percent to $12.45 in 2012 mainly due to the impact of higher production volumes relative to the fixed portion of operating costs. Paramount's operating expenses are generally higher in the first quarter of the year due to annual scheduled maintenance and repair programs at winter access locations.

Transportation Expense

Three months ended March 31	2012	2011	% Change
Transportation Expense	**5.6**	4.1	37

First quarter transportation expense increased $1.5 million in 2012, primarily as a result of a 44 percent increase in sales volumes. Transportation costs per Boe decreased to $3.29 in the first quarter of 2012 compared to $3.47 in 2011, primarily due to the impact of higher production volumes relative to the fixed portion of transportation costs.

Other Principal Property Items

Three months ended March 31	2012	2011	% Change
Commodity contracts – net of settlements	**(2.1)**	(3.1)	(32)
Depletion and depreciation	**(31.1)**	(27.1)	15
Exploration and evaluation	**(4.2)**	(8.6)	(51)
Gain on sale of property, plant and equipment	**28.3**	39.6	(29)
Accretion of asset retirement obligations	**(1.6)**	(2.3)	(30)
Other income (expense)	**0.2**	1.0	(80)
Total	**(10.5)**	(0.5)	2000

First quarter depletion and depreciation expense increased to $31.1 million ($18.16 per Boe) in 2012 compared to $27.1 million ($23.00 per Boe) in the prior year due to higher production. The decrease in depletion per Boe was mainly due to the recognition of impairment charges related to certain oil and gas assets in the fourth quarter of 2011.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Exploration and evaluation expense included expired lease costs of $2.5 million in the first quarter of 2012 compared to $6.5 million in the same quarter of 2011.

The $28.3 million gain on sale of property, plant and equipment in the first quarter of 2012 related primarily to the sale of non-core properties at West Pembina, Alberta and Kindersley, Saskatchewan in the Southern COU and at East Negus in the Northern COU. The Company received aggregate gross proceeds of $49.2 million, including a $4.0 million convertible debenture due 2014. These properties did not have significant associated production.

In April 2012, Paramount's wholly–owned subsidiary, Summit, entered into an agreement to sell a portion of its producing properties in North Dakota and Montana (the "Assets") for cash proceeds of approximately US$70 million, subject to customary closing adjustments. The Assets include approximately 900 Boe/d of production, based on first quarter 2012 rates and approximately 38,000 (27,000 net) acres of land. The transaction is scheduled to close in late-May 2012.

The transaction does not include approximately 58,000 (41,000 net) acres of Summit's Bakken / Three Forks lands in North Dakota with first quarter 2012 production of approximately 200 Boe/d. Paramount and Summit are continuing the sales process for these properties.

STRATEGIC INVESTMENTS

Three months ended March 31	2012	2011
Income (loss) from equity – accounted investments	**156.5**	(1.3)
Drilling rig revenue	**3.4**	1.5
Drilling rig expense	**(1.8)**	(1.8)
General and administrative	**(1.6)**	(1.0)
Stock-based compensation	**(1.4)**	(3.0)
Interest	**(0.3)**	(0.3)
Other expense	**(1.8)**	(1.2)
Segment Income (Loss)	**153.0**	(7.1)

Income from equity-accounted investments in the first quarter of 2012 was $156.5 million compared to a loss of $1.3 million in the prior year. In January 2012, Paramount closed the sale of 5.0 million of its non-voting Trilogy shares for net cash proceeds of $181.7 million, recognizing a gain of $157.2 million.

General and administrative costs related to the Company's Strategic Investments increased $0.6 million in the first quarter of 2012 compared to the prior year primarily because of higher staff and office costs related to Cavalier Energy.

Strategic Investments at March 31, 2012 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy, Paxton Corporation, and other public and private corporations;
- oil sands and carbonate bitumen interests owned by Paramount's wholly-owned subsidiary, Cavalier Energy, including oil sands 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 Horn River and Liard Basins in Northeast British Columbia and the Northwest Territories; and
- drilling rigs operated by Paramount's wholly-owned subsidiaries: Fox Drilling in Canada and Paramount Drilling in the United States.

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

	Carrying Value		Market Value[1]	
	March 31, 2012	December 31, 2011	**March 31, 2012**	December 31, 2011
Trilogy [2]	**91.0**	118.3	**504.6**	907.1
MEG	**142.3**	153.8	**142.3**	153.8
MGM Energy	**1.5**	1.7	**8.3**	10.6
Other[3]	**20.4**	5.8	**20.4**	5.8
Total	**255.2**	279.6	**675.6**	1,077.3

(1) Based on the period-end closing price of publicly-traded investments and book value of remaining investments.
(2) December 31, 2011 balances include five million shares that were sold January 2012, having a December 31, 2011 carrying value of $24.2 million and a December 31, 2011 market value of $187.9 million.
(3) Includes investments in Paxton Corporation and other public and private corporations.

Cavalier

Cavalier Energy continued to build its management team during the first quarter of 2012 with the addition of key technical personnel. The team continues to focus on finalizing the regulatory application for development of the Hoole property, which is expected to be submitted in the fourth quarter of 2012, and developing detailed project plans for the construction of a thermal in-situ project. Also during the quarter, 9,200 hectares of undeveloped land were acquired at a cost of $7.0 million.

Shale Gas

The Company began drilling a vertical evaluation well at a winter access location at Dunedin in Northeast British Columbia during the first quarter. The targeted depth was not achieved before breakup and drilling operations have been suspended due to warm weather. The Company will evaluate further plans prior to the 2013 winter drilling season. The Company is taking a cautious approach to de-risking its shale gas holdings in the current low natural gas price environment while taking steps to maintain its mineral rights.

Drilling Subsidiaries

Fox Drilling's two Canadian-based drilling rigs drilled on Company lands in Alberta throughout the first quarter of 2012. Paramount Drilling's rig in the United States was contracted to a third party throughout the quarter and is currently under contract until mid-2012.

During the first quarter of 2012, Fox Drilling continued the construction of two new triple-sized walking drilling rigs to be deployed on the Company's lands in Canada. These rigs are expected to be operational in late-2012 at an expected cost of $20 million each.

Strategic Investment spending for the remainder of the year will be directed to completing the construction of two walking drilling rigs.

CORPORATE

Three months ended March 31	2012	2011
General and administrative	**3.0**	3.1
Stock-based compensation	**5.6**	8.3
Depreciation	**0.1**	0.2
Interest	**7.2**	7.3
Foreign exchange	**0.2**	4.2
	16.1	23.1

First quarter corporate segment costs decreased to $16.1 million in 2012 compared to $23.1 million in 2011 primarily due to a $4.0 million decrease in foreign exchange and a $2.7 million decrease in stock-based compensation expense. Since October 1, 2011, the Company has accounted for employee stock option plan awards as "equity settled stock-based compensation" transactions. This change in accounting method lowered first quarter 2012 stock-based compensation expense. Paramount was able to maintain consistent corporate general and administrative expense despite a 44 percent increase in sales volumes, reducing first quarter 2012 corporate general and administrative expense per Boe to $1.77.

EXPLORATION AND CAPITAL EXPENDITURES

Three months ended March 31	2012	2011
Geological and geophysical	**1.4**	2.1
Drilling, completion and tie-ins	**92.9**	95.0
Facilities and gathering	**47.9**	63.1
Exploration and development expenditures [(1)]	**142.2**	160.2
Land and property acquisitions	**2.7**	10.8
Principal Properties	**144.9**	171.0
Strategic Investments	**38.0**	17.0
Corporate	**0.1**	–
	183.0	188.0

[(1)] Exploration and development expenditures include $1.6 million of capitalized interest (2011 – nil).

Exploration and development expenditures in the first quarter of 2012 were $142.2 million compared to $160.2 million in 2011. Current quarter spending focused on drilling and completing wells at Musreau, Smoky and Resthaven in the Kaybob COU, at Valhalla in the Grande Prairie COU and at Birch in the Northern COU. Facilities and gathering expenditures include $22.5 million at Musreau related to design work and procurement of long-lead time items for the new 200 MMcf/d deep cut facility and $8.9 million related to the expansion of gathering and compression capacity to 28 MMcf/d at Valhalla in the Grande Prairie COU.

Construction of the 200 MMcf/d deep cut expansion of the Musreau facility is scheduled to begin in the fall of 2012, following receipt of regulatory approvals. Completion of the facility is expected during the second half of 2013 at an estimated cost of $180 million. The Company plans to drill an inventory of wells in 2012 and 2013 that will feed into the expanded Musreau and Smoky deep cut facilities following their commissioning.

Strategic investments capital expenditures during the first quarter of 2012 include $15.6 million related to drilling the Company's first vertical evaluation shale gas well at Dunedin in Northeast British Columbia, $11.5 million related to the construction of the two triple-sized walking drilling rigs and $7.0 million related to Cavalier's purchase of undeveloped land.

Wells drilled are as follows:

Three months ended March 31	**2012**		2011	
(wells drilled)	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]
Gas	**14**	**10**	15	9
Oil	**1**	**1**	6	3
Oil sands evaluation	**1**	**1**	27	26
Dry and abandoned	**–**	**–**	–	–
Total	**16**	**12**	48	38
Success rate	**100%**		100%	

(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.

OUTLOOK

Paramount's annual 2012 capital spending budget, excluding land, acquisitions and capitalized interest, is $535 million, with $475 million allocated to exploration and development spending in the Company's core producing areas and $60 million allocated to Strategic Investment spending. The Company has more than sufficient capacity to fund its 2012 capital program and retains flexibility within its current capital plan to vary spending depending upon future economic conditions, among other factors.

First quarter 2012 exploration and development spending totaled approximately $140 million. Planned spending of $335 million for the remainder of the year will be focused in the Kaybob Deep Basin development, where $130 million will be invested in the Musreau and Smoky deep cut facility expansions and $150 million will be invested in drilling and completion activities to build an inventory of wells to feed the new 200 MMcf/d Musreau deep cut facility. By year-end 2012, Paramount expects to have an inventory of approximately 32 wells awaiting the commissioning of the deep cut facilities expansions.

Following start-up of the Valhalla gathering and processing expansion and the addition of other new well production in the second quarter, sales volumes for the remainder of the year are expected to range between 26,000 and 28,000 Boe/d, before accounting for the impact of the United States property disposition. The Company's sales volumes will continue to be in this range until the deep cut facility expansion at Musreau is fully commissioned in the second half of 2013. Sales volumes are expected to more than double once the expansions of the Company's Deep Basin facilities are fully operational in 2014.

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, 2012	December 31, 2011	Change %
Working capital deficit[(1)]	**104.0**	82.0	27
Credit facility	**–**	61.4	(100)
Senior Notes[(2)]	**370.0**	370.0	–
Net debt[(3)]	**474.0**	513.4	(8)
Share capital	**813.2**	810.8	–
Accumulated earnings (deficit)	**20.9**	(103.6)	120
Reserves	**107.1**	116.7	(8)
Total Capital	**1,415.2**	1,337.3	6

(1) Excludes risk management assets and liabilities, 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, 2012 – $nil, December 31, 2011 – $5.9 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.

Working Capital

Paramount's working capital deficit at March 31, 2012 was $104.0 million compared to $82.0 million at December 31, 2011. The working capital deficit at March 31, 2012 included $184.6 million of accounts payable and accrued liabilities, $54.0 million of cash and cash equivalents, $48.7 million of accounts receivable, $24.6 million in demand facility debt and $2.4 million of prepaid and other. The increase in the working capital deficit is primarily a result of capital spending during the first quarter of 2012 and the repayment of $61.4 million drawn on the Company's credit facility, partially offset by proceeds from the sale of 5.0 million Trilogy shares, the sale of non-core petroleum and natural gas properties and funds flow from operations. During the first quarter of 2012, aggregate principal payments of $1.3 million were made on Drilling Rig Loan I.

Paramount expects to fund its 2012 operations, obligations and capital expenditures with funds flow from operations, existing cash and cash equivalents, drawings on its bank credit facility, proceeds from the sale of non-core assets and by accessing the capital markets, if required.

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 $8.8 million have been made to March 31, 2012. Unless demanded by the bank, annual scheduled principal repayments on Drilling Rig Loan I are $3.8 million for the remainder of 2012 and $5.1 million in 2013, with the remaining outstanding balance payable in 2014.

In January 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"). Advances on Drilling Rig Loan II are available during the year-long construction period with scheduled principal repayments to commence in 2013. As of March 31, 2012, $3.0 million was drawn on Drilling Rig Loan II.

Recourse and security for Drilling Rig Loan I and Drilling Rig Loan II (the "Drilling Rig Loans") is limited to the three existing drilling rigs, the two rigs being constructed, and drilling contracts guaranteed by Paramount. The carrying value of the rigs at March 31, 2012 is $47.5 million (December 31, 2011 - $37.6 million). Interest is payable at the bank's prime lending rate or bankers acceptance rate, as selected at the discretion of the Company, plus an applicable margin. The effective interest rate on the Drilling Rig Loans for the period ended March 31, 2012 was 4.6 percent (2011 - 4.7 percent).

Cavalier Facility

In January 2012, Cavalier Energy entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). The Cavalier Facility bears interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of Cavalier Energy, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier Energy, including oil sands and carbonate bitumen lands. At March 31, 2012, no amounts have been drawn on this facility.

Bank Credit Facility

Paramount currently has a $300 million bank credit facility (the "Facility") which is available in two tranches. The maximum amount that Paramount may borrow under the Facility is subject to semi-annual review, and is dependent upon the Company's reserves and lenders' projections of future commodity prices, among other factors. The Company has commenced its annual credit facility renewal process and anticipates that its current $300 million credit limit will be increased due to reserves growth and increased asset coverage.

At March 31, 2012, the amount drawn on the Facility was nil (December 31, 2011 – $61.4 million). Paramount had undrawn letters of credit outstanding at March 31, 2012 totalling $26.3 million that reduce the amount available to the Company.

Share Capital

Paramount has incurred sufficient qualifying expenditures to satisfy commitments associated with flow through shares issued in November 2011.

At May 4, 2012, Paramount had 85,569,174 Common Shares and 5,662,550 Paramount Options outstanding, of which 1,754,318 are exercisable.

QUARTERLY INFORMATION

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	**54.7**	63.3	70.5	61.1	46.8	46.0	44.9	44.6
Funds flow from operations	**12.8**	26.1	32.8	23.4	13.9	21.3	24.1	25.2
per share – diluted ($/share)	**0.15**	0.33	0.42	0.29	0.19	0.29	0.33	0.35
Net income (loss)	**124.5**	(209.9)	(22.4)	12.2	(11.9)	(106.3)	6.9	(17.5)
per share – basic ($/share)	**1.46**	(2.54)	(0.28)	0.16	(0.16)	(1.44)	0.09	(0.24)
per share – diluted ($/share)	**1.42**	(2.54)	(0.28)	(0.02)	(0.16)	(1.44)	0.09	(0.24)
Sales volumes								
Natural gas (MMcf/d)	**88.6**	91.5	97.8	77.7	58.7	60.4	62.9	57.0
NGLs (Bbl/d)	**1,652**	1,620	2,062	1,504	968	1,030	1,099	821
Oil (Bbl/d)	**2,386**	2,356	2,344	2,110	2,353	2,357	2,381	2,466
Total (Boe/d)	**18,813**	19,223	20,707	16,572	13,097	13,461	13,967	12,787
Average realized price								
Natural gas ($/Mcf)	**2.77**	3.62	4.12	4.35	4.15	3.98	4.04	4.39
NGLs ($/Bbl)	**78.57**	78.08	80.82	81.95	75.56	71.85	58.45	73.04
Oil ($/Bbl)	**89.21**	93.25	79.42	94.62	81.40	74.91	68.22	69.15

Significant Items Impacting Quarterly Results

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

- First quarter 2012 earnings include a $157.2 million gain on the sale of 5.0 million Trilogy shares and a $21.3 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.

- First quarter 2011 earnings include gains of $39.6 million on the sale of property, plant and equipment, partially offset by $11.3 million of stock-based compensation charges.

- Fourth quarter 2010 earnings include $33.7 million of stock-based compensation charges, a $57.9 million write-down of petroleum and natural gas properties and goodwill and $11.9 million of expired lease costs.

- Third quarter 2010 earnings include a future income tax recovery of $33.0 million and $8.1 million of stock-based compensation charges.

- Second quarter 2010 earnings include increased depletion, depreciation and accretion expense and $6.8 million of stock-based compensation charges.

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", "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 the timing thereof;
- planned exploration and development expenditures and the timing thereof;
- exploration and development potential, plans and strategies and the anticipated costs, timing and results thereof;
- budget allocations and capital spending flexibility;
- availability of facilities to process and transport natural gas production;
- the scope and timing of proposed new facilities and expansions to existing facilities and the expected capacity and utilization of such facilities;
- the timing of the anticipated development of Paramount’s oil sands, carbonate bitumen and shale gas assets;
- ability to fulfill future pipeline transportation commitments;
- the anticipated costs and completion date of the two new triple-sized walking drilling rigs;
- ability to fulfill future pipeline transportation commitments;
- business strategies and objectives;
- sources of and plans for financing;
- acquisition and disposition plans;
- operating and other costs;
- regulatory applications and the anticipated scope, timing and results thereof;
- expected drilling programs, completions, well tie-ins, facilities construction and expansions and the timing thereof;
- the outcome of any legal claims, audits, assessments or other regulatory matters or proceedings;
- the expected closing of property sales and the proceeds and timing thereof;
- the anticipated renewal of the Company’s credit facility and the size and timing thereof; and
- the expected duration of the third party ethane extraction facility disruption.

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 crude oil, bitumen, natural gas and NGLs prices and general economic, business and market conditions;
- the ability of Paramount to obtain required capital to finance its exploration and development activities;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations, including liquids yields;
- the timely receipt of required regulatory approvals;
- expected timelines being met in respect of facility development and construction projects;
- access to capital markets and other sources of

- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to close expected property sales and the timing thereof;

funding;

- well economics relative to other projects; 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 crude oil, bitumen, natural gas and NGLs prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, liquids yields, costs and expenses and the timing thereof;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling activities;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions or unexpected technical difficulties in designing, developing or operating 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 other sources of financing at an acceptable cost to meet current and future obligations, including costs of anticipated projects;
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission reduction obligations;
- the receipt, timing, and scope of governmental or regulatory approvals;
- changes in economic, business and market conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due to environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

The foregoing list of risks is not exhaustive. Additional information concerning these and other factors which could impact Paramount 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 commodity contract settlements", "Net Debt", "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 Generally Accepted Accounting Principles in Canada ("GAAP").

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 calculation of Net Debt in the liquidity and capital resources section of Management's Discussion and Analysis. **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, natural gas liquids ("NGLs") and condensate. The term "liquids-rich" is used to represent natural gas streams with associated liquids volumes.

During the first quarter of 2012, the value ratio between crude oil and natural gas was approximately 32:1. 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 (Unaudited)
($ thousands)

As at	Note	March 31 2012	December 31 2011
ASSETS			
Current assets			
Cash and cash equivalents	16	**$ 54,027**	$ 29,000
Accounts receivable		**48,741**	40,181
Risk management	15	**–**	184
Prepaid expenses and other		**2,385**	2,551
Assets held for sale	3	**–**	58,038
		105,153	129,954
Deposit		**20,082**	20,043
Exploration and evaluation	4	**433,008**	390,742
Property, plant and equipment, net	5	**904,300**	808,617
Equity-accounted investments	6	**98,554**	101,543
Investments in securities	7	**156,593**	153,840
Deferred income tax		**89,807**	117,548
Goodwill		**3,426**	3,426
		$ 1,810,923	$ 1,725,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	8	**$ 24,573**	$ 22,842
Accounts payable and accrued liabilities		**184,582**	136,820
Risk management	15	**4,745**	2,787
Liabilities associated with assets held for sale	3	**–**	13,040
		213,900	175,489
Long-term debt	9	**365,969**	427,186
Asset retirement obligations	10	**289,912**	299,202
		869,781	901,877
Shareholders' equity			
Share capital	12	**813,172**	810,781
Accumulated earnings (deficit)		**20,887**	(103,615)
Reserves	13	**107,083**	116,670
		941,142	823,836
		$ 1,810,923	$ 1,725,713

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	2012	2011
Petroleum and natural gas sales		$ 54,695	$ 46,755
Royalties		(5,292)	(4,731)
Revenue		49,403	42,024
Loss on financial commodity contracts	15	(3,583)	(3,365)
		45,820	38,659
Expenses			
Operating expense and production tax		21,306	15,555
Transportation		5,634	4,092
General and administrative		4,662	4,202
Stock-based compensation	14	7,036	11,319
Depletion and depreciation		31,863	27,687
Exploration and evaluation	4	5,186	9,383
Gain on sale of property, plant and equipment		(28,288)	(39,641)
Interest		7,568	7,627
Accretion of asset retirement obligations		1,647	2,326
Foreign exchange		180	4,150
		56,794	46,700
Income (loss) from equity-accounted investments	6	156,543	(1,274)
Other income		1,973	685
Net income (loss) before tax		147,542	(8,630)
Income tax expense	11		
Current		724	159
Deferred		22,316	3,076
		23,040	3,235
Net income (loss)		$ 124,502	$ (11,865)
Other comprehensive income (loss), net of tax	13		
Change in market value of securities		(14,006)	17,417
Exchange differences on translation of US subsidiaries		(648)	848
		(14,654)	18,265
Comprehensive income		$ 109,848	$ 6,400
Net income (loss) per common share ($/share)	12		
Basic		$ 1.46	$ (0.16)
Diluted		$ 1.42	$ (0.16)

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	2012	2011
Operating activities			
Net income (loss)		$ 124,502	$ (11,865)
Add (deduct)			
Items not involving cash	16	(116,109)	19,705
Dividends from equity accounted investments		2,010	3,212
Asset retirement obligations settled	10	(3,784)	(5,331)
Change in non-cash working capital		7,431	34,131
Cash from operating activities		14,050	39,852
Financing activities			
Net draw (repayment) of drilling rig loan		1,731	(1,500)
Repayment of revolving long-term debt		(61,383)	–
Proceeds from Senior Notes, net of issue costs		–	70,964
Common shares issued, net of issue costs		818	1,813
Common shares purchased under stock incentive plan		–	(2,370)
Cash from (used) in financing activities		(58,834)	68,907
Investing activities			
Property, plant and equipment and exploration		(180,689)	(185,055)
Proceeds on sale of property, plant and equipment		44,582	44,116
Proceeds on sale of investment, net		181,718	350
Investments in securities		(13,023)	–
Change in non-cash working capital		37,341	65,146
Cash from (used) in investing activities		69,929	(75,443)
Net increase		25,145	33,316
Foreign exchange on cash and cash equivalents		(118)	(968)
Cash and cash equivalents, beginning of period		29,000	74,659
Cash and cash equivalents, end of period		$ 54,027	$ 107,007
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	**2012**		2011	
		Shares (000's)		*Shares (000's)*	
Share Capital					
Balance, beginning of period		***85,414***	**$ 810,781**	*75,034*	$ 481,827
Issued		***70***	**2,560**	*214*	6,921
Change in unvested Common Shares for stock incentive plan	14	**–**	**(169)**	*(82)*	(2,215)
Balance, end of period		***85,484***	**$ 813,172**	*75,166*	$ 486,533
Accumulated Earnings (Deficit)					
Balance, beginning of period			**$ (103,615)**		$ 128,375
Net income (loss)			**124,502**		(11,865)
Balance, end of period			**$ 20,887**		$ 116,510
Reserves	13				
Balance, beginning of period			**$ 116,670**		$ 71,996
Other comprehensive income (loss)			**(14,654)**		18,265
Contributed surplus			**5,067**		–
Stock-based compensation - investee options			**–**		819
Balance, end of period			**$ 107,083**		$ 91,080
Total Shareholders' Equity			**$ 941,142**		$ 694,123

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 located in Alberta, the Northwest Territories and British Columbia in Canada, and in North Dakota and Montana in the United States. Paramount is the ultimate parent company of the consolidated group of companies. Paramount has divided its operations into three business segments: Principal Properties, Strategic Investments and Corporate.

Paramount Resources Ltd. 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 were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 8, 2012.

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting, on a consistent basis with the accounting, estimation and valuation policies described in the Company's Consolidated Financial Statements as at and for the year ended December 31, 2011. These 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 consolidated financial statements have been condensed or omitted. Since October 1, 2011, the Company has accounted for employee stock option plan awards as equity-settled stock-based compensation transactions. See Note 1 of Paramount's Consolidated Financial Statements as at and for the year ended December 31, 2011 for a description of the change in accounting method.

These unaudited Interim Condensed Consolidated Financial Statements include the accounts of Paramount and its subsidiaries and partnerships, including Summit Resources, Inc. ("Summit"), Cavalier Energy Inc. ("Cavalier Energy"), Fox Drilling Inc. ("Fox Drilling"), and Paramount Drilling U.S. L.L.C. ("Paramount 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 unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2011.

2. 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, North Dakota, and Montana; and (iv) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.

($ thousands, except as noted)

- **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 Fox Drilling and Paramount Drilling, wholly-owned subsidiaries of the Company.

- **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, 2012	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 49,403	$ –	$ –	$ –	**$ 49,403**
Loss on financial commodity contracts	(3,583)	–	–	–	**(3,583)**
	45,820	–	–	–	**45,820**
Expenses					
Operating expense and production tax	21,306	–	–	–	**21,306**
Transportation	5,634	–	–	–	**5,634**
General and administrative	–	1,622	3,040	–	**4,662**
Stock-based compensation	–	1,407	5,629	–	**7,036**
Depletion and depreciation	31,098	1,406	66	(707)	**31,863**
Exploration and evaluation	4,195	991	–	–	**5,186**
Gain on sale of property, plant and equipment	(28,288)	–	–	–	**(28,288)**
Interest	–	321	7,247	–	**7,568**
Accretion of asset retirement obligations	1,637	10	–	–	**1,647**
Foreign exchange	–	18	162	–	**180**
	35,582	5,775	16,144	(707)	**56,794**
Income from equity-accounted investments	–	156,543	–	–	**156,543**
Other	360	–	–	–	**360**
Drilling rig revenue	–	6,515	–	(3,100)	**3,415**
Drilling rig expense	–	(3,137)	–	1,335	**(1,802)**
	10,598	154,146	(16,144)	(1,058)	**147,542**
Inter-segment eliminations	–	(1,058)	–	1,058	**–**
Segment earnings (loss)	$ 10,598	$ 153,088	$ (16,144)	$ –	**147,542**
Income tax expense					**(23,040)**
Net income					**$ 124,502**

($ thousands, except as noted)

Three months ended March 31, 2011	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 42,024	$ –	$ –	$ –	$ 42,024
Loss on financial commodity contracts	(3,365)	–	–	–	(3,365)
	38,659	–	–	–	38,659
Expenses					
Operating expense and production tax	15,555	–	–	–	15,555
Transportation	4,092	–	–	–	4,092
General and administrative	–	1,045	3,157	–	4,202
Stock-based compensation	–	3,032	8,287	–	11,319
Depletion and depreciation	27,111	1,409	181	(1,014)	27,687
Exploration and evaluation	8,566	817	–	–	9,383
Gain on sale of property, plant and equipment	(39,641)	–	–	–	(39,641)
Interest	–	329	7,298	–	7,627
Accretion of asset retirement obligations	2,312	14	–	–	2,326
Foreign exchange	–	(30)	4,180	–	4,150
	17,995	6,616	23,103	(1,014)	46,700
Loss from equity-accounted investments	–	(1,274)	–	–	(1,274)
Other	954	–	–	–	954
Drilling rig revenue	–	5,484	–	(3,962)	1,522
Drilling rig expense	–	(3,050)	–	1,259	(1,791)
	21,618	(5,456)	(23,103)	(1,689)	(8,630)
Inter-segment eliminations	–	(1,689)	–	1,689	–
Segment earnings (loss)	$ 21,618	$ (7,145)	$ (23,103)	$ –	(8,630)
Income tax expense					(3,235)
Net loss					$ (11,865)

3. ASSETS HELD FOR SALE

In January 2012, the Company closed the sale of 5.0 million non-voting shares of Trilogy Energy Corp. ("Trilogy") for net cash proceeds of $181.7 million, resulting in the recognition of a before-tax gain of $157.2 million which has been included in income from equity-accounted investments.

During the first quarter of 2012, Paramount closed the sale of certain oil and gas properties within the Southern and Northern COUs for aggregate gross proceeds of $49.2 million, including a $4.0 million convertible debenture due February 2014. A $28.3 million before-tax gain on sale of property, plant and equipment was recorded in respect of these transactions.

The December 31, 2011 carrying value of the divested assets and related liabilities was as follows:

	Principal Properties	**Trilogy**	**Total**
Exploration and evaluation	$ 5,052	$ –	**$ 5,052**
Property, plant and equipment, net	28,251	–	**28,251**
Equity-accounted investments	–	24,196	**24,196**
Goodwill	539	–	**539**
Asset retirement obligations	$ (13,040)	$ –	**$ (13,040)**

($ thousands, except as noted)

4. EXPLORATION AND EVALUATION

	Three months ended March 31, 2012	Twelve months ended December 31, 2011
Balance, beginning of period	$ 390,742	$ 269,084
Additions	71,584	229,347
Transfer to assets held for sale	–	(5,052)
Corporate acquisitions	–	82,100
Transfers to property, plant and equipment	(26,228)	(161,853)
Dry hole	(348)	(2,371)
Expired lease costs	(2,455)	(18,195)
Dispositions	–	(3,052)
Foreign exchange	(287)	734
Balance, end of period	$ 433,008	$ 390,742

Exploration and Evaluation Expense

Three months ended March 31	2012	2011
Geological and geophysical	$ 2,362	$ 2,871
Dry hole	369	–
Expired lease costs	2,455	6,512
	$ 5,186	$ 9,383

5. PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2012	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2011	$ 1,466,107	$ 51,471	$ 19,943	$ 1,537,521
Additions	98,250	11,476	115	109,841
Transfer from exploration and evaluation	26,228	–	–	26,228
Dispositions	(109)	–	–	(109)
Change in asset retirement provision	(6,991)	–	–	(6,991)
Currency translation differences	(882)	(267)	(13)	(1,162)
Cost, March 31, 2012	1,582,603	62,680	20,045	1,665,328
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2011	$ (696,630)	$ (13,899)	$ (18,375)	$ (728,904)
Depletion and depreciation	(31,138)	(1,400)	(73)	(32,611)
Currency translation differences	368	113	6	487
Accumulated depletion, depreciation and write-downs, March 31, 2012	(727,400)	(15,186)	(18,442)	(761,028)
Net book value, December 31, 2011	769,477	37,572	1,568	808,617
Net book value, March 31, 2012	$ 855,203	$ 47,494	$ 1,603	$ 904,300

Twelve months ended December 31, 2011	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2010	$ 873,822	$ 46,146	$ 19,850	$ 939,818
Additions	295,733	4,974	81	300,788
Corporate acquisitions	107,148	–	–	107,148
Transfer to assets held for sale	(29,859)	–	–	(29,859)
Transfer from exploration and evaluation	161,853	–	–	161,853
Dispositions	(4,943)	–	–	(4,943)
Change in asset retirement provision	61,125	–	–	61,125
Currency translation differences	1,228	351	12	1,591
Cost, December 31, 2011	1,466,107	51,471	19,943	1,537,521
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2010	$ (333,455)	$ (8,157)	$ (17,872)	$ (359,484)
Transfer to assets held for sale	1,608	–	–	1,608
Depletion and depreciation	(150,372)	(5,595)	(498)	(156,465)
Write-downs, net	(215,156)	–	–	(215,156)
Dispositions	1,217	–	–	1,217
Currency translation differences	(472)	(147)	(5)	(624)
Accumulated depletion, depreciation and write-downs, December 31, 2011	(696,630)	(13,899)	(18,375)	(728,904)
Net book value, December 31, 2010	540,367	37,989	1,978	580,334
Net book value, December 31, 2011	$ 769,477	$ 37,572	$ 1,568	$ 808,617

At March 31, 2012, $105.1 million (December 31, 2011 – $111.4 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Additions to property, plant and equipment include $1.6 million of capitalized interest for qualifying assets in the construction phase (2011 – $3.2 million) at a weighted average interest rate of 8.25 percent.

6. EQUITY-ACCOUNTED INVESTMENTS

	March 31, 2012			December 31, 2011		
	Shares (000's)	**Carrying Value**	**Market Value[(1)]**	_Shares (000's)_	Carrying Value	Market Value[(1)]
Trilogy[(2)]	***19,144***	**$ 90,954**	**$ 504,645**	_19,144_	$ 94,062	$ 719,253
MGM Energy Corp.	***43,834***	**1,463**	**8,328**	_43,834_	1,691	10,520
Paxton Corporation	***1,750***	**3,927**		_1,750_	4,015	
Other		**2,210**			1,775	
		$ 98,554			$ 101,543	

(1) Based on the period-end trading price of publicly traded entities.
(2) December 31, 2011 balances exclude 5.0 million non-voting shares of Trilogy classified within assets held for sale.

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

Three months ended March 31	2012				2011		
	Equity income (loss)	Dilution gain	Gain on sale	Total	Equity income (loss)	Dilution gain	Total
Trilogy	$ (932)	$ 128	$157,228	$156,424	$ (585)	$ –	$ (585)
MGM Energy Corp.	(228)	–	–	(228)	(589)	–	(589)
Paxton Corporation	(88)	–	–	(88)	(100)	–	(100)
Other	435	–	–	435	–	–	–
	$ (813)	$ 128	$157,228	$156,543	$ (1,274)	$ –	$ (1,274)

The following table summarizes the assets, liabilities, revenues and income/loss of Trilogy. The amounts summarized have been derived directly from Trilogy's published financial statements as at and for the three months ended March 31, 2012 and 2011. 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, 2012	March 31, 2011
Assets	$ 1,391,120	$ 1,175,054
Liabilities	$ 870,736	$ 641,670
Shares outstanding (thousands)	116,216	114,741
Paramount's equity interest	16%	21%

Three months ended March 31	2012	2011
Revenue	$ 96,500	$ 74,024
Net loss	$ (3,003)	$ (211)

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 5.9 million stock options outstanding (1.6 million exercisable) at March 31, 2012 at exercise prices ranging from $4.85 to $38.74 per share.

7. INVESTMENTS IN SECURITIES

	March 31, 2012		December 31, 2011	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	3,700	$ 142,302	3,700	$ 153,809
Other		14,291		31
		$ 156,593		$ 153,840

8. DEMAND FACILITIES

	March 31, 2012	December 31, 2011
Drilling Rig Loan I	$ 21,573	$ 22,842
Drilling Rig Loan II	3,000	–
Cavalier Facility	–	–
	$ 24,573	$ 22,842

($ 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 $8.8 million have been made to March 31, 2012. Unless demanded by the bank, annual scheduled principal repayments on Drilling Rig Loan I are $3.8 million for the remainder of 2012 and $5.1 million in 2013, with the remaining outstanding balance payable in 2014.

In January 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"). Advances on Drilling Rig Loan II are available during the year-long construction period, with scheduled principal repayments to commence in 2013. As of March 31, 2012, $3.0 million was drawn on Drilling Rig Loan II.

Recourse and security for Drilling Rig Loan I and Drilling Rig Loan II (the "Drilling Rig Loans") is limited to the three existing drilling rigs, the two rigs being constructed, and drilling contracts guaranteed by Paramount. The carrying value of the rigs at March 31, 2012 is $47.5 million (December 31, 2011 - $37.6 million). Interest is payable at the bank's prime lending rate or bankers' acceptance rate, as selected at the discretion of the Company, plus an applicable margin. The effective interest rate on the Drilling Rig Loans for the period ended March 31, 2012 was 4.6 percent (2011 - 4.7 percent).

Cavalier Facility

In January 2012, Cavalier Energy entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). The Cavalier Facility bears interest at the lenders' prime lending rates, US base rates, or bankers' acceptance rates, as selected at the discretion of Cavalier Energy, plus an applicable margin. The Cavalier Facility is non-recourse to Paramount and is secured by all of the assets of Cavalier Energy, including oil sands and carbonate bitumen lands. At March 31, 2012, no amounts have been drawn on this facility.

9. LONG-TERM DEBT

	March 31, 2012	December 31, 2011
Canadian Dollar Denominated Debt		
Bank credit facility	**$ –**	$ 61,383
8 ¼ percent Senior Notes due 2017	**370,000**	370,000
	370,000	431,383
Unamortized financing costs net of premiums	**(4,031)**	(4,197)
	$ 365,969	$ 427,186

Bank Credit Facility

At March 31, 2012, the amount drawn on the bank credit facility was nil (December 31, 2011 – $61.4 million). Paramount had undrawn letters of credit outstanding at March 31, 2012 totalling $26.3 million that reduce the amount available to the Company.

($ thousands, except as noted)

10. ASSET RETIREMENT OBLIGATIONS

	Three months ended March 31, 2012	Twelve months ended December 31, 2011
Asset retirement obligations, beginning of period	**$ 299,202**	$ 241,770
Retirement obligations incurred	**2,045**	23,463
Revisions to estimated retirement costs and discount rates	**(9,036)**	37,791
Obligations settled	**(3,784)**	(7,520)
Disposal of properties	**–**	(2,902)
Assumed on corporate acquisition	**–**	11,943
Accretion expense	**1,647**	7,374
Transfer to liabilities associated with assets held for sale	**–**	(13,040)
Foreign exchange	**(162)**	323
Asset retirement obligations, end of period	**$ 289,912**	$ 299,202

The asset retirement obligation at March 31, 2012 has been determined using a weighted average risk-free rate of 2.50 percent (2011 – 2.25 percent). These obligations will be settled over the useful lives of the assets, which extend up to 42 years.

11. 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	**2012**	2011
Net income (loss) before tax	**$ 147,542**	$ (8,630)
Effective Canadian statutory income tax rate	**25.1%**	26.6%
Expected income tax expense (recovery)	**$ 37,033**	$ (2,295)
Increase (decrease) resulting from:		
Statutory and other rate differences	**2,229**	1,837
Income from equity-accounted investments	**(23,341)**	339
Flow-through share renunciations	**1,612**	380
Stock-based compensation	**1,619**	2,858
Non-deductible items and other	**3,888**	116
Income tax expense	**$ 23,040**	$ 3,235

12. SHARE CAPITAL

Weighted Average Common Shares Outstanding

Three months ended March 31	**2012**		2011	
	Shares (000's)	**Net Income**	*Shares (000's)*	Net Loss
Net income (loss) – basic	***85,470***	**$ 124,502**	*75,159*	$ (11,865)
Dilutive effect of Paramount options	***1,997***	**–**	–	–
Net income (loss) – diluted	***87,467***	**$ 124,502**	*75,159*	$ (11,865)

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted net income per share calculation when they are dilutive for the period. The Company had 5.7 million Paramount Options outstanding at March 31, 2012 (December 31, 2011 – 5.8 million), of which 1.4 million (December 31, 2011 – 5.8 million) were anti-dilutive.

Flow-through Shares

Paramount has incurred sufficient qualifying expenditures to satisfy its commitments associated with flow-through shares issued in November 2011.

13. RESERVES

Reserves at March 31, 2012 include unrealized gains on the Company's investments in available-for-sale 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, 2011	$ 51,709	$ (831)	$ 65,792	**$ 116,670**
Other comprehensive income (loss)	(14,006)	(648)	–	**(14,654)**
Stock-based compensation expense	–	–	6,458	**6,458**
Stock options exercised	–	–	(1,391)	**(1,391)**
Balance, March 31, 2012	$ 37,703	$ (1,479)	$ 70,859	**$ 107,083**

	Unrealized Gains on Securities	Translation of Foreign Subsidiaries	Contributed Surplus	Stock-based compensation – investee options	Total Reserves
Balance, December 31, 2010	$ 71,622	$ (2,028)	$ –	$ 2,402	$ 71,996
Other comprehensive income (loss)	(19,913)	1,197	–	–	(18,716)
Stock-based compensation liability reclassified	–	–	68,728	–	68,728
Stock-based compensation expense	–	–	4,185	–	4,185
Stock options exercised	–	–	(7,121)	–	(7,121)
Reclassification to equity-accounted investments	–	–	–	(2,402)	(2,402)
Balance, December 31, 2011	$ 51,709	$ (831)	$ 65,792	$ –	$ 116,670

Other Comprehensive Income

Three months ended March 31	2012	2011
Unrealized Gain (Loss) on Securities		
Change in market value of securities	$ (14,271)	$ 19,775
Deferred tax	265	(2,358)
	(14,006)	17,417
Translation of Foreign Subsidiaries		
Exchange differences on translation of US subsidiaries	(1,201)	(879)
Reclassification of other comprehensive loss to earnings	172	2,326
Deferred tax	381	(599)
	(648)	848
Other comprehensive income (loss)	$ (14,654)	$ 18,265

14. SHARE-BASED PAYMENTS

Paramount Options

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

	Three months ended March 31, 2012		Twelve months ended December 31, 2011	
	Number	Weighted average exercise price ($/share)	Number	Weighted average exercise price ($/share)
Balance, beginning of period	5,767,450	$ 20.76	5,006,300	$ 13.90
Granted	20,000	34.50	1,529,000	38.95
Exercised	(72,500)	12.60	(618,850)	10.80
Forfeited	(47,000)	23.04	(149,000)	17.74
Balance, end of period	5,667,950	$ 20.89	5,767,450	$ 20.76
Options exercisable, end of period	1,759,718	$ 10.55	1,832,218	$ 10.66

Stock Incentive Plan

	Three months ended March 31, 2012		Twelve months ended December 31, 2011	
Stock incentive plan shares held in trust	*Shares (000's)*		*Shares (000's)*	
Balance, beginning of period	*86*	$ 419	*150*	$ 410
Shares purchased	–	–	*101*	2,974
Change in vested and unvested shares	–	(169)	*(165)*	(2,965)
Balance, end of period	*86*	$ 250	*86*	$ 419

Employee Benefit Costs

Three months ended March 31	2012	2011
Stock option plan	$ 6,458	$ 10,750
Stock incentive plan	578	569
Stock-based compensation expense	7,036	11,319
Salaries and benefits, net of recoveries	3,009	2,786
	$ 10,045	$ 14,105

($ thousands, except as noted)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at March 31, 2012 are as follows:

Instruments	Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.01/Bbl	**$ (74)**	April – May 2012
Oil – NYMEX WTI Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**(5)**	April – May 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.65/Bbl	**(92)**	April – June 2012
Oil – NYMEX WTI Swap	500 Bbl/d	US $97.25/Bbl	**(999)**	April – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $91.50/Bbl	**(3,575)**	April – December 2012
			$ (4,745)	

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

	Three months ended March 31, 2012	Twelve months ended December 31, 2011
Fair value, beginning of period	**$ (2,603)**	$ (693)
Changes in fair value	**(3,583)**	(1,699)
Settlements paid (received)	**1,441**	(211)
Fair value, end of period	**$ (4,745)**	$ (2,603)

16. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

Three months ended March 31	**2012**	2011
Financial commodity contracts	**$ 2,142**	$ 3,098
Stock-based compensation	**7,036**	11,319
Depletion and depreciation	**31,863**	27,687
Exploration and evaluation	**2,824**	6,512
(Gain) on sale of property, plant, and equipment	**(28,288)**	(39,641)
Accretion of asset retirement obligations	**1,647**	2,326
Foreign exchange	**99**	4,121
(Income) loss from equity accounted investments	**(156,543)**	1,274
Deferred income tax	**22,316**	3,076
Other	**795**	(67)
	$ (116,109)	$ 19,705

Supplemental cash flow information

Three months ended March 31	**2012**	2011
Interest paid	**$ 1,381**	$ 190
Current tax paid	**$ 653**	$ –

($ thousands, except as noted)

Components of cash and cash equivalents

	March 31, 2012	December 31, 2011
Cash	$ 13,034	$ 15,009
Bankers' acceptances	40,993	13,991
	$ 54,027	$ 29,000

17. SUBSEQUENT EVENT

In April 2012, Summit entered into an agreement to sell a portion of its properties in North Dakota and Montana for cash proceeds of approximately US$70 million, subject to customary closing adjustments.

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.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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Paramount Resources Ltd.
Calgary, Alberta

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

J.G.M. Bell (1) (4)
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T. E. Claugus (4)
President, GMT Capital Corp.
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J. C. Gorman (1) (3) (4)
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President and Chief Executive Officer
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J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

A. S. Thomson (1) (4)
Retired
Sidney, British Columbia

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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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("POU")