

OPERATIONAL UPDATE

Oil and Gas Operations

- Sales volumes in the third quarter were impacted by scheduled and unscheduled third party downstream NGLs processing disruptions, which shut-in up to 6,000 Boe/d of Paramount's production. The Company was able to partially restore sales volumes to approximately 20,000 Boe/d by the end of October after the affected third party NGLs facility resumed service. Paramount's production continues to be impacted by the availability of downstream NGLs fractionation capacity as third party operators prorate available NGLs processing capacity.
- Operating expenses decreased to \$8.50 per Boe in the third quarter of 2012 from \$9.88 per Boe in 2011 due to the cost savings from the Company's 45 MMcf/d Musreau refrigeration facility (the "Musreau Refrig Facility") and the sale of higher cost US properties.
- Paramount received regulatory approval in July 2012 for the 200 MMcf/d Musreau deep cut facility. Site preparation work commenced in the third quarter of 2012, construction work is continuing to progress, and equipment deliveries are expected to begin before the end of the year.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. The Company currently has an inventory of 31 (24 net) wells with estimated first month deliverability exceeding 200 MMcf/d (150 MMcf/d net) of raw gas.
- Paramount has completed drilling and fracture stimulation operations at its first five-well pad at Musreau, where three (2.5 net) Montney formation wells and two (1.5 net) Falher formation wells were drilled and completed for an aggregate gross cost of approximately \$37 million. Average gross raw gas test rates for the five wells aggregated to approximately 55 MMcf/d over the final 24 hours of their test periods, with flowing pressures averaging 2,500 PSI.

Strategic Investments

- The Company has commenced drilling its second exploratory vertical evaluation well on its Liard Basin Besa River shale gas lands.
- Construction of Paramount's two new walking drilling rigs is nearing completion with the first rig scheduled to commence drilling for the Kaybob COU in December and the second expected to commence drilling in January 2013.

Corporate

- Paramount raised an aggregate \$125.1 million through the issuance of a total of 4.2 million flow-through Common Shares in late-September and early-October.

- Paramount is continuing to work on a proposal from one of its lenders for an expansion of the Company's bank credit facility and, as a result, the revolving period and maturity date of the existing \$300 million bank credit facility (the "Existing Facility") have been extended to November 15, 2012 and November 15, 2013, respectively. Paramount expects that the revolving period and maturity date of the Existing Facility would be further extended if such facility is not expanded before November 15, 2012.
- A \$6.2 million settlement was received in the third quarter in respect of a business interruption insurance claim related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

Financial and Operating Highlights^(1,2)

(\$ millions, except as noted)

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Financial						
Petroleum and natural gas sales	41.3	70.5	(41)	142.5	178.4	(20)
Funds flow from operations	15.5	32.8	(53)	40.4	70.2	(42)
Per share – diluted (\$/share)	0.18	0.42	(57)	0.46	0.91	(49)
Net income (loss)	(34.6)	(22.4)	(54)	89.9	(22.1)	507
Per share – basic (\$/share)	(0.40)	(0.28)	(43)	1.05	(0.29)	462
Per share – diluted (\$/share)	(0.40)	(0.28)	(43)	1.03	(0.29)	455
Exploration and development expenditures	147.7	107.0	38	356.3	321.7	11
Investments in other entities – market value ⁽³⁾				656.6	812.3	(19)
Total assets				1,903.0	1,737.9	9
Net debt ⁽⁴⁾				569.1	589.6	(3)
Common shares outstanding (thousands)				87,489	79,002	11
Operating						
Sales volumes						
Natural gas (MMcf/d)	95.3	97.8	(3)	96.7	78.2	24
NGLs (Bbl/d)	1,755	2,062	(15)	1,793	1,515	18
Oil (Bbl/d)	1,081	2,344	(54)	1,756	2,269	(23)
Total (Boe/d)	18,712	20,707	(10)	19,663	16,820	17
Average realized price						
Natural gas (\$/Mcf)	2.58	4.12	(37)	2.46	4.20	(41)
NGLs (\$/Bbl)	60.65	80.82	(25)	69.42	80.09	(13)
Oil (\$/Bbl)	81.28	79.42	2	83.96	84.81	(1)
Total (\$/Boe)	24.00	37.03	(35)	26.46	38.85	(32)
Net wells drilled (excluding oil sands evaluation)	9	15	(40)	28	35	(20)
Net oil sands evaluation wells drilled	–	–	–	1	27	(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) Amounts include the results of discontinued operations. Refer to pages 6 and 7 of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2012.

(3) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.

(4) Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2012.

REVIEW OF OPERATIONS

	Third Quarter 2012		Second Quarter 2012 ⁽¹⁾		% Change
Sales volumes					
Natural gas (MMcf/d)	95.3		106.2		(10)
NGLs (Bbl/d)	1,755		1,973		(11)
Oil (Bbl/d)	1,081		1,808		(40)
Total (Boe/d)	18,712		21,474		(13)
Netbacks (\$ millions)	(\$/Boe) ⁽²⁾		(\$/Boe) ⁽²⁾		% Change in \$/Boe
Natural gas revenue	22.6	2.58	20.3	2.09	23
NGLs revenue	9.8	60.65	12.5	69.63	(13)
Oil revenue	8.1	81.28	12.8	78.65	3
Royalty and sulphur revenue	0.8	–	0.9	–	–
Petroleum and natural gas sales	41.3	24.00	46.5	23.82	1
Royalties	(2.8)	(1.62)	(3.9)	(2.00)	(19)
Operating expense and production tax	(14.6)	(8.50)	(15.9)	(8.20)	4
Transportation	(4.9)	(2.85)	(5.7)	(2.90)	(2)
Netback	19.0	11.03	21.0	10.72	3
Financial commodity contract settlements	0.2	0.10	0.4	0.23	(57)
Netback including financial commodity contract settlements	19.2	11.13	21.4	10.95	2

(1) Amounts include the results of discontinued operations. Refer to pages 6 and 7 of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2012.

(2) Natural gas revenue shown per Mcf.

During the third quarter Paramount continued to add production as new wells were brought-on in the Grande Prairie COU and liquids handling processes at the Musreau Refrig Facility were optimized. Natural gas and NGLs sales volumes decreased compared to the second quarter because of scheduled and unscheduled third party downstream NGLs processing disruptions (the "NGLs Disruption"). The NGLs Disruption required Paramount to restrict NGLs recovery rates and curtail production in the Kaybob and Grande Prairie COUs. As a result, the Company's sales volumes were reduced by up to 6,000 Boe/d between mid-August and mid-October.

By the end of October, the Company was able to partially restore sales volumes to approximately 20,000 Boe/d after the affected third party NGLs facility resumed service. Paramount's production continues to be impacted by the availability of downstream NGLs fractionation capacity as third party operators prorate available NGLs processing capacity.

Petroleum and natural gas sales revenue decreased by \$5.2 million quarter over quarter primarily due to lower sales volumes and lower realized NGLs prices, partially offset by higher realized natural gas and oil prices. Operating costs per Boe increased four percent compared to the second quarter, primarily due to third quarter scheduled maintenance work and the impact of lower sales volumes over the fixed portion of operating expenses.

Keybob

	Third Quarter 2012		Second Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	56.0		66.3		(16)
NGLs (Bbl/d)	843		1,132		(26)
Oil (Bbl/d)	55		61		(10)
Total (Boe/d)	10,225		12,236		(16)
Exploration and Development Expenditures (\$ millions)					
Exploration, drilling, completions and tie-ins	70.8		16.9		319
Facilities and gathering	37.7		23.0		64
	108.5		39.9		172
	Gross	Net	Gross	Net	
Wells Drilled	7	5.7	7	4.7	

Sales volumes in the Kaybob COU averaged approximately 11,500 Boe/d through July and August. As a result of the NGLs Disruption, production across the Kaybob COU was curtailed to less than 6,500 Boe/d by the middle of September, including temporarily reducing throughput at the Musreau Refrig Facility to 10 MMcf/d. Following the resolution of the NGLs Disruption in mid-October, Kaybob COU sales volumes have once again increased to over 11,000 Boe/d.

The Kaybob COU's third quarter operating costs were approximately \$5.00 per Boe, before accounting for the impact of third party processing income. The Musreau Refrig Facility provides significant savings to the Company through the elimination of third party processing fees. In the third quarter, Paramount received a \$6.2 million settlement in respect of a business interruption insurance claim related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

Paramount has completed drilling and fracture stimulation operations at its first five-well pad at Musreau, where three (2.5 net) Montney formation wells and two (1.5 net) Falher formation wells were drilled and completed for an aggregate gross cost of approximately \$37 million. Average gross raw gas test rates for the five wells aggregated to approximately 55 MMcf/d over the final 24 hours of their test periods, with flowing pressures averaging 2,500 PSI. The efficiencies gained from concentrating activities at a single pad location have reduced per well capital costs and will result in lower operating expenses. The Company plans to continue to utilize multi-well pad sites to realize these cost savings.

Construction activities have commenced at the 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility"). Foundation work is underway and equipment deliveries are scheduled to commence by the end of the year. The Company has incurred approximately \$70 million of costs related to the Musreau Deep Cut Facility to September 30, 2012 and anticipates spending an additional \$50 million during the remainder of 2012. The facility is expected to be commissioned in the second half of 2013 at an estimated total cost of approximately \$180 million.

Paramount has initiated a project to construct an amine processing train at the Musreau Deep Cut Facility, which will provide the capability to treat sour gas production at the plant instead of at well sites. This enhancement is expected to reduce ongoing operating costs and decrease equipping costs by over \$1 million per well. The Company is currently finalizing the design of the amine train, which is expected to cost approximately \$50 million, and the procurement of long lead-time components has commenced for a planned start-up in the first half of 2014. The addition of the amine train will not delay commissioning of the Musreau Deep Cut Facility.

Paramount is also participating in the expansion of a non-operated processing facility at Smoky (the "Smoky Deep Cut Facility"), which is being upgraded to operate as a deep cut liquids extraction plant. The Company will have a 20 percent interest in the expanded facility, up from its 10 percent share of the existing 100 MMcf/d dew point facility. The Smoky Deep Cut Facility will initially have 200 MMcf/d of raw gas capacity upon start-up, increasing to 300 MMcf/d through the later installation of an incremental 100 MMcf/d of compression. As a plant owner, Paramount has the option at any time to request the installation of the additional compression, which would bring the Company's total owned capacity in the plant to 60 MMcf/d. Construction work commenced at the site in the third quarter with the installation of pilings and foundations and major equipment is being manufactured. The expansion is scheduled to be commissioned in the first half of 2014.

Paramount has entered into a long-term firm-service agreement with a midstream company to de-ethanize and fractionate Kaybob area NGLs volumes. The midstream company has undertaken to expand its facilities to process Paramount's NGLs streams, which will secure NGLs processing for the volumes that will be produced from the Kaybob area deep cut facilities. Paramount has also entered into an agreement in principle with a petro-chemical producer on long-term arrangements for the sale of the Company's ethane production and is negotiating long-term arrangements for the transportation of its Kaybob area natural gas and NGLs volumes.

During the third quarter, the Kaybob COU drilled five (3.7 net) horizontal Falher formation wells, one (1.0 net) horizontal Montney well and one (1.0 net) horizontal Wilrich well. Twelve (9.3 net) wells were fracture stimulated including one (1.0 net) Montney formation well. Test results have been consistent with expectations, further confirming the Company's well performance profiles.

Paramount's experience over the past few years in the Deep Basin has enabled the Company to refine its development programs and reduce the cost of new wells by improving drilling techniques, using more cost effective fracture stimulations and improving logistics with multi-well pad sites. Drilling days for the latest four Falher wells have been reduced to less than 25 days compared to 45 or more days for wells drilled in 2010. The latest two Montney wells were drilled in 45 and 41 days compared to an average of over 80 days for three similar wells drilled in 2011. Paramount has also been able to negotiate lower rates for services, equipment and completion fluids.

The following table summarizes the current status of Kaybob Deep Basin wells that have been drilled and are awaiting production, the estimated remaining capital required to complete these wells, and their anticipated production and sales volumes:

	Wells		Total Remaining Capital (net)	Estimated Net Raw Gas Production ⁽¹⁾		Estimated Net Sales Volumes ⁽²⁾	
				First Month	First Year	First Month	First Year
	Gross	Net	(\$ millions)	(MMcf/d)	(MMcf/d)	(Boe/d)	(Boe/d)
Shut-in due to capacity constraints	4	4	1	13	6	4,100	2,100
Tied-in, capable of producing	6	3	–	20	9	5,500	2,500
Completed, awaiting tie-in	12	10	11	66	32	20,000	10,000
Drilled, awaiting completion	9	7	29	52	22	14,100	6,100
	31	24	41	151	69	43,700	20,700

(1) Based on the Company's 4.9 Bcf type curve for Falher wells and 3.7 Bcf type curve for Montney wells.

(2) Based on processing through a deep cut facility.

The Company plans to drill up to an additional six wells for the remainder of 2012, with more wells to be drilled in 2013 to continue building behind pipe production in advance of completing the plant expansions at Musreau and Smoky.

Grande Prairie

	Third Quarter 2012		Second Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	21.6		21.5		–
NGLs (Bbl/d)	733		658		11
Oil (Bbl/d)	251		269		(7)
Total (Boe/d)	4,587		4,514		2
Exploration and Development Expenditures (\$ millions)					
Exploration, drilling, completions and tie-ins	15.1		12.3		23
Facilities and gathering	9.9		6.5		52
	25.0		18.8		33
	Gross	Net	Gross	Net	
Wells Drilled	–	–	3	2.1	

Average sales volumes in the Grande Prairie COU exceeded 6,000 Boe/d for two weeks in August as wells completed in the first half of the year were brought-on at Valhalla and Karr-Gold Creek. As a result of the NGLs Disruption, production at Valhalla that had been processed through a third party deep cut facility was diverted to a dew point facility in order to reduce the volume of NGLs extracted from the gas stream during processing. Paramount is limited to 10 MMcf/d of capacity at the dew point facility, which has resulted in approximately 8 MMcf/d of natural gas production being shut-in at Valhalla. The Company is maintaining sales volumes in the Grande Prairie COU between 4,000 and 4,500 Boe/d due to ongoing NGLs capacity limitations. Production will be increased as additional NGLs processing capacity becomes available.

Southern

	Third Quarter 2012		Second Quarter ⁽¹⁾ 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	9.2		9.8		(6)
NGLs (Bbl/d)	148		169		(12)
Oil (Bbl/d)	594		1,250		(52)
Total (Boe/d)	2,270		3,059		(26)
Exploration and Development Expenditures (\$ millions)					
Exploration, drilling, completions and tie-ins	6.4		1.9		237
Facilities and gathering	0.3		0.7		(57)
	6.7		2.6		158
	Gross	Net	Gross	Net	
Wells Drilled	2	2.0	–	–	

(1) Amounts include the results of discontinued operations. Refer to pages 6 and 7 of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2012.

Third quarter sales volumes in the Southern COU decreased mainly because of the May 2012 United States property disposition. Production volumes were also impacted by a compression equipment failure at Chain and a turnaround at a third party downstream facility in Ricinus - Harmattan.

In the third quarter the Southern COU drilled two (2.0 net) liquids-rich natural gas wells in Harmattan.

Northern

	Third Quarter 2012		Second Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	8.5		8.6		(1)
NGLs (Bbl/d)	31		14		121
Oil (Bbl/d)	181		228		(21)
Total (Boe/d)	1,630		1,665		(2)
Exploration and Development Expenditures (\$ millions)					
Exploration, drilling, completions and tie-ins	2.0		0.6		233
Facilities and gathering	1.6		1.9		(16)
	3.6		2.5		44
	Gross	Net	Gross	Net	
Wells Drilled	1	1.0	—	—	

Third quarter sales volumes in the Northern COU were impacted by a forest fire near the Company's processing facility at Bistcho which shut-in approximately 1,250 Boe/d of production for 15 days in July.

In Northeast British Columbia, modifications are being completed to surface facilities for the Company's initial well at Birch to be re-started later in November. Three Birch wells drilled to date have targeted the upper Montney formation. In the third quarter, Paramount drilled a vertical evaluation well into the lower Montney formation at Birch. The well will be completed and, depending on test results, the Company will have the option of drilling and completing a horizontal leg in the lower or upper Montney formation.

STRATEGIC INVESTMENTS



In November 2012, Cavalier Energy Inc. ("Cavalier Energy") plans to submit a regulatory application for the first phase of development at the Hoole property, a 10,000 Bbl/d project targeting the Grand Rapids formation using proven SAGD technologies. Cavalier Energy believes that first steam could commence as early as the second half of 2015. Longer-term plans for Hoole include three additional 30,000 Bbl/d phases that would increase production to 100,000 Bbl/d by 2024.

SHALE GAS

Paramount's Besa River shale gas holdings are focused in the Liard Basin in Northeast British Columbia and the Northwest Territories. The Company began drilling its second Liard Basin shale gas evaluation well at Patry in October. The well is expected to be drilled to a vertical depth of 3,500 meters and will be cored and logged for evaluation. In early 2013 Paramount plans to finish drilling its initial shale gas evaluation well at Dunedin after drilling was suspended in the spring of 2012 due to warm weather. Paramount's exploratory drilling activities are expected to extend the mineral rights surrounding the well locations for an additional decade and provide information to be used for future development.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated November 6, 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 and nine months ended September 30, 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 longer-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. The Company's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada.

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

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

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

Third Quarter Overview

Principal Properties

- Sales volumes in the third quarter were impacted by scheduled and unscheduled third party downstream NGLs processing disruptions, which shut-in up to 6,000 Boe/d of Paramount's production. The Company was able to partially restore sales volumes to approximately 20,000 Boe/d by the end of October after the affected third party NGLs facility resumed service. Paramount's production continues to be impacted by the availability of downstream NGLs fractionation capacity as third party operators prorate available NGLs processing capacity.
- Operating expenses decreased to \$8.50 per Boe in the third quarter of 2012 from \$9.88 per Boe in 2011 due to the cost savings from the Company's 45 MMcf/d Musreau refrigeration facility (the "Musreau Refrig Facility") and the sale of higher cost US properties.
- Paramount received regulatory approval in July 2012 for the 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility"). Site preparation work commenced in the third quarter of 2012, construction work is continuing to progress, and equipment deliveries are expected to begin before the end of the year.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued.
- The Company has achieved lower per-well drilling costs in the Kaybob COU in 2012 by optimizing drilling techniques, using more cost effective fracture stimulations and drilling from multi-well pad sites.

Strategic Investments

- The Company has commenced drilling its second exploratory vertical evaluation well on its Liard Basin Besa River shale gas lands.
- Construction of Paramount's two new walking drilling rigs is nearing completion with the first rig scheduled to commence drilling for the Kaybob COU in December and the second expected to commence drilling in January 2013.

Corporate

- Paramount raised an aggregate \$125.1 million through the issuance of a total of 4.2 million flow-through Common Shares in late-September and early-October.
- Paramount is continuing to work on a proposal from one of its lenders for an expansion of the Company's bank credit facility and, as a result, the revolving period and maturity date of the existing \$300 million bank credit facility (the "Existing Facility") have been extended to November 15, 2012 and November 15, 2013, respectively. Paramount expects that the revolving period and maturity date of the Existing Facility would be further extended if such facility is not expanded before November 15, 2012.
- A \$6.2 million settlement was received in the third quarter in respect of a business interruption insurance claim related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

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

Highlights^(1,2)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
FINANCIAL				
Petroleum and natural gas sales	41.3	70.5	142.5	178.4
Funds flow from operations	15.5	32.8	40.4	70.2
per share – diluted (\$/share)	0.18	0.42	0.46	0.91
Net income (loss)	(34.6)	(22.4)	89.9	(22.1)
per share – basic (\$/share)	(0.40)	(0.28)	1.05	(0.29)
per share – diluted (\$/share)	(0.40)	(0.28)	1.03	(0.29)
Exploration and development expenditures	147.7	107.0	356.3	321.7
Investments in other entities – market value ⁽³⁾			656.6	812.3
Total assets			1,903.0	1,737.9
Long-term debt			412.8	485.4
Net debt			569.1	589.6
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	95.3	97.8	96.7	78.2
NGLs (Bbl/d)	1,755	2,062	1,793	1,515
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Total (Boe/d)	18,712	20,707	19,663	16,820
Net wells drilled (excluding oil sands evaluation)	9	15	28	35
Net oil sands evaluation wells drilled	–	–	1	27
FUNDS FLOW FROM OPERATIONS (\$/Boe)				
Petroleum and natural gas sales	24.00	37.03	26.46	38.85
Royalties	(1.62)	(3.46)	(2.23)	(3.60)
Operating expense and production tax	(8.50)	(9.88)	(9.64)	(10.90)
Transportation	(2.85)	(3.16)	(3.01)	(3.36)
Netback	11.03	20.53	11.58	20.99
Financial commodity contract settlements	0.10	0.46	(0.15)	(0.02)
Netback including financial commodity contract settlements	11.13	20.99	11.43	20.97
General and administrative – corporate	(1.24)	(1.62)	(1.72)	(2.14)
General and administrative – strategic	(1.06)	(0.50)	(0.90)	(0.68)
Interest	(4.60)	(4.74)	(4.29)	(5.44)
Dividends from investments	1.17	1.33	1.12	1.80
Other	3.62	1.76	1.86	0.77
	9.02	17.22	7.50	15.28

⁽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⁾ Amounts include the results of discontinued operations.

⁽³⁾ 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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
Principal Properties	(19.7)	(2.2)	(26.5)	(26.2)
Strategic Investments	(6.5)	(3.4)	143.1	8.5
Corporate	(16.0)	(22.0)	(50.9)	(44.9)
Taxes – Continuing Operations	7.6	4.1	(6.0)	17.1
Discontinued Operations, net of tax	–	1.1	30.2	23.4
Net income (loss)	(34.6)	(22.4)	89.9	(22.1)

Paramount's net loss for the three months ended September 30, 2012 was \$12.2 million higher than in the same period of 2011. Significant factors contributing to the change are shown below:

	Three months ended September 30
Net loss – 2011	(22.4)
Lower netback mainly due to a 32 percent decline in average realized prices and lower sales volumes	(17.2)
Loss on financial commodity contracts compared to a gain in 2011	(7.9)
Higher exploration and evaluation expense	(6.8)
Loss from equity investments compared to earnings in 2011	(4.5)
Lower stock-based compensation expense	7.2
Lower depletion and depreciation	7.1
Higher income tax recovery	3.5
Higher other income mainly due to a \$6.2 million business interruption insurance settlement	3.3
Other	3.1
Net loss – 2012	(34.6)

Net income for the nine months ended September 30, 2012 was \$112.0 million higher than in the same period of 2011. Significant factors contributing to the change are shown below:

	Nine months ended September 30
Net loss – 2011	(22.1)
Higher income from equity-accounted investments mainly due to a \$157.2 million gain on the sale of 5.0 million non-voting shares of Trilogy Energy Corp. ("Trilogy") in January 2012	151.6
Higher gains on sales of property plant and equipment related to continuing operations	26.3
Lower netback primarily due to a 31 percent decrease in average realized prices	(29.3)
Income tax expense compared to a recovery in 2011	(23.0)
Lower other income, mainly because 2011 included gains related to previous investments in NuLoch Resources Inc. and ProspEx Resources Ltd.	(10.4)
Higher stock-based compensation expense	(6.8)
Other	3.6
Net income – 2012	89.9

Funds Flow From Operations ^(1, 2)

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Cash from operating activities	42.8	47.8	68.4	77.8
Change in non-cash working capital	(29.4)	(16.5)	(39.3)	(17.9)
Geological and geophysical expenses	1.8	0.8	6.0	4.9
Asset retirement obligations settlements	0.3	0.7	5.3	5.4
Funds flow from operations	15.5	32.8	40.4	70.2
Funds flow from operations (\$/Boe)	9.02	17.22	7.50	15.28

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

⁽²⁾ Includes the results of discontinued operations.

Funds flow from operations decreased by \$17.3 million in the third quarter of 2012 compared to the same period in 2011, primarily as a result of the impact of a 32 percent decrease in average realized prices and a decrease in sales volumes, partially offset by \$6.2 million in cash proceeds from a business interruption insurance settlement and lower operating expenses and royalties.

Year-to-date funds flow from operations decreased by \$29.8 million in 2012 compared to 2011, primarily as a result of a 31 percent decrease in average realized prices and the sale of properties in North Dakota and Montana, partially offset by the impact of higher sales volumes and proceeds from the insurance settlement.

Discontinued Operations

In May 2012, Paramount's wholly-owned subsidiary, Summit Resources Inc., closed the sale of all of its operated properties in North Dakota and all of its properties in Montana (the "Sold Properties") for after-tax net cash proceeds of \$66.5 million. The Company recorded a pre-tax gain of \$50.7 million on this transaction.

Results of the Sold Properties have been presented as discontinued operations and prior year comparative results have been adjusted to conform to the current year's basis of presentation. The Principal Properties section of this Management's Discussion & Analysis provides an analysis of the results of the Company's continuing operations. The following tables reconcile Paramount's earnings from continuing operations, earnings from discontinued operations and net income:

Earnings from Continuing Operations ("CO") and Discontinued Operations ("DO")

	Three months ended September 30, 2012						Three months ended September 30, 2011					
	CO	DO	Total	CO	DO	Total	CO	DO	Total	CO	DO	Total
	(\$ millions)			(\$/Boe except natural gas ⁽¹⁾)			(\$ millions)			(\$/Boe except natural gas ⁽¹⁾)		
Natural gas	22.6	—	22.6	2.58	—	2.58	37.0	0.1	37.1	4.12	4.39	4.12
NGLs	9.8	—	9.8	60.65	—	60.65	15.1	0.2	15.3	81.22	59.64	80.82
Oil	8.1	—	8.1	81.28	—	81.28	10.8	6.3	17.1	82.18	75.15	79.42
Royalty and sulphur revenue	0.8	—	0.8	—	—	—	1.0	—	1.0	—	—	—
Petroleum and natural gas sales	41.3	—	41.3	24.00	—	24.00	63.9	6.6	70.5	35.24	72.48	37.03
Royalties	(2.8)	—	(2.8)	(1.62)	—	(1.62)	(5.5)	(1.1)	(6.6)	(3.02)	(11.97)	(3.46)
Operating expense	(14.6)	—	(14.6)	(8.50)	—	(8.50)	(16.2)	(2.6)	(18.8)	(8.95)	(28.13)	(9.88)
Transportation	(4.9)	—	(4.9)	(2.85)	—	(2.85)	(6.0)	—	(6.0)	(3.32)	—	(3.16)
Netback	19.0	—	19.0	11.03	—	11.03	36.2	2.9	39.1	19.95	32.38	20.53
Financial commodity contract settlements	0.2	—	0.2	0.10	—	0.10	0.9	—	0.9	0.49	—	0.46
Netback including financial commodity contract settlements	19.2	—	19.2	11.13	—	11.13	37.1	2.9	40.0	20.44	32.38	20.99
General and administrative	(4.0)	—	(4.0)	(2.30)	—	(2.30)	(4.0)	—	(4.0)	(2.23)	—	(2.12)
Interest	(7.9)	—	(7.9)	(4.60)	—	(4.60)	(9.0)	—	(9.0)	(4.98)	—	(4.74)
Dividends from investments	2.0	—	2.0	1.17	—	1.17	2.5	—	2.5	1.40	—	1.33
Other	6.2	—	6.2	3.62	—	3.62	3.2	0.1	3.3	1.85	1.08	1.76
Funds flow from operations	15.5	—	15.5	9.02	—	9.02	29.8	3.0	32.8	16.48	33.46	17.22
DD&A / Accretion	(33.8)	—	(33.8)	—	—	—	(43.2)	(1.9)	(45.1)	—	—	—
Gain (loss) on sale of PP&E	0.1	—	0.1	—	—	—	(0.2)	—	(0.2)	—	—	—
Other	(24.0)	—	(24.0)	—	—	—	(14.0)	—	(14.0)	—	—	—
Income tax recovery	7.6	—	7.6	—	—	—	4.1	—	4.1	—	—	—
Net income (loss)	(34.6)	—	(34.6)	—	—	—	(23.5)	1.1	(22.4)	—	—	—

⁽¹⁾Natural gas revenue shown per Mcf.

	Nine months ended September 30, 2012						Nine months ended September 30, 2011					
	CO	DO	Total	CO	DO	Total	CO	DO	Total	CO	DO	Total
	(\$ millions)			(\$/Boe except natural gas ⁽¹⁾)			(\$ millions)			(\$/Boe except natural gas ⁽¹⁾)		
Natural gas	65.0	0.1	65.1	2.46	2.31	2.46	89.4	0.3	89.7	4.20	4.45	4.20
NGLs	33.8	0.3	34.1	69.49	62.67	69.42	32.6	0.5	33.1	80.45	62.93	80.09
Oil	29.3	11.0	40.3	84.70	82.06	83.96	32.2	20.4	52.6	87.73	80.54	84.81
Royalty and sulphur revenue	3.0	—	3.0	—	—	—	3.0	—	3.0	—	—	—
Petroleum and natural gas sales	131.1	11.4	142.5	25.00	79.53	26.46	157.2	21.2	178.4	36.39	77.85	38.85
Royalties	(10.1)	(1.9)	(12.0)	(1.92)	(13.45)	(2.23)	(13.0)	(3.5)	(16.5)	(3.01)	(12.91)	(3.60)
Operating expense	(48.5)	(3.5)	(52.0)	(9.25)	(23.90)	(9.64)	(43.2)	(6.9)	(50.1)	(9.99)	(25.28)	(10.90)
Transportation	(16.2)	—	(16.2)	(3.10)	—	(3.01)	(15.4)	—	(15.4)	(3.57)	—	(3.36)
Netback	56.3	6.0	62.3	10.73	42.18	11.58	85.6	10.8	96.4	19.82	39.66	20.99
Financial commodity contract settlements	(0.8)	—	(0.8)	(0.16)	—	(0.15)	(0.1)	—	(0.1)	(0.02)	—	(0.02)
Netback including financial commodity contract settlements	55.5	6.0	61.5	10.57	42.18	11.43	85.5	10.8	96.3	19.80	39.66	20.97
General and administrative	(14.1)	—	(14.1)	(2.69)	—	(2.62)	(13.0)	—	(13.0)	(3.00)	—	(2.82)
Interest	(23.1)	—	(23.1)	(4.41)	—	(4.29)	(25.0)	—	(25.0)	(5.78)	—	(5.44)
Dividends from investments	6.0	—	6.0	1.15	—	1.12	8.3	—	8.3	1.92	—	1.80
Other	9.6	0.5	10.1	1.85	2.57	1.86	3.2	0.4	3.6	0.72	1.47	0.77
Funds flow from operations	33.9	6.5	40.4	6.47	44.75	7.50	59.0	11.2	70.2	13.66	41.13	15.28
DD&A / Accretion	(104.4)	(1.4)	(105.8)	—	—	—	(105.1)	(6.7)	(111.8)	—	—	—
Gain on sale of PP&E	28.2	50.8	79.0	—	—	—	1.9	37.2	39.1	—	—	—
Other	108.0	(0.2)	107.8	—	—	—	(18.3)	(3.0)	(21.3)	—	—	—
Income tax (expense) recovery	(6.0)	(25.5)	(31.5)	—	—	—	17.1	(15.4)	1.7	—	—	—
Net income (loss)	59.7	30.2	89.9	—	—	—	(45.4)	23.3	(22.1)	—	—	—

⁽¹⁾Natural gas revenue shown per Mcf.

Principal Properties

Netback and Segment Loss – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
	(\$/Boe)		(\$/Boe)		(\$/Boe)		(\$/Boe)	
Petroleum and natural gas sales	41.3	24.00	63.9	35.24	131.1	25.00	157.2	36.39
Royalties	(2.8)	(1.62)	(5.5)	(3.02)	(10.1)	(1.92)	(13.0)	(3.01)
Operating expense	(14.6)	(8.50)	(16.2)	(8.95)	(48.5)	(9.25)	(43.2)	(9.99)
Transportation	(4.9)	(2.85)	(6.0)	(3.32)	(16.2)	(3.10)	(15.4)	(3.57)
Netback	19.0	11.03	36.2	19.95	56.3	10.73	85.6	19.82
Financial commodity contract settlements	0.2	0.10	0.9	0.49	(0.8)	(0.16)	(0.1)	(0.02)
Netback including financial commodity contract settlements	19.2	11.13	37.1	20.44	55.5	10.57	85.5	19.80
Other principal property items (see below)	(38.9)		(39.3)		(82.0)		(111.7)	
Segment loss	(19.7)		(2.2)		(26.5)		(26.2)	

Petroleum and Natural Gas Sales – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Natural gas	22.6	37.0	(39)	65.0	89.4	(27)
NGLs	9.8	15.1	(35)	33.8	32.6	4
Oil	8.1	10.8	(25)	29.3	32.2	(9)
Royalty and sulphur revenue	0.8	1.0	(20)	3.0	3.0	–
	41.3	63.9	(35)	131.1	157.2	(17)

Petroleum and natural gas sales in the third quarter of 2012 were \$41.3 million, a decrease of \$22.6 million from the third quarter of 2011, primarily due to the impact of lower realized prices and lower sales volumes. Year-to-date petroleum and natural gas sales were \$131.1 million in 2012, a decrease of \$26.1 million compared to the same period in 2011, primarily due to the impact of lower realized prices partially offset by an increase in natural gas and NGLs sales volumes.

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 September 30, 2011	37.0	15.1	10.8	1.0	63.9
Effect of changes in prices	(13.5)	(3.3)	(0.1)	–	(16.9)
Effect of changes in sales volumes	(0.9)	(2.0)	(2.6)	–	(5.5)
Change in royalty and sulphur	–	–	–	(0.2)	(0.2)
Three months ended September 30, 2012	22.6	9.8	8.1	0.8	41.3

	Natural gas	NGLs	Oil	Royalty and sulphur	Total
Nine months ended September 30, 2011	89.4	32.6	32.2	3.0	157.2
Effect of changes in prices	(46.2)	(5.3)	(1.0)	–	(52.5)
Effect of changes in sales volumes	21.8	6.5	(1.9)	–	26.4
Change in royalty and sulphur	–	–	–	–	–
Nine months ended September 30, 2012	65.0	33.8	29.3	3.0	131.1

Sales Volumes

	Three months ended September 30											
	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	56.0	55.7	1	843	1,180	(29)	55	28	96	10,225	10,487	(2)
Grande Prairie	21.6	19.0	14	733	611	20	251	364	(31)	4,587	4,142	11
Southern	9.2	11.9	(23)	148	203	(27)	594	549	8	2,270	2,740	(17)
Northern	8.5	10.9	(22)	31	30	3	181	484	(63)	1,630	2,336	(30)
Continuing	95.3	97.5	(2)	1,755	2,024	(13)	1,081	1,425	(24)	18,712	19,705	(5)
Discontinued	–	0.3	(100)	–	38	(100)	–	919	(100)	–	1,002	(100)
Total	95.3	97.8	(3)	1,755	2,062	(15)	1,081	2,344	(54)	18,712	20,707	(10)

Third quarter natural gas sales volumes decreased 2.2 MMcf/d or 2 percent to 95.3 MMcf/d in 2012 compared to 97.5 MMcf/d in 2011. Third quarter NGLs sales volumes decreased 13 percent to 1,755 Bbl/d in 2012 compared to 2,024 Bbl/d in the same period of the prior year. The decrease in natural gas and NGLs sales volumes was primarily the result of scheduled and unscheduled third party downstream NGLs processing disruptions (the "NGLs Disruption"). The NGLs Disruption required Paramount to restrict NGLs recovery rates and curtail production in the Kaybob and Grande Prairie COUs. As a result, the Company's sales volumes were reduced by up to 6,000 Boe/d between mid-August and mid-October. By the end of October, the Company was able to partially restore sales volumes to approximately 20,000 Boe/d after the affected third party NGLs facility resumed service. Paramount's production continues to be impacted by the availability of downstream NGLs fractionation capacity as third party operators prorate available NGLs processing capacity. Sales volumes in July in the Northern COU decreased because of declines and the impact of a forest fire near the Company's processing facility at Bistcho which shut-in approximately 1,250 Boe/d of production for 15 days.

The impact of these disruptions was partially offset by higher production between July and mid-August from new wells at Valhalla in the Grande Prairie COU and at Musreau in the Kaybob COU.

Nine months ended September 30

	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	58.3	42.4	38	931	856	9	61	75	(19)	10,710	7,998	34
Grande Prairie	20.0	14.9	34	662	514	29	303	413	(27)	4,299	3,406	26
Southern	9.9	10.2	(3)	161	97	66	674	534	26	2,487	2,344	6
Northern	8.4	10.4	(19)	21	17	24	225	322	(30)	1,640	2,074	(21)
Continuing	96.6	77.9	24	1,775	1,484	20	1,263	1,344	(6)	19,136	15,822	21
Discontinued	0.1	0.3	(67)	18	31	(42)	493	925	(47)	527	998	(47)
Total	96.7	78.2	24	1,793	1,515	18	1,756	2,269	(23)	19,663	16,820	17

Year-to-date natural gas sales volumes increased 18.7 MMcf/d or 24 percent to 96.6 MMcf/d in 2012 compared to 77.9 MMcf/d in 2011. Year-to-date NGLs sales volumes increased 20 percent to 1,775 Bbl/d in 2012 compared to 1,484 Bbl/d in the same period of 2011. 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 in the Kaybob COU and at Valhalla in the Grande Prairie COU, partially offset by the impact of the third quarter NGLs Disruption.

In addition to the downstream third party NGLs processing constraints, Paramount's production within the Kaybob COU remains constrained by available owned and contracted natural gas processing capacity, pending completion of facilities expansions at Musreau and Smoky. Paramount continues to utilize its own facilities and third party processing capacity to maximize production while the expansions are in progress. In the interim, behind pipe wells will be produced where capacity is available.

Average Realized Prices – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Natural gas (\$/Mcf)	2.58	4.12	(37)	2.46	4.20	(41)
NGLs (\$/Bbl)	60.65	81.22	(25)	69.49	80.45	(14)
Oil (\$/Bbl)	81.28	82.18	(1)	84.70	87.73	(3)
Total (\$/Boe)	24.00	35.24	(32)	25.00	36.39	(31)

Paramount's average realized prices for natural gas, NGLs and oil decreased in 2012 when compared to 2011, consistent with declines in market 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 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.

Commodity Prices

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

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Natural Gas						
AECO (Cdn\$/GJ)	2.07	3.53	(41)	2.24	3.55	(37)
New York Mercantile Exchange (Henry Hub US\$/MMbtu)	2.83	4.20	(33)	2.79	4.21	(34)
Crude Oil						
Edmonton par (Cdn\$/Bbl)	84.79	92.26	(8)	87.29	94.76	(8)
West Texas Intermediate (US\$/Bbl)	92.22	89.75	3	94.37	95.48	(1)
Foreign Exchange						
\$Cdn / 1 \$US	0.99	0.98	1	1.00	0.98	2

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.

Receipts (payments) on the settlement of financial commodity contracts are as follows:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Oil contracts	0.2	0.9	(0.8)	(0.1)

At September 30, 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 \$97.25/Bbl	0.2	October – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US \$91.50/Bbl	(0.1)	October – December 2012
			\$ 0.1	

Royalties – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2012	Rate	2011	Rate	2012	Rate	2011	Rate
Royalties	2.8	6.9%	5.5	8.7%	10.1	7.8%	13.0	8.4 %

Third quarter 2012 royalties decreased \$2.7 million to \$2.8 million compared to \$5.5 million in 2011. Year-to-date royalties decreased \$2.9 million to \$10.1 million in 2012 compared to \$13.0 million in 2011. Royalties decreased because of lower petroleum and natural gas sales revenue, annual gas cost allowance adjustments and the impact of royalty incentive programs relating to new well production.

Operating Expense – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Operating expense	14.6	16.2	(10)	48.5	43.2	12

Operating expense in the third quarter of 2012 decreased \$1.6 million or 10 percent to \$14.6 million compared to \$16.2 million in the same quarter in 2011. The decrease was primarily due to lower third party processing fees paid by the Company, with the majority of the Kaybob COU's production now being processed through the Company's Musreau Refrig Facility and lower costs due to lower sales volumes.

Year-to-date operating expense increased \$5.3 million or 12 percent to \$48.5 million in 2012 compared to \$43.2 million in 2011 primarily related to production from new wells in the Kaybob and Grande Prairie COUs and wells added through the May 2011 acquisition of ProspEx Resources Ltd. These increases were partially offset by the impact of lower third party processing fees with the re-commissioning of the Company's Musreau Refrig Facility in 2012 and lower costs in the Northern COU.

Operating expenses per Boe decreased five percent to \$8.50 in the third quarter of 2012 and seven percent to \$9.25 for year-to-date 2012 compared to \$8.95 and \$9.99 in 2011, respectively. Operating costs per Boe were lower in 2012 as a result of lower third party processing fees, with the majority of Kaybob COU production being processed through the Company's new facility, and higher sales volumes relative to the fixed portion of operating expenses.

Transportation Expense – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Transportation expense	4.9	6.0	(18)	16.2	15.4	5

Third quarter transportation expense decreased \$1.1 million to \$4.9 million in 2012 compared to \$6.0 million in 2011 mainly as a result of a decrease in sales volumes within the Northern COU, which has higher transportation costs. Year-to-date transportation expense increased to \$16.2 million in 2012 compared to \$15.4 million in 2011 as a result of increased sales volumes in the Kaybob and Grande Prairie COUs, partially offset by a reduction in sales volumes in the Northern COU, which has higher transportation costs. Transportation expense per Boe decreased 14 percent to \$2.85 for the third quarter of 2012 compared to \$3.32 in 2011. Year-to-date transportation expense per Boe decreased 13 percent to \$3.10 in 2012 compared to \$3.57 in 2011.

Other Principal Property Items – Continuing Operations

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Commodity contracts – net of settlements	2.0	(5.3)	(2.7)	(6.1)
Depletion and depreciation	33.5	40.1	99.2	96.6
Exploration and evaluation	10.2	3.5	18.3	18.9
(Gain) loss on sale of property, plant and equipment	(0.1)	0.2	(28.2)	(1.9)
Accretion of asset retirement obligations	–	2.3	3.3	6.8
Other	(6.7)	(1.5)	(7.9)	(2.6)
Total	38.9	39.3	82.0	111.7

Third quarter depletion and depreciation expense decreased to \$33.5 million (\$19.45 per Boe) in 2012 compared to \$40.1 million (\$22.36 per Boe) in the prior year due to lower production volumes and lower per Boe depletion rates. Year-to-date depletion and depreciation expense increased to \$99.2 million (\$18.93 per Boe) in 2012 compared to \$96.6 million (\$22.28 per Boe) in 2011 due to higher 2012 production volumes. The decrease in depletion per Boe was mainly due to the recognition of impairment charges 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. Third quarter exploration and evaluation expense included expired lease costs of \$8.6 million (\$1.2 million - 2011) and year-to-date exploration and evaluation expense included expired lease costs of \$12.8 million (\$13.4 million - 2011).

The gain on sale of property, plant and equipment recorded for the nine months ended September 30, 2012 is primarily related to the sale of non-core properties at West Pembina, Alberta and at Kindersley, Saskatchewan in the Southern COU and at East Negus in the Northern COU for aggregate proceeds of approximately \$49.2 million. These properties did not have significant associated production.

Other income in the third quarter of 2012 includes \$6.2 million in respect of a business interruption insurance claim related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.

Strategic Investments

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Income (loss) from equity-accounted investments	(2.3)	2.2	153.8	2.2
Drilling rig revenue	0.7	2.8	7.2	5.9
Drilling rig expense	(0.9)	(1.2)	(4.7)	(3.4)
General and administrative	(1.8)	(0.9)	(4.9)	(3.1)
Stock-based compensation	(1.4)	(5.4)	(4.2)	(5.4)
Interest	(0.4)	(0.3)	(1.1)	(0.9)
Other	(0.4)	(0.6)	(3.0)	13.2
Segment Income (Loss)	(6.5)	(3.4)	143.1	8.5

Income from equity-accounted investments for the nine months ended September 30, 2012 was \$153.8 million compared to \$2.2 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 of the Company's Strategic Investments business segment increased primarily because of higher staff and office costs related to Cavalier Energy.

Strategic Investments at September 30, 2012 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy Corp. ("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 Liard and Horn River 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⁾	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Trilogy ⁽²⁾	84.5	118.3	490.9	907.1
MEG	138.3	153.8	138.3	153.8
MGM Energy	0.9	1.7	10.3	10.6
Other ⁽³⁾	17.1	5.8	17.1	5.8
Total	240.8	279.6	656.6	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 in 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 Energy

In November 2012, Cavalier Energy plans to submit a regulatory application for the first phase of development at the Hoole property, a 10,000 Bbl/d project targeting the Grand Rapids formation using proven SAGD technologies. Cavalier Energy believes that first steam could commence as early as the second half of 2015. Longer-term plans for Hoole include three additional 30,000 Bbl/d phases that would increase production to 100,000 Bbl/d by 2024.

Shale Gas

Paramount's Besa River shale gas holdings are focused in the Liard Basin in Northeast British Columbia and the Northwest Territories. The Company began drilling its second Liard Basin shale gas evaluation well at Patry in October. The well is expected to be drilled to a vertical depth of 3,500 meters and will be cored and logged for evaluation. In early 2013 Paramount plans to finish drilling its initial shale gas evaluation well at Dunedin after drilling was suspended in the spring of 2012 due to warm weather. Paramount's exploratory drilling activities are expected to extend the mineral rights surrounding the well locations for an additional decade and provide information to be used for future development.

Drilling Subsidiaries

Fox Drilling's two Canadian-based drilling rigs drilled on Company lands in Alberta throughout the third quarter of 2012. The United States-based drilling rig is being moved to drill on the Company's lands in Canada and is anticipated to be in service in the first half of 2013.

During the third 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. The first of these new rigs is expected to commence drilling operations in December 2012 and the second is expected to be operational in the first quarter of 2013. Construction costs are currently on budget, with each rig anticipated to cost approximately \$20 million.

Corporate

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Interest	7.7	8.9	22.6	24.6
Stock-based compensation	6.0	9.1	17.8	9.9
General and administrative	2.1	3.1	9.3	9.9
Acquisition transaction costs	–	–	–	1.0
Depreciation	0.1	0.2	0.2	0.3
Foreign exchange	0.1	0.7	1.0	(0.8)
	16.0	22.0	50.9	44.9

Third quarter corporate segment costs decreased to \$16.0 million in 2012 compared to \$22.0 million in 2011 primarily due to a decrease of \$3.1 million in stock-based compensation expense and a \$1.2 million decrease in interest expense. Year-to-date 2012 corporate segment costs increased to \$50.9 million compared to \$44.9 million in 2011 primarily as a result of a \$7.9 million increase in stock-based compensation expense partially offset by a \$2.0 million decrease in interest expense. Since October 1, 2011, the Company has accounted for Paramount stock options as "equity settled" awards. Previously, Paramount stock options were accounted for as "cash settled" awards. For further details of this change, readers are referred to Paramount's audited consolidated financial statements for the year ended December 31, 2011.

Exploration and Development Expenditures

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Geological and geophysical	1.5	0.6	4.7	3.8
Drilling, completion and tie-ins	91.5	79.1	214.9	210.2
Facilities and gathering	54.7	27.3	136.7	107.7
Exploration and development expenditures⁽¹⁾	147.7	107.0	356.3	321.7
Land and property acquisitions	8.6	6.0	12.4	26.2
Principal Properties	156.3	113.0	368.7	347.9
Strategic Investments⁽²⁾	10.2	3.2	55.7	22.0
Corporate	0.2	0.1	0.4	0.1
	166.7	116.3	424.8	370.0

(1) Exploration and development expenditures for the three and nine months ended September 30, 2012 include \$1.5 million and \$4.3 million of capitalized interest, respectively (2011 all periods-nil).

(2) Strategic Investments for the nine months ended September 30, 2012 includes \$7.0 million of undeveloped land purchases.

Exploration and development expenditures in the third quarter of 2012 were \$147.7 million compared to \$107.0 million in 2011. Year-to-date exploration and development expenditures in 2012 were \$356.3 million compared to \$321.7 million in the same period of 2011. Current year drilling, completion and tie-in costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU where advance drilling is ongoing for the deep cut facilities expansions. The Company has also been active drilling and completing wells at Valhalla in the Grande Prairie COU and at Birch in the Northern COU. Facilities and gathering expenditures focused on the Musreau Deep Cut Facility and the expansion of gathering and compression capacity at Valhalla to 28 MMcf/d.

Paramount received regulatory approval in July 2012 for the Musreau Deep Cut Facility. Site preparation work commenced in the third quarter of 2012 and construction work is continuing to progress, on schedule, with foundation work underway and equipment deliveries scheduled to commence by the end of the year. The Company has incurred approximately \$70 million of costs related to the Musreau Deep Cut Facility to September 30, 2012 and anticipates spending an additional \$50 million during the remainder of 2012. The facility is expected to be commissioned in the second half of 2013 at an estimated total cost of approximately \$180 million.

Paramount has initiated a project to construct an amine processing train at the Musreau Deep Cut Facility, which will provide the capability to treat sour gas production at the plant instead of at well sites. This enhancement is expected to reduce ongoing operating costs and decrease equipping costs by over \$1 million per well. The Company is currently finalizing the design of the amine train, which is expected to cost approximately \$50 million, and the procurement of long lead-time components has commenced for a planned start-up in the first half of 2014. The addition of the amine train will not delay commissioning of the Musreau Deep Cut Facility.

Paramount is also participating in the expansion of a non-operated processing facility at Smoky (the "Smoky Deep Cut Facility"), which is being upgraded to operate as a deep cut liquids extraction plant. The Company will have a 20 percent interest in the expanded facility, up from its 10 percent share of the existing 100 MMcf/d dew point facility. The Smoky Deep Cut Facility will initially have 200 MMcf/d of raw gas capacity upon start-up, increasing to 300 MMcf/d through the later installation of an incremental 100 MMcf/d of compression. As a plant owner, Paramount has the option at any time to request the installation of the additional compression, which would bring the Company's total owned capacity in the plant to 60 MMcf/d. Construction work commenced at the site in the third quarter, with the installation of pilings and foundations, and major equipment is being manufactured. The expansion is scheduled to be commissioned in the first half of 2014.

Paramount has entered into a long-term firm-service agreement with a midstream company to de-ethanize and fractionate Kaybob area NGLs volumes. The midstream company has undertaken to expand its facilities to process Paramount's NGLs streams, which will secure NGLs processing for the volumes that will be produced from the Kaybob area deep cut facilities. Paramount has also entered into an agreement in principle with a petro-chemical producer on long-term arrangements for the sale of the Company's ethane production and is negotiating long-term arrangements for the transportation of its Kaybob area natural gas and NGLs volumes.

Strategic investments capital expenditures in 2012 include \$17.7 million related to drilling the Company's first vertical shale gas evaluation well at Dunedin in Northeast British Columbia, \$24.0 million related to the construction of two triple-sized walking drilling rigs and \$12.5 million related to Cavalier Energy which includes \$7.0 million of undeveloped land.

Wells drilled are as follows:

(wells drilled)	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Natural gas	10	9	10	7	34	28	33	22
Oil	–	–	9	7	–	–	21	12
Oil sands evaluation	–	–	–	–	1	1	28	27
Dry and abandoned	–	–	1	1	–	–	1	1
Total	10	9	20	15	35	29	83	62

⁽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

Year-to-date exploration and development expenditures total approximately \$360 million. Planned spending for the remainder of the year will be focused on the Kaybob deep cut projects, where \$65 million will be invested in the Musreau and Smoky deep cut facilities and drilling will continue to build the inventory of wells to feed the expansions. Strategic Investment spending for the remainder of the year will be directed to completing the construction of the new walking drilling rigs and drilling the Company's second Liard Basin shale gas evaluation well. The Company has flexibility within its current capital plan to increase or decrease spending depending on future economic conditions, among other factors.

Between August and October, Paramount's sales volumes were constrained by up to 6,000 Boe/d due to the NGLs Disruption. By the end of October, the Company was able to partially restore sales volumes to approximately 20,000 Boe/d after the affected third party NGLs facility resumed service. Paramount's production continues to be impacted by the availability of downstream NGLs fractionation capacity as third party operators prorate available NGLs processing capacity. The Company's 2012 exit rate will depend on the extent to which downstream third party NGLs processing capacity becomes available. Behind pipe volumes in the Kaybob and Grande Prairie COUs will be brought-on once the Company is able to access additional fractionation capacity.

Paramount's long-term firm-service agreement with a midstream company secures processing capacity for NGLs that will be produced from the Kaybob area deep cut facilities. Sales volumes are expected to more than double once the Musreau Deep Cut Facility and the Smoky Deep Cut Facility are operational.

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.

	September 30, 2012	December 31, 2011	Change %
Working capital deficit ⁽¹⁾	152.6	82.0	86
Credit facility	46.5	61.4	(24)
Senior Notes ⁽²⁾	370.0	370.0	–
Net debt⁽³⁾	569.1	513.4	11
Share capital	861.3	810.8	6
Accumulated deficit	(13.7)	(103.6)	87
Reserves	113.4	116.7	(3)
Total Capital	1,530.1	1,337.3	14

⁽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 (September 30, 2012 – \$6.0 million, 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 September 30, 2012 was \$152.6 million compared to \$82.0 million at December 31, 2011. The working capital deficit at September 30, 2012 included \$164.4 million of accounts payable and accrued liabilities, \$32.5 million in demand facility debt, \$30.4 million of accounts receivable, and \$9.8 million of cash and cash equivalents. The working capital deficit increased from year-end primarily due to the 2012 capital program and was partially offset with proceeds on the sale of 5.0 million Trilogy shares, the sale of non-core petroleum and natural gas properties, including the United States property disposition, proceeds from the third quarter equity issuances and funds flow from operations.

Paramount has realized approximately \$295 million in aggregate cash proceeds in 2012 from investment and property dispositions, including the sale of non-core properties in the Southern and Northern COUs for \$45.2 million, the sale of the United States properties for \$66.5 million and the sale of a portion of its investment in the securities of Trilogy for \$181.7 million. The proceeds from these transactions were used to partially fund the 2012 capital program and pay down drawings on the Company's credit facility.

Paramount expects to fund its remaining 2012 operations, obligations and capital expenditures with funds flow from operations, existing cash and cash equivalents, proceeds from the September 2012 and October 2012 Common Share issuances, drawings on its bank credit facilities, 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 \$11.4 million have been made to September 30, 2012. Unless demanded by the bank, annual scheduled principal repayments on Drilling Rig Loan I are \$1.3 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 September 30, 2012, \$13.5 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, two rigs being constructed, and drilling contracts guaranteed by Paramount. The

carrying value of the rigs at September 30, 2012 is \$57.7 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 nine months ended September 30, 2012 was 4.5 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 September 30, 2012, no amounts have been drawn on the Cavalier Facility.

Bank Credit Facility

Paramount is continuing to work on a proposal from one of its lenders for an expansion of the Company's Existing Facility and, as a result, the revolving period and maturity date of the Existing Facility have been extended to November 15, 2012 and November 15, 2013, respectively. All other terms of the Existing Facility remain unchanged. Paramount expects that the revolving period and maturity date of the Existing Facility would be further extended if such facility is not expanded before November 15, 2012.

At September 30, 2012, the amount drawn on the Existing Facility was \$46.5 million (December 31, 2011 - \$61.4 million). Paramount had undrawn letters of credit outstanding at September 30, 2012 totaling \$41.1 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.

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

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

The Company is committed to incur \$45.0 million of qualifying expenditures related to the 2012 offerings of CDE flow-through Common Shares by December 31, 2012. The Company is committed to incur \$80.0 million of qualifying expenditures related to the 2012 offerings of CEE flow-through Common Shares by December 31, 2013.

At November 2, 2012, Paramount had 89,864,874 Common Shares and 5,454,850 Paramount Options outstanding, of which 2,899,134 Paramount Options are exercisable.

Quarterly Information

	2012				2011			2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales – Continuing	41.3	43.2	46.6	56.2	63.9	52.9	40.4	39.4
Petroleum and natural gas sales – Discontinued	–	3.3	8.1	7.1	6.6	8.2	6.4	6.6
Petroleum and natural gas sales	41.3	46.5	54.7	63.3	70.5	61.1	46.8	46.0
Funds flow from operations – Continuing	15.5	10.2	8.5	22.1	29.8	18.7	10.6	18.0
Funds flow from operations – Discontinued	–	1.9	4.3	4.0	3.0	4.7	3.3	3.3
Funds flow from operations	15.5	12.1	12.8	26.1	32.8	23.4	13.9	21.3
Total per share – diluted (\$/share)	0.18	0.15	0.15	0.33	0.42	0.29	0.19	0.29
Income (loss) – Continuing	(34.6)	(30.9)	125.1	(210.8)	(23.5)	10.8	(32.7)	(107.5)
Continuing per share – basic (\$/share)	(0.40)	(0.36)	1.46	(2.55)	(0.30)	0.14	(0.44)	(1.46)
Continuing per share – diluted (\$/share)	(0.40)	(0.36)	1.43	(2.55)	(0.30)	(0.04)	(0.44)	(1.46)
Net income (loss)	(34.6)	–	124.5	(209.9)	(22.4)	12.2	(11.9)	(106.3)
Per share – basic (\$/share)	(0.40)	–	1.46	(2.54)	(0.28)	0.16	(0.16)	(1.44)
Per share – diluted (\$/share)	(0.40)	–	1.42	(2.54)	(0.28)	(0.02)	(0.16)	(1.44)
Sales volumes								
Natural gas (MMcf/d)	95.3	106.2	88.3	91.2	97.5	77.4	58.5	60.1
NGLs (Bbl/d)	1,755	1,966	1,604	1,595	2,024	1,478	938	995
Oil (Bbl/d)	1,081	1,289	1,421	1,497	1,425	1,109	1,497	1,413
Total Continuing (Boe/d)	18,712	20,946	17,755	18,294	19,705	15,501	12,176	12,436
Discontinued (Boe/d)	–	528	1,058	929	1,002	1,071	921	1,025
Total (Boe/d)	18,712	21,474	18,813	19,223	20,707	16,572	13,097	13,461
Average realized price								
Natural gas (\$/Mcf)	2.58	2.09	2.77	3.62	4.12	4.36	4.05	4.06
NGLs (\$/Bbl)	60.65	69.76	78.92	77.98	81.22	82.18	75.96	74.24
Oil (\$/Bbl)	81.28	81.79	89.97	97.02	82.18	101.72	83.66	78.62
Continuing (\$/Boe)	24.00	22.65	28.84	33.38	35.24	37.53	36.92	35.22
Discontinued (\$/Boe)	–	69.96	84.20	83.45	72.48	83.77	75.09	70.93
Total (\$/Boe)	24.00	23.82	31.95	35.80	37.03	40.52	39.67	37.94

Significant Items Impacting Quarterly Results

Significant impacts to quarterly earnings include the effects of changing production volumes and commodity prices and the following:

- Third quarter 2012 earnings includes \$6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at the Musreau Refrig Facility in the fourth quarter of 2011.
- Second quarter 2012 earnings include a \$50.7 million pre-tax gain recognized on the disposition of United States properties.
- First quarter 2012 earnings include a \$157.2 million pre-tax gain on the sale of 5.0 million Trilogy shares and a \$28.3 million gain on the sale of property, plant and equipment, partially offset by higher tax expense, operating expenses and depletion and depreciation.

- Fourth quarter 2011 earnings include a \$225.7 million write-down of petroleum and natural gas properties and goodwill, and \$7.6 million of losses on financial commodity contracts, partially offset by an \$8.4 million decrease in stock-based compensation expense and a \$3.1 million gain on the sale of property, plant and equipment.
- Third quarter 2011 earnings include \$14.6 million of stock-based compensation expense, a decrease of \$15.4 million in gains on the sale of securities and an increase of \$8.3 million in depletion and depreciation.
- Second quarter 2011 earnings include the recognition of \$15.4 million of gains on investments in securities and a \$10.6 million stock-based compensation recovery, partially offset by higher depletion and depreciation and interest.
- 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.

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;
- operating and other costs;
- the negotiation and completion of arrangements for the transportation and sales of natural gas and NGLs;
- exploration, development and strategic investment plans and strategies and the anticipated costs, timing and results thereof;
- budget allocations and capital spending flexibility;
- planned drilling programs, well completions, well ties and the anticipated costs and timing thereof;
- the availability of facilities to process and transport natural gas and NGLs production;
- the anticipated costs, scope and timing of proposed new facilities and facilities' expansions, the expected capacity and utilization of such facilities and expected sources of funding for such facilities;
- the timing and scope of Cavalier Energy's planned development of its oil sands and carbonate bitumen assets and Paramount's development of its shale gas assets;
- the anticipated costs and completion date of the two new triple-sized walking drilling rigs;
- business strategies and objectives;
- sources of and plans for funding Paramount's exploration, development, facilities and other expenditures;
- the extension of the Existing Facility and the outcome of discussions regarding an expansion thereof;
- acquisition and disposition plans;
- regulatory applications and the anticipated scope, timing and results thereof;
- future taxes payable or owing; and
- the outcome and timing of any legal claims, audits, assessments or other regulatory matters or proceedings.

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

- future 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 and its new and expanded facilities;
- 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 market its oil, natural gas and NGLs successfully to current and new customers;
- the ability of Paramount to secure adequate product processing, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success and production levels consistent with expectations, including with respect to anticipated reserves additions and NGLs yields;
- the timely receipt of required regulatory approvals;
- expected timelines and budgets being met in respect of facilities development and construction projects;
- access to capital markets and other sources of funding for Paramount's operations and planned expenditures;
- anticipated rates of return from existing and planned projects relative to other opportunities;
- estimates of input and labour costs; and
- currency exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward looking information is reasonable, undue reliance should not be placed on it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward looking information. These risks and uncertainties include, but are not limited to:

- fluctuations in 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, NGLs 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, bitumen, natural gas and NGLs, 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 related to the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and obtain other sources of financing at an acceptable cost to fund planned exploration, development and operational activities and meet current and future obligations, including costs of anticipated new and expanded facilities and other projects;
- changes to, or in the interpretation of, applicable 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;
- the uncertainty regarding aboriginal claims and co-existing with local populations and stakeholders;
- the effects of weather;
- the timing and cost of future abandonment and reclamation activities;
- clean-up costs or business interruptions resulting from environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions;
- future taxes payable; 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 financial 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 and natural gas liquids.

During the third 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.

TEST RESULTS

Test rates disclosed in this document represent the average rate of gas-flow during post clean-up production tests up 4½" casing. All wells were stimulated using frac oil and substantially all fluids recovered during the test periods were load fluids. As a result, recovered fluid volumes for the duration of the tests have not been disclosed. Pressure transient analyses and well-test interpretations have not been carried out for the wells disclosed and as such, data should be considered to be preliminary until such analysis or interpretation has been done. Test results are not necessarily indicative of long-term performance or of ultimate recovery.

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

As at	Note	September 30 2012 (Unaudited)	December 31 2011
ASSETS			
Current assets			
Cash and cash equivalents	17	\$ 9,769	\$ 29,000
Accounts receivable		30,396	40,181
Risk management	16	204	184
Prepaid expenses and other		4,112	2,551
Assets held for sale	3	–	58,038
		44,481	129,954
Deposit		20,183	20,043
Exploration and evaluation	5	411,553	390,742
Property, plant and equipment, net	6	1,087,998	808,617
Equity-accounted investments	7	91,766	101,543
Investments in securities	8	149,044	153,840
Deferred income tax		94,551	117,548
Goodwill		3,426	3,426
		\$ 1,903,002	\$ 1,725,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	\$ 32,535	\$ 22,842
Accounts payable and accrued liabilities		170,401	136,820
Risk management	16	111	2,787
Liabilities associated with assets held for sale	3	–	13,040
		203,047	175,489
Long-term debt	10	412,794	427,186
Asset retirement obligations	11	315,226	299,202
Deferred income tax		10,868	–
		941,935	901,877
Shareholders' equity			
Share capital	13	861,342	810,781
Accumulated deficit		(13,713)	(103,615)
Reserves	14	113,438	116,670
		961,067	823,836
		\$ 1,903,002	\$ 1,725,713

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

(\$ thousands, except as noted)

	Note	Three months ended September 30		Nine months ended September 30	
		2012	2011	2012	2011
			(restated see note 4)		(restated see note 4)
Petroleum and natural gas sales		\$ 41,324	\$ 63,860	\$ 131,077	\$ 157,184
Royalties		(2,796)	(5,480)	(10,057)	(13,011)
Revenue		38,528	58,380	121,020	144,173
Gain (loss) on financial commodity contracts	16	(1,775)	6,163	1,866	5,948
		36,753	64,543	122,886	150,121
Expenses					
Operating expense		14,627	16,231	48,505	43,168
Transportation		4,914	6,020	16,235	15,423
General and administrative		3,964	4,039	14,108	12,971
Stock-based compensation	15	7,389	14,556	22,043	15,273
Depletion and depreciation		33,832	40,937	101,089	98,333
Exploration and evaluation	5	10,406	3,592	19,702	19,992
(Gain) loss on sale of property, plant and equipment		(69)	155	(28,238)	(1,904)
Interest		8,102	9,205	23,677	25,478
Accretion of asset retirement obligations		–	2,304	3,332	6,805
Acquisition transaction costs		–	9	–	1,044
Foreign exchange		143	680	1,028	(890)
		83,308	97,728	221,481	235,693
Income (loss) from equity-accounted investments	3,7	(2,254)	2,231	153,766	2,191
Other income	6	6,582	3,268	10,504	20,889
Income (loss) from continuing operations before tax		(42,227)	(27,686)	65,675	(62,492)
Income tax expense (recovery)	12				
Current		256	12	305	46
Deferred		(7,865)	(4,148)	5,689	(17,096)
		(7,609)	(4,136)	5,994	(17,050)
Income (loss) from continuing operations		(34,618)	(23,550)	59,681	(45,442)
Income from discontinued operations, net of tax	4	–	1,132	30,221	23,371
Net income (loss)		\$ (34,618)	\$ (22,418)	\$ 89,902	\$ (22,071)
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		3,687	(37,790)	(21,555)	(30,018)
Exchange differences on translation of US subsidiaries		(809)	5,875	(471)	2,776
		2,878	(31,915)	(22,026)	(27,242)
Comprehensive income (loss)		\$ (31,740)	\$ (54,333)	\$ 67,876	\$ (49,313)
Net income (loss) per common share (\$/share)	13				
Basic – continuing operations		(0.40)	(0.30)	0.70	(0.59)
Basic – discontinued operations		–	0.02	0.35	0.30
Basic		(0.40)	(0.28)	1.05	(0.29)
Diluted – continuing operations		(0.40)	(0.30)	0.68	(0.59)
Diluted – discontinued operations		–	0.02	0.35	0.30
Diluted		(0.40)	(0.28)	1.03	(0.29)

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(\$ thousands)

	Note	Three months ended September 30		Nine months ended September 30	
		2012	2011	2012	2011
Operating activities					
Net income (loss)		\$ (34,618)	\$ (22,418)	\$ 89,902	\$ (22,071)
Add (deduct):					
Items not involving cash	17	46,364	51,893	(65,522)	79,035
Dividends from equity-accounted investments		2,010	2,535	6,030	8,283
Asset retirement obligations settled	11	(356)	(698)	(5,255)	(5,402)
Current tax related to the sale of U.S. properties		–	–	3,931	–
Change in non-cash working capital		29,441	16,524	39,342	17,933
Cash from operating activities		42,841	47,836	68,428	77,778
Financing activities					
Net draw (repayment) of drilling rig loan		5,731	(1,269)	9,693	(2,769)
Proceeds from Senior Notes, net of issue costs		–	(49)	–	70,904
Repayment of debt assumed on acquisitions		–	–	–	(37,824)
Net draw (repayment) of revolving long-term debt		7,567	30,206	(14,909)	119,768
Common shares issued, net of issue costs		55,226	253	56,123	53,513
Common shares purchased under stock incentive plan		–	–	(3,052)	(2,974)
Cash from financing activities		68,524	29,141	47,855	200,618
Investing activities					
Property, plant and equipment and exploration		(164,942)	(115,599)	(418,681)	(365,083)
Proceeds on sale of property, plant and equipment		268	119	44,850	44,376
Proceeds on sale of discontinued operations, net		–	–	66,498	–
Proceeds on sale of investment, net		–	7,727	181,718	16,129
Corporate acquisitions		–	–	–	(64,759)
Investments in securities		–	–	(13,023)	–
Change in non-cash working capital		52,420	17,019	3,958	21,708
Cash used in investing activities		(112,254)	(90,734)	(134,680)	(347,629)
Net decrease		(889)	(13,757)	(18,397)	(69,233)
Foreign exchange on cash and cash equivalents		(338)	693	(834)	84
Cash and cash equivalents, beginning of period		10,996	18,574	29,000	74,659
Cash and cash equivalents, end of period		\$ 9,769	\$ 5,510	\$ 9,769	\$ 5,510
Supplemental cash flow information	17				

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)

Nine months ended September 30		2012		2011	
	Note	Shares (000's)		Shares (000's)	
Share Capital					
Balance, beginning of period		85,414	\$ 810,781	75,034	\$ 481,827
Issued		1,990	50,724	1,903	60,198
Issued on acquisition of ProspEx Resources Ltd.		–	–	2,000	57,280
Change in unvested common shares for stock incentive plan	15	11	(163)	65	(178)
Balance, end of period		87,415	\$ 861,342	79,002	\$ 599,127
Accumulated Earnings (Deficit)					
Balance, beginning of period			\$ (103,615)		\$ 128,375
Net income (loss)			89,902		(22,071)
Balance, end of period			\$ (13,713)		\$ 106,304
Reserves					
Balance, beginning of period	14		\$ 116,670		\$ 71,996
Other comprehensive loss			(22,026)		(27,242)
Contributed surplus			18,794		–
Stock-based compensation – investee options			–		(2,402)
Balance, end of period			\$ 113,438		\$ 42,352
Total Shareholders' Equity			\$ 961,067		\$ 747,783

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

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 longer-term non-conventional exploration and pre-development projects and holds a portfolio of investments in other entities. The Company's principal properties are located in Alberta, the Northwest Territories and British Columbia. Paramount is the ultimate parent company of the consolidated group of companies. The Company has divided its operations into three business segments: Principal Properties, Strategic Investments and Corporate.

Paramount 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 November 6, 2012.

These unaudited Interim Condensed Consolidated Financial Statements (the "Interim 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 as described in the Company's Consolidated Financial Statements as at and for the year ended December 31, 2011 (the "Annual Financial Statements"). These Interim Financial Statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to annual consolidated financial statements have been condensed or omitted. Certain amounts for the three and nine months ended September 30, 2011 have been restated to exclude amounts related to discontinued operations, refer to Note 4. 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 the Annual Financial Statements for a description of the change in accounting method.

These Interim 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 year's presentation.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

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; and (iv) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.
- Strategic Investments:** Strategic investments include: (i) investments in other entities, including affiliates; (ii) investments in exploration and development stage assets, where there is no near-term expectation of production or revenue, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation, including oil sands and carbonate resources held by Paramount's wholly-owned subsidiary, Cavalier Energy, and prospective shale gas acreage; and (iii) drilling rigs owned by 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 September 30, 2012	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 38,528	\$ –	\$ –	\$ –	\$ 38,528
Loss on financial commodity contracts	(1,775)	–	–	–	(1,775)
	36,753	–	–	–	36,753
Expenses					
Operating expense	14,627	–	–	–	14,627
Transportation	4,914	–	–	–	4,914
General and administrative	–	1,826	2,138	–	3,964
Stock-based compensation	–	1,411	5,978	–	7,389
Depletion and depreciation	33,475	1,121	96	(860)	33,832
Exploration and evaluation	10,228	178	–	–	10,406
Gain on sale of property, plant and equipment	(69)	–	–	–	(69)
Interest	–	381	7,721	–	8,102
Foreign exchange	–	–	143	–	143
	63,175	4,917	16,076	(860)	83,308
Loss from equity-accounted investments	–	(2,254)	–	–	(2,254)
Other	6,742	–	–	–	6,742
Drilling rig revenue	–	4,873	–	(4,148)	725
Drilling rig expense	–	(2,490)	–	1,605	(885)
	(19,680)	(4,788)	(16,076)	(1,683)	(42,227)
Inter-segment eliminations	–	(1,683)	–	1,683	–
Segment loss	\$ (19,680)	\$ (6,471)	\$ (16,076)	\$ –	(42,227)
Income tax recovery					7,609
Net loss					\$ (34,618)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

Three months ended September 30, 2011 (restated see note 4)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 58,380	\$ –	\$ –	\$ –	\$ 58,380
Gain on financial commodity contracts	6,163	–	–	–	6,163
	64,543	–	–	–	64,543
Expenses					
Operating expense	16,231	–	–	–	16,231
Transportation	6,020	–	–	–	6,020
General and administrative	–	924	3,115	–	4,039
Stock-based compensation	–	5,427	9,129	–	14,556
Depletion and depreciation	40,113	1,503	148	(827)	40,937
Exploration and evaluation	3,510	82	–	–	3,592
Loss on sale of property, plant and equipment	155	–	–	–	155
Interest	–	273	8,932	–	9,205
Accretion of asset retirement obligations	2,292	12	–	–	2,304
Acquisition transaction costs	–	–	9	–	9
Foreign exchange	–	–	680	–	680
	68,321	8,221	22,013	(827)	97,728
Income from equity-accounted investments	–	2,231	–	–	2,231
Other	1,530	138	–	–	1,668
Drilling rig revenue	–	6,127	–	(3,360)	2,767
Drilling rig expense	–	(2,837)	–	1,670	(1,167)
	(2,248)	(2,562)	(22,013)	(863)	(27,686)
Inter-segment eliminations	–	(863)	–	863	–
Segment loss	\$ (2,248)	\$ (3,425)	\$ (22,013)	\$ –	(27,686)
Income tax recovery					4,136
Income from discontinued operations					1,132
Net loss					\$ (22,418)

Nine months ended September 30, 2012	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 121,020	\$ –	\$ –	\$ –	\$ 121,020
Gain on financial commodity contracts	1,866	–	–	–	1,866
	122,886	–	–	–	122,886
Expenses					
Operating expense	48,505	–	–	–	48,505
Transportation	16,235	–	–	–	16,235
General and administrative	–	4,852	9,256	–	14,108
Stock-based compensation	–	4,249	17,794	–	22,043
Depletion and depreciation	99,240	3,591	234	(1,976)	101,089
Exploration and evaluation	18,329	1,373	–	–	19,702
Gain on sale of property, plant and equipment	(28,238)	–	–	–	(28,238)
Interest	–	1,080	22,597	–	23,677
Accretion of asset retirement obligations	3,310	22	–	–	3,332
Foreign exchange	–	18	1,010	–	1,028
	157,381	15,185	50,891	(1,976)	221,481
Income from equity-accounted investments	–	153,766	–	–	153,766
Other	7,965	–	–	–	7,965
Drilling rig revenue	–	16,529	–	(9,337)	7,192
Drilling rig expense	–	(8,772)	–	4,119	(4,653)
	(26,530)	146,338	(50,891)	(3,242)	65,675
Inter-segment eliminations	–	(3,242)	–	3,242	–
Segment earnings (loss)	\$ (26,530)	\$ 143,096	\$ (50,891)	\$ –	65,675
Income tax expense					(5,994)
Income from discontinued operations					30,221
Net income					\$ 89,902

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

Nine months ended September 30, 2011 (restated see note 4)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 144,173	\$ –	\$ –	\$ –	\$ 144,173
Gain on financial commodity contracts	5,948	–	–	–	5,948
	150,121	–	–	–	150,121
Expenses					
Operating expense	43,168	–	–	–	43,168
Transportation	15,423	–	–	–	15,423
General and administrative	–	3,073	9,898	–	12,971
Stock-based compensation	–	5,365	9,908	–	15,273
Depletion and depreciation	96,605	4,051	341	(2,664)	98,333
Exploration and evaluation	18,926	1,066	–	–	19,992
Gain on sale of property, plant and equipment	(1,904)	–	–	–	(1,904)
Interest	–	913	24,565	–	25,478
Accretion of asset retirement obligations	6,764	41	–	–	6,805
Acquisition transaction costs	–	–	1,044	–	1,044
Foreign exchange	–	(30)	(860)	–	(890)
	178,982	14,479	44,896	(2,664)	235,693
Income from equity-accounted investments	–	2,191	–	–	2,191
Other	2,682	15,703	–	–	18,385
Drilling rig revenue	–	16,079	–	(10,154)	5,925
Drilling rig expense	–	(8,240)	–	4,819	(3,421)
	(26,179)	11,254	(44,896)	(2,671)	(62,492)
Inter-segment eliminations	–	(2,671)	–	2,671	–
Segment earnings (loss)	\$ (26,179)	\$ 8,583	\$ (44,896)	\$ –	(62,492)
Income tax recovery					17,050
Income from discontinued operations					23,371
Net loss					\$ (22,071)

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 sales of certain Canadian 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)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

4. DISCONTINUED OPERATIONS

In May 2012, Paramount's wholly-owned subsidiary, Summit, closed the sale of all of its operated properties in North Dakota and all of its properties in Montana for after-tax cash proceeds of \$66.5 million. These properties were included in the Company's Principal Properties business segment.

Details of income from discontinued operations are presented below:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Petroleum and natural gas sales	\$ –	\$ 6,684	\$ 11,481	\$ 21,215
Royalties	–	(1,104)	(1,945)	(3,519)
Revenue	–	5,580	9,536	17,696
Expenses				
Operating expense and production tax	–	2,594	3,455	6,889
Depletion and depreciation	–	1,713	1,398	6,321
Exploration and evaluation	–	(50)	(341)	423
Gain on sale of property, plant and equipment	–	–	–	(37,177)
Accretion of asset retirement obligations	–	103	51	309
Foreign exchange loss	–	–	–	2,326
	–	4,360	4,563	(20,909)
Other income (expense)	–	(28)	(13)	136
Income from ordinary activities of discontinued operations before tax	–	1,192	4,960	38,741
Gain on sale of discontinued operations	–	–	50,721	–
Income from discontinued operations before tax	–	1,192	55,681	38,741
Income tax expense – discontinued operations				
Current	–	–	3,931	–
Deferred	–	60	21,529	15,370
	–	60	25,460	15,370
Income from discontinued operations	\$ –	\$ 1,132	\$ 30,221	\$ 23,371

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Operating	\$ –	\$ 6,111	\$ 11,450	\$ 11,134
Investing	–	(537)	65,501	37,721
Cash flow from discontinued operations	\$ –	\$ 5,574	\$ 76,951	\$ 48,855

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(\$ thousands, except as noted)

5. EXPLORATION AND EVALUATION

	Nine months ended September 30, 2012	Twelve months ended December 31, 2011
Balance, beginning of period	\$ 390,742	\$ 269,084
Additions	121,996	229,347
Transfer to assets held for sale	–	(5,052)
Corporate acquisitions	–	82,100
Transfers to property, plant and equipment	(86,082)	(161,853)
Dry hole	(415)	(2,371)
Expired lease costs	(12,837)	(18,195)
Dispositions	(1,430)	(3,052)
Foreign exchange	(421)	734
Balance, end of period	\$ 411,553	\$ 390,742

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Geological and geophysical	\$ 1,771	\$ 791	\$ 6,446	\$ 4,973
Dry hole	19	1,617	435	1,617
Expired lease costs	8,616	1,184	12,821	13,402
	\$ 10,406	\$ 3,592	\$ 19,702	\$ 19,992

6. PROPERTY, PLANT AND EQUIPMENT

Nine months ended September 30, 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	274,385	23,969	417	298,771
Transfer to assets held for sale	(99)	–	–	(99)
Transfers from exploration and evaluation	86,082	–	–	86,082
Dispositions	(48,369)	–	–	(48,369)
Change in asset retirement provision	26,097	–	–	26,097
Currency translation differences	399	(509)	(22)	(132)
Cost, September 30, 2012	\$ 1,804,602	\$ 74,931	\$ 20,338	\$ 1,899,871
Accumulated depletion, depreciation, and write-downs				
Balance, December 31, 2011	\$ (696,630)	\$ (13,899)	\$ (18,375)	\$ (728,904)
Depletion and depreciation	(100,540)	(3,571)	(253)	(104,364)
Dispositions	21,359	–	–	21,359
Currency translation differences	(187)	217	6	36
Accumulated depletion, depreciation and write-downs, September 30, 2012	\$ (775,998)	\$ (17,253)	\$ (18,622)	\$ (811,873)
Net book value, December 31, 2011	769,477	37,572	1,568	808,617
Net book value, September 30, 2012	\$ 1,028,604	\$ 57,678	\$ 1,716	\$ 1,087,998

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

At September 30, 2012, \$212.8 million (December 31, 2011 – \$111.4 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Year-to-date additions to property, plant and equipment include \$4.3 million of capitalized interest for qualifying assets in the construction phase (year ended December 31, 2011 – \$3.2 million).

Other income includes \$6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at one of the Company's facilities in the fourth quarter of 2011.

7. EQUITY ACCOUNTED INVESTMENTS

	September 30, 2012			December 31, 2011		
	Shares (000's)	Carrying Value	Market Value ⁽¹⁾	Shares (000's)	Carrying Value	Market Value ⁽¹⁾
Trilogy ⁽²⁾	19,144	\$ 84,469	\$ 490,861	19,144	\$ 94,062	\$ 719,253
MGM Energy Corp. ("MGM Energy")	43,834	947	10,301	43,834	1,691	10,520
Paxton Corporation ("Paxton")	1,750	3,777		1,750	4,015	
Other		2,573			1,775	
		<u>\$ 91,766</u>			<u>\$ 101,543</u>	

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

(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 September 30				2011		
	2012						
	Equity income (loss)	Dilution gain	Gain on sale	Total	Equity income (loss)	Dilution gain	Total
Trilogy	\$ (2,254)	\$ –	\$ –	\$ (2,254)	\$ 2,571	\$ –	\$ 2,571
MGM Energy	(299)	–	–	(299)	(272)	–	(272)
Paxton	(62)	–	–	(62)	(68)	–	(68)
Other	361	–	–	361	–	–	–
	<u>\$ (2,254)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (2,254)</u>	<u>\$ 2,231</u>	<u>\$ –</u>	<u>\$ 2,231</u>

	Nine months ended September 30				2011		
	2012						
	Equity income (loss)	Dilution gain	Gain on sale	Total	Equity income (loss)	Dilution gain	Total
Trilogy	\$ (3,570)	\$ 294	\$ 157,228	\$ 153,952	\$ 2,744	\$ 774	\$ 3,518
MGM Energy	(744)	–	–	(744)	(1,054)	–	(1,054)
Paxton	(238)	–	–	(238)	(273)	–	(273)
Other	796	–	–	796	–	–	–
	<u>\$ (3,756)</u>	<u>\$ 294</u>	<u>\$ 157,228</u>	<u>\$ 153,766</u>	<u>\$ 1,417</u>	<u>\$ 774</u>	<u>\$ 2,191</u>

The following table summarizes the assets, liabilities, revenue and income of Trilogy. These amounts have been derived directly from Trilogy's published financial statements as at and for the nine months ended September 30, 2012 and 2011. The amounts presented do not include Paramount's adjustments

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

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	September 30, 2012	September 30, 2011
Assets	\$ 1,364,815	\$ 1,209,487
Liabilities	\$ 873,047	\$ 667,477
Shares outstanding (thousands)	116,494	115,853
Paramount's equity interest	16%	21%

Three months ended September 30	2012	2011
Revenue	\$ 88,187	\$ 88,001
Net income (loss)	\$ (11,094)	\$ 14,404

Nine months ended September 30	2012	2011
Revenue	\$ 277,908	\$ 245,854
Net income (loss)	\$ (13,815)	\$ 22,066

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 5.7 million stock options outstanding (1.4 million exercisable) at September 30, 2012 at exercise prices ranging from \$4.85 to \$38.74 per share.

8. INVESTMENTS IN SECURITIES

	September 30, 2012		December 31, 2011	
	Shares (000's)	Market Value	Shares (000's)	Market Value
MEG Energy Corp.	3,700	\$ 138,343	3,700	\$ 153,809
Other		10,701		31
		\$ 149,044		\$ 153,840

9. DEMAND FACILITIES

	September 30, 2012	December 31, 2011
Drilling Rig Loan I	\$ 19,035	\$ 22,842
Drilling Rig Loan II	13,500	—
Cavalier Facility	—	—
	\$ 32,535	\$ 22,842

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 \$11.4 million have been made to September 30, 2012. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are \$1.3 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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

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 September 30, 2012, \$13.5 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, two rigs being constructed, and drilling contracts guaranteed by Paramount. The carrying value of the rigs at September 30, 2012 is \$57.7 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 nine months ended September 30, 2012 was 4.5 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 September 30, 2012, no amounts have been drawn on the Cavalier facility.

10. LONG-TERM DEBT

	September 30, 2012	December 31, 2011
Bank credit facility	\$ 46,474	\$ 61,383
8 ¼ percent Senior Notes due 2017	370,000	370,000
	416,474	431,383
Unamortized financing costs net of premiums	(3,680)	(4,197)
	\$ 412,794	\$ 427,186

Bank Credit Facility

During the second quarter of 2012, the revolving period and maturity date of the Company's \$300 million bank credit facility (the "Facility") were extended to October 31, 2012 and October 31, 2013, respectively. Subsequently, the revolving period and maturity date of the Facility were extended to November 15, 2012 and November 15, 2013, respectively. All other terms of the Facility remain unchanged. Paramount and its lenders are negotiating the terms of a renewal of the Facility.

At September 30, 2012, the amount drawn on the Facility was \$46.5 million (December 31, 2011 - \$61.4 million). Paramount had undrawn letters of credit outstanding at September 30, 2012 totaling \$41.1 million that reduce the amount available to the Company.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(\$ thousands, except as noted)

11. ASSET RETIREMENT OBLIGATIONS

	Nine months ended September 30, 2012	Twelve months ended December 31, 2011
Asset retirement obligations, beginning of period	\$ 299,202	\$ 241,770
Retirement obligations incurred	13,140	23,463
Revisions to estimated retirement costs and discount rates	12,957	37,791
Obligations settled	(5,255)	(7,520)
Disposal of properties	(8,263)	(2,902)
Assumed on corporate acquisition	–	11,943
Accretion expense – continuing operations	3,332	7,887
Accretion expense – discontinued operations	51	(513)
Transfer to liabilities associated with assets held for sale	–	(13,040)
Foreign exchange	62	323
Asset retirement obligations, end of period	\$ 315,226	\$ 299,202

Asset retirement obligations at September 30, 2012 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2011 – 2.25 percent) and an inflation rate of 2.00 percent (December 31, 2011 – 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 42 years.

12. INCOME TAX

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Income (loss) from continuing operations before tax	\$ (42,227)	\$ (27,686)	\$ 65,675	\$ (62,492)
Effective Canadian statutory income tax rate	25.1%	26.6%	25.1%	26.6%
Expected income tax expense (recovery)	\$ (10,599)	\$ (7,364)	\$ 16,484	\$ (16,623)
Change resulting from:				
Statutory and other rate differences	(2,365)	1,317	(1,087)	(2,400)
Gain on available-for-sale investments	–	(13)	–	(2,765)
Income (loss) from equity-accounted investments	660	(593)	(22,550)	(582)
Investment in subsidiaries	(361)	–	1,514	–
Flow-through share renunciations	1,435	–	3,047	2,833
Stock-based compensation	1,806	3,811	5,260	3,767
Non-deductible items and other	1,815	(1,294)	3,326	(1,280)
Income and other tax expense (recovery)	\$ (7,609)	\$ (4,136)	\$ 5,994	\$ (17,050)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

13. SHARE CAPITAL**Weighted Average Common Shares Outstanding**

Three months ended September 30	2012		2011	
	Loss from continuing operations	Shares (000's)	Loss from continuing operations	Shares (000's)
Loss from continuing operations - basic	\$ (34,618)	85,694	\$ (23,550)	78,982
Dilutive effect of Paramount Options	–	–	–	–
Loss from continuing operations - diluted	\$ (34,618)	85,694	\$ (23,550)	78,982

Nine months ended September 30	2012		2011	
	Income from continuing operations	Shares (000's)	Loss from continuing operations	Shares (000's)
Income (loss) from continuing operations - basic	\$ 59,681	85,553	\$ (45,442)	77,100
Dilutive effect of Paramount Options	–	1,839	–	–
Income (loss) from continuing operations - diluted	\$ 59,681	87,392	\$ (45,442)	77,100

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 per share calculations when they are dilutive to income from continuing operations. The Company had 5.5 million Paramount Options outstanding at September 30, 2012 (September 30, 2011 – 4.8 million), of which 2.5 million were anti-dilutive for the nine months ended September 30, 2012 (September 30, 2011 – 4.8 million).

In September 2012 Paramount issued, to a company controlled by the Company's Chairman and Chief Executive Officer, 646,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") at a price of \$31.00 per share and 1,244,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses ("CDE") at a price of \$28.15 per share for aggregate proceeds of \$55 million. A liability of \$7.5 million was recognized in accounts payable and accrued liabilities on the issuance of such flow-through shares in respect of the Company's obligation to renounce qualifying expenditures.

In October 2012 Paramount issued, pursuant to a public offering, 1,936,000 Common Shares on a "flow-through" basis in respect of CEE at a price of \$31.00 per share and 356,000 Common Shares on a "flow-through" basis in respect of CDE at a price of \$28.15 per share for aggregate gross proceeds of \$70 million.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(\$ thousands, except as noted)

14. RESERVES

Reserves at September 30, 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 loss	(21,555)	(471)	–	(22,026)
Stock-based compensation expense	–	–	20,989	20,989
Stock options exercised	–	–	(2,195)	(2,195)
Balance, September 30, 2012	\$ 30,154	\$ (1,302)	\$ 84,586	\$ 113,438

	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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
Unrealized Gain (Loss) on Securities				
Change in market value of securities	\$ 3,688	\$ (42,002)	\$ (21,820)	\$ (17,478)
Reclassification of other comprehensive income to earnings	–	(112)	–	(15,693)
Deferred tax	(1)	4,324	265	3,153
	3,687	(37,790)	(21,555)	(30,018)
Translation of Foreign Subsidiaries				
Exchange differences on translation of US subsidiaries	(532)	5,615	(644)	758
Reclassification of other comprehensive income to earnings	–	639	(114)	2,965
Deferred tax	(277)	(379)	287	(947)
	(809)	5,875	(471)	2,776
Other Comprehensive Income (Loss)	\$ 2,878	\$ (31,915)	\$ (22,026)	\$ (27,242)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(\$ thousands, except as noted)

15. SHARE-BASED PAYMENTS

Paramount Options

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

	Nine months ended September 30, 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	40,000	30.73	1,529,000	38.95
Exercised	(107,900)	11.78	(618,850)	10.80
Forfeited	(171,000)	28.15	(149,000)	17.74
Balance, end of period	5,528,550	\$ 20.78	5,767,450	\$ 20.76
Options exercisable, end of period	1,743,318	\$ 10.73	1,832,218	\$ 10.66

Stock Incentive Plan

Stock incentive plan shares held in trust	Nine months ended September 30, 2012		Twelve months ended December 31, 2011	
	Shares (000's)		Shares (000's)	
Balance, beginning of period	86	\$ 419	150	\$ 410
Shares purchased	124	3,052	101	2,974
Change in vested and unvested shares	(135)	(2,889)	(165)	(2,965)
Balance, end of period	75	\$ 582	86	\$ 419

Employee Benefit Costs

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Stock option plan	\$ 7,223	\$ 14,387	\$ 20,989	\$ 14,227
Stock incentive plan	166	169	1,054	1,046
Stock-based compensation expense	7,389	14,556	22,043	15,273
Salaries and benefits	2,625	2,711	9,209	8,429
	\$ 10,014	\$ 17,267	\$ 31,252	\$ 23,702

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at September 30, 2012 are as follows:

Instruments	Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	500 Bbl/d	US \$97.25/Bbl	\$ 204	October – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US \$91.50/Bbl	(111)	October – December 2012
			\$ 93	

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(\$ thousands, except as noted)

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

	Nine months ended September 30, 2012	Twelve months December 31, 2011
Fair value, beginning of period	\$ (2,603)	\$ (693)
Changes in fair value	1,866	(1,699)
Settlements paid (received)	830	(211)
Fair value, end of period	\$ 93	\$ (2,603)

At September 30, 2012, Paramount had balances due from one joint venture partner that represented more than ten percent of the Company's total accounts receivable.

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Financial commodity contracts	\$ 1,944	\$ (5,277)	\$ (2,696)	\$ (6,036)
Stock-based compensation	7,389	14,542	22,043	15,217
Depletion and depreciation	33,832	40,937	101,089	98,333
Exploration and evaluation	8,635	2,801	13,256	15,019
(Gain) loss on sale of property, plant, and equipment	(69)	155	(28,238)	(1,904)
Accretion of asset retirement obligations	–	2,304	3,332	6,805
Foreign exchange	73	802	915	(1,316)
(Income) loss from equity-accounted investments	2,254	(2,231)	(153,766)	(2,191)
Deferred income tax	(7,865)	(4,148)	5,689	(17,096)
(Gain) loss on sale of investments	–	(112)	–	(15,703)
Discontinued operations	–	1,821	(27,681)	(12,357)
Other	171	299	535	264
	\$ 46,364	\$ 51,893	\$ (65,522)	\$ 79,035

Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Interest paid	\$ 1,855	\$ 2,483	\$ 19,953	\$ 20,489
Current tax paid	\$ 665	\$ –	\$ 1,318	\$ 45

Components of cash and cash equivalents

	September 30, 2012	December 31, 2011
Cash	\$ 9,769	\$ 15,009
Bankers' acceptances	–	13,991
	\$ 9,769	\$ 29,000

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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

C. H. Riddell⁽³⁾

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

J. H. T. Riddell

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

J. G. M. Bell^{(1) (4)}

General Counsel, Olympia Trust Company
Calgary, Alberta

T. E. Claugus⁽⁴⁾

President, GMT Capital Corp.
Atlanta, Georgia

J. C. Gorman^{(1) (3) (4)}

Retired
Calgary, Alberta

D. Jungé C.F.A.⁽²⁾⁽⁴⁾

Chairman of the Board and Chief Executive Officer
Pitcairn Trust Company
Bryn Athyn, Pennsylvania

D. M. Knott⁽⁴⁾

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

S. L. Riddell Rose

President and Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

J. B. Roy^{(1) (2) (3) (4)}

Independent Businessman
Calgary, Alberta

B. M. Wylie⁽²⁾

Business Executive
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee

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The Bank of Nova Scotia

Calgary, Alberta

Royal Bank of Canada

Calgary, Alberta

Alberta Treasury Branches

Calgary, Alberta

**The Royal Bank of Scotland N.V.
(Canada) Branch**

Toronto, Ontario

The Toronto-Dominion Bank

Calgary, Alberta

HSBC Bank Canada

Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

**Computershare Trust Company
of Canada**

Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("POU")